Raad van State

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Budget complies with European rules, but structural budget balance is deteriorating

Dutch public finances are expected to comply with European fiscal rules in 2018 and 2019. However, the structural budget balance will decrease by € 9 billion over a two-year period and will just meet the lower limit that applies to the Netherlands in 2019. The government is taking the national expenditure ceilings into account, but covers expenditure for new policy with windfalls in social security and healthcare. With this in mind, the question can be raised of how structural these windfalls are and whether this can be reconciled with the fiscal rules of play.

This was reported in the 2018 September Report on Fiscal Monitoring, which the Advisory Division of the Council of State published today (18 September 2018). It contains an assessment of whether the budget complies with the European and national fiscal rules.

Continued healthy economy…

The Dutch economy is in a sustained phase of economic boom. This is also reflected on the labour market, which is displaying signs of shortage. This results in significant decreases in unemployment expenditure and higher tax revenues. Although the budget satisfies European fiscal rules, public finances are not improving despite the economic growth. The budget surplus is slightly decreasing and the structural budget balance will deteriorate over a two-year period from a surplus of 0.8% in 2017 to a deficit of 0.4% of GDP in 2019. This amounts to € 9 billion. In times of economic boom, such a fiscal stimulus is not obvious in economic terms.

However, public expenditure is on the rise

The decrease in the structural budget balance is largely due to the strong growth in public expenditure, primarily related to defence, infrastructure and healthcare. The government is also allocating funds in the 2019 budget for limiting the gas production in Groningen and the costs of preparing for Brexit. This additional expenditure for new policy will be covered by windfalls in social security and healthcare, which raises the question of whether these windfalls are structural, while this is certainly the case for the additional expenditure.

Uncertainties and risks

As an open economy, the Netherlands is highly dependent on developments abroad. Besides Brexit, there are also uncertainties with regard to recent developments in emerging economies such as Turkey and Argentina, and a potential further escalation in the trade war between the EU, China and the US. These uncertainties impose requirements on the budgetary policy.

Therefore, the Advisory Division notes that the current surplus in the structural budget balance in 2019 will change into a deficit of 0.4% of GDP, just above the lower threshold of -0.5%.

More information

The Advisory Division of the Council of State is the body that maintains independent supervision in the Netherlands on compliance with the fiscal rules agreed upon in the European Stability and Growth Pact. The Advisory Division publishes biannual fiscal reports that focus on key moments in the budgetary cycle. In April the Advisory Division publishes the Spring Report on the Stability Programme and in September it publishes its assessment of the Budget Memorandum and the state budget.

Read the complete assessment of the 2018 September Report on Fiscal Monitoring here.