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COMMISSION STAFF WORKING DOCUMENT

Analysis of the Draft Budgetary Plan of the Netherlands

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of the Netherlands

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1. INTRODUCTION

The Netherlands submitted its Draft Budgetary Plan for 2020 on 15 October 2019 in compliance with Regulation (EU) No 473/2013. The Netherlands is subject to the preventive arm of the Pact and should preserve a sound fiscal position which ensures compliance with the medium-term budgetary objective. Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission 2019 autumn forecast. Section 3 presents the recent and planned fiscal developments, according to the Draft Budgetary Plan, including an analysis of risks to their achievement based on the Commission 2019 autumn forecast. In particular, it also includes an assessment of the measures underpinning the Draft Budgetary Plan. Section 4 assesses the recent and planned fiscal developments in 2019-2020 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 5 provides an analysis of implementation of fiscal-structural reforms in response to the latest country-specific recommendations in the context of the European Semester adopted by the Council in July 2019, including those to reduce the tax wedge. Section 6 summarises the main conclusions of the present document.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

Economic growth reached 2.6% in 2018 and is expected to slow down to 1.8% in 2019 and 1.5% in 2020, according to the macroeconomic scenario underlying the Draft Budgetary Plan. Better-than-expected economic performance in the first six months of this year, leads to a small upward growth revision for 2019, compared to the outlook at the time of the Stability Programme.

In the Draft Budgetary Plan, growth is expected to be driven entirely by domestic demand, with private consumption increasing by 1.5% in 2019 and by 1.9% in 2020. Private consumption is increasing on the back of continued employment growth and in particular accelerating real wage growth. Changes in indirect taxes, such as the increase of the reduced VAT rate from 6% to 9% in 2019 dampen real income growth in 2019, but this effect dissipates in 2020, leading to a much lower inflation rate. In addition, the measures announced in the Draft Budgetary Plan to lower the labour income tax burden for households provide further stimulus to household purchasing power in 2020.

The positive outlook for private consumption is partly offset by a weakening of the global environment, which is likely to dampen investment growth and net exports. Investment is projected to decelerate from 5.9% in 2019 to 2.5% in 2020. While responsible for almost ¾

percentage point of GDP growth in 2018, net exports are forecast to contribute negatively to economic growth in 2019 and 2020 by roughly ½ percentage point.

For 2019, the macroeconomic scenario underlying the Draft Budgetary Plan is broadly similar to the Commission forecast, as can be seen in Table 1. For 2020, the Commission forecasts slightly weaker economic growth, which translates in a faster decline in labour demand and employment growth. The forecast for wage growth is a bit higher in the Commission forecast and is linked to a more recent cut-off date and an increasing pattern in collective wage agreements.

The output gap, as recalculated by the Commission based on the information in the Draft Budgetary Plan, following the commonly agreed methodology, is estimated at 1.0% of potential GDP in 2018 and 2019, and 0.7% of GDP in 2020. The 2020 output gap estimate is broadly in line with the output gap of 0.6% of potential GDP in the Commission forecast. Overall, the Draft Budgetary Plan uses plausible macroeconomic assumptions.

Box 1: The macro economic forecast underpinning the budget in the Netherlands

The macroeconomic forecast underlying the draft budget for 2020 was produced by the CPB Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau, CPB). The government traditionally uses the CPB's macroeconomic forecast to present the budgetary and economic effects of planned measures. This established practice has been formalised in 2013 by virtue of the Law on the Sustainability of Public Finances (*Wet houdbare overheidsfinanciën*). The revenue measures were endorsed as 'unbiased and reasonable' by the CPB[1].

[1] See https://www.cpb.nl/sites/default/files/omnidownload/CPB-notitie-certificering-budgettaire-ramingen-BP2020-def.pdf. All revenue measures are assessed at least marginally; revenue measures with an estimated budgetary impact of at least EUR 50 million (0.006% of GDP) are assessed extensively.

