DRAFT BUDGET

THE NETHERLANDS

SEPTEMBER 2023

INTRODUCTION

Every year, the European Member States within the eurozone submit a Draft Budgetary Plan (DBP) to the European Commission. In this Draft Budgetary Plan for the Netherlands, the government presents its 2024 economic and budgetary prospects. The European Commission and European Council use this plan to assess whether the Netherlands is compliant with the requirements of the Stability and Growth Pact (SGP), which contains the European budgetary rules. At the end of 2023, the European Commission will deactivate the general escape clause which had been activated in response to the severe economic and budgetary consequences of the corona crisis. Following this, quantified and differentiated country-specific recommendations on budgetary policy apply again.

Given the government's outgoing status, this Draft Budget presents few new measures. Despite its outgoing status, the government will monitor the current issues. The government has therefore compiled a targeted purchasing power package this summer to support households in 2024 and to prevent an increase in poverty and child poverty. Budgetary coverage has been provided for these measures.

The economic and budgetary prospects are based on the Macroeconomic Outlook (MEV) and Medium-term forecast (MLT) of the CPB Netherlands Bureau for Economic Policy Analysis (CPB) and the 2024 Budget Memorandum (Miljoenennota 2024). A more detailed explanation on the government's policy plans is available in the 2024 Budget Memorandum. The DBP is based on the Budget Memorandum presented at the state opening of parliament (19 September 2023). Possible changes resulting from the current Parliamentary Debate on the King's speech (APB) and Parliamentary Debate on the Budget (AFB) are not reflected in the DBP.

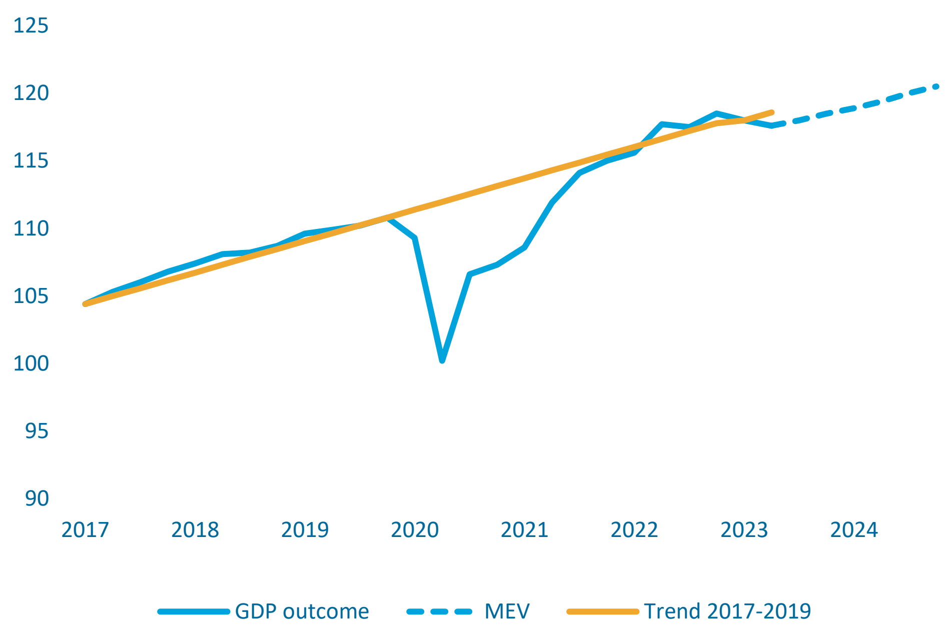
TABLE OF CONTENTS

CHAPTER 1:
MACROECONOMIC FORECAST

These are turbulent years in the Netherlands, marked by a pandemic, the Russian war against Ukraine and significantly increased inflation. In addition, the government tendered its resignation on 7 July 2023. Despite the government's outgoing status, urgent current developments continue to demand action. The outgoing government continues to support Ukraine. In addition, the outgoing government continues to work on recovery of the serious failings in the childcare benefit system and consequences of the gas extraction in Groningen. The government also continues to focus its efforts in a fitting manner on other important issues.

In recent years, the Dutch economy has been resilient in the face of several major shocks; in 2023 the economy has shown a cooling down. The pandemic, the ongoing war in Ukraine and the resulting energy price hike and inflation shock has had a major economic and social impact. The economy has proved to be resilient, partly through the government's support policies. Economic recovery following the corona crisis was stronger than expected, so too compared to other countries. Despite the resilience of the Dutch economy, economic growth is now dropping back. After a GDP growth of 4.3% in 2022, the economy is expected to grow by 0.7% in 2023. In the first two quarters of 2023, the Dutch economy contracted by 0.4% and 0.3%.[1] Having had two quarters of economic contraction in a row, technically speaking there is a recession. However, this recession is expected to be mild and short-lived. The CPB Netherlands Bureau for Economic Policy Analysis (hereafter abbreviated to CPB) forecasts that the economy will recover in the third and fourth quarters of 2023. For 2024, a GDP growth of 1.5% is forecast.

Figure 1.1 Development of Dutch gross domestic product (GDP 2015=100)



Source: Statistics Netherlands and CPB Netherlands Bureau for Economic Policy Analysis

Inflation is declining but remains high for the time being, and has also become more broadly ensconced in the economy. The inflationary shock was originally caused by rising energy and food prices, partly caused by the war in Ukraine. While inflation was previously expected to decline rapidly, it is now holding on for longer. According to the CPB, inflation measured according to the Harmonised Index of Consumer Prices (HICP) method (year-on-year) will drop from 11.6% in

[1] Statistics Netherlands Statline;

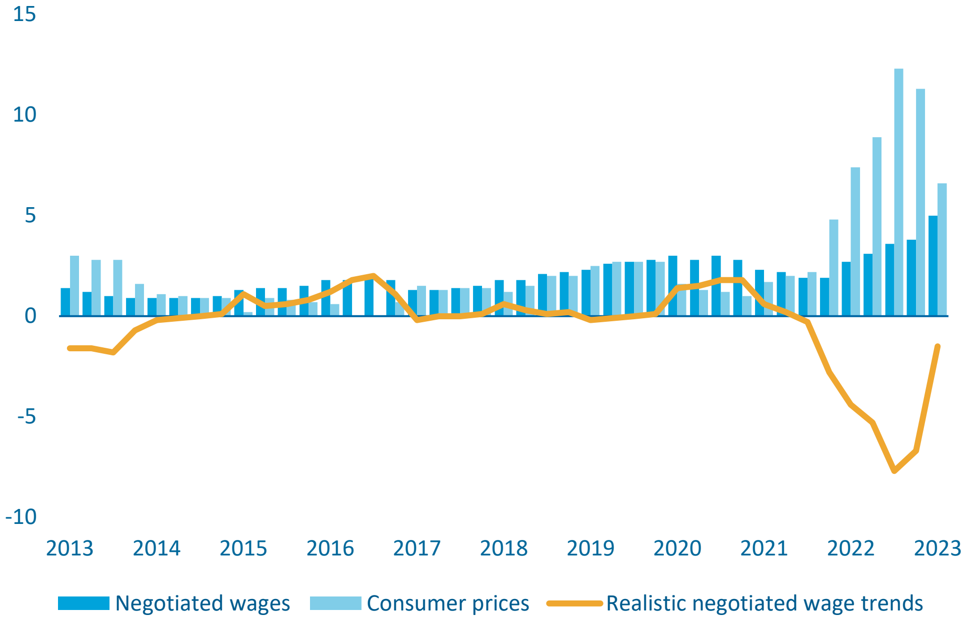
2022 to 4.1% in 2023. Statistics Netherlands figures have shown that the Consumer Price Index (CPI) dropped to 3.0% in August. For 2024, the CPB forecasts an inflation rate of 3.9%. The inflation problem, in the meanwhile, has extended beyond a mere increase in gas and electricity prices. This is reflected in the sharp rise in food prices and the current high core inflation. This has major consequences for the purchasing power of Dutch households.

At unchanged policy, poverty and child poverty will exacerbate in the Netherlands. Without additional purchasing power measures, poverty would increase to 5.7% of the population in 2024, an increase of 0.9pp compared to 2023. This is because temporary measures such as the price cap and energy surcharge will cease after 2023. In the meantime, both energy prices and energy market volatility have dropped and fixed contracts can be concluded again below the price cap. This reduces uncertainty. The energy bill is still higher than before the energy crisis.

The government has decided on a targeted and structural purchasing power package to improve the purchasing power of low incomes and families with children, and to prevent poverty and child poverty from rising among households. In the purchasing power package, the government is increasing the child-related budget, the housing benefit and the employed person's tax credit. In addition, subsidies are once again being provided to the Temporary Emergency Energy Fund, which aims to address problematic energy debts in households that have high energy bills and a low/middle income. The CPB expects a median purchasing power growth of 1.7% in 2024, partly due to rising wages. For 2023, the CPB assumes a decrease of 1.1%, following the greater decrease of 2.7% in 2022. Poverty rates remain the same in 2024 as in 2023 at 4.8%, whereas previously an increase of up to 5.7% was forecast. The proportion of families with children living in poverty will drop from 6.2% in 2023 to 5.1% in 2024. Previously, the CPB forecast an increase up to 7.0%.

The combination of a short-staffed labour market and high inflation leads to higher wage increases. Although the unemployment rate increases slightly to 3.6% in 2023 and 4.0% in 2024, the labour market remains short-staffed. Negotiated wages are lagging behind in response to high inflation. Negotiated wages in the market sector are expected to rise by 5.9% in 2023 and 5.4% in 2024, thus showing recovery growth. Figure 1.2 shows the development outcome of nominal and realistic negotiated wages and consumer prices (as measured by the Consumer Price Index, CPI) up to the first quarter of 2023. The nominal rise in negotiated wages is still lower than the CPI. This means that realistic wage developments were negative until the first quarter of 2023.

