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Budget Supervision September Report 2015

Summary

According to the 2016 Macroeconomic Outlook (2016 MEV), published by the CPB Netherlands Bureau for Economic Policy Analysis, prospects for economic growth and unemployment in the Netherlands have improved since the spring. In contrast, the actual budget deficit is decreasing less than was foreseen in spring, and the structural deficit adjusted for trade cycles and incidental items is actually increasing. In the spring, and in the Stability Programme submitted to the European Commission, the structural budget deficit in 2015 and the years following met the medium-term objective agreed for the deficit (0.5% of Gross Domestic Product (GDP)), but according to the forecasts included in the 2016 MEV the structural budget deficit will increase to 1.1 and 1.2% of GDP in 2015 and 2016 respectively. The government's Budget Memorandum reports a structural deficit of 1.2 and 1.3% of GDP in 2015 and 2016 respectively. This development is largely explained by the decline in gas revenues since the spring and the proposed reduction of the tax burden amounting to € 5 billion.

An assessment on the basis of the European fiscal rules with regard to growth in expenditure and debt respectively leads to the conclusion that the Netherlands will comply with those two rules in the years 2015 and 2016. However, the Netherlands is exceeding the objective with regard to the structural budget deficit in 2015 and 2016. In view of the working agreements between the European Commission and the Member States, from which it follows that the policy efforts to be made in 2016 can be based on the spring forecasts of the Commission, the Commission will consider whether the policy effort for 2016 suffices. The European Commission's assessment in November, which will be based on a broader consideration of factors (the 'overall assessment'), will show whether the fiscal rule has been complied with respect to the structural budget deficit.

Even if the Commission's assessment of the structural deficit over 2016 shows that the Netherlands is complying with the working agreements concluded with the Commission this past spring, the deterioration of the budgetary outlook for 2015 and 2016 as a result of lost gas revenues and the recent package of measures for relief of the tax burden will still apply to the budget preparation for 2017 next spring. The rising structural deficit in 2015 and 2016 thus complicates the budget preparation for 2017.

1. Introduction

The Advisory Division of the Council of State has been designated as the body responsible for the independent monitoring of compliance with EU fiscal rules as provided for in the Treaty on Stability, Coordination and Governance (TSCG) and Article 5 of Regulation 473/2013/EU. It is the task of the independent fiscal institution to establish assessments available to the public on whether a country complies with European fiscal rules.

September 2014 was the first time the Advisory Division assessed the budget and the Budget Memorandum (Miljoenennota) in light of the European fiscal rules. Given the essential steps in the budgeting process, both nationally and European, the Advisory Division concluded that it was desirable to report in the spring as well. In the spring, the CPB Netherlands Bureau for Economic Policy Analysis publishes the initial short-term forecasts of the economic and budget prospects for the coming year. Also, the government determines the key points of the fiscal policy for the coming year and submits the annual Stability Programme to the European Commission by 30 April at the latest. Reports from the Advisory Division in April dovetail nicely with this and form a logical part of the policy cycle agreed upon within the European Union (the 'European Semester'). This past spring, the Advisory Division published a Spring Report for the first time.[1]

An assessment in the context of independent fiscal supervision covers the expected budgetary developments and plans as adopted by the government; in the spring they are incorporated in the Stability Programme and in September in the Budget Memorandum and the budgets. The September assessment is published in an independent report on the Budget Supervision, in addition to the advice that the Advisory Division publishes annually - since 1906 - on the plans of the government in the Budget Memorandum.

The assessments are made on the basis of a mutual division of tasks and in cooperation with the CPB. The division of tasks entails drawing up independent forecasts and analyses in the way that this has always been done by the CPB; the Sustainable Public Finance Act (Wet Houdbare Overheidsfinanciën, Wet HOF) gave this an additional statutory basis. The Advisory Division of the Council of State has been charged with the more normative assessment of compliance with the European fiscal rules. To that end, the Advisory Division makes use of current forecasts published in the Central Economic Plan (CEP) and, in September, of the CPB's Macroeconomic Outlook (MEV) that is published at the State Opening of Parliament as well.

For the sake of the quality and care of the assessment that is to be drawn up, the Advisory Division is given access to the draft version of the Budget Memorandum. Then the Advisory Division draws up a draft assessment. The government is

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1 2015 Budget Supervision Spring Report, no. W06.15.0090/III, 13 April 2015.

informed of this and it is discussed with the government. The Advisory Division makes its final assessment after being informed of the government's response. The government's response is included in full in the annex to this report. This way, the procedure guarantees that justice is done to the respective responsibilities and possible differences in opinion and that it is reported in the final assessment.