Table 1. Comparison of macroeconomic developments and forecasts

	2018	2019			2020		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	2.6	1.5	1.8	1.7	1.5	1.5	1.3
Private consumption (% change)	2.3	1.3	1.5	1.5	1.5	1.9	1.7
Gross fixed capital formation (% change)	3.2	2.7	5.9	5.6	2.4	2.5	1.8
Exports of goods and services (% change)	3.7	1.1	2.3	2.0	2.3	1.9	1.7
Imports of goods and services (% change)	3.3	1.5	3.1	2.9	3.0	2.9	2.5
Contributions to real GDP growth:							
- Final domestic demand	2.1	1.7	2.3	2.2	1.7	2.0	1.8
- Change in inventories	-0.2	0.0	-0.2	-0.2	0.0	0.0	-0.1
- Net exports	0.7	-0.2	-0.4	-0.4	-0.2	-0.5	-0.4
Output gap[1]	1.0	0.9	1.0	1.0	0.7	0.7	0.6
Employment (% change)	2.5	1.3	1.8	1.8	0.5	0.9	0.6
Unemployment rate (%)	3.8	3.8	3.4	3.5	4.0	3.5	3.7
Labour productivity (% change)	0.0	0.2	0.0	-0.1	1.1	0.7	0.7
HICP inflation (%)	1.6	2.3	2.6	2.6	1.4	1.3	1.4
GDP deflator (% change)	2.2	2.2	2.5	2.5	1.4	1.5	1.5
Comp. of employees (per head, % change)	1.7	3.4	3.1	2.5	2.6	3.0	3.2
Net lending/borrowing vis-à-vis the rest of	11.1	9.7	9.6	9.7	9.0	8.7	8.9

Note:

[1] In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

3. Recent and planned fiscal developments

3.1. Deficit developments

The projected general government balance of the Draft Budgetary Plan shows a surplus of 1.3% of GDP in 2019. This is higher than the surplus projected in the 2019 Stability Programme (1.2% of GDP), but below the Commission 2019 autumn forecast at 1.5% of GDP. The difference with the Commission forecast is explained by the later cut-off date and the inclusion of more recent budget execution information in the Commission forecast.

Driven by a weaker growth outlook and expansionary fiscal measures, the Draft Budgetary Plan foresees a government surplus of 0.2% of GDP in 2020. This is 0.6 percentage points lower than in the Stability Programme and 0.3 percentage points below the Commission forecast.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2018	2019			2020			Change: 2018-2020
	COM	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**43.5**	**44.3**	***43.8***	**43.8**	**43.9**	***43.2***	**43.4**	**-0.3**
of which:								
- Taxes on production and imports	11.7	12.2	*12.0*	12.2	12.4	*12.1*	12.1	0.4
- Current taxes on income, wealth,	12.5	13.0	*12.9*	12.6	12.4	*12.3*	12.2	-0.2
- Capital taxes	0.2	0.2	*0.2*	0.2	0.2	*0.2*	0.2	0.0
- Social contributions	14.4	14.2	*14.1*	14.2	14.3	*14.2*	14.4	-0.2
- Other (residual)	4.7	4.7	*4.6*	4.5	4.6	*4.4*	4.5	-0.3
Expenditure	**42.1**	**43.0**	**42.5**	**42.3**	**43.1**	**42.9**	**42.9**	**0.8**
of which:								
- Primary expenditure	41.2	42.3	41.8	41.5	42.5	42.3	42.2	1.1
of which:								
Compensation of employees	8.3	8.3	8.3	8.4	8.4	8.4	8.5	0.1
Intermediate consumption	5.9	5.8	6.0	5.9	5.9	6.1	6.0	0.2
Social payments	20.6	20.8	20.6	20.7	21.1	20.8	21.0	0.2
Subsidies	1.1	1.2	1.2	1.2	1.2	1.3	1.3	0.2
Gross fixed capital formation	3.3	3.5	3.3	3.4	3.5	3.4	3.4	0.1
Other (residual)	2.0	2.7	2.4	2.0	2.4	2.3	2.0	0.3
- Interest expenditure	0.9	0.7	0.7	0.8	0.6	0.6	0.7	-0.3
General government balance (GGB)	**1.5**	**1.2**	**1.3**	**1.5**	**0.8**	**0.2**	**0.5**	**-1.3**
Primary balance	**2.4**	**1.9**	**2.0**	**2.2**	**1.4**	**0.8**	**1.2**	**-1.6**
One-off and other temporary measures	0.0	0.3	0.2	0.2	-0.1	0.0	0.0	0.0
GGB excl. one-offs	**1.5**	**0.9**	**1.1**	**1.3**	**0.9**	**0.2**	**0.5**	**-1.3**
Output gap[1]	1.0	0.9	1.0	1.0	0.7	0.7	0.6	-0.3
Cyclically-adjusted balance[1]	0.9	0.7	0.7	0.9	0.4	-0.2	0.2	-1.1
Structural balance (SB)[2]	**0.9**	**0.4**	**0.5**	**0.7**	**0.5**	**-0.2**	**0.2**	**-1.1**
Structural primary balance[2]	1.8	1.1	1.2	1.5	1.1	0.4	0.8	-1.4