Figure 1.2 Negotiated wages, consumer prices and realistic negotiated wage trends (% change compared to year before)



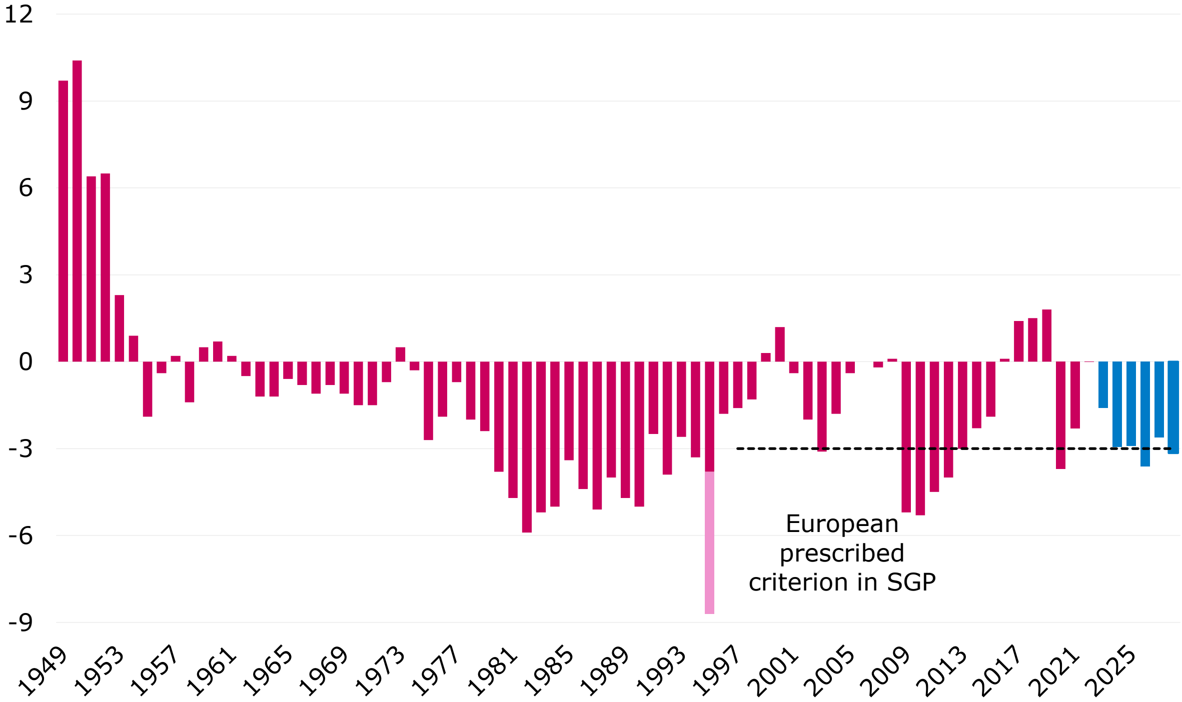
Source: Statistics Netherlands

Wage growth boosts purchasing power, but at the same time can contribute to further price increases. The labour income ratio decreased in 2022, it declined further in 2023 and will increase slightly in 2024. This trend and the sharply increased revenues from corporation tax suggest that there is still a margin for wage increase at the macroeconomic level. At the same time, profitability has not increased everywhere; there are significant differences between industries. The possibility of passing higher costs on to the consumer also plays an important role here. This will also contribute in part to wage increases contributing to core inflation. This effect will vary from one industry to another.

CHAPTER 2:
BUDGETARY TARGETS

The general government balance in 2024 and 2025 will be -2.9% and public finances are deteriorating in the medium term. Concurrently, general government debt remains relatively low. In the short term, additional expenditure and reduced tax revenues lead to an increase in the government deficit. This trend continues in the medium term: this is partly due to the government's ambitious investment agenda and rising expenses for interest. Elections will be held in November and new policies will be outlined for the subsequent four years. The general government balance forecasts for these years are highly dependent on a new coalition agreement and are therefore surrounded by uncertainty.

Figures 2.1 Development of general government balance

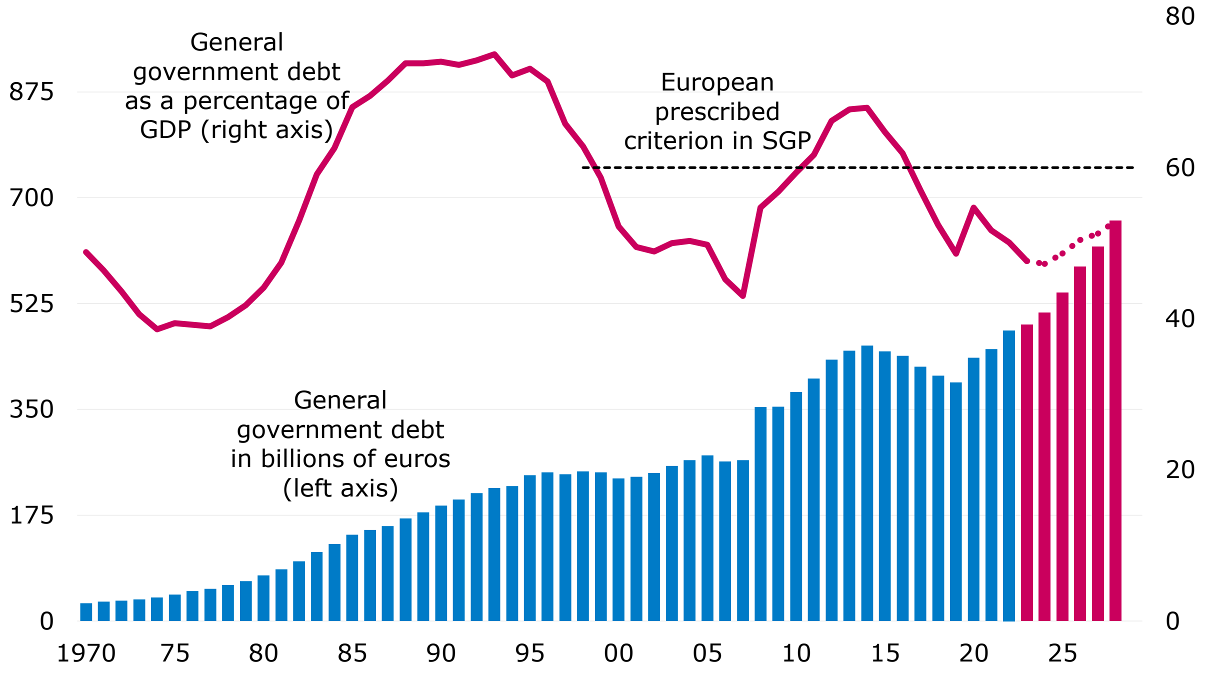


Source: Statistics Netherlands and Ministry of Finance

At the same time, the financial position of the Dutch government remains strong. Debt is expected to reduce from 47.6% in 2023 to 47.3% in 2024, and in turn will rise to 52.9% in 2028. Favourable debt development is due, among other things, to high inflation and the associated denominator effect: high inflation increases the nominal GDP and proportionally reduces debt. The denominator effect is likely to diminish in the coming years, as inflation tends to move towards the ECB target (2%). According to the CPB's latest forecast of August 2023, inflation will drop to around 2.1% in 2028. The Netherlands holds a triple-A rating from credit rating agencies; this is the highest credit rating. This indicates that there is a very high level of confidence that the Netherlands will be able to meet its commitments in the coming years.

Sustainable public finances contribute to a fair distribution of financial prosperity across generations. The medium and long-term sustainability of Dutch public finances is influenced by several factors, such as economic growth, demographic changes and interest rate developments. This intergenerational sustainability of public finances is also juxtaposed by the urgency of a number of societal transitions, for example regarding climate change and population ageing. In the absence of measures now, this will be a burden on future generations. Additionally, the government should also be vigilant in pursuing pro-cyclic policies.

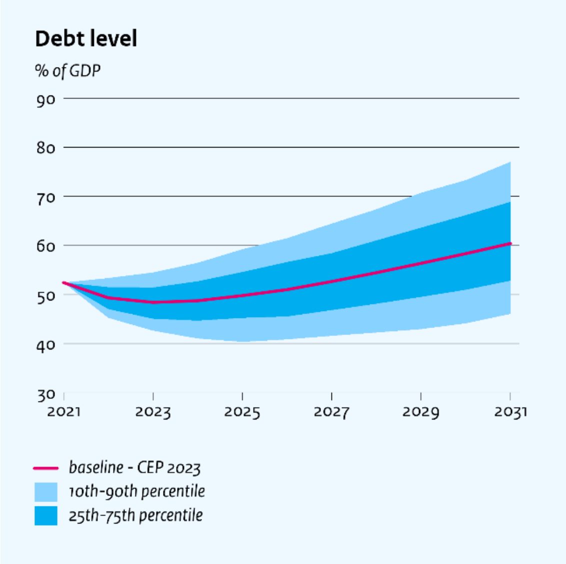
Figures 2.2 Development of general government debt



Source: Statistics Netherlands and Ministry of Finance

A Debt Sustainability Analysis (DSA) is a tool to assess a country's (long-term) debt sustainability, and thus to identify future risks. The CPB updated the DSA analysis, as reported in the previous Draft Budget, based on the 2023 Central Economic Plan (CEP) projection. The figure below shows the probability that government debt will reach a certain level up to and including the year 2031. This projection is based on a stochastic debt forecast with a thousand of scenarios relating to interest rates, growth and primary balances and at unchanged policy.

Figure 2.3 Stochastic debt forecast up to 2031



Source: CPB Netherlands Bureau for Economic Policy Analysis

The DSA model shows that the rise in debt remains confined in the medium term. The baseline will be just above 60% of GDP in 2031. The 25th percentile and the 75th percentile are 53% and 68% respectively in the year 2031. This means that there is a 50% chance that government debt will be between 53% and 68% in 2031. The 10th and 90th percentiles respectively reach 46% and 77% in 2031.