The assessment framework of the Independent Budget Supervision stems from the Stability and Growth Pact (SGP) in 1997, and the subsequent adjustments (especially those done via what is known as the 'Six Pack'). Member States have also committed to additional obligations in the inter-governmental Treaty on Stability, Coordination and Governance in the EMU, which entered into force in 2013 and is further put into operation in two Regulations (the so-called 'Two Pack'). As of 2014, the Netherlands has been in what is known as the ‘preventive arm’ of the SGP. In that situation, the assessment focuses on whether the structural budget balance complies with the medium-term objective (MTO), or whether sufficient improvement can be seen in the direction of the MTO. Also, growth of public expenditure, net of discretionary revenue measures, should be below the potential growth of the economy.
If the government debt exceeds 60% of GDP, an assessment will be made whether it drops back fast enough to 60%. Furthermore, an assessment could also be made of whether - if relevant - circumstances require the application of a 'correction mechanism' or recovery plan, or whether there are any exceptional circumstances that legitimise a temporary deviation.
In the opinion of the Advisory Division, assessing the long-term sustainability of the public finances and risk analysis is another important component of the review.

Section 2 of the report contains a short review of the macroeconomic and budgetary prospects. Section 3 reviews the budgetary prospects and the fiscal policy proposals against the assessment framework. Section 4 reflects the government's response to the draft assessment as well as the Advisory’s Division's response to that. Section 5 concludes with the final assessment. The Annex includes the full text of the government's response.

2. Macroeconomic and budgetary prospects

Economic prospects more favourable than in the spring

According to the forecasts in the MEV, the prospect for economic growth in the *euro area* for the years 2015 and 2016 hardly deviate from the forecasts in the spring as they were included in the CEP and the Stability Programme.

Conversely, economic growth in *the Netherlands* is now assessed significantly higher in the MEV and the Budget Memorandum than in the spring. While in the spring economic growth for the Netherlands was estimated at 1.7% in 2015 and 1.8% in 2016, economic growth at 2.0% in 2015 and 2.4% in 2016 is being

projected now. This means economic growth in both years will be a good half percent higher than the average for the euro area. If the market sector (excluding natural gas) is considered, then growth of almost 3% can be seen for the Netherlands in both years. Since the turn of the century, growth in the market sector exceeded 3% in only three years (2005-2007).
The CPB notes - with reference to the scenarios up until 2023, that the CPB has published[2] - that in both years growth appears to be higher than the potential growth. The economic growth lost in the recession years has thus been caught up with to some degree. The CPB projects that at the close of 2016, the level of GDP could be approximately 4% above the level that was reached on the eve of the financial crisis at the end of 2008/2009.

Table 1 contains key macroeconomic data for the years 2015 and 2016 from the CPB and compares the current prospects with those in the spring.

Table 1 Key macroeconomic data 2015 and 2016; Stability Programme versus 2016 Budget Memorandum

	2015		2016	
	Stab.progr. (2015 CEP)	2016 Budget Memorandum (2016 MEV)	Stab.progr. (2015 CEP)	2016 Budget Memorandum (2016 MEV)
	changes per year in percentages			
Euro area				
Economic growth (GDP)	1.4	1.3	1.8	1.9
The Netherlands				
Economic growth (GDP)	1.7	2.0	1.8	2.4
Production market sector excl. gas	2.3	2.9	2.6	3.0
Household consumption	1.5	1.6	1.7	1.9
Residential investments	3.6	22.1	2.9	5.6
Export of goods, services	4.6	3.7	4.8	5.1
Employment market sector	1.2	0.9	1.3	1.3
Unemployed labour force (in % of labour force)	7.2	6.9	7.0	6.7
General government balance (% of GDP)[3]				
- actual balance	-1.8	-2.1	-1.2	-1.4
- structural balance	-0.5	-1.1	-0.5	-1.2

Source: CPB, 2016 Macroeconomic Outlook, 2015 Central Economic Plan, 2015 Stability Programme

2 Centraal Planbureau, 2014, 'Roads to recovery,' p. 45.
3 This table contains the forecasts from the 2016 MEV. The Budget Memorandum contains a fractionally higher general government EMU balance: see Table 2.

It is striking that, with the exception of the budget deficit, many economic variables in the current forecasts show a more positive outlook than was expected in the spring. The recovery of residential investments is even much stronger than was estimated in the spring; the 2016 MEV reports growth of 22% in 2015.[4] Unemployment is also lower in both years than was expected in the spring.

