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COMMISSION OPINION

of 26.11.2024

on the Draft Budgetary Plan of the Netherlands

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(Only the Dutch text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the EU economic governance framework.

2. Article 6 of Regulation (EU) No 473/2013 requires euro area Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives'). The Facility is expected to strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

CONSIDERATIONS CONCERNING THE NETHERLANDS

6. On 15 October 2024, the Netherlands submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of the Netherlands of 21 October 2024[3]. This opinion is adopted by the Commission together with the Commission Recommendation for a Council Recommendation setting the net expenditure path of the Netherlands for the years 2025 to 2028[4], which the Commission expects the Council to act upon in a timely manner.

7. On 21 October 2024, upon the Commission recommendation for Council Recommendation on the economic, social, employment, structural and budgetary policies of the Netherlands of 19 June 2024[5], the Council recommended the Netherlands, in line with the requirements of the reformed Stability and Growth Pact, to limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, maintaining the general government deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term.

8. On 15 October 2024, the Netherlands submitted to the Commission its medium-term fiscal-structural plan in line with Regulation (EU) 2024/1263[6]. The plan commits to net expenditure growth not exceeding 6.8% in 2025, 3.5% in 2026, 2.1% in 2027 and 4.3% in 2028. The Commission has assessed the medium-term fiscal-structural plan of the Netherlands and is of the view that it does not fulfil the requirements of Regulation (EU) 2024/1263 as regards Article 16(2). In its plan, the Netherlands waived its right to submit a revised plan in accordance with Article 18 of Regulation (EU) 2024/1263 and included its understanding that the Commission may recommend a net expenditure path under Article 19. On that basis and given its finding of non-compliance of the medium-term plan of the Netherlands with Article 16(2) of Regulation (EU) 2024/1263, the Commission recommends to the Council to proceed with a recommendation under Article 19 of Regulation (EU) 2024/1263. The Commission recommends to the Council to adopt a recommendation setting a net expenditure path based on the technical information provided by the Commission to the Netherlands on 21 June 2024, corresponding to net expenditure growth not exceeding 3.5% in 2025, 3.3% in 2026, 3.0% in 2027 and 3.0% in 2028.

9. According to the Draft Budgetary Plan, the Netherlands' real GDP is projected to grow by 1.5% in 2025 (0.6% in 2024), while inflation is forecast at 2.8% in 2025

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[3] Not yet published.

[4] Commission Recommendation for a Council Recommendation setting the national medium-term fiscal-structural plan of the Netherlands, 26.11.2024, COM(2024)722 final.

[5] Commission Recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of the Netherlands, 19.06.2024, COM(2024)619 final.

[6] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

(3.5% in 2024). According to the European Commission Autumn 2024 Forecast, the Netherlands' real GDP is projected to grow by 1.6% in 2025 (0.8% in 2024), while inflation is forecast at 2.4% in 2025 (3.2% in 2024). Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the European Commission's forecast for 2025 (and 2024). The Netherlands complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently produced macroeconomic forecasts.

10. Based on the Commission's estimates, the fiscal stance[7] is projected to be expansionary by 0.9% of GDP in 2025, following a contractionary fiscal stance of 0.5% in 2024. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

11. According to the Draft Budgetary Plan, the Netherlands' general government deficit is projected to increase to 2.5% of GDP in 2025 (1.8% in 2024), while the general government debt-to-GDP ratio is set to increase to 46.7% at the end of 2025 (45.0% at the end of 2024). According to the Draft Budgetary Plan, net expenditure is projected to grow by 6.9% in 2024 and 6.8% in 2025. The growth rate of net expenditure in 2025 according to the Draft Budgetary Plan is the same as the growth rate in the medium-term fiscal-structural plan submitted by the Netherlands on 15 October 2024. In turn, according to the European Commission Autumn 2024 Forecast, the Netherlands' general government deficit is projected to increase to 1.9% of GDP in 2025 (0.2% in 2024), while the general government debt-to-GDP ratio is set to increase to 44.3% at the end of 2025 (43.3% at the end of 2024). The increase in the deficit is driven by, among other factors, rate cuts in the two lower income tax brackets and a one-off compensation payment following a court ruling on taxation of capital returns. According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 5.9% in 2024 and 7.1% in 2025. The main differences between both sets of projections for the general government deficit reflect the different timing of the one-off compensation payment following the court ruling on taxation of capital returns[8]. While in the Draft Budgetary Plan, this compensation payment is recorded in 2024, the European Commission Autumn 2024 Forecast expects it to accrue to 2025, shifting expenditure that the Draft Budgetary Plan projects for 2024 to 2025 in the European Commission 2024 Autumn Forecast. Additionally, the European Commission Autumn 2024 Forecast assumes higher revenue and a higher under-execution of investment and other spending plans in 2024 and 2025. This leads to a lower projected deficit for 2025 in the European Commission 2024 Autumn Forecast compared to the Draft Budgetary Plan despite

