Draft Budgetary Plan of the Netherlands

October 2018

Contents

Introduction

In this Draft Budgetary Plan, the government presents its economic and budgetary prospects. The European Commission and European Council use this Draft Budgetary Plan to assess whether the Netherlands is compliant with the requirements of the Stability and Growth Pact (SGP), which contains the European budgetary rules.

In its Coalition Agreement, the Rutte III government included a package of investments in education and safety, among others, and limits the tax burden on households and businesses. At the same time, the government maintains sound public finances. As a result, there is currently a budget surplus, the government debt is declining further, and the structural government balance is above the medium-term budgetary objective (MTO). The government is committed to the European budgetary rules, and with these prospects it complies with the requirements of the preventive arm of the SGP.

The economic and budgetary prospects are based on the most recent macro-economic forecast (Macro Economische Verkenningen 2019) from the Netherlands Bureau for Economic Policy Analysis (CPB) and the 2019 Budget Memorandum (Miljoenennota 2019). A more detailed explanation on the government's policy plans is available in the 2019 Budget Memorandum.

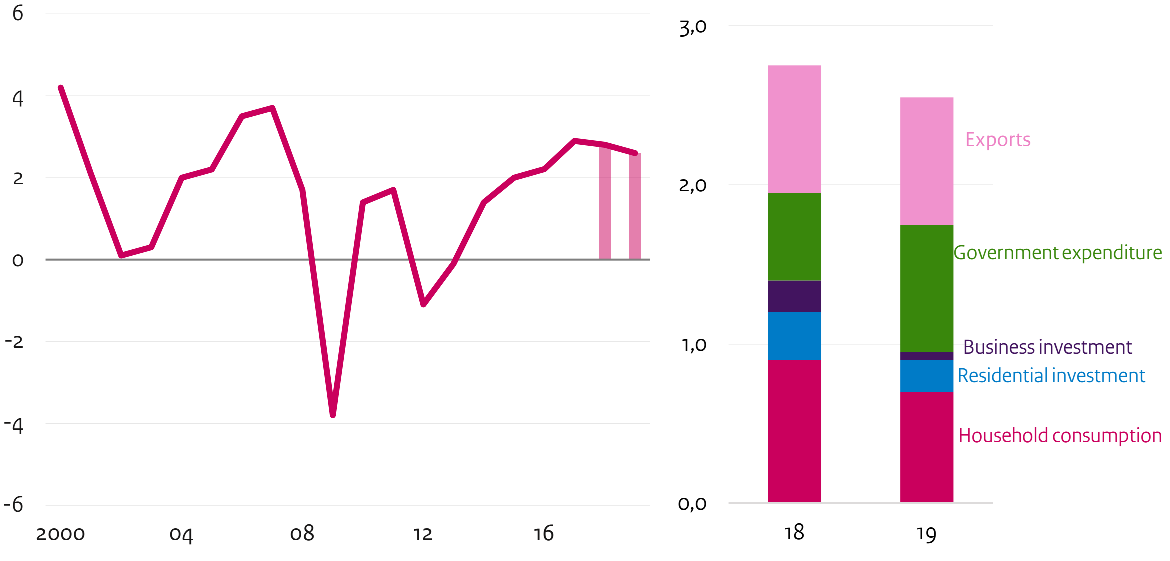
1. Macroeconomic forecast

The Dutch economy continues to grow. Gross domestic product (GDP) is set to increase with 2.8% in 2018 and 2.6% in 2019. This means that 2019 will be the sixth year in a row with economic growth. Growth is broad-based and for the most part originates from domestic sources. Due to an increase of household income, household consumption will rise with about 2.5% in 2018 and 2019. Investments increase in 2019 with 4%, thanks to the positive economic outlook. The government also contributes to this growth with additional expenditure. Exports continue to increase, and will grow by more than 4% in 2019.

The labour market is doing well and unemployment continues to decline. Thanks to the favourable economic tide, the number of jobs continues to increase. The unemployment rate decreases to 3.5% in 2019, and will be at its lowest level since 2001. Although there are still people seeking employment, this is a historically low level. The untapped employment potential and the number of long-term unemployed are also declining. As a result of the increased demand for goods and services and declining unemployment, the labour market is becoming more tight, although not yet as much as just before the financial crisis.

The positive economic phase leads to higher wages, but also to a higher inflation rate. In recent years, wages grew moderately. In part that was due to low inflation and productivity growth, and due to the unemployment rate still being high. Additionally, strong growth in the number of self-employed workers and employees with a flexible employment contract may have had a negative impact on wage growth. The tighter labour market leads to higher wage growth in the coming period. In 2018, collectively bargained wages are expected to increase by 2% and by almost 3% in 2019. However, economic growth also leads to higher prices, and inflation will increase to 2.5% in 2019. This is partly due to the economic boom, but also because of some government measures, such as the increase of the low VAT rate and the energy tax in 2019.

Figure 1.1 Broad based economic growth (percentage growth)



Source: CPB.

The economy is in a positive phase, but not yet overheated. The Netherlands is currently in a favourable phase of the economic cycle. GDP has grown for five years in a row, the labour market is tight, household and business sentiment is positive, and wages are increasing. But there is still no clear evidence that the economy as a whole is overheating. Based on the EC methodology, the CPB estimates that the Netherlands will have an *output gap* of +1.7 in 2019.[1] This means that the Netherlands is in an increasing positive phase of the business cycle. It should be noted that the cyclical state of the economic climate is difficult to estimate, and such projections are therefore enshrouded with uncertainty.