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

The 2019 structural balance[2] in the Draft Budgetary Plan (0.5% of GDP) is slightly lower than the Commission forecast (0.7% of GDP), stemming from the lower headline balance. For 2020, the Draft Budgetary Plan projects a (recalculated) structural budget deficit of 0.2% of GDP, i.e. below the Commission forecast, which projects a surplus of 0.2% of GDP. This is explained by the difference in headline surpluses, in combination with a somewhat lower estimate for the output gap in the Commission forecast, leading to a smaller cyclical

[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

correction. The decline of the structural budget balance illustrates an expansionary fiscal stance.

Euro area sovereign bond yields remain at historically low levels, with 10-year rates in the Netherlands currently standing at -0.22[3]. As a consequence, total interest payments by the general government have continued to decrease as a share of GDP. Based on the information included in the DBP, interest expenditure in the Netherlands is expected to fall from 0.9% of GDP in 2018 to 0.7% in 2019 and is projected to decrease further next year to 0.6% of GDP in 2020, well below the 2.0% of GDP in 2009. Overall, the picture stemming from the Netherlands' budgetary plans is broadly confirmed by the Commission forecast.

Risks to the fiscal outlook are broadly balanced in the short run, and tilted to the downside over a longer horizon. In the short run an upside risk comes from further implementation delays of expansionary measures and continued robust revenue developments, while lower-than-expected wage growth implies a downside risk for the revenue forecast. The uncertain international macro-economic environment, in particular the weaker economic situation of the main trading-partners, poses a clear downside risk for GDP and revenue growth.

Fiscal council opinion

In year and ex-ante compliance of the budget plan with the numerical fiscal rules was assessed by the independent fiscal council, the Advisory Division of the Council of State (hereafter: 'fiscal council'). In its report on the budget memorandum published on 13 September 2019[4], the fiscal council assesses Dutch public finances in 2019 and 2020 and concludes that they comply with the European fiscal rules. At the same time, the fiscal council is critical about the adjustments to the national expenditure and revenue ceilings to accommodate additional expenditures and the pro-cyclical fiscal policy stance.

3.2. Debt developments

The Draft Budgetary Plan projects the government debt-to-GDP ratio to fall considerably over the forecast horizon, from 52.4% of GDP in 2018 to 49.2% in 2019 and 47.7% in 2020. The 2020 debt level and the 2019-2020 decline is slightly less favourable than expected in the 2019 Stability Programme. Table 3 shows that the difference with the Stability Programme in the 2020 debt level is entirely explained by a smaller contribution from the primary budget balance. The Commission autumn forecast shows somewhat lower projected debt levels mainly resulting from higher expected primary balances in 2019 and 2020. The latter are only partly compensated by lower snow-ball effects resulting from lower nominal GDP growth.

