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Assessment of the 2017 stability programme for

The Netherlands

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION 3
2. MACROECONOMIC DEVELOPMENTS 3
3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS 5
3.1. BUDGET DEVELOPMENTS IN 2016 AND 2017 5
3.2. MEDIUM-TERM STRATEGY AND TARGETS 5
3.3. MEASURES UNDERPINNING THE PROGRAMME 7
3.4. DEBT DEVELOPMENTS 8
3.5. RISK ASSESSMENT 9
4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT 9
   4.1. Compliance with the debt criterion 10
   4.2. Compliance with the MTO or the required adjustment path towards the MTO 10
5. LONG-TERM SUSTAINABILITY 12
6. FISCAL FRAMEWORK 14
7. SUMMARY 15
8. ANNEX 16

1. INTRODUCTION

On 26 April 2017, the Netherlands submitted its April 2017 stability programme (hereafter called stability programme), covering the period 2016-2020. It was approved by the care-taker government and presented to the national parliament for a debate without a vote.

The Netherlands is currently subject to the preventive arm of the the Stability and Growth Pact (SGP) and should preserve a sound fiscal position which ensures compliance with the medium-term objective (MTO). As the debt ratio was 68.6% of GDP in 2013 (the year in which the Netherlands corrected its excessive deficit), exceeding the 60% of GDP reference value, the Netherlands is also subject to the debt transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (transitional debt rule). In this period it should ensure sufficient progress towards compliance. After the transition period, as of 2017, the Netherlands is required to comply with the debt reduction benchmark.

This document complements the Country Report published on 22 February 2017 and updates it with the information included in the stability programme.

Section 2 presents the macroeconomic outlook underlying the stability programme and provides an assessment based on the Commission 2017 spring forecast. Section 3 presents the recent and planned budgetary developments, according to the stability programme. In particular, it includes an overview on the medium-term budgetary plans, an assessment of the measures underpinning the stability programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview on long-term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

The projections used in the stability programme are based on the forecast of the CPB Netherlands Bureau of Economic Policy Analysis (Centraal Planbureau) and cover the period from 2016 until 2020[1]. Economic growth reached 2.2% of GDP in 2016 and is expected to continue at 2.1% in 2017, before slowing down to 1.8% in 2018. This is in line with the Commission 2017 spring forecast.

According to the stability programme, growth is expected to be mainly driven by domestic demand, with private consumption increasing by 2.0% in 2017 and by 1.4% in 2018. Private consumption is supported by strong employment growth and increasing real wages. Moreover, the 2016 tax cut package is expected to continue having a positive effect on consumption in the current year. After two buoyant years, investment is projected to return to somewhat lower growth of 3.2% in 2017 and 2.1% in 2018. Further support for growth comes from the external side, with a projected growth contribution of 0.3% in 2017 and 0.4% in 2018.

Compared to the Draft Budgetary Plan, the stability programme projects 0.4 pps. higher GDP growth in 2017. This can be largely attributed to a revised projected impact of the UK 'leave'

[1]Some projected figures for 2016, including GDP growth and public finances, have been updated with outturn data, as notified by Statistics Netherlands.

referendum, which is no longer expected to have a notable negative short-run effect on the Dutch economy. The stability programme also projects a somewhat faster declining unemployment rate compared to the Draft Budgetary Plan.

Table 1: Comparison of macroeconomic developments and forecasts

	2016		2017		2018		2019	2020
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	2.2	2.2	2.1	2.1	1.8	1.8	1.7	1.7
Private consumption (% change)	1.7	1.7	2.3	2.0	1.5	1.4	1.0	1.0
Gross fixed capital formation (% change)	4.8	4.8	3.5	3.2	4.2	2.1	1.8	1.9
Exports of goods and services (% change)	3.4	3.4	3.6	3.5	3.8	3.9	4.1	4.2
Imports of goods and services (% change)	3.7	3.7	3.8	3.6	4.2	3.9	4.0	4.2
Contributions to real GDP growth:								
- Final domestic demand	2.0	1.9	1.9	1.7	1.8	1.2	1.1	1.2
- Change in inventories	0.1	-0.1	0.0	0.1	0.0	0.1	0.0	0.0
- Net exports	0.2	0.3	0.2	0.3	0.1	0.4	0.5	0.5
Output gap[1]	-0.8	-0.8	0.0	-0.1	0.5	0.3	0.3	0.4
Employment (% change)	1.1	1.2	1.7	1.8	1.1	0.9	0.7	0.7
Unemployment rate (%)	6.0	6.0	4.9	4.9	4.4	4.7	4.7	4.7
Labour productivity (% change)	0.5	0.9	0.4	0.2	0.5	0.9	1.0	1.1
HICP inflation (%)	0.1	0.1	1.6	1.6	1.3	1.4	1.6	1.6
GDP deflator (% change)	0.8	1.0	0.9	1.2	1.2	1.4	1.7	1.6
Comp. of employees (per head, % change)	1.3	2.0	2.8	2.5	2.8	2.6	2.9	2.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)[2]	7.6	8.7	6.7	8.2	6.6	8.2	8.4	8.5