Rising structural budget deficit

The outlook regarding the budget balance is very different. Despite higher economic growth in 2015 and 2016, with higher tax receipts and lower unemployment benefits expenditure as a result, the general government balance will improve less than was forecast in the spring and presented by the government in the Stability Programme.
In the spring, the Stability Programme presented a further decrease in the *actual* budget deficit with 0.6% of GDP in 2015; in the current forecasts, only half of this improvement remains. Now it is being forecast that the actual budget deficit in 2016 will not decline to 1.2% of GDP but to 1.4% of GDP in the MEV and to 1.5% of GDP in the Budget Memorandum.
This spring the Stability Programme foresaw stabilisation of the *structural* budget balance at the value of the MTO (-0.5% of GDP), whereas now in the MEV a deterioration is being foreseen, from -0.5% of GDP in 2014 to -1.1% of GDP in 2015 and -1.2% of GDP in 2016 respectively. The Budget Memorandum reports an increase up to -1.2% of GDP in 2015 and -1.3% of GDP in 2016.
A number of factors play a role in the deteriorating outlook for the budget deficit. Since spring, the natural gas revenues have decreased further by € 1.65 billion in 2015 and € 1.85 billion in 2016, due in part to substantial restrictions on gas production from the Groningen gas field. The proposed package of tax-relief measures for 2016 (€ 5 billion) also contributes to the higher budget deficit.

Table 2 shows, in addition to the government debt, both the actual and the structural budget balance since the beginning of this government's term of office, whereas for the years 2015 and 2016 both forecasts by the CPB and those from the Budget Memorandum are included because of (minor) differences in these forecasts.

The CPB reports that next year the Dutch rebate on the EU payment, after ratifying the EU's Own Resources Decision, will come into force with retroactive effect. This is a one-time contribution to a reduction of the budget deficit by 0.3% of GDP in 2016.[5] It is possible that the European Commission, as the CPB

[4] Although this being a strong recovery, it should be noted that the level of residential investments fell by approximately 40% post-2008, as a result of which the investment level at the end of 2015 will still be 25% below the pre-crisis level. Please also refer to the 2014 Annual Report by De Nederlandsche Bank, p. 31.
[5] 2016 Macroeconomic Outlook, p. 52.

reports,[6] will attribute the effect to the one-off measures that are adjusted in the calculation of the structural government balance. The CPB does not yet anticipate this in its forecasts of the structural deficit. If the European Commission decides to do this, however, the structural budget deficit will be 0.1% of GDP more favourable for both 2014 and 2015, and 0.2% of GDP less favourable for 2016. This possibility is also shown in Table 2. In that case the structural budget balance in 2016 will be -1.4% of GDP (CPB) or -1.5% of GDP (Budget Memorandum). The structural deficit in 2016 will then be 1.0% of GDP higher than presented in the Stability Programme this spring. The increase in the deficit in 2016 will then amount to 0.4% of GDP rather than 0.1% of GDP, and this increase is the relevant factor in the review under the rule for the structural budget deficit for 2016.

Table 2 Budget balance and government debt, CPB and Ministry of Finance forecasts, 2012-2016

	2012	2013	2014	2015		2016	
				CPB	FIN	CPB	FIN
	as a percentage of GDP						
Actual government balance	-3.9	-2.4	-2.4	-2.1	-2.2	-1.4	-1.5
Structural government balance	-2.2	-0.7	-0.5	-1.1	-1.2	-1.2	-1.3
Structural government balance, including a possible correction by the EU for delayed repayment of EU rebate	-2.2	-0.7	-0.4	-1.0	-1.1	-1.4	-1.5
Government debt	66.1	67.6	67.9	66.4	67.2	64.5	66.2

Source: CPB, 2016 Macroeconomic Outlook, respectively 2016 Budget Memorandum

Shifts in the composition of public expenditure

Some key data on the public finances are summarised in Table 3. To outline the development over the last ten years, not only has the 2016 budget year been shown, but also the first year of this government's term of office (2013), the year 2010, which was the low point of the Great Recession, and the year 2006 just prior to the financial crisis.
After a major increase in the public expenditure ratio during the recession and substantial austerity measures shortly thereafter, total public expenditure in 2016 has almost returned to the relative level of just prior to the crisis.

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[6] 2016 Macroeconomic Outlook, Table 3.2, footnote b, p. 55; copied as Table 5 in this September Report.

Up until 2013, expenditure on social security and health care increased sharply, partially due to a further ageing population, but has lagged behind the growth of the economy since, due to expenditure cuts as well as economic recovery.
On balance, however, public healthcare expenditure in 2016 is still well above (1.4pp of GDP) the level of ten years ago, which was the first year of the new healthcare system. The trend of salaries in the healthcare sector plays a major role in this.
The strong volume growth seen in the old-age pension since 2006 means that total social security spending, despite a relative decline since 2013 due in part to expenditure cuts, is still much higher than ten years ago. Other social security expenditure is not much higher.