[3] 10-year bond yields as of 28 October 2019. Source: Bloomberg.
[4] https://www.raadvanstate.nl/fiscalmonitoring/reports/

Table 3. Debt developments

(% of GDP)	2018	2019			2020		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**52.4**	**49.1**	**49.2**	**48.9**	**47.1**	**47.7**	**47.1**
Change in the ratio	-4.5	-3.3	-3.2	-3.5	-2.0	-1.5	-1.8
Contributions[2]:							
1. Primary balance	**-2.4**	**-1.9**	**-2.0**	**-2.2**	**-1.4**	**-0.8**	**-1.2**
2. "Snow-ball" effect	**-1.7**	**-1.2**	**-1.5**	**-1.3**	**-0.8**	**-0.9**	**-0.6**
Of which:							
Interest expenditure	0.9	0.7	0.7	0.8	0.6	0.6	0.7
Real growth effect	-1.4	-0.8	-0.9	-0.9	-0.7	-0.7	-0.6
Inflation effect	-1.2	-1.1	-1.3	-1.2	-0.7	-0.8	-0.7
3. Stock-flow adjustment	**-0.4**	**-0.2**	**0.3**	**0.1**	**0.2**	**0.2**	**0.0**

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

3.3. Measures underpinning the draft budgetary plan

Most of the discretionary policy measures relevant for 2019 and 2020 relate to the 2018-2021 government agreement and were already included in the 2019 Stability Programme. For 2019, this concerns a tax shift: in 2019 labour income taxes have been lowered by 0.6% of GDP and partly financed by an increase in Value Added Tax via a hike of the reduced rate from 6% to 9%, with an estimated impact of 0.5% of GDP[5]. Another important measure affecting income tax revenues in the 2019 is the so-called *Rekening Courant Maatregel* (0.2% of GDP). This measure restricts director major-shareholders[6] to borrow from their own firm without paying income taxes and is forecast to lead to a temporary increase in household income tax revenues. The fiscal impact relates to a change in the relevant Box 2 tariff in the personal income taxes and is triggered by a change in tax rules, which is considered to be a one-off. Corporate income taxes have also been increased in 2019, in total by 0.2% of GDP via a broadening of the tax base. Finally, the decision taken in early summer to lower the production of natural gas is considered a revenue-decreasing measure with an estimated impact of 0.05% of GDP. Changes in social contributions, in particular health care premia, lead to a revenue increase of circa 0.2% of GDP in 2019. In 2020, the most important measure is a substantial further lowering of labour income taxes for households, with an estimated impact of 0.4% of GDP.

[5] This estimate also includes some other smaller fiscal measures in this ESA category.

[6] Director major-shareholders are so-called 'owner-managers', persons who simultaneously own a firm and are employed by this firm as manager, receiving a salary from the firm.

On the expenditure side, the Draft Budgetary Plan refers to the 2018-2021 government agreement which contains increased spending on infrastructure, defence and education. In addition, the Draft Budgetary Plan describes new discretionary fiscal measures related to a recent pension agreement, which includes a temporary break in the increase of the retirement age and measures to facilitate longer working careers (incremental impact circa 0.05% of GDP in 2020). Also, the recent climate agreement leads to higher expenditure, albeit with a limited impact in 2020. Other substantial measures concern housing and youth services. Finally, the Draft Budgetary Plan also mentions on-going work to create an investment fund to strengthen the economy, but without providing details.

Table 4. Main discretionary measures reported in the DBP

A. Discretionary measures taken by General Government - revenue side

Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2019	**2020**
Taxes on production and imports	0.5	-0.1
Current taxes on income, wealth, etc.	-0.2	-0.6
Capital taxes	0.0	0.0
Social contributions	0.2	0.0
Property Income	0.0	0.0
Other	0.0	0.0
Total	**0.4**	**-0.7**

Note:

The budgetary impact in the table is the aggregated impact of measures as reported by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.

