

20 September 2022

Opinion on the 2023 Budget Memorandum and the 2022 report on Budgetary Monitoring

“Not everything is possible, and certainly not at the same time”

The 2023 Budget Memorandum comes at a time when the economic picture is determined by high inflation and great uncertainty. Concurrently, the economy continues to display strong growth this year. Although public finances still look positive, the Budget Memorandum does not fully comply with national and European fiscal rules. In the longer term, an ageing population and the climate and energy crisis will have a detrimental effect on public finances. The mixed picture of the economy and public finances calls for an analysis of the socio-economic structure and the underlying medium-term strengths and weaknesses. This analysis should be part of the reform programme that the government prepares annually in the spring. The aim of the analysis is to arrive at integrally considered choices and priorities, thus improving the government and parliament's capacity to act and solve problems. It is needed now more than ever because: *not everything is possible, and certainly not at the same time*. This is demonstrated on a daily basis by deadlocked implementing organisations. It is also evident from some of the measures in the Tax Package for the coming year.

Reporting and advice

This was reported in the opinion on the 2023 Budget Memorandum and the 2022 September Report on Budgetary Monitoring, which the Advisory Division of the Council of State published today, on Budget Day (20 September 2022). In the September Report the Advisory Division assesses, in its role as independent fiscal monitoring institute, whether the budget complies with the agreed European and national fiscal rules. As an independent legislative adviser to the government and parliament, the Advisory Division also presents its opinion on the State Budget for the coming year. This year too, the September Report and the opinion on the Budget Memorandum are published in a single document.

Historically tight labour market

The fact that not everything is possible is also due to the historically tight labour market, which has significant economic and social implications. The government is taking steps to address the tightness, but the Advisory Division is of the opinion that the government could address the bottlenecks more expeditiously. One way the government can contribute to a solution is by encouraging employees to work more hours. Both the government and employers play a role in this matter. They have a shared responsibility to address the problem on the labour market.

New budgetary process

The government has changed the budgetary process, and this year launched a multi-year Spring Memorandum. This will involve parliament earlier in budgetary decision-making. In August, the government took a very quick decision on a comprehensive

package to support purchasing power. As a result, the consequences of the choices made are hard to oversee, whereas the new budgetary process should bring more calm and promote integral decision-making. The Advisory Division understands today's exceptional circumstances. However, the rushed process in August not only stands in the way of careful decision-making on other issues, such as wealth distribution, but does not advance the feasibility of measures for citizens and businesses either. Therefore, the advice to the government, the House of Representatives and the Senate is to adhere to the procedural agreements that apply to the *new-style Spring Memorandum*.

No full compliance with national and European budgetary rules

In the 2022 Spring Memorandum the government states that the limit of expenditure the government considers acceptable has been reached and that in principle, new policy that had consequences for the budget must be covered. However, the 2023 Budget Memorandum policy package again leads to further uncovered intensifications in the short term. This has no major implications at the moment. Nevertheless, these overshoots mean that the government is not abiding by its own national fiscal rules. The assessment under national fiscal rules is also incomplete. Due to the delay in political decision-making in August and the many reviews and ceiling adjustments due to new policies, the CPB Netherlands Bureau for Economic Policy Analysis was unable to conduct ceiling assessments. This is a worrying development. An orderly budgetary process is in the interest of democracy, to provide independent insight into the impact of government policies on society, the economy and the budget. Also in exceptional situations. Full compliance with European fiscal rules has not been achieved either. The 2023 Budget Memorandum does not meet the requirements of the so-called preventive arm of the Stability and Growth Pact. While this does not lead to immediate consequences or raise short-term concerns about the sustainability of Dutch government debt, it does not contribute to an orderly fiscal policy either.

Positive developments

The Advisory Division also identifies some positive developments in its report. It is good that the government addresses both financial sustainability and the sustainability of public finances for future generations in the 2023 Budget Memorandum. The government has also taken further steps in anchoring broad prosperity in the budget cycle and the transparent presentation in the Budget Memorandum of budget-relevant topics, which the Advisory Division has advocated in the past.

The full text of the Advisory Division's opinion on the 2023 Budget Memorandum and the 2022 September Report on Budgetary Monitoring will be available soon in English and published [here](#).