CHAPTER 3:
EXPENDITURE AND REVENUE PROJECTIONS UNDER THE UNCHANGED POLICY SCENARIO

Table 3.1 General government expenditure and revenue projections at unchanged policy, broken down by main components

	ESA Code	2023 (% of GDP)	2024 (% of GDP)
General government (S13)			
1. Total revenue at unchanged policy	TR	42.52	42.74
Of which			
1.1. Taxes on production and imports	D.2	11.41	11.39
1.2. Current taxes on income, wealth, etc.	D.5	13.99	14.20
1.3 Capital taxes	D.91	0.28	0.27
1.4 Social contributions	D.61	13.14	12.95
1.5 Property income	D.4	0.49	0.55
1.6 Other		3.21	3.39
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38.81	38.72
2. Total expenditure at unchanged policy	TE	43.97	45.10
Of which			
2.1 Compensation of employees	D.1	8.16	8.50
2.2 Intermediate consumption	P.2	6.25	6.28
2.3 Social security payments	D.62,D.63	10.65	11.01
of which Unemployment compensation benefits		10.47	10.93
2.4 Interest expenditure	EDP D.41	0.70	0.80
2.5 Subsidies	D.3	2.03	1.80
2.6 Gross fixed capital formation	P.51	3.08	3.20
2.7 Capital transfers	D.9	0.77	0.58
2.8 Other		1.86	1.99

Source: CPB Netherlands Bureau for Economic Policy Analysis

CHAPTER 4:
EXPENDITURE AND REVENUE TARGETS

Table 4.1 General government expenditure and revenue targets, broken down by main components

	ESA Code	2023 (% of GDP)	2024 (% of GDP)
General government (S13)			
1. Total revenue at unchanged policy	TR	42.52	42.74
Of which			
1.1. Taxes on production and imports	D.2	11.41	11.39
1.2. Current taxes on income, wealth, etc.	D.5	13.99	14.20
1.3 Capital taxes	D.91	0.28	0.27
1.4 Social contributions	D.61	13.14	12.95
1.5 Property income	D.4	0.49	0.55
1.6 Other		3.21	3.39
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38.81	38.72
2. Total expenditure at unchanged policy	TE	43.97	45.10
Of which			
2.1 Compensation of employees	D.1	8.16	8.50
2.2 Intermediate consumption	P.2	6.25	6.28
2.3 Social security payments	D.62,D.63	10.65	11.01
of which Unemployment compensation benefits		10.47	10.93
2.4 Interest expenditure	EDP D.41	0.70	0.80
2.5 Subsidies	D.3	2.03	1.80
2.6 Gross fixed capital formation	P.51	3.08	3.20
2.7 Capital transfers	D.9	0.77	0.58
2.8 Other		1.86	1.99

Source: CPB Netherlands Bureau for Economic Policy Analysis and Ministry of Finance

CHAPTER 5:
DISCRETIONARY BUDGETARY MEASURES

5.1 Expenditure

Total expenditure relevant to the general government balance is EUR 401.8 billion in 2023 and will rise to EUR 433.6 billion in 2024. Revenues are EUR 386.5 billion in 2023 and EUR 402.9 billion in 2024. Further key budgetary data are shown in Table 5.1.

Table 5.1: Key budgetary data

(in billions of euro, unless shown otherwise)	2023	2024
Revenue (taxes and social insurance contributions)	386.5	402.9
Normal net expenditure below the expenditure benchmark	375.7	413.1
National budget	170.9	176.2
Social security	98.9	108.9
Healthcare	87.8	97.8
Investments	18.1	30.3
Corona support measures relevant to general government balance (expenditure)	3.0	0.5
Other net expenditure and corrections relevant to general government balance	23.1	19.9
Total net expenditure relevant to general government balance	401.8	433.6
General government balance for central government	-15.3	-30.6
General government balance for local governments	-1.0	-1.1
General government balance public sector	-16.4	-31.7
General government balance public sector (in % of GDP)	-1.6%	-2.9%
General government debt public sector	489.9	509.5
General government debt public sector (in % of GDP)	47.6%	47.3%
Gross domestic product (GDP)	1,028	1,078

Source: Ministry of Finance

In budgetary terms, the government is deliberately taking a risk with its investment agenda in the coalition agreement. The general government balance is forecast to be just below -3% of GDP until 2025 and will deteriorate in the years thereafter. The general government debt is forecast to reduce from 47.6% of GDP in 2023 to 47.3% in 2024. This means the Netherlands will remain well below the European reference value of 60% of GDP. Concurrently, this picture could change rapidly if the economic situation deteriorates.

It is therefore necessary to keep the budget in good order. The government is faced with higher expenditure. Expenditure issues such as interest rates, the costs of the energy package, higher expenses expected for the system of allowances, and asylum seekers are compensated in the budgets for 2023 and 2024. In doing so, the government has taken a number of structural measures to achieve a balanced package. The incidental budgetary costs for the additional compensation package for Groningen is charged to the general government balance. On balance, public expenditure continues to increase in the wider sense.

5.1.2 August purchasing power package

The purchasing power package allows for an increase in spending of EUR 2 billion per annum as from 2024. As from 2024, approximately EUR 1 billion per annum will be allocated to families with children who have an income of up to about EUR 70,000. In addition, EUR 704 million will be allocated to the housing subsidy in 2024 and EUR 750 million per annum from 2025 onwards for tenants that have an income of about EUR 30,000 per person. The purchasing power measures related to energy costs have partly been extended to March 2024 using the Temporary Emergency Energy Fund for a target group of low/middle incomes who have high energy bills. The remaining budget is allocated to young disabled persons, workers earning around the minimum rate of pay and social assistance benefit recipients. A subsidy of EUR 30 million has also been released to support the purchasing power in the Caribbean Netherlands.

These measures are compensated by higher taxes on higher incomes and higher taxes on alcohol and tobacco. From 2024 onwards, EUR 1.5 billion will be raised for incomes of around EUR 75,000 and higher per year by only partially indexing tax bracket limits. In the same way, expenses increase for pensioners that have an income between about EUR 37,000 and EUR 75,000. From 2024 onwards, this will provide around EUR 240 million per annum. Increasing excise duties on alcohol and smoking tobacco will structurally provide EUR 85 million in 2024 and EUR 103 million from 2025 onwards. There is also a surplus of EUR 275 million in the revenue framework that has been allocated for the purchasing power package. This results in an incidental deficit, but a structural surplus.

5.1.3 Ukraine

The government continues to support Ukraine with total abandon. It does so, among other things, using a combination of military and humanitarian support in Ukraine. The Netherlands also provides emergency accommodation of and medical care for displaced persons from Ukraine.

The Netherlands offers a safe haven for displaced persons from Ukraine; they are accommodated, supported and given the opportunity to work and to attend school. The expenditure forecast in the 2024 Budget Memorandum assumes an average of 111,500 displaced persons from Ukraine in 2024. Expenditure, in principle, has been forecast until the end of 2024, but has been carried over to 2025 to accommodate displaced persons. In addition, in anticipation of the expected extension of the Temporary Protection Directive, funds were earmarked for the extension or renewal of reception centres in 2026.

Overall, expenditure for domestic schemes are forecast at almost EUR 3.4 billion in 2024 (see Table 5.2). Of this, EUR 3 billion is allocated to the reception and accommodation of displaced persons from Ukraine. It concerns both the payments of 2023 and the advances for 2024. Aside from that, EUR 97 million has been made available for the education of newcomers. To ensure that displaced Ukrainians have access to healthcare, the Medical Care Scheme for Displaced Persons from Ukraine has been extended (EUR 220 million), and so too the Scheme for additional municipal care costs (EUR 23 million).

Table 5.2 Expenditure for domestic schemes – Ukraine

Domestic schemes						
in millions of euro	2023	2024	2025	2026	2027	2028
Total	**3,576**	**3,377**	**1,214**	**100**	**–**	**–**
Relief facilities for displaced persons	3,023	3,029	1,214	100	–	–
Healthcare	283	250	–	–	–	–
Education	246	97	–	–	–	–
Social Security and Employment	25	–	–	–	–	–

Source: Ministry of Finance

In the international context, the government supports Ukraine in the military field, contributes to humanitarian support and provides assistance for immediate reconstruction and restoration work. The government has made an additional budget available from general resources for international aid requests from Ukraine. Table 5.3 shows an overview of international aid in net expenditure for 2023 to 2028.

Table 5.3 Contribution by the Netherlands to international aid – Ukraine

International aid						
in millions of euro	2023	2024	2025	2026	2027	2028
Total	**1,524**	**1,239**	**629**	**391**	**81**	**441**
Humanitarian support and reconstruction	456	93	93	95	97	–
of which: compensation from Ukrainian scheme	*406*	*93*	*93*	*95*	*97*	–
of which: from ministerial budget	*50*	–	–	–	–	–
Military support	1,069	1,146	536	296	– 16	441

Source: Ministry of Finance

The Netherlands provides financial support in several ways (see Table 5.4). This is done by granting loans through the IMF and with budget support through the European Union. The government also finances a capital injection to the European Bank for Reconstruction and Development (EBRD) to continue its support to Ukraine. In addition, we provide security of gas supply. A filling degree obligation has been agreed for this. In view of the fact that market incentives may be absent in current market circumstances for filling the Bergermeer storage facility, an incentive grant has been introduced. Additionally, a loan has been granted to Energie Beheer Nederland (EBN), which will be repaid over several years.