Source:

Draft Budgetary Plan for 2020 (DRM storage)

B. Discretionary measures taken by general Government- expenditure side

Discretionary measures taken by General Government - expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2019	**2020**
Compensation of employees	0.0	0.1
Intermediate consumption	0.0	0.0
Social payments	-0.1	0.0
Interest Expenditure	0.1	0.0
Subsidies	0.1	0.0
Gross fixed capital formation	0.1	0.1
Capital transfers	0.0	0.0
Other	1.0	0.1
Total	**1.3**	**0.3**

Note:

The budgetary impact in the table is the aggregated impact of measures as reported by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure. The 1.0 in the category 'other' refers to an aggegation of a large number of small measures that previously weren't categorised.

Source:

Draft Budgetary Plan for 2020 (DRM storage)

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

4.1. Compliance with the medium-term budgetary objective

The Netherlands is subject to the preventive arm of the Pact and should ensure compliance with its medium-term budgetary objective of -0.5% of GDP. In 2018, the structural budget balance was above its medium-term budgetary objective, estimated at a surplus of 0.9% of GDP. Based on the recalculated DBP, the structural budget balance is estimated at 0.5% of GDP in 2019, remaining above the medium-term budgetary objective, and expected to deteriorate to -0.2% of GDP in 2020. The Commission 2019 autumn forecast projects a structural budget surplus of 0.7% of GDP in 2019 and 0.2% of GDP deficit in 2020, thus remaining above the medium-term budgetary objective.

Table 5. Compliance with the requirements of the preventive arm

(% of GDP)	2018	2019		2020	
Initial position[1]					
Medium-term budgetary objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	0.9	0.7		0.2	
Structural balance based on freezing (COM)	0.3	0.7		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		At or above the MTO	
	2018	**2019**		**2020**	
(% of GDP)	**COM**	**DBP**	**COM**	**DBP**	**COM**
Structural balance pillar					
Required adjustment[4]	*Compliance*				
Required adjustment corrected[5]					
Change in structural balance[6]					
One-year deviation from the required adjustment [7]					
Two-year average deviation from the required					
Expenditure benchmark pillar					
Applicable reference rate[8]					
One-year deviation adjusted for one-offs [9]					
Two-year average deviation adjusted for one-offs [9]					

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance corresponds to cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact ed. 2018, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2018) was carried out on the basis of Commission 2019 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations.

5. COMPOSITION OF PUBLIC FINANCES AND IMPLEMENTATION OF FISCAL STRUCTURAL REFORMS

After a period of fiscal consolidation in the years 2011-2017, the fiscal policy stance is expansionary. Total government expenditure is increasing faster than GDP growth and expected to reach 42.9% of GDP in 2020, after 42.1% in 2018. Total government revenues decline as a share of GDP in 2020, after a hike in 2019 (from 43.5% of GDP in 2018, to 43.8% in 2019, to 43.4% in 2020). Public investment decreased marginally to 3.3% of GDP in 2018 - below the long term average (3.8% of GDP), but above the euro area average (2.7% of GDP) - and is expected to increase again slightly in 2019 and 2020. According to the Commission 2019 autumn forecast, the government surplus is set to fall from 0.9% of GDP in 2018 to 0.2% in 2020 in structural terms.

The Draft Budgetary Plan lists a number of policy initiatives referring to country-specific structural reforms recommended by the Council on 13 July 2018 such as increased spending on research and innovation. However, the implementation of the fiscal-structural country-specific recommendations adopted by the Council on 9 July 2019 is not discussed in Section 6 of the Draft Budgetary Plan.

