

20 September 2016

The 2017 budget does not fully comply with European fiscal rules

The 2017 budget of the Netherlands does not fully comply with European fiscal rules. This conclusion can be drawn on the basis of forecasts in the 2017 Macro Economic Outlook by the CPB Netherlands Bureau for Economic Policy Analysis. In 2017 the structural government balance is gradually approaching the European medium-term budgetary objective of -0.5% of GDP. The general government debt is dropping fast enough towards the so-called Maastricht criteria of 60% of GDP, but in the CPB forecasts for 2017, both the development of the structural government balance and the development of public expenditure do not fully comply with the European fiscal rules. The deviations stay "below the threshold", above which they could be considered a significant deviation. For 2016, the budget is compliant with the European fiscal rules.

This was reported in the 2016 Budgetary Supervision September Report which the Advisory Division of the Council of State published today (20 September 2016). This report contains an assessment as to whether the budget complies with the European fiscal rules by which the Netherlands is bound. The Advisory Division of the Council of State is assigned as the body that maintains independent supervision in the Netherlands on compliance with the fiscal rules agreed upon in the European Stability and Growth Pact. In order to perform this task effectively, the Advisory Division makes its work correspond to key moments in the budget cycle. In April, the Advisory Division publishes the Spring Report on the Stability Programme and in September it publishes its assessment on the Budget Memorandum and departmental budgets.

Public finances improving

The Dutch economy is expected to grow by 1.7% in both 2016 and 2017. This forecast is lower than envisaged last spring. That is mainly due to increased uncertainties because of the outcome of the Brexit referendum. Public finances will improve in both years, mainly through higher tax revenues. In CPB's forecast, the *actual* budget deficit results in 1.1% of GDP in 2016 and 0.7% of GDP in 2017. The *structural* budget deficit (the budget deficit adjusted for the economic cycle and incidental items) also improves in both years and is gradually approaching the European medium-term budgetary objective of 0.5% of GDP.

Adjustments to expenditure and revenue ceilings inconsistent with national budgetary framework

Within the national budgetary framework the government adjusts the expenditure and revenue ceilings to fit in additional expenditure for social priorities and improvement of purchasing power. These adjustments to expenditure and revenue ceilings are inconsistent with the national budgetary framework. This framework assumes fixed expenditure and revenue ceilings that are adopted at the beginning of a new government term for the entire period. This is an issue, since the government assured in the spring to maintain the regular *national* budgetary framework in order to comply with the *European* fiscal rules. If the government had followed the regular national budgetary framework, then the budget for 2017 would probably have complied fully with the European fiscal rules.

Credibility of trend-based fiscal policy

According to the Advisory Division, the importance of a consistent and effective national budgetary policy has increased even further in the light of the European fiscal rules. In the last few decades the trend-based fiscal policy has proven its usefulness, but its success depends on the degree in which the government adheres to the rules to which it has committed itself. By adjusting the expenditure and revenue ceilings without further explanation merely to fit in additional policy measures, the government undermines the credibility of trend-based fiscal policy.

The Advisory Division has questioned the government about the draft assessment. The response from the government has not prompted the Advisory Division to change its assessment.

Read the full text of the 2016 Budgetary Supervision September Report [here](#).