Raad van State

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2023 Spring Report

A. ASSESSMENT

1. Introduction

The Advisory Division of the Council of State has been charged with the independent budgetary monitoring of compliance with (European) fiscal rules as referred to in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) and Article 5 of Regulation (EU) 473/2013 and as included in Article 2 (8) of the Sustainable Public Finances Act. It is the task of the independent budgetary monitoring institute to draw up an assessment of whether European fiscal rules are being met.

In its assessment the Advisory Division works closely with the CPB Netherlands Bureau for Economic Policy Analysis. The division of tasks entails that the drawing up of independent economic and budgetary forecasts and analyses are assigned to the CPB. The Advisory Division has been charged with the normative assessment of compliance with European – with a distinction between preventive arm and corrective arm rules - and national fiscal rules.

In this 2023 Spring Report, the Advisory Division first provides an assessment of the budgetary developments in 2022, 2023 and 2024 as set out by the government in the Stability Programme. The Stability Programme is based on the CPB's March forecast (the Central Economic Plan).

Secondly, the Advisory Division provides an assessment of the government's policy intentions for 2024 and the multi-year budgetary developments as presented in the Spring Memorandum. Therefore, this budgetary report contains an assessment of compliance with European and national fiscal rules based on two documents, which are not aligned: the Stability Programme does not include the spring decisions, and the Spring Memorandum has not been calculated by the CPB, as has been customary to date.

This report is structured as follows:

2. Summary conclusion and advice

The 2023 Spring Memorandum is the second Spring Memorandum presented by the government in the 'new style' with multi-year series, to allow parliament to exercise its parliamentary rights associated with the budget more effectively. The Advisory Division appreciates the adjustments the government has already made to the budgetary process.

However, the process regarding the new Spring Memorandum is not yet complete. To bring more stability and calm to the budgetary process, the Advisory Division recommends a firmer commitment to one integral main decision-making moment in the spring with a fixed deadline for halting decision-making as well as a fixed date for publishing the Spring Memorandum. The Advisory Division also recommends more effective alignment of the national budgetary process with the European Semester to improve the consistency of national and European fiscal policies. To this end, also integrate spring decision-making in the Stability Programme.

The Advisory Division recognises the challenge the government faces to bridge the gap to achieve a structurally balanced budget and to meet the associated major challenge related to budgetary coverage. The Advisory Division sees that the first steps have been taken for this purpose in the Spring Memorandum and stresses that this is a joint task for the entire cabinet and for all (line) ministries.

Nevertheless, the Advisory Division notes that based on both the Stability Programme and the Spring Memorandum, the Dutch budget does not meet the requirements from the preventive arm of the European fiscal rules (the Stability and Growth Pact) for 2022, 2023 or 2024. This has no consequences for 2022 and 2023, due to the active general escape clause. In 2024, the general escape clause will be deactivated. Based on the CEP forecast, sufficient improvement in the structural balance is expected, so there will not be any consequences for 2024 either.

The structural EMU balance in 2022-2024 is more negative than the actual EMU balance. This reflects the expansionary and generous nature of Dutch fiscal policy. The 2023 expansionary budget is also at odds with the 2023 country-specific budgetary recommendations. Moreover, with a budget deficit of 3% of GDP in 2023, based on the CPB's CEP forecast, the government is steering close to the guard rail, leaving no room to absorb any setbacks and for implementing trend-based fiscal policy in the event of a cyclical downturn. Until 2031, the budget deficit is expected to be around 3% of GDP, which would require the next government - under the same economic assumptions - to either make cuts or increase taxes before any additional policies could be implemented.

Furthermore, there is only partial compliance with national fiscal rules. Based on the ceiling assessment in the 2023 Spring Memorandum, there will be a significant overshoot of the expenditure ceiling in 2023. In addition, coverage of the cost of the energy package is partly absorbed on the tax side by reversing the energy tax cut, which does not respect the separation of revenue and expenditure. The revenue framework is not yet closed in the Spring Memorandum and the additional climate package has not yet been incorporated, which means there is no complete scenario of the state of the budget. A serious ceiling assessment on the revenue side of the 2024 draft budget cannot take place until the Budget Memorandum. Moreover, the Spring Memorandum was not independently calculated by the CPB.

In the context of transparency, the Advisory Division notes that the Spring Memorandum contains a large number of changes with limited insight and that are hard to fathom. For instance, it lacks an integral overview of the total coverage-related challenge, intensifications and cuts, and the explanatory notes are highly technical. The significant coverage-related challenge has been met using windfalls, underspending and additional spending cuts. Where decisions are taken in the Spring Memorandum to discontinue specific policies, for example, in the area of the labour market, the reason for doing so is not justified. However, it is extremely important that decisions are substantiated.

The Advisory Division acknowledges the tension the government describes in the Stability Programme and the Spring Memorandum between current investments made for future challenges, such as between the climate transition and the long-term sustainability of public finances. Therefore, it is important to weigh up the allocation of resources in an integral manner in order to make well-considered choices. The coherent analysis in the upcoming Budget Memorandum of the Netherlands' medium and long-term socio-economic structure promised by the government last year in response to the Advisory Division's budgetary reports, can help provide insight into long-term vulnerabilities, where to invest, what reforms are needed and how they can be introduced over time. This overarching scenario can facilitate clear and transparent political decisions. The Advisory Division reiterates the advice that such an analysis should be included at the latest in the upcoming Budget Memorandum.

All in all, the above means that the Spring Memorandum only partially complies with European and national fiscal rules in a formal sense. But also that fiscal policy is still expansionary, leaves little room for the next government term and does not include any buffers to absorb economic setbacks. Current budget deficit and public debt offer a prima facie and circumstantially favourable picture. However, this is largely caused by temporary factors such as underspending, inflation and tax windfalls. It is well known from recent crises that Dutch public finances are very sensitive to an economic turnaround. It can occur quickly and be far-reaching. The risk of this high fiscal elasticity not only merits further analysis in the Budget Memorandum; the Advisory Division also recommends taking additional steps to create the necessary fiscal space so that trend-based fiscal policy can be pursued, even in a downturn and during future government terms.

To recapitulate, the Advisory Division issues the following advice:

i. Complete the 'new style' Spring Memorandum from next year by opting for a fixed deadline for halting decision-making and for a fixed date for publishing the Spring Memorandum. In addition, ensure spring decision-making is aligned with the European Semester.

ii. In the 2024 Budget Memorandum, provide a clear and complete (vertical) overview of the coverage-related challenge, potential intensifications and cuts.

iii. Include the promised medium and long-term socio-economic structural analysis in the 2024 Budget Memorandum, also in light of intergenerational solidarity and long-term debt risks. Therein emphasise the connection between different aspects of this analysis, such as the economy, labour market, climate and digitisation. Ministers from Finance, Social Affairs and Employment (SZW) and Economic Affairs and Climate Policy (EZK) should take the lead in this regard.

iv. In the Budget Memorandum, justify the additional steps to be taken to create fiscal space relative to the deficit threshold ('the guard rail') and to allow automatic stabilisers to operate in case of future (economic) setbacks.

v. Address the deterioration in the debt sustainability of the Netherlands, also compared to other European countries, in the upcoming Budget Memorandum.

B. ANALYSIS

1. Relevant context

1.1 *Macroeconomic context*

In its March 2023 forecast, the Central Economic Plan (CEP) the CPB states that historically high inflation in 2022 curbed economic growth in Europe and the Netherlands but did not lead to a recession.[1] The Dutch economy has a relatively high capacity to adjust: economic growth is high compared to other countries and the labour market is tight, partly caused by additional government spending. This is noteworthy given that the Covid-19 crisis, the energy crisis, the war in Ukraine, high inflation and a cooling global economy all followed in quick succession. With economic growth of 4.5% in 2022, Dutch GDP is well above potential growth. In 2023 and 2024, growth will weaken to 1.6% and 1.4% respectively.

The 2023 and 2024 forecasts are subject to uncertainty due to geopolitical developments, uncertainty about energy price developments and interest rate increases. Uncertainty related to nitrogen could lead to a deterioration of the investment climate.

Table 1: Key figures of macroeconomic developments

	2022		2023		2024
(changes in % per annum)	*MEO 2023*	**CEP 2023**	*MEO 2023*	**CEP 2023**	**CEP 2023**
Euro area					
Gross domestic product (economic growth)	*3.2*	3.5	*1.3*	0.8	1.5
The Netherlands					
Gross domestic product (economic growth)	*4.6*	4.5	*1.5*	1.6	1.4
Gross investments by companies (excl. housing %)	*4.5*	4.8	*0.5*	0	1.2
Investments by companies in housing	*2*	0.8	*1.1*	-1.1	-1.5
Companies' labour productivity (per hour)	*-0.4*	0.5	*1.1*	0.4	1.1
Household consumption	*5.7*	6.6	*1.8*	1.7	1.4
Static purchasing power	*-6.8*	-2.7	*3.9*	-0.2	2
Inflation, national consumer price index	*9.9*	10.0	*2.6*	3	3.1
Persons in poverty	*6.7*	4.7	*4.9*	4.7	5.8
Imports of goods and services	*2.8*	4.4	*3.9*	4.2	2.5
Exports of goods and services	*4*	5.3	*3.2*	3.7	2.3
Wages provided for by company CLAs	*2.9*	3.1	*3.7*	5	5
Employment (in hours)	*5.2*	4.3	*0.5*	1.2	0.4
Unemployed working population (level in %)	*3.4*	3.5	*3.9*	3.9	4.1

Source: CPB, 2023 Macroeconomic Outlook (September 2022), 2023 Central Economic Plan (March 2023)

Energy prices appear to have passed their peak, but are expected to remain at higher levels for a long time, making the necessary sustainability challenge more

[1] CPB Netherlands Bureau for Economic Policy Analysis (2023). Central Economic Plan 2023. CPB forecast, March 2023.

cost-effective. Because the Netherlands is a net importer of energy, the terms of trade deteriorated in 2021 and 2022: as imports became relatively more expensive, we could consume less overall relative to the income generated. In 2023 and 2024, the terms of trade will improve slightly, increasing the current account surplus.

Inflation will ease in 2023 as energy prices are expected to stabilise, but core inflation continues to rise partly because of high food prices and is not expected to ease until 2024. The CPB nevertheless expects consumption to continue growing, partly because of government compensation measures, higher wage growth and pension indexation. Business investment growth will be very limited due to a high degree of uncertainty and high costs. Housing investment is falling because of high construction costs, increased mortgage rates and delays with permits, partly due to nitrogen restrictions. Public investment contributes to economic growth, but not all ambitions are expected to be realised.

The labour market remains strained despite weaker economic growth in 2023 and 2024. Employment in the market sector will decline during those years, but due to continued growth in government and healthcare, the tightness will persist. The composition of the labour market is changing because of the tightness: both the number of self-employed workers and the number of employees in permanent employment are growing.

Underlying the macro scenario, CPB sees substantial distributional effects. The energy price shock is hitting a number of businesses and households extremely unequally. There are also differences between businesses and households. In 2022 and 2023, according to the CEP forecast, the labour income share falls as accumulated corporate profits increase relative to total labour income. Because the government redistributes through income policy, household income as a share of net national income does not lag behind. Rising wages will partly take over the government's compensatory role in 2023 and 2024, which means corporate profits will not increase as much.

The purchasing power trend is negative for most households over the period 2022-2024, falling by about 1% for the median household over this period. However, due to government policies, the purchasing power of people on lower incomes is increasing. Nonetheless, this group typically spends a larger share of its income on energy, which is not included in purchasing power calculations. Poverty rates for the years with relatively high increases in energy and food prices are therefore underestimated. The number of people in poverty will rise to 5.8% of the population and the number of children in poverty to 7.1% of children by 2024, as temporary policies targeting the lowest incomes come to an end.

Wage growth is slow to respond to inflation. In 2023 and 2024, the CPB expects a catch-up in wages provided for by CLAs, partially compensating households for the very high inflation in 2022. However, wage forecasts are surrounded by greater uncertainty than usual. Heterogeneity between sectors and companies creates a difference in the degree of inflation compensation. Pensioners are largely compensated for inflation. However, there is considerable dispersion between pension funds.

Potential economic growth will weaken in the medium term, largely because of a decline in labour supply growth due to the ageing population. Population growth in the coming years will mainly be driven by net immigration. Migration flows are very difficult to predict because net migration depends on many factors, including political ones. Potential GDP growth, consisting of structural employment growth and structural labour productivity growth, is forecast by the CPB to be 1.2% between 2027 and 2031. The ageing population will eventually have a major impact on the labour market, activity, consumption and public finances, among other things.

