

## **2022 June Report on Budgetary Monitoring**

The Advisory Division of the Council of State considers this government's first Spring Memorandum a good start in terms of a new budgetary process, but thinks that more can and must be done in the coming years.

From now on, the government intends to submit to parliament its main decisions on public expenditure and taxes for the subsequent year in the Spring Memorandum in May/June instead of in the Budget Memorandum in September. However, part of this year's decision-making process will not take place until the upcoming Budget Memorandum. This means it is not possible for an integral decision to be taken regarding all the state budget's income and expenditure in the spring. Moreover, in the existing process not all budgetary documents are published at the same time as the Spring Memorandum. In addition, the Spring Memorandum does not establish a link with the European budgetary process, which not only focuses on the budgets of European Member States, but also contains recommendations for boosting economies. The Advisory Division recommends that as of next year, the preparation and formulation of the Spring Memorandum be improved with regard to these three aspects. Whether this new budgetary process will ultimately be a success is not only in the government's hands, but is just as much a joint responsibility of parliament.

This is stated in the first June Report on Independent Budgetary Monitoring 2022, published on 2 June 2022. The adjustment of the budget cycle, which focuses more on the Spring Memorandum, also results in the Advisory Division adjusting its reporting cycle. In 2022, it will report in April (European Stability Programme), June (Spring Memorandum) and September (Budget Memorandum) in the context of independent budgetary monitoring. One thing that will not change is the fact that each report will assess whether public finances comply with European and national fiscal rules.

### **The limits are in sight**

The Advisory Division notes that to a large extent the Spring Memorandum does not comply with European fiscal rules. It may comply with the (60%) debt criterion but the deficit rules will be exceeded in 2022. The structural deficit rule will not be met in 2023 either. For the time being, this does not have any consequences as far as the European Commission is concerned, due to the (aftermath of the) Covid-19 crisis and the consequences of the war in Ukraine.

In the Spring Memorandum the financial agreements arising from the Coalition Agreement are translated into the expenditure ceiling and the revenue framework. These serve as an anchor for this government term's budgetary policy. For the revenue framework, any windfalls are used to reduce government debt and any setbacks do not require additional spending cuts. As a result, revenue moves in tandem, as it were, with the economic cycle. This is also known as trend-based fiscal policy.

In the Spring Memorandum the government states that the limit of expenditure the government considers acceptable has been reached. The Advisory Division endorses this; indeed, it points to the significant economic and budgetary risks that currently exist. A further deterioration of public finances cannot be ruled out. This means that the European targets for budget deficits are even further away. Then there is the question of whether public finances have adequate buffers for the continued implementation of trend-based fiscal policy. Therefore, the Advisory Division recommends that the Budget

Memorandum address the consequences for the sustainability of public finances under different economic scenarios.

**Sustainable public finances for future generations**

European fiscal rules serve to ensure the affordability of a country's government debt as well as to promote equal distribution of the benefits and burden of government policy across several generations. According to the government, the overshoot of European fiscal rules is acceptable because of the urgent investments needed in the future in the areas of climate, nitrogen, education and innovation. However, the Advisory Division notes the lack of further substantiation of this position in the Spring Memorandum. Moreover, the government has decided to withdraw money from various budgetary funds to finance short-term policies. As a result, expenditure for long-term challenges risks being crowded out. Therefore, the Advisory Division recommends the government address the sustainability of public finances for future generations, from the perspective of broad prosperity, in the Budget Memorandum.

Read the full text of the Advisory Division's June 2022 Report [here](#).