Table 3 Public finances, 2006-2016

	2006	2010	2013	2016
	as a percentage of GDP			
Central government's expenditure[7]	22.5	24.9	23.0	20.9
– of which:				
public administration	*9.5*	*10.3*	*9.5*	*8.5*
education	*5.1*	*5.5*	*5.3*	*5.2*
security[8]	*2.9*	*3.1*	*3.0*	*2.8*
Interest payments	2.0	1.8	1.5	1.2
Social security	11.0	12.2	12.7	12.1
– of which:				
old-age pension/ surviving dependants' pension	*4.4*	*4.7*	*5.1*	*5.2*
Healthcare	8.0	9.4	9.9	9.4
Total gross public expenditure	43.5	48.1	47.1	43.6
Collective financial burden[9]	36.4	36.1	36.6	37.1
Other income	7.3	7.1	8.1	5.1
– of which:				
gas revenues[10]	*1.5*	*1.5*	*2.1*	*0.8*
Actual government balance	0.2	-5.0	-2.4	-1.4

Source: CPB, 2016 Macroeconomic Outlook, Annex 8.

Despite the strong increase in government debt – the result of many years of high deficits – interest payments put much less pressure (0.8% of GDP) on the budget than ten years ago, as a result of the current low interest rates on Dutch government bonds. It remains to be seen, however, how sustainable this proves to be. It is inevitable that monetary policy will normalise in time, with the return to

[7] Excluding government interest payments.
[8] Including both national defence and homeland security.
[9] Tax and national insurance contributions.
[10] Non-tax revenues.

more normal interest rates as a result. Interest payments will then rise again substantially.
Expenditure on education and security (both national defence and homeland security) has remained fairly constant since 2006.
As of 2010, a major reduction can be seen in expenditure on public administration, a result of a reduction in the number of civil servants and a freeze on salaries.

In summarising, the relative level of public expenditure has almost returned to the level prior to the financial crisis. However, there have been significant shifts in the composition, particularly under the influence of the further ageing of the population.

The collective financial burden as a percentage of GDP in 2016 is only marginally higher than ten years ago, despite all measures increasing the tax burden since that time. They have not compensated for much more than the decrease in the macroeconomic progression factor.[11]
Gas revenues, in contrast, have been halved since 2006 and have fallen sharply during this government's term of office. This is holding back the reduction in the budget deficit that the MEV estimates at 1.4% of GDP next year, whereas in 2006 there was a small budget surplus.

Development of gas revenues and interest payments

For an insight into the budgetary prospects, it is desirable to pay more attention to the development of the gas revenues and the interest payments during this government's term of office and the prospects thereafter. Table 4 summarises the relevant key figures.

[11] This is defined as the increase in revenue of the tax and national insurance contributions (in percentages) for each percentage of growth in the nominal domestic product, should the fiscal legislation remain unchanged.

Table 4 Gas revenues and interest payments at the start of the current government and the current forecast, 2013-2017

	2013	2014	2015	2016	2017
	Euro in billions				
Gas revenues					
- Initial Policy Memorandum, December 2012	13.45	12.65	11.95	11.60	11.00
- 2016 Budget Memorandum	15.20	10.25	7.30	6.05	6.20
- Difference, effects on government balance	1.75	-2.40	-4.65	-5.55	-4.80
Interest payments					
- Initial Policy Memorandum, December 2012	9.10	9.90	10.60	11.70	12.40
- 2016 Budget Memorandum	8.65	8.45	7.90	7.75	9.35
- Difference, effects on government balance	0.45	1.45	2.70	3.95	3.05

Source: Initial Policy Memorandum, Rutte-Asscher government, Lower House, 7 December 2012, and 2016 Budget Memorandum.
Gas revenues including corporation tax, interest payments excluding interest swaps.

A reduction in gas revenues was already partially provided for at the start of the government in 2012. At the time, a decrease of € 2.5 billion was envisaged during this government's term in office. Because of considerably reduced energy and natural gas prices, and by restricting production in Groningen, a decrease of € 9 billion is now being projected: from € 15.2 billion in 2013, to € 6.20 billion in 2017. Where other things stay the same, this has a strongly negative effect on the budget deficit.

However, because of continuing low interest rates, interest payments have turned out better than anticipated during this government's term of office. For example, interest payments estimated for 2016 in the Budget Memorandum are almost € 4 billion less than estimated in the coalition agreement of 2012.
In 2013, the development in gas revenues and interest payments together exceeded forecasts by more than € 2 billion. Since 2014 there have been substantial setbacks in the gas revenues, the effects of which have been significantly, but by no means fully, set off by large windfalls in the interest payments.

Since 2014, the sharp reduction in gas revenues has formed a major obstacle to the desired further improvement of the budget balance. Despite the favourable interest payments, the structural deficit, partially under this influence since 2014, is clearly rising.

Gas revenues are likely to remain at a lower level in the future as well. The lowered production ceiling, as it appears now, is permanent and many experts expect low energy prices to continue for the rest of this decade.

According to the degree to which, sooner or later, the monetary policy normalises, the government interest rates and therefore government interest payments will return to a more normal level. In its risk analysis in Chapter 4, the 2016 Budget Memorandum shows that the average interest rate paid on the government debt in 2014 will be around 2.5%, whereas prior to the crisis in 2007 this was above 4%. A return to such a percentage in the long run will lead to substantially higher interest payments than is the case now. At the same time, there will be less gas revenues to cushion the unfavourable effect on the budget deficit. This will encumber the budget policy in the future.