The CPB notes that the Dutch economy is characterised by a high capacity to adjust in the short term. However, the causes of the relatively strong economic growth are unclear; it is possible that temporary factors partly mask the underlying picture. Thus, additional government spending has helped maintain household purchasing power. In the medium to long term, potential economic growth will decline, with implications for the resilience of the economy, society and public finances. This will require targeted investments and reforms, for instance in the labour market, in healthcare and in education. Moreover, the climate and energy transition will lead to an adjustment of the economic structure and society. These ambiguities, uncertainties and challenges call for an analysis of the Netherlands' socio-economic structure and the underlying medium-term strengths and weaknesses, in order for the government to arrive at integrally considered choices and priorities, as recommended by the Advisory Division in its opinion on the 2023 Budget Memorandum.[2]

1.2 *Budgetary context*

Despite the historic purchasing power package for 2023 and compensation for high energy prices in the second half of 2022 and in 2023, the CPB expects government debt (EMU debt) to remain well below 60% of GDP in the CEP forecast. In the CPB forecast for 2023 and 2024, the budget deficit (EMU balance) does not exceed the 3% of GDP deficit threshold.

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[2] Draft Budget Memorandum opinion 2023 and September Report on Budgetary Monitoring, Parliamentary Documents II 2022/23. 36200, No. 6.

Table 2: Key figures of public finances

(in % of GDP)	2021 CEP 2023	2022 *MEO 2023*	2022 CEP 2023	2023 *MEO 2023*	2023 CEP 2023	2024 CEP 2023
Gross general expenditure	47	*45.7*	44.5	*45.7*	45.2	44.4
General government revenue	39.7	*39.2*	39.1	*38.2*	38.3	38.1
Non-tax revenues	4.8	*5.4*	4.7	*5*	3.9	3.7
Actual EMU balance	-2.6	*-1.1*	-0.7	*-2.5*	-3	-2.6
of which EMU balance for local governments	0.2	*0.2*	0.1	*-0.1*	-0.1	-0.3
Structural EMU balance	-1.9	*-1.7*	-1.4	*-3*	-3.6	-3
EMU debt	52.4	*49.6*	49.3	*48.8*	48.4	48.7

Source: CPB, 2023 Macroeconomic Outlook (September 2022), 2023 Central Economic Plan (March 2023)

However, the apparently favourable scenario of public finances is largely the result of temporary factors. The CPB forecasts significant underspending on budgeted public spending as the government struggles to spend resources due to the tight labour market. In 2022, underspending amounted to almost €9 billion, around 0.9% of GDP. Underspending is expected to amount to 1.1% of GDP in 2023. The impact of underspending on the budget disappears in the medium term. Moreover, a significant share of the budgeted expenditure will be spent at a later date, so underspending does not result in a structural improvement of public finances.

Another temporary factor exerting downward pressure on the debt ratio is very high inflation. Because of this inflation, nominal GDP rises faster than nominal debt in 2022 and 2023, reducing the debt ratio. This is the so-called denominator effect. Public debt also decreases due to repayments of tax deferrals granted to entrepreneurs during the Covid-19 pandemic (see also section 5.2).

Rising government bond yields have an upward effect on government debt in both the short term (incidental) as well as the longer term (structural). Interest expenditure is expected to increase from 0.6% of GDP in 2023 to 1.3% in 2031. The CPB estimates the cost of the energy price cap at €5.1 billion. This is lower than the previously expected costs due to energy prices decreasing. Gas revenues are also down due to lower gas prices. However, higher or lower gas prices have a limited effect on the EMU balance, as gas revenues and the price cap move in tandem.

The structural EMU balance, the budget balance corrected for temporary measures and cyclical effects will be more negative during 2022-2024 than the actual EMU balance. This reflects the expansionary and generous nature of Dutch fiscal policy. Thereby, Dutch fiscal policy has the effect of pushing prices up, further driving inflation. This is notable given that the European Central Bank (ECB) has been pursuing restrictive monetary policy since summer 2022, to allow European economies to cool down.

In the medium term, underspending is expected to decrease, previously budgeted expenditure not incurred due to underspending will be remedied, interest expenditure will increase and the denominator effect will decrease (see also Table 5). The ageing population also leads to higher state pension expenditure, while the growth of the labour supply levels off. Spending by the government and in the healthcare sector is expected to grow faster than GDP until 2031. Due to these factors, the CPB expects government debt to exceed 60% of GDP by 2031. The budget deficit is expected to exceed 3% of GDP in 2027.

The figures in the 2023 Spring Memorandum are based on the CEP forecast plus the changes in the budget for the current year 2023 and spring decisions regarding the budgets for 2024 and beyond. The differences between the CEP and the Spring Memorandum are substantial, partly because the CPB expects more underspending than the Ministry of Finance expects. Changes in the multi-year budgets compared to the CEP were calculated by the Ministry of Finance and not independently calculated by the CPB. Moreover, decision-making for the 2024 budget is incomplete: it will be finalised in August (see also section 3.1 of this report). As such, the figures presented in the Spring Memorandum only provide an initial indication of the impact of decision-making on public finances in the forecast years.

Table 3: Impact of spring decisions on the EMU balance

(in % of GDP, - is a deficit)	**2023**	**2024**
Actual EMU balance Budget Memorandum 2023	**-3**	**-2.3**
Denominator effect	*0.1*	*0.1*
Tax and contribution income	*1.3*	*0.3*
Wage and price development expenditure	*-0.2*	*-0.8*
Non-policy-based change Unemployment Benefit and Social Welfare	*0*	*0*
Other ceiling expenditure changes	*-0.6*	*0.1*
Covid-19 emergency and support measures	*0.2*	*0*
Non-ceiling related expenditure and corrections	*-0.5*	*-0.3*
Actual EMU balance Spring Memorandum 2023	**-2.6**	**-3**
Structural EMU balance Spring Memorandum 2023	**-3.3**	**-3.4**

Source: Spring Memorandum 2023

The spring decision-making process involved budget setbacks due to higher interest expenditure, additional spending as a result of the war in Ukraine and additional spending on recovery operation allowances. An increase in the influx of asylum seekers is also generating additional expenditure. The government has allocated extra money following the parliamentary inquiry into natural gas extraction in Groningen. The costs of the energy package, including the energy cap and support for SMEs, still had to be covered. Decisions on additional climate measures took place in parallel with the spring decisions. However, these decisions have not yet been incorporated in the Spring Memorandum. Tax-related decision-making for 2024 and beyond is also pending, final decisions will follow in August.

The government has opted to cover the additional expenditure by using windfalls and incidental underspending and by making additional savings through, among other things, withholding part of the funds for the wage and price adjustment, abolishing the STAP budget (incentive for improving labour market position) and structural reductions in various expenditure items, including for the labour market infrastructure reform. The government has included the incidental budgetary impact of the additional compensation package following the parliamentary inquiry into natural gas extraction in Groningen in the EMU balance.

Table 4: Impact of spring decisions on EMU debt

(in % of GDP, + is higher debt)	2023	2024
EMU debt Budget Memorandum 2023	**49.5**	**49.6**
Denominator effect due to GDP development	*-1.2*	*-1.1*
Effect on debt t-1	*1.5*	*0.9*
Change in EMU balance	*-0.3*	*0.8*
Financial transactions and cash transaction differences	*-0.4*	*-0.9*
Other changes	*0*	*-0.1*
EMU debt Spring Memorandum 2023	**49.2**	**49.2**

Source: Spring Memorandum 2023

Compensation for increased wages and prices, known as the wage and price adjustment, create an upward surge in government expenditure, partly offset by an increase in tax and contribution revenue for several years. On balance, this leads to a deterioration in the EMU balance. In later years, other expenditure, including higher interest charges, will also lead to a deterioration in the EMU balance.

Table 5: Medium-term EMU balance and debt

(in % of GDP)	2023	2024	2025	2026	2027	2028
Actual EMU balance CEP 2023	-3.0	-2.6	-2.6	-2.8	-3.2	-3.4
Actual EMU balance Spring Memorandum 2023	-2.6	-3.0	-3.0	-3.7	-3.1	-3.5
Structural EMU balance CEP 2023	-3.6	-3.0	-2.7	-2.7	-2.9	
Structural EMU balance Spring Memorandum 2023	-3.3	-3.4	-3.1	-3.7	-2.9	-3.2
EMU debt CEP 2023	48.4	48.7	49.8	51.0	52.7	54.5
EMU debt Spring Memorandum 2023	49.2	49.2	50.3	52.3	53.7	55.6

Source: Central Economic Plan 2023 and Spring Memorandum 2023

Following the processing of the spring decisions by the Ministry of Finance and differences of opinion on, among other things, expected underspending, there are differences with the CEP forecast, especially in forecasts of the actual and structural EMU balance (see Table 5). Final decisions for 2024 and beyond will be processed with the CPB's Macroeconomic Outlook, which is published on Budget Day.

1.3 *European fiscal rules for 2024*

In March 2023, the European Commission presented its fiscal guidance for 2024.[3] The recommendations, which serve as a guideline for Member State Stability and Convergence Programmes,[4] were issued in relation to the deactivation of the Stability and Growth Pact's (SGP) general escape clause at the end of 2023, and the ongoing evaluation of the European fiscal framework.

In 2020, the European Commission activated the SGP's general escape clause, affording Member States maximum flexibility within the SGP to make additional fiscal efforts in relation to the Covid-19 crisis. This specifically means that Member States in the preventive arm of the SGP may deviate from the path towards the medium-term objective (MTO) for the structural balance, providing it does not jeopardise the sustainability of public finances in the medium term.

Deactivation of the general escape clause will end this flexibility by 2024. In earlier fiscal guidance, the Commission assessed that the previously communicated preconditions for deactivating the clause will be met by 2024, as there is no longer a severe economic downturn in the Euro area as a whole.[5] At the same time, due to the persistent uncertain economic situation and the ongoing evaluation of the European fiscal framework, the Commission does not consider it appropriate to revert entirely to the usual fiscal rules before 2024, as required under the current framework. Instead, the Commission invites Member States to draft their Stability and Convergence Programmes in the spirit of the Commission's proposal to adjust the European fiscal framework, in order to bridge the gap between the current and future frameworks.[6]

This means that Member States are invited, but not required, to include their medium-term fiscal structural plans in their Stability or Convergence Programme. In budgetary terms, this means that Member States are invited to set a fiscal

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[3] European Commission (2023). Communication on Guidelines for fiscal policy for 2024, COM(2023) 141 final.

[4] Member States in the Euro area compile an annual Stability Programme. Member States outside the Euro area that are members of the European Union draw up annual Convergence Programmes.

[5] European Commission (2022). 2022 European Semester Spring Package. COM(2022) 600 final. *Specific provisions in the EU fiscal rules allow for a coordinated and orderly temporary deviation from the normal requirements for all Member States in a situation of generalised crisis caused by a severe economic downturn of the Euro area or the EU as a whole (see art. 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and art. 3(5) and 5(2) of Regulation (EC) 1467/97).*

[6] European Commission (2023). Communication on fiscal policy for 2024. COM(2023) 141 final.

target for 2024 in terms of net primary expenditure. This will differentiate between Member States with regard to the level of the fiscal target based on the level of public debt. Member States with a substantial or moderate debt risk are invited to set fiscal targets that ensure their public debt is on a plausible and continuous declining trend, or that maintain their public debt at an appropriate level over the medium term. In addition, all Member States are asked to set fiscal targets that ensure the deficit does not exceed, or is brought below, 3% of GDP within the period covered by the Stability Programme (T+4) and should ensure that the deficit remains below 3% of GDP in the medium term under unchanged policies.

Measures to combat high energy prices, including budgetary implications, phase-outs and underlying assumptions on energy price trends, should be part of the Stability and Convergence programmes in 2023. The Commission thereby stresses the importance of targeting measures against rising energy prices, more so than in the past, to vulnerable households and businesses. This not only reduces the cost to the government's budget, but also ensures that the important sustainability incentive is maintained.

According to the Commission, Member States' fiscal policies should aim to ensure medium-term debt sustainability and increase potential growth in a sustainable manner. Prudent fiscal policy, consisting of gradual fiscal consolidation and, where appropriate, targeted measures to support the most vulnerable households and businesses against rising energy prices, can thus contribute to the stability of the European economy and facilitate the effect of monetary policy during a period of high inflation. For the structural plans, the Commission asks Member States to step up reforms and investments that contribute to fiscal sustainability and sustainable and inclusive growth.

Country-specific recommendations
If the fiscal target set by a Member State in the Stability or Convergence Programme for 2023 is not sufficiently ambitious, the Commission will issue quantitative country-specific fiscal guidance for 2024 in the spring.[7] The country-specific fiscal guidance is quantitative in terms of net primary expenditure. This quantitative, country-specific guidance will provide direction for preparing and assessing the draft budgets to be prepared in autumn 2023. The quantitative guidance will also address the investments and energy measures stated.