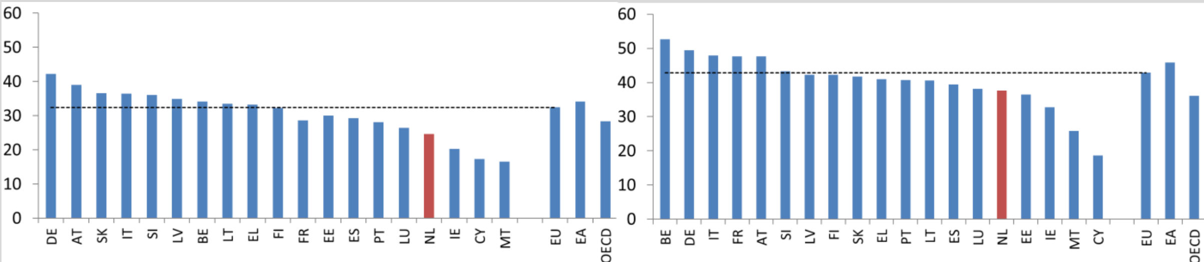
The fiscal-structural part of these recommendations concerned implementing policies to increase household disposable income (CSR 1), as well as to use fiscal and structural policies to support an upward trend in investment (CSR 3). From 2020 on, public expenditure increases are planned linked to pensions and youth services, as well as increased investment, including in housing, infrastructure, education and measures to address climate change. At the same time, revenue growth is expected to decline by about 0.5% of GDP due to lower direct taxes on labour income, thus contributing to lifting household disposable income and domestic demand. To support investment over the longer run, the government has also prepared legislation for the launch of Invest-NL, a national promotional institution with a mandate to support private-sector investment aimed at tackling key societal challenges and supporting access to finance for SMEs. Separately, the possibility will be investigated to launch an investment fund to boost the long-term growth potential of the economy, although details on its financial firepower and target sectors are still to be decided upon.

Box 2: Addressing the tax burden on labour in the euro area

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against this background, the Eurogroup has expressed a commitment to reduce the tax burden on labour. On 12 September 2015, the Eurogroup agreed to benchmark euro area Member States' tax burden on labour against the GDP-weighted EU average, relying in the first instance on indicators measuring the tax wedge on labour for a single worker at average wage and a single worker at low wage. It also agreed to relate these numbers to the OECD average for purposes of broader comparability.

The tax wedge on labour measures the difference between the total labour costs to employ a worker and the worker's net earnings. It comprises personal income taxes and employer and employee social security contributions. The higher the tax wedge, the higher the disincentives to take up work or hire new staff. The graphs below show the tax wedge in the Netherlands for a single worker earning respectively the average wage and a low wage (50% of the average) compared to the EU average.

The tax burden on labour in the Netherlands at the average wage and at low wage (2018)



Notes: EU and EA averages are GDP-weighted. The OECD average is not weighted.
Source: European Commission Tax and Benefit Indicator database based on OECD data.

Benchmarking is only the first step in the process towards firm, country-specific policy conclusions. The tax burden on labour interacts with a wide variety of other policy elements such as the benefit system and the wage-setting system. A good employment performance indicates that the need to reduce labour taxation may be less urgent while fiscal constraints can dictate that labour tax cuts

should be fully offset by other revenue-enhancing or expenditure-reducing measures. In-depth, country-specific analysis is necessary before drawing policy conclusions.

In the Netherlands, the tax wedge on labour is reduced in 2019 and a further reduction is planned for 2020. The number of tax brackets is reduced from four to two by 2020, setting a base rate at 37.35% for all incomes up to EUR 68,507 and a marginal top personal income tax rate at 49.5% for all income above this threshold. The tax shift is only partly financed by an increase in indirect taxes in 2019 (VAT and energy) and leads to an overall lowering of the personal income taxes. Ceteris paribus, this tax shift is likely to increase labour supply and via this channel positively affect employment and economic growth.

6. OVERALL CONCLUSION

According to the information provided in both the (recalculated) Draft Budgetary Plan and the Commission 2019 autumn forecast, the structural balance is projected to remain above the medium-term budgetary objective in 2019 and 2020.