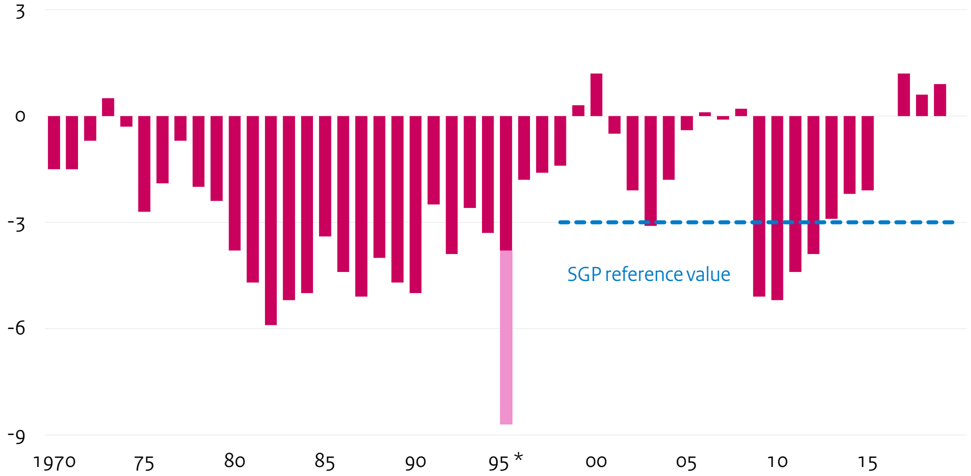
[1] This figure may differ from the output gap projected by the CPB with its own methodology.

Although the economy is doing well, there are significant risks. Economic development is always uncertain. Especially shifts in the economic cycle – in which, for example, the current economic boom turns to overheating – are difficult to predict. Both domestic and foreign developments may lead to a shift in economic development. Domestically, the positive household sentiment could drop, for example, if wages grow less quickly than expected. This can have a negative effect on household consumption. The Netherlands is also sensitive to developments in the international environment. At present there is a great deal of uncertainty about a number of international developments. For example, the outcome of the Brexit and, by implication, future economic and financial relations between the European Union (EU) and the United Kingdom (UK), are still very uncertain. The trade dispute between the United States and the EU could have a considerable effect on world trade as well, and thus also on the Dutch economy. The government is keeping an eye on these risks, and applies its budgetary policy (see Chapter 2) to ensure that the budget is resistant to any shift in the economy.

2. Budgetary Targets

Economic prosperity is reflected in the Dutch government's finances. For 2018 and 2019, the government expects a budget surplus of 0.8% and 1.0%, respectively. 2019 will hence be the third consecutive year with a budget surplus. That is unusual: the Netherlands has not had this many consecutive surpluses in the past 45 years.

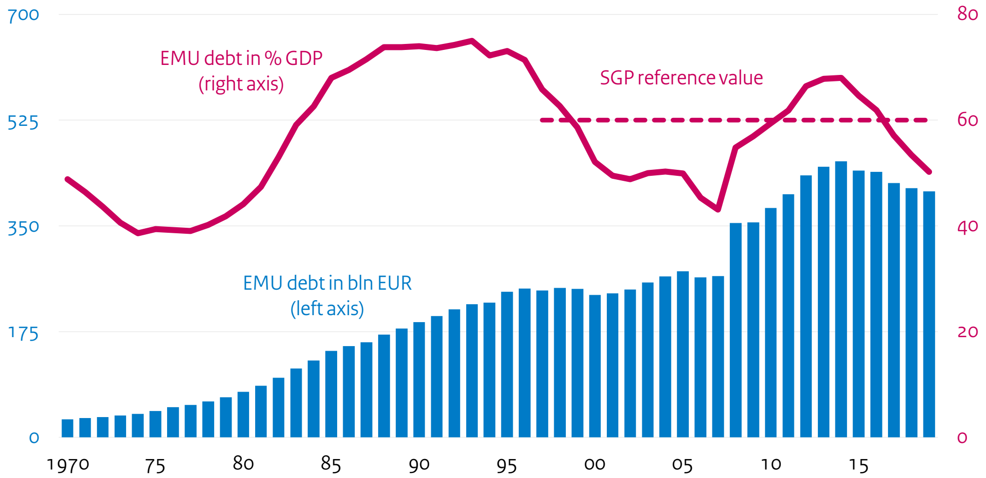
Figure 2.1 Development of general government balance (% of GDP)



Source: Statistics Netherlands, *CPB*, Ministry of Finance.[2]

Government debt decreases, because the State receives more money than it spends. In 2019, government debt decreases by 6 billion compared to 2018. The government expects that government debt will drop to 49.6% of GDP in 2019. Hence, debt drops even further to below the prescribed European criterion of 60% of GDP. The debt, however, has not yet reached the level prior to the crisis, namely 43% of GDP. Managing the debt, prevents current prosperity from being detrimental to that of future generations. The decreased general government debt in 2018 is largely explained by the denominator effect. Because GDP is growing, debt as a percentage of that GDP is lower. In addition, the budget surplus also contributes to the decreasing debt as a percentage of GDP.

