

3 November 2017

Coalition Agreement complies with European rules, but caution needed

According to an analysis of the Coalition Agreement by the CPB, Dutch public finances will continue to comply with European fiscal rules during the new government's term of office. However, caution is needed. The margin factored into the Coalition Agreement for the medium-term objective for the budget balance is useful. But it is also modest, given the major budgetary uncertainties. Further, the so-called sustainability balance is worsening. This means that in the future, expenditure will have to be reduced and revenues increased to the order of €3 billion. This would actually have been even more without the tax measures due to enter into effect after 2021, totalling some €7 billion.

This is according to the November 2017 Report on Fiscal Monitoring published today (3 November 2017) by the Advisory Division of the Council of State. The 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 responsible for the 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. Since no Coalition Agreement had yet been reached in September, the Advisory Division has issued an interim report on the consequences of the Coalition Agreement.

Small budget surplus

Based on the underlying economic projections, the increased expenditure and tax-relief measures agreed in the Coalition Agreement, amounting to €14.5 billion in 2021, will result in a small budget surplus of on average around 0.5% GDP. However, this surplus is also determined by the favourable economic cycle. The (cyclically adjusted) structural government balance assessed in the context of the European rules, paints a less favourable picture. On this basis, the medium-term objectives agreed in a European context will almost be met in 2018. From 2019, the budget will be close to balance in structural terms. Government debt will continue to fall steadily, towards 45% GDP in 2021.

Caution

There are considerable budgetary uncertainties. For example, the Coalition Agreement assumes economic growth that is considerably above structural growth. This increases the chance of setbacks. Additionally, experience teaches us Dutch public finances can be highly volatile. A surplus can quickly turn into a deficit. Furthermore, the so-called sustainability surplus becomes a sustainability deficit as a consequence of the Coalition Agreement. As a result, expenditure will have to be reduced or revenue increased at some point in the future. Caution is therefore needed.

Read the full text of the November 2017 Interim Report on Budgetary Monitoring [here](#).