Note:

[1]In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[2] Note that the Commission forecast gives net lending in ESA2010 terms (national accounts), while the Stability Programme shows the current account balance, excluding net capital transactions.

Source :

Commission 2017 spring forecast (COM); Stability Programme (SP).

The macroeconomic scenario underlying the stability programme is broadly similar to the Commission forecast, as can be seen in Table 1. The Commission forecasts a higher growth contribution[2] from domestic demand and less from the external sector, which is in line with the Commission's overall positive labour market projection, solid wage growth and a recovering housing market. The more positive outlook for domestic demand leads to a slightly stronger growth of import volumes and thus a lower external balance.

The output gap, as recalculated by Commission based on the information in the stability programme, following the commonly agreed methodology, is projected to shrink to -0.1% of

[2] The stability programme also applies a different methodology of growth accounting to calculate the contribution.

potential GDP in 2017 and to turn positive to 0.3% in 2018. Similarly, the Commission forecasts the output gap to be closed by 2017, before increasing to a positive 0.5% in 2018. Overall, the stability programme uses plausible macroeconomic assumptions. Risks to the forecast stem mainly from the external side, via lower-than-expected world trade.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. BUDGET DEVELOPMENTS IN 2016 AND 2017

The general government balance reached a surplus of 0.4% of GDP in 2016, which marks the first budget surplus since 2008. The outcome in 2016 is significantly more positive than projected in the Draft Budgetary Plan 2016 (-1.1% of GDP) and in the stability programme 2016 (-1.7% of GDP).

The difference in net lending of 1.5% of GDP compared to the Draft Budgetary Plan can be attributed to both higher revenues and lower expenditure. On the revenue side, this is specifically linked to higher-than-expected revenues from taxes on production and imports, and from current taxes on income and wealth, especially corporate taxes. On the expenditure side, lower-than-expected social payments as well as reduced capital transfers contributed to the upward revision.

While some of these drivers have a temporary effect, such as lower contributions to the EU budget and deferred corporate tax liabilities, there is a sustained upward trend in the budgetary position linked to the economic expansion and the strong labour market performance, which carries into 2017 and beyond. For the current year, the stability programme expects a government surplus of 0.5% of GDP, compared to a projected deficit of 0.5% of GDP from the Draft Budgetary Plan. The difference can be fully attributed to the tax-rich growth and lower social payments, linked to the better economic performance; no notable measures have been announced between the projections.

3.2. MEDIUM-TERM STRATEGY AND TARGETS

The 2017 stability programme presents the national medium-term budgetary plan covering the period up to 2020. In the Netherlands, government expenditure is set in terms of multi-annual real expenditure ceilings at the beginning of the government term. The current expenditure plan ends in 2017. Following the elections of 15 March 2017, [coalition negotiations are currently ongoing]. Therefore, the budgetary projection until the end of the programme period is based on a no-policy change assumption.

According the stability programme, the general government surplus is set to increase from 0.5% of GDP in 2017 to 1.3% of GDP in 2020, as is illustrated in Table 2. This is mainly driven by lower expenditure, while government revenues in terms of GDP are projected to be broadly stable. The government has reiterated its commitment to its MTO, a structural balance of -0.5% of GDP[3]. Taken at face value, the structural surplus is projected to increase from 0.1% of GDP in 2017 to 1.0% of GDP in 2020. Similarly, the recalculated structural balance implies a positive margin towards the MTO throughout the programme period.

[3] Whilst strictly speaking the structural balance is measured in percentage of *potential* GDP (not of actual GDP), the reference to the potential is left out throughout this document for reason of simplicity.