Figure 2.2 Development of general government debt (in % of GDP and in € billions)



Source: Statistics Netherlands, *CPB*, Ministry of Finance.

[2] The 1995 general government balance is distorted by a one-off balance tax of 4.9% of GDP due to a decrease in the balance sheet total between the State and housing corporations in that year.

The Netherlands complies with the European budgetary rules in the corrective arm of the SGP. The best known European budgetary rules of the Stability and Growth Pact (SGP) are a maximum budget deficit of 3% and a general government debt below 60% of GDP. Both in 2018 and 2019, the Netherlands has a budget surplus and a debt below 60% of GDP, and thus complies with these rules.

The Netherlands also complies with the rules in the preventive arm of the SGP. The Netherlands is presently subject to the requirements of the preventive arm. At this point in time, the medium-term budgetary objective (MTO) is the most relevant for the Netherlands. This prescribes a structural budget deficit of up to 0.5% of GDP. This structural government balance is the budget balance corrected for the business cycle and one-offs. In both years the output gap of the Netherlands is positive, because the economy is undergoing an economic boom. Particularly for 2019, this has a very negative effect on calculating the structural government balance.[3] One-off corrections in 2019 also have a negative effect on the structural government balance. These one-off corrections arise from the 'private self-administered pension' measure (PEB, *pensioen eigen beheer*) and the current account measure (RC, *rekening-courant*) for directors and major shareholders, which has an anticipatory effect in 2019. As these are one-off revenues, they have a negative effect on the structural government balance. With an expected structural government balance of 0.1% in 2018 and -0.4% in 2019, the Netherlands is compliant the requirements of the SGP, although with a limited margin. As the structural government balance meets the MTO, development of the expenditure benchmark is not relevant for the assessment of Dutch public finances in the preventive arm.[4]

Tabel 2.1 Structural government balance (% GDP)

	2018	2019
General government balance	0,8	1,0
+ Business cycle component	-0,5	-1,1
+ One-off measures	-0,1	-0,3
= Structural government balance	0,1	-0,4

Within European standards, the government pursues a trend-based fiscal policy. During the cabinet period, the government uses higher tax revenues and lower unemployment expenditure due to increased economic growth, to reduce the debt and not for additional expenditure. To ensure this, the government has agreed to expenditure ceilings. The government also has a revenue framework in which policy-related adjustments to taxes are laid down during the cabinet period. By way of the 2019 Budget Memorandum, the government complies both to the expenditure ceilings as well as to the revenue framework. This methodology enables the budget to keep pace with the economy. In good times public finances improve of their own accord, because households and businesses pay more tax and unemployment decreases. Conversely, the budget worsens as the economy dips, because less tax comes in and unemployment expenditure rises. This way of budgeting is the best guarantee for prosperity and strengthens economic stability.

The government keeps an eye on the sustainability of public finances. In the longer term, the treasury's health depends more on structural developments such as the ageing population. The *CPB* regularly calculates the position of public finances in the long term. The purpose of these so-called sustainability studies is to provide perspective into the question whether future generations can enjoy the same level of services as current generations, without the government needing to raise taxes. In the most recent sustainability assessment, the Netherlands had a sustainability gap of 0.4% of GDP, i.e. € 3 billion. That forecast keeps account of measures in the Rutte III Coalition Agreement, but not yet with the decision to halt gas production in the long term, which causes the government to miss out on future revenue.[5]

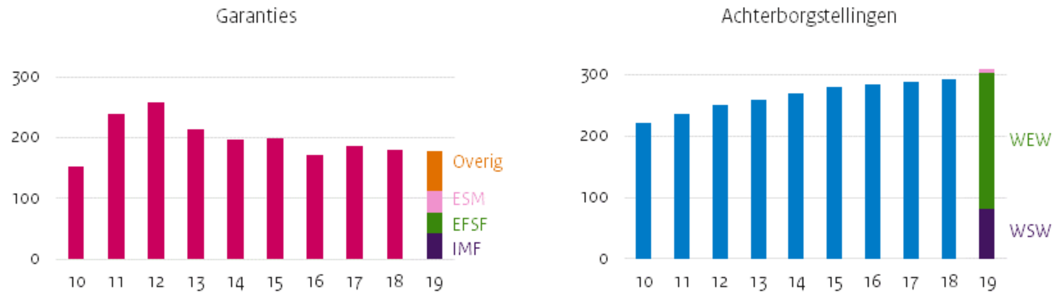
[3] The cyclical component is the output gap multiplied by the so-called budgetary elasticity, which shows how sensitive the budget is to economic cycles. For an explanation, see Mourre, Astavita en Princen, 2014, Adjusting the budget balance for the business cycle: the EU methodology, *European Economy Economic Papers 536*.

[4] See European Commission, 2018, Vade Mecum on the Stability & Growth Pact, p. 53: *"Member States that have exceeded their MTO do not need to be assessed for compliance with the expenditure benchmark, as long as the MTO is maintained"*.