Both gas revenues and interest payments fall outside of the European (as well as the national) expenditure benchmark, which implies that from the perspective of the expenditure benchmark no compensation from other expenditure is required. Major changes to both gas revenues and interest payments manifest itself, after the closing of a coalition agreement, thereby immediately in the budget balance. As long as the actual budget deficit is not sufficiently below the threshold value (-3% of GDP), management of the deficit will still be needed in order to comply with national and European agreements on the budget deficit.

3. Review under the European fiscal rules

3.1 Assessment framework

In the context of independent budget supervision, the Advisory Division assesses whether the actual and forecast development of the public finances comply with the rules with which the Netherlands must comply in keeping with the fiscal agreements made in the Stability and Growth Pact.[12]

The Netherlands has been a part of the preventive arm of the SGP since 2014. Because of this, the assessment is directed especially at the question of whether *the structural government balance* complies with the medium-term objective (MTO) or whether sufficient improvement can be seen in the direction of the MTO. For the Netherlands, a structural government balance of -0.5% applies as MTO. This objective – derived from the European fiscal rules – is updated every three years and derived from the long-term sustainability of the public finances of a member state.[13] Additionally, there must be an assessment as to whether *the growth in expenditure* is lagging behind the estimated potential growth of the economy.[14] If *the government debt* is above the 60% of GDP, an assessment is also made of whether it is decreasing fast enough back to 60%.[15]

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[12] For the complete assessment framework (available in Dutch only) of the Division, please refer to the Council of State's website through the following link: https://www.raadvanstate.nl/assets/begrotingstoezicht/Grondslag%20en%20toetsingskader%20begrotingstoezicht.pdf

[13] Article 5, first paragraph, of Regulation 473/2013, in conjunction with section 1a, Article 2a of Regulation 1466/97.

[14] Article 5, first paragraph, of Regulation 1466/97.

[15] Article 5, first paragraph, of Regulation 1466/97.

If countries implement structural reforms with positive effects on the public finances in the long term, European fiscal rules are more flexible in applying the abovementioned rules.[16] This flexibility was further explained in a recent Communication from the European Commission and provided with criteria.[17] It involves: the '*structural reform' clause* (temporarily higher deficit being possible with structural reforms that increase economic growth and favourably affect the budget) and the '*investment' clause* (specific extra, structure-improving investments via European Funds can be left aside when assessing compliance against the fiscal rules). The Netherlands, however, does not make use of this option, which is why it is not further addressed here.

A complete assessment should, in the opinion of the Advisory Division, also relate to the *long-term sustainability* of the public finances and this should, in its opinion, also contain a *risk assessment.* Apparently exact figures create a false sense of certainty. This makes it desirable in reviews to also pay attention to uncertainties and risks affecting both forecasts and analyses. Furthermore it is appropriate in the assessments to monitor to what extent country-specific recommendations of the Economic and Financial Affairs Council of the EU (Ecofin Council) are complied with by the government in the area of the fiscal policy.[18]

The Advisory Division assesses the fiscal rules on the basis of information from the CPB and the Ministry of Finance. The 2016 Macroeconomic Outlook includes all forecasts relevant to the review under the European fiscal rules in a separate section.[19] Table 5 has been copied from this section. A graphical representation of the three most important assessment criteria in the preventive arm are included in figures 1 and 2; these were also copied directly from the Macroeconomic Outlook.

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[16] Article 5 of Regulation 1466/97, and Article 2, first paragraph, of Regulation 1467/97.
[17] COM (2015)12 of 13 January 2015.
[18] Article 5, second paragraph, of Regulation 1466/97.
[19] See 2016 Macroeconomic Outlook, section 3.2.

Table 5 Data from the CPB regarding European fiscal rules

	2013	2014	2015	2016
General government balance (% of GDP)	-2.4	-2.4	-2.1	-1.4
Cyclical government balance (EC method, % of GDP) (a)	-2.1	-1.7	-1.0	-0.2
Balance one-time and other temporary measures (% of GDP) (b)	0.4	-0.1	0.0	0.0
Structural government balance (EC method, % of GDP) (a)	-0.7	-0.5	-1.1	-1.2
Change in structural government balance (EC method, % of GDP)		0.2	-0.6	-0.1
Required change in structural government balance (c)			-0.3	-0.2
Expenditure benchmark				
Corrected public expenditure (volume, %) (d)		-2.3	0.0	-0.7
Maximum growth corrected public expenditure (e)		0.7	1.4	1.2
Difference (f, g)		-3.0	-1.4	-0.5
Difference (% of GDP) (g)		-1.3	-0.6	-0.2
General government debt	67.6	67.9	66.4	64.5
Debt criterion during transition period (h)				
Forecast change in structural government balance		0.2	-0.6	-0.1
Required minimum change in structural government balance based on criterion		-0.6	-0.6	-0.6
Difference (i)		0.8	0.0	0.5

(a) Based on the currently used OECD/European Commission estimate of a budget elasticity of 0.65. See Mourre, G. et al., 2014, Adjusting the budget balance for the business cycle: the EU methodology, European Economy, Economic Papers 536.