Table 5.4 Expenditure for financial support and security of supply

Financial support and security of supply						
in millions of euro	2023	2024	2025	2026	2027	2028
Total	**95**	**457**	**146**	**– 107**	**– 144**	**– 188**
Financial support	25	116	41	41	5	– 39
Security of supply	70	340	105	– 148	– 148	– 148

Source: Ministry of Finance

5.1.4 Groningen

Inhabitants in the earthquake area still have to deal with the consequences of gas extraction on a daily basis. This brings about feelings of fear, frustration and uncertainty. For the outgoing government, safety, the proper handling of the detrimental effects and the creation of prospects for the inhabitants are paramount.

Following the report by the Dutch Parliamentary Committee of Inquiry into Groningen natural gas extraction (PEGA), the government has taken measures to make the claims milder, easier and more humane. This involved an amount of EUR 22.35 billion. In the pre-Spring Memorandum consultations, a series had been reserved for this purpose under the Additional Item for a total sum of EUR 11.5 billion. This series consists of EUR 4 billion in extraordinary resources for the period up to 2028. These are resources to cover both detrimental effects and reinforcement, as well as for improving sustainability and the social and economic prospects. Besides, over a period of 30 years, EUR 250 million has been earmarked for generation-long involvement, likewise for sustainability and the social and economic prospects. These resources are over and above the existing resources for Groningen, reserved in the budget of the Ministry of Economic Affairs and Climate (EZK) and in existing resources that have been re-prioritized at other ministries. The total extent of existing and new measures amounts to EUR 22.35 billion.

5.2 Revenue

In 2024, the government is expected to receive EUR 402.9 billion in taxes and social security contributions on general government-based amounts. Of these, personal income tax, VAT, health insurance contributions, national insurance contributions and employee insurance contributions, as well as corporation tax are the most important budgetary items. Refer to Table 5.5. for an overall overview of the expected taxes and social security revenues in 2024.

In 2023, revenues increase by EUR 34.6 billion compared to 2022. Table 5.5 shows that this growth is almost entirely driven by economic development in 2023. Endogenous growth is the growth that is explained by general economic development. This involves an amount of EUR 30.6 billion. Policy measures result in EUR 4.0 billion higher tax revenues compared to 2022. This mainly concerns the phasing out of some of the tax cuts that were made last year in relation to high energy prices, namely discontinuation of the reduced VAT rate on electricity and gas, and phasing out the reduced excise duties on fuels, and replacement of the reduced energy tax with the price cap. Discontinuation of the solidarity contribution in 2022 means a *negative* in 2023 (EUR -6.4 billion); integrating the storage of Sustainable Energy into the energy tax means an accounting positive in 2023 (EUR +3.4 billion); and measures relating to assets contribute to a *positive* (particularly, an increase in the low corporate tax rate in conjunction with the reduction of the tax bracket limit, a joint positive of approximately EUR 2.8 billion).

Taxes and social security revenues will grow by EUR 16.5 billion in 2024. The endogenous growth of EUR 12.3 billion is thus more restricted than in 2023. Indeed, a new increase in taxable profits, and hence corporate tax, is not expected. Policy changes result in an additional tax revenue growth of EUR 4.2 billion. One of the reasons for this is the complete discontinuation of the reduction in fuel excise duties which began in 2022. In addition, measures are being taken in the area of wage tax. Not fully indexing the tax bracket limit for the top income tax rates yields about EUR 1.6 billion. In addition, consumption tax (e.g. on soft drinks) is being increased (EUR +0.4 billion) and excise duties on tobacco and alcohol are indexed discretionarily.

In the medium term, revenues continue to grow to around EUR 478.7 billion in 2028. Endogenous growth over this period is roughly in line with the expected value development of the GDP.

Table 5.5 Taxes and social security revenues 2022-2024

	2022	2023	2024
Taxes and national social insurance contributions on general government-based amounts	275.1	302.0	311.9
- of which: taxes	233.2	260.4	269.8
- of which: national social insurance contributions	41.9	41.6	42.1
Employee insurance scheme contributions	76.7	84.5	91.0
Total	**351.9**	**386.5**	**402.9**
Change		34.6	16.5
- of which: endogenous growth		30.6	12.3
- of which: policy		4.0	4.2
Endogenous change (in %)		8.7%	3.2%
Value development GDP (in %)		7.3%	4.9%

Source: Ministry of Finance

CHAPTER 6:

POSSIBLE LINKS BETWEEN THE DRAFT BUDGETARY PLAN AND THE TARGETS SET IN COUNTRY-SPECIFIC RECOMMENDATIONS

As part of the European Semester, the European Commission is advising on the National Reform Programmes and Stability or Convergence Programmes of Member States within the eurozone. The following is the government's response with progress for each recommendation. As mentioned, the current government is outgoing. The government positions set out below should be seen in this light.

Country-specific recommendations (CSRs)

CSR number	Measures (specific progress)
	2022 CSRs
CSR 1: macroeconomic stability	
Phase out the current energy-related support measures by the end of 2023 and use the savings associated with them to reduce the government deficit. If new increases in energy prices require support measures, ensure that they focus on protecting vulnerable households and businesses, as well as being fiscally feasible and maintain incentives for energy savings.	In the 2023 Spring Memorandum, the government indicated that the generic energy support measures will be phased out by the end of 2023. In order to provide a safety net for vulnerable households (with low income and high energy bills), the government is again providing a subsidy to the Temporary Emergency Energy Fund, which will be made available for the period October 2023 to 2024. As higher expenditure needs to be included under the expenditure benchmark, the expenditure related to the energy support measures in the 2023 Spring Memorandum is included in the budgetary frameworks.
Ensure prudent fiscal policies, in particular by limiting the nominal increase in net primary expenditure financed nationally in 2024 to no more than 3.5%.	The government also supports the EC's recommendation to continue pursuing prudent fiscal policies. Expenditure issues such as interest rates, the costs of the energy package, higher expenses expected for the system of allowances and asylum seekers are covered by the budgets. The 2024 Budget Memorandum forecasts a general government balance of -2.9% and a general government debt of 47.3% for 2024 and 2025. This keeps the Netherlands within the European criteria of -3% (general government balance) and 60% (general government debt). The EC recommends that the Netherlands increase net primary expenditure (the only steering variable in the new framework) by a maximum of 3.5% in 2024. To properly compare this recommendation with the current preventive arm, this can be translated into the structural balance. The EC recommendation for 2024 corresponds to an average annual improvement of the structural balance of 0.32%. Based on the forecast development of the structural balance in the Budget Memorandum, the Netherlands does not comply with the EC's recommendation.

Maintain nationally financed government investments and ensure effective absorption of grants from the Recovery and Resilience Facility and other EU funds, in particular to facilitate the green and digital transition.	In addition, the government endorses the significance of the green and digital transition, to which the Climate and Transition Fund, the National Growth Fund and the Dutch Recovery and Resilience Plan (RRP) will make a significant contribution. It is expected that a quarter of the financial resources in the RRP will be used for the digital transition and almost half of the financial resources will be used for the green transition. The government is working hard on implementation of the RRP to mobilise all RRP subsidies fully and effectively. In addition, a package of policy measures has been compiled and submitted to the European Commission in order to claim entitlement to the additional resources in the context of REPowerEU.[2]
For the period beyond 2024, continue to pursue a medium-term budgetary strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to more sustainable growth, with a view to achieving a prudent budgetary position in the medium term.	The government also welcomes the EC's renewed emphasis on prudent fiscal policies in the medium term.
CSR 1b: housing market	
Reduce the preferential treatment of households' debts and disruptions in the housing market.	With regard to the tax treatment of owner-occupied dwellings, the maximum rate of the mortgage interest tax relief has been reduced in recent years, and now amounts to 37%.
Support the availability and affordability of housing in the private rental market. Remove barriers for investments, including in housing.	A key element in the policy of the Minister for Housing and Spatial Planning is the Housing Construction policy programme.[3] This programme aims to achieve three objectives: (i) To build at least 981,000 dwellings in the period up to and including 2030, (ii) to keep two-thirds of those dwellings affordable, and (iii) to build at least 100,000 dwellings every year. The approach set out in this programme consists of four parts: • strengthening the government's regional role in housing construction (in conjunction with provinces and municipalities); • accelerating the process of housing construction; • promoting rapid housing construction (by supporting municipalities); • construct housing at large-scale sites. The demand for housing has grown stronger than expected since publication of the planning schemes for housing construction, mainly due to migration, which has increased the original target from 900,000 homes to 981,000. Yet, the financial and economic conditions for housing construction have become more difficult due to increased construction costs and increased interest rates.

[2] Letter to Parliament on the Dutch claim to available REPowerEU funding | Parliamentary Paper | Rijksoverheid.nl
[3] Housing Construction programme | Report | Rijksoverheid.nl

	Additional measures are being put in place to minimise the dip in the production of housing construction in the short term: a start-building-boost of at least EUR 250 million to allow housing projects that have now stalled to start quickly, as well as more than EUR 300 million more to encourage the construction of flexible housing. With the measures included in the Affordable Housing policy programme[4], the Minister for Housing and Spatial Planning wants to contribute to people being better able to bear their housing costs and that people have access to qualitative housing that suits their living needs and stage of life. This programme consists of the following elements: • To ensure that more middle-income earners can find affordable housing by regulating mid-rental housing and improving the position of first-time home buyers. • To address excessive housing costs of low-income earners with acceptable rental policies and reform the housing benefit. • To better protect tenants and buyers with further regulation of the rental and purchase process and through measures that improve the legal protection, as well as the providing of information to tenants and buyers. Supplementary to the above, the Housing Construction Programme includes the aim of the Minister for Housing and Spatial Planning in achieving 350,000 affordable owner-occupied and mid-rental housing by 2030. Formulation of the rental regulation's extension to the mid-rental housing sector explicitly takes into account that it remains attractive for investors to invest in mid-rental housing.[5] Several concrete measures are being included in the regulation, such as: a temporary new-build surcharge (over and above the permitted maximum rental price) of 5% for 10 years, adaptation of the housing valuation system to better value outdoor areas and giving higher points for good energy labels. Based on these adaptations, institutional parties have committed themselves to making every effort to achieve 50,000 mid-rental houses before 2030. Housing corporations have also indicated that they want to achieve 50,000 mid-rental houses. Furthermore, before the legislative proposal is presented to the Dutch House of Representatives, it will be considered whether further adaptations are necessary to keep it attractive for parties to continue to invest in mid-rental housing.
CSR 2a: Recovery and Resilience Plan Continue the steady implementation of its Recovery and Resilience Plan (RRP) and swiftly complete the REPowerEU chapter,	 The Netherlands, like all other Member States, is called upon to continue implementation of the RRP and to finalise negotiations on the REPowerEU chapter in good time, in order to implement these plans vigorously. The Dutch RRP was formally endorsed on 4 October 2022. The RRP consists of 49 measures, 21 of which are