[5] The sustainability balance assumes all the government's future revenue and expenditure. In the very long term, the Netherlands would no longer have gas revenues anyway, because gas eventually runs out. Yet,

The amount of government guarantees remains stable, but counter-guarantees continue to rise. A guarantee is a commitment by the State to pick up the costs incurred by a third party when a certain risk is materialised. Hence guarantees and the damages which could perhaps derive from it, are a risk for public finances. The majority of existing guarantees stem from international agreements, such as guarantees linked to the European debt crisis, international development banks, and the International Monetary Fund (IMF). The extent of the so-called counter-guarantees, in which the government acts as a backstop, however, grew strongly. This growth is entirely due to growth of the Homeownership Guarantee Fund (*WEW*), which implements the National Mortgage Guarantee Scheme (*NHG*).

Figure 2.3 Total amount of guarantees and counter-guarantees per annum (in € billions)



Source: Ministry of Finance.

because a substantial amount of gas remains in the ground, halting gas extraction reflects in the sustainability balance.

3. Expenditure and revenue projections under the no-policy change scenario

The following table shows the total expected government revenue and expenditure at unchanged policies based on implementation of the 2019 Budget Memorandum.[6]

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components.

General government (S.13)	ESA Code	2018 % GDP	2019 % GDP
1. Total revenue at unchanged policies	TR	43.4	43.8
of which			
1.1. Taxes on production and imports	D.2	11.6	12.1
1.2. Current taxes on income, wealth, etc.	D.5	12.2	12.4
1.3. Capital taxes	D.91	0.3	0.3
1.4. Social contributions	D.61	14.7	14.5
1.5. Property income	D.4	0.9	0.8
1.6. Other		3.8	3.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38.7	39.2
2. Total expenditure at unchanged policies	TE	42.5	42.8
of which			
2.1. Compensation of employees	D.1	8.3	8.3
2.2. Intermediate consumption	P.2	5.9	5.9
2.3. Social payments	D.62	20.7	20.7
of which Unemployment benefits	D.632	1.6	1.4
2.4. Interest expenditure	D.41	0.8	0.7
2.5. Subsidies	D.3	1.3	1.2
2.6. Gross fixed capital formation	P.51	3.5	3.5
2.7. Capital transfers	D.9	0.6	1.0
2.8. Other		1.6	1.6

[6] These figures are based on the MEV 2019. Since the figures in chapter 2 are based on the 2019 Budget Memorandum, a slight difference is possible.

4. Expenditure and revenue targets

The table below gives a specific view of the projected general government expenditures and revenues in 2018 and 2019.[7]

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

General government (S.13)	ESA Code	2018 % GDP	2019 % GDP
1. Total revenue at unchanged policies	TR	43.4	43.8
of which			
1.1. Taxes on production and imports	D.2	11.6	12.1
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2.8. Other		1.6	1.6

[7] These figures are based on the MEV 2019. Since the figures in chapter 2 are based on the 2019 Budget Memorandum, a slight difference is possible.

5. Discretionary budgetary developments

The government is working on implementation of the Coalition Agreement 'Confidence in the future'. As an addendum to the 2018 Draft Budgetary Plan, the government submitted the cabinet's Initial Policy Memorandum, which contains the budgetary consequences of this Coalition Agreement. This Draft Budgetary Plan also contains current decision-making. In the 2019 Budget Memorandum, government expenditure remains below the expenditure ceilings, as agreed in the Initial Policy Memorandum (*Startnota)*. The budget is also in line with the revenue framework as agreed in the Initial Policy Memorandum.

5.1 Expenditure

In the Coalition Agreement it was agreed to spend an additional € 8 billion in 2019. The government particularly invests in education, research and innovation (€ 1.9 billion), defence (€ 1.2 billion) and public safety (€ 0.5 billion). Further, an additional € 1.0 billion will go to infrastructure in 2019.

Current developments in 2018 have led to a reallocation of expenditure in the 2019 draft budget. The government will halt as soon as possible with gas extraction in Groningen and this has budgetary consequences. Not only will gas revenues decline, but the government is also reserving € 100 million per annum for future prospects for Groningen. At the same time, the government is preparing itself for Brexit by making additional resources available for more capacity at Customs and the Dutch Food and Consumer Product Safety Authority (*NVWA*). In addition, the government will make additional resources available for re-establishment of the Ministry of Agriculture, Nature and Food Quality (*LNV*) and it spends more money on EU remittances, which will increase by € 303 million in 2019.

Additional expenditure is possible due to windfalls in State expenditure, particularly for healthcare and social security. Pursuant to the budgetary rules, the government has ensured that additional expenses are below the expenditure ceiling. So buffers need not be used for expenditure on reduced gas extraction, preparations for Brexit, and higher EU remittances. This is possible due to windfalls in mainly healthcare and social security. In addition, lower interest rates and debt in 2019 mean lower interest expenditure. Jointly these windfalls cover the government's additional expenses in 2019.

Table 5.1. Discretionary expenditure 2019 draft budget

In € billions, + means deteriorating balance	2018	2019	2020	2021
Contributions to the EU	-0.8	0.3	0.6	0.4
Establishing *LNV*	0.1	0.1	0.0	0.0
Brexit implementation costs (Customs and *NVWA*)	0.0	0.1	0.1	0.1
Gas				
of which: decision on volume reduction	0.1	0.3	0.5	0.7
of which: Groningen reservation	0.1	0.1	0.1	0.1

5.2 Revenue

Since the Initial Policy Memorandum, new policies and a recosting of measures in the Coalition Agreement led to a policy-related change in tax revenue. Hence the government took additional measures in August so policy-related development of tax revenue complies with revenue framework. This can be seen in Table 5.2. Below is an explanation of these measures for households and businesses.

