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Council of State's Spring Report: government must maintain room for reforms

In 2018, public finances of the Netherlands were compliant with European fiscal rules. This is also expected to be the case in 2019 and 2020. The economy is growing, there is a budget surplus, and government debt is shrinking. However, by the same token, the level of Dutch public finances is not exceptionally good either: In Europe, the Netherlands is a 'mid-range' country. To safeguard the stability of the Dutch economy, the government must continue with its structural trend-based fiscal policy and implement structural reforms. The current state of public finances allows room for structural reforms. However, the government must safeguard its ability to manoeuvre and not be tempted to use this financial latitude for other purposes.

This was reported in the independent 2019 Spring Report on Fiscal Monitoring by the Advisory Division of the Council of State published today, 15 April 2019. The Advisory Division will clarify this report in a closed meeting of the Parliamentary Standing Committee for Finance on 25 April 2019.

Mid-range country

Public finances of the Netherlands are healthy, but the Netherlands should beware of resting on its laurels. There are at least four EU countries with a higher budget surplus and there are nine countries with a lower debt ratio than the Netherlands. A European report classifies the structural long-term sustainability of public finances as 'medium'. In other words, the Netherlands is a 'mid-range' country.

Maintaining manoeuvrability for reforms and setbacks

The favourable position of public finances also offers room for structural trend-based fiscal policy. This policy pursues stable 'through-the-cycle' budget planning aiming to prevent stop-go fiscal policies, while at the same time strengthening the structure of the economy and creating buffers that are needed to deal with a variety of uncertainties. Uncertainties such as Brexit and the international trade barriers could inhibit growth of the economy. If those uncertainties materialise, continued structural trend-based fiscal policy will ensure that these effects are less severe for citizens and businesses. Therefore, financial windfalls must now not be given away too easily. The government should rather use this financial manoeuvrability for reforms, for example, of the housing and labour market, of pensions and of fiscal schemes. Ideally, sudden austerity measures in public finances or increases in taxes will not be necessary in times of economic decline.

Independent monitoring of the budget

The Advisory Division's Spring Report recommendations contain an assessment whether public finances are compliant with European fiscal rules; in the past year, in the current year and in the forthcoming year. The Advisory Division's responsibility is to monitor compliance with rules of the European Stability and Growth Pact. To perform this task effectively, the Advisory Division bases its recommendations on the most important moments in the budget cycle. It publishes the Spring Report in April on the Stability Programme, and on Budget Day in September it reports on the Budget Memorandum and the budget.

Read the full text of the Spring 2019 Fiscal Monitoring Report here.