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A. ASSESSMENT

1. Introduction

The Advisory Division of the Council of State is responsible for the independent monitoring of compliance with (European) fiscal rules as provided for in the Treaty on Stability, Coordination and Governance (TSCG) and Article 5 of Regulation (EU) 473/2013. It is the task of the independent budget supervisory authority to draw up an assessment on whether the European fiscal rules are being met.

The Advisory Division draws up two reports each year, in April and September, in which it provides an assessment on the expected budgetary developments and intentions as adopted by the government. Assessments by the Advisory Division are established in close cooperation with the CPB Netherlands Bureau for Economic Policy Analysis. The allocation of tasks means that the drawing up of independent economic and budgetary projections and analyses is the responsibility of the CPB; the Advisory Division is responsible for a more normative assessment of compliance with the (European) fiscal rules.

For the sake of quality and accuracy of the assessment to be drawn up, the Advisory Division is given access to the draft version of the Stability Programme. On this basis the Advisory Division has drawn up a draft assessment which was discussed with the government. The Advisory Division has concluded its final assessment after being informed of the government's response. The government's response is included in full in this report.

The spring report has been given a new layout in respect of preceding reports. The report now starts with the assessment, in this Section A. The analytical part, which is a substantiation of that assessment, is now described in a new Section B. And finally, the government's response is described in Section C.[1]

2. Macroeconomic and budgetary projection

According to the most recent projections by the CPB, the Dutch economy is growing steadily this year and next year. This year, economic growth is expected to reach 2.1%. In 2018, the Dutch economy is set to grow by 1.8%. These growth figures show that the Dutch economy is performing better than the Eurozone as a whole. The Dutch economy is benefiting from the worldwide economic recovery and also the associated recovering world trade.

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[1] Sections B and C are not included in this English translation.

Exports are contributing to approximately half of the Dutch economic growth in 2017 and 2018; the other half is supported by domestic spending. Household consumption is especially higher in 2017, because more and more people are finding employment. Part of the tax-relief measures of 2016, which were initially saved, are also expected to be spent in this year anyway. Businesses are investing more in 2017 than last year and on balance, government spending is also contributing positively to economic growth.

Favourable economic prospects have a positive effect on unemployment. Where 6.0% of the labour force was still unemployed in 2016 (538,000 persons), in 2017 this will decline to 4.9% (445,000 persons) and to 4.7% (430,000 persons) in 2018. A declining unemployment rate has a positive effect on unemployment expenditure, which also has a knock-on effect on public finances.

Public finances are developing favourably. According to the most recent figures of Statistics Netherlands, the budget deficit of 2.1% of GDP in 2015 turned to a budget surplus of 0.4% of GDP in 2016. The budget surplus in CPB's forecast is set to improve further to 0.5% in 2017 and 0.8% in 2018. Government debt in 2016 amounted to 62.3% of GDP. According to the CPB forecast, the debt this year will be 58.5% of GDP, to decrease further to 55.5% in 2018.

3. Review under budgetary rules

In the Spring Report the Advisory Division reviews whether public finances of the past year (*ex post*), during the current year (*in year*) and in the forthcoming year (*ex ante*) comply with European fiscal rules. Due to the budget deficit being lower than the maximum allowable deficit under the Stability and Growth Pact (SGP) of 3% of GDP since 2013, the rules prevailing under the so-called 'preventive arm' of the SGP are relevant for this review. These rules impose requirements on the development of the structural budget balance, which is the budget balance adjusted for the economic cycle and incidental items, and the development of public expenditure. Furthermore, government debt should decrease sufficiently toward 60% of GDP.

Based on actual figures by Statistics Netherlands, the Advisory Division concludes that public finances complied with European fiscal rules in 2016. The treasury showed a surplus of 0.4% of GDP in 2016. The structural budget balance turned from a deficit in 2015 to a surplus of 0.5% in 2016. This means that the structural budget balance in 2016 complied generously with the so-called 'medium-term budgetary objective' (MTO) of –0.5% of GDP set for the Netherlands. When the structural budget balance meets the objective, a review of the expenditure rule, which is aimed at a controlled growth of public expenditure in relation to the potential growth of the economy, can be omitted in accordance with the working methods of the European Commission. Nonetheless, it can be concluded that Dutch public finances also complied with the expenditure rule in 2016. In 2016, government debt remained above 60% of GDP, but the debt decline in respect to 2015 was significant enough to meet the European fiscal rules.