The government improves purchasing power, especially for low and middle-income earners. To further improve purchasing power and to allow households to benefit more from economic growth, the general tax credit will be raised further in 2019 than provided for in the Coalition Agreement. Part of the gradual transition to the two-bracket tax system is also being brought forward. These measures provide further improvement of purchasing power for all income groups. In addition, the government has compensated the lower estimate of health insurance premiums by increasing the 1st tax bracket rate and the Disablement Benefit Fund contribution

(*Aof-premie*), in accordance with the commonly used systems. See Chapter 8 for a further explanation of developments in purchasing power in 2019.

Supplemental to the Coalition Agreement, the government has taken tax measures for companies. In order to comply with the revenue framework, the upper corporate tax rate will reduce by less than that provided for in the Coalition Agreement. The upper tax rate drops from 25% to 22.25% percent in 2021. Small and medium-sized enterprises are mostly exempt from the tax increase because the lower corporate tax rate will not be increased in respect of the Coalition Agreement. Moreover, the government is relieving the tax burden on labour for SMEs, for which € 100 million is structurally available. The tax rate in Box 2 is also being reduced in comparison to the agreed path in the Coalition Agreement. That leads to a tax relief for directors and major shareholders (*DGA*'s). The government wants to discourage tax deferral by taxing directors and major shareholders who have a liability in respect of their own company (*B.V.)* exceeding € 500,000 in Box 2. Moreover, the government is structurally reducing the landlord levy by € 100 million. The government has also decided to safeguard existing public-private infrastructure projects against the effects of ATAD (Anti-Tax Avoidance Directive).

Table 5.2 Revenue framework (in y-o-y changes)

In € billions, + means tax revenue increase	2018	2019	2020	2021	Cumulative 2018-2021
Revenue framework after Initial Policy Memorandum	2.1	3.8	-1.0	-1.6	3.4
Health insurance premiums (2019 Macroeconomic Outlook compared to Initial Policy Memorandum)	0.0	-0.5	-0.1	0.0	-0.5
Recosting of measures in Coalition Agreement and new measures	0.0	0.6	-0.6	-0.4	-0.4
Total to cover August	0.0	0.2	-0.7	-0.4	-0.9
August measures	0.0	-0.2	0.7	0.4	0.9
Position revenue framework 2019 Budget Memorandum	2.1	3.8	-1.0	-1.6	3.4

6. Possible links between the Draft Budgetary Plan and the targets set by the Union's Strategy for growth and job and country-specific recommendations

Table 6a. Country-specific recommendations (CSRs)

CSR number	**Measures (actual progress/new in respect of 2018 NRP)**	**Description**
CSR 1		
While respecting the medium-term objective, use fiscal and structural policies to raise public and private investment in research, development and innovation. Take measures to reduce the debt bias for households and the remaining distortions in the housing market, in particular by supporting the development of the private rental sector.	In its letter "*Naar missiegedreven innovatie met impact*", the government explained its renewed strategy of the 'top sectors' approach. This letter also contains a breakdown of the additional resources announced in the National Reform Programme (*NHP*) for applied research for the period as from 2019. In the SME action plan, the government presented a coherent policy approach for small and medium-sized enterprises in the fields of human capital, financing, innovation, international business, regulations, taxation, economic cooperation between the State and regions and digital development within SMEs. The legislative text on mortgage interest tax relief will be sent to the Dutch House of Representatives this autumn. As from 1 January 2020 there is an accelerated reduction timetable of 3.0 pp per annum resulting in a structural level of 37.05% as from 2023. On 19 September 2018, the legislative proposal 'Measures in the middle segment rental market' (*Maatregelen Middenhuur*) was submitted to the Dutch House of Representatives. The minister of the Interior and Kingdom Relations has reserved €38 million for a fund to accelerate housing at a number of complex inner city locations (brownfields).	In recent years, public-private R&D collaboration in the Dutch Top Consortia for Knowledge and Innovation (*TKI*) has meant that by applying more public knowledge investments, more private knowledge investments and co-financing has been achieved in public-private research. The objective of the SME Action Plan is to accelerate and to support adaptation of the various types of small and medium-sized enterprises to the new market conditions, which includes the digital transition of the economy. A phasing out of mortgage interest tax relief contributes to a more stable housing market with lower debts. By accelerating this tax deduction change, fiscal stimulation of the measure and distortions in the housing market reduce faster. The legislative proposal 'Measures in the middle segment rental market' contributes to the functioning of the rentals market and to increasing the supply of rented housing. Redevelopment of these locations contributes to increasing the available housing in areas where supply is scarce and demand is high. This redevelopment is not widely established throughout the market. The fund can therefore help to counteract these distortions in the housing market.