Given the ongoing uncertainty regarding the macroeconomic and budgetary outlook, the Commission will not decide on opening possible excessive deficit procedures this spring. However, the Commission will propose to the Council that excessive deficit procedures could be opened in spring 2024, based on the 2023 budgetary figures. Possible excessive deficit procedures are opened based on the rules of the current European fiscal framework. Member States will have to take

[7] This quantitative, country-specific fiscal guidance is issued in the context of the spring package as part of the European semester.

this into account when preparing Stability or Convergence Programmes this spring and draft budgets for 2024 this autumn.

1.4 *European fiscal framework from 2025*

For the years after 2024, the outcome of the evaluation of the European fiscal framework, consisting of the Stability and Growth Pact (SGP), the European Semester and the Macroeconomic Imbalances Procedure (MIP) is relevant. The five-year evaluation of the framework was suspended in 2020, due to the Covid-19 crisis. The European Commission resumed the evaluation in the autumn of 2021.

In November 2022, the European Commission published a communication on the possible form of the future fiscal framework.[8] The first Council conclusions were issued in March 2023. These conclusions show the outcome of negotiations between Member States' finance ministries and the Commission and thus contain the direction of the future fiscal framework.[9] The European Commission recently published the legislative proposals based on the Council's conclusions.[10] After that, Member States, the European Parliament and the Commission will have to reach agreement on the proposals. Technical details of the revised framework are currently being worked out in various European (economic) fora.

National parliaments have a role in the process in the national implementation and execution of the revised framework and as co-legislators, so to speak. Early 2022, at the request of the House of Representatives, the Advisory Division issued guidance on the possibilities for reforming the Stability and Growth Pact.[11] In this guidance, the Advisory Division emphasised that parliamentary involvement in the evaluation is democratically important in all Member States.[12] In the Netherlands, this applies to both the Senate and the House of Representatives, not only as auditors of the Dutch government, but explicitly also in their role as co-legislator of European Union law. In doing so, the Advisory Division stressed the importance of the House of Representatives and the government reaching timely agreements on the process of developing Dutch positions. To date, there has been no plenary debate in the Senate or the House of Representatives on the Netherlands' input on the evaluation of the European fiscal framework.

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8 European Commission (2022). Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions. Communication on orientations for a reform of the EU economic governance framework. COM(2022) 583 final.

9 Council of the European Union (2023). Orientations for a reform of the EU economic governance framework – Revised Draft Council Conclusions. 14 March 2023 6995/2/23.

10 Council Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, Council Regulation (EC) No. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure and Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

11 Parliamentary Documents II 2021/22, 35924, No. 146.

12 It should be noted here that the role and greater involvement of national parliaments in the European legislative process is explicitly recognised in Protocol No 1 to the EU treaties, with a desire for parliaments to express their views on draft legislation.

One of the SGP's essential objectives, as part of the Economic and Monetary Union (EMU), is to guarantee the sustainability of public finances also in the longer term. Economic growth and convergence in the Euro area is the other essential objective. A medium-term focus, strengthening national ownership in the application of European fiscal rules, simplifying the framework and boosting compliance are key to the new framework to be formed.

The Commission sees a new budgetary process as the cornerstone of a new framework by having Member States prepare medium-term plans every four years, so-called medium-term fiscal-structural plans. These fiscal plans must include both the medium-term fiscal policy to be pursued - with a spending path as an operational objective - and investments and reforms. This underlines the importance of strengthening coherence between fiscal and socio-economic policies.[13] The aim of having Member States prepare a single integrated multi-year fiscal plan based on a single operational objective is to simplify the framework and make it more transparent and effective. This envisaged reform is taking shape against the background of higher and more divergent debt levels of Member States on average, and the need for investment to finance the necessary transitions related to sustainability and digitisation.

At the same time, it aims to strengthen Member States’ national ownership of European fiscal rules and their compliance. Member States' medium-term plans will serve as the basis for enforcing the fiscal framework by the Commission and the Council. Member States must report annually on the progress of the plan's implementation, reforms and investments and country-specific recommendations. Annual monitoring takes place as part of the European Semester by the Commission and the Council. To strengthen national ownership, it is also proposed to add requirements or clarify existing requirements for national independent fiscal authorities. The proposed changes should enhance the ability of independent fiscal authorities to play a role in monitoring the European fiscal framework at the national level.

In addition, the Commission considers it important for escape clauses to continue to be possible in exceptional circumstances. The activation of a general escape clause is expected to remain possible in case of shocks affecting the entire EU or Euro area. In addition, a country-specific escape clause can be triggered if exceptional circumstances arise, beyond the control of governments, which have a major impact on the public finances of individual Member States.

Since several points are still being negotiated between Member States and the Commission, and because the debate with and in the European Parliament has yet to take place, it is not yet known what form the final fiscal framework and process will take. Only then will it be possible to fully assess the implications for

[13] April Report 2022, Parliamentary Documents II 21501-07, No. 1840, W06.22.0055/111 and June Report 2022, Parliamentary Documents II 36120, No. 3 W06.22.0084/111/B.

the Dutch budgetary process, consistency with national fiscal rules and the impact on independent fiscal authorities.

2. Assessment under European fiscal rules

Advice:

- *The government is pursuing expansionary fiscal policy and steering close to the guard rail with an actual budget deficit approaching the threshold of the requirements in the SGP. In the Budget Memorandum, justify what steps are being taken to avoid breaching the guard rail and how space for automatic stabilisers can be provided in case of a possible cyclical turnaround.*

- *Address the deterioration in the debt sustainability of the Netherlands, also compared to other European countries, in the upcoming Budget Memorandum.*

- *It is important to weigh up the allocation of resources in an integral manner in order to make well-considered choices. An analysis of the Netherlands' socio-economic structure and of the underlying medium-term strengths and weaknesses can facilitate these choices.*

2.1 *Relevant context*

In its 2023 Spring Report, the Advisory Division assesses public finances in the previous year (*ex post*), in the current year (*in year*) and in the year ahead (*ex ante*).

This year, the Advisory Division's assessment is twofold, as the Stability Programme and the Spring Memorandum do not contain the same budgetary information. The government has chosen to complete the spring decision-making process earlier compared to 2022, but nevertheless, not to align it with the European Semester. Thus the Stability Programme is compiled solely on the basis of the CPB's CEP forecast without incorporating the spring decisions. The Spring Memorandum includes the spring decisions, although it has not been calculated by the CPB. The CPB's next forecast will be published in August (the draft Macroeconomic Outlook), in preparation for the August decision-making process.

This creates a two-pronged assessment, namely of the expected budgetary developments in the Stability Programme - which are already outdated by the time this report is published - and a budgetary assessment of the way the government's policy intentions for 2024 and the multi-year budgetary developments in the Spring Memorandum are handled in fiscal terms.[14]

In addition, there is separate assessment under European fiscal rules for 2024, of 2022 and 2023, as the European Commission's fiscal guidance varies from year to year.

The European Commission's fiscal guidance for 2022 and 2023 was mainly qualitative in nature. In 2022, it recommended the Netherlands implement economic conditions permitting fiscal policy aimed at sustainable public finances in the medium term. At the same time, (sustainable and growth-enhancing) public investment and structural fiscal reforms are needed, including in the areas of healthcare and social protection.[15]

In 2023, Member States were called upon to adopt a broadly neutral (taken as an average for the entire Euro area) fiscal policy, i.e. neither debt-increasing (expansionary) nor debt-reducing (consolidating). At the same time, Member States were called on to boost nationally funded public investment, phase out public debt, and work towards sustainable growth through reforms and investment.[16]

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[14] Following the adjustment of the budgetary process, there has been a multi-year Spring Memorandum since 2022.

[15] European Commission (2021). Recommendation for a Council recommendation with advice from the Council on the Netherlands' Stability Programme 2021. COM(2021) 519 final.

[16] European Commission (2022). Communication on Guidelines for fiscal policy for 2023. COM(2022) 85 final.

The 2024 budget will be assessed under the more quantitative 2024 fiscal guidance (see also section 1.3 above). Assessment under the applicable rules from the European fiscal framework is relevant for all years.

2.2 *Assessment for 2022 and 2023*

Assessment under the corrective arm (CEP forecast and Spring Memorandum)
For the assessment under European fiscal rules, both the rules in the corrective and preventive arms of the SGP are relevant. The rules of the corrective arm set requirements for the (annual) maximum budget deficit (EMU balance of no more than 3% of GDP) and public debt (EMU debt of no more than 60% of GDP). If the debt criterion is exceeded, the debt must be reduced by at least one-twentieth each year (debt reduction path). The rules of the preventive arm consist of the medium-term objective (MTO), also known as the structural balance, and the expenditure rule. The purpose of the preventive arm is to prevent Member States being confronted with excessive deficits by having a safety margin in relation to the 3% deficit rule, so that Member States have fiscal space to pursue countercyclical fiscal policies. If there comes a point when Member States fail to comply with the rules in the preventive arm, the basic principle is that Member States are subject to the corrective arm.[17]

For 2022, in the CEP forecast, the CPB estimates a budget deficit of -0.7% of GDP and public debt of 49.3% of GDP. However, preliminary actual figures from Statistics Netherlands (CBS) for 2022, which the CPB will incorporate in its next forecast, show a slight budget surplus of €0.1 billion in 2022.[18] The EMU balance in 2022 is thus balanced at 0.0% of GDP. However, Statistics Netherlands (CBS) does report higher government debt compared to the CEP estimate, at 51% of GDP. Based on these figures, in 2022, the Netherlands does comply with the rules of the corrective arm of the SGP.

[17] In both the corrective and preventive arms, there are a number of exceptions to the requirements, also known as flexibilities. For an overview of these flexibilities, see pages 7 and 8 of Annex III of the Advisory Division's Guidance on the options for reforming the Stability and Growth Pact (W06.22.0005/III/Vo), Parliamentary Documents II 2021/22, 35925, No. 146.

[18] Statistics Netherlands (CBS) (2023). Government revenue and expenditure in 2022 almost balanced. Via https://www.cbs.nl/nl-nl/nieuws/2023/12/inkomsten-en-uitgaven-overheid-over-2022-bijna-in-evenwicht

Table 6: Figures for European fiscal rules 2022-2024

	2022 *ex post* CEP	2022 *ex post* SM	2023 *in year* CEP	2023 *in year* SM	2024 *ex ante* CEP	2024 *ex ante* SM
Rule in relation to the development of the structural balance (% of GDP)						
Maximum actual EMU balance	*-3.0*	*-3.0*	*-3.0*	*-3.0*	*-3.0*	*-3.0*
Actual EMU balance	-0.7		-3.0	-2.6	-2.6	-3.0
Cyclical component	-0.9		0.6		0.4	
One-off and other temporary measures	-0.2		-0.1		0.0	
Medium-term objective structural EMU balance	*-0.5*	*-0.5*	*-0.75*	*-0.75*	*-0.75*	*-0.75*
Structural EMU balance (EC method)	-1.4		-3.6	-3.3	-3.0	-3.4
Expenditure rule						
Adjusted net public expenditure (actual change in %)	1.1		3.0		-1.0	
Norm growth (max. growth adjusted net public expenditure)	0.6		*0.6*		*1.4*	
Debt criterion (% of GDP)						
Maximum EMU debt	*60.0*	*60.0*	*60.0*	*60.0*	*60.0*	*60.0*
EMU debt	49.3		48.4	49.2	48.7	49.2

Source: CPB Netherlands Bureau for Economic Policy Analysis, Central Economic Plan 2023, Spring Memorandum 2023, CPB calculations

In 2023, based on the CEP forecast, the Netherlands is expected to have a budget deficit of -3.0% of GDP and government debt of 48.4% of GDP. This means the Netherlands is also expected to comply with the rules of the corrective arm of the SGP in 2023.

However, the CEP forecast does not yet take the spring decisions into account. The Spring Memorandum thus presents new forecasts for government debt and deficit for 2023.[19] The Spring Memorandum includes a multi-year scenario of both expenditure and (some of the) main revenue points and is thus forward-looking in nature. For this reason, the Spring Memorandum does not include figures for 2022 (t-1). Since the Advisory Division's assessment in this report is twofold (see also section 2.1), we therefore also look at the figures presented in the Spring Memorandum. The Spring Memorandum shows that in 2023, the Netherlands is expected to have a budget deficit of -2.6% of GDP and government debt of 49.2% of GDP. This results in compliance with the rules of the corrective arm based on the Spring Memorandum.

A comparison of the budgetary information between the CEP (from the CPB) and the Spring Memorandum (from the Ministry of Finance) shows an improvement of

[19] The calculation of the spring decisions presented in the 2023 Spring Memorandum originate from the Ministry of Finance. The CPB Netherlands Bureau for Economic Policy Analysis does not calculate the impact of the spring decisions.

