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Public finances comply with European fiscal rules

Public finances complied with European fiscal rules in 2016. This is also expected for 2017 and 2018. As Dutch public finances are sensitive to fluctuations in the economy, it calls for maintaining a buffer in the budget in forthcoming years. In that way any possible deficit in the future can be absorbed better.

This was reported in the Spring 2017 Budget Supervision Report which the Advisory Division of the Council of State published today (13 April 2017). This report contains an assessment of the annual Stability Programme to be submitted by the Dutch government to the European Commission by 1 May. The Advisory Division is assigned to maintain independent supervision in the Netherlands on compliance with European fiscal rules. In order to perform this task effectively, the Advisory Division offers its advice at important stages in the national budget cycle. So it publishes a report twice a year, the Spring Report in April and the September Report around the 'State opening of Parliament' (Prinsjesdag).

Dutch public finances comply with European fiscal rules

In 2016, the Dutch treasury showed a surplus of 0.4% of GDP. The structural budget balance, which is particularly relevant in the context of European fiscal rules, turned from a deficit in 2015 to a surplus of 0.5% of GDP in 2016. This means that the structural budget balance in 2016 complies generously with the so-called 'medium-term budgetary objective' set for the Netherlands. Although government debt was still above 60% of GDP in 2016, the debt decline in respect to 2015 was significant enough to meet European fiscal rules.
Also in 2017 and 2018, it is expected that both the actual and structural budget balance will remain positive, complying with the European fiscal rules.

How to continue with budgetary policy?

These developments create room for budgetary manoeuvre for the government in the years ahead, to work on a budgetary policy that promotes stability and growth. According to the most recent CPB projections, public finances will improve further in the medium-term. Yet this assumes a no-policy change scenario, whereas it seems more likely that a new government will propose additional expenditure or would like to reduce taxes.

The Advisory Division points out that Dutch public finances are very sensitive to cyclical fluctuations in the economy. This calls for a buffer, so that European fiscal rules can also be met in the future. This likewise provides the possibility for maintaining own national fiscal rules in addition to European fiscal rules. Fiscal policy would additionally have to be geared towards the structural improvement of economic growth. That growth is best served by investments in a variety of fields (such as sustainability, education and innovation), but also by reform of the tax system and the pension system, which all demand part of the available fiscal space. In doing so, the sustainability of public finances in the long-term must always be taken into consideration.

Read the full text of the Spring 2017 Budgetary Supervision Report here.