The Advisory Division's opinion on the 2022 Budget Memorandum and the 2021 September Report on Fiscal Monitoring

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In the Government Missive of 2 September 2021, No. 2021001612, Your Majesty, on the recommendation of the Minister of Finance, submitted the draft Budget Memorandum and September Report on Fiscal Monitoring to the Advisory Division of the Council of State for consideration, with an explanatory memorandum.

A. Introduction

In this report the Advisory Division of the Council of State publishes its opinion on the Budget Memorandum and the report related to independent fiscal monitoring. This year there is a strong substantive link between fiscal monitoring and the opinion on the government's financial-economic policy. The situation deviates from the regular budget cycle, because the general escape clause of the Stability and Growth Pact (SGP) was activated in relation to the Covid-19 crisis. This makes it possible for Member States to deviate from the Pact's targets. In addition, a new government is being formed and the current government is under resignation. A new government will establish new national fiscal rules.

Both the report related to fiscal monitoring and the opinion on the Budget Memorandum stem from the Sustainable Public Finances Act (Wet Houdbare Overheidsfinanciën, 'Wet HOF'). The status of the two documents differs. The opinion on the Budget Memorandum is a mandatory opinion to which the government responds in a subsequent report. The Advisory Division generally publishes two independent fiscal monitoring reports a year, in April and September In the reports it provides an assessment of the expected budgetary developments and intentions as adopted by the government in, respectively, the Stability Programme and Budget Memorandum. In its assessment the Advisory Division works closely with the CPB Netherlands Bureau for Economic Policy Analysis. The division of tasks entails that the drawing up of independent economic and budgetary forecasts and analyses are assigned to the CPB Netherlands Bureau for Economic Policy Analysis; the Advisory Division has been charged with assessing compliance with (European) fiscal rules.

In the interests of quality and meticulousness in drawing up the assessment for the September Report and the opinion on the Budget Memorandum the Advisory Division was able to consult a draft version of the Budget Memorandum. On the basis of this, the Advisory Division drew up a draft assessment in relation to independent fiscal monitoring (draft September Report). It has been reviewed with the government on the principle of adversarial debate. The Advisory Division has made its final assessment after being informed of the government's response. The government's response is included in full in this report. The government

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responds to the Advisory Division's opinion on the Budget Memorandum in a subsequent report, which is submitted to the House of Representatives at the same time as the Advisory Division's opinion on the Budget Memorandum.

This report is structured as follows:

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B. Macroeconomic and budgetary outlook

Following an unprecedented economic contraction in 2020 of 3.8% of gross domestic product (GDP), this year the economy unexpectedly bounced back. In 2021, the economy is expected to grow by 3.9% of GDP. This is an obvious upward readjustment compared with the forecast by the CPB Netherlands Bureau for Economic Policy Analysis (March 2021) in the Central Economic Plan (CEP). It assumed GDP growth of 2.2% Against the background of a number of restrictive measures currently still in force due to Covid-19. During the fourth quarter of 2021, GDP is expected to exceed the pre-Covid-19 crisis level, slightly faster than elsewhere in the eurozone.

The economy is expected to grow by 3.5% in 2022. Growth figures for the Netherlands are lower than for the eurozone as a whole, partly because the economic contraction in 2020 was relatively limited in the Netherlands. The relatively small contraction from an international perspective, was partly due to the fact that the Dutch economy is fairly diversified, which means it is less dependent on specific sectors. Furthermore, the support measures implemented by the government largely absorbed the impact of the recession.

Table 1: Macroeconomic core data

	2020	2021		2022	
(changes in % per year)		*CEP 2021*[b]	MEV 2022	*CEP 2021*	MEV 2022
Eurozone					
Gross Domestic Product (economic growth)	-6,6	*4,0*	4,9	*4,0*	4,3
Netherlands					
Gross Domestic Product (economic growth)	-3,8	*2,2*	3,9	*3,5*	3,5
Household final consumption expenditure	-6,6	*0,6*	2,4	*6,1*	5,8
Investment in housing	-2,6	*0,0*	4,7	*1,1*	3,5
Gross fixed capital formation	-6,3	*1,0*	3,3	*4,8*	3,2
Exports of goods and services	-4,8	*2,6*	6,8	*5,2*	5,4
Employment labour market (hours)	-2,7	*2,0*	2,3	*1,5*	1,8
Unemployment rate (level, % of labour force)	3,8	*4,4*	3,4	*4,7*	3,5
Actual EMU balance (% GDP)[a]	-4,2	*-5,9*	-5,4	*-1,7*	-2,3
General government debt (% GDP)[a]	54,3	*58,6*	57,5	*56,9*	56,5

Source: CPB Netherlands Bureau for Economic Policy Analysis, Macroeconomic Outlook 2022 en Central Economic Plan 2021
(a) Actual EMU balance and general government debt 2020 based on CBS (Statline) actual figures
(b) The Central Economic Plan (CEP) appears every year in March. The CEP 2021 appeared in March 2021. The Macroeconomic Outlook (MEV) is published every year on Prinsjesdag. The MEV 2022 appears on Prinsjesdag 2021.

All expenditure categories make a positive contribution to economic growth. However, the growth is predominantly driven by an increase in consumption, partly due to a sharp rise in savings during the pandemic, and exports. The favourable economic forecasts result in an obvious downward readjustment of unemployment in 2021 and 2022. This illustrates our economy’s dynamics and capacity to adapt. At the same time the labour market is currently extremely tight.

This could slow down economic growth. In addition, there are multiple uncertainties and risks, at the national and international level, which may have consequences for the economy and public finances.

The budgetary outlook
The government primarily absorbed the economic effects of the Covid-19 crisis through additional expenditure and the automatic stabilisation of the revenue side. It means that no extra cuts will be necessary in the event of decreasing revenue as a result of economic developments. As of 1 October 2021, relevant support measures for the EMU balance will be phased out from €39.2 billion in 2021 to €11.8 billion in 2022. Consequently, in 2022, the budget deficit will also be sharply reduced compared with 2021. The actual EMU balance decreases from a deficit of 5.4% of GDP in 2021 to a deficit of 2.3% of GDP in 2022, returning to below the threshold value of the Stability and Growth Pact (SGP) of -3% in 2022.

The structural balance does not comply with the MTO target for the Netherlands of -0.5% of GDP in 2021 or 2022. However, as a result of the general escape clause being activated within the SGP, this has no consequences for 2020-2022. Tax and contribution receipts fell in 2020, both due to the Covid-19 crisis and tax relief measures. These receipts are expected to increase once more in 2021 and 2022. Since the economy is expected to grow faster than taxes, the total revenue ratio will decrease.

Table 2: Public finance core data

(in % GDP)	2017	2018	2019	2020	2021	2022
General government expenditure	37,4	37,4	37,5	43,8	44,1	40,6
General government revenue	38,7	38,8	39,3	39,7	38,8	38,3
Actual EMU balance	1,3	1,4	1,7	-4,2	-5,4	-2,3
Of which EMU balance local governme	-0,1	-0,2	-0,3	-0,3	-0,2	-0,2
Structural budget balance (EC method	0,5	0,8	0,8	-1,9	-4,3	-2,6
General government debt	56,9	52,4	48,5	54,3	57,5	56,5

Source: CBS (Statline) and CPB (Macro-Economische Verkenning 2022)

Government debt has increased considerably since the beginning of the Covid-19 crisis as a result of the support measures, permitted tax deferral, additional government loans to businesses, guarantees provided and a decrease in government revenue. Nevertheless, the debt ratio will be far below the average in the eurozone and below the European target of 60% of GDP.

C. Opinion on the 2022 Budget Memorandum

1. Summary conclusion and advice

The government submits the 2022 draft budgets to the States General, in the form of the 2022 Budget Memorandum, the memorandum on the state of public finances. The 2022 Budget Memorandum and the draft budgets focus on the state of affairs of broad prosperity, the economy and public finances in relation to the Covid-19 crisis, the economic recovery that is underway and challenges for the future.

This year, in its opinion on the Budget Memorandum the Advisory Division asks that special attention be devoted to the House of Representatives and the Senate's rights associated with the budget. It assists parliament in reinforcing its rights associated with the budget. An initial proposal is to reinforce the Sustainable Public Finances Act (Wet HOF) to afford parliament better control of social security, healthcare and taxation. With regard to taxation, the Advisory Division repeats its call to adopt a more accurate and timely approach to the annual Tax Plan. Its second proposal is to apply the Second State Accounting System Operation in order to modernise the budget and reporting system. The Advisory Division's third proposal is, from now on, to submit the Budget Memorandum in the spring. As a result this process would be aligned with the European fiscal cycle and the House of Representatives and the Senate would be better placed to act in a more timely manner. On Budget Day in September, the speech from the throne would be delivered and departmental budgets elaborated on the basis of the Budget Memorandum.

The Advisory Division addresses this theme bearing in mind the unique circumstances due to an abrupt economic shock resulting from the Covid-19 crisis. In 2020, it caused a historic contraction of the economy by 3.8% of GDP. Partly thanks to extensive government support measures, the economy is currently displaying a buoyant recovery, already characterised by an extremely tight labour market. Since the Covid-19 crisis, the actual figures are considerably more positive than previously expected. Partly due to the rapid recovery and low interest rates, Dutch public finances are in relatively good shape, with a debt ratio that is below 60% of GDP.

At the same time, the Covid-19 crisis has widened differences between groups, further exposed existing vulnerabilities and made them more urgent. This creates multiple challenges. The outgoing government opts to release funds to address a number of challenges and outlines challenges for the future in the Budget Memorandum.

The seven challenges for the future it outlines are: quality improvements in education, more equal treatment for the employed, a simpler allowances system, space for housing, future-proof healthcare, sustainable (international) security and limiting climate change. However, the Advisory Division questions whether the labour market theme is overly limited to labour market arrangements. Isn't the theme of increasing tightness on the Dutch labour market and the structurally lower labour supply in the event of greater demand for labour equally significant?

Moreover, the healthcare theme is highly focused on cost management. The structural tightness in the supply of healthcare personnel in the healthcare sector cannot be ignored. Drawing lessons from the Covid-19 pandemic, more emphasis could be placed on the importance of a healthy lifestyle, broader than 'prevention'. Lastly, the climate theme includes the term 'limiting change', which insufficiently conveys the urgency involved.

The Advisory Division thus sees the need for a new, incoming government to implement structural reforms and investments. This will facilitate the necessary, urgent structural economic adjustments. What's more, at first glance it does not appear that the incoming government will face many budgetary constraints. After two years of the Covid-19 crisis and substantial collectively funded support measures, Dutch public finances are still in good shape.

Nevertheless, uncertainties must always be taken into account. The Covid-19 pandemic is far from over (from a global perspective). Worldwide economic and geopolitical turbulence also mean that the predictability of world trade, prices, inflation and interest rates is uncertain. Furthermore, there are concerns regarding the debt sustainability of other EU Member States.

The challenges for the future outlined in the Budget Memorandum naturally necessitate political choices. When budgetary constraints are not felt, or observed, there is a lack of democratic anchors for assessing considerations regarding levying taxes and spending general resources. If they are lacking, decisions regarding expenditure are no longer considered integrally, assessed on the merits of their effectiveness and accounted for democratically.

This is why it will be necessary to ensure public finances remain sustainable. Therefore, the Advisory Division agrees with the statement made by the government in the Budget Memorandum of the importance of returning to an orderly budgetary policy and to a single main decision-making moment. The duty will soon lie on a new, incoming government to handle the wealth of relatively favourable public finances with care.

In its opinion on the 2021 Budget Memorandum and the 2021 Spring Report, the Advisory Division also advised the new, incoming government to establish budgetary policy in a transparent manner, by defining 'anchors for budgetary policy'.[1] In addition to the aforementioned opinions, the Advisory Division also recommends taking a number of perspectives into account:

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1 Parliamentary Documents II 2020/21, 35570, and Parliamentary Documents II 2020/21, 21501-07, No. 1750.

- Assess new policy ex ante on the basis of relevant aspects of broad prosperity.
- Reflect on implementation and transition issues that arise from structural reforms.
- In relation to investments, perform integral considerations within budgetary policy in order to monitor social and economic gains. This must also take into account cyclical factors, which may require different choices in terms of effectiveness and feasibility.
- Opt for a fixed main decision-making moment in the spring, to achieve greater cohesion between decision-making related to revenue, expenditure and taxation.
- Transparent budgetary policy also requires transparent consideration of the tax burden on citizens and businesses.
- Weigh up the effectiveness of the policy to be formulated ex ante in conjunction with the choice of policy.
- Be transparent with regard to the link between Dutch and European fiscal policy and formulate the Dutch input in the evaluation of the Stability and Growth Pact in a timely manner.

2. 2022 Budget Memorandum

2.1 Policy related to the Covid-19 crisis

The support measures implemented by the government largely absorbed the impact of the recession...

2020 and 2021 are extraordinary due to the abrupt economic shock resulting from the Covid-19 crisis. In 2020, the economy contracted by 3.8% compared with 2019.[2] This is 0.1% point more than the contraction during the crisis in 2009. This contraction is significant, but at the same time limited in scope in view of the sudden suspension of economic activity. In the basic forecast of the June 2020 forecast the CPB Netherlands Bureau for Economic Policy Analysis anticipated an economic contraction of 6% in 2020. This was based on the assumption that the pandemic would not resurface. The 'second wave scenario' assumes a contraction of circa 10% of GDP.[3]

In response to the Covid-19 crisis, the government implemented additional support measures on an extraordinary scale, in addition to automatic budget stabilisation.[4] As a result, the government largely contributed to limiting the economic damage.[5]

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[2] CPB Netherlands Bureau for Economic Policy Analysis (2021). August 2021-2022 forecast.

[3] CPB Netherlands Bureau for Economic Policy Analysis (2020). June 2020 forecast.

[4] Automatic stabilisation of the budget is part of trend-based fiscal policy. It involves the revenue side of the budget supporting tax and contribution receipts with the economic cycle. Consequently, no further cuts are required if revenue decreases. Conversely, extra revenue may not be used for additional expenditure.

[5] Dutch Central Bank (DNB) (2021) Economic Developments and Outlooks. June 2021, Number 21.

The support measures taken focus specifically on entrepreneurs and businesses, to prop up businesses, limit the number of bankruptcies and retain jobs and incomes.[6]

The main schemes are the NOW (Noodmaatregel Overbrugging voor Werkgelegenheid/Emergency measure for bridging employment), the TVL (Tegemoetkoming Vaste Lasten/Reimbursement of fixed costs) and the Tozo (Tijdelijke overbruggingsregeling zelfstandig ondernemers/Temporary bridging scheme for the self-employed). In addition, tax deferral was permitted, a number of guarantees were provided as was support for specific sectors. The measures (including tax measures) amounted to €31.1 billion in 2020. In 2021, additional government spending in relation to the Covid-19 pandemic, amount to an estimated €39.2 billion.[7] In comparison: in 2009 and 2010, the then Balkenende IV Cabinet provided just €6 billion to combat the credit crisis.[8]

During the fourth quarter of 2021, GDP is expected to exceed the level at the end of 2019. This is slightly faster than elsewhere in the eurozone.[9] The CPB Netherlands Bureau for Economic Policy Analysis expects GDP to be 1.5% lower in 2025 (which does not yet include a new Coalition Agreement) than expected in the forecasts produced before the Covid-19 pandemic. For the 2022-2025 period, the CPB now forecasts annual growth of 2.1%. According to the CPB, this structurally lower level of production is mainly due to a weaker trend-based increase in labour productivity as a result of missed investments, attributable to the Covid-19 recession.

...At the same time there are also negative aspects related to support policy.

The support measures have enabled the government to limit the number of bankruptcies. Consequently, a lot of jobs have been retained, exerting a positive impact on the economy. What's more, during the Covid-19 crisis, the number of bankruptcies decreased dramatically, and in July 2021, reached its lowest level in thirty years.[10] On the one hand, the low number of bankruptcies limited the structural damage to the economy. On the other, there is a risk that non-viable businesses have also endured due to the extensive support policy. These companies were already at risk of going bankrupt before the start of the crisis, or now have an outdated business model. Continuing to provide these companies with support is ineffective. This could also be damaging to the economy as employees should be working for viable and thus productive companies.[11]

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[6] Parliamentary Documents II 2021/21, 35420, No. 314.
[7] CPB Netherlands Bureau for Economic Policy Analysis (2021). 2022 Macroeconomic Outlook.
[8] Parliamentary Documents II 2008/09, 31070, No. 24H.
[9] CPB Netherlands Bureau for Economic Policy Analysis (2021). June 2021 forecast.
[10] Statistics Netherlands (Centraal Bureau voor de Statistiek) (2021). Fewer bankruptcies in July. https://www.cbs.nl/en-gb/news/2021/32/fewer-bankruptcies-in-july
[11] CPB Netherlands Bureau for Economic Policy Analysis (2021). Balansherstel bedrijven na corona. (Balance recovery of businesses following Covid-19) CPB Covid-19 Publication, May 2021.