0.4 percentage points on the budget deficit and a deterioration of 0.8 percentage points on government debt for 2023. According to the Spring Memorandum this was due to higher spending on the energy package and Ukraine, but on the other hand, tax and contribution revenues also increased. The impact of the spring decisions on public finances will not be independently scrutinised until the CPB publishes its draft Macroeconomic Outlook in August. Therefore, the figures presented in the CEP forecast are formally decisive in the Advisory Division's budgetary assessment in this report.

Assessment under the preventive arm (CEP forecast and Spring Memorandum)
The Netherlands does not comply with the rules of the preventive arm of the SGP in both years. The structural balance (the budget balance adjusted for temporary measures and cyclical effects) in 2022 and 2023 deviates significantly from the Dutch medium-term objective (MTO) based on the results of the CEP forecast.[20] For 2022, the Netherlands applies an MTO of -0.5% of GDP. With a structural balance of -1.4% of GDP in 2022, the deficit was 0.9 percentage points greater than the MTO of -0.5%. The MTO for 2023 is -0.75% of GDP.[21] A structural balance of -3.6% of GDP is forecast for 2023, making the deficit 2.85 percentage points greater than the MTO for the structural balance of -0.75% of GDP. Figures from the Spring Memorandum also demonstrate that the structural balance in 2023 deviates significantly from the Dutch MTO. A structural balance of -3.3% of GDP is forecast for 2023, making the deficit -2.55 percentage points greater than the MTO for the structural balance of -0.75% of GDP.

Not only the MTO, but also the expenditure rule is part of the preventive arm of the SGP. The expenditure rule within the preventive arm requires government spending not to increase faster than potential economic growth, also taking into account the distance to the MTO.[22] The idea behind the expenditure rule is that revenues move in tandem with the economic cycle and expenditure does not increase faster than potential economic growth, thereby preventing the structural balance from deteriorating. Based on calculations by the CPB for the Advisory Division's budgetary assessment, for the Dutch budget the expenditure rule implies permitted growth in adjusted expenditure in 2022 and 2023 of up to 0.6 percentage points. However, estimated net public spending increased by 1.1% in 2022. This is a deviation from the maximum permitted growth of 0.5 percentage

[20] The structural balance is the actual budget deficit adjusted for cyclical influences and incidental budgetary benefits and costs. The calculation of the structural balance requires, among other things, the value of the output gap. This makes the calculation of the structural balance partly dependent on unobservable factors. In practice, the balance, which needs to be calculated twice a year, is therefore volatile, resulting in regular retrospective non-compliance with the MTO, if observations and actual figures are added and changed.

[21] In the Stability Programme 2022, the government indicated that it will opt for a medium-term objective (MTO) of -0.75% of GDP in 2023. According to the government, this is consistent with the balance between the Netherlands' investments in the future, on the one hand, and the intention not to let public finances get out of line, on the other.

[22] The expenditure rule, like the structural balance, partly depends on non-observable factors because the calculation requires, among other things, the value of the output gap. Nevertheless, in practice, however, this rule is less volatile and therefore a more stable value than the structural balance.

points. An increase in net public spending of 3.0% is forecast for 2023. This is a deviation from the permitted maximum growth rate of 2.4 percentage points. As a result, the Netherlands does not comply with the expenditure rule of the preventive arm of the SGP in both years.

In 2022 and 2023, the general escape clause of the Stability and Growth Pact applies, to give Member States maximum flexibility within the SGP (see also section 1.3). This means that Member States in the preventive arm of the SGP, including the Netherlands, may deviate from the path towards the medium-term objective (MTO) for the structural balance, providing it does not jeopardise the sustainability of public finances in the medium term. Moreover, no excessive deficit procedures were opened in both years.

Therefore, the overshoots in the preventive arm of the SGP have no consequences for 2022 or 2023. However, the general escape clause does not lead to the suspension of SGP procedures. At the same time, it is important to look beyond the short-term EMU balance and EMU debt and to monitor the medium-term sustainability of public finances. Therefore, it remains important that the development of public finances is closely monitored and assessed.

Conclusion
The forecast structural budget deficit in 2023 of -3.6% of GDP based on the CEP forecast is higher than the actual budget deficit. This implies expansionary, if not pro-cyclical fiscal policy, by the government, further driving the economy.[23] The government claims, including in the Stability Programme 2023 and in the Coalition Agreement, to have opted for expansionary fiscal policy. The 2023 expansionary budget is also at odds with the 2023 country-specific fiscal guidance. Moreover, with a budget deficit of 3% of GDP in 2023, the government has reached the threshold of the rules in the corrective arm. Pursuing a 3% deficit carries risks if an economic turnaround occurs. For this reason, the CEP also shows several scenarios in which, in the event of a harsh winter, the EMU balance will be worse in 2023 (and 2024). If a cyclical downturn occurs and the government wants to provide room for the automatic stabilisers to operate (see also section 3.2), there is hardly any room within the limits of the European fiscal rules to be able to continue trend-based fiscal policy. Consequently, spending cuts or tax increases may prove unavoidable in worse economic times. The Advisory Division already pointed out this risk in the June 2022 Report.[24] De Nederlandsche Bank (Dutch Central Bank (DNB)) also argues that a high deficit risks leaving the Netherlands without any room to ease the pain in worse economic times.[25]

[23] Potential growth, among other things, is relevant for the business cycle. This is what the output gap is used for. The output gap is the difference between a country's actual production and potential production, and serves as a benchmark for the business cycle. Assumptions about the state of the economy, which cannot be measured with precision, play a role in these calculations.
[24] June Report 2022, Parliamentary Documents II 36120, No. 3 W06.22.0084/111/B.
[25] De Nederlandsche Bank (2023) (Dutch Central Bank (DNB)) Annual Report 2022. Via: [Jaarverslag DNB 2022 | De Nederlandsche Bank]

Table 7: Summary overview of the outcome of the assessment under European fiscal rules

	2022	2023	2024
Rules of the preventive arm:			
Structural EMU balance	×	×	×
Expenditure rule	×	×	✓
Rules of the corrective arm:			
Actual budget balance	✓	✓	✓
Government debt	✓	✓	✓

Explanatory note on symbols used: ✓ = compliance with the relevant rule; ○ = there is a deviation from the rule, but the deviation is not significant; × = there is a deviation from the rule, and calculated over one year and/or over two years, on average this deviation is significant (only applies to the structural balance and expenditure rule, see note)

2.3 *Assessment for 2024*

Both the rules in the corrective and preventive arms of the SGP are also relevant for the assessment under European fiscal rules for 2024. Moreover, the general escape clause will be deactivated as of 2024.

Assessment under the corrective arm (CEP forecast and Spring Memorandum)
With an expected budget deficit of -2.6% of GDP in 2024 and a debt ratio of 48.4% of GDP in 2024, based on the CPB's CEP forecast, the Netherlands complies with the rules in the corrective arm of the SGP, as it did in 2022 and 2023. Although the figures in the Spring Memorandum show a slight deterioration in the budget deficit and debt ratio in 2024 compared to the CEP forecast, the Netherlands also complies with the rules in the corrective arm based on the Spring Memorandum. A deficit of -3.0% of GDP and a debt ratio of 49.2% of GDP are forecast in 2024.

Assessment under the preventive arm (CEP forecast and Spring Memorandum)
However, the Dutch budget does not comply with the rules of the preventive arm of the SGP, as in 2022 and 2023. The CEP forecasts a structural balance of -3.0% of GDP in 2024. This means the Netherlands does not comply with the MTO for the structural balance of -0.75% of GDP. The Spring Memorandum shows a deterioration in the structural balance compared to the CEP forecast. In 2024, the structural balance amounts to -3.4% of GDP. This is a significant deviation (2.65 percentage points) from the MTO of -0.75% of GDP.

As the general escape clause will be deactivated from 2024, Member States in the preventive arm of the SGP will no longer be allowed to deviate from the path towards the MTO of the structural balance from 2024 onwards. According to European fiscal rules, in this case an improvement in the structural balance of 0.5% of GDP per year is needed until the MTO is reached. If the Commission observes a significant deviation from the adjustment path towards the MTO based on the submitted Stability Programme, the Commission will issue a warning to the Member State concerned. Within a month of this warning being issued, the

Council, on the Commission’s recommendation, will re-examine the budgetary situation. It then issues fiscal guidance with an adjustment period of between three and five months to mitigate the deviation from the MTO.[26]

Member States that do not reach their MTO must demonstrate sufficient improvement in their balance each year and must move towards the MTO on a path of 0.5% of GDP. Based on the CEP forecast, the structural balance is expected to improve by at least 0.5% of GDP in 2024, growing the structural balance towards the MTO. However, the figures in the Spring Memorandum reveal a deterioration in the balance and thus the Netherlands does not satisfy this benchmark. If a Member State does not satisfy this benchmark, the expenditure rule comes into play for the Member State concerned.

For the Dutch budget the expenditure rule implies permitted growth in adjusted expenditure in 2024 of up to 1.4 percentage points. However, net public spending is expected to fall by 1.0% in 2024. The Netherlands is thus expected to comply with the expenditure rule *ex ante* in 2024 as part of the preventive arm of the SGP.

The CEP figures are formally decisive in the budgetary assessment, as they have been independently calculated by the CPB. A more complete picture on the development of the structural balance will not be available until the draft Macroeconomic Outlook. Since, based on the CEP estimate, the Netherlands is expected to show an improvement in the structural balance in 2024 of 0.5% of GDP, the expenditure rule for 2024 is, for the time being, excluded from the assessment of compliance with European fiscal rules.

In its 2024 fiscal guidance, the Commission invites Member States to prepare their Stability or Convergence Programmes in the spirit of the adjustments resulting from the reform of the European framework. The Commission asks Member States to include fiscal targets for 2024. If Member States do not demonstrate sufficiently ambitious fiscal targets, quantitative country-specific fiscal guidance will follow in which the Commission will recommend a spending path. It is therefore important to indicate in the Stability Programme what steps the Netherlands is taking to achieve sufficient distance from the 3% deficit rule, in order to avoid too large a fiscal adjustment in the spending path from the Commission. The Stability Programme presented by the government does not adequately show this and thus deviates from the European Commission's 2024 fiscal guidance.

2.4 *Sustainability of public finances in the medium term*

One of the SGP’s essential objectives is to guarantee the sustainability of public finances. For 2022 and 2023, which are part of the budgetary assessment in this report, the general escape clause of the SGP is active. Under this clause, Member

[26] In accordance with Article 121(4) TFEU

States may deviate from the path towards the medium-term objective for the structural balance (MTO) if it does not endanger the sustainability of public finances in the medium term. In the evaluation of the current fiscal framework, the Commission and the Council stressed that the sustainability of public finances should constitute an important element of the new framework.

Thus the sustainability of public finances in the medium and long term is an extremely important factor in the budgetary assessment. In this regard, both financial sustainability (what outcomes for government debt are permissible) and intergenerational sustainability (the distribution of financial burdens across generations) are important.[27] In the 2023 Budget Memorandum, the government has already addressed both forms of sustainability and included scenarios on the development of public finances with different interest rates.

In the CEP the CPB looked at the development of public debt in the medium term, namely up to 2031. The CPB expects public finances to deteriorate, due to the ageing population, additional spending in the current Coalition Agreement and higher interest rates. Thus, interest expenditure will gradually increase to €18 billion by 2031. EMU debt is expected to reach 60.4% of GDP in 2031.

Table 8: Medium-term EMU balance and debt

(in % of GDP)	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Actual EMU balance	-0.7	-3.0	-2.6	-2.6	-2.8	-3.2	-3.4	-3.5	-3.6	-3.7
EMU debt	49.3	48.4	48.7	49.8	51.0	52.7	54.5	56.4	58.3	60.4

Source: CPB, Central Economic Plan 2023

The European Commission also assesses the sustainability of Member States' public finances. In the most recent Sustainability Monitor (2022), which introduced a number of methodological changes, the sustainability of Dutch public finances deteriorated.[28] The S2 indicator measures how much fiscal space (in terms of the structural primary balance[29]) a Member State needs to stabilise government debt in the long term. Based on the S2 indicator, the Netherlands is categorised as a Member State with a high sustainability risk. In the 2021 Sustainability Monitor, the Netherlands was still in the medium risk category, partly because of the effects of the ageing population on the government budget. The deterioration of the indicator is caused by the worsened initial fiscal position, namely a deterioration in the structural primary balance, which has increased the distance to a stable balance. Based on the S2 indicator, the Commission estimates

[27] CPB Netherlands Bureau for Economic Policy Analysis (2021). How do we assess whether public finances are sustainable? CPB Background Document, December 2021.