Compared to the Draft Budgetary Plan, the stability programme projects a higher budget surplus both in headline and structural terms at the end of the programme period. This is due to both a more favourable initial position and a slightly more positive macroeconomic scenario. The current projection is broadly in line with the Commission spring forecast for the period 2017-2018.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2016	2017		2018		2019	2020	Change: 2016-2020
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**44.0**	**44.4**	**44.3**	**44.2**	**44.2**	**44.4**	**44.3**	**0.3**
of which:								
- Taxes on production and imports	11.7	11.8	11.8	11.9	11.8	11.8	11.8	0.1
- Current taxes on income, wealth, etc.	11.8	12.3	12.4	12.2	12.1	12.0	12.4	0.6
- Social contributions	15.4	15.2	14.9	15.2	15.2	15.6	15.2	-0.2
- Other (residual)	5.2	5.1	5.2	4.9	5.1	5.0	4.9	-0.3
Expenditure	**43.6**	**43.9**	**43.9**	**43.4**	**43.4**	**43.3**	**43.0**	**-0.6**
of which:								
- Primary expenditure	42.5	42.9	42.9	42.5	42.5	42.5	42.3	-0.2
of which:								
Compensation of employees	8.8	9.0	8.7	9.0	8.6	8.6	8.5	-0.3
Intermediate consumption	5.8	5.6	5.8	5.6	5.7	5.7	5.6	-0.2
Social payments	21.7	21.4	21.5	21.1	21.4	21.6	21.5	-0.2
Subsidies	1.2	1.2	1.3	1.2	1.3	1.2	1.2	0.0
Gross fixed capital formation	3.4	3.3	3.3	3.3	3.3	3.2	3.2	-0.2
Other (residual)	1.6	2.4	2.3	2.3	2.3	2.2	2.2	0.6
- Interest expenditure	1.1	1.0	1.0	0.9	0.9	0.8	0.7	-0.4
General government balance (GGB)	**0.4**	**0.5**	**0.5**	**0.8**	**0.8**	**1.1**	**1.3**	**0.9**
Primary balance	**1.5**	**1.5**	**1.4**	**1.7**	**1.7**	**1.9**	**2.0**	**0.5**
One-off and other temporary	0.3	0.3	0.3	0.1	0.1	0.1	0.0	-0.3
GGB excl. one-offs	**0.2**	**0.2**	**0.2**	**0.7**	**0.7**	**1.0**	**1.3**	**1.1**
Output gap[1]	-0.8	0.0	-0.1	0.5	0.3	0.3	0.4	1.1
Cyclically-adjusted balance[1]	0.9	0.5	0.6	0.5	0.6	0.9	1.1	0.2
Structural balance[2]	**0.7**	**0.2**	**0.3**	**0.4**	**0.5**	**0.8**	**1.1**	**0.4**
Structural primary balance[2]	1.7	1.2	1.3	1.3	1.4	1.6	1.8	0.0

Notes*:*

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

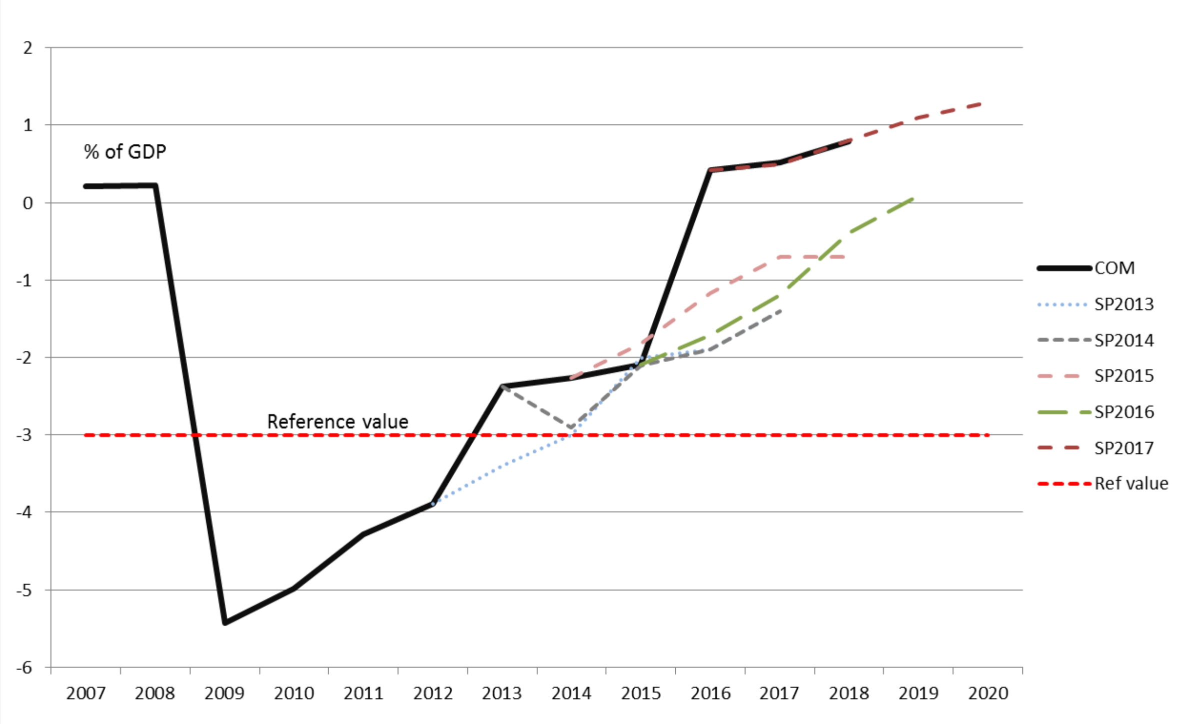
[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Stability Programme (SP); Commission 2017 spring forecasts (COM); Commission calculations.