In the 2022 Budget Memorandum the government points out that the scope and wide availability of Covid-19 subsidies have a dampening effect on the economic dynamic and the capacity to adjust, while they are important for innovation and earning capacity. The outgoing government recently decided to end generic Covid-19 support as of 1 October 2021.[12] The reason for this is that a buoyant economic recovery is underway and we are entering a new phase due to the possibility of vaccination. A number of support measures will remain in force during the fourth quarter of 2021. This is partly to support specific sectors that face limitations as a result of Covid-19.

The Advisory Division specifically advises that the issue of the interaction between government aid and (more or less) economic dynamic be analysed in more detail. As an evaluation, but above all, as a lesson for the future.

There must be a greater focus on structural economic adjustments.

The CPB advises the government to shift the focus of support policy from maintaining employment to facilitating adjustments in the economy and supporting recovery. This is in light of long-term challenges, such as the climate, the housing market, labour market dualisation, the quality of education and implementation issues.[13]

This is all the more relevant in the current period, which is characterised by an extremely tight labour market. Since the way in which sectors were affected by the Covid-19 crisis differs considerably, it could result in a mismatch on the labour market.[14]

The ABN AMRO labour market indicator reveals that the mismatch on the labour market is currently at a record level.[15] The bank proposes that this mismatch is partly the result of the support measures. They have prevented a wave of lay-offs, but have also prevented mobility to sectors with a high demand for labour. Labour market tightness may partially decrease, after support measures have been phased out and the decrease in the number of Covid-19-related jobs. Nevertheless, there are concerns that the tightness on the labour market is also the result of more structural elements, such as the ageing population, (the lack of regulated) labour migration and impediments to women participating more in the workforce.

Momentum for structural change usually emerges during a crisis. The Covid-19 crisis has, for example, set in motion an acceleration in the field of digitisation. In

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[12] Parliamentary Documents II 2020/21, No. 35420.
[13] CPB Netherlands Bureau for Economic Policy Analysis (2021). June 2021 forecast.
[14] CPB Netherlands Bureau for Economic Policy Analysis (2021). Long-term effects of the Covid-19 crisis on the labour market. CPB Covid-19 Publication, August 2020
[15] ABN AMRO (2021) More unfillable vacancies than before the Covid-19 crisis. https://www.abnamro.nl/nl/zakelijk/insights/sectoren-en-trends/alle-sectoren/meer-onvervulbare-vacatures-dan-voor-coronacrisis.html

other fields existing vulnerabilities have been exacerbated. In a joint opinion on recovery policy, the planning bureaus Netherlands Institute for Social Research (SCP), PBL Netherlands Environmental Assessment Agency and CPB Netherlands Bureau for Economic Policy Analysis state that there is a risk that as a result of the current crisis other major social issues such as the climate and the sustainability of the healthcare sector will be snowed under.[16] The Planning Bureaus ask that attention be devoted to using opportunities to work on long-term challenges. The Covid-19 Crisis Think Tank[17] advises investing in structural economic reinforcement, based on the principle of broad prosperity.[18]

In the Budget Memorandum the government outlines seven major challenges for the future.[19] Moreover, the Advisory Division sees the need for a new government to implement structural reforms, so that the necessary and urgent economic structural adjustments are facilitated. The Advisory Division points to the importance of also viewing these challenges in a European and international context.

Other EU Member States have also implemented a large number of support measures.

Other EU Member States have also implemented a large number of support measures to limit the economic damage from the Covid-19 crisis. In 2020, on average these additional measures amounted to an estimated 6.5% of GDP.[20] It must also be said that the impact of the crisis differs from one Member State to another, partly depending on the extent to which the State concerned has a diversified economy.[21] The Dutch policy response amounted to approximately 4.5% of GDP. The measures largely concern additional public spending. There were also measures on the revenue side and loans and guarantees were provided too.[22]

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16 Netherlands Institute for Social Research (SCP), PBL Netherlands Environmental Assessment Agency and Netherlands Bureau for Economic Policy Analysis (2021). Briefadvies Planbureaus voor herstelbeleid – Een doorstart van de samenleving (Planning Bureaus letter of advice on recovery policy – A new start for society.)

17 The Covid-19 Crisis Think Tank was established mid-2020 at the initiative of the Social and Economic Council of the Netherlands (SER). Participants are representatives of knowledge institutions, planning bureaus and social partners such as DNB, SCP, CPB, the Education Council (Onderwijsraad), WRR, CBS, VNG, SER Jongerenplatform, RLi, RVS, FNV, VNO-NCW, CNV, AWVN, VCP, Clingendael and TNO.

18 Covid-19 Crisis Think Tank (2021). Perspectief op herstel. (Recovery perspective)

19 See also section C2.3 of this opinion.

20 European Commission (2021). Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank. Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy. COM(2021) 500 final.

21 An economy, for example, which is not largely dependent on tourism.

22 EU Independent Fiscal Institutions (2021). European Fiscal Monitor June 2021.

In 2021, Member States are also implementing an expansionary fiscal policy, in order to support the economy as much as possible during the ongoing Covid-19 crisis. The European Commission also recommends that low-debt Member States continue to pursue expansionary fiscal policies in 2022. What's more, all Member States are advised to make sustainable and growth-promoting government investments and to implement structural fiscal reforms. This helps find funding for policy priorities and contributes to the sustainability of public finances in the long term.[23]

...partly made possible by the relaxation of European fiscal rules

The activation of the general escape clause of the Stability and Growth Pact (SGP) provides Member States with room to implement an expansionary fiscal policy during the Covid-19 crisis. In addition, declaration of the application of the provision in the SGP related to extraordinary events, the budgetary impact of measures taken in response to the pandemic are excluded in assessing compliance with the SGP.

Support and recovery measures are also implemented in the European context, to help the Union and individual Member States through the crisis and to promote economic recovery.

Besides relaxing the rules, the EU policy response consists of a number of instruments that aim to support and strengthen individual Member States and the EU as a whole. The European Commission's Next Generation EU package is intended to help Member States and the EU with regard to their recovery and the resilience of the economy and society. The total package amounts to €800 billion. The Recovery and Resilience Facility (RRF) accounts for the largest part of this, good for €723.8 billion.[24] Member States can apply for subsidies and loans by means of a distribution key, by submitting a Recovery and Resilience Plan (RRP). The SURE instrument[25] has allocated financial support to 19 Member States[26] with a total value of almost €90 billion. The instrument can be used by Member States to pay for public expenditure necessary to maintain employment.[27]

[23] European Commission (2021). Recommendation for a recommendation by the Council with the Council's advice on the 2021 Stability programme of the Netherlands. COM(2021) 519 final.
[24] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility. EU Official Journal 2021, L 057
[25] European instrument for temporary support to mitigate unemployment risks in an emergency.
[26] Through loans on favourable terms.
[27] European Council (2021). Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak, EU Official Journal 2021, L 159

The European Stability Mechanism (ESM) has made €240 billion in loans available to Member States for 'Pandemic Crisis Support'.[28] This is a credit line for financing healthcare and related costs as a result of Covid-19, at low interest rates. To date, not a single EU Member State has applied for these loans, partly because Member States can issue loans to the market at low cost. Nevertheless, the existence of the credit line sends a positive signal: there is willingness at the European level to support individual Member States on several fronts if necessary.

The European Investment Bank (EIB) provides guarantees (maximum €25 billion) from the European Guarantee Fund (EGF) to encourage financial institutions to lend money to businesses suffering the consequences of the Covid-19 crisis, with the aim of mobilising €200 billion in the market. Up to mid-2021, €17.8 billion worth of guarantees were issued.[29]

In relation to the pandemic, the European Central Bank (ECB) launched the Pandemic Emergency Purchase Programme (PEPP), good for €1,850 billion. It is used to purchase bonds issued by Member States and companies. This increases the supply of cash in the market, which results in the interest rate falling. It means that loans to governments, businesses and consumers are cheaper, thus stimulating the economy. Through PEPP €1,220 billion in state bonds have already been purchased, of a total of €1,263 billion in loans purchased.[30]

The financial markets have reacted with confidence to the European policy response. Yet, there are concerns regarding the future.

The financial markets have reacted positively to the EU's unprecedented policy response. The EU has illustrated to the market that it is able to deal with this type of major crisis and that it is prepared to absorb the related consequences. It has also illustrated that the EU is a unit, with transfers taking place from stronger to weaker countries, and that it is not a union that is falling apart. As a result spreads (risk premiums on loans) are not increasing, as was the case in the previous crisis. Therefore, Member States (even those that are weaker in economic terms) are still able to obtain cheap loans on the financial markets.

However, there appear to be differences in market access for bonds issued by EU Member States. Foreign actors seem to be slowly withdrawing from the bond markets of Spain, Italy and Greece, where almost all newly issued government bonds are purchased by the ECB.[31] This could imply that private individuals, banks

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[28] European Stability Mechanism (2020). ESM Pandemic Crisis Support, Relevant documents related to Europe's response to the coronavirus crisis. https://www.esm.europa.eu/content/all-relevant-documents-related-european-union-response-coronavirus-crisis

[29] European Investment Bank (2021). European Guarantee Fund – the protection shield for European businesses. https://www.eib.org/en/products/egf/index.htm

[30] European Central Bank (2021). Pandemic emergency purchase programme (PEPP).

[31] International Institute of Finance (2021). Global Market Views – Fiscal Space and Market Access. August 12, 2021 and International Institute of Finance (2021). Global Market Views – Fiscal Space and Foreign Flows, August 19, 2021.

and insurers have no confidence in these state bonds under current interest rates (which remain low, because the ECB is buying up debt). It makes it difficult for the ECB to phase out the purchasing programme at any time, as this could have significant consequences for access to finance for a number of EU Member States.[32]

The Advisory Division advises examining what this means for debt sustainability of the Member States involved and the risks to the balance of the ECB, in the run-up to formulating the input for the evaluation of the SGP (see section C2.4). The results can be included in the Dutch position in the European debate.

2.2 Current and proposed budgetary policy

The draft budget of the outgoing government includes spending amounting to €340 billion for 2022. Approximately €12 billion of this is related to Covid-19. This includes the National Education Programme to eliminate learning disadvantages (€4 billion), completion of the NOW scheme (€2.9 billion) and the supply of vaccines (€0.6 billion). In total, over €90 billion is spent on social security and over €80 billion on healthcare. According to expectations, expenditure in 2022-2025 will grow nominally by 2% per year, in line with the estimated growth of receipts. This does not include policy proposals by the new government to be formed. In the 2021 September Report (Part D) the Advisory Division discusses tax development in more detail.

The outgoing government has opted for additional spending and increasing the State Budget and Social Security expenditure ceiling.[33] The most important measures on the expenditure side are:

- Additional climate investments of €6.7 billion, to implement the Urgenda ruling, extra emission reductions to be achieved and to work on the energy infrastructure of the future. The outgoing government also advises the incoming government to compile a balanced and integral package in addition to this, with a combination of normative, pricing and subsidising policies.
- Investments of €554 million in the rule of law, to combat subversive crime and improve access to the law.

On the revenue side €1 billion of the resources initially reserved for the Job-related Investment Discount (BIK) for employers will be invested in tax relief for the same group. In addition, purchasing power is being restored by using the remaining €0.8 billion that was reserved for the BIK for tax cuts for social minimum income, single earners and families (€224 million). Funds from the BIK will also be used to structurally lower the landlord levy by €30 million as of 2022. The 2022 Tax Plan consists of six tax-related bills. The Advisory Division provides advice on these bills separately.

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[32] NRC Handelsblad (2021). Kan de moderne reuzenstaat nog zonder gratis geld? (Can the modern giant state survive without free money?) NRC Handelsblad, 21 August 2021.

[33] For the ceiling test see the 2021 September Report.

2.3 *Challenges for the future*

In the 2022 Budget Memorandum the outgoing government devotes attention to the 2022 budget and the current state of the economy and broad prosperity. It also discusses challenges for the future. In addition to an analysis of the challenges, the government outlines possible policy options per policy area that originate from, for example, study groups, commissions and interdepartmental policy studies.

The future of healthcare

In the Budget Memorandum attention is devoted to the future of healthcare in several places. During the period 2008-2025, healthcare expenditure and social security expenditure will grow faster than the economy (without any policy changes). This means that an increasingly large proportion of public expenditure consists of spending on healthcare and social security. This risks crowding out other public expenditure. Moreover, it puts pressure on the level of general government revenue.

Public finances will structurally come under pressure in the coming decades due to the ageing population too. Besides additional spending, the ageing population also results in structurally lower tax revenue. Healthcare spending represents the public expenditure that is most sensitive to the ageing population. In a sensitivity analysis CPB demonstrates that with an additional structural increase in healthcare spending of 1% (without an increase in revenue) government debt would be 70% points higher compared with the expected level of government debt in 2060.[34]

Choices will have to be made in order to ensure healthcare remains affordable. In its report the 16th Study Group on Fiscal Policy referred to unequal treatment of healthcare spending in the budgetary framework.[35] Quality improvements in healthcare, regardless of demographics, are now automatically reimbursed. This does not apply to other sectors such as education. As a result it is easier to make investments in healthcare than investments in other public sectors, which means that other investments can be crowded out.

The Study Group recommends that the incoming government formulates a solution to this issue; there are several possibilities. Other options outlined in the Budget Memorandum include improving effectiveness, expanding the range of targeted healthcare and combating perverse production incentives in curative healthcare.

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[34] The CPB applies the technical assumption that government debt in 2060 will amount to 30% of GDP. This means that an additional structural increase in healthcare spending of 1% results in government debt of 100% of GDP in 2060.

[35] 16th Study Group on Fiscal Policy (2020) Koers bepalen – Kiezen in tijden van budgettaire krapte (Setting the course - Decisions in times of budgetary constraint).

At the same time, affordability is not the only bottleneck. The Budget Memorandum states that if policy remains unchanged, in 2040, one in four people will need to work in the healthcare sector to meet the increasing demand for care, whereas this figure was one in seven in 2017. As a result, the government is focusing on improving cooperation within the healthcare sector, steered by the authorities where necessary. In addition, the government cites examples such as prevention, better coordination of healthcare, innovation in working methods and promoting job satisfaction, and reducing work pressure through good employer practices.

The Advisory Division welcomes the fact that the government is placing bottlenecks in the healthcare sector on the agenda in the Budget Memorandum. It advises the incoming government to take the necessary decisions to ensure healthcare remains affordable on the one hand and thus prevent other public expenditure being crowded out. On the other hand, it is important to ensure healthcare remains of a high quality, accessible and affordable for all groups in society.

The Advisory Division observes that the greatest challenge in the healthcare sector involves sufficient manpower. This is perhaps even more important that cost management. This challenge not only puts pressure on the quantity and quality of care, but on the labour market as a whole. Drawing lessons from the Covid-19 pandemic, the Advisory Division could have imagined that more emphasis will be placed on the importance of a healthy lifestyle, which is broader than just 'prevention'.
It will not always be possible to avoid taking painful decisions with regard to healthcare. It is important to include parliament and society in these considerations.

Other important challenges for the future

In addition to challenges related to healthcare, the government outlines the challenges for the future regarding the climate, the labour market, education, the housing market, security and the allowances system. The government has released extra incidental and structural funds for the climate. The Budget Memorandum stresses that this is still insufficient and that more reforms and investments are needed. In the ‘Klimaatbeschouwing 2021’ (Climate Analysis 2021), which will be published at the end of October, the Advisory Division will assess current climate policy and formulate recommendations. Lastly, the climate theme includes the term 'limiting change', which insufficiently conveys the urgency involved.

According to the government, the greatest challenge on the labour market concerns reducing the differences between flexible and permanent employment. The government refers to the Borstlap Committee for possible solutions. The Advisory Division also requests that attention be devoted to the equally urgent theme of increased and ever increasing tightness on the Dutch labour market, and respectively, the structurally lower labour supply in the event of greater demand for labour. This is already translating into staff shortages in the healthcare sector, education and the police, as well as in sectors such as construction and engineering.