[4] Affordable Housing programme | Report | Rijksoverheid.nl
[5] Letter to Parliament on regulating mid-rental housing | Parliamentary Paper | Rijksoverheid.nl

so that its implementation can start soon.	reforms and 28 are investments.[6] The RRP and the forthcoming REPowerEU Addendum focus on priority issues such as housing and the labour market. The RRP also invests in digitization, education and healthcare. In addition, almost half of the investments contribute to the green transition. The government is currently working hard on implementation of the RRP.[7] The Netherlands intends to submit the first payment request worth EUR 1.4 billion to the EC by the end of 2023. Moreover, discussions on adaptations to the RRP, partly following the Dutch proposal in the context of REPowerEU, are at an advanced stage. These are proposed measures to make use of available financing to accelerate the phase-out of dependency on Russian fossil energy sources.[8] The REPowerEU Addendum was formally submitted to the EC on 6 July 2023. Based on an assessment of both the REPowerEU Addendum and a few proposed amendments to the RRP, the Ecofin Council was able to endorse the updated Dutch RRP and proceeded with implementation.
CSR 2b: Cohesion Policy Continuation of the rapid implementation of cohesion policy programmes, in close complementarity and synergy with the Recovery and Resilience Plan.	 The second recommendation calls on the Netherlands, just like all other Member States, to rapidly implement cohesion policy programmes for the period 2021-2027. The first calls for the European Social Fund (ESF+) were made available in the course of 2022. The first calls for the European Regional Development Fund (ERDF) and the Just Transition Fund (JTF) were made available since the beginning of 2023. To date, the having of resources is progressing as planned. Co-financing by the state is also being put in place for these programmes (with the exception of ESF+), which the regions can deploy in making the various funds available. The Netherlands will endeavour to maximise complementarity and synergy between RRP measures and other EU programmes with similar objectives. Either way, double financing must always be ruled out for all RRP measures.
CSR 3a: Labour Market Reduce incentives for making use of flexible or temporary contracts.	 As in previous years, the EC recommends reducing incentives for making use of flexible or temporary contracts. The government endorses this recommendation. Although flexible contracts fulfil a useful role in the labour market and will continue to be necessary in future, the government is of the opinion that it is necessary to avoid the use of contractual forms to compete in terms of employment. The government's main objective is therefore to achieve greater security for workers by focusing on promoting sustainable employment relationships within agile enterprises. In this context, the government is taking a number of important steps to reduce the disparities between employees that have

[6] Finalised Dutch Recovery and Resilience Plan | Report | Rijksoverheid.nl
[7] Dutch National Reform Programme 2023 | Report | Rijksoverheid.nl
[8] Letter to Parliament on the Dutch claim to available REPowerEU funding | Parliamentary Paper | Rijksoverheid.nl

	permanent employment and those with a flexible contract and to ensure a more level playing field between various contractual forms, in close consultation with the social partners. Employees that have on-call contracts are given greater income and roster security through a basic contract, which guarantees a minimum number of hours that they are deployed. Temporary workers are given more security by reducing the most precarious stages of temporary agency work. For temporary work, it is important to prevent structural work from being carried out in permanent temporariness. To avoid revolving door arrangements, the principle is that the current interruption period applicable to chains of temporary contracts (six months) will expire and will be replaced by an administrative expiry period of five years (with an exception for students).
CSR 3b: Labour Market Address structural labour and skills shortages, taking into account sector-specific needs, including by tapping into under-utilised labour potential and improving extra training and retraining opportunities, particularly for those on the outskirts of the labour market and those who are inactive.	 The government acknowledges this challenge and can support the recommendation. In the short term, the changing economic situation may help to reduce the immediate staff shortages issue, but in the longer term, the challenge for the Netherlands remains in maintaining the level of prosperity and public services as well as making the necessary transition to a sustainable economy. This requires addressing structural staff shortages in sectors such as healthcare, education, technology, ICT and occupations needed for the climate and digital transition. To this end, in the summer of 2022, the government shared the overarching approach to labour market shortages. It addresses both the exploitation of labour potential within the Netherlands and the facilitation of extra training and retraining. To complement the overarching approach, the government has additionally explored several unorthodox measures[9], involving measures in the following three topics being studied in more detail: 1. Various actions aimed at making work more rewarding; 2. Increased commitment to increasing labour supply; 3. Financial support on switchover to sectors experiencing structural staff shortages. Besides, several sector-specific staff-shortage approaches apply, such as those in healthcare[10], education[11] and jobs needed for the green transition. The government is also committed to promoting a strong learning and development culture among the working population. As employees, employers and social partners in the Netherlands invest a great deal in education and training of their own accord,

[9] Letter to Parliament on the state of affairs of the study into additional measures against labour market shortages | Parliamentary Paper | Rijksoverheid.nl
[10] Letter to Parliament on Future-proof Labour Market in Healthcare and Welfare (TAZ programme) | Parliamentary Paper | Rijksoverheid.nl
[11] Letter to Parliament on Teacher Policy December 2022 | Parliamentary Paper | Rijksoverheid.nl

	government policy mainly focuses on targets and target groups that require additional incentives for lifelong development. For example, the 'Incentive Scheme for Learning and Development in SMEs' (S*timuleringsregeling Leren en ontwikkelen in mkb-ondernemingen, SLIM*) promotes the learning culture within SMEs. The budget for the Incentive Scheme for Learning and Development in SMEs will be increased ad hoc from 2024 to 2027. The additional budget will be used for individual education and training. In terms of untapped labour potential, the government sees opportunities in part-time workers working more and activating people with poor employment prospects. To incentivise more working hours, the government is focusing on making it easier for workers and employers to combine jobs, for parents to combine work and care tasks and making it financially rewarding to work (more hours). Aside from the government's generic plans, actions are being taken in the healthcare, education and childcare sectors to eliminate barriers to working more hours. The government also calls upon employers to make good employment practices a priority and to engage with employees about the options of working more hours. In order to promote labour market participation by people with poor employment prospects, especially in sectors experiencing staff shortages, the government works in various ways in conjunction with municipalities and the Employee Insurance Agency (UWV). This is done, among other things, by way of reforming labour market services, the legislative proposal for a Balanced Participation Act, the legislative proposal entitled From School to Sustainable Work, commitment to sheltered workplaces, improvement of occupation disability employment, the plan of action to get asylum permit holders to work and the vision on opportunities for senior citizens. In 2022, for example, the government gave extra impetus to the matching of jobseekers and employers using the action plan 'Closer than you think'. A new initiative is also being developed to promote the entry and through-flow of people with poor employment prospects into sectors experiencing staff shortages.
CSR 4a: Fossil fuels Reduce dependency on fossil fuels by accelerating the deployment of renewable energy.	 The government places the reduction of greenhouse gas emissions at the heart of its climate and energy policy. The scaling up of renewable energy is paramount to achieve the CO_2 emission reduction targets. The government also underlines the importance of renewable energy to reduce our dependence on fossil energy sources. The share of renewable energy in 2022 was 15%, according to preliminary figures by Statistics Netherlands. The share of renewable electricity (based on electricity production from renewable sources) was 40% in 2022. The Netherlands is aspiring to have CO_2-free electricity production by 2035. By 2030, the Netherlands is expected to achieve a renewable energy share of around 30% (range 26.9–32.6%) based on established policies commonly known on 1 May 2022.

	This will largely achieve the current national reference target of 27% by 2030 under the current Renewable Energy Directive (RED). With the arrangements made in the Coalition Agreement (2022), the government is already aiming to significantly increase the share of renewable energy, through the additional deployment of offshore wind energy, solar roof panels, and scaling up innovative technologies for the production of hydrogen and green gas. Several elements of the package of climate measures involve the phasing out of fossil energy: • CO_2-free controllable power will be promoted, partly through the modification of gas-fired power plants; • investments, standards and pricing to electrify mobility: purchase subsidies for electric vehicles, investments in charging infrastructure, and increased private motor vehicle and motorcycle tax (BPM); • the government invests substantially in the further development of scaled-up hydrogen electrolysis, both onshore and offshore; The government is also committed to sustainable mobility. The instrument 'Annual obligation on Energy for Transport' obliges fuel suppliers to supply 20 Petajoules of renewable energy to the Dutch road transport market. This is over and above the existing ambitions of the European Renewable Energy Directive. In 2024, a Hydrogen in Mobility grant scheme will also be launched to stimulate hydrogen tank infrastructure and hydrogen-powered vehicles. In the administrative agreement on Zero Emission Buses, it was agreed that as from 2025, Dutch public transport by bus will make use of energy that is wholly (100%) sustainably generated on a regional basis. Furthermore, the cleaning vehicle covenant stipulates that as from 2025, new cleaning vehicles will make use of renewable fuel or they must be fully zero-emission vehicles. The government is also exploring the possibilities of doing more than was agreed at European level on some dossiers. Examples of this are the government's aspiration to sell only new zero-emission passenger vehicles and mopeds in the Netherlands by 2030.
CSR 4b: Electricity grid Preconditions must be improved to encourage investment in the expansion of electricity transmission and distribution grids.	Electricity grid expansion is essential for the energy transition and electrification of society. Broadening capacity on the grid through expansion and smarter use of the existing grid therefore has the government's highest priority. Through the National Action Programme for Grid Congestion launched last December,[12] stakeholders such as the grid operators, market parties, the