[28] European Commission (2023) Debt Sustainability Monitor 2022. Via: Debt Sustainability Monitor 2022 (europa.eu)

[29] The structural primary balance is the part of the structural balance determined by policy (i.e. minus interest charges). The S2 indicator consists of two elements, namely the initial fiscal position (gap between the initial structural primary balance and the debt-stabilising structural primary balance) and future costs of the ageing population.

a sustainability gap of 6.5% of GDP for the Netherlands, meaning that a permanent and immediate adjustment of the primary balance of 6.5% of GDP is needed to stabilise the debt. The revamped S1 indicator measures how much fiscal space a Member State needs to bring government debt to 60% by 2070. Based on the S1 indicator, the Netherlands falls in the average risk category.

The government did not include the European Commission's latest Sustainability Monitor in the Stability Programme because it was published shortly before the publication of the Stability Programme. Based on the 2021 Sustainability Monitor, referred to in the Stability Programme, the Netherlands' sustainability gap is smaller than that in the 2022 Sustainability Monitor. For instance, based on the S2 indicator, the sustainability gap in the 2021 Monitor is 5.3% of GDP, which the Commission classified as medium risk.

Based on the latest Sustainability Monitor, the question arises of how the deterioration of the Netherlands' debt sustainability should be valued compared to other European countries. The ageing population is also a major factor weighing on debt sustainability in other European countries. Because the Stability Programme did not include the latest Sustainability Monitor, the government did not comment on the results. The Advisory Division advises the government to address the deterioration in the debt sustainability of the Netherlands, also compared to other European countries, in the upcoming Budget Memorandum.

In the Stability Programme the government states that the sustainability analyses of both the Commission and the CPB show that EMU debt is highly likely to remain at relatively prudent levels, as the Netherlands scores average on the Commission's sustainability indicators and the 2023 Budget Memorandum showed that the CPB calculated that the Netherlands is 90% likely to remain below 76% EMU debt.

The Advisory Division notes that the actual and structural balance for 2023 have deteriorated compared to the 2023 Budget Memorandum and that the CPB's recent multi-year forecast shows that current government policies not only have a budgetary impact during this government term (2022-2025), but that the threshold for the EMU balance of a maximum budget deficit of 3% of GDP will also be exceeded in almost all years forecast after this government term (see Table 8). Consequently, this results in higher public debt in the medium term. Moreover, the European Commission's latest sustainability forecast shows a deterioration in sustainability, when there was already a deficit. Based on the S2 indicator, it is currently a high sustainability risk.

With the same economic assumptions, the next government will first have to make cuts before any additional policies can be implemented. There are also major challenges in the areas of the ageing population and the climate, which may require additional reforms and investments. In this report the Advisory Division has already stated that these challenges may weaken potential growth in the medium term, as the ageing population will eventually have major implications for the labour market, the composition of the economy and public finances, among other things. Moreover, public finances are extremely sensitive to interest rate developments, as shown in the Spring Memorandum and as the CPB already demonstrated in different interest rate scenarios.[30]

In the Stability Programme and the Spring Memorandum the government describes the tension that exists due to current investments made for future challenges. For instance, tension exists between current fiscal space and resources needed for the climate transition. The Advisory Division will discuss this further in its opinion on the 2024 Budget Memorandum. While the Advisory Division does understand this, monitoring the medium and long-term sustainability of public finances remains relevant. Therefore, it is important to weigh up the allocation of resources in an integral manner in order to make well-considered choices. An analysis of the Netherlands' socio-economic structure, as previously advised in the Advisory Division's opinion on the 2023 Budget Memorandum and mentioned in section 1.1 of this report, can facilitate these choices.

3. Assessment under national fiscal rules

Advice:

- *Next year, take additional steps towards an orderly and transparent main decision-making moment in the spring by introducing a fixed moment for halting decision-making and a fixed date for publishing the Spring Memorandum. In addition, ensure the national budgetary process is aligned with the European Semester.*

- *Be transparent with regard to any discrepancy between national and European budgetary anchors and substantiate how they are dealt with.*

3.1 *Budgetary process*

The 2023 Spring Memorandum is the second Spring Memorandum presented by the government in the ‘new style’. Since the review of the budgetary process, the Spring Memorandum not only addresses budgetary changes in the current year in relation to the Budget Memorandum, but also includes the main points of the decisions related to the 2024 budget and outlines a multi-year scenario of expenditure and the main points associated with revenue.[31]

By opting for a single integral main decision-making moment for the main points of both the expenditure and tax side of the budget, various political wishes, problems, windfalls and setbacks can be weighed up in an integral manner. This creates stability and calm in political decision-making, because integral weighing of different policy objectives can be performed at fixed times. It optimises

[30] Parliamentary Documents II 2022/23. 36200, No. 1.
[31] Parliamentary Documents II 2022/23. 36200, No. 6.

adherence to the basic principles of Dutch fiscal policy, namely the efficient allocation of public resources, managing public finances and contributing to economic stability.

The Advisory Division appreciates the adjustments the government has already made to the budgetary process. Presenting multi-year series in the spring ensures earlier involvement of the House of Representatives in multi-year budgetary decision-making, where previously these were considered internal Cabinet deliberations. Presenting the multi-year series in the spring means the House of Representatives is informed about the intended decision-making sooner, and can exercise its parliamentary rights associated with the budget more effectively. Presenting comprehensive tables with explanatory notes for each measure also helps improve transparency with regard to budgetary decision-making.

In the June 2022 Report, the Advisory Division noted that the adjustments to the Spring Memorandum are a first step towards a new budgetary process, but at the same time the process is not yet complete.[32] In 2022, there was no main decision-making moment in the spring, as part of the budgetary decision-making was carried forward to the Budget Memorandum. This resulted in a lack of integral decision-making. Moreover, not all budget documents, such as the supplementary budgets, the contents of the Tax Plan Package and the independent budgetary advice, were sent to the House of Representatives at the same time as the Spring Memorandum, which meant the House of Representatives did not have a complete overview. Lastly, the 2022 Spring Memorandum is not aligned with the European Semester.

The Advisory Division notes that this year, like last year, once more, there has been no main decision-making moment and thus integral decision-making in the spring, because tax-related decision-making for 2024 has largely been postponed to August. In addition, the Spring Memorandum was again sent to the House of Representatives without the supplementary budget documents. Due to the ad hoc process of the Spring Memorandum, this independent budgetary advice appears some time after the Spring Memorandum was actually published. This year's Spring Memorandum was published at the end of April, well ahead of the June 1 deadline. Adjustments to this schedule were made shortly before the start of preparations in the spring, requiring last-minute adjustments to departmental processes. The Spring Memorandum was eventually sent at the same time as the Stability Programme. However, the spring decisions are not included in the Stability Programme, which means the document was already outdated after its publication. This means there is no alignment between the Spring Memorandum and the European Semester.

In a review on the budgetary process the government also indicates that there are starting points for improving the development of the budgetary process.[33] Therein,

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[32] June Report 2022, Parliamentary Documents II 36120, No. 3 W06.22.0084/111/B.
[33] Parliamentary Documents II 2022/23, 36120, No. C.

the government endorses the importance of an orderly budgetary process. In addition, the Advisory Division has previously pointed out the importance of an orderly budgetary process.[34] An orderly budgetary process is in the interest of democracy, to provide insight into the impact of government policies on society, the economy and the budget. Clarity, predictability and calm in the budgetary process should be part of this. However, this spring, the budgetary process appeared disorganised.

One possible solution to create greater clarity, predictability and calm in the process is to opt for a fixed moment for halting decision-making and a fixed moment for publishing the Spring Memorandum. This provides clarity for politicians as to when decisions must be finalised and allows ample time for officials to incorporate the decisions in the Spring Memorandum and related documents. This avoids any ambiguity for all parties involved, which will benefit the preparation of and debate on the Spring Memorandum. Such moments already exist in the August decision-making process: the deadline for decision-making to be completed is 31 August, after which the CPB performs the calculations related to the decisions, ministries can prepare draft budgets, and the Advisory Division of the Council of State can compile its opinion on the Budget Memorandum and budgetary report. The fixed publication date is the third Tuesday of September, Budget Day. All documents are sent to parliament on this day.

The Advisory Division believes the budgetary process could be aligned with the European Semester.[35] Especially now that it appears possible to accelerate spring decision-making. The government is currently submitting a Stability Programme to the European Commission that does not include the latest (spring) decisions, so that when it is published at the end of April, the Stability Programme will already be outdated and the document will seem like a compulsory box-ticking exercise. This also makes the assessment under European fiscal rules of the figures presented in the Stability Programme outdated and thus of little relevance. Moreover, the (spring) decisions are not calculated by the CPB Netherlands Bureau for Economic Policy Analysis, but processed by the Ministry of Finance. This means that a first independent calculation of the fiscal scenario of the (spring) decisions will not be available until the CPB presents the draft Macroeconomic Outlook for the purpose of the August decision-making process.

Aligning national budgets with the process of the European Semester may become even more relevant after the reform of the European fiscal framework. It is expected that from 2025 onwards, Member States will have to reflect in a single document in the spring on both the fiscal policy to be pursued and relevant investments and reforms (for a more detailed explanation, see section 1.4). In the current European Semester, reforms must be included separately in annual reform programmes, there is no place for investments in the current Semester.

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34 Parliamentary Documents II 2022/23. 36200, No. 6.

35 The Advisory Division has drawn attention to this in previous opinions. See, inter alia, Parliamentary Documents II 36120, No.3 W06.22.0084/111/B, Parliamentary Documents II 2022/23. 36200, No. 6.

Once again the Advisory Division advises the government to take additional steps next year towards an orderly and transparent main decision-making moment in the spring. Introducing a fixed moment for halting decision-making and a fixed moment for publishing the Spring Memorandum, will create greater calm, improving the content and quality of decision-making and budgetary information. The Advisory Division also recommends that the national budgetary process be aligned with the European Semester, so that budget documents are taken seriously in the context of the European Semester and so that the input contributes to both national objectives and those of the SGP and EMU.

3.2 *Assessment for 2022, 2023 and 2024*

In the Initial Policy Memorandum to the Coalition Agreement the government established and confirmed that it will pursue trend-based fiscal policy. On the expenditure side, four multi-year expenditure frameworks (State Budget, Social Security, Healthcare and the new Investment Framework) are established, each with an annual expenditure ceiling that may not be exceeded.[36] However, the individual expenditure ceilings are indexed annually in relation to wage and price development. On the revenue side a revenue framework applies with automatic stabilisation: revenue windfalls benefit the government balance, revenue shortfalls burden the government balance. In this way, revenue moves in tandem, as it were, with the business cycle. In principle, the expenditure ceiling and revenue framework are adjusted during the government term, which means that the frameworks set de facto policy-based upper limits for public finances.

In the frameworks revenue and expenditure are separate. This means that windfalls on the revenue side may not be used for additional expenditure, but also that revenue setbacks do not have to be offset by cuts on the expenditure side. Moreover, setbacks on the expenditure side must be compensated within the expenditure framework and must not lead to new measures on the revenue side. This provides maximum scope for automatic stabilisation and avoids pro-cyclical fiscal policy.

Pursuing trend-based fiscal policy does not guarantee a certain outcome with regard to European fiscal targets and may reveal a discrepancy with national budgetary anchors. The purpose of enforcing national fiscal rules is to ensure that public finances remain within the limits of what the government deems acceptable. The decision to establish the level of the budgetary frameworks at the beginning of a government term is a political choice.

In the Initial Policy Memorandum the expenditure ceilings and revenue framework are established ex ante. In the 2022 Spring Memorandum they are finalised, partly after incorporating the CPB's macroeconomic outlooks. In the Spring

[36] For investments covered by the relevant expenditure ceiling, controlling the total amount is more relevant than the amount per year, and shifts over time are allowed, provided this is permitted by European fiscal rules.

Memorandum the government states that the established revenue and expenditure frameworks thus serve as an anchor for this government term's budgetary policy.

When establishing the national budgetary anchors for this government term, the revenue and expenditure frameworks did not meet all European fiscal targets.[37] The Advisory Division deems it important that any discrepancy between national and European budgetary anchors is transparent and that substantiation is provided on how it is dealt with. After all, European fiscal rules serve to ensure the sustainability of public finances and to promote balanced and efficient distribution of the benefits and burden of government policy across generations. Basic principles that are also part of the national fiscal principles. Moreover, with the deactivation of the Stability and Growth Pact's general escape clause from 2024, no deviation from European fiscal targets will be allowed. This means any discrepancy between national and European budgetary anchors can lead to consequences based on European fiscal rules.