(b) It is possible that the European Commission will place the effect of the ratification of the Own Resources Decision ('Eigen Middelenbesluit') under the one-time and temporary measures. This forecast does not anticipate such a decision.

(c) To offer Member States more certainty regarding the budget assessment by the European Commission, based on the spring forecast by the European Commission, the required change in the structural government balance will be frozen in the spring (structural government balance, based on freezing). See, for example, European Commission, 2015, Recommendation for a recommendation by the Council on the 2015 National Reform Programme 2015 of the Netherlands and with the Council's advice on the 2015 Stability Programme of the Netherlands.

(d) Public expenditure does not include interest payments and the cyclical part of the unemployment benefits and is net of discretionary revenue measures. The three-year average is taken for public investments. The nominal expenditure change is deflated by the GDP deflator (for 2016, the average of the 2016 MEV forecast and the spring forecast of the European Commission).

(e) For countries that comply exactly with the MTO objective, the maximum change under the expenditure benchmark is equal to that of the long-term average of the potential GDP growth (reference value). For countries that did not comply with the MTO last year, a lower maximum expenditure growth applies, and for countries that exceeded compliance with the MTO objective, a higher corrective expenditure growth applies. For this symmetrical adjustment of the reference value see, for example, page 13 in the European Commission's Assessment of the 2015 Stability Programme for the Netherlands, Notes prepared by DG ECFIN staff. This symmetry had not yet been applied in section 3.2 of the *2015 Central Economic Plan (Centraal Economisch Plan 2015)*. The correction of the reference value is based on the convergence margin. In the assessment of compliance with the MTO, not only is the current forecast relevant but so are previous forecasts. The most favourable forecast is used in the assessment.

(f) The expenditure criterion requires a difference of zero or a negative.

(g) Based on non-rounded figures.

(h) See footnote under figure 2.

(i) This difference may not be less than -0.25% of GDP per year and, after the first year of the transition period, cumulatively not less than -0.75% of GDP.

Source: 2016 Macroeconomic Outlook

3.2 Development of the structural budget balance

The structural budget balance must comply with the medium-term objective (MTO) of -0.5% of GDP, or sufficient improvement must be seen in the direction of the MTO.

From the forecasts by the CPB included in Table 5, it follows that the structural government balance adjusted for trade cycles and incidental items rises from -0.5% of GDP (the MTO value) in 2014, to -1.1% of GDP in 2015 and -1.2% of GDP in 2016. On this point the Netherlands deviates from the agreed medium-term objective of -0.5% of GDP in both years. This is shown in the upper chart of Figure 1. In the forecasts of the structural government balance in the Budget Memorandum, this is even more the case. In contrast, this spring when the Stability Programme was presented, the Netherlands *did* comply with the MTO of -0.5% of GDP, albeit without any margin.

If the structural deficit were adjusted by the European Commission for the one-time effect of the delayed payment of the EU rebate, the result would be a deterioration in the structural deficit from 1.0% of GDP in 2015 to 1.4% of GDP in 2016.

In addition to the aforementioned delay in the EU payment, the altered outlook is explained by the continuing fall of natural gas revenues for 2015 and 2016, as a result of lower natural gas prices and the restriction of gas production in the Groningen gas field, as well as the proposed package of tax-relief measures (€ 5 billion).

The conclusion is therefore – as the 2016 Budget Memorandum itself reports[20] – that the Netherlands is not complying with the objective with regard to the structural budget balance, i.e. having a maximum structural deficit of 0.5% of GDP.

The 2016 Budget Memorandum mentions – with a reference to the assessment of the Dutch Stability Programme by the Commission – an approach in which it is agreed that the required effort for reducing the structural government balance for the budget year may be determined on the basis of the spring forecasts by the European Commission. Box 1 explains this in more detail.

Box 1 'Freezing forecasts'

The European Commission assessed the Stability Programme of the Member States in May. Based on the European Commission's spring forecasts, the European Commission estimated the structural budget deficit of the Netherlands at 0.2% of GDP in 2014, at 0.3% of GDP in 2015 and 0.4% of GDP in 2016. This

[20] See 2016 Budget Memorandum, p. 62.

was a starting point that was somewhat more favourable than the Netherlands had included in its own forecasts of the Stability Programme for 2015 and 2016.

