

26 April 2024

The Advisory Division publishes its 2024 Spring Report on Budgetary Monitoring

The Coalition Agreement of the current, outgoing government contained lots of proposed measures, but it proved difficult to actually spend the budgeted funds, which resulted in underspending. Partly because of this underspending, in recent years, the Dutch budget has complied with European fiscal rules for the maximum budget deficit and maximum government debt. But the economic and initial budgetary position of the incoming government differs from that of the current outgoing government. In order to comply with European fiscal rules and maintain a margin for implementing stabilising fiscal policy, public finances must be structurally improved compared with the current level during the upcoming government term.

Spring Report

This is stated in the 2024 Spring Report on Independent Budgetary Monitoring published on 26 April 2024. Twice a year, the Advisory Division assesses, in its role as independent fiscal monitoring institute, whether public finances comply with European and national fiscal rules. It does so in the spring and on Budget Day.

New, improved budgetary process

In its opinion, the Advisory Division concludes that during this government term, the government has taken steps with regard to the compliance with national fiscal rules and transparency in fiscal policy. In this Spring Memorandum, the government has made an effort to establish a more realistic time frame for the budgeted expenditure. The government has also taken significant steps to achieve a more transparent presentation of the budgetary information, and has laid a solid foundation for a new, improved budgetary process. Focusing more on the spring in the current decision-making process related to the budget allows for transparent and integral political consideration of the use of funds. It means parliament is involved sooner in the multi-year budgetary decision-making and citizens and businesses find out what government policy will focus on earlier on in the year. This year, the government brought the budgetary process forward and introduced a fixed deadline for halting decision-making for the Spring Memorandum. This ensures that the national budgetary process is more aligned with the European budgetary process and brings more calm to the process. It also provided the opportunity for the CPB Netherlands Bureau for Economic Policy Analysis to perform a budgetary analysis of the spring decisions, after which, the Advisory Division was able, for the first time, to assess compliance with national and European fiscal rules based on an independent calculation by the CPB.

New European fiscal rules

New European fiscal rules are expected to come into force in May 2024. They will introduce a new control variable for Member States' budgets, called the expenditure path. It includes a buffer in relation to the rules for the maximum budget deficit (3% of gross domestic product - GDP) and maximum government debt (60% of GDP) in the

medium term. This enables Member States to pursue stabilising fiscal policy, avoiding spending cuts in times of economic downturn and stimulative fiscal policy in favourable economic times. The Netherlands must submit an initial medium-term fiscal-structural plan in the autumn of 2024. It must contain the medium-term expenditure path along with relevant investments and reforms.

Initial position of the incoming government

The incoming government will shape the fiscal policy to be implemented and formulate the budgetary anchors and fiscal rules. To this end, developments in the economy and public finances in the medium and long term as well as the initial financial position are relevant, as are recent insights and future developments with implications for public finances, including in the areas of defence, climate and the labour market. The initial economic position of the incoming government differs from that of the current government. In the medium term, economic growth is expected to be modest with lower inflation and higher interest rates than during the current government term. Moreover, public finances are expected to deteriorate. In the short term, the budget deficit will not be an issue, partly due to the high level of underspending in the budget. This will only provide a temporary improvement in public finances. In the medium term, Dutch public finances will deteriorate, in part due to, among other, an increase in population ageing-sensitive expenditure on healthcare and the state pension.

Between 2029 and 2032, the budget deficit is expected to increase to an average of 4.6% of GDP. Consequently, the initial budgetary position facing the upcoming government term is not particularly bright: in order to comply with European fiscal rules and maintain a margin for implementing stabilising fiscal policy, public finances must be structurally improved compared with the current level. This budgetary margin can be achieved through both higher taxes and lower expenditure.

Five points of attention for the incoming government

In its spring report, the Advisory Division identifies several points of attention for the incoming government's fiscal policy. These are in line with its opinions in [previous reports on budgetary monitoring](#) and are positioned in the context of recent insights, economic developments and the initial budgetary position.

1. When choosing a budgetary anchor, ensure there is sufficient budgetary margin so that the budget's automatic stabilisation function can do its job. This necessitates a medium-term budgetary task, taking into account the negative impact of spending cuts or tax increases on the economy and society.
2. Adopt an approach focusing on broad prosperity in fiscal policy and when elaborating the budgetary task. This contributes to long-term thinking, which can facilitate efficient and effective decisions.
3. When justifying policy choices and elaborating budgetary tasks, consider not only the immediate consequence of the choices made, but also the consequences for the economy and society and the future impact of the proposal.
4. Continue on the path towards a new, improved budgetary process in the spring.
5. Gradually make the budget climate-inclusive. The composition and level of government revenue and expenditure changes structurally and significantly due to climate change. Currently, the climate is not yet sufficiently incorporated in fiscal policy considerations.

Read the full text of the 2024 Spring Report on Budgetary Monitoring [here](#).