In education there are particular concerns about the quality of education. On the housing market there are major challenges related to affordability, construction challenges and the fiscal treatment of owner-occupied homes. In the field of security the government states that defensibility must be improved in order to address national and international issues and threats. The government also devotes attention to the allowances system, both to the policy measures already implemented and the steps to be taken towards a new system, which requires robust policy choices.

The Advisory Division agrees with the challenges outlined in the Budget Memorandum. These challenges will require investments as well as reforms, including at the fiscal level. The positions on budgetary policy outlined in the next section must be taken into account in order to arrive at effective policy. This will allow all considerations to be weighed integrally within and between policies.

2.4 Budgetary policy after the Covid-19 crisis

The importance of formulating budgetary policy

In its opinion on the 2021 Budget Memorandum and in the 2021 Spring Report on independent fiscal monitoring, the Advisory Division pointed out the importance of adopting a transparent approach to [36]developing fiscal policy from a democratic perspective.[37,38] Formulating anchors for budgetary policy ensures that decisions and potential reforms are weighed up in an integral manner based on politically chosen criteria. Now that the post-Covid-19 crisis recovery is underway, it is even more important for a new government to formulate budgetary policy. The Advisory Division also provides a number of viewpoints.

Include aspects of broad prosperity when establishing budgetary policy

The Advisory Division placed the prospect of broad prosperity at the centre of its opinion on the 2019 Budget Memorandum.[39] Broad prosperity involves the challenge of exploring whether existing systems, schemes and instruments still reach the intended (population) groups, are sufficiently mutually cohesive and adequately tailored to solving the issue at hand. This perspective can help

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[36] In other words, transparent and predictable.
[37] Draft Budget Memorandum 2021 and September Report on Budgetary Monitoring, Parliamentary Documents II 2020/21, 35570, no. 3, W06.20.0288/III.
[38] 2021 Spring Report, Parliamentary Documents II 2020/21, 21501-07, no. 1750, W06.21.0089.
[39] 2019 Draft Budget Memorandum, Parliamentary Documents II 2018/19, 35000, no. 4.

overcome divisions in society, to jointly consider long-term challenges and formulate political responses to problems experienced by citizens.

Since the 2018 opinion, a great deal of attention has been devoted to the term 'broad prosperity', including by the House of Representatives and Planning Bureaus. The Statistics Netherlands (Centraal Bureau voor de Statistiek) Broad Prosperity monitor[40] is now firmly anchored in the Accountability Debate. In its report the 16th Study Group on Fiscal Policy recommended focusing more explicitly on broad prosperity by formulating the main long-term objectives during the formation stage, for which funds can be reserved, which are reported annually in the Budget Memorandum.[41] In addition, the Study Group recommends aligning the reporting cycle of the PBL and SCP with the budget cycle. On the request of the House of Representatives, the Netherlands Institute for Social Research (SCP), PBL Netherlands Environmental Assessment Agency and CPB Netherlands Bureau for Economic Policy Analysis compiled a plan of action to integrate broad prosperity more effectively in the budget and accountability system by identifying a limited set of key indicators. It will be systematically developed during the coming period by, for example, publishing a dashboard of broad prosperity indicators that are published annually prior to the Spring Memorandum.[42] The 2022 Budget Memorandum also devotes considerable attention to broad prosperity, albeit mainly in descriptive terms.

The Advisory Division advises the new government to take the next step in integrating broad prosperity in the budgeting process. This can be achieved by jointly considering aspects of broad prosperity when formulating anchors for budgetary policy. In doing so, steps can be taken during the ex ante assessment of new policy on the basis of relevant aspects of broad prosperity.

This type of integration will be a major, far-reaching challenge for the ministries and require a significant adjustment of budgeting processes. Therefore, such an operation must only be set in motion if the new government and House of Representatives and the Senate are explicitly determined to pursue it, decide accordingly and (continue to) support it during the (long) introduction process.

In section C3 the Advisory Division provides assistance to parliament in reinforcing its rights associated with the budget. The Advisory Division proposes, in addition to the aforementioned opinion, to launch a Second State Accounting System Operation, with which the budget and reporting system, for example, are updated with regard to Broad Prosperity indicators.

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[40] Statistics Netherlands (Centraal Bureau voor de Statistiek) (2021). Broad Prosperity Monitor & the Sustainable Development Goals 2021. Parliamentary Documents 2020/2021 33529, no. 870.

[41] 16th Study Group on Fiscal Policy (2020) Koers bepalen – Kiezen in tijden van budgettaire krapte (Setting the course - Decisions in times of budgetary constraint).

[42] CPB Netherlands Bureau for Economic Policy Analysis (2021). CPB-PBL-SCP Plan of action Verankering Brede Welvaarts-denken in begrotingssystematiek van Kabinet en Kamer (Anchoring Broad Prosperity thinking in the Government and Parliament’s budget system). CPB-2021/20.

Take the organisation of transitions into account

The 2022 Budget Memorandum establishes that there are several challenges that require structural reform.[43] In the opinion on the 2020 Budget Memorandum the Advisory Division's advice was to reflect on implementation and transition issues that arise from structural reforms.[44] Structural reforms not only require budgetary resources: the implementation is crucial. The preconditions for the transitions formulated previously by the Advisory Division are still current.

Preconditions for successful transitions are proper preparation, sufficient investments by the government, an adequate spending margin for households and in particular, enough time and resilience. Now that multiple far-reaching reforms are needed and there are bottlenecks at implementing organisations, the most urgent transitions must be prioritised in relation to those that can and must be allocated more time. Budgetary policy must be phased and temporised, and the (implementation of) system changes must not be forced through in a single term of government.

The challenges for the future will also require additional investment

The current government has made €20 billion available for investment through the foundation of the National Growth Fund. Investments from the Growth Fund are intended to boost the 'sustainable earnings model' during the coming period.[45] Investments in, for example, scientific research focusing on the climate, could lead to significant contributions to the sustainable earnings model. Furthermore, the European Commission has made funds available to Member States (under certain conditions) to boost investment (and reforms) related to, for example, digitisation and the climate.[46] The Netherlands is entitled to around €5.7 billion, for which a plan still has to be submitted. The challenges outlined in the third chapter of the 2022 Budget Memorandum will also require additional investments, such as for the climate.

There is a debate in the national and international context regarding the question of whether public investments require different treatment in fiscal rules than consumptive public expenditure, so that the investment ratio is maintained, also in less favourable fiscal times. In practice it is difficult to formulate a strict distinction between investments and consumption. At the same time, it is important to also fully weigh up investments; lastly, not every investment is prudent from the perspective of economic and social gains. One must also take into account cyclical factors: if, for example, an investment requires additional jobs, it is less prudent when the labour market is tight. In this case it would be

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[43] See paragraph 2.2.
[44] 2020 Draft Budget Memorandum, Parliamentary Documents II 2019/20, 35300, no. 3.
[45] In addition, the actual realisation of this expenditure takes a certain amount of time, partly because planning takes time, but also due to cyclical factors.
[46] Through the Recovery and Resilience Facility (RRF).

better to consider how, adopting strict prioritisation, the most urgent investments, such as those in the climate and energy transition, can proceed.

The Advisory Division advises the new government to reserve space for investments within the budgetary frameworks to be formulated, to ensure integral considerations within these frameworks.

Opt for a fixed main decision-making moment

In its 2021 Spring Report the Advisory Division stated that greater stability in political decision-making is achieved by performing integral considerations at fixed times. The 16th Study Group on Fiscal Policy points to the importance of a fixed main decision-making moment in the spring.[47] The budgeting process is currently characterised by a single main decision-making moment in the spring focusing on expenditure, and a decision-making moment in August related to tax and purchasing power based on the latest forecast. Developments in the current year increasingly require political decisions that have budgetary consequences, as a result of which integral decision-making is put under pressure. Taking decisions in the spring on both the expenditure side and the revenue side will create greater cohesion between decision-making related to revenue and expenditure. This will also provide more time to implement fiscal measures, decisions on which are currently taken under extremely high time pressure.

With regard to the assistance the Advisory Division provides to parliament in reinforcing its rights associated with the budget,[48] in addition to a fixed main decision-making moment in the spring, the Advisory Division advocates for the Budget Memorandum to be submitted in the spring from now on. As a result this process would be aligned with the European fiscal cycle. The financial considerations could also be held in both the House of Representatives and the Senate at that time.

Be transparent with regard to considerations about the level and distribution of taxes

Transparent budgetary policy requires orderly consideration of expenditure and revenue and thus also a consideration of the tax burden on citizens and businesses. From an economic perspective there is no optimal tax level. The quality of general government expenditure is more important in this regard: the cost of investments in social issues must be weighed up against the benefits. A larger or smaller government is a political consideration, as is the related question of what should be financed collectively and what should be financed by the market. The outcome of this debate has consequences for the budgetary scope for government investment in social tasks.

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[47] 16th Study Group on Fiscal Policy (2020) Koers bepalen – Kiezen in tijden van budgettaire krapte (Setting the course - Decisions in times of budgetary constraint).

[48] In section C3.

A realistic revenue framework is usually agreed before a term of government begins. It establishes the policy-related tax development during the government term. The policy-related tax development must remain constant during the entire government term. Increases in the tax burden during the government term must be compensated by tax relief measures elsewhere, and vice versa. Fluctuations in revenue as a result of other causes, such as economic developments, are reflected in the EMU balance. This framework is included in the Initial Policy Memorandum of the new government in billions of euros.

In the opinion on the 2021 Budget Memorandum the Advisory Division included that the tax norms must continue to be afforded a clear position in budgetary policy, so that at the beginning of a government term unambiguous related political choices can be made. For the purpose of transparency there must be consideration in the Initial Policy Memorandum for the (policy-related) tax burden, to not only be presented in billions of euros, but also as a percentage of GDP. As a result, it is possible to clarify within the framework how the tax burden is distributed between citizens and businesses, labour and capital and different spending categories such as goods, energy and the environment.

Include the quality of expenditure in budgetary decisions

In the opinion on the 2021 Budget Memorandum, the Advisory Division pointed out the importance of instruments that monitor the quality of expenditure, such as the analyses of planning bureaus, cost/benefit analyses, policy audits, evaluations and reviews and programmes such as Insight into Quality. The quality of expenditure is all the more important during times of relatively broad budgetary thresholds or in the absence of clear anchors, which is currently the case.

Budgetary scope can be created for a new government depending on the budgetary anchors yet to be formulated by the new government. At the same time, there are major challenges for the future, as also outlined by the outgoing government in the 2022 Budget Memorandum. The necessary transitions and reforms will not be free, neither for society, nor for the government, and will require fiscal considerations. In this context, the Advisory Division points to the need for the effectiveness of the policy to be formulated ex ante when choosing a policy, so that proper considerations can be made.

Be transparent with regard to the link between Dutch and European fiscal policy and formulate the Dutch input in the evaluation of the Stability and Growth Pact in a timely manner

The government debt of countries within the eurozone has increased from an average of 86.1% of GDP to 100.5% of GDP as a result of the Covid-19 crisis. In the EU average government debt has risen from 79.2% of GDP to 92.9% of

GDP.[49] There are major differences between Member States. Greece's government debt is the highest at 200% of GDP and that of Estonia the lowest at 18.5% of GDP. Government debt in a remarkably high number of (large) Member States is above the threshold of 60% of GDP.

Concerns about the affordability of government debt could force interest rates to rise again. This applies in particular to Member States with high levels of debt such as Greece, Italy, Portugal and Spain. Almost all new government bonds issued by Spain, Italy and Greece are currently being purchased by the ECB.[50] This could indicate that the confidence of financial markets in these Member States is decreasing and that these countries must scale back their levels of debt if they want to retain access to the financial markets. In addition, the development of inflation, which is currently rising considerably in a number of countries, is a source of uncertainty, which could also cause upward pressure on interest rates.

Under these circumstances and with the uncertainty of the course the Covid-19 pandemic will take, the European Commission will continue its evaluation of the Stability and Growth pact in the autumn. It will examine aspects such as the anchors for European fiscal policy. This specifically concerns the (level of the) debt criterion, the pace of debt reduction by Member States with high levels of government debt, the extent to which public investments can be handled differently from consumptive public expenditure and whether the Recovery and Resilience Facility (RRF) could be a more structural element of future European fiscal policy.[51,52,53]

Due to major differences in Member States' starting point, consensus on the level of sustainable public finances and thus a possible review of the SGP could not be agreed. However, a possible review of the SGP has no consequences for Dutch fiscal policy. Moreover, developments related to inflation and interest rates have an effect on the level and sustainability of Dutch government debt. Therefore,

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49 Eurostat (2021). First quarter of 2021 - Government debt up to 100.5% of GDP in euro area, Up to 92.9% of GDP in EU. 84/2021, 22 July 2021.

50 See section 2.1.

51 With a budget of €672.5 billion (€360 billion in loans and €312.5 billion in subsidies), the RRF aims to stimulate economic recovery in Member States, contribute to convergence and cohesion in the European Union and to the green and digital transition. Member States must submit a Recovery and Resilience Plan (RRP), which must contain both investments and reforms that contribute to the fund's objectives.

52 In the 2021 Spring Report the Advisory Division pointed out that in the longer term, the Recovery and Resilience Facility (RRF) could be a more structural element of future European fiscal policy.

53 In the 2021 Spring Report the Advisory Division advised the outgoing government to submit a Dutch Recovery and Resilience Plan, arising from the new European Recovery and Resilience Facility, to the European Commission before the summer of 2021, and not to leave this up to a new, incoming government. To date, the outgoing government has still not submitted an RRP to the European Commission. Meanwhile, Member States have now received the initial funds from the recovery facility.

Dutch fiscal policy must be viewed in conjunction with European fiscal policy and developments on financial markets.

As a result, the Advisory Division advises that the link between Dutch and European fiscal policy be made transparent and the Dutch input in the European debate on a possible review of the SGP be formulated in a timely manner.[54] Not only with the view to maximum effectiveness in European debates. But first and foremost to make a contribution to parliamentary considerations and the formation of public opinion.

3. The implementation of parliamentary rights associated with the budget

Opinion on budgetary policy last year ...

Last year, in its opinion on the 2021 Budget Memorandum, the Advisory Division underlined the democratic importance of budgetary policy. This was with the view of the (then) upcoming elections to the House of Representatives, and the subsequent formation of a new government.

Budgetary policy goes further than the simple question of whether public finances are sustainable from an economic perspective and whether the government budget contributes to stabilising the economy. Budgetary policy also serves a democratic interest. It makes political considerations transparent and imposes choices to account for decisions. By the government to parliament. By politicians to voters.

The government and the 16th Study Group on Fiscal Policy endorsed the advice issued by the Advisory Division last year that it is important to formulate budgetary anchors from a democratic perspective. Many election manifestos only mentioned fiscal policy in general terms. This is not particularly surprising; it is difficult to translate democratic 'anchors' for public finances during these uncertain times of the Covid-19 crisis.[55]

A year later, and it is seemingly still proving difficult. Spending related to Covid-19 is not included in the expenditure ceiling. The government is under resignation; no budgetary policy has been formulated (yet) for the coming years. In relation to the Covid-19 crisis, European fiscal policy has been temporarily relaxed, which means the rules have been 'de facto' deactivated. This means budgetary (crisis) decisions

[54] The outgoing government has submitted an initial brief paper on the review of the SGP, which the Netherlands drafted together with like-minded Member States in the run-up to the Ecofin Council in Slovenia on 10 and 11 September, to the House of Representatives (https://www.rijksoverheid.nl/documenten/kamerstukken/2021/09/09/kamerbrief-bij-paper-over-herziening-van-het-stabiliteit--en-groeipact).

[55] '*Covid-19 crisis puts pressure on democratic control*', is how the Netherlands Court of Audit (Algemene Rekenkamer) summarised it this spring in the 2020 Accountability Report.

taken by the government are not incomprehensible, on the contrary. However, without any ‘anchors’ it is more difficult to assess them.

... will be expanded this year to include the interplay of the rights associated with the budget, with budgetary policy, the budgetary system and the budgetary process.

Budgetary policy is a condition in order for the rights associated with the budget to work effectively. In this opinion on the 2022 Budget Memorandum the Advisory Division asks that attention be devoted to the House of Representatives and the Senate’s rights associated with the budget Below the Advisory Division analyses the possibility of reinforcing the implementation of parliamentary rights associated with the budget.

The analysis concerns the budgetary rules, budgetary system and budgetary process, each time questioning whether parliament has sufficient control of these aspects. The Advisory Division first discusses the interplay between rights associated with the budget and the budgetary rules, focusing on contribution-related spending (social security and healthcare) and on the revenue side (Tax Plan) (3.1).
The Advisory Division goes on to analyse the significance of the budget and reporting system (3.2). And finally, the Advisory Division addresses the concurrence with the national and European budgetary process (3.3).