In its assessment, the European Commission introduced the concept of 'structural balance, based on freezing.'[21] The Budget Memorandum refers to this and explains what the intention is: "In order to give Member States more certainty on the economic and budgetary forecasts in the budget preparation process against which they are held to account in the European fiscal rules, the Commission freezes the required development of the structural government balance for the coming year in the spring forecasts."[22]

According to the Budget Memorandum, given the spring forecasts by the European Commission, this means that the room available below the deficit benchmark for 2015 may be deducted from the fiscal effort for the coming budget year (2016). That effort for 2016 is derived from the most recent forecast for 2015, for which the growth of the structural government balance toward 2016 is the decisive factor. Given that the increase of the structural deficit between 2015 and 2016 is no more than 0.1% of GDP and may be compensated for by the room available in the spring forecast for 2015 (0.2% of GDP), the increase of the structural government balance in 2016 would be in line with the required budgetary effort for 2016. Even if 2015 and 2016 are taken together, according to the Budget Memorandum, there is no significant deviation.

The explanation of the concept 'freezing of forecasts' has not been published by the European Commission in any public document, but is supposed to be apparent from the assessment of the Stability Programme this spring. If the calculated structural government balance were not adjusted for the occasional distortion as a result of the delayed payment of the EU rebate, this would increase the required policy effort.

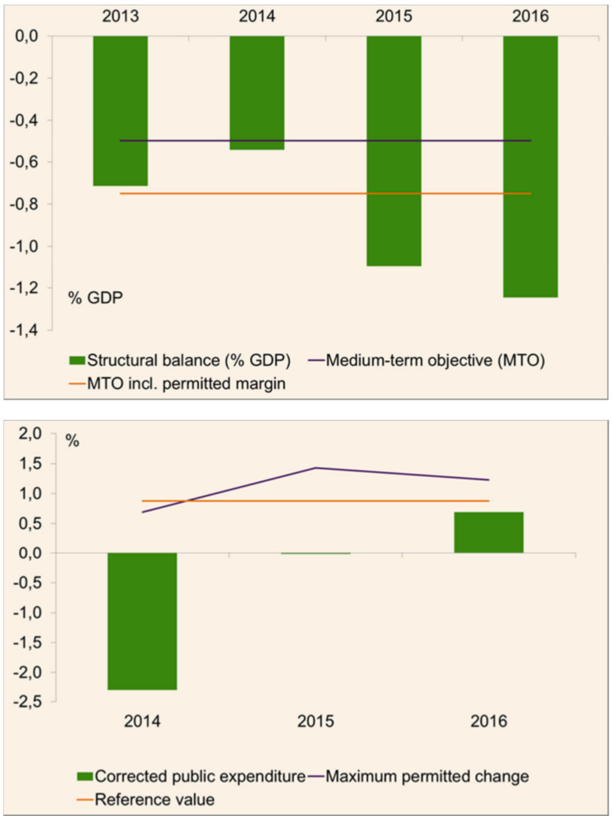
It should also be noted that, although this approach allows a Member State more time to take measures to reduce a deficit, it is merely a postponement. Through the spring forecasts for the 2017 budget year, the deterioration in the structural government balance for 2015 and 2016 will be raised for discussion again next spring. Thus if the situation otherwise remains unchanged, the rule applies that a structural balance above the MTO must be reduced to the MTO (-0.5% of GDP) in steps of at least 0.5% of GDP (€ 3.5 billion) per year.
The fact the structural balance was below the MTO in this spring’s forecast does indeed provide room for some expenditure growth in 2015 and 2016. However, the apparent exceeding of the MTO envisaged in the 2016 MEV, will result next year in a reduction of the permitted room for expenditure in 2017 and thereafter. The approach regarding the freezing of forecasts thus implies that the review under the European fiscal rules relates not only to the forecasts for this and next

[21] European Commission, 27 May 2015, Assessment of the 2015 Stability Programme for the Netherlands, Note prepared by DG ECFIN staff, Table 5, p. 14.
[22] 2016 Budget Memorandum, p. 62.

year, but also to the years thereafter. After all, deviations from the European fiscal rules must be compensated for in the years thereafter.

These further instructions could mean that, due to the limited increase in the deficit in 2016, the policy efforts contained in the 2016 Budget Memorandum regarding the structural deficit should, according to the Budget Memorandum, be sufficient to comply with that which the European Commission requested in May. The confirmation of this must be apparent from the assessment by the European Commission in November, which will be based on a broader consideration of factors (the so-called 'overall assessment').

Figure 1 The forecast and the relevant European rules on public deficit and public expenditure



Source: 2016 Macroeconomic Outlook

3.3 Development of the (corrected) public expenditure

Growth of public expenditure,[23] net of discretionary revenue measures, should be below the potential growth of the economy, where account should be taken of the deviation from the MTO.

[23] Excluding interest payments and the cyclical part of the unemployment benefits.

Table 5 shows that the growth in public expenditure in 2015 is lagging behind that permitted by the rule (1.4%) and that the corrected public expenditure in 2016 (from which the package of tax-relief measures amounting to € 5 billion has been deducted) lags by 0.5% behind the maximum growth allowed by the rule. This is shown in the lower chart of Figure 1.