CSR 2		
Reduce the incentives to use temporary contracts and self-employed without employees, while promoting adequate social protection for the self-employed, and tackle bogus self-employment. Create conditions to promote higher wage growth, respecting the role of the social partners. Ensure that the second pillar of the pension system is more transparent, inter-generationally fairer and more resilient to shocks.	The Labour Market in Balance Law (*Wet Arbeidsmarkt in Balans, WAB*) is expected to be sent to parliament in the autumn of 2018. The act makes it more attractive for employers to offer people permanent employment. Making use of flexible contracts is still possible if this falls in line with the needs of employers and employees, and the nature of the work. Negative effects of specific forms of flexible labour and the cost difference between permanent and temporary contracts will be limited. In addition, financial benefits of the self-employed reduces in part by the gradual limitation of deduction items. In the past year, the government concluded new collective labour agreements in public sectors such as education, defence, police and central government. Together with its social partners, the government is taking steps towards a renewed pension system, in which, due to the disappearance of the average pension contribution system ('*doorsneesystematiek*'), it will be more attractive for the self-employed to join.	The government wants to prepare the labour market for new challenges, reduce contradictions in the labour market, and work towards a labour market that offers opportunities to everyone. The government wants to accomplish this wider objective together with social partners. In 2018 and 2019, the *CPB* expects a contractual wage growth for companies of 2.0% and 2.9% respectively. New collective labour agreements in public sectors contribute to the fact that wages also rise in these public sectors

Table 6.b Targets set by the Union's Strategy for growth and jobs

National 2020 headline targets	Measures (actual progress/new in respect of 2018 NRP)	Description of direct relevance to address the target
National 2020 employment target [80%]		
National 2020 R&D target [2.5%]	See Table 6a.	
GHG emission reduction target - non-ETS sectors [-16%] - ETS-sectors [not applicable]	The government is currently working on the Climate Agreement.	
National renewable energy target [14%]	The government is currently working on the Climate Agreement.	
National energy efficiency target [1.5% per year]	The government is currently working on the Climate Agreement.	
National early school leaving target [<8%]	This figure was 7.1% in 2017.	
National tertiary education target [>40%]	In 2017, the Netherlands achieved a figure of 47.9%.	
National social inclusion and poverty target [100,000 fewer *jobless households*]	Structurally € 100 million extra for poverty-stricken children (since 2017); Mid-term evaluation at this point in time. Information will be sent to the Dutch House of Representatives this autumn. Temporary additional resources for combating poverty and debts, specifically among children (€ 80 million in total for the period 2018-2020). On 23 May 2018 the broad-based approach to tackle debt was announced by way of a letter.	Specific investment in poverty-stricken children to prevent social exclusion and future deprivation. Reducing the number of people who have serious debt problems and to better help people in debt. Working for a minimum wage after having claimed state benefit or an extra day's work for a double-income couple has become more worthwhile. This will stimulate more singles, single parents and dual-income couples with young children to find work. More knowledge about the effectiveness of financial incentives and labour and re-integration obligations, to bring about an outflow of people subject to the Participation Act to access employment.

7. Divergence from latest Stability Programme

The government currently expects a slightly larger budget surplus than expected in the 2018 Stability Programme. Both in 2018 and 2019, the government expects the budget surplus to be higher by 0.1pp of GDP. In 2018, revenues were higher than expected and expenditure was slightly lower (as % of GDP). In 2019, this effect is entirely due to revenues being higher than previously expected.

Tabel 7. Divergence from latest Stability Programme

		2017	2018	2019
	ESA Code	% GDP	% GDP	% GDP
General government net lending / net borrowing	B.9			
Stability Programme		1.1	0.7	0.9
Draft Budgetary Plan		1.2	0.8	1.0
Difference		0.1	0.1	0.1

8. Distributional impact of main expenditure and revenue measures

Thanks to rising wages and lower taxes on labour, purchasing power is set to grow in 2019. The median (static) purchasing power is expected to rise by 1.5% in 2019. The purchasing power of working households will grow the most next year (1.6%), but pensioners and benefit recipients will also see a higher purchasing power (by 1.5% and 0.9% respectively) than in 2018. Not only do wage increases contribute to additional disposable income, but the government is also providing a tax relief that will be phased in from 2019. As a result, households have more disposable income based on every euro that they earn. In August, the government took further measures to ensure that especially low and middle-income earners would benefit more; see Chapter 5 for an explanation. The following table shows the total income development. This does not differentiate the effect of government policy, because both the Coalition Agreement as well as current decision-making have an impact on developments in purchasing power.

Table 8. Development in purchasing power for various household groups (%)

	2019
Income group	
1st quintile (0-20%)	1.1
2nd	1.7
3rd	1.6
4th	1.7
5th quintile (81-100%)	1.6
Source of income	
Working households	1.6
Benefit recipients	0.9
Pensioners	1.5
Household type	
Double-income households	1.6
Single householders	1.4
Single-income households	1.7
Family composition	
With children	1.6
Without children	1.6
All households	1.5

Annex I - Methodology, economic models and assumptions underpinning information contained in the DBP

Table 9. Methodological aspects

Estimation technique	Step of the budgetary process for which it was used*	Relevant features of the model / technique used
SAFFIER II	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
ISIS	Forecast trend structural labour supply	HP-filter
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
Government account	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 have been used:
- when doing 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 II – DBP Tables