[12] Letter to Parliament on the National Action Programme for Grid Congestion | Parliamentary Paper | Rijksoverheid.nl

	regulatory authority and the Ministry of Economic Affairs and Climate (EZK) are working on actions that contribute to this. These include actions to reduce licensing procedures and accelerating the lead time of extensions. Moreover, at both a national and provincial level, there are Multi-Year Energy and Climate Infrastructure Programmes (*meerjarenprogramma's infrastructuur Energie en Klimaat, MIEK*) that prioritise and accelerate key infrastructure projects for the Netherlands and the sustainability of sectors. In terms of grid capacity, the demand for charging facilities is being mapped out so that grid operators can make future-oriented investments.
CSR 4c: Energy consumption Expand and accelerate energy efficiency measures to reduce energy consumption, particularly in the built-up environment.	 The government underlines the importance that the EC attaches to energy savings and efficiency. We do not need to generate, pay for or import energy that we do not consume. Energy savings are therefore of utmost importance for the climate, for cost-savings, and for reducing our dependency on fossil energy imports. It is therefore important to maintain the energy savings that have been achieved over the last year, as a result of high energy prices attained out of necessity. The Netherlands supports the EU target of the Energy Efficiency Directive (EED). In March, the main target was tightened to an 11.7% reduction in European energy consumption by 2030. The Minister for Climate and Energy has set the bar, together with the rest of the government, to translate these savings targets into an indicative national target and energy savings targets per sector. Businesses and industry were set to work in 2023. The obligation to make energy usage more sustainable has been extended and tightened this year. This will enter into force on 1 July and obliges companies and institutions with an energy usage of at least 50,000 kWh of electricity or 25,000 m^3 of natural gas equivalent, to take all possible energy-saving measures with a recuperation time of five years or less. The tightening up will also obligate measures that enable the switching of energy carriers (e.g. through electrification) and specific generation measures, on the proviso that this is recouped within five years and leads to CO_2 reductions. The target group will also be expanded to companies or institutions that are subject to an environmental permit, which participate in the European emissions trading system and in greenhouse horticulture. Companies must report on the measures implemented once every four years, at the latest by 1 December 2023, by way of the obligation to provide information. To make it easier for businesses and institutions, an updated Recognized Energy-Saving Measures List (EML) has been published. Many of these measures are related to insulation, switching of energy carriers or making processes more efficient. For large energy users, where the energy usage of environmentally harmful activity exceeds 10,000,000 kWh of electricity or 170,000 m^3 of natural gas equivalents in any calendar year, an obligation to investigate will be introduced. This

	obligation requires a four-yearly review of all possible measures to improve the sustainability of energy usage by the activities of these companies. The identified measures will be included in an implementation plan. In order to encourage all entrepreneurs and households to save energy, the energy-saving campaign '*Zet ook de knop om*' ['Flip the switch'] has been relaunched since mid-May 2023. This information campaign informs the citizens and businesses of the Netherlands on why the saving of energy remains necessary and portrays it as part of a larger challenge in making the Netherlands more sustainable and to combat climate change. As the EC points out, there is still a great deal of energy to be saved in the built-up environment. In doing so, the government realises that further savings are difficult for some households and that insulation of homes, for example, should result in lowering the energy bill. To make it possible for everyone to participate in sustainability, additional support is needed. This will ensure climate gains and a structurally lower energy bill. The National Insulation Scheme is committing the government to the insulation of 2.5 million homes. This is being done by means of easily accessible subsidies for owner-occupants and Associations of Owner-occupiers, as well as arrangements with housing corporations and standardisation that must ensure that homes with the lowest energy labels can no longer be let. For the most vulnerable households in owner-occupied housing – as from this year until 2025 – municipalities can apply for more than EUR 1 billion to provide additional funding and support to this target group. The Sustainable Energy Investment Grant (*Investeringssubsidie Duurzame Energie en Energiebesparing, ISDE*) meets the costs incurred by owner-occupants and business parties for specific interventions, such as the installation of heat pumps and hybrid heat pumps, or for applying insulation measures (only for owner-occupants). The intensification in the 2023 Spring Memorandum, meant an amount of up to EUR 2.7 billion will be available for this purpose. Owners of property with a social function can apply for subsidy at Sustainable Property with a Social Function (*Duurzaam Maatschappelijk Vastgoed, DUMAVA*). Owners of property with a social function have an exemplary role to play to boost sustainable area development. Various sectors have described what their relevant sectors' starting points are and according to which plans their sector is working in a cost-effective manner towards the target by 2030 and a low-carbon property portfolio by 2050. In the 2022 Budget Memorandum, the government made EUR 525 million available for the accelerated sustainability of existing community property. The government wanted to use these resources to give impetus to the sustainability challenge for community property. The scheme was a huge success in 2022. A total of around EUR 300 million was requested from a budget of EUR 150 million. The scheme's success has led to the funds earmarked for 2024 being moved forward. The remaining budget of EUR 190 million

	will be made available in September 2023. In addition, EUR 1.9 billion has been earmarked in the Climate Fund to make the *DUMAVA* available beyond 2023 too. This allows building owners of community property to apply for subsidy up to 2030. Both the aforementioned *ISDE* scheme and *DUMAVA* are part of the Dutch Recovery and Resilience Plan.
CSR 4d: Agriculture Supporting the transition to sustainable agriculture.	 The Netherlands faces significant challenges in the areas of nature (including nitrogen and biodiversity), climate and water. These challenges are being addressed in a comprehensive and area-wide manner through the National Programme for Rural Areas.[13] A central aspect of this approach is the essential transition of agriculture, which must be achieved to bring about a resilient and future-proof food system that contributes to achieving the climate and nature objectives and fits within the environmental boundaries of the soil and water system. With the nationwide approach to peak loads, the government aims to rapidly reduce nitrogen precipitation in vulnerable nature conservation areas by significantly reducing nitrogen deposition at Natura-2000 areas by companies that emit the highest volumes of nitrogen. As part of this, the 3000 companies that cause the most nitrogen precipitation in nitrogen-sensitive Natura-2000 areas are eligible for a favourable voluntary termination arrangement. In addition, the provinces are developing an area-focused approach in the area programmes. The area-focused approach is also supported by the Common Agricultural Policy (CAP), which actively aims to support farmers contributing to the sustainability transition in agriculture. This is done through the eco-scheme, the Agricultural Nature And Landscape Management, as well as cooperation instruments, which allow parties in rural areas to work together on goals such as quality of life, greening and climate adaptation. For example, the CAP includes the instrument '*Samenwerking voor integrale gebiedsontwikkeling*' ['Cooperation for integrated area development'], which specifically relates to sustainability. The CAP policy instruments contribute to the so-called 'green blue architecture' (the 'GBA'); the CAP policy for a better climate, nature and environment. The CAP also supports farmers and other rural stakeholders through project subsidies for innovation, experimentation and sustainable investments. Ultimately, this will make agriculture less dependent on public funds to make it more sustainable.

[13] National Programme for Rural Areas | Approach to the nitrogen issue | Approach to the nitrogen issue

CSR 4e: Green transition	
Step up policy efforts aimed at providing and acquiring skills needed for the green transition.	This year, the EC is putting additional emphasis on strengthening policy efforts for all Member States to provide and acquire the skills needed for the green transition. In the government's opinion, practical and technically trained staff are essential for the transitions which society is in the midst of. With the Green and Digital Jobs Action Plan,[14] the government is focusing on a coherent package of measures addressing the labour market shortages in the green and digital transition. This plan aims to increase inflow into the education of science and technology, retaining and increasing inflow into the science and technology labour market, labour productivity growth, as well as strengthening governance and reducing fragmentation. In addition to a specific focus on skills for the transition, it is important to invest in a broad-based learning culture. Lifelong Development is essential for a dynamic and agile labour market that can support various transitions, including the green transition. As a specific direction contributes to the motivation of individuals, employers and social partners have committed to encouraging it, for example through individual learning budgets. After discontinuing the STAP budget (*STimulans Arbeidsmarkt Positie, STAP*) [Incentive for Improvement of Labour Market Position] and following the Van der Lee motion, the government will examine how to design an instrument to promote lifelong development, such as an individual training budget focused on crucial sectors experiencing staff shortages. Based on the National Growth Fund (NGF), the government has committed to this in the projects 'Strengthening lifelong development infrastructure' and the 'National lifelong development catalyst', which focus on the energy and raw materials transition. For the transition to driving electric vehicles, a human capital agenda has been set up to shorten training courses, for example, and thereby accelerating the installation of charging stations.

[14] Letter to Parliament on Green and Digital Jobs Action Plan | Parliamentary Paper | Rijksoverheid.nl

CHAPTER 7:
DIVERGENCE FROM LATEST STABILITY PROGRAMME

Public finances improved in 2022 and 2023 compared to the Stability Programme, but will deteriorate slightly in 2024 compared to the 2023 Stability Programme. Since publication of the Stability Programme in April 2023, there has been more clarity on under-utilisation. As a result, the general government balance improved in 2022. The revenue forecast for 2023 increased, which explains the positive development of the general government balance in that year. Expenditure relating to the 2023 investment agenda has also been deferred. In 2024, both revenue and expenditure of the State are increasing, but in relative terms, expenditure is increasing faster. This increase in expenditure in 2024 compared to 2023 is mainly as a result of inflation, interest rate developments and wage increases. Hence, the government balance for those years in this Draft Budgetary Plan is lower than the government balance in the Stability Programme.

