EUROPEAN
COMMISSION

Brussels, 28.11.2014
C(2014) 8810 final

# COMMISSION OPINION

## of 28.11.2014

## on the Draft Budgetary Plan of THE NETHERLANDS

**COMMISSION OPINION**

**of 28.11.2014**

**on the Draft Budgetary Plan of THE NETHERLANDS**

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING THE NETHERLANDS

3. On the basis of the Draft Budgetary Plan for 2015 submitted on 2 October 2014 by the Netherlands, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. The Netherlands is subject to the preventive arm of the Stability and Growth Pact and should preserve a sound fiscal position in order to maintain the medium term objective and ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path. As the debt-to-GDP ratio was 68.6% in 2013 (the year in which the Netherlands corrected its excessive deficit), exceeding the 60% reference value, during the three years following the correction of the excessive deficit, the Netherlands is subject to the transitional arrangements as regards compliance with the debt rule. In this period it should ensure sufficient progress towards compliance with the debt reduction benchmark.

5. After a decline by 0.7% in 2013, the Draft Budgetary Plan expects economic growth to reach ¾% in 2014 and to accelerate to 1¼% of GDP in 2015, unchanged with respect to the Stability Programme. This forecast is slightly more subdued than the Commission 2014 autumn forecast that predicts growth to reach 0.9% and 1.4% in 2014 and 2015, respectively. This difference is mainly due to a slight improvement of economic developments since the publication of the forecast underpinning the Draft Budgetary Plan.

6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecasts underlying the Draft Budgetary Plan have been produced by the CPB Netherlands Bureau for Economic Policy Analysis. The CPB is functionally attached to, and mainly financed by, the Ministry of Economic Affairs but enjoys complete operational independence, formally guaranteed by law.

7. The forecast for the general government budget balance for 2014 is the same in the Stability Progamme and the Draft Budgetary Plan (-2.9% of GDP), albeit with large differences in the expenditure and revenue ratios, mainly stemming from the revisions of the national accounts that have been carried out in the meantime.

Government expenditure is also currently forecast to be lower in 2014 than was expected in the Stability Programme due to lower social payments. The Draft Budgetary Plan expects a general government budget deficit in 2015 of 2.2% of GDP compared to 2.1% in the Stability Programme. Despite lower government revenues, the budget balance improves on the back of significantly reduced public expenditure.

8. The headline deficit projection in the Commission 2014 autumn forecast for 2014 is somewhat lower than in the Draft Budgetary Plan, mainly on account of different assumptions about expenditure on health care, asylum and emergency assistance. For 2015, the fiscal projections are broadly in line with those in the Draft Budgetary Plan. Therefore, the risks pertaining to the deficit projections of the DBP mainly relate to the underlying macroeconomic outlook. In particular, adverse global developments could spill over to the very open economy, unsettling the home-grown recovery and negatively influencing public finances.

9. The large differences in the debt figures in the Stability Programme and the Draft Budgetary Plan mainly stem from the revisions of the national accounts. The differences between the debt projections in the Draft Budgetary Plan and the Commission 2014 autumn forecast are small and mainly due to differences in the deficit forecast for 2014. According to the Draft Budgetary Plan, general government gross debt is increasing from 68.6% of GDP to 69.8% of GDP in 2014 and 70% of GDP in 2015 which is broadly in line with the Commission 2014 autumn forecast that expects general government gross debt to increase to almost 70% of GDP in 2014 and to go slightly above 70% of GDP in 2015, before declining to just below 70% of GDP in 2016. For 2015, revenues are planned to decrease mainly as the result of policy measures, including a reduction in the taxation of labour and the expiry of some temporary measures that had been adopted in 2014. Expenditure decreases are partly the result of policy measures and partly implying a decrease in social security expenditure. Policy measures have been credibly announced and implementation risks appear to be small.

10. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional arrangements for the debt reduction benchmark. However, based on the Commission 2014 autumn forecast, the Netherlands is making sufficient progress towards compliance with the debt rule in both 2014 and 2015 as the projected change in the structural balance (0.1% and -0.3% of GDP respectively) is above the requirement (-0.3% and -0.6% of GDP respectively).

11. The Netherlands reached its MTO (-0.5% of GDP) in 2013 and is required to ensure that the MTO continues to be adhered to. According to the Commission 2014 autumn forecast, the MTO is maintained in 2014 but a small deviation from it is expected in 2015. Expenditure is being curbed by the government, and the expenditure benchmark is met in both 2014 and 2015. The structural balance indicator appears to be significantly influenced by a drop in the elasticity of tax revenue, which does not affect the expenditure benchmark. The expenditure benchmark therefore provides a more accurate assessment of the budgetary efforts in 2014. Following an overall assessment, the Draft Budgetary Plan seems to comply with the requirements under the preventive arm of the Stability and Growth Pact.

12. The Draft Budgetary Plan outlines measures to lower the tax wedge, in particular for low wage earners, and announces that the government is exploring options for a comprehensive tax reform. It will have to be ensured that the latter reform has a budget-neutral impact. The Draft Budgetary Plan also provides details on the

measures planned and taken to address the Country Specific Recommendations and to ensure reaching the national Europe 2020 targets. In particular, the Netherlands has made some progress in the area of employment protection legislation (including a cap on severance payment, a reduction of the maximum length of unemployment benefits and a simplification of dismissal procedures) and labour disability schemes (combining several schemes and shifting responsibility to municipalities) and has started to reform the second pension pillar. Most of the measures were already known at the time of the 2014 Stability Programme and 2014 National Reform Programme but progress was achieved in their adoption and implementation.

13. Overall, the Commission is of the opinion that the Draft Budgetary Plan of the Netherlands, which is currently under the preventive arm and subject to the transitional debt rule, is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to rigorously implement the 2015 budget.

The Commission is also of the opinion that the Netherlands has made some progress with regard to the structural part of the fiscal recommendations issued by the Council in the context of the 2014 European Semester and invites the authorities to make further progress.

Done at Brussels, 28.11.2014

*For the Commission*
*Pierre MOSCOVICI*
*Member of the Commission*