Also for 2017 and 2018, based on the CPB projection, the Advisory Division concludes that Dutch public finances are expected to comply with the European fiscal rules. In these years it is expected that both the actual and structural budget balance will remain positive, which further extends the distance to the reference values set by the SGP and the European requirements are being met. In addition, in these years public debt will be below 60% of GDP. For the first time since 2010 this brings Dutch government debt below the Pact's reference value, albeit that the debt in these years still does not reach the level of before the economic crisis.

4. How to continue with budgetary policy after achieving the medium-term budgetary objective?

Now that the MTO for the structural budget balance is largely exceeded, and budgetary policy complies with SGP requirements and reference values set in that framework, there is some room for budgetary manoeuvre in the years ahead to work on a budgetary policy that is structurally consistent with the principles and objectives of the SGP, namely to promote stability and growth. To this end, there are further considerations which the Advisory Division addresses below.

According to the most recent CPB projections, public finances will improve further in the medium-term. In the 2017 Central Economic Plan (2017 CEP) the CPB forecasts a budget surplus of 1.3% of GDP for 2021. The structural balance in 2021 will be 1.1% of GDP and debt will decline further to 46.6% of GDP. Those are favourable figures. Yet it should be noted that this assumes a no-policy change scenario. It should also be acknowledged that any additional expenditure arising from (international) obligations in the field of climate and security, has not been taken into account yet.

The election programmes of the respective political parties suggest that a new cabinet is likely to propose additional expenditure or to reduce taxes. Insofar as it achieves a sustainable strengthening of growth capacity, this falls in line with the spirit of the SGP, as can be seen from the European Commission's proposal for a Council recommendation to Member States who exceed their MTO, to use the available room for budgetary manoeuvre to promote growth by way of additional investments, keeping the sustainability of their long-term public finances in mind.

When considering using budgetary room for manoeuvre, it should be kept in mind that Dutch public finances and the Dutch economy can show a rapidly changing image, as was apparent in the last six months. Twice before in the last twenty years, there was a surplus in the budget for several consecutive years, as is the case now, which was rapidly followed however, by years in which the deficit was more than 3% of GDP. In turn this often led to abrupt interventions in public finances. Such frequent course changes lead to a great deal of administrative and political unrest. Furthermore, from an economic perspective, budgetary policy in the last twenty years often amplified the cyclical fluctuation. Budget policy often turned out to be pro-cyclical, and budgetary policy in good economic years has not been anti-cyclical once since 1994.

When choosing a medium-term target for the budget balance, the volatile nature of Dutch public finances, the limited and uncertain sustainability surplus of 0.5% of GDP in the long-term, as well as the substantial contingent liabilities in the form of guarantees, argue for keeping sufficient distance in respect of the medium-term objective ensuing from the European fiscal rules. Additionally, societal challenges in the field of sustainability and investments in the quality of the labour force call for stability and continuity. In the past, looking back, all too often there had been a 'stop-and-go' policy with all its associated unrest. Buffers in public finances are beneficial for achieving a robust approach to societal challenges, and also help to achieve a more stable economic development.

Keeping sufficient distance to the medium-term objective also provides the possibility of maintaining own national fiscal rules for both the expenditure and revenue sides of the budget. As observed by the Study Group on Fiscal Policy, supplemental to the European rules, the national rules have important operational and thus administrative advantages. In the practice of budgetary policy, fiscal rules appear to be even more necessary in 'good years' than in 'meagre years' to help in the inevitable setting of priorities.

The objective of improving stability and growth should be placed in the context of uncertain future growth of labour productivity. In the 2017 CEP the CPB outlines an image of a structural levelling off of labour productivity growth. Such a development calls for a budgetary policy aimed at structural improvement of growth. Investments in a variety of different areas (sustainability, education, innovation, etc.), but also reforms in the tax system and the pension system, serve for the benefit of long-term growth and the sustainability of public finances. This also lays claim to the available room for budgetary manoeuvre.

5. Conclusion

In light of the findings and conclusions, as well as the response from government on the draft assessment (see Section C), the Advisory Division of the Council of State assesses the following.

I. Based on actual figures by Statistics Netherlands, the Advisory Division concludes that public finances have complied with European fiscal rules in 2016.
II. Based on projections by the CPB, the Advisory Division concludes that public finances are expected to comply with European fiscal rules in 2017 and 2018.
III. When choosing a medium-term target for the budget balance, the volatile nature of Dutch public finances as well as the limited and uncertain sustainability surplus of 0.5% of GDP in the long-term, argue for keeping

sufficient distance in respect of the medium-term objective ensuing from the European fiscal rules.

IV. The objective of improving stability and growth, placed in the context of uncertain future growth of labour productivity, additionally calls for a budgetary policy that is aimed at structural improvement of growth through additional investments. In doing so, the sustainability of public finances in the long-term must be taken into consideration.