As is visible in Figure 1, the current budgetary projection is substantially more positive than the preceding stability programmes. This can largely be attributed to the better-than-expected outcome in 2016. While the 2016 stability programme had projected a balanced budget by 2019, the government balance has already turned positive in 2016, much earlier than expected.

Figure 1: Government balance projections in successive programmes (% of GDP)



Source: Commission 2017 Spring Forecast. Stability and convergence programmes

3.3. MEASURES UNDERPINNING THE PROGRAMME

No notable measures have been announced beyond what was included in the Draft Budgetary Plan. The budgetary development over the programme horizon is mainly determined by the macroeconomic environment and measures adopted earlier. In 2017, the government is expected to generate one-off revenues (0.3% of GDP) from a temporary tax abatement related to the pension savings of self-employed. This measure is projected to also have a small positive impact in 2018 (0.1% of GDP).

3.4. DEBT DEVELOPMENTS

The stability programme reports total government debt at 62.3% of GDP in 2016 and projects it to decline to 58.3% of GDP in 2017, below the 60% of GDP reference value of the SGP. The programme projects a further decline to 49.3% of GDP in 2020, which is largely driven by a higher primary surplus and the denominator effect. In addition, interest expenditure is projected to decline somewhat, in line with favourable lending conditions. The debt projection is broadly consistent with the Commission forecast. Both expect the debt-to-GDP ratio to fall below 60% in 2017 and to remain on a downward trajectory[4].

Table 3: Debt developments

(% of GDP)	Average 2011-2015	2016	2017		2018		2019	2020
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**65.8**	**62.3**	**59.8**	**58.5**	**57.2**	**55.5**	**52.2**	**49.3**
Change in the ratio	1.2	-2.9	-2.5	-3.8	-2.6	-3.0	-3.3	-2.9
Contributions[2] :								
1. Primary balance	**1.5**	**-1.5**	**-1.5**	**-1.4**	**-1.7**	**-1.7**	**-1.9**	**-2.0**
2. "Snow-ball" effect	**0.6**	**-0.8**	**-0.8**	**-1.1**	**-0.9**	**-1.0**	**-1.0**	**-1.0**
Of which:								
Interest expenditure	1.5	1.1	1.0	0.9	0.9	0.9	0.8	0.7
Growth effect	-0.5	-1.4	-1.3	-1.3	-1.1	-1.0	-0.9	-0.9
Inflation effect	-0.4	-0.5	-0.5	-0.7	-0.7	-0.8	-0.9	-0.8
3. Stock-flow adjustment	**-0.9**	**-0.6**	**-0.1**	**-1.3**	**0.0**	**-0.3**	**-0.4**	**0.1**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

Notes:

[1] End of period.

