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Government finances must provide insight into political decisions, especially in times of crisis

European fiscal rules in the Stability and Growth Pact have been temporarily suspended by the European Commission because of the COVID-19 crisis. Therefore, the significant government deficit and the large increase in government debt are not currently in breach of the rules. However, the Budget Memorandum must offer parliament the best possible insight into the budgetary consequences of the COVID-19 crisis and the development of other expenditure and costs. This insight is currently limited. It is due to the large number of '*supplementary*' budgetary laws and the many changes in expenditure and tax frameworks. For example, the development of healthcare expenditure in the Budget Memorandum is difficult to follow, and this impairs accountability for political decisions.

Reporting and advice

This can be read in the September 2020 Report on Fiscal Monitoring and the advice on the Budget Memorandum 2021, published today on Prinsjesdag (15 September 2020) by the Advisory Division of the Council of State. In the September report, the Advisory Division assesses whether the budget complies with the agreed European and national fiscal rules. As an independent legislative adviser to government and parliament, the Advisory Division also provides its annual assessment of the state budget for the coming year. This year, the September report and the advice on the Budget Memorandum are published in a single document.

Second wave scenario

In the 'basic scenario' forecast provided by the CPB Netherlands Bureau for Economic Policy Analysis, government debt this year slightly rises above the European fiscal rule of 60% of gross domestic product. CPB also provides an alternative forecast that takes a second wave of COVID-19 into account, which is considerably worse and not entirely unthinkable. In that forecast government debt could rise above 70% next year. The Budget Memorandum accounts little for this scenario. Therefore, the government should address the possible consequences of and policy responses to scenarios worse than the basic scenario underlying the forecast. This promotes a timely debate on political decisions that must be made if those scenarios were to arise.

Ambivalence

The Advisory Division signals a certain ambivalence in the Budget Memorandum with regard to future policy. The aid packages undertaken in response to the COVID-19 crisis are extensive. For the time being, they appear effective and are convincingly substantiated. However, the many investment proposals lack cohesion. The tax measures, including those for business, deserve more satisfactory substantiation.

Fiscal policy after 2021: anchors for political decisions

Finally, the Advisory Division's advice addresses future (European) fiscal policy. If the European Stability and Growth Pact is revised, it must not only regulate national fiscal policy of Member States, but also that of the European Union as a whole.

Budgetary policy is important from a democratic perspective. It is much more than just a matter of economics. Clear fiscal policy provides 'anchors' for political decisions. Budgetary reference values give citizens an insight into the issue of the considerations taken into account by government and parliament.

Norms for debt and the tax burden

Anchors for future fiscal policy are a norm for the debt ratio and a norm for the tax burden. A debt rule of 60% of gross domestic product for the medium term remains defensible and realistic for the Netherlands. A norm for the tax burden should be politically set at the beginning of new government in the coalition agreement. In addition, the Advisory Division advises that criteria are formulated for broad prosperity, transitions and the quality of expenditure.

Full text of the 2020 September Report

Read the full text of the 2020 September Report on Fiscal Monitoring [here](#).