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Increasing structural deficit complicates budget preparation 2017

In 2015 and 2016, the Netherlands will be complying with the European fiscal rules for expenditure growth and debt. However, the *actual* budget deficit shows a limited improvement, despite favourable economic forecasts. The *structural* budget deficit deteriorates over 2015 and 2016, as a result of which the medium-term objective will no longer be met. Whether, despite this, the Netherlands will comply with the European rule for the structural budget deficit, will depend on the European Commission's approach when, in November 2015, it assesses the government's policy efforts. In all cases, exceeding the goal for the structural deficit in 2015 and 2016 will complicate the budgetary preparation for 2017 due to take place next spring.

This can be read in the Budget Supervision Spring Report 2015, published by the Advisory Division of the Council of State today (15 September 2015). This report contains an assessment as to whether the budget complies with the European fiscal rules by which the Netherlands is bound. With effect from 2014, the Advisory Division was assigned as the body that maintains independent supervision in the Netherlands of the compliance with the fiscal rules that have been agreed upon in Europe. In order to perform this new task effectively, the Advisory Division focuses its approach on key points in the budget cycle. This is why, last spring, for the first time, it issued a spring report on the Stability Programme and is now issuing a September Report on the Budget Memorandum and the budget.

The budgetary outlook for 2015 and 2016

Despite the relatively favourable economic development since 2014, the actual budget deficit has only been reduced by a limited amount. The structural deficit will increase in 2015 and 2016 and exceeds the medium-term goal of 0.5% GDP for the deficit. This was not the case in the estimates this spring. The European Commission's approach to this November's assessment of whether the policy efforts for 2016 are sufficient and whether the fiscal rule for the structural budget deficit is being complied with, implies that one may use the (more favourable) estimates of the deficit in the spring. Even if the European Commission's assessment is positive, the increasing budget deficit worsens the budgetary outlook for 2015 and 2016. After all, the structural budget deficit for 2016 is estimated to be considerably higher in the Budget Memorandum (1.3% GDP) than it was this spring (0.5% GDP). This is the result of lost gas revenues (amounting to € 1.85 billion in 2016) and the proposed tax cuts of € 5 billion for 2016. Therefore the distance to the -3% reference value for the budget deficit remains small. Unexpected developments may then have a considerable impact on the effectiveness of government policy.

Spring Report

Windfalls with regard to the agreements in the 2012 Coalition Agreement appeared to provide some room for manoeuvre. In its Spring Report (April 2015), however, the Advisory Division already indicated that the 'windfalls' with regard to the estimates at the start of this cabinet's term were needed to comply with the European fiscal rules.

The structural budget balance that was forecast in the 2012 Coalition Agreement did not comply with the European fiscal rules. The Advisory Division's conclusion in its Spring Report was that considering the European rules, there was no additional scope for policy making.

The goal of a balanced budget

An increasing structural deficit in 2015 and 2016 means that, as from spring 2016, the structural deficit will have to be reduced by an average of 0.5% GDP (€ 3.5 billion) per year. The room for growth in expenditure is also being cut back for a number of years, until the Netherlands once again complies with the medium-term objective for the budget deficit. This could lead to a need for expenditure cuts or tax measures in 2017 and the years thereafter in order to achieve the goal of a balanced budget.

The government was consulted by the Advisory Division about the draft assessment, and identifies with the key aspects of the Fiscal Monitoring Spring Report 2015 by the Advisory Division.

Read the complete text of the Budget Supervision September Report 2015 [here](#).