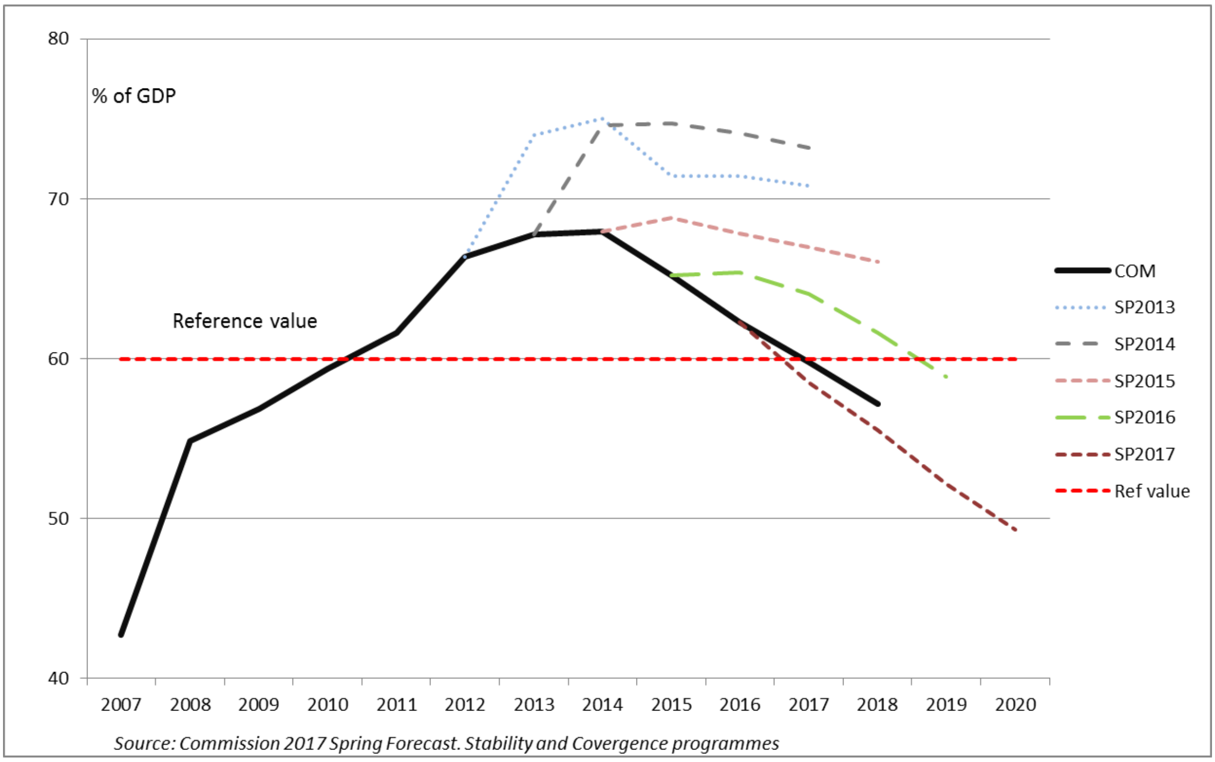
[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

[4] The Commission projects a higher debt path as it takes into account the 2016 outcome. The stability programme is bound to use the CPB projections, which had an earlier cut-off date and assumed slightly lower public debt in 2016. In addition, the CPB makes assumptions on the planned re-privatisation of (partially) state-owned financial institutions with a debt-reducing effect in 2017 and 2018, leading to a somewhat lower debt trajectory.

Figure 2: Government debt projections in successive programmes (% of GDP)



3.5. Risk assessment

Some risks to the current projection stem from the policy uncertainty after the end of the multi-annual expenditure plan in 2017. Nevertheless, given the sustained upward trend in the tax base and the overall positive economic conditions, these risks appear limited. Other downside risks are linked to the Dutch pension funds, as the decline in the average pension fund's coverage ratio could lead to higher compulsory contributions, slowing down the current expansion.

The stability programme also mentions lower-than-expected world trade growth as a downward risk for the open economy of the Netherlands. This is specifically linked to the policy uncertainty in the United States and the United Kingdom, which are important trading partners of the Netherlands. However, as the current economic expansion is largely driven by buoyant domestic demand, this renders the risks somewhat limited.

4. Compliance with the provisions of the Stability and Growth Pact

The Netherlands is subject to the preventive arm of the Stability and Growth Pact. Currently, the Netherlands is also subject to the debt reduction benchmark. Box 1 reports the SGP-related part of the latest country-specific recommendations in the area of public finance.

Box 1. Council recommendations addressed to The Netherlands

On 12 July 2016, the Council addressed recommendations to the Netherlands in the context of the European Semester. In particular, in the area of public finances the Council recommended to the Netherlands to limit the deviation from the medium-term budgetary objective in 2016 and achieve an annual fiscal adjustment of 0.6% of GDP in 2017.

4.1. Compliance with the debt criterion

Following the correction of its excessive deficit in 2013, the Netherlands is required to comply with the transitional debt rule (as defined by the minimum linear structural adjustment, MLSA) until 2016 and with the debt reduction benchmark afterwards. Based on outturn data, the structural adjustment in 2016 was considerably above (by 5.4% of GDP) the required effort. According to the stability programme, the debt-to-GDP ratio is projected to fall below the 60% reference value in 2017 and continue to decline further in 2018. This projection is confirmed by the Commission forecast, implying compliance with the provisions of the Stability and Growth Pact with regard to the debt criterion.