These analyses result in the following opinions:

- Examine the possibilities for making the budgetary rules in the Sustainable Public Finances Act (Wet HOF) more transparent. Respond to the question of whether this will allow parliament to assess policy-related budgetary changes to social security, healthcare and taxation more directly.
- Launch a Second State Accounting System Operation, with which the budgetary and reporting system, for example, are updated with regard to Broad Prosperity indicators and non-financial (ESG) information. Amend the Government Accounts Act (CW) accordingly.
- Submit the Budget Memorandum in the spring, including the draft Stability and Reform programme for the European Commission. Proceed with combined general political and financial considerations in the House of Representatives and the Senate. On Budget Day the speech from the throne would be delivered and the budgetary laws submitted, after which the House of Representatives and the Senate can proceed with general considerations.

3.1 Rights associated with the budget and Social Security, Healthcare, Taxation; Sustainable Public Finances Act (Wet HOF)

Rights associated with the budget are included in Article 105 of the Constitution.[56] This Article is part of the chapter on legislation and governance. The fact that these rights are included in the Constitution in itself indicates their significance. The important position of parliament in this regard is established by making budgets part of the legislative cycle. In this cycle the position of parliament as co-legislator is constitutionally anchored. The House of Representatives and the Senate establish budgetary *laws;* the House of Representatives has the right to amend budgetary laws. By establishing budgetary law the government is authorised to allocate the expenditure included in the budget (authorisation function); this represents the core of budgetary law.

The article of the constitution seems to allow for discussion regarding what exactly should be understood by budgets, for example what this means for those parts of collective financing (in concrete terms, especially the so-called contribution sectors) that are not anchored in budgetary laws.

However, budgetary law may not be interpreted formalistically (read: narrowly); it must be interpreted materially (read: broadly).[57] In this context, it means that it is not just a question of parliament's right to adopt the budget by law, together with the government. In a broader sense, it is about Parliament's material control, also with regard to general government expenditure that is financed by means of contributions.[58]

Bearing this in mind, it is important that the rights associated with the budget in the broad sense, not only rely on the joint involvement of the House of Representatives and the Senate in (budgetary) legislation and accountability of revenue and expenditure to the States General, as stipulated by Article 105 of the Constitution. The rights associated with the budget also rely on the right of

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[56] Article 105 of the Constitution stipulates:
1. The estimates of the State's revenues and expenditures shall be laid down by Act of Parliament.
2. Bills containing general estimates shall be presented by or on behalf of the King every year on the date specified in Article 65.
3. A statement of the State's revenues and expenditures shall be presented to the States General in accordance with the provisions of the relevant Act of Parliament. The balance sheet approved by the Court of Audit shall be presented to the States General.
4. Rules relating to the management of the State's finances shall be prescribed by Act of Parliament.

[57] See, for example, the Advisory Division's opinion on the Sixth amendment to the Government Accounts Act (Comptabiliteitswet) 2001 (Parliamentary Documents II 2013/14, 33837, no. 4). For this distinction also refer to Suzanne Poppelaars, Het nationale budgetrecht en Europese integratie. De juridische consequenties van Europese integratie voor het Nederlandse en het Duitse budgetrecht, (National rights associated with the budget and European integration. The legal consequences of European integration for Dutch and German rights associated with the budget) Wolters Kluwer Deventer 2018, p. 65 e.v.

[58] For an explanation refer to the box on Social Security, Healthcare and Taxation in the budget cycle.

parliament to information from the side of the government (Article 68 of the Constitution), and ultimately on the constitutional relationship (of trust) between the government and parliament. Since it concerns a parliamentary right, the boundaries and substance of the rights associated with the budget are primarily determined by the States General.

With regard to the State Budget (departmental budgets), sometimes there are discussions between the government and parliament about the interpretation of rights associated with the budget.[59] For example, regarding the question of whether the government must ask the House of Representatives and the Senate for prior approval of a certain decision that has budgetary consequences, or whether retrospective accountability suffices.[60]

Separate frameworks apply to the areas of social security and healthcare, because these elements of general government expenditure are not established in full via budgetary laws.[61] The House of Representatives and the Senate handle tax proposals in the form of bills, in a legislative process that focuses on the Tax Plan,[62] which invariably plays out every year under excessive time pressure.[63] In this respect the Advisory Division once more underlines the desirability of including only those bills under the Tax Plan that are a consequence of August decision-making on the revenue side of the budget, which are mutually related and which must actually come into force on 1 January of the following year.

Parliament exerts general influence on the consequences of tax laws for public finances and of social security and healthcare through parliamentary debates, when discussing the annual tax plan and the SZW (social affairs and employment) and VWS (public health, welfare and sport) budgets. However, for the contribution-funded elements there is no approval (or amendment) of budget items, as is the case for departmental budgets at article level. Parliament can exercise influence on the nature and the level of contribution-funded spending by amending the underlying legislation. Nevertheless, as a result, the House of Representatives and the Senate have less insight and thus less influence on policy-related shifts *within* the social security and healthcare frameworks than on policy-related shifts within departmental budgets.

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[59] In its judgements the Court of Audit places the emphasis more often on rights associated with the budget. In the 2020 Accountability Report the Court of Audit requested that attention be devoted to surveillance of the financial management and fiscal rules, in which the Court of Audit envisages a stronger role for the Minister of Finance.

[60] Parliamentary Documents II 2014/15, 33670, no. 11.

[61] See the box on Social Security, Healthcare and Taxation in the budget cycle.

[62] Generally an extensive and varied substantive package.

[63] Bundling tax proposals in a single tax law limits the Senate's possibility to reject part of it and materially undermines the rights associated with the budget. Parliament's criticism of this legislative process is not new; see also the motion of Hoekstra c.s. (Parliamentary Documents I, 2015-2016, 34300, O)

Box on Social Security, Healthcare and Taxation in the budget cycle

When implementing trend-based fiscal policy a government makes binding agreements regarding the expenditure frameworks and revenue framework for the entire government term when it takes office. The total expenditure framework is divided into three sub-frameworks: the State Budget framework, the Social Security framework and the Healthcare framework. Within the expenditure frameworks, agreements are made about the annual real maximum permitted increase in expenditure (the so-called ceilings).

The Social Security framework includes social expenditure via the state budget and social benefit expenditure financed by contributions. The Healthcare Framework establishes the permitted increase in collectively financed healthcare expenditure. Collective financing originates from the proceeds of social security contributions and taxation.

Parliament’s rights associated with the budget in a formal sense do not apply to the contribution-financed expenditure from the Social Security and Healthcare sub-frameworks because the money flows in these sectors are not laid down in budgetary laws.[64] Parliament can influence the nature and amount of expenditure financed by contributions by amending the underlying legislation. Research by the Ministry of Finance[65] shows that bringing contribution-funded expenditure under the formal rights associated with the budget does not offer any added value from the point of view of cost control (because the nature and amount of expenditure in healthcare and social security are mainly determined by substantive laws on which entitlements are based), but that is not the point at issue here. The Advisory Division is referring to parliament’s reduced insight into budgetary shifts within the overall frameworks when exercising its substantive rights associated with the budget.

On the revenue side, the government uses fiscal instruments. Taxes are levied by law (Article 104 of the Constitution). The annual Tax Plan, which is presented to the House of Representatives on Budget Day (Prinsjesdag), is a package of several tax bills that are debated in both the House of Representatives and the Senate. The Tax Plan is usually a substantial package, which means that a large number of measures are dealt with in a very short space of time and the House of Representatives can only deal with broad outlines of the bills.

The Advisory Division believes that there are possibilities for the House of Representatives and the Senate to be better placed to exercise their rights associated with the budget on the budgetary aspects of social security, healthcare and taxation.[66] In this context, the Advisory Division refers to the *Sustainable Public Finances Act* ('Wet HOF ').

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[64] The social security and healthcare contribution sectors are very different in substantive terms; for example, within social security there are a limited number of large public implementing organisations compared to a multitude of private implementing organisations in healthcare. Within healthcare, there are major differences between long-term care (premiums set by the government, non-cost-covering, budget system) and curative care (premiums set by healthcare insurers, financing that does, in principle, cover costs over the years).

[65] Parliamentary Documents II 2016/17, 34426, no. 19.

[66] In other words, at a more specific level than the level of policy debates on these sectors.

Box on the Sustainable Public Finances Act (Wet HOF)

The Sustainable Public Finances Act (Wet HOF) entered into force on 15 December 2013. The aim of the Act is to legislate for the '*targeted pursuit of sustainable public sector finances in the national and European context.*'

The Sustainable Public Finances Act lays down several agreements, namely the European budgetary agreements, the pursuit of trend-based budgetary policy for the expenditure and revenue of the civil service and the social funds, and the budgetary policy of local government and the related administrative agreements.

It states the following, summarised, on the matter of *budgetary policy*:

- Implementation of trend-based budgetary policy by the Minister of Finance on the expenditure and receipts of the civil service and the social funds, on the basis of the multi-year figures and macroeconomic forecasts of the CPB, taking into account the following rules agreed at European level for the MTO for the structural balance and the thresholds for the actual EMU balance and the EMU debt. If the Minister of Finance determines that the trend-based budgetary policy does not sufficiently achieve the desired outcomes, i.e. the attainment of European targets, the Council of Ministers decides on appropriate expenditure-reduction and/or revenue-increasing measures.
- The Advisory Division of the Council of State is the independent body responsible for monitoring compliance with European fiscal rules.
- The Advisory Division of the Council of State is consulted on the Budget Memorandum.

The Sustainable Public Finances Act (Wet HOF) (except for the articles of the Act dealing with local governments), in its present form, essentially only mandates the Minister of Finance and the other ministers with regard to budgetary rules. The Act does not regulate how parliament can subsequently exercise its rights associated with the budget. Although the Sustainable Public Finances Act presupposes the existence of departmental budgets, it does not specify the special nature of social security, healthcare and taxation, and thus does not address the other kind of parliamentary control of them.

Does the Sustainable Public Finances Act offer possibilities for the House of Representatives and the Senate to reinforce the implementation of their rights associated with the budget for social security, healthcare and taxation?
After all, the rights associated with the budget enshrined in the constitution incorporate the well-known political concept of 'no taxation without representation'. Ultimately, for citizens, it is not decisive whether the government collects money through taxes or contributions. This also emphasises the democratic importance of setting out the rules of play regarding the sub-frameworks of social security and healthcare, for example in the Sustainable Public Finances Act, in order to improve parliamentary influence.[67]

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[67] As the social security and healthcare contribution sectors are very different substantively, this may lead to differentiation.

3.2 The budgetary and reporting system as a foundation for rights associated with the budget

A modern and high-quality budgetary and reporting system provides parliament with the foundation for properly exercising its rights. Various debates have been going on for some time about the organisation of the budgetary and reporting system:

1. The first frequently asked question is whether the aggregation level of the departmental budget articles still suffices[68] to offer the House of Representatives and the Senate real insight (and therefore control).
2. The second question is that of the explanatory notes to the budgets (and budget articles). Do they focus too much on 'input' (more or less money) and too little on 'outcome' (more or less result)?
3. The third question is that of the primary structure of the Dutch state budget. Is an arrangement based on 'cash expenditure' still sufficient? Or do both international standards and policy considerations demand a shift of emphasis to 'income and expenditure' (read: to distinguish between investments and other expenditure)[69]?

In recent years, two additional debates have emerged:

4. The fourth question concerns the impact of the newly developed concept of Broad Prosperity. Can and should the indicators resulting from this system be transposed into the budgetary system? And will this also give parliament a say in the indicators? Both in terms of steering (policy-related) and requiring accountability?[70]

5. The fifth question is that of an interpretation for central government as an organisation of the social and international desire to focus more on non-financial information (also referred to as ‘ESG’ information: environmental, social and governance) in companies' annual reports. There is growing awareness that the public values of organisations, in the private sectors, as well as in the public and semi-public sectors, cannot be measured solely by

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[68] Parliamentary Documents II 2014/15, 33670, no. 11.

[69] All things considered, the 16th Study Group on Fiscal Policy recommends not switching to an integral income and expenditure budget. It recommends further use of the existing margin to work with income-expenditure for specific parts of central government, respectively, the state budget.

[70] See also section C2.4 in this opinion on Broad Prosperity. The House of Representatives placed the theme of broad prosperity on the agenda in 2016. In its opinion on the 2020 Budget Memorandum, the Advisory Division's advice was to make this theme more central in the annual budget. The advice of the 16th Study Group on Fiscal Policy is to focus more explicitly on broad prosperity and to clarify (also when forming the government) the main goals and indicators. This will have to be transposed more broadly into all budget documents, not just the Budget Memorandum. The Court of Audit sees the aim of integrating the Broad Prosperity Monitor in the policy and budget cycle as a further step towards a comprehensive integrated reporting and accountability (see Netherlands Court of Audit (2019) *Inzicht in publiek geld (deel 2) – Naar een toekomstbestendige beleidsbegroting (Insight into public money (part 2) - Towards a future-proof policy budget*).

financial information. Organisations can be required to account for how they contribute to sustainability, social inclusion and integrity in their business operations.

For the latter themes a translation is needed into indicators, into a qualitative validation thereof, and into an infrastructure to acquire, process and disclose data. And to streamline this with the budgetary and reporting system. The incorporation of non-financial (broad prosperity and ESG) indicators in the business operations and administration of central government requires change and efforts that should not be underestimated.

There has been no shortage of initiatives in recent years to improve the budgetary and reporting system. In 2002, the From Policy Budget to Policy Accountability (VBTB) operation was initiated. In 2013, Responsible Budgeting was introduced. In 2017, the Insight into Quality programme was launched. These were all aimed at improving the quality of budget information for political decision-making and public accountability.[71] For the coming years, the 16th Study Group on Fiscal Policy has made a number of proposals, the most important of which is to focus on broad prosperity.

The House of Representatives has also been actively involved in this matter. In 2014, the (then) members Duisenberg and Van Meenen took the initiative to make control of the budget and accountability more effective with a system of 'rapporteurs'. In 2016, the temporary House of Representatives Working Group on Broad Prosperity presented its opinion. In 2020, the House of Representatives, in a motion tabled by Sneller, Snels and De Vries, stressed the importance of complying with Article 3.1 of the Government Accounts Act (concerning the budgetary substantiation of bills).

The Permanent House of Representatives Public Expenditure Committee (reinstated this year) has drawn up a knowledge agenda, which includes the national reporting system and the integration of the concept of broad prosperity in the policy and budget cycle.[72]

Nevertheless, improvements are needed. How can we avoid moving from one initiative to the next over the years without making any lasting improvements and ensuring it continues to be manageable (for MPs)?

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[71] The Court of Audit notes that it is important to monitor compliance with the recommendations (see, among others, Court of Audit (2021). *Insight into quality - Operation successful? En Staat van de Rijksverantwoording 2017 - opmaat naar geïntegreerd verantwoorden (And State of Government Accountability 2017 - prelude to integrated accountability*).

[72] https://www.tweedekamer.nl/kamerleden-en-commissies/commissies/rijksuitgaven/kennisagenda

Box on the First State Accounting System Operation

The rationale for the State Accounting System Operation (1987-1992) was serious shortcomings in central government's financial management, as identified by the Court of Audit, combined with a substantial negative budgetary balance and sharply rising government debt. The operation was initiated by the Lubbers I government in association with the Permanent Public Expenditure Committee of the House of Representatives and the Court of Audit. During the Lubbers II government, the Melkert and Reitsma motions[73] were submitted by the Public Expenditure Committee, which provided the impetus for further substantiation of the operation. The operation has fundamentally changed the budgetary infrastructure, improved budgetary control and, to a large extent, put financial management in order.

The main changes resulting from the operation are:[74]
- Integrated cash administration obligations.
- A different governance model, including the decentralisation of the financial function within the ministries and the automation of financial-administrative systems.
- Auditing improvements.
- Improved design and presentation of the budgets and accounts by adapting the State Budget Regulations. This involved a more uniform and transparent way of substantiating budgets with volume and performance data.
- Acceleration of the accountability procedure, by submitting supplementary budgets together with the explanatory notes to the budget in the current fiscal year.
- Coordination and steering by the Minister of Finance.

The Advisory Division suggests that a Second State Accounting System Operation be considered. This is an integrated approach, similar to the State Accounting System Operation in the late 1980s. This operation benefited from political weight, took about ten years to complete and led to a fundamental improvement in the financial infrastructure of central government.

