

19 September 2023

*Opinion on the 2024 Budget Memorandum and the 2023 September Report:*

## “Create forward-looking fiscal policy”

The 2024 Budget Memorandum appears at a time when the country has a demissionary government but is facing urgent social challenges. In view of the upcoming government term, the Advisory Division of the Council of State recommends creating forward-looking fiscal policy. Forward-looking fiscal policy consists of three interrelated elements:

1. Use the first Budget Memorandum of the upcoming government term for a so-called *Initial Memorandum on Broad Prosperity*, containing an analysis of the future Dutch economic, social, ecological and financial structure, linked to the objectives of the new coalition agreement.
2. Gradually make fiscal policy and the budget system *climate-inclusive* and incorporate climate in the analyses of the sustainability of public finances.
3. Implement shock-resistant fiscal policy with sufficient fiscal space at the outset to avoid budget cuts later on. It will create more certainty in the implementation of public policies. This serves a social interest.

### Report and advice

This was reported in the opinion on the 2024 Budget Memorandum and the 2023 September Report on Budgetary Monitoring, which the Advisory Division of the Council of State published today, on Budget Day (19 September 2023). In the September Report the Advisory Division assesses, in its role as independent fiscal 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 Advisory Division is publishing the September report and the opinion on the Budget Memorandum in a single document.

### Broad Prosperity

In the 2024 Budget Memorandum, the government has allocated broad prosperity a prominent position in relation to macroeconomics and public finances. This affords the concept of *broad prosperity* greater significance. The Advisory Division sees this analysis as a good first step, which needs more coherence, further broadening and deepening for the next government. It is important that the government pursues long-term policies that are effective, stable, predictable and feasible. The next government's first Budget Memorandum can be used for an analytical deepening of the new coalition agreement, in order to develop an 'Initial Memorandum (in terms of) Broad Prosperity'. Subsequent Budget Memoranda can then be used by the government to monitor and possibly adjust its political priorities, without compromising its long-term focus.

## **Climate-inclusive fiscal framework**

Climate change constitutes one of the biggest societal challenges for the coming decades, alongside the issue of an ageing population. Consequently, climate change will also lead to structural changes in public finances. Therefore, the Advisory Division believes it is necessary to include climate in fiscal policy and the budget system. This development is a growth model, to be gradually achieved by the ministers of Finance and Climate & Energy. In its opinion on the Budget Memorandum, the Advisory Division provides some specific advice in this regard. One recommendation is to incorporate climate in the analyses of the sustainability of public finances.

## **Shock-resistant future fiscal policy**

Unambiguous basic principles of fiscal policy are in the interest of democracy. They reinforce the implementation of parliamentary rights associated with the budget and can contribute to citizens' confidence in the provision of public services and policy intentions. The Advisory Division provides the government with a number of recommendations regarding future fiscal policy, based on the current economy and public finances and the structural challenges related to the climate and an ageing population. It recommends, among other things, that the next government should opt for a budgetary target, which provides scope for avoiding interim budget cuts or tax increases even in the event of budgetary setbacks and economic downturns.

## **Assessment under European and national fiscal rules**

The budgets for both 2023 and 2024 do not fully comply with European fiscal rules. The 2024 Budget Memorandum does not meet the requirements of the preventive arm of the Stability and Growth Pact. Public finances will continue to deteriorate after 2024. Consequently, the analyses for the medium and long-term sustainability of public finances point to a deterioration. The government did provide the purchasing power package from the 2024 Budget Memorandum with structural excess coverage. This is a good step for improving public finances in the medium term.

## **Compliance with fiscal rules and agreements**

The Advisory Division notes that it has not been able to conduct a full budgetary assessment this government term. Information was missing or there was no orderly budgetary process. It believes it is important for the next government to comply with its own agreed fiscal rules and arrangements, and for independent calculations of policy intentions and an assessment under national and European fiscal rules to be possible. To begin when a new government takes office. This will create calm in the budgetary process. It promotes policy predictability and stable implementation.

The full text of the Advisory Division's opinion on the 2024 Budget Memorandum and the 2023 September Report on Budgetary Monitoring will be available soon in English and published [here](#).