[7] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

[8] According to the Draft Budgetary Plan, one-off measures are associated with a deficit-increasing impact of 0.4% of GDP in 2024 and with no impact in 2025. The one-off measure in 2024 relates to a court ruling from June 2024 that judged the current taxation of incomes from shares, bonds or savings as unlawful. As a result, the government has to compensate the affected taxpayers. This is not in line with the European Commission Autumn 2024 Forecast, according to which the measure is recorded in 2025, as the law setting the compensation payments is only expected to enter into force in mid-2025 and the associated payments are therefore expected to accrue to 2025.

the shift in expenditure mentioned above. Concerning net expenditure, the differences reflect a higher expected level of under-execution of the government budget in the European Commisison Autumn 2024 Forecast. It assumes that some investment and subsidy expenditure that the government planned for 2024 will only be implemented in 2025 and beyond. The difference in timing of recording of the one-off expenditure has no impact on the calculation of net expenditure growth. The risks to achieving the fiscal objectives for 2025 set out in the Draft Budgetary Plan are tilted to the upside, and mainly relate to the repeated under-execution of budgeted investment plans of the government in recent years and higher-than-expected revenue. These two factors have been contributing to lower-than-expected deficits in the last years and may continue to do so going forward. Continued under-execution of budgeted investment plans presents risks to the overall quality of public finances and their contribution to the potential growth of the Dutch economy.

12. The Draft Budgetary Plan assumes that expenditure amounting to 0.1% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.1% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of the Netherlands.

13. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include decreases to personal income tax rates and an extension of the reduced excise duties on motor fuels to 2025. On the expenditure side, these measures include compensation payments to tax payers as a result of a court ruling on capital income taxation. According to the Commission estimates, the overall additional impact of the revenue measures increases the general government deficit by -0.3% of GDP in 2025.

14. According to the European Commission Autumn 2024 Forecast, the Netherlands' net expenditure is projected to increase by 7.1% in 2025, which corresponds to a cumulative growth of 13.5% in 2024 and 2025 taken together. The Commission is of the view that these net expenditure growth rates are not in line with the Council recommendation of 21 October 2024, which, as explained in recital 8, implies maxima based on the technical information[9].

15. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to remain stable at 3.1% of GDP in 2025 (3.1% of GDP in 2024). In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to decrease to 0.1% of GDP in 2025 (from 0.2% of GDP in 2024).

16. Finally, the Council also recommended the Netherlands to align the taxation of different types of income from wealth, amongst others, to reduce the household debt bias, remove obstacles to the construction of new dwellings, and ensure the affordability and availability of housing in the private rental market and address the expected increase in age-related expenditure by making the long-term care system more cost-effective. In the Draft Budgetary Plan, the Netherlands reports measures

[9] According to the European Commission Autumn 2024 Forecast, the annual growth of net expenditure in 2025 exceeds by 1.5% of GDP - while the cumulative growth of net expenditure in 2024 and 2025 taken together exceeds by 1.2% of GDP - the maxima from the Commission recommendation for a Council Recommendation setting the net expenditure path for Netherlands for the years 2025-2028.

related to the taxation of incomes from closely held companies, where an additional tax bracket has been created. Additionally, a new system to tax actual returns from shares, bonds and savings has been proposed but not yet adopted by Parliament. On the housing market, the Netherlands reports efforts to boost housing supply by making subsidies available and accelerating permitting procedures. At the same time, the 'Affordable Rental Law' introduces rental control for the vast majority of rental homes in the country. On long-term care, the plan reports on subsidies to encourage the use of technology in long-term care, programmes to stimulate the elderly to live at home as long as possible, and a programme to spread knowledge about the long-term care system among those caring for people in need of long-term care. These are first steps toward a possible improvement in the cost effectiveness of the system but their impact on public finances is expected to be limited.

17. Overall, the Commission is of the opinion that the Draft Budgetary Plan of the Netherlands is not in line with the Council Recommendation of 21 October 2024. According to the European Commission Autumn 2024 Forecast, the Netherlands' net expenditure growth in 2025 is not consistent with what was recommended by the Council on 21 October 2024. Therefore, the Commission invites the Netherlands to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2025 is in line with the Council Recommendation of 21 October 2024. The progress made with the implementation of the Council's country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	DBP	COM	DBP	COM
1	Real GDP	% change	0.1	0.6	0.8	1.5	1.6
2	HICP inflation	% change	4.1	3.5	3.2	2.8	2.4
3	General government balance	% GDP	-0.4	-1.8	-0.2	-2.5	-1.9
4	Primary balance	% GDP	0.3	-1.1	0.6	-1.7	-1.1
5	General government gross debt	% GDP	45.1	45.0	43.3	46.7	44.3
6	Fiscal stance (**)	% GDP	0.6		0.5		-0.9
7	Net expenditure growth (annual)	% change		6.9	5.9	6.8	7.1
8	Net expenditure growth (cumulative)	% change				14.2	13.5
			According to the Commission Recommendation for a Council Recommendation setting the net expenditure path of Netherlands				
9	Maximum growth rates of net expenditure (*)	% change			Annual	**3.5**	
10		% change			Cumulative	**10.4**	

Notes :

* According to the Commission Recommendation for a Council Recommendation setting the net expenditure path of Netherlands for the years 2025 to 2028.

** The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of the Fiscal Statistical Tables.

Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
Paolo GENTILONI
Member of the Commission