A new, 'Second State Accounting System Operation' could make the financial infrastructure future-proof again[75]. The House of Representatives - the Public Expenditure Committee and the financial spokespersons of the political groups at the forefront - can then, as it were, 'engage' in such an operation.

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[73] Parliamentary Documents II, 1987/88, 19395, nos. 18 and 19.

[74] Parliamentary Documents II, 1991/92, 19395, no. 33.

[75] In this context, the legitimacy and accountability of the budget can be 'reinforced' once more. Although the legitimacy of the budget has always been at a very high level since the (first) State Accounting System Operation, the Court of Audit has increasingly noted that the situation is deteriorating (see, among others, Court of Audit (2021), *Ruimte in de ramingen - meerjarenramingen onderzocht (Margin in the estimates - multi-year estimates examined*). Especially in crisis conditions; the Covid-19 crisis, for example, has had a major impact on the financial infrastructure of the departments. A Second State Accounting System Operation therefore provides the opportunity to invest again in the financial and auditing functions in central government, and to modernise them (consider developments in IT and open data and the recommendations of the Court of Audit on this subject, including *Inzicht in publiek geld (deel 2) - Naar een toekomstbestendige beleidsbegroting (Insight into Public money (part 2) - Towards a future-proof policy budget)*).

It provides a framework for the aforementioned debates on the organisation of the budgetary and reporting system and for reaching political conclusions. Such an operation could, moreover, build on the evaluation of the financial function, partly in the context of experiences during the Covid-19 crisis and the recommendations of the Court of Audit, on which the Minister of Finance will inform Parliament shortly. The final step is to update the Government Accounts Act accordingly.

3.3 Concurrence between European and national fiscal processes

Effective execution of rights associated with the budget not only requires control of budgetary policy and that the budget system be up to date, but also that parliament is able to respond in a timely manner to exercise its rights. It concerns the budget cycle, and more specifically, its main political events.

Traditionally, the most important political event has been the general political deliberations (immediately after Budget Day in September)[76]. After 1993, the general political and the general financial considerations were separated.[77] In 2010, during the 'Euro crisis', the so-called European semester was introduced.

Box on the European Semester

The European Semester, introduced in 2010 during the euro crisis, is the annual cycle for European coordination of economic and budgetary policies. The cycle runs from November to November, with the (publicity) focus on the country-specific recommendations from the European Commission to the Member States just before the summer. In 2021, the cycle changed slightly, due to the Covid-19 crisis. This autumn, the review of the Stability and Growth Pact is expected to resume after being postponed due to the Covid-19 crisis. This may eventually bring about changes to the European Semester.[78]

When the semester was introduced, the question was raised of whether the traditional Dutch budget cycle would be sufficiently aligned with the new European semester.[79] The Advisory Division pointed out at the time that, as a result of the European Semester, the

[76] The parliamentary debates on accountability are a separate matter. In terms of control and accountability, this should be high on the political agenda. Over time, accountability has received varying degrees of political attention. An attempt was made to improve its structure and stature with the initiation in 1999 of Accountability Day, the third Wednesday in May, still with varying results.

[77] The general and financial considerations were combined up to and including 1993. The party leaders spoke first, followed by the financial specialists. At the time, these considerations began a few weeks after Budget Day.
Because the House wanted to respond more quickly to the government's policy intentions, it was decided to separate the 'General Political and Financial Considerations'. Now, the General Political Considerations are held just after Budget Day. The General Financial Considerations take place a few weeks later.

[78] The recent link with the EU rule of law mechanism is also interesting. The general conditionality regime to protect the Union budget has been in place since 2021, which means that the provision of financial support (grants and funds) to Member States that violate the principles of the rule of law can be suspended.

[79] See Information from the Advisory Division to the States General on anchoring democratic control in economic governance reforms in Europe to combat economic and financial crises (Parliamentary Documents I, 2012/13, W01.12.0457/I).

role of the national parliaments is shifting from that of co-decision-maker to that of government auditor. And that the (compulsory) submission of a stability programme to the European Commission significantly shifts political decision-making regarding the national budget from the autumn to the spring. The government at the time believed that no adjustment of the national budgetary process was necessary. In 2014, the House of Representatives primarily regarded the European Semester as a step forward from the perspective of parliament's rights associated with the budget.[80]

The main elements of the semester are:

- *The Autumn Package (November year t-1):*
  The package includes the publication of the Annual Growth Survey, including policy guidance to Member States for year t. For some Member States, in-depth reviews will be prepared (as part of the Macroeconomic Imbalance Procedure (MIP)), to be published just before the summer together with the country-specific recommendations.
- *The Winter Package (February year t):*
  The package contains country reports that cover all areas of macroeconomic and social interest and take stock of the budgetary situation. Progress on the country-specific recommendations of the previous year (t-1) is also assessed. On the basis of this assessment, the EC proposes an updated status for the country in the MIP.
- *National programmes (before the end of April year t):*
  Each Member State submits a reform programme. Stability programmes are drawn up by eurozone countries, convergence programmes by countries outside the eurozone. Both programmes contain three-year budget plans. The programmes explain how Member States plan to boost employment and growth and how they intend to prevent or correct imbalances. It also states how Member States intend to comply with the country-specific recommendations and the general EU fiscal rules.
- *Country-specific recommendations (May-July year t):*
  After assessing the national governments' plans, the Commission issues each country with a set of country-specific recommendations, together with an overarching communication. The recommendations focus on what can realistically be achieved in the next 12-18 months. To this end, the priorities identified at EU level in the Annual Growth Survey are adapted to the national level. This is also applied to the eurozone as a whole. In-depth evaluations also appear under the MIP. The recommendations are discussed by representatives of national governments in the Council, endorsed by EU leaders at a summit in June and formally adopted by national finance ministers in July.
- *Putting recommendations into practice (August-October year t):*
  National governments have to submit their budget plans for the following year (year t+1) by 15 October at the latest. The EC assesses these plans bearing in mind the requirements of the SGP. The EC will then formally give its opinion on each plan in November, so that it can still be taken into account when the final national budgets are drawn up. The eurozone ministers of finance/economic affairs discuss the Commission's assessment of the plans in the Eurogroup.

It is good to reflect on this again a few years later, not only in the context of more recent experiences with the European Semester but also in the context of the

[80] Annex to Parliamentary Documents II, 31 597, no. 7. At the time, the Public Expenditure Committee recommended that it be formally laid down that the stability programme and the medium-term national budget plan would be submitted to the House of Representatives and the Senate in mid-April so that they can be discussed in time for 1 May (the deadline for submission to the European Commission).

House of Representative's desire to reinforce the way it functions as an institution. And, of course, specifically viewed from the theme of this opinion, the implementation of parliament's rights associated with the budget.

Since 1994, the Dutch budget cycle has been characterised by the main decision-making moment, introduced by former Minister Zalm. Since then, the government has decided in the second half of April on the expenditure side of the draft budget for the following year and on the broad lines of financial-economic policy, including the healthcare and social security sub-frameworks, both to promote the integrality of budgetary considerations and to ensure a smooth budgetary process. In principle, the government only decides on the revenue side (social contributions and taxes) in August, partly with a view to the desired purchasing power developments. On Budget Day in September, the government presents the entire expenditure and revenue budget to the States General.

Box on the Dutch budget cycle

The budget cycle for each financial year t lasts 2.5 years. This means that there are always several budget cycles going on at the same time. The different components of the cycle are:

- October/November year t-2: the basic budget principles are sent to the relevant ministers.
- March t-1: policy letters from the relevant ministers containing the initial budget plans.
- April t-1: main decision-making moment (internal cabinet) with the Framework Letter.
- June t-1: compilation of draft budgets.
- August/September of year t-1: finalisation of draft budgets and August decision-making (primarily revenue side of the budget).
- Third Tuesday of September, year t-1: Budget Day (Prinsjesdag) the National Budget, the Budget Memorandum and the Tax Plan for year t is presented to the House of Representatives.
- September-December year t-1: General Political Considerations (APB) in the House of Representatives (Wednesday and Thursday after Budget Day), the General Financial Considerations (AFB) (October) and consideration of the individual budget bills (October/November). The debate and adoption of the budgetary laws in the Senate take place in December.
- May/June year t: Spring Memorandum containing an overview of the state of affairs of the current financial year.
- November year t: Autumn Memorandum (idem Spring Memorandum).
- May t+1: Accountability Day (May) with the debate on the departmental annual reports and the Financial Annual Report of the Kingdom (incl. review by the Court of Audit).

Needless to say, it often remains difficult for cabinets to arrive at virtually final decisions in the spring. Usually, between the end of April and the end of August, there is the necessary departmental, social and political pressure to 'decide on something more'. And sometimes there are external developments that require additional decision-making, such as crises of various kinds.

Nevertheless, the advice of the 16th Study Group on Fiscal Policy is to make the main decision-making moment even more important by also deciding on the broad lines of taxation at that time (end of April).

From the point of view of integrality and peace of mind, this is very reasonable. The question is what this means for the House of Representatives as an institution. After all, the main decision-making moment concerns internal government deliberations (decision making). Since, in political terms, it is the ruling coalition that makes (or jointly makes) the decisions, political groups in the House of Representatives that belong to a coalition group already have knowledge of and can influence these budget decisions at the end of April. Other members of the House of Representatives have to wait until the third Tuesday in September.

This may have been the case for thirty years, but it is becoming increasingly significant as the main decision-making moment becomes even more important and as a House of Representatives, with more and smaller political groups, is searching for its institutional role and for more dualistic relations.

The European Semester, which was co-initiated by the Netherlands, is a success in that the European Commission seriously reviews the Stability and Reform Programmes submitted by Member States in the spring and calls on them to comply with country-specific recommendations. The systematics of the Recovery & Resilience Facility ('no money without reforms') underline this.
The parliamentary debate in the spring on both programmes, of which the Stability Programme is presented by the Minister of Finance and the Reform Programme by the Minister of Economic Affairs and Climate Policy, has not yet acquired much political weight.

The relationship between the (internal) main decision-making moment (April), the (public) Stability and Reform Programmes (April), the Spring Memorandum (June) and the formal submission of the Budget Memorandum and State Budget (September) remains somewhat vague.

In any case, spring has become materially more important in the budget cycle over time. After the main decision-making moment, after the submitted Stability and Reform Programmes and after the general political considerations, the financial considerations in October have now become more of an afterthought.

In order for parliament to be better placed to materially exercise its rights associated with the budget and still remain close to the current budget cycle, the government could submit the Budget Memorandum (and the draft Stability and Reform Programme) to the States General in the spring, which would allow the House of Representatives and the Senate to hold combined general political and general financial considerations. The government should then be able to finalise the (departmental) budgets on that basis and submit them on Budget Day. This is also when the Speech from the Throne is delivered and the general political deliberations in the House of Representatives and the Senate could proceed directly after.

3.4 Last of all, ultimately what counts is the political will to implement rights associated with the budget

In this section, the Advisory Division offers the government and parliament advice on how to implement rights associated with the budget more effectively in light of developments in recent years in budgetary policy, the budget system and the budget cycle. In the end it is up to parliament, the House of Representatives first and foremost, to actively implement its rights associated with the budget. The House of Representatives has already set the necessary steps in motion as a result of the Duisenberg-Van Meenen working group and by reinstating a permanent Public Expenditure Committee. The House of Representatives has the opportunity to further deploy its own instruments, ranging from the Parliamentary Procedure to official support. It has set up a Van der Staaij working group to look into reinforcing the function of the institution of the House of Representatives.

The Advisory Division emphasises unnecessarily that the rights associated with the budget are not limited to budgetary laws (and the like) but equally extend to decision-making on legislation in general. Are bills budget-driven? Do bills fit within budgetary policy frameworks? Is attention devoted to the efficiency of the budgetary consequences resulting from a bill?

The Advisory Division realises that in addition to the structure, the culture also plays a role. It is about the political awareness and the political will as a Member of Parliament - individually, as part of a political party and as a member of the institution - to (also) give substance to this essential parliamentary right. It is rightly one of the oldest core competences of the people’s representatives; with great power comes great responsibility. Exercising rights associated with the budget is an integral part of the task and responsibility of each member of parliament. It is not a 'chore' for financial spokespersons or for the Public Expenditure Committee. This political will can be expressed first of all by discussing budgetary policy in conjunction with rights associated with the budget, the budget system and the budget cycle during the debate on the government statement by a new incoming cabinet. The first new integrated political and financial review.

D. 2021 September Report

1. Summary conclusion and advice

In this report the Advisory Division concludes that budgetary developments for 2021 with an actual EMU balance of -5.4% of GDP do not comply with *European fiscal rules* (with a reference value of -3.0% of GDP) in 2021. If an assessment is made of the provision related to extraordinary events, the picture is expected to be more nuanced. In 2022, with an actual EMU balance of -2.3% of GDP, budgetary developments do comply with the -3% threshold value of the SGP.

For 2022, the structural EMU balance is estimated at -2.6% of GDP; as a result the Netherlands does not comply with the medium-term objective (MTO) of maximum -0.5% of GDP. Due to the activation of the general escape clause of the Stability and Growth Pact (SGP) this overshoot has no consequences. The general escape clause will also apply in 2022. Therefore, no excessive deficit procedures will be opened in 2021 and 2022. At 57.5% of GDP in 2021, and 56.5% of GDP in 2022, government debt remains below the European target of 60% of GDP.

In the assessment of the *national budgetary rules,* the Advisory Division concludes that this year there will be a deviation due to the (additional) budgetary consequences of the Covid-19 pandemic. The government, which has yet to be formed, must define the budgetary policy for the coming years. The absence of budgetary anchors complicates the implementation of independent fiscal monitoring and prevents the CPB from conducting ceiling tests. The Advisory Division notes that in the 2022 Budget Memorandum, the outgoing government endorses the importance of a return to regular budgetary policy and thus recognises the importance of formulating 'anchors' for budgetary policy, following the Advisory Division's 2021 Spring Report.

The Advisory Division concludes that the government has taken steps in presenting the budget in a transparent manner. For example, the budgetary consequences of the Covid-19 pandemic have been made clearer by a better breakdown and explanation in the Budget Memorandum and an overview of European and international risk schemes under government guarantee has been included. The policy-related changes in the general government revenue are also presented more transparently. The Advisory Division points out that the addition of a breakdown of sectoral changes in revenue will be of added value.

The Advisory Division sees the resumption of the evaluation of the European *fiscal framework* in the autumn as a reason to draw the government's attention to the structural current account surplus in the Netherlands and recommends that, in consultation with the European Commission, a more detailed analysis be made of the part of the high current account surplus that can be classified as an imbalance, so that any Dutch policy response to the country-specific recommendation by the European Commission on this matter can be shaped.

The Advisory Division concludes that steps have been taken by the government in complying with Article 3.1 of the Government Accounts Act and that traceability of the substantiation of policy has improved. However, the quality of the substantiation remains insufficient and use by members of parliament is limited. In its opinion on the 2022 Budget Memorandum, the Advisory Division suggests that a Second State Accounting System Operation should be considered to future-proof the government's financial infrastructure (see section C3).

In this September Report, the Advisory Division devotes particular attention to uncertainties and risks (section 2.3), the transparency of budget information (section 3.1), the current account and savings surplus of the Netherlands in the context of the SGP (section 3.2), the tax side of the budget (section 3.3), compliance with Article 3.1 of the Government Accounts Act (section 3.4), and the government's compliance with commitments made earlier in budget reports (section 4).

2. Assessment under European and national fiscal rules

2.1 Assessment under European rules

In its September Report, the Advisory Division assesses whether public finances in the current year (in year), and in the year ahead (ex ante) comply with the European fiscal rules.

Since the budgetary balance from 2013 up to and including 2019 complied with the maximum deficit of 3% of GDP, as permitted under the Stability and Growth Pact (SGP), the rules of the so-called 'preventive arm' of the Pact are relevant in terms of the assessment for these years. These rules impose requirements on the development of the so-called structural budgetary balance (the budgetary balance corrected for the economic cycle and one-off measures) and for development in public expenditure. Furthermore, government debt should be below 60% of GDP, or falling sufficiently in that direction, which was the case.

In relation to the Covid-19 pandemic, in March 2020, the European Commission declared the application of the provision in the SGP related to extraordinary events, thus excluding the budgetary impact of measures taken in response to the Covid-19 pandemic in assessing compliance with the SGP.