Table 0a. Basic assumptions

	2017	2018	2019
Short-term interest rate (annual average)	-0.3	-0.3	-0.2
Long-term interest rate (annual average)	0.5	0.6	0.7
USD/€ exchange rate (annual average)	1.13	1.19	1.17
Nominal effective exchange rate	1.6	2.7	0.2
World excluding EU 28, GDP growth	4.0	4.2	4.3
EU 28 GDP growth	3.7	3.8	3.8
Growth of relevant foreign markets	2.5	2.1	1.9
World import volumes, excluding EU	4.9	3.4	4.0
Oil prices (Brent, USD/barrel)	5.4	4.3	3.8

Table 0b. Main assumptions

	2017	2018	2019
1. External environment			
a. Prices of commodities (Raw materials excluding energy (HWWI), Euro)	21.0	24.8	-1.0
b. Spreads over the German bonds	0.2	0.1	0.2
2. Fiscal policy			
a. General government net lending / net borrowing	15.5	5.8	8.3
b. General government gross debt	420.6	410.2	403.5
3. Monetary policy / Financial sector / interest rate assumptions			
a. Interest rates:			
i. Euribor			
ii. Deposit rate			
iii. Interest rates for loans			
iv. Yields to maturity of 10 year government bonds	0.5	0.6	0.7
b. Evolution of deposits			
c. Evolution of loans			
d. NPL trends			
4. Demographic trends			
a. Evolution of working-age population	0.8	1.1	1.0
b. Dependency ratios	70.1	70.4	70.8
5. Structural policies			

Table 1a. Macroeconomic prospects

	ESA Code	2017 level	2017 growth rate	2018	2019
1. Real GDP*	B1*g	737,0	2.9	2.8	2.6
of which					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP			1.7	1.9	1.7
Contributions:					
- labour			0.8	0.8	0.5
- capital			0.6	0.7	0.8
- total factor productivity			0.3	0.4	0.4
3. Nominal GDP	B1*g		4.1	4.8	5.2
Components of real GDP					
4. Private final consumption expenditure	P.3	326,9	1.9	2.7	2.3
5. Government final consumption expenditure	P.3	178,7	1.1	2.0	2.8
6. Gross fixed capital formation	P.51	151,2	6.1	5.1	4.3
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	1,2	-0.3	-0.1	0.0
8. Exports of goods and services	P.6	611,4	5.3	3.0	4.2
9. Imports of goods and services	P.7	532,3	4.9	3.3	4.8
Contributions to real GDP growth					
10. Final domestic demand		656,8	2.2	2.6	2.5
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	1,2	-0.3	-0.1	0.0
12. External balance of goods and services	B.11	79,1	0.9	0.1	0.0

*Base year is 2017

Table 1b. Price developments

	ESA Code	2017 level	2017 change	2018	2019
1. GDP deflator			1.2	2.0	2.5
2. Private consumption deflator			1.6	1.5	2.5
3. HICP			1.3	1.6	2.5
4. Public consumption deflator			1.1	2.6	2.8
5. Investment deflator			0.6	2.0	2.2
6. Export price deflator (goods and services)			3.0	2.3	1.5
7. Import price deflator (goods and services)			3.3	2.2	1.3

Table 1c. Labour market developments

	ESA Code	2017 level	2017	2018	2019
1. Employment, persons		9098.0	2.2	2.0	1.4
2. Employment, hours worked		13051.7	1.9	2.1	1.5
3. Unemployment rate (%)		437.6	4.9	3.9	3.5
4. Labour productivity, persons		81.0	0.7	0.7	1.1
5. Labour productivity, hours worked		56.5	0.9	0.6	1.0
6. Compensation of employees	D.1	353.3	3.7	5.6	5.4
7. Compensation per employee		38.8	1.4	2.9	3.9

Table 1d. Sectoral balances

	ESA Code	2017 % GDP	2018 % GDP	2019 % GDP
1. -Net lending/net borrowing vis-à-vis the rest of the world	B.9	10.5	10.1	9.9
of which:				
- Balance on goods and services		10.7	10.6	10.4
- Balance of primary incomes and transfers		0.4	0.4	0.4
- Capital account		-0.7	-0.9	-0.8
2. Net lending/net borrowing of the private sector	B.9	9.3	9.3	9.0
3. Net lending/net borrowing of general government	B.9	1.2	0.8	1.0
4. Statistical discrepancy				

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

	ESA Code	2018 % GDP	2019 % GDP
Net lending (+) / net borrowing (-) by subsector			
1. General government	S.13	0.8	1.0
2. Central government	S.1311	-0.1	0.4
3. State government	S.1312	-	-
4. Local government	S.1313	-0.2	-0.2
5. Social security funds	S.1314	1.0	0.9
6. Interest expenditure	D.41	0.8	0.7
7. Primary balance		1.7	1.6
8. One-off and other temporary measures		0.1	0.3
8a. of which on the revenue side		0.1	0.3
8b. of which on the expenditure side		0.0	0.0
9. Real GDP growth (%) (= 1 in table 1.a)		2.8	2.6
10. Potential GDP growth (%) (= 2 in table 1.a)		1.9	1.7
Contributions:			
- labour		0.8	0.5
- capital		0.7	0.8
- total factor productivity		0.4	0.4
11. Output gap (% of potential GDP)		0.8	1.7
12. Cyclical budgetary component (% of the potential GDP)		0.5	1.1
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		0.3	-0.1
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		1.0	0.6
15. Structural balance (13 - 8) (% of the potential GDP)		0.1	-0.4