These spring decisions include outstanding coverage issues, setbacks and additional expenditure, as described in section 1.2 of this report. The government has also allocated extra money following the parliamentary inquiry into natural gas extraction in Groningen. Climate-related decisions have not yet been budgeted in the Spring Memorandum. Tax-related decision-making for 2024 and beyond has not yet been completed, final decisions will follow in August. Windfalls and incidental underspending have been deployed to cover the challenges. Moreover, additional savings are being made by, among other things, withholding part of the funds for the wage and price adjustment, abolishing the STAP budget (incentive for improving labour market position) and structural reductions in various expenditure items, including for labour market infrastructure reform. The government is leaving the incidental budgetary impact of the additional compensation package following the parliamentary inquiry into natural gas extraction in Groningen in the EMU balance, thus passing this burden on to future generations.

In line with this government's Initial Policy Memorandum, it is possible to use underspending that occurs after the Spring Memorandum to achieve the objective. The use of windfalls on the expenditure side for coverage in line with national fiscal rules is also possible, provided it is decided in the Council of Ministers. Spending cuts will be required if windfalls are insufficient. Nevertheless, the challenge to cover the substantial budgetary setbacks and additional expenditure (the so called coverage-related challenge) has not been met: there is a multi-year deterioration in the actual and structural EMU balance compared to the Spring Memorandum (see sections 1.2, 2.2 and 2.3) and, based on the ceiling assessment in the Spring Memorandum, the expenditure ceiling will be substantially exceeded in 2023 (see Table 10 below). Coverage of the cost of the energy package is partly absorbed on the tax side by reversing the energy tax cut,

[37] June 2022 Report, Parliamentary Documents II 36120, No. 3 W06.22.0084/111/B.

which does not respect the separation of revenue and expenditure. Thus, on this point, there is no compliance with national fiscal rules.

The government previously decided that the regular expenditure ceiling does not apply to spending on emergency measures related to Covid-19. This means the additional spending does not come at the expense of other spending, but instead causes a deterioration in the EMU balance and an increase in EMU debt. Additional spending in relation to the war in Ukraine is also left outside the regular expenditure ceiling. In this Spring Memorandum the government has also decided that the incidental budgetary impact of the additional compensation package following the parliamentary inquiry into natural gas extraction in Groningen will be charged to the EMU balance, so no coverage is needed. The Advisory Division notes the lack of argumentation for deviating from the regular system for the Groningen compensation package.

Ceiling assessment for 2022, 2023 and 2024

For the first time in the current government term, the Advisory Division can provide ceiling assessments in this report, as part of its fiscal monitoring based on the CPB's CEP forecast. This ceiling assessment excludes the spring decisions. As noted in section 3.1, this year, just like last year, there has been no main decision-making moment and thus integral decision-making in the spring, because tax-related decision-making for 2024 has largely been postponed to August. This means there is no integral scenario of the state of the budget and a serious ceiling assessment on the revenue side of the 2024 draft budget cannot take place until the Budget Memorandum.

Table 9: Expenditure ceilings based on The CEP, 2022-2025

(in billions of euros, - is an undershoot)	2022	2023	2024	2025
Overshoot	-5.8	-3.7	-4.8	-1.9
of which State Budget	-3.9	-0.3	-2.1	1
Social Security	-0.4	2.5	1.8	0.7
Healthcare	-0.5	-2.7	-1.8	-2.1
Investments	-1	-3.1	-2.7	-1.5

Source: CPB, Central Economic Plan 2023

The CPB's CEP forecast shows that estimated expenditure in 2023 and 2024 will remain below the total expenditure ceiling, mainly due to underspending. In 2022, all sub-ceilings were characterised by an undershoot, mainly due to underspending. From 2023, there will be overshoots under the Social Security sub-ceiling, due to the accelerated increase in the statutory minimum wage and related benefits. The State Budget sub-ceiling shows an increase in expenditure in 2023 due to the energy price cap, but still remains below the ceiling. Over time, less underspending and higher interest expenditure is expected, leading to an overshoot of the sub-ceiling in 2025.[38] However, national fiscal rules allow for shifts between sub-ceilings.

The government assessed the development of the expenditure ceilings in the 2023 Spring Memorandum (see Table 10). It reveals considerable differences between the CEP forecast and the Spring Memorandum. Among other things, the government expects less underspending than the CPB. Moreover, a large number of resources mutations have been applied. The government expects the amount of total regular expenditure in 2023 to be substantially higher than the total expenditure ceiling at €11.5 billion. Of this, €5.4 billion relates to coverage for the energy package. The government covers it on the tax side, by reversing the energy tax cut. In doing so, the ceilings do not close year by year, thus violating national fiscal rules. An independent calculation of the updated expenditure ceilings will take place on Budget Day, through the CPB's Macroeconomic Outlook.

[38] For 2023, underspending under the ceilings is assumed to be €9.2 billion. By 2024, this will decrease to €6.1 billion. In addition, some underspending outside the ceilings has also been assumed by the CPB.

Table 10: Expenditure ceilings based on The Spring Memorandum, 2023-2025

(in billions of euros, - is an undershoot)	2023	2024	2025
Overshoot	11.5	-0.9	-0.8
of which State Budget	8.9	-2.4	0.8
Social Security	2.9	1.8	-0.8
Healthcare	-0.6	-0.1	-0.3
Investments	0.2	-0.2	-0.5

Source: Spring Memorandum 2023

On the revenue side of the budget, the policy-based tax development is set for the entire government term in the so-called revenue framework. This ceiling must be complied with on a cumulative basis over the full government term, but unlike the expenditure ceiling, this does not apply for each individual year of the government term. Based on the CEP forecast, it appears that the revenue framework will be exceeded during this government term (see Table 11). This means that the total tax burden over the entire government term is higher than agreed in the Coalition Agreement and a decision to reduce the tax burden must be made according to fiscal rules.

Table 11: Revenue framework, 2022-2025

(in billions of euros, + is an overshoot)	2022	2023	2024	2025	Cumulative
Revenue framework overshoot	3.4	-2.1	2.5	3.2	7
of which Healthcare	0	-2.6	0.3	0.2	-2.1
of which other policy changes	3.4	0.5	2.3	3	9.2

Source: CPB, Central Economic Plan 2023

There is an increase in spending on healthcare insurance premiums (ZVW) in the CPB forecast in 2023 and 2024, causing healthcare premiums to rise along with the care allowance. This accounts for most of the underspending in Healthcare.[39] The other policy changes include the introduction of the solidarity contribution (in 2022) and the increase in the low corporation tax rate (from 2023).

In the Spring Memorandum, the revenue framework is not yet closed; the final decision is needed in August. Also, in August, in line with the agreements on the budgetary process, decisions on purchasing power will be taken based on the most recent figures. The CPB will present an update of the framework assessments in its Macroeconomic Outlook, published on Budget Day.

[39] For the revenue framework, with some exceptions, all tax measures that fall under the definition of policy-based tax developments count. This definition includes measures in the care allowance and healthcare insurance premiums (ZVW).

4. Focal points related to the expenditure frameworks

Advice:
- *Make use of existing reports and studies to arrive at integrally considered choices and priorities.*

- *In the upcoming Budget Memorandum, take further steps to improve the transparency of budgetary information by providing an integral (vertical) overview of the total coverage challenge, intensifications and spending cuts.*

4.1 *Quality of public finances*

High quality public finances are essential for the effective and efficient deployment of public resources. Article 3.1 of the Government Accounts Act (CW) requires an explanation of the proposals, intentions and commitments of (1) the pursuit of the objectives, effectiveness and efficiency, (2) the use of the policy instruments and (3) the financial consequences for the State and, where possible, for the social sectors. The new working method for Article 3.1 of the Government Accounts Act (CW), implemented in 2021, should ensure better ex ante justification of policies.[40]

The Government Accounts Act 3.1 requirements are part of the government-wide evaluation system, which provides information on the effectiveness and efficiency of policies. The Government Accounts Act requires ministries to periodically review policies. Since 2021, ministries have been working with a Strategic Evaluation Agenda (SEA) to plan and prioritise these evaluation studies so that, among other things, policies can be adjusted in a targeted way if necessary. Interdepartmental Policy Studies (IBOs) also take place annually, examining alternatives to existing policies. Potential spending cuts are periodically identified through reconsiderations.

In policy preparation, the steps in the Policy Compass serve as a working method for the effective preparation of policy and legislation. Having social cost-benefit analyses (SCBAs) performed is one element of the Policy Compass. In the policy implementation phase, the Public Values Scan (PWS) can be used, which offers policymakers insight into the potential for improving existing policy and budgetary frameworks of a designated policy theme.

All in all, central government has a comprehensive evaluation system at various stages of policy and legislation. This makes relevant reports available at various decision-making moments, such as when a new government is formed, for the Spring Memorandum and the Budget Memorandum, which can facilitate efficient and effective choices.

[40] Parliamentary Documents II 2021/22, 31865, No. 198.

This Spring Memorandum involved a substantial funding challenge, which was met by deploying windfalls and incidental underspending. Moreover, additional savings are being made by scraping money together by, among other things, withholding part of the funds for the wage and price adjustment. Underspending does not only mean failure to spend the budgeted funds, but also means that in the medium term, this previously planned expenditure will still be spent, possibly at higher prices, in order to achieve the intended policy objectives. Thus, on balance, underspending does not create room in the budget and the use of underspending for coverage should be accompanied by downward revisions of policy objectives.

Moreover, withholding funds for the wage and price adjustment is not without consequences. The wage adjustment consists of an allowance for contract wage development and the development of social employer contributions and the price adjustment consists of an allowance for price increases. In addition, wage and price setting is an indexation needed for the continuation of policy processes. Withholding this indexation affects these processes and thus indirectly impacts social objectives.

Where choices are made in the Spring Memorandum to discontinue specific policies, they are not substantiated. The STAP budget is being phased out and the labour market structure reform budget is being structurally reduced, with no explanation as to why. Despite the fact that there is currently a severe shortage in the labour market and it is important to have a structural policy to address it.[41] As a result, unsubstantiated and non-targeted cuts are used as coverage, while the government has a large number of reports and studies at its disposal, with well-thought-out policy options and alternatives, which can help facilitate integral, considered choices and priorities. This benefits the effectiveness and efficiency of policies and prevents possible (budgetary) adjustments afterwards.

4.2 *Transparency*

Transparent fiscal policy serves a democratic interest. It helps parliament develop an informed opinion on government policies and helps create public support for policies. This is why the Advisory Division reflects on the degree of transparency of fiscal policy in its budgetary reports.

The Advisory Division notes that the government is taking steps to increase transparency on issues relevant to the budget. For example, the government has followed previous advice from the Advisory Division to provide insight into the multi-year horizontal (year-on-year) development of expenditure and taxes. This horizontal expenditure is also presented in this Spring Memorandum. It provides

[41] In its opinion on the Budget Memorandum 2023, the Advisory Division advised the government to vigorously tackle long-term bottlenecks on the labour market, partly in the context of the advice to come up with a (socio-economic) structural analysis in the upcoming Budget Memorandum. Parliamentary Documents II 2022/23. 36200, No. 6.

insight into total expenditure and tax development, including the development that was already included in the baseline.

However, the Advisory Division notes that improvements could also be made to increase the transparency of budget documents. This Spring Memorandum contains major changes to meet outstanding coverage and to accommodate additional expenditure. These challenges are presented at the macro level in tables in the Spring Memorandum. However, it lacks an integral overview of the total coverage-related challenge, intensifications and spending cuts. Because coverage is achieved through a variety of items in departmental budgets ('to scrape the money together') and the explanatory notes are usually technical in nature, the decision-making incorporated in the Spring Memorandum is difficult to follow and grasp. For example, the significance and possible implications of withholding the funds for the wage and price adjustment are unclear. Also, the total amount of compensation withheld for the wage and price adjustment is not transparent, creating a fragmented picture. This makes it very challenging to obtain an integral picture of the decisions and to understand the various consequences of the choices made.

There are also major differences between the results of the CPB's CEP forecast, on the basis of which the Stability Programme was drawn up, and the incorporation of the spring decisions in the Spring Memorandum. For example, there are significant differences in the outcomes of the ceiling assessment on the expenditure side, which do not seem to be caused by decision-making alone. The reason for these differences is not explained.

Transparent fiscal policy provides insight into the choices made and presents them in a comprehensible manner. The government has already taken steps in this regard, but can still make improvements with regard to parliament's ability to exercise its rights associated with the budget. The Advisory Division advises the government to take further steps to improve the transparency of budgetary information in the upcoming Budget Memorandum.