In addition the general escape clause in the Stability and Growth Pact was activated, to offer Member States maximum flexibility within the SGP.[81] The activation of the general escape clause provides Member States with room to implement expansionary fiscal policy to promote economic recovery. For Member States in the preventive arm (including the Netherlands) it means that they may deviate from the path towards the medium-term objective (MTO) for the structural

[81] European Commission (2020). Communication from the Commission to the Council on activating the general escape clause of the Stability and Growth Pact (General Escape Clause, GEC), COM (2020) 123 final.

balance, providing it does not jeopardise the sustainability of public finances in the medium term.

Moreover, no excessive deficit procedures will be opened, due to the extreme uncertainty related to the macroeconomic and budgetary impact of the Covid-19 crisis. The application of the general escape clause does not lead to the suspension of SGP procedures. Therefore, it remains important that the development of public finances is closely monitored and assessed.

The European Commission has linked the timing of the deactivation of the general escape clause to a quantitative target of reaching the pre-crisis GDP level (level at the end of 2019).[82] After deactivating the clause, the Commission will continue to take into account country-specific circumstances.

As part of the European Semester's Spring Package 2021, the Commission noted that the pre-crisis GDP level in the eurozone is expected to be reached in the first quarter of 2022.[83] On this basis, the Commission has decided to continue to apply the general escape clause in 2022 and to deactivate it in 2023.

The Commission also notes that implementation of an expansionary budgetary policy by Member States remains necessary in 2021 and 2022 in order to limit the impact of the Covid-19 crisis in the medium term. This requires a shift in policy from support measures to investment and reforms to promote a resilient and sustainable recovery. The European Commission’s Recovery and Resilience Facility (RRF) can support Member States in this regard (see section C2.1 in the opinion on the Budget Memorandum).

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[82] European Commission (2021). Communication from the Commission to the Council. One year after the COVID-19 outbreak: the fiscal policy response. COM(2021) 105 final.

[83] European Commission (2021). Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank. Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy. COM(2021) 500 final.

Table 3: European fiscal rules data

	2020	2021	2022
	ex post	*in year*	*ex ante*
rule related to the development of the structural balance (% GDP)			
EMU balance actual	-4,2	-5,4	-2,3
Of which cyclical component	-2,3	-1,0	0,3
Of which one-off and other temporary measures	0,0	0,0	0,0
EMU balance structural (EC method)	-1,9	-4,3	-2,6
Expenditure rule			
Adjusted net public expenditure (real change in %)	12,9	4,6	-4,0
Max. permitted growth adjusted net public expenditure	4,3	-2,8	2,5
Debt criterion (% GDP)			
EMU debt	54,3	57,5	56,5

Source: CBS (Statline) and CPB Netherlands Bureau for Economic Policy Analysis (Macroeconomic Outlook 2022)

In-year review for the year 2021

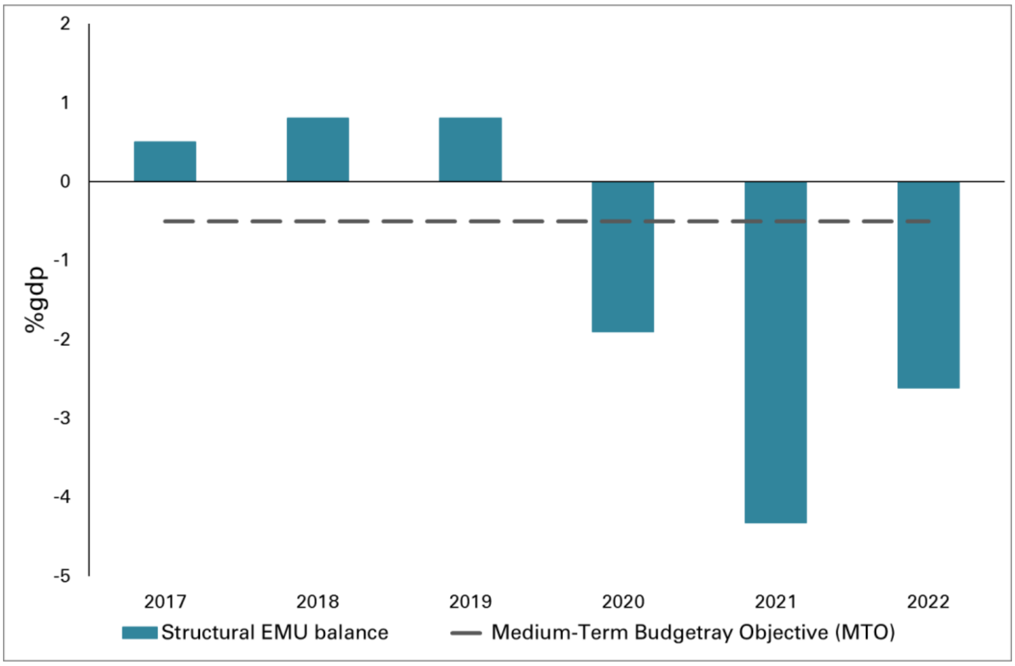
In the Macroeconomic Outlook (MEV) the CPB forecasts an actual budget deficit of -5.4% of GDP in 2021, which, as in 2020, far exceeds the 3% of GDP maximum deficit allowed by the SGP. For Member States in the preventive arm of the SGP, such as the Netherlands, the assessment would normally focus on whether *the structural government balance* fulfils the medium-term objective (MTO)[84] and whether *expenditure growth* is below the estimated potential growth of the economy. The activation of the general escape clause allows Member States in the preventive arm to deviate from the path towards the medium-term objective for the structural balance (MTO) if it does not jeopardise the sustainability of public finances in the medium term. The structural government balance will be -4.3% of GDP in 2021, thus falling short of the MTO target.

In a situation where the reference values for the maximum permitted deficit and the MTO provide only limited guidance as an anchor, the expenditure rule provides insight into the development of debt sustainability over the medium term.[85] It can be concluded that the growth of the adjusted net public expenditure exceeds the growth threshold by a wide margin (Table 3). However, by activating the general escape clause, the expenditure rule is not taken into account.

[84] For the Netherlands, the current MTO is -0.5% of GDP: the structural budget deficit should not exceed this value. This target – arising from the European budgetary agreements – is updated every three years and derived from the long-term sustainability of a Member State's public finances.

[85] The expenditure rule sets requirements for the maximum permitted growth in public expenditure less discretionary revenue measures. Public expenditure is adjusted for the cyclical component of unemployment benefits expenditure, interest expenditure, and for fluctuations in investment expenditure. The maximum permitted growth in public expenditure is based on the distance of the structural balance from the medium-term objective and long-term, trend-based economic growth.

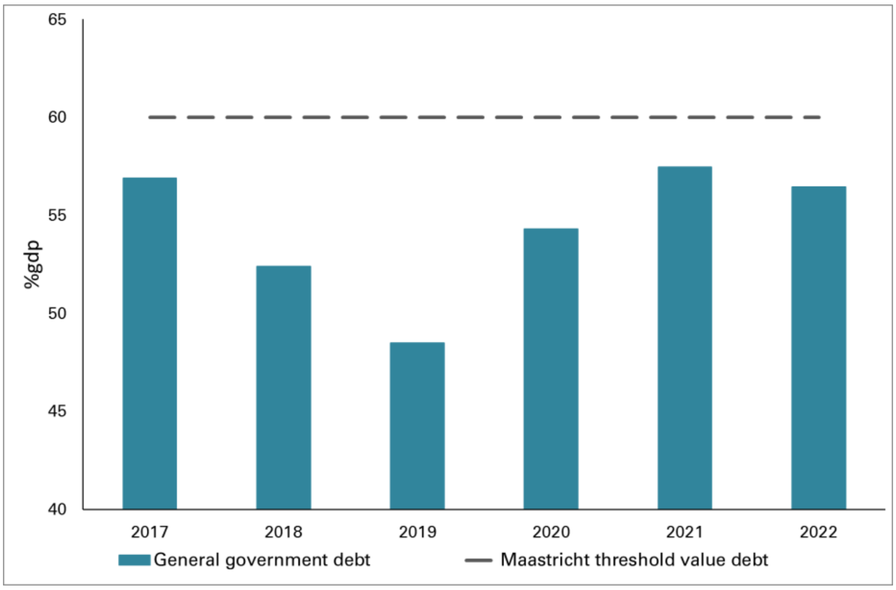
Figure 1: The structural balance and the MTO



Source: Macroeconomic Outlook (MEV) 2022

The European debt criterion stipulates that government debt must be below 60% of GDP or, if it exceeds this threshold must decrease by at least one-twentieth of the difference between actual government debt and the reference value each year. From 2015 to 2019, debt as a percentage of GDP fell steadily. Since the Covid-19 crisis, government debt has increased, but at 57.5% of GDP in 2021 it remains below the European target of 60% of GDP (see Figure 3).

Figure 2: Development of general government debt



Source: Macroeconomic Outlook (MEV) 2022

Ex-ante assessment for the year 2022
With a deficit of 2.3% of GDP in 2022, the 2022 budgetary balance is expected to comply with the SGP threshold value of -3.0%. Compared with 2021, the deficit is considerably lower due to the fact that relevant support measures for the EMU balance will be scaled down from €39.2 billion in 2021 to €11.8 billion in 2022.[86]

Government debt has increased considerably since the beginning of the Covid-19 crisis as a result of the support measures, permitted tax deferral, additional government loans to businesses and a decrease in government revenue. Debt in 2021 is almost 10% points of GDP higher than in 2019. In 2022, government debt is expected to be 56.5% of GDP. The decline in debt growth is partly due to the denominator effect, as the economy is rebounding faster than previously estimated in the CEP 2021. This means the EMU balance and government debt remain well below the eurozone average.

Table 4: Summary of the outcome of the assessment under European fiscal rules

	2020	2021	2022
Actual budget balance	×	×	✓
Structural budgetary balance[a]	×	×	×
General government debt	✓	✓	✓

Explanation of the symbols used: √ = denotes compliance with the rule concerned; O = denotes a deviation from the rule, but this deviation is not significant; x = denotes a deviation from the rule, and this deviation is, calculated over one year and/or over an average of two years, significant (only applies to the structural balance and the expenditure
(a) The structural budget balance and the expenditure rule show a 'significant' deviation if the deviation (in the negative sense) calculated over one year amounts to at least 0.5% point of GDP. There is also a significant deviation if, over two years there is a cumulative deviation of at least 0.5% points of GDP.
(b) (b)As long as the structural budget balance complies with the Medium-Term Objective an assessment related to the expenditure rule can be excluded.

It can be concluded that the MTO target will not be met in 2022 either. However, the value based on the expenditure rule is again well within the threshold, improving long-term debt sustainability. As the general escape clause of the SGP will remain activated in 2022, an assessment based on the MTO and an assessment in relation to the expenditure rule will not have any consequences.

2.2 Assessment under national budgetary rules
As the independent national fiscal monitoring institute, the Advisory Division also has the task of making public assessments regarding national fiscal rules. Since 1994, a trend-based budgetary policy has been adopted. The Rutte III government has confirmed in the Initial Policy Memorandum to the Coalition Agreement that it will pursue trend-based budgetary policy.[87] It also mentions the objective of trend-based budgetary policy: controlling public finances, allocating resources efficiently and contributing to economic stability. This objective is best achieved through stability in political decision-making by performing integral considerations at fixed

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[86] After one and a half years of support, the generic part of the support package will come to an end on 1 October 2021 (Parliamentary Documents II 2020/21, 35420).
[87] Budgetary rules 2018-2022, as established by the Rutte III Government, Appendix 1 to the Initial Policy Memorandum: Parliamentary Documents II 2017/18, 34775, no. 54.

times. This also promotes orderly political accountability of the government to parliament.

The years 2020, 2021 and 2022 are extraordinary due to the economic shock resulting from the Covid-19 crisis. This also extends to budgetary policy. Firstly, the Covid-19 crisis has resulted in support measures in addition to the automatic stabilisers on the income and expenditure side.

On the expenditure side the government opted to keep the extra expenditure related to the Covid-19 pandemic outside the regular expenditure ceiling. Actual is separated via a ceiling correction.[88] The extra expenditure related to the Covid-19 pandemic thus leads to a deterioration of the EMU balance and an increase in the EMU debt. This means that no cuts need to be made to create a margin within the expenditure framework. This results in a temporary deviation from Dutch budgetary rules. For standard policy the government adheres to the applicable budgetary rules, to maintain as much calm and predictability as possible in the budget process.

The CPB regularly publishes on the ratio of projected expenditure to expenditure ceilings, and whether policy adjustments to taxes will be offset within the government's term. The CPB does not publish tables in the Macroeconomic Outlook showing overshoots or undershoots of expenditure ceilings and the revenue framework. Due to all the ceiling adjustments and the increasing extent to which expenditure and tax measures are set outside the frameworks, ceiling testing is currently not particularly informative. Moreover, strictly speaking the expenditure ceilings for 2022 are missing due to the government’s caretaker status.

2021 is the last year for which an expenditure ceiling has been agreed by the Rutte III government. Regular expenditure is covered by the regular State Budget, Healthcare and Social Security sub-ceilings. The State Budget and Social Security sub-frameworks are exceeded, the expenditure in the Healthcare sub-framework remains below the expenditure ceiling. In total, according to the government, the ceilings have been exceeded by €5.4 billion. In this context, the Advisory Division notes that the role of certain expenditure designated as Covid-19-related and not included in the ceilings, in combating the effects of the Covid-19 crisis must be made clearer.

In addition to the extraordinary circumstance of extra expenditure related to the Covid-19 pandemic and the subsequent adjustment to the expenditure ceiling, this year there is a new government term. The tax and expenditure frameworks for the Rutte III government no longer apply after this year. A new government, yet to be formed, must establish the frameworks for 2022 and subsequent years. The lack

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[88] Autumn Memorandum 2020, Parliamentary Documents 2019/20, 35650, no. 1.

of clear anchors for budgetary policy makes independent fiscal monitoring difficult.

2.3 Uncertainties and risks

Despite the exceptional crisis, Dutch public finances are in relatively good shape. At the same time there are multiple uncertainties and risks, at the national and international level. Forecasts show a favourable picture for the coming years but are surrounded by uncertainty. Therefore, the forecasts are subject to significant margins of uncertainty.

The Advisory Division points out that the risks of new outbreaks of the Covid-19 virus on the economy are difficult to assess. In addition, increases in interest rates cannot be ruled out, with consequences for the sustainability of public finances. As long as the interest rate on government debt is lower than the nominal growth rate of the economy, government debt is by definition sustainable and the government is in fact earning on its debt.

Several structural factors appear to underlie lower interest rates (global savings surplus, an ageing population, low productivity growth) and lower trend-based growth (low structural productivity growth, decline in labour supply due to the ageing population). At the same time, interest rates may be affected by cyclical factors. In addition, the ECB's monetary policy is exerting downward pressure on interest rates.

The announced phasing out of the purchase programme of the Federal Reserve Bank, the central bank of the United States, may have an effect on financial markets and interest rates. In addition, there is uncertainty in Europe and the US about the development of inflation, with possible consequences for interest rates. The 2022 Budget Memorandum contains a sensitivity analysis by the CPB with regard to debt development. It reveals that debt as a percentage of GDP in 2060 could be significantly higher with higher future interest rates.

The sensitivity analysis also points to risks associated with healthcare spending: with an additional structural increase in healthcare spending of 1% (without an increase in revenue) government debt would be 70% points higher compared with the expected level of government debt in 2060.

The Advisory Division also points out the tightness on the current labour market. The tightness appears to be mainly due to the rapid and resilient economic recovery, after which the market is likely to adjust via prices. In the longer term, the ageing population may cause a decline in the labour supply. At present, the current tightness has not yet led to an adjustment in wages. In time, however, higher wages could lead to a wage-price spiral, in which inflation and wages force each other up, resulting in rising interest rates.

The Budget Memorandum shows that at the end of 2020, deferred tax payments amounted to €12.9 billion. By August 2021, this increased to €18.3 billion. Of this, €9.7 billion relates to payroll tax, €5.3 billion to sales tax, €1.8 billion to income tax and €1.5 billion to corporation tax. The payment of deferred tax payments is still subject to major uncertainties. For the time being, the government takes into account that €1.5 billion of the total tax deferral will not be collected.

The Netherlands is in good shape, but the international interconnectedness of, in particular, the eurozone countries entails major risks. On average, debt in the eurozone has risen from 85.8% of GDP in 2019 to an expected 102.4% of GDP at the end of 2021 as a result of the Covid-19 crisis. Debt ratios vary considerably from one country to another. Countries with high debt ratios are vulnerable to shocks and a possible increase in interest rates.

Since the ECB holds a large proportion of European government debt, there is no easy way for it to phase out its purchasing policy for the time being. Sustainable public finances are an important precondition for economic growth and financial stability in Europe. The debate related to the evaluation of the SGP, which will resume in the autumn, plays an important role in this respect.