Table 2b. General government debt developments

	ESA Code	2018 % GDP	2019 % GDP
1. Gross debt		53.1	49.6
2. Change in gross debt ratio		-4.0	-3.5
Contributions to changes in gross debt			
3. Primary balance		1.7	1.7
4. Interest expenditure	D.41	0.8	0.7
5. Stock-flow adjustment		-3.1	-2.5
of which:			
- Differences between cash and accruals		0.1	-0.3
- Net accumulation of financial assets		-0.1	0.1
of which:			
- privatisation proceeds		0.0	0.0
- valuation effects and other		0.0	0.0
p.m.: Implicit interest rate on debt		1.5	1.4
Other relevant variables			
6. Liquid financial assets		-0.2	0.2
7. Net financial debt (7=1-6)		53.3	49.4
8. Debt amortization (existing bonds) since the end of the previous year		5.1	3.7
9. Percentage of debt denominated in foreign currency		1.1	-
10. Average maturity		6.3	6.4

Tabel 2c. Contingent liabilities

	2018 (% GDP)	2019 (% GDP)
Public guarantees	23.0	22.2
Of which: linked to the financial sector	18.7	18.1

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components.

General government (S.13)	ESA Code	2018 % GDP	2019 % GDP
1. Total revenue at unchanged policies	TR	43.4	43.8
of which			
1.1. Taxes on production and imports	D.2	11.6	12.1
1.2. Current taxes on income, wealth, etc.	D.5	12.2	12.4
1.3. Capital taxes	D.91	0.3	0.3
1.4. Social contributions	D.61	14.7	14.5
1.5. Property income	D.4	0.9	0.8
1.6. Other		3.8	3.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38.7	39.2
2. Total expenditure at unchanged policies	TE	42.5	42.8
of which			
2.1. Compensation of employees	D.1	8.3	8.3
2.2. Intermediate consumption	P.2	5.9	5.9
2.3. Social payments	D.62	20.7	20.7
of which Unemployment benefits	D.632	1.6	1.4
2.4. Interest expenditure	D.41	0.8	0.7
2.5. Subsidies	D.3	1.3	1.2
2.6. Gross fixed capital formation	P.51	3.5	3.5
2.7. Capital transfers	D.9	0.6	1.0
2.8. Other		1.6	1.6

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

General government (S.13)	ESA Code	2018 % GDP	2019 % GDP
1. Total revenue at unchanged policies	TR	43.4	43.8
of which			
1.1. Taxes on production and imports	D.2	11.6	12.1
1.2. Current taxes on income, wealth, etc.	D.5	12.2	12.4
1.3. Capital taxes	D.91	0.3	0.3
1.4. Social contributions	D.61	14.7	14.5
1.5. Property income	D.4	0.9	0.8
1.6. Other		3.8	3.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38.7	39.2
2. Total expenditure at unchanged policies	TE	42.5	42.8
of which			
2.1. Compensation of employees	D.1	8.3	8.3
2.2. Intermediate consumption	P.2	5.9	5.9
2.3. Social payments	D.62	20.7	20.7
of which Unemployment benefits	D.632	1.6	1.4
2.4. Interest expenditure	D.41	0.8	0.7
2.5. Subsidies	D.3	1.3	1.2
2.6. Gross fixed capital formation	P.51	3.5	3.5
2.7. Capital transfers	D.9	0.6	1.0
2.8. Other		1.6	1.6

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

	ESA Code	2017 % of GDP	2018 % of GDP	2019 % of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure*		0.0	-0.1	-0.2
3. Effect of discretionary revenue measures		0.4	-0.2	0.4
4. Revenue increases mandated by law		0.1	0.1	0.2

*This item contains: Unemployment Act (WW), social assistance benefit for the self-employed, implementation costs of the Employee Insurance Agency (UWV), 60+ unemployment benefits (IOW), mobility bonus for older beneficiaries and the occupationally disabled, BUIG and revenue of government implementation fund (UFO)

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

	2018		2019	
	% of GDP	% general government expenditure	% of GDP	% general government expenditure
Education	5.3	12.4	5.2	12.3
Healthcare	7.7	18.1	7.9	18.6
Employment*	0.4	1.0	0.4	0.9

*This item contains: Participation Budget and Sheltered Employment Act (WSW, since 2015 via social participation fund), reintegration programmes for occupationally disabled, 50+ workforce participation, sector plans, life-course transitional arrangement, contribution reduction for youth, start-up deduction in case of disability, youth unemployment approach and low-income benefit.

4cii. Classification of government functions

Government functions		2018	2019
	COFOG Code	% of GDP	% of GDP
1. General public services	1	4.3	4.3
2. Defence	2	1.1	1.3
3. Public order and safety	3	1.8	1.7
4. Economic affairs	4	3.8	3.7
5. Environmental protection	5	1.4	1.4
6. Housing and community amenities	6	0.3	0.3
7. Health	7	7.7	7.9
8. Recreation, culture and religion	8	1.3	1.3
9. Education	9	5.3	5.2
10. Social protection	10	15.5	15.5
11. Total Expenditure (= item 2 in Table 2ci)	TE	42.4	42.7