

PRESS RELEASE

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Council of State publishes Budget Supervision Spring Report for 2015

The Advisory Division of the Council of State is of the opinion that the fiscal outlook which the government included in the Stability Program, complies with European fiscal rules. Given the uncertainties in the economic and fiscal outlook for 2015 and 2016, the margins are however still very narrow. This calls for caution and alertness.

This is reflected in the Budget Supervision Spring Report for 2015, which was published by the Advisory Division today (13 April 2015). It is the first time they publish this Spring Report. It contains an assessment of the so-called Stability Program the government has to submit to the European Commission and the Council of Ministers before 1 May. From 2014, the Advisory Division of the Council of State was appointed as the authority independently overseeing the compliance with fiscal rules in the Netherlands, as agreed to in Europe. In September 2014, it has elaborated on the independent budget supervision for the first time by dedicating a separate chapter in its traditional advice on the Budget memorandum on the draft budget in view of the European budgetary rules. To be able to perform the new task adequately, a connection must be made with the most important moments in the national budget cycle.

The structural budget deficit, corrected for the economy as well as for one-offs, in both 2015 and 2016 lined up exactly with the agreed medium term objective according to European budgetary regulations. The requirements for the reduction in government debt were met as well and, according to the current forecasts of the CPB Netherlands Bureau for Economic Policy Analysis, there is a slight leeway in the expense rule for 2016. The European fiscal rules would thus be complied with in 2015 and 2016. The actual and structural budget balance currently estimated for 2016 is more favourable than the forecast at the time of the coalition agreement. In the current forecast alone, the structural balance of -0.5% GDP will comply with the agreed European fiscal rules. This 'windfall' compared to the coalition agreement doesn't actually generate any leeway, considering the European fiscal rules.

In this assessment, the Advisory Division formulated some considerations and points of interest in its Spring Report. The margins of uncertainty appear to be large in predicting the budget deficit two years in advance. The positive view on the sustainability of government finances in the long term, as outlined by the CPB in its recent sustainability study, is to a large extent determined by the anticipated control over healthcare expenses. According to the Advisory Division, it is unclear whether and to what extent further structural measures in healthcare will be required in order to achieve the image of sustainable government finances.

The Government budget balance over the past fifteen years also appeared to be highly sensitive to developments in private consumption (volatility). Structural reforms in the housing market and the pension funds sector could help balancing the risks of excessive household debt overhang, thus also reducing the volatility of the budget balance of the government. Such reforms however require a long lead time before they will have any effect. It is therefore advisable during good economic years to include sufficient buffer space in the budget balance to cover the lean years, while a tax review will also require the necessary.

The Advisory Division questioned the Government on the concept assessment and the Government endorsed this in its response of 10 April 2015. They will take the points of interest in account in the budget preparations for 2016.