In this context, in the 2022 Budget Memorandum the government discusses the guarantees provided at the national and European level, which are aimed at limiting the economic uncertainties resulting from the Covid-19 crisis. In the 2021 Spring Report the Advisory Division pointed out that the outstanding risk of government guarantees rose sharply to 30% of GDP in 2020.[89] It pointed to the large share of guarantees at the European level, which has increased the risks of developments in other EU countries having an impact on the Dutch budget.

In the Budget Memorandum, the government states that a total of approximately €50 billion in additional guarantees were provided during the Covid-19 crisis, of which €35 billion were European guarantees. Since the guarantees have not yet expired and there are many uncertainties at the economic level, the risk posed by the outstanding guarantees is unclear. The government expects that with the restoration of economic confidence, any higher costs will be avoided. The Advisory Division points out the importance of critically monitoring outstanding guarantees, informing parliament where necessary, and phasing them out if the economic situation allows.

3. Focal points for budgetary information

3.1 Transparency

In a democratic polity, transparency of the budget is fundamental for parliament to make an informed judgement on government policy. Furthermore, transparency creates support for policies in society, as it enhances the credibility of these policies. The CPB Netherlands Bureau for Economic Policy Analysis projections,

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[89] Parliamentary Documents II 2020/21, 21501, no. 1750.

the Budget Memorandum and the government's draft budgets aim to meet this need. It is the Advisory Division's task to reflect on this and to indicate possible focal points. It also supports the House of Representatives and the Senate in exercising their rights associated with the budget.

The Advisory Division noted in 2018 that examination of the general government expenditure and
total revenue ratios provide only partial insight into the underlying development of government revenue and expenditure.[90] The government is responding to this by making a distinction in the Budget Memorandum between endogenous and policy-related changes in tax and contribution revenue and by dividing the policy-related changes into effects on households and businesses.

The Advisory Division notes that this has made the effects of policy-related changes in general government expenditure more transparent. Furthermore, the Advisory Division recommends not only including the changes for households and businesses in the future, but also, like the CPB, to include the sectoral changes for income and labour, profit and capital and the environment in a table, in order to make the policy-related changes per factor in the economy more transparent.

In the 2020 September Report, the Advisory Division also expressed a preference for presenting expenditure on account of the Covid-19 pandemic and related support measures separately (whether or not in a separate box) from the expenditure ceilings.[91]This is to improve the visibility of expenditure related to combating the Covid-19 crisis and the visibility of regular expenditure.

In the 2021 Spring Report, the Advisory Division also pointed out that although the government provided insight into how the total Covid-19-related expenditure in 2020 was divided among the budget chapters, the question remained as to which emergency packages and budget measures underlie this expenditure by budget chapter.[92] From a social point of view, such a breakdown is more appealing as it provides an insight into the various schemes. The Advisory Division notes that the government has made this improvement and that both the 2021 Spring Memorandum and the 2022 Budget Memorandum contain an insightful breakdown.

In the 2021 Spring Report, the Advisory Division noted that for the sake of transparency, it is relevant to address the composition of the deferred tax liabilities and the government's expectation of fulfilling these liabilities in connection with the possible impact on public finances. The Advisory Division notes that this Budget Memorandum addresses this matter by discussing the amount and composition of the deferral and by estimating the irrecoverable

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[90] Parliamentary Documents II 2017/18, 21501-07, no. 1595.
[91] Parliamentary Documents II 2020/21, 35570, no. 3.
[92] Parliamentary Documents II 2020/21, 21501, no. 1750.

amount in the text. In the annexes, a breakdown for indirect and direct taxes is provided in various tables.

3.2 Future of the Stability and Growth Pact

Before the start of the Covid-19 crisis, the European Commission had already launched a mandatory review of the European fiscal framework, the Stability and Growth Pact and the Macroeconomic Imbalances Procedure (MIP), which was postponed due to the Covid-19 crisis.[93] The evaluation will probably resume this autumn, when the Commission will consider what lessons can be learned from the Covid-19 pandemic. In doing so, sustainable public finances will remain the primary objective of the SGP.

In its opinion on the Budget Memorandum, the Advisory Division has already discussed the policy considerations to be made (see section C2.4). It would be wise to link the introduction of a possible revised SGP following the review to the deactivation of the general escape clause in 2022, so that the potential new European fiscal rules enter into force from 2023.

A specific, if not unique, consideration in the European discourse, but also in the national economy, for the Netherlands (and Germany), concerns the issue of the long-term and relatively large current account surplus (savings surplus). The Dutch current account surplus has decreased to 7.8% of GDP in 2020 as a result of the Covid-19 crisis; however, the European Commission expects the surplus to increase again.[94]

Despite the recent decrease, the surplus remains high in relation to underlying fundamentals and international comparisons (see box). This issue has been on the table for a long time. Analysis of the causes or action perspectives are not available. But precisely because the Netherlands continues to be approached by other member states and the European Commissions in European budget policy discussions, the Advisory Division recommends adopting a position. Whether the Netherlands wants it or not, it will play a role in the European debates on the future of the fiscal framework.

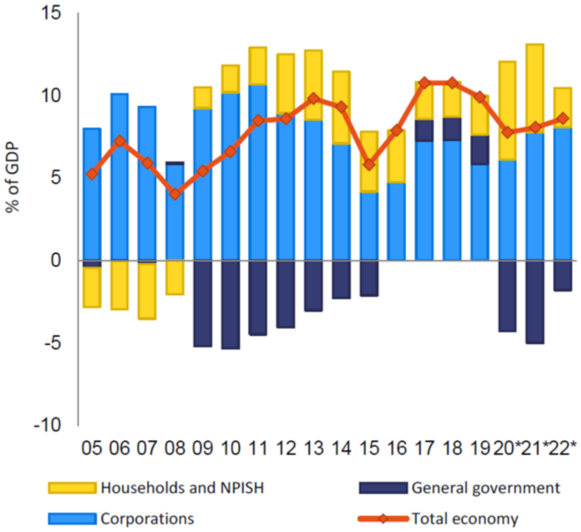
Box: Current Account and Savings Surplus

The development of the current account surplus and the savings surplus, which is responsible for the current account surplus, are central to the (international) debate on macroeconomic imbalances in the Netherlands.[95] The current account of the balance of

[93] European Commission (2020). Communication from the Commission - Review of economic governance. COM(2020) 55 final.
[94] European Commission (2021). Commission staff working document – In-depth review for The Netherlands in accordance with Article 5 of Regulation (EU) No1176/2011 on the prevention and correction of macroeconomic imbalances. SWD(2021) 409 final.
[95] Butler, B., K. Carlier, G. Schotten and M. Volkerink (2019). Het spaaroverschot van Nederlandse bedrijven ontrafeld. (The savings surplus of Dutch companies unravelled). *DNB Occasional Studies*, 17(4).

payments shows the transactions in the so-called current transactions with the rest of the world, i.e. trade in goods and services plus the income from capital and income transfers. The national savings surplus consists of the balance of the private sector (businesses and households) plus the balance of the public sector. This savings surplus - positive or negative - is by definition equal to the balance of the foreign sector and therefore to the current account deficit or surplus and is almost equal to the financing balance. The financing balance remains after domestic savings have been reduced by domestic investments. This difference is invested abroad and leads to the accumulation of external capital. The financing balance can be broken down into the household, corporate and public sectors. The financing balance per sector thus indicates how much the sector can lend or must borrow (see Figure 3).

Figure 3: Financing balance by sector 1995-2022



Source: Ameco

The Netherlands has had a current account surplus since 1978. The current account surplus is mainly due to a large positive goods and services balance. After peaking at 10.8% of GDP in 2018, the current account surplus decreased to 9.9% in 2019 and 7.8% in 2020. This recent decrease seems to be temporary and a consequence of falling exports due to the Covid-19 crisis and Brexit. Despite this decrease, the current account surplus remains high by international standards and well above the fundamentally justified level of a surplus of 6% of GDP set by the European Commission's macroeconomic imbalances procedure (MIP). As a result, the European Commission has classified the Dutch current account surplus as a macroeconomic imbalance since 2013.[96]

The International Monetary Fund and the European Commission argue that large current account surpluses in countries such as Germany and the Netherlands could be an indication of lagging domestic demand. Fluctuations in the household savings surplus are mainly caused by individual savings and investments. In addition, household savings

[96] European Commission (2021). Commission staff working document – In-depth review for The Netherlands in accordance with Article 5 of Regulation (EU) No1176/2011 on the prevention and correction of macroeconomic imbalances. SWD(2021) 409 final.

consist of the collective savings.[97] The collective pension savings of households structurally contribute to the savings surplus. In contrast to this, mortgage debts are high from an international perspective. All this creates so-called long household balance sheets, whereby households have relatively little free spending room and fluctuations in income therefore mainly lead to fluctuations in household consumption.

The relatively high current account surplus in the Netherlands is largely driven by the savings drive of non-financial corporations (NFCs). The IMF and the EC stress that the surplus is mainly positioned at large multinational companies, which illustrates the status of the Netherlands as a financial centre. The tax treaty network and the participant exemption[98] combined with the central location of the Port of Rotterdam and Schiphol make the Netherlands a suitable international trade hub. The EC points out that a change in the tax mix could lead to higher dividend payments and more investment. According to the IMF, the savings surplus of multinationals is mainly used to buy shares in foreign companies.

Compared to countries like Sweden (96%) and Denmark (78%), Dutch domestic investment as a percentage of savings is relatively low at 63%.[99]
The IMF's comment on this is that a large proportion of the shares of multinationals based in the Netherlands are in foreign hands, which means that higher dividend payments do not necessarily directly benefit Dutch domestic consumption. Furthermore, this might also have overestimated the current account surplus.

In the country-specific recommendations the EC points out that the long household balance sheets are of particular concern and has therefore recommended for years to reduce incentives for household debt and distortions on the housing market, including by promoting the development of the private rental sector. Furthermore, according to the EC, it is important that the second pillar of the pension system becomes more transparent, intergenerationally fairer and more shock-resistant. The forthcoming reform of the pension system aims to achieve this. The EC also advocates increasing households' disposable income and boosting wage growth.

3.3 Tax side of the budget

General government expenditure and revenue
In addition to the quality of expenditure, the Advisory Division also calls for attention to the revenue side of the government's budget in budgetary reporting. The total revenue ratio provides an insight into the development of government revenue and is the simplest concept of taxation. Figure 5 shows the development of the total revenue ratio as well as the development of the net expenditure ratio (respectively revenue ratio and expenditure ratio).

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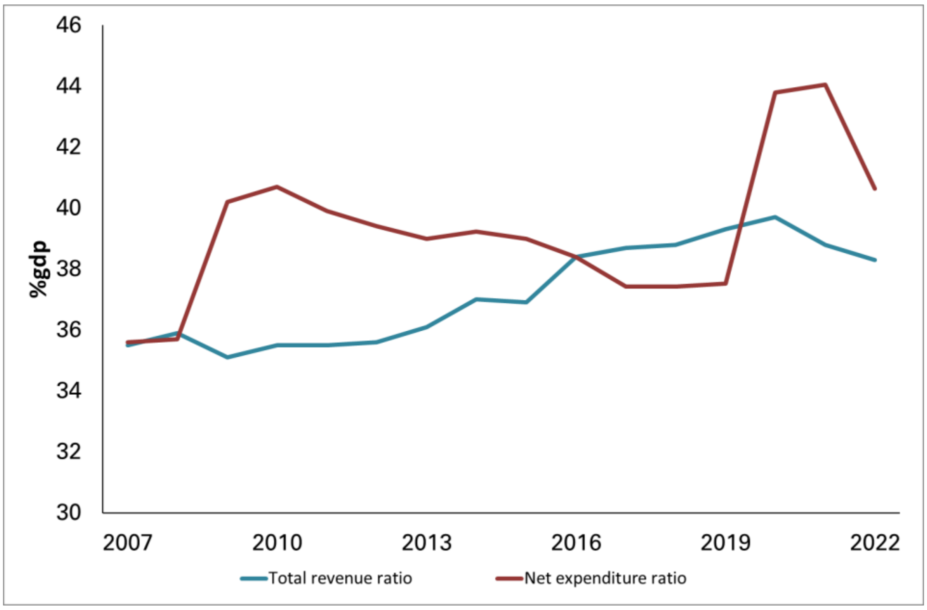
[97] Collective savings are the annual pension contributions and income from pension investments minus pension payments.
[98] The participation exemption is a tax regulation for private and public limited companies. The exemption can be used to save on corporation tax (VPB) as a group. The participation exemption prevents a company from having to pay tax again on results or profits on which tax has already been paid by a subsidiary.
[99] IMF (2019) *Country report Kingdom of the Netherlands IMF,* No. 19/45.

A comparison of the revenue ratio and expenditure ratio reveals the extent to which government expenditure and government revenue diverge. The figure shows that before the last crisis, which started in 2008, the expenditure and revenue ratios were almost equal. Thereafter, expenditure and revenue as a percentage of GDP diverge considerably. Up to and including 2012, the development of total tax and contribution revenue was almost in line with the development of the value of GDP. From 2012 onwards, the revenue ratio, which expresses the total of tax and contribution revenue as a percentage of GDP, has been on the rise, mainly as a result of policy measures taken to put public finances in order. From 2016 onwards, the expenditure and revenue ratios creep closer together, with general government revenue exceeding general government expenditure, so that from 2017 onwards, until the Covid-19 crisis, the government balance is positive every year.

Figure 4: General government expenditure and revenue ratio



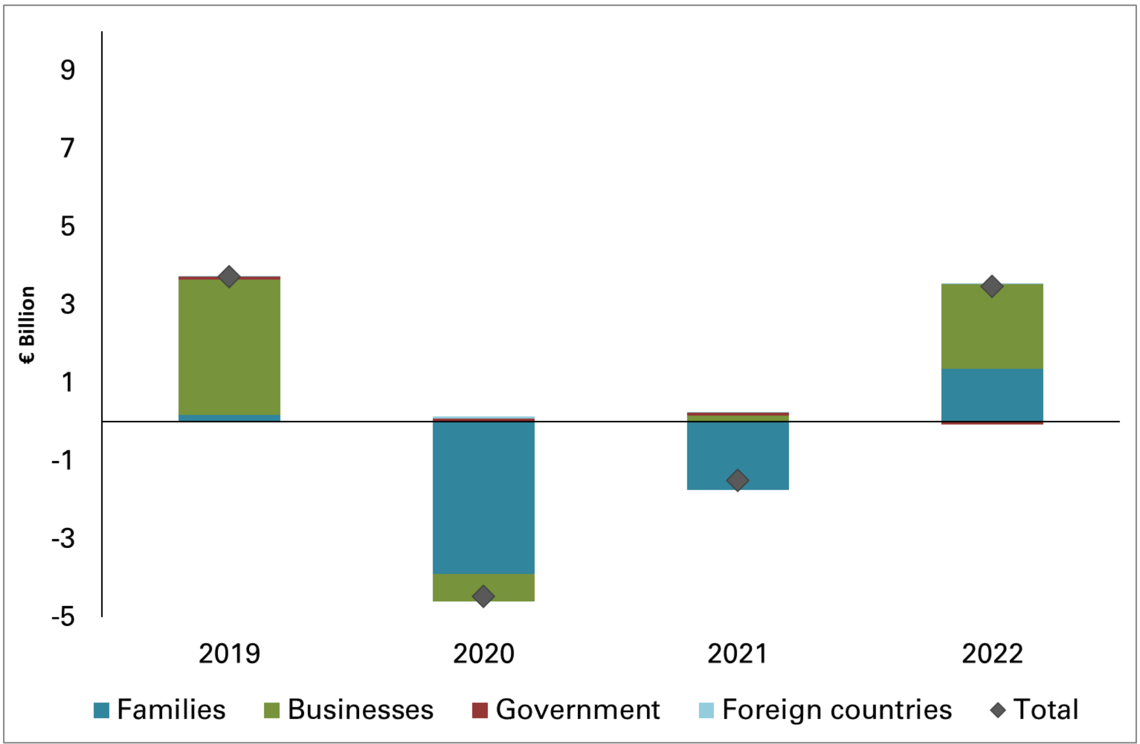
Source: Macroeconomic Outlook (MEV) 2022

The figure shows that the net expenditure ratio has risen sharply since the start of the Covid-19 crisis, but is expected to return to a level of below 40% of GDP. The decrease is partly explained by the fact that expenditure is expected to grow more slowly than GDP. Furthermore, expenditure under the Social Security framework and the State Budget framework also decreases in terms of volume. Only the Healthcare framework shows an increase in terms of volume for both 2021 and 2022.