Table 7.1: Divergence from latest Stability Programme

		2022	2023	2024	2025	2026	2027	2028
	ESA code	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Target general government net lending/net borrowing	B.9							
Stabiliteitsprogramma 2023[15]		-0.7%	-3.0%	-2.6%	-2.6%	-2.8%	-3.2%	-
2024 Draft Budget Plan		0.0%	-1.6%	-2.9%	-2.9%	-3.6%	-2.6%	-3.2%
Difference		0.7%	1.4%	-0.3%	-0.3%	-0.8%	-0.6%	

Source: CPB Netherlands Bureau for Economic Policy Analysis and Ministry of Finance

Table 7.2: Difference in forecasts between the European Commission and the Netherlands Bureau for Economic Policy Analysis (CPB)

	EC – spring forecast		EC – summer forecast		Budget Memorandum	
	2023	2024	2023	2024	2023	2024
GDP growth	1.8%	1.2%	0.5%	1.0%	0.7%	1.5%
General government balance	-2.1%	-1.7%			-1.6%	-2.9%
Government debt	49.3%	48.8%			47.6%	47.3%

Source: EC, CPB Netherlands Bureau for Economic Policy Analysis, Ministry of Finance

The EC is slightly more optimistic about GDP growth in 2023 compared to the CPB and somewhat more pessimistic about GDP growth in 2024. The last full forecast by the EC (including public finances) was the spring forecast of 15 May 2023. The EC expects that, following implementation of the support package in the 2023 Budget Memorandum, growth will decline in 2023 and 2024. The CPB expects growth to be lower in 2023 and to rise again to 1.4% in 2024. This is due to high wages and low unemployment. In the EC's summer forecast, growth in 2023 and 2024 was reduced to 0.5% and 1.0% respectively. In the EC's view, actual figures in the first half of 2023 are lower than expected, which is the main reason for this adjustment.

[15] This table shows the basic projection.

Based on the Budget Memorandum, the government balance is somewhat more positive in 2023 and more negative in 2024 than the EC's spring forecast. There is now greater clarity about under-utilisation in the Dutch budget than in May. Due to staff shortages in the labour market, more funds that are stated in the budget are not being spent which is why the government balance improves in 2023.

According to the Budget Memorandum, government debt in 2023 and 2024 is lower than the EC's spring forecast. The debt ratio in the figures of the Ministry of Finance and the EC partly reduces as a result of the high inflation rate (the 'denominator effect'). The CPB inflation forecast is higher in 2024 than forecast by the EC, which may explain part of the difference.

CHAPTER 8:
DISTRIBUTIONAL IMPACT OF MOST IMPORTANT EXPENDITURE AND REVENUE MEASURES

Where a robust purchasing power package was deemed necessary for 2023, the median purchasing power effect for 2024 looks positive. However, there is a massive spread between income groups.

For 2024, the government is focusing on a package of structural measures to minimise poverty. The child-related budget will be increased for children aged twelve years and above. The housing benefit will also be increased. The government is allowing the employed person's tax credit to increase by EUR 115, it is scrapping the reduction of the young disabled persons tax credit, and it is freezing the scale down of the double factor in the social benefits general tax credit. The extension of the Temporary Emergency Energy Fund acts as a safety net for people who are no longer able to pay their energy bills. Finally, the purchasing power for the Caribbean Netherlands will be improved. This package of measures provides for a positive median development in purchasing power for all income groups. In addition, it ensures that the poverty rate does not increase and that the poverty rate among children even drops significantly in 2024 compared to 2023.

Table 8.1. Development in purchasing power for various household groups (%)

	2024 *without measures*	**2024** *with measures*
1st income group	0.1	1.1
2nd income group	1.6	1.7
3rd income group	2.1	1.9
4th income group	2.2	1.9
5th income group	2.0	1.4
Source of income		
Working households	2.1	2.0
Benefit recipients	-2.5	0.5
Pensioners	1.2	1.0
Household type		
Double-income households	2.0	1.8
Single householders	1.6	1.6
Single-income households	1.4	1.3
Family composition		
With children	1.8	2.3
Without children	2.1	1.8
All households	1.8	1.7

Source: Ministry of Finance

Table 8.2. Development of the number of persons and children in poverty (%)

		2023	**2024** *with measures*	*impact of measures*
Persons	% below poverty line	4.8%	4.8%	-0.9pp
Children	% below poverty line	6.2%	5.1%	-1.9pp

Source: Ministry of Finance

ANNEX 1:
METHODOLOGICAL ASPECTS INCLUDING FORECAST EFFECTS OF AGGREGATED BUDGETARY MEASURES FOR ECONOMIC GROWTH

Table B1.1 Methodological aspects

Estimation technique	Steps of the budgetary process for which it was used	Relevant features of the model/technique used
SAFFIER III	Macro forecast for the Dutch economy in the short and medium-term	Macro-econometric model
MIMOSI	Forecast purchasing power, wage costs, social security and personal income tax	Micro simulation model
MICSIM	Forecast of policy effects on structural labour supply	General equilibrium model
TAXUS	Short and medium-term forecast of tax revenue (with the exception of personal income tax)	Detailed forecast tax revenue
ZOEM	Forecast of healthcare expenditure and employment in healthcare sector	Arithmetic model for employment in healthcare sector and for healthcare expenditure in the short and medium term
EMU model	Forecast of government employment, public expenditure and revenue, with the exception of taxes, healthcare and social security	Detailed arithmetic model for government employment and for total public finances in the short and medium term
EVIEWS in combination with EC software	Forecast output gaps	Econometric model

Modelling tools may have been used:

- when compiling macro forecasts
- when estimating expenditure and revenue at an unchanged policies scenario
- when estimating the distributional impact of the main expenditure and revenue measures
- when quantifying the expenditure and revenue measures to be included in the Draft Budget
- when estimating how reforms included in the Draft Budgetary Plan address targets set by the Union's Strategy for growth and jobs and the country-specific recommendations

ANNEX 2: TABLES OF DRAFT BUDGETARY PLAN

Table 0.i) Basic assumptions

In %	2022	2023	2024
Short-term interest rate (annual average)	0.3	3.4	3.8
Long-term interest rate (annual average)	1.4	2.8	2.8
USD/EUR exchange rate (annual average)	1.1	1.1	1.1
Nominal effective exchange rate	-1.9	3.0	1.0
World excluding EU28, GDP growth	3.8	3.0	3.1
GDP growth EU28	3.5	0.5	1.3
Growth of relevant foreign markets	8.4	0.2	2.9
World import volume, excluding EU	6.3	1.6	3.2
Oil (Brent, USD/barrel)	100.8	79.3	76.3

Source: CPB Netherlands Bureau for Economic Policy Analysis

Table 0.ii) Main assumptions

	2022 (Levels)	2023 (Levels)	2024 (Levels)
1. External environment			
a. Prices of commodities (excluding energy, HWWI, euros)	28.5	-19.6	-3.0
b. Spreads over the German bonds	-1.2	-2.4	-2.4
2. Budgetary policy			
a. General government net lending/net borrowing	-0.1	-1.5	-2.4
b. General government gross debt	50.1	47.7	46.9
3. Monetary policy/Financial sector/interest rate assumptions			
a. Interest			
i. Euribor			
ii. Deposit rate			
iii. Interest rates for loans			
iv. Yields at maturity of 10 year government bonds	1.4	2.8	2.8
b. Evolution of deposits			
c. Evolution of loans			
d. NPL trends			
4. Demographic trends			
a. Evolution of working-age population	2.4	1.9	0.9
b. Dependency ratios	74.8	75.6	75.7
5. Structural policies			

Source: CPB Netherlands Bureau for Economic Policy Analysis

Table 1.a. Macroeconomic prospects

	ESA Code	2022 (Levels)	2022 (change)	2023 (change)	2024 (change)
1. Real GDP	B1*g	958.5	4.3	0.7	1.5
attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP			2.1	2.2	2.1
of which contributions:					
Labour			1.0	1.1	1.0
Capital			0.5	0.6	0.5
Total factor productivity			0.5	0.5	0.6
3. Nominal GDP	B1*g		10.1	7.3	4.9
Components of real GDP					
4. Private consumption expenditure	P.3	411.1	6.6	0.6	2.4
5. Government final consumption expenditure	P.3	240.5	1.6	2.4	3.1
6. Gross fixed capital formation	P.51	199.9	1.8	5.0	-0.4
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	3.7	-0.2	-0.4	0.1
8. Exports of goods and services	P.6	898.7	4.5	0.8	1.5
9. Imports of goods and services	P.7	795.2	3.8	1.9	2.1
Contributions to real GDP growth					
10. Final domestic demand		851.4	4.0	2.2	1.9
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	3.7	-0.2	-0.4	0.1
12. External balance of goods and services	B.11	103.5	1.0	-0.8	-0.4

Source: CPB Netherlands Bureau for Economic Policy Analysis

Table 1.b. Price developments

	ESA Code	2022 (Levels)	2022 (change)	2023 (change)	2024 (change)
1. GDP deflator		958.5	5.5	6.6	3.3
2. Private consumption deflator		411.1	6.9	8.3	2.6
3. HICP			11.6	4.1	3.9
4. Public consumption deflator		240.5	5.6	5.0	5.1
5. Investment deflator		199.9	6.5	3.2	2.5
6. Export price deflator (goods and services)		898.7	17.4	1.0	3.4
7. Import price deflator (goods and services)		795.2	20.7	-0.3	3.5

Source: CPB Netherlands Bureau for Economic Policy Analysis

Table 1.c. Labour market developments

	ESA Code	2022 (Levels)	2022 (change)	2023 (change)	2024 (change)
1. Employment: persons		10,157.0	3.9	1.3	0.2
2. Employment: hours worked		14,292.0	3.9	1.2	0.6
3. Unemployment rate (%)		350.0	3.5	3.6	4.0
4. Labour productivity: persons		94.4	0.4	-0.6	1.3
5. Labour productivity: hours worked		67.1	0.8	-0.6	0.7
6. Compensation of employees	D.1	451.7	7.7	7.8	6.6
7. Compensation per employee		31.6	4.2	6.7	5.9