Table 4: Compliance with the debt criterion

	2016	**2017**		**2018**	
		SP	**COM**	**SP**	**COM**
Gross debt ratio	**62.3**	**58.5**	**59.8**	**55.5**	**57.2**
Gap to the debt benchmark [1,2]		n.a.	n.a.	n.a.	n.a.
Structural adjustment [3]	1.7	-0.4	-0.4	0.3	0.2
To be compared to:					
Required adjustment [4]	-3.7				

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

Source :
Commission 2017 spring forecast (COM); Stability Programme (SP), Commission calculations.

4.2. Compliance with the MTO or the required adjustment path towards the MTO

With a structural balance of 0.7% of GDP in 2016, the Netherlands was above its MTO of -0.5% of GDP. Based on the Commission 2017 spring forecast, the Netherlands is projected to remain above the MTO in 2017 and 2018. Similarly, an assessment of the recalculated stability programme implies an overachievement of the MTO over the programme horizon and, thus, compliance with the provisions of the preventive arm. All in all, the budgetary position indicates available fiscal space to support domestic demand, including investment in research and development, in full compliance with the provisions of the Stability and Growth Pact.

Table 5: Compliance with the requirements under the preventive arm

<table>
<tr><td>(% of GDP)</td><td>2016</td><td colspan="2">2017</td><td colspan="2">2018</td></tr>
<tr><td colspan="6">Initial position[1]</td></tr>
<tr><td>Medium-term objective (MTO)</td><td>-0.5</td><td colspan="2">-0.5</td><td colspan="2">-0.5</td></tr>
<tr><td>Structural balance[2] (COM)</td><td>0.7</td><td colspan="2">0.2</td><td colspan="2">0.4</td></tr>
<tr><td>Structural balance based on freezing (COM)</td><td>0.7</td><td colspan="2">0.2</td><td colspan="2">-</td></tr>
<tr><td>Position vis-a -vis the MTO[3]</td><td>At or above the MTO</td><td colspan="2">At or above the MTO</td><td colspan="2">At or above the MTO</td></tr>
<tr><td rowspan="2">(% of GDP)</td><td>2016</td><td colspan="2">2017</td><td colspan="2">2018</td></tr>
<tr><td>COM</td><td>SP</td><td>COM</td><td>SP</td><td>COM</td></tr>
<tr><td colspan="6">Structural balance pillar</td></tr>
<tr><td>Required adjustment[4]
Required adjustment corrected[5]
Change in structural balance[6]
One-year deviation from the required adjustment[7]
Two-year average deviation from the required adjustment[7]</td><td colspan="5" rowspan="5">Compliant</td></tr>
<tr><td>Expenditure benchmark pillar</td></tr>
<tr><td>Applicable reference rate[8]
One-year deviation adjusted for one-offs[9]
Two-year deviation adjusted for one-offs[9]</td></tr>
<tr><td>PER MEMORIAM: One-year deviation[10]</td></tr>
<tr><td>PER MEMORIAM: Two-year average deviation[10]</td></tr>
<tr><td colspan="6">Conclusion</td></tr>
<tr><td>Conclusion over one year</td><td>Compliance</td><td>Compliance</td><td>Compliance</td><td>Compliance</td><td>Compliance</td></tr>
<tr><td>Conclusion over two years</td><td>Compliance</td><td>Compliance</td><td>Compliance</td><td>Compliance</td><td>Compliance</td></tr>
</table>

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability Programme (SP); Commission 2017 spring forecast (COM); Commission calculations.

5. LONG-TERM SUSTAINABILITY

The Netherlands does not appear to face fiscal sustainability risks in the short run according to the S0 indicator, which captures the short-term risks of fiscal stress stemming from the fiscal, as well as the macro-financial and competitiveness sides of the economy.

Based on Commission forecasts and a no-fiscal policy change scenario beyond forecasts, government debt, at 62.3% of GDP in 2016, is expected to decrease from 59.8% of GDP in 2017 to 38.1% of GDP in 2027, thus remaining below the 60% of GDP Treaty threshold. This implies low risks for the country from debt sustainability analysis in the medium term. The full implementation of the stability programme would lead to a slightly faster decline in government debt.