It is striking that the total revenue ratio has risen only slightly and will continue to fall from 2021 onwards. This shows that the government primarily absorbed the economic effects of the Covid-19 crisis through additional expenditure and the automatic stabilisation of the revenue side, which means no additional cuts are necessary in the case of decreasing revenue as a result of economic developments.

Policy-related tax development

Figure 5: Policy-related tax development[100]



Source: Macroeconomic Outlook (MEV) 2022

Directly before the Covid-19 crisis in 2019, the policy-related tax burden increased year-on-year, especially for companies. For both 2020 and 2021, the policy-related tax development is negative year-on-year. For households in particular, the tax burden will be lower in 2020 as a result of, among other things, a sharp reduction in wage and income tax payments. In 2020, families paid €3.9 billion less in taxes and contributions, in 2021 this will be €1.7 billion. The tax burden on businesses is increasing due to higher corporation tax payments.

Tax and contribution payments in 2022 will increase by a total of €1.4 billion for households and €2.2 billion for businesses. A breakdown by cluster shows that there will be minor changes in taxation for the environment cluster in 2021 and

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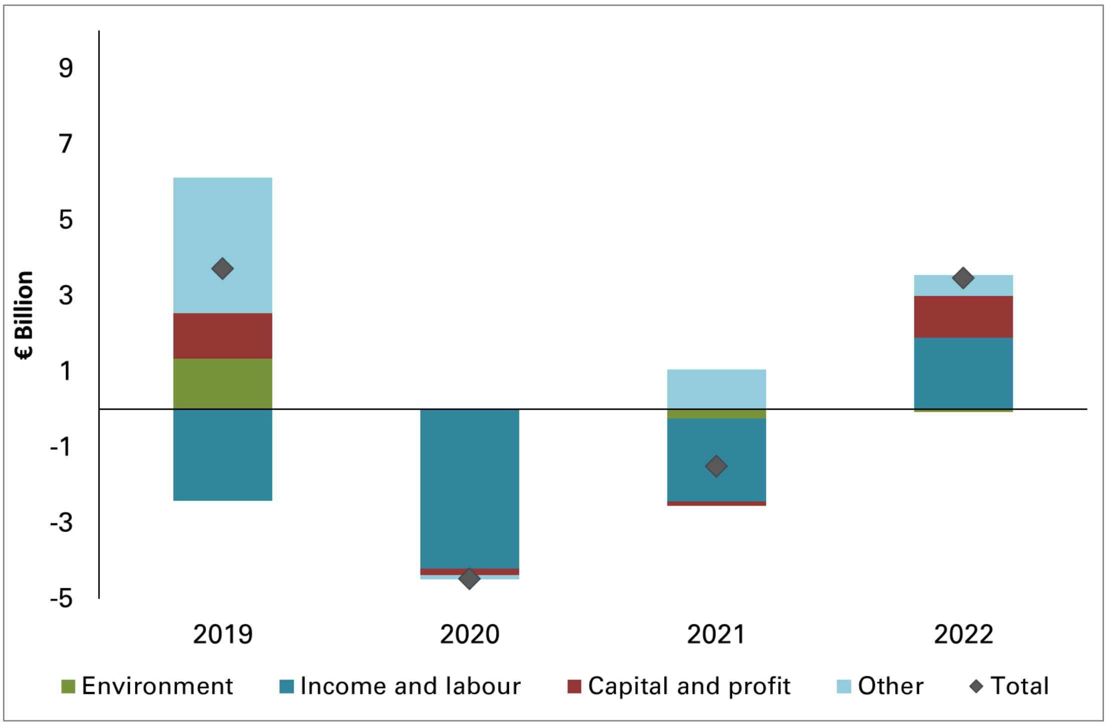
[100] The statutory contributions payable by employers are divided between the market sectors and public employers. The subdivision is somewhat coarse and uncertain, as the group making the payments is not always obvious. Moreover, ex-post taxes affect natural persons and not companies. The distribution between citizens and companies and foreign countries (and government) as presented in the policy-based tax development should therefore be seen as a rough estimate of where the burden will initially fall, not as an exact breakdown of the final tax distribution.

2022. In 2021, policy-related taxes for the income and labour cluster will still decrease by almost €2.2 billion. In 2022, taxes for this cluster will increase by almost €1.9 billion. The change in taxes for the profit and capital cluster is also limited in 2021. However, in 2022, taxes for the profit and capital cluster will increase by almost €1.1 billion.

Figure 6: Policy-related tax development per sector



Source: Macroeconomic Outlook (MEV) 2022

3.4 Article 3.1 Government Accounts Act (CW)

The Sneller et al. motion adopted on 1 October 2020 asks the Advisory Division of the Council of State, when advising on bills, to pay explicit attention to the way in which theobligations of Section 3.1 of the Government Accounts Act (CW) have been fulfilled.[101] Therefore, the Advisory Division has periodically focused on the general picture regarding compliance with Article 3.1 CW when advising on the Budget Memorandum and the report within the framework of independent budgetary monitoring.

In order to make the explanatory notes required pursuant to Article CW 3.1 easier for the House of Representatives to trace, a pilot project was announced in the third Insight into Quality operation progress report to improve their traceability, by adding a separate CW 3.1 annex to Letters to Parliament.[102] This annex is also part of the Integral Assessment Framework for policy and regulation (IAK). If all

[101] Motion by member Sneller c.s., Parliamentary Documents 2020/21 35570-IX, no. 14.
[102] Fourth Insight into Quality operation progress report, Parliamentary Documents 2020/21 31865, no. 184.

the steps of the Integral Assessment Framework (IAK) are followed, all CW 3.1 requirements are satisfied. This will bring the process of legislation and the financial and economic justification and accountability of policy closer together.

In the recent evaluation of the pilot in the Financial Annual Report of the Kingdom (FJR)[103], the government concludes that an explanation of an intended evaluation is provided more often than before, and that the quality of the explanation of the section on evaluation has improved. Research by the Court of Audit shows that the traceability of the substantiation of policy in advance in explanatory notes required by 3.1 CW has improved, but that, on the other hand, all too often the quality of the substantiation is inadequate.[104]

The question of whether the policy should be continued in its present form or revised is almost never posed or answered. The Court of Audit has also examined the government's multi-year forecasts and has established, based on a number of case studies, that parliament lacks information to properly assess the substantiation and quality of multi-year forecasts in the budgets.[105]

The Court of Audit states that parliament has too little insight into possible budgetary margin, which makes it difficult to enter into a debate on the scope for reallocating resources. An external evaluation by Leiden University, the KWINK group and the Netherlands School of Public Administration concludes that the pilot is not (yet) part of the MPs routine.[106] Also, in a general sense, the pilot has done little to increase the attention paid in the House of Representatives to the substantiation of policy. A cultural aspect plays an important role in this regard: MPs indicate that the annex does not play a significant role in debates on politically sensitive issues.

The CW3.1 explanatory note is part of the State budget system. In its opinion on the 2022 Budget Memorandum, the Advisory Division suggests that a Second State Accounting System Operation should be considered to future-proof the financial infrastructure (see section C3). This is partly as a follow-up to the evaluation of the financial function, in light of experiences during the Covid-19 crisis and the recommendations of the Court of Audit, on which the Minister of Finance will inform Parliament shortly. The final step is to update the Government Accounts Act accordingly. Such an operation affords the House of Representatives the tools to exercise its rights associated with the budget more effectively. It is ultimately up to parliament to actively use the resources at its disposal.The Advisory Division realises that in addition to the structure, the culture

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103 Financial Annual Report of the Kingdom and State Annual Report, Parliamentary Documents 2020/21, 35830, no. 1 and no. 2.

104 Court of Audit (April 2021). *Insight into Quality: Operation Successful?*

105 Court of Audit (2021) Ruimte in de ramingen? Meerjarenramingen onderzocht. (Margin in the forecasts? Multi-year forecasts examined.)

106 Pattyn V., Noordink M., Modderman P., Cohn R., De Groot M., Braun C., Van der Steen M. (2021). Evaluation of the use of Annex CW3.1 by the House of Representatives. Research commissioned by the Ministry of Finance. The Hague.

also plays a role, as revealed by the evaluation of the use of the CS3.1 explanatory notes. Parliament as a whole and individual MPs decide for themselves how to interpret one of the oldest core parliamentary competences.

4. Fulfilment of commitments previously made by the government

In the 2021 Spring Report, the Advisory Division advised that the approach for establishing budgetary policy should be transparent.[107] From the democratic perspective it is important that 'anchors' are formulated on the basis of which political decisions can be considered and accounted for. Aspects of broad prosperity can be taken into account when establishing anchors.

The Advisory Division subsequently recommends that integral deliberations be made at fixed times in the form of a main decision-making moment, in order to enhance the transparency and stability of budgetary policy. In the 2022 Budget Memorandum, the outgoing government endorses the importance of budgetary rules and a return to regular budgetary policy. In this context, the government points out that the budgetary margin is not unlimited and, according to the CPB, rising healthcare costs will lead to a sustainability deficit. Furthermore, other social challenges related to education, the labour market, the housing market, security and climate require further choices within the budgetary frameworks.

The Advisory Division placed the prospect of broad prosperity at the centre of its opinion on the 2019 Budget Memorandum, following the example of the House of Representatives and the Planning Bureaus.[108] The 2022 Budget Memorandum devotes ample attention to broad prosperity. Furthermore, the Advisory Division advises the new government to take the next step in integrating broad prosperity in the budget process, by formulating anchors for jointly considering aspects of broad prosperity in relation to budget policy (see also Budget Memorandum advice C2.4). This would be a major task for all ministries and therefore requires explicit consideration, respectively, support from the (new) government.

The Advisory Division noted in the 2021 Spring Report that the 2021 Stability Programme provides an insight into the distribution of the Covid-19-related expenditure among the budget chapters in 2020. Nevertheless, the question remained as to which emergency packages and budgetary measures underlie this expenditure by budget chapter. In response, the government stated that it is trying to ensure the budget remains transparent as a result of the Covid-19 measures. The annexes to the Budget Memorandum now include an overview of the Covid-19 emergency packages and budgetary measures by budget chapter.

In the 2020 September Report the Advisory Division urged the government to critically monitor the financial impact of the newly established risk schemes and the expansion and relaxation of conditions of various existing guarantee schemes

[107] Parliamentary Documents II 2020/21, 21501, no. 1750.
[108] Parliamentary Documents II 2018/19, 35000, no. 4.

within the framework of the support and recovery packages.[109] The government undertakes to provide an overview of the outstanding state risk schemes twice a year (with the Budget Memorandum and the Annual Financial Report of the Kingdom). In total, about €50 billion in additional guarantees were provided during the Covid-19 crisis. Of this, €35 billion has been provided to promote European economic recovery. The annexes to the Budget Memorandum contain tables showing the guarantees by budget chapter, where a clear distinction can be made between national and international guarantees.

5. Response from the government

The government thanks the Advisory Division of the Council of State (hereafter referred to as: the Advisory Division) for its assessment on the development of public finances and the extent to which this development complies with the rules of the Stability and Growth Pact (SGP). As the Advisory Division notes, the situation deviates from the regular budget cycle in that the general escape clause of the SGP was activated in response to the Covid-19 crisis. In addition, the current government is outgoing and a subsequent government will adopt new national budgetary rules.

The Advisory Division indicates that the overshoot of the European threshold values for the EMU balance in 2021 and those for the structural balance in 2021 and 2022 will not have any consequences due to the activation of the so-called general escape clause of the SGP. The European Commission has indicated that it will not open any excessive deficit procedures. However, the Advisory Division points out that, despite the general escape clause, it remains important that the development of public finances is closely monitored and assessed. The government shares this view. The Advisory Division also devotes attention to the European Commission's evaluation of the European fiscal framework, the SGP and the Macroeconomic Imbalance Procedure (MIP), which has been postponed due to the Covid-19 crisis.[110] The evaluation is likely to resume this autumn, when the Commission will consider what lessons can be learned from the Covid-19 pandemic. In doing so, sustainable public finances will remain the primary objective of the SGP. The Advisory Division indicates that it would be wise to link the introduction of a possible revised SGP following the review, to the deactivation of the general escape clause in 2022, so that the potential new European fiscal rules enter into force from 2023. As previously indicated to the House of Representatives[111], the government believes that deactivating the general escape clause (GEC) is separate from the review of the SGP. The Advisory Division also advises that the link between Dutch and European fiscal policy be made transparent and the Dutch input in the European debate on a possible review of the SGP be formulated in a timely manner. The outgoing government will pass

[109] Parliamentary Documents II 2020/21, 35570, no. 3.
[110] European Commission (2020). Communication from the Commission - Economic governance review. COM (2020) 55 final.
[111] See annotated agenda for the Eurogroup and ECOFIN Council: Parliamentary Documents II 2020/2021, 21501-07, no. 1765.

on the Advisory Division's policy considerations in reforming the SGP to the next government. In December 2020, a comprehensive reflection on the SGP was sent to the Senate and the House of Representatives, in which possible topics for discussion were discussed and their advantages and disadvantages outlined.[112]

With regard to the assessment of the national budgetary rules, the Advisory Division concludes that during the Covid-19 pandemic, there was a deviation from regular budgetary frameworks and budgetary anchors. The government opted to keep the extra expenditure related to the Covid-19 pandemic outside the regular ceiling. This means that no further cuts were needed, but that extra spending led to a deterioration of the EMU balance and an increase in EMU debt. The government has indicated that this is temporary. The government has also agreed to be cautious with regard to new policy due to its caretaker status, but as a result of the major challenges in the areas of climate, housing and security, the government is already making a number of targeted investments. As the Advisory Division also notes and the importance of emphasising deviations from national budgetary rules, the government indicates in the Budget Memorandum that it wants to return to regular budgetary policy with a main decision-making moment and budgetary anchors. In doing so the government underlines the advice to return to a main decision-making moment with an integral assessment in order to enhance the transparency and stability of budgetary policy. A newly formed government will have to set the budgetary frameworks for 2022 and the following years. In addition, the government endorses the advice for a new government to further integrate broad prosperity in the budget process and also to take it into account when formulating budgetary anchors.

The Advisory Division also points out the uncertainties and risks of outstanding guarantees. In total, additional guarantees of about €50 billion were issued during the Covid-19 crisis. The Advisory Division rightly points out the importance of critically monitoring outstanding guarantees, informing parliament where necessary, and scaling them down if the economic situation allows. In the government's view, guarantees are a valuable instrument in times of crisis and contribute to economic recovery by reducing uncertainties. At the same time, the government agrees with the Advisory Division that guarantees represent a potential risk to the budget and should therefore be critically monitored. The government provides an overview of the outstanding state risk schemes twice a year (with the Budget Memorandum and the Annual Financial Report of the Kingdom). In order to control the risks to public finances and to promote the trade-off between different policy instruments, the government pursues a ‘no-unless' policy with regard to risk schemes. The government also states in the Budget Memorandum that through the consistent application of this policy in combination with the temporary nature of the Covid-19 guarantees, the guarantee level is expected to decrease in the coming years to a similar level as that before the crisis.

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[112] Broad reflection on the Stability and Growth Pact (SGP)

In addition, the Advisory Division refers to advice it provides in the opinion on the Budget Memorandum related to the Government Accounts Act. The Advisory Division also indicates that traceability of the substantiation of policy in advance in a CW3.1 explanatory note has improved, but that, according the Court of Audit, all too often the quality of the substantiation is inadequate.[113] The Advisory Division also suggests that a Second State Accounting System Operation be considered in order to future-proof the financial infrastructure. The Subsequent Report will respond to this consideration and advice.

Furthermore, the Advisory Division devotes attention to the surplus on the Dutch current account. According to the Advisory Division, the surplus is high from an international perspective. The Advisory Division recommends that, in consultation with the European Commission, a more accurate analysis be made of the part of the surplus that can be classified as an imbalance. The government's response to this Subsequent Report will also respond to this advice.

In the conviction that the Advisory Division, as an independent budgetary authority, provides parliament with an expert opinion on the budget, on behalf of the government I sincerely thank the Advisory Division for its diligent cooperation.

Yours sincerely,

the Minister of Finance,
W.B. Hoekstra

The response from the government has not prompted the Advisory Division to change its assessment. In the 2022 Spring Report the Advisory Division will address the implementation of the commitments.

The Vice-President of the Council of State

[113] Court of Audit (April 2021). *Insight into Quality: Operation Successful?*