Source: CPB Netherlands Bureau for Economic Policy Analysis

Table 1.d. Sectoral balances

	ESA Code	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	9.2	9.1	8.5
of which				
Balance on goods and services		10.8	10.4	9.8
Balance of primary incomes and transfers		-1.0	-0.9	-0.9
Capital account		-0.6	-0.4	-0.4
2. Net lending/net borrowing of the private sector	B.9	9.4	10.2	10.6
3. Net lending/net borrowing of general government	EDP B.9	-0.1	-1.5	-2.4
4. Statistical discrepancy		9.2	9.1	8.5

Source: CPB Netherlands Bureau for Economic Policy Analysis

Table 2.a. General government budgetary targets broken down by subsector

	ESA Code	2023 (% of GDP)	2024 (% of GDP)
Net lending/net borrowing (EDP B.9) by subsector			
1. Government	S.13	-1.5	-2.4
2. Central government	S.1311	-2.1	-2.7
3. State government	S.1312	-2.1	-2.7
4. Local government	S.1313	-0.1	-0.3
5. Social security funds	S.1314	0.7	0.6
6. Interest expenditure	EDP D.41	0.7	0.8
7. Primary balance		-0.8	-1.6
8. One-off and other temporary measures			
8.a of which: on the revenue side			
8.b of which: on the expenditure side			
9. Real GDP growth (%) (=1 in Table 1a)		4.3	0.7
10. Potential GDP growth (%) (=2 in Table 1a)		2.1	2.2
Contributions:			
labour		1.0	1.1
capital		0.5	0.6
Total factor productivity		0.5	0.5
11. Output gap (% of potential GDP)		0.2	-0.3
12. Cyclical budgetary component (% of potential GDP)		0.1	-0.2
13. Cyclically-adjusted balance (1-12) (% of potential GDP)		-1.6	-2.2
14. Cyclically-adjusted primary balance (13+6) (% of potential GDP)		-0.9	-1.3
15. Structural balance (13-8) (% of potential GDP)		-1.5	-2.2

Source: CPB Netherlands Bureau for Economic Policy Analysis

Table 2.b. General government debt developments

	ESA Code	2023 (% of GDP)	2024 (% of GDP)
1. Gross debt		47.689	46.874
2. Change in gross debt ratio		-2.444	-0.815
Contributions to changes in gross debt			
3. Primary balance (= item 7 in Table 2.a.i)		-0.753	-1.553
4. Interest expenditure (= item 6 in Table 2.a.i)	EDP D.41	0.698	0.802
5. Stock-flow adjustment			
of which:			
Differences between cash and accruals			
Net accumulation of financial assets			
of which:			
privatisations			
valuation effects and other			
p.m.: Implicit interest rate on debt		2.760	2.787
Other relevant variables			
6. Liquid financial assets			
7. Net financial debt (7=1-6)			
8. Debt amortization (existing bonds) since the end of the previous year			
9. Percentage of debt denominated in foreign currency			
10. Average maturity			

Source: CPB Netherlands Bureau for Economic Policy Analysis

Table 2.c. Contingent liabilities

	2023 (% of GDP)	2024 (% of GDP)
Public guarantees	22.38	21.06
Of which: related to the financial sector	13.89	13.24

Source: Ministry of Finance

Table 3.1 General government expenditure and revenue projections at unchanged policy, broken down by main components

	ESA Code	2023 (% of GDP)	2024 (% of GDP)
General government (S13)			
1. Total revenue at unchanged policy	TR	42.52	42.74
Of which			
1.1. Taxes on production and imports	D.2	11.41	11.39
1.2. Current taxes on income, wealth, etc.	D.5	13.99	14.20
1.3 Capital taxes	D.91	0.28	0.27
1.4 Social contributions	D.61	13.14	12.95
1.5 Property income	D.4	0.49	0.55
1.6 Other		3.21	3.39
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38.81	38.72
2. Total expenditure at unchanged policy	TE	43.97	45.10
Of which			
2.1 Compensation of employees	D.1	8.16	8.50
2.2 Intermediate consumption	P.2	6.25	6.28
2.3 Social security payments	D.62,D.63	10.65	11.01
of which Unemployment compensation benefits		10.47	10.93
2.4 Interest expenditure	EDP D.41	0.70	0.80
2.5 Subsidies	D.3	2.03	1.80
2.6 Gross fixed capital formation	P.51	3.08	3.20
2.7 Capital transfers	D.9	0.77	0.58
2.8 Other		1.86	1.99

Source: CPB Netherlands Bureau for Economic Policy Analysis and Ministry of Finance

Table 4.a General government expenditure and revenue targets, broken down by main components.

	ESA Code	2023 (% of GDP)	2024 (% of GDP)
General government (S13)			
1. Total revenue at unchanged policy	TR	42.52	42.74
Of which			
1.1. Taxes on production and imports	D.2	11.41	11.39
1.2. Current taxes on income, wealth, etc.	D.5	13.99	14.20
1.3 Capital taxes	D.91	0.28	0.27
1.4 Social contributions	D.61	13.14	12.95
1.5 Property income	D.4	0.49	0.55
1.6 Other		3.21	3.39
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38.81	38.72
2. Total expenditure at unchanged policy	TE	43.97	45.10
Of which			
2.1 Compensation of employees	D.1	8.16	8.50
2.2 Intermediate consumption	P.2	6.25	6.28
2.3 Social security payments	D.62,D.63	10.65	11.01
of which Unemployment compensation benefits		10.47	10.93
2.4 Interest expenditure	EDP D.41	0.70	0.80
2.5 Subsidies	D.3	2.03	1.80
2.6 Gross fixed capital formation	P.51	3.08	3.20
2.7 Capital transfers	D.9	0.77	0.58
2.8 Other		1.86	1.99

Source: CPB Netherlands Bureau for Economic Policy Analysis and Ministry of Finance

Table 4.b Amounts to be excluded from the expenditure benchmark

	2022 (Levels)	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue				
1a. Investment expenditure fully matched by EU funds revenue				
2. Cyclical unemployment benefit expenditure	-1.19	-0.12	-0.08	0.01
3. Effect of discretionary revenue measures	1.20	0.10	0.30	0.50
4. Revenue increases mandated by law	-0.30	0.00	0.10	-0.10

Source: Ministry of Finance, CPB

Table 4.ci) General government expenditure on education, healthcare and employment

	2023 (% of GDP)	2023	2024 (% of GDP)	2024
Education	5.11	52.58	5.30	57.15
Healthcare	9.48	97.45	9.89	106.65
Employment				

Source: CPB Netherlands Bureau for Economic Policy Analysis

Table 4.cii) Classification of functions of the government

	COFOG Code	2023 (% of GDP)	2024 (% of GDP)
1. General public services	1	8.85	8.72
2. Defence	2	1.11	1.33
3. Public order and safety	3	1.58	1.80
4. Economic Affairs	4		
5. Environmental protection	5		
6. Housing and community amenities	6		
7. Health	7	9.48	9.89
8. Recreation, culture and religion	8		
9. Education	9	5.11	5.30
10. Social protection	10	11.62	11.91
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	44.08	44.93

Source: CPB Netherlands Bureau for Economic Policy Analysis

Table 5. Risk arrangements

b	a	description	Expenditure 2023	Revenue 2023	Expenditure 2024	Revenue 2024
Corona-related guarantees						
IXB	3	Guarantee KLM	0	11,808	0	0
XIII	2	Business Finance Guarantee Scheme Corona(GO-C)	50,000	0	25,000	0
XIII	2	Growth facility	8,222	8,000	8,972	8,000
Subtotal corona-related guarantees			*58,222*	*19,808*	*33,972*	*8,000*
Ordinary guarantees						
VI	33	Guarantees given by insolvency practitioners Integrity and Screening Agency	1,900	0	1,900	0
IXB	1	Guarantee for process risks	181	0	181	0
IXB	2	Terrorism Risk Reinsurance (NHT)	0	625	0	625
IXB	2	Facility for nuclear disasters (WAKO)	0	612	0	612
IXB	3	Development Finance Company (FMO)	0	0	0	1,000
IXB	4	EIB – pan-European Guarantee Fund	75,145	0	17,794	0
IXB	5	Export credit insurance (EKV)	87,000	115,150	87,000	109,171
IXB	5	Reinsurance of supplier credits	6,000	8,000	0	0
XIII	2	Guarantee of SME Credits (BMKB)	42,228	33,000	42,228	33,000
XIII	2	Business Finance Guarantee Scheme (GO-facility)	11,745	13,000	11,745	13,000
XIV	21	Guarantee of BL-G (greenhouse horticulture due to high gas prices)	0	210	0	0
XIV	21	Guarantee of SME Credit Guarantee Scheme for Agriculture (BL, BL plus and agricultural innovation)	2,000	960	2,000	1,160
XIV	21	Guarantee of SME Credit Guarantee Scheme for Agriculture Corona (BL-C)	100	0	300	0
XIV	21	Guarantee of SME Credit Guarantee Scheme for Agriculture, Working Capital section Sustainability Transition (BL-O)	0	30	0	40
XIV	22	Guarantee of Climate Fund Green Fund	0	405	0	272
XVII	1	Guarantee Dutch Good Growth Fund (DGGF)	5,000	3,000	5,000	3,000
XVII	1	Guarantee Dutch Trade and Investment Fund (DTIF)	7,000	1,000	7,000	1,000
XVII	1	Guarantee Facility Emerging Markets (FOM)	0	100	0	0
XVII	5	Guarantees International Cooperation – International Business Network (IS-NIO)	0	450	0	450
Subtotal ordinary guarantees			*238,299*	*176,542*	*175,148*	*163,330*
Total			**296,521**	**196,350**	**209,120**	**171,330**

Source: Ministry of Finance