The medium-term fiscal sustainability risk indicator S1 is at -2.3 pps. of GDP, primarily related to the initial budgetary position, thus indicating low risks in the medium term. The full implementation of the stability programme would put the sustainability risk indicator S1 at -3.6 pps. of GDP, also implying a low medium-term risk. Overall, both the no-policy change scenario and the full implementation of the fiscal plans imply low risks to fiscal sustainability over the medium term.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is at 2.3 pps. of GDP. In the long term, the Netherlands therefore appears to face medium fiscal sustainability risks, primarily related to the projected long-term care costs, this contributing with 2.6 pps. of GDP to the indicator. Full implementation of the programme would nonetheless put the S2 indicator at 2.0 pps. of GDP, leading to a similar long-term risk.

Table 6: Sustainability indicators

Time horizon			No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term			**LOW risk**			
S0 indicator [1]			0.2			
Fiscal subindex			0.0	LOW risk		
Financial & competitiveness subindex			0.3	LOW risk		
Medium Term			**LOW risk**			
DSA [2]			LOW risk			
S1 indicator [3]			-2.3	LOW risk	-3.6	LOW risk
of which						
	Initial Budgetary Position		-1.9		-2.7	
	Debt Requirement		-0.2		-1.0	
	Cost of Ageing		-0.2		0.0	
	of which					
		Pensions	-0.1		-0.1	
		Health-care	0.3		0.2	
		Long-term care	0.4		0.4	
		Other	-0.8		-0.6	
Long Term			**MEDIUM risk**		**LOW risk**	
S2 indicator [4]			2.3		2.0	
of which						
	Initial Budgetary Position		-0.1		-0.7	
	Cost of Ageing		2.4		2.7	
	of which					
		Pensions	0.1		0.2	
		Health-care	0.6		0.6	
		Long-term care	2.6		2.7	
		Other	-1.1		-0.8	

Source: Commission services; 2017 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2017 forecast covering until 2018 included. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for No-policy Change scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2016.

6. FISCAL FRAMEWORK

In the Netherlands, numerical fiscal rules have been embedded in the Law on the Sustainability of Public Finances (*Wet houdbare overheidsfinanciën – Wet HOF),* with reference to the MTO set in structural terms, the annual deficit limit and the annual debt limit of the Economic and Monetary Union. Expenditure and revenue ceilings set for a whole government term are other major components of the Dutch national fiscal framework. As the numerical rules directly refer to the rules of the SGP, the assessment of compliance with the national rules is identical to the assessment presented in section 4.1 and 4.2.

The Advisory Division of the Council of State is the designated body responsible for the independent monitoring of compliance of budget planning and execution with the numerical fiscal rules. In its spring assessment[5], the Advisory Division states that the 2016 executed budget complied with the numerical fiscal rules, as the structural balance met the MTO with a positive margin, and the debt-to-GDP ratio declined more than required by the transitional debt reduction benchmark. In terms of forward-looking assessment, the Council of State states that the structural balance will remain above the MTO in 2017 and 2018, and that gross government debt will fall below the 60% of GDP reference value as of 2017, implying compliance with the fiscal rules.

With regard to the multi-annual budget plan of a new government, the Council of State recommended keeping a sufficiently large margin towards the MTO. The Dutch economy and thus public finances have proven to be rather volatile, and the insufficient build-up of fiscal buffers often led to procyclical fiscal policy. Therefore, the Council stressed the need for building fiscal buffers, which would also give more room for handling the national multi-annual expenditure plans in the spirit of a trend-based budgetary policy.

The stability programme serves as the national medium-term fiscal plan according to Art. 4(1) of the Two-Pack Regulation 473/2013. As such, it is required to include indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact. However, neither the stability programme nor the national reform programme contains such indications.
The macroeconomic forecast underlying the stability programme was prepared by the CPB Netherlands Bureau of Economic Policy Analysis (Centraal Planbureau). While the CPB is a government body, it enjoys complete operational freedom, formally guaranteed by law[6]. The government traditionally uses the CPB's macroeconomic forecast to present the budgetary and economic effects of planned measures. This established practice has been formalised in 2013 by virtue of the Wet HOF.

[5] See https://www.raadvanstate.nl/assets/begrotingstoezicht/Voorjaarsrapportage-2017.pdf.

[6] The law *Wet houdende de voorbereiding van de vaststelling van een Centraal Economisch Plan* from 1947 gives the CPB the legal basis for its operations. The law *Aanwijzing op de Planbureaus* from 2012 codifies the independence of the CPB.

7. SUMMARY

In 2016, the Netherlands recorded headline and structural budget surpluses, in full compliance with the provisions of the Stability and Growth Pact. The Netherlands complied with the transitional debt benchmark in 2016.