4.3 *Finances of local and regional authorities*

In the letter containing recommendations related to fiscal policy dated January 2022, the Advisory Division notes that the financing system for local and regional authorities and the additional measures included in the Coalition Agreement result in an unstable, complex and not particularly transparent multi-year budget for local and regional authorities.[42] The Advisory Division advised the government not to wait until the next government term to introduce a more stable financing system for local and regional authorities, but to compile a multi-year budgetary framework for local and regional authorities in spring 2022, to replace the current accrual system. The Advisory Division also expressed this opinion in the information on intergovernmental relations requested by the government, the VNG (Association of

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[42] Parliamentary Documents II 2021/22, 35788, No. C, page 4.

Netherlands Municipalities), the IPO (Association of the Provinces of the Netherlands) and the UvW (Association of Water Boards).[43] In the June 2022 Report, the Advisory Division noted that there was still no multi-year financial certainty for the coming years and for the period after 2025, which meant that municipalities were restricted in planning ahead for the major (physical) transitions in particular and should take cost savings into account from 2026 onwards.

The Spring Memorandum describes the system's new main points from 2026 onwards. This is when the accrual system will be scrapped. From 2026, €1.1 billion will be structurally available (of which €1 billion for municipalities and €0.1 billion for provinces). From 2027, the municipal and provincial funds will be indexed based on the development of nominal GDP. This system is more closely linked to the broad expenditure development of local and regional authorities than the accrual system. The development of the volume of funds will be based on a historical average of the development of GDP, which is expected to reduce the extent to which the funds fluctuate. Indexation for inflation follows that of the current year, keeping the funds level in real terms.

In consultation with the VNG, the government is looking at options to modernise and expand its own tax jurisdiction. With regard to provincial tax jurisdiction, a Pay By Use (BNG) system will be introduced in 2030, eliminating motor vehicle tax surcharges in their current form. In consultation with the IPO, the government is considering which alternative tax jurisdiction is desirable.

The Advisory Division considers the move to a new multi-year system for the finances of local and regional authorities to be positive. The new system is expected to bring more stability, calm and clarity to municipalities and provinces. This system is also in line with previous recommendations issued by the 16th Study Group on Fiscal Policy and the Advisory Division.[44] The Advisory Division hopes that central government and local and regional authorities will use this new system to steer intergovernmental relations, as raised in the Advisory Division's Guidance on Intergovernmental Relations, into calmer waters.

4.4 *Contingent liabilities*

The policy on contingent financial liabilities from risk schemes is part of the government's fiscal rules. Indeed, risk schemes entail a contingent financial liability that can create budgetary risks. The government adopts a 'no, unless' policy with regard to risk schemes (guarantees and loans). Proposals for new risk schemes and adjustments to existing schemes are part of the main decision-making moment in the spring and subject to an assessment framework, included

[43] Council of State (2022). Guidance on intergovernmental relations.

[44] April Report 2022, Parliamentary Documents II 21501-07, No. 1840, W06.22.0055/111 and 16th Study Group on Fiscal Policy (2020) Koers bepalen – Kiezen in tijden van budgettaire krapte (Setting the course - Decisions in times of budgetary constraint). The 16th Study Group on Fiscal Policy recommended that the government, in consultation with local and regional authorities, adjust the standardisation system in such a way as to increase its stability and predictability.

in the Initial Policy Memorandum.[45] In addition, the government is trying to be cautious with regard to expanding existing schemes.

The Advisory Division has previously pointed out the importance of critically monitoring outstanding guarantees, informing parliament where necessary, and phasing out guarantees if the economic situation allows. The Stability Programme explains that a number of international guarantee schemes and loans have been increased in relation to the war in Ukraine. However, the total amount of government guarantees as a share of GDP has decreased from 24.6% of GDP in 2020 to 23.4% of GDP in 2021. The total amount of outstanding State guarantees was €217.9 billion in 2022, of which €170 billion are standard guarantees. About €48 billion of this is still related to the Covid-19 pandemic, of which €45 billion consists of guarantees for the European recovery plans SURE and NGEU.

By means of the assessment framework and monitoring in the Stability Programme, the government strives to make transparent and well-considered choices regarding both new and existing guarantees. The Advisory Division supports this approach and asks the government to continue to critically monitor outstanding guarantees and to consider if and when it is necessary to deviate from certain principles within the risk scheme policy in the future.

5. Focal points related to the tax framework

Advice:
- *Include tax debt developments due to the Covid-19 crisis not only in the Spring Memorandum but also in the Stability Programme.*

5.1 *Tax-related decision-making*

Based on the CPB’s CEP forecast, published before the spring decision-making process began, it appears that the revenue framework will be exceeded during this government term. In the Spring Memorandum 2023, a start was made on tax-related decision-making for 2024 and beyond. The revenue framework is not yet closed, requiring final decisions in August. August will also see purchasing power-related decisions taken, based on the CPB's draft Macroeconomic Outlook. An update of the revenue scenario will be available in the subsequent Macroeconomic Outlook.

Furthermore, the tax policy and implementation agenda, which provides insight into the intended contents of the Tax Plan Package, was not sent to the House of Representatives together with the Spring Memorandum (see also section 3.1). This means parliament does not have a complete overview.

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[45] Parliamentary Documents II 2021/22, 35925, No. 143.

However, the Advisory Division notes that, based on the Spring Memorandum, it has already been decided that if the objective of tackling tax constructions and tax schemes cannot be fully achieved, the remaining funds will be obtained by increasing the rate in the first income tax bracket.[46] The Spring Memorandum is not very clear on this point, but the Advisory Division suspects that this only refers to the first bracket of the rate for income from work and home[47] and that the rate in the first bracket for income from substantial interests (and in corporate tax revenue) remains the same. Therefore, this tax increase hits lower and middle incomes relatively harder. The Advisory Division deems this compensation rather striking, given that part of the objective is to reduce wealth inequality and preferential arrangements for specific groups and companies. If this fails, for instance due to serious opposing social forces, it will be resolved in the lowest rate bracket of Box 1, leaving taxpayers who generally do not benefit from those very constructions and preferential arrangements to cover it.

5.2 *Tax liabilities as a result of the Covid-19 crisis*

The government supported affected entrepreneurs during the Covid-19 crisis by means of an extensive package of support measures, including generic tax deferrals and new schemes such as the NOW (Noodmaatregel Overbrugging voor Werkgelegenheid/Emergency measure for bridging employment), the TVL (Tegemoetkoming Vaste Lasten/Reimbursement of fixed costs) and the Tozo (Tijdelijke overbruggingsregeling zelfstandig ondernemers/Temporary bridging scheme for the self-employed). Since 1 October 2022, entrepreneurs have had to repay the tax debt accrued through the special tax deferral.

The Spring Memorandum 2023 shows that the remaining tax liability under the special tax deferral scheme is around €16.5 billion. However, it takes into account that part of the debt will not be paid off, for instance due to bankruptcy. To this end, the Spring Memorandum 2022 decided to exclude around €6 billion from the outstanding debt. New relevant information and experience from the first months of debt repayment provide the rationale for reducing the amount to be excluded to around €2.5 billion. This has been incorporated in the figure reported in the Spring Memorandum 2023. For 2023, this means higher revenue than previously estimated.

In the April 2022 report, the Advisory Division recommended that from now on, a comprehensive picture of the development and extent of the debt problems of entrepreneurs be provided and reported in the Stability Programme.[48] However, it

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[46] Chapter 5 refers to 'the first bracket' on page 42, among others, without clarifying which tax it refers to; however, Annex 12 specifies on page 219 that it refers to the first bracket of income tax.

[47] And possibly also the second bracket to prevent the combined rate of income tax and national insurance contributions in the first bracket from being higher than the income tax rate in the second bracket (the tax rate for income from work and home currently has three brackets, see Articles 2.10 and 2.10a of the 2001 Income Tax Act).

[48] April Report 2022, Parliamentary Documents II 21501-07, No. 1840, W06.22.0055/111.

only reports on the development of tax liability due to the Covid-19 crisis in the Spring Memorandum.

An important element of the budgetary risk of outstanding tax liabilities is the extent to which entrepreneurs are able to repay their debts. Now that more information is currently available, any risks can be identified more effectively and decisions taken accordingly. However, the Spring Memorandum indicates that all things considered, the situation remains uncertain. As the Stability Programme is the Netherlands' de facto multi-year budget as part of the European Semester, it is also useful for it to include information relevant to the development of public finances. Therefore, the Advisory Division reiterates the advice to include tax liability developments due to the Covid-19 crisis not only in the Spring Memorandum but also in the Stability Programme.

6. Fulfilment of commitments previously made by the cabinet

In its opinion on the 2023 Budget Memorandum, the Advisory Division advised the government to perform an analysis of the Netherlands' socio-economic structure and the underlying medium-term strengths and weaknesses. The aim of such an analysis is to arrive at integrally considered choices and priorities, and thus to support the government and parliament's capacity to act and solve problems. This is needed now more than ever because not everything is possible, and certainly not at the same time. The government has indicated in the follow-up report to the 2023 Budget Memorandum that it will take up this recommendation in the 2024 Budget Memorandum. In it, the government has pledged to continue to work on integrating broad prosperity in the budget cycle, and to link the requested analysis on policy coherence to this as much as possible. The analysis chapter in the Budget Memorandum can also be used for this purpose. Needless to say, such an analysis is not only a task for the finance minister but for the cabinet as a whole and, in any case, also for the ministers of Finance, Social Affairs and Employment (SZW) and Economic Affairs and Climate Policy (EZK).

In this Spring Report, the Advisory Division underlines the need for such an analysis. The ambiguities and uncertainties that have come to light with regard to economic growth in the short, medium and long term, and urgent social challenges such as the climate and ageing population call for clear-cut policy choices and prioritisation of these choices (see section 1.1). The limited fiscal space and coverage-related challenge also demand integral consideration of the allocation of resources, so that well-thought-out choices can be made (see section 3.2). An analysis of the Netherlands’ socio-economic structure can help provide insight into where investments should be made, what reforms are needed and how they can be introduced over time. The various studies and reports available (see section 4.1) can provide partial analyses and help present substantiated policies. The challenge is to bundle these analyses and arrive at an overarching picture that leads to clear and transparent political choices.

Implementing an orderly budgetary process and complying with national and European fiscal rules facilitates integral and transparent considerations that keep public finances at healthy levels (see also section 3.1). In its response to the Advisory Division's September 2023 Report on Fiscal Monitoring, the government also agrees that fiscal policy benefits from an effective process and strict adherence to the agreements, and remains committed to this in the coming years.[49] In the Spring Memorandum 2023, the government states that it is approaching the limits of what is possible, both in terms of budget and implementation capacity, and has tried to find cover for outstanding challenges. Decisions for the 2024 budget will be finalised and the fiscal scenario will be complete with the upcoming Budget Memorandum. At that point, based on the CPB's Macroeconomic Outlook, a full independent budgetary assessment can take place.

In its opinion on the 2023 Budget Memorandum, the Advisory Division notes that, increasingly, policy intentions raise the question of whether desirable adjustments in policy are feasible, due to the strain on implementing organisations. The Advisory Division recommended that labour market effects of proposed policies be more explicitly included in the integral policy consideration in the decision-making process. Not only must the capacity needed for the intended new policies be considered, but also whether that capacity can be made available in time, either through new inflows or by re-prioritising existing policies.

The Advisory Division deems it essential that the legislator, the government and parliament, are aware of the implementation aspects when forming new policies. It addressed this in detail in its Annual Report 2022 and, incidentally, has also recently updated its own assessment framework on this matter.[50] The IBO (Interdepartmental Policy Research) Public Investment also stated the importance of devoting attention to implementation challenges in policy preparation.[51] This concerns whether the intended stakeholders who are to realise the (public and private) investments have sufficient absorption or implementation capacity to do so. The IBO recommended using input from implementing organisations, market insights and figures from experience to obtain this insight and to develop a comprehensive overarching implementation test to facilitate political choices within the scarce implementation capacity of the market and government.

In the follow-up report to the opinion on the 2023 Budget Memorandum, the government undertook to investigate whether there are possibilities to implement the Advisory Division's advice to more explicitly include labour market effects of proposed policies in integral policy considerations during the decision-making process and to investigate whether this would improve the accuracy of policy-making. This has not led to any adjustments in the decision-making process to date.

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[49] Parliamentary Documents II 2022/23. 36200, No. 6.
[50] Council of State (2023). Annual report 2022.
[51] Interdepartmental Policy Research (IBO) (2022). 'Value for money': IBO Public Investment in a political-administrative context.

The Advisory Division understands that developing a new assessment framework for labour market effects of proposed policies and embedding such a framework in the decision-making process takes time. However, the need for this assessment framework has not diminished: labour market tightness is currently a major bottleneck in achieving social objectives and also entails structural elements. In implementation tests for legislation, labour shortages frequently appear to be a bottleneck. Despite this, organisations lack integral consideration of the use of labour. Time and again, for instance, fiscal bills show that the enforceability of legislation is under pressure due to the lack of staff at the Tax and Customs Administration. Yet this rarely leads to legislative adjustment or prioritisation. With regard to implementation, it subsequently turns out that more time is needed to achieve the objectives, resulting in underspending and postponement or cancellation of the objectives.