According to the stability programme, the Netherlands plans to remain above the MTO in 2017 and 2018, and the debt-to-GDP ratio is projected to fall below the 60% reference value as of 2017. This is in line with the Commission 2017 spring forecast.

The budgetary position indicates available fiscal space to support domestic demand, including investment in research and development, in full compliance with the provisions of the Stability and Growth Pact. Furthermore, this would also be in line with the Council recommendation on the economic policy of the euro area of 21 March 2017, which invited Member States that have outperformed their medium-term objectives to continue to prioritise investments to boost potential growth while preserving the long-term sustainability of public finances.

8. ANNEX

Table I. Macroeconomic indicators

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	2.4	2.6	-0.4	1.4	2.0	2.2	2.1	1.8
Output gap [1]	0.6	0.1	-2.4	-2.5	-1.6	-0.8	0.0	0.5
HICP (annual % change)	3.1	1.7	2.0	0.3	0.2	0.1	1.6	1.3
Domestic demand (annual % change) [2]	2.3	2.3	-1.1	0.9	2.2	2.3	2.2	2.0
Unemployment rate (% of labour force) [3]	3.9	4.9	5.5	7.4	6.9	6.0	4.9	4.4
Gross fixed capital formation (% of GDP)	22.2	21.3	19.6	18.0	19.4	19.8	20.1	20.5
Gross national saving (% of GDP)	28.1	29.2	28.5	27.0	27.8	27.6	27.5	27.6
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.6**	**-0.3**	**-4.2**	**-2.3**	**-2.1**	**0.4**	**0.5**	**0.8**
Gross debt	**51.6**	**48.3**	**62.4**	**67.9**	**65.2**	**62.3**	**59.8**	**57.2**
Net financial assets	**-29.5**	**-27.5**	**-35.4**	**-43.9**	**-42.8**	**n.a**	**n.a**	**n.a**
Total revenue	42.7	42.7	43.1	43.9	43.2	44.0	44.4	44.2
Total expenditure	43.4	43.0	47.3	46.2	45.3	43.6	43.9	43.4
of which: Interest	3.0	2.1	1.7	1.4	1.3	1.1	1.0	0.9
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**6.0**	**9.0**	**10.5**	**8.5**	**3.9**	**7.0**	**6.1**	**5.9**
Net financial assets; non-financial corporations	**-199.0**	**-140.6**	**-93.3**	**-77.4**	**-74.5**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**9.8**	**15.0**	**-1.5**	**0.9**	**-5.4**	**n.a**	**n.a**	**n.a**
Gross capital formation	11.4	10.1	10.7	10.4	10.7	10.5	10.7	11.0
Gross operating surplus	25.2	27.5	28.5	28.1	28.4	27.8	27.2	26.8
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**0.3**	**-1.4**	**2.0**	**2.2**	**1.5**	**0.4**	**0.2**	**0.0**
Net financial assets	**145.7**	**125.6**	**148.0**	**194.9**	**200.6**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	39.8	37.6	38.5	37.7	38.0	38.0	38.5	38.9
Net property income	6.2	5.3	5.9	6.4	6.4	6.4	6.6	6.5
Current transfers received	21.8	20.5	21.6	22.3	22.0	21.7	21.3	20.9
Gross saving	7.5	6.2	7.1	6.7	6.5	6.2	6.2	6.2
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**5.7**	**7.2**	**8.3**	**8.4**	**3.5**	**7.6**	**6.7**	**6.6**
Net financial assets	**75.0**	**29.2**	**-14.7**	**-71.5**	**-75.1**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	6.4	8.6	8.9	10.8	10.8	10.9	10.3	10.0
Net primary income from the rest of the world	1.0	0.8	1.2	-0.3	-0.4	-1.4	-1.1	-1.1
Net capital transactions	-0.1	-0.4	-0.4	-0.1	-5.0	-0.3	-0.6	-0.5
Tradable sector	41.8	40.6	38.9	38.7	38.7	38.4	n.a	n.a
Non tradable sector	47.6	48.6	51.2	51.4	51.2	51.3	n.a	n.a
of which: Building and construction sector	4.9	5.0	4.7	4.1	4.1	4.3	n.a	n.a
Real effective exchange rate (index, 2000=100)	93.3	98.4	101.0	100.6	96.6	97.2	98.1	98.7
Terms of trade goods and services (index, 2000=100)	99.3	100.4	99.3	98.4	99.1	99.8	98.8	98.3
Market performance of exports (index, 2000=100)	100.1	98.3	100.9	102.8	102.4	102.1	101.7	101.3

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :
AMECO data, Commission 2017 spring forecast