Better understanding of the labour market effects of policies can help both the government and parliament make choices and prioritise, thus contributing to more efficient and effective policies. Thereby, an assessment framework for labour market effects can serve as an important tool for integral consideration. The Advisory Division advises the government to take up its previous advice and the recommendation of the Interdepartmental Policy Research (IBO) Public Investment, and examine whether such an assessment framework could play a role in preparations for forming the next government.

C. RESPONSE FROM THE GOVERNMENT

The government would like to thank the Advisory Division of the Council of State (hereinafter: the Advisory Division) for its assessment of the Stability Programme (SP) 2023 and the Spring Memorandum 2023. The Spring Memorandum is the first supplementary budget of 2023 and contains the changes for the current year and a look ahead to next year's budget. The SP describes the development of Dutch public finances and the economic outlook based on the Central Economic Plan (CEP) of the CPB Netherlands Bureau for Economic Policy Analysis. The Advisory Division has assessed the extent to which this development complies with the rules of the Stability and Growth Pact (SGP). The government would like to express its appreciation for this Spring Report by the Advisory Division. Since last year, a significant change has been made to the budgetary process with the multi-year Spring Memorandum. Moreover, negotiations on a new Stability and Growth Pact are currently under way, which may also change the European budgetary process. Independent advice provides added value to further strengthen and future-proof our budgetary process, especially in times of institutional change. The government thanks the Advisory Division for the Spring Report and takes its concerns and advice to heart.

Assessment under European fiscal rules

In the Spring Report the Advisory Division assessed whether the budget complies with European fiscal rules in 2022, 2023 and 2024. Formally, this is achieved using the Stability Programme, but as this year's Spring Memorandum appeared at the same time as the SP and incorporates the spring decision-making, the Advisory Division also looked at these figures.

The Advisory Division concludes that based on both the Stability Programme and the Spring Memorandum, the Netherlands complies with the rules of the corrective arm of the SGP in those years. In 2022 and 2023, the Netherlands does not comply with the rules of the preventive arm. The general escape clause is still active. Thus, the Advisory Division concludes that the overshoot in the preventive arm remains without consequences in 2022 and 2023. In 2024, the escape clause is expected to be deactivated. Meanwhile, talks on reforming the SGP are taking place. The European Commission has invited Member States to prepare a Stability Programme for 2024 in the spirit of its reform proposals. The Advisory Division concludes that the government's expansionary fiscal policy does not maintain sufficient distance from the deficit rule of 3% of GDP and deviates from the Commission's fiscal guidance. The Advisory Division also mentions that this limits the fiscal space for the next government term and that there are insufficient buffers in case of an economic downturn. The Advisory Division also calls for attention to be devoted to the medium and long-term sustainability of public finances and indicates the importance of bearing this in mind. The Advisory Division advises the government to address the deterioration in the debt sustainability of the Netherlands, also compared to other European countries, in the upcoming Budget Memorandum.

The government endorses the Advisory Division's assessment on compliance with European fiscal rules. The government acknowledges that the budget is at odds with the preventive arm of the SGP. This stems from the government's deliberate choice in the Coalition Agreement for an ambitious investment agenda, with investments in important and necessary societal challenges, including the climate, education and the housing market. The government considers this necessary to avoid higher costs and loss of broad prosperity in the future. The downside is that this results in a temporary deterioration of public finances in the short term. The government considers this justified given the relatively low EMU debt.

At the same time, the government recognises the importance of sound and stable public finances. A good financial foundation is a prerequisite for investing in the future. The government has therefore opted to provide cover for the substantial budgetary setbacks in interest expenditure and asylum costs, without compromising on addressing major societal challenges. The government considers the final package to be balanced; where possible, windfalls and expected underspending will be used, supplemented by structural measures.

The government endorses the importance of monitoring medium and long-term sustainability. The government seeks a balance between the urgency of investment on the one hand and public finances on the other, and acknowledges that the Advisory Division also notes this tension. The government aims to reduce debt in the longer term and is taking measures to this end, including by curbing the growth of healthcare costs. At the same time, the government understands the Advisory Division's concerns. Developments such as an ageing population and rising healthcare costs may affect public finances. The government therefore takes the Advisory Division's advice to heart and will discuss the development of debt sustainability in more detail in the 2024 Budget Memorandum. Part of this will include the development of the EMU balance.

Assessment under national fiscal rules

The Advisory Division appreciates the adjustments the government has made to the budgetary process. Presenting multi-year series in the spring ensures the earlier involvement of the House of Representatives in multi-year budgetary decision-making. As a result, the Advisory Division believes parliament is in a better position to exercise its rights associated with the budget. At the same time, the Advisory Division notes that, the process regarding the new Spring Memorandum is not yet complete. In the Advisory Division’s view, this year, there has been no main decision-making moment, and thus integral decision-making, because tax-related decision-making has largely been postponed to August. According to the Advisory Division, as yet there is also no alignment with the European Semester, as the Stability Programme does not include spring decision-making. The Advisory Division suggests that a fixed moment for halting decision-making and a fixed date for publishing the Spring Memorandum could help in this regard. Furthermore, the Advisory Division notes that the CPB's CEP forecast indicates that the revenue framework will be exceeded this government term. The Advisory Division finds that in the Spring Memorandum it was decided to use the first income tax bracket as a placeholder for the constructions and tax schemes objective. In addition, the Advisory Division indicates that the Spring Memorandum is unclear about the Box to which this applies.

The government endorses the importance of an orderly budgetary process. The government argues that a main decision-making moment for both expenditure and tax in the spring involves advantages and disadvantages. In the spring decision-making this year and last year, the tax-related decisions were largely deferred to August. There is tension between integral decisions on both revenue and expenditure in the spring, on the one hand, and integral decisions on the entire revenue side of the budget, on the other. Indeed, in all scenarios, it remains important to retain the ability to look at purchasing power developments in August, based on the latest economic figures, and take any decisions required. In practice, experience has taught us that it is desirable to complete the full revenue decision-making process in August, as was the case with previous governments. Moreover, we were confronted with many urgent cases this year and efforts were made to complete as much decision-making as possible in a short period of time. This was achieved for regular spending decisions, plus the additional climate measures and the policy response to the Groningen parliamentary inquiry. The government agrees that fiscal policy benefits from an effective process and adherence to agreements, and will reflect in the coming period on what is the best process, including in practice, and whether improvements can be made in this regard. The government will return to this matter by this autumn at the latest.

The government confirms that due to decision-making in the 2023 Budget Memorandum and autumn 2022, there is an overshoot in the revenue framework. This tax increase has been used for a very substantial purchasing power package and the energy package, many of whose measures fall on the expenditure side. The Spring Memorandum provides an updated scenario of the revenue framework overshoot in section 5.2. The table in section 5.1 forms the budgetary basis for the August tax-related decisions.

Regarding the constructions and tax schemes objective, the government already decided last August to use the first income tax bracket as a placeholder for the constructions and tax schemes objective. Indeed, this refers to the first bracket of Box 1 'Income from work and home'. The agreement was included in the 2023 Budget Memorandum. It is emphatically a placeholder, with the government intending to achieve the full objective through measures in the area of constructions and tax schemes so that the placeholder can be dropped completely by this government term at the latest.
The government, as also indicated in the Letter to Parliament on the review of the multi-year Spring Memorandum,[52] will further study the Advisory Division of the Council of State's option for an earlier fixed publication date in the spring. The pros and cons of this for the budgetary process, including in relation to accountability and possible peak loads for departments, should be carefully considered.

The government also understands that alignment with the European Semester is not optimal. However, this alignment is not feasible at the moment. The legal deadline for the Spring Memorandum is 1 June. As outlined in the Letter to Parliament on the Budgetary Process, in that case alignment with the European Semester appears to be practically impossible, given the legal deadline of 30 April for the Stability Programme. This year, too, this deadline prevented the inclusion of the spring decisions in the Stability Programme. In addition to the Stability Programme itself, a considerable number of tables are delivered to the European Commission with a lot of additional data. This careful processing and delivery takes time. Moreover, the European Commission's SGP reform proposals envisage a new form of budgetary reporting, which may lead to greater alignment between the European semester and the national budgetary process.

The government remains committed to further improving the budgetary process. The review of the multi-year Spring Memorandum indicated, from discussions with stakeholders, that this change is expected to have resulted in valuable improvements. It remains important to examine how we can further improve the budgetary process. Therefore, the government will further consider the Advisory

[52] Letter to Parliament on the review of the multi-year Spring Memorandum

Division's concerns on the amended budgetary process, including the fixed publication timing, alignment with the European Semester and decision-making on taxes in the spring, in the coming period. The Minister of Finance will return to this in the outline paper in the autumn.

Fiscal policy

The Advisory Division notes that the actual and structural EMU balance have deteriorated in relation to the Budget Memorandum. The Advisory Division calls for attention to be devoted to the quality of public finances. In the Spring Memorandum, the Advisory Division writes that the government has used unsubstantiated and non-targeted spending cuts for coverage, without providing any explanation. The Advisory Division also mentions that there are steps to be taken in terms of transparency in the Spring Memorandum and that further improvements can be made in how the government presents choices and policies. The Advisory Division advises the government to take further steps to improve the transparency of budgetary information in the upcoming Budget Memorandum. The Advisory Division recommends providing a clear and complete vertical overview of the coverage-related challenge, possible intensifications and cuts.

In the Spring Memorandum, the government put together a balanced package consisting of structural measures, in addition to the use of underspending and windfall revenues, to meet the fiscal challenge. In doing so, deliberate choices were made, to achieve the objective in such a way as to minimise the impact and safeguard coalition priorities. In line with the previous interpretation of fiscal rules, the accrual of interest charges after the government term is not provided with budgetary coverage. Given the uncertainty surrounding the asylum estimate, the decision was taken to provide coverage for the rising asylum costs through 2026. In addition, the government did not consider it appropriate to take measures in other policy areas for the incidental expenditure on Groningen. It was therefore decided to charge this expenditure to the EMU balance. Structural spending on Groningen is indeed covered. Spending on Ukraine falls outside the regular expenditure ceilings. This decision was already taken by the government last year.

The government further endorses the importance of transparent fiscal policy and making decision-making and the underlying choices transparent. The Spring Memorandum is the first budget memorandum of 2023 and contains an update of the 2023 budget. The Spring Memorandum also contains the multi-year impact on the budgetary figures. This increases parliament's insight into the government's budgetary decisions in later years. This change came into force last year and continues with this Spring Memorandum. The government considers it important that decisions are transparent so that parliament can carefully debate the proposals and properly exercise its rights associated with the budget. This gives parliament more time to carefully assess the proposals. This spring, the government decided on a number of challenges. These decisions are explained in the Spring Memorandum. The government recognises that due to the many challenges, the Spring Memorandum contains more information than usual and that this information is spread over several topics. The various challenges decided on by the government are explained in the successive chapters and sections. The government therefore adopts the advice of the Advisory Division of the Council of State to include in the Budget Memorandum a complete vertical overview of the coverage-related challenge and possible intensifications and cuts. In this Spring Memorandum, expenditure-related decision-making is described in Chapter 4. It explains the key points of the decision-making process per budget. Furthermore, the overall level of expenditure is assessed in relation to the ceilings. The Vertical explanatory notes provide further numerical evidence of all these matters. Partly at the Advisory Division of the Council of State's request, insight into the horizontal development of expenditure has been provided once again. Specifically, coverage for the energy package has been explained on page 12 and Ukraine has been quantified and explained in detail on page 36.

Other topics

The Advisory Division argues that the use of underspending should be accompanied by the downward adjustment of policy objectives, as they cannot be achieved without use of the earmarked funds. The Advisory Division also underlines the need, in the advice issued in the September Report to the 2023 Budget Memorandum, to analyse the socio-economic structure of the Netherlands.

The government endorses the importance of transparency and will take the advice on budgetary information into account when drafting the Budget Memorandum. The balance between completeness, the need for information on specific topics and the transparency of budgetary information remains a key challenge in this regard.

Finally, the government recognises the added value of a structural analysis and hereby reiterates its commitment to take this into account in the next Budget Memorandum.

Once more, the government would like to thank the Advisory Division of the Council of State for its assessment of the Stability Programme 2023 and the Spring Memorandum 2023.

Yours sincerely,
the Minister of Finance,

Sigrid A.M. Kaag

The response from the government has not prompted the Advisory Division to change its assessment. In the September Report, the Advisory Division will discuss the implementation of the commitments.

The Vice-President of the Council of State,