The deviation from the MTO is taken into account in the room for growth in expenditure; due to remaining under the MTO in the spring, more growth in expenditure is now permitted for 2015 and 2016.

With this expenditure benchmark, expenditure on unemployment benefits related to the economic cycle and interest payments can be left aside. This gives room to automatic stabilisation of the economy in a way that, with a purely cyclical decline in the economy, no intervention is needed to follow the rule.
Non-tax revenues from natural gas are also excluded from this rule.

The conclusion is that the Netherlands is complying with the expenditure benchmark in 2015 and 2016.

3.4 Development in government debt

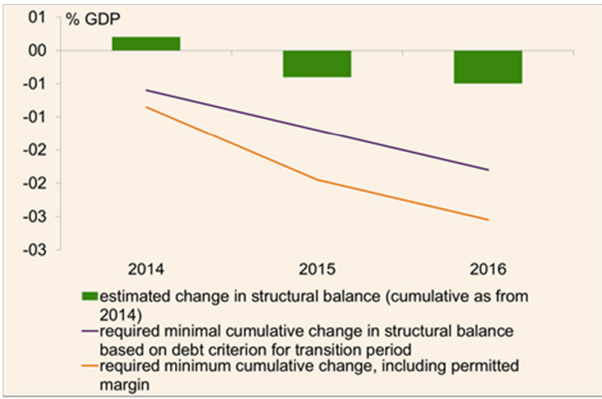
The government debt should, if it amounts to more than 60% of GDP, decrease sufficiently rapidly toward 60%; i.e., it should decrease every year by 1/20th of the difference with the 60% criterion.

The decreasing budget deficit and the increasing growth of the economy are leading to the government debt decreasing as a percentage of GDP in 2015 and 2016 for the first time since 2007.
For countries such as the Netherlands that were under an excessive deficit procedure during the period of the tightening of the debt ratio in 2011, a lighter transition regime applies after being discharged from this procedure.

During this transitional period, the requested reduction of the structural deficit in view of reducing debt was amply met (see Figure 2). This is also the case if the somewhat higher forecast of the Budget Memorandum is assumed.

The conclusion is that the Netherlands is complying with the debt criterion.

Figure 2 The forecast and the relevant European rules on government debt (a)



(a) The debt criterion during the transition period up to and including 2016 leads to a criterion for the minimum linear structural adjustment (MLSA). This change should be such that, in 2016, the public debt is reduced by 1/20th of the difference between the public debt in the previous year and the 60% debt criterion. The MLSA must be complied with cumulatively over the three years of the transition period. If, in earlier years, the movement in the structural government balance is more (or less) than that of the MLSA, then the structural government balance can (or must) be less (or greater) in the year concerned. In the case of the Netherlands, in the figure, this results in a decreasing sequence for the required minimum change in the structural government balance per year. The criterion for the reduction of the debt by 1/20th has variants that look back, look forward and are cyclically corrected. The MLSA is based on the variant that is easiest to comply with. In this forecast for the Netherlands, this is the variant that looks back.

Source: 2016 Macroeconomic Outlook

3.5 Sustainability of public finances in the long term

The medium-term objective (MTO) is updated every three years and is derived from long-term sustainability analyses. For that reason, it is necessary to include the long-term sustainability of the public finances in the analysis as well as the development of the medium-term objective (MTO).

The objective of the structural government balance in the medium term is derived from the desirability to be able to absorb shocks from cyclical setbacks and from the desirability to have sustainable public finances in the long-term in a society with an ageing population. Public finances are sustainable if future tax revenues are sufficient to offer future generations index-linked public provisions ('constant arrangements') and to pay interest payments without the government debt continually increasing and thus becoming unsustainable in the long term.

In the Budget Supervision Spring Report, attention was paid to measures taken in the past to improve sustainability in the long term and to the outlook of the sustainability of the public finances in the long term the CPB presented a year ago. Table 3 of this report and the 2016 MEV show that the growth in healthcare expenditure since 2013 has been significantly lower than in the previous period. However, medium term figures for the 2018-2020 period included in the 2016 Budget Memorandum and the health ministry's budget again show a fairly strong growth.
In the internet annex to the Budget Memorandum, it is explained that the growth rates of healthcare after 2017 are derived from the CPB Medium-term Outlook of three years ago, and have therefore now become no more than technical assumptions. It is therefore unclear whether the decline in the growth of

healthcare expenditure since 2013 is temporary and pre-2013 growth rates may be resumed in the years after 2017.
To a large degree, this will determine the budgetary forecasts for the next government's term of office and the sustainability of public finances in the long run. It was already noted in the Spring Report that if the growth in healthcare expenditure would be 1% higher year after year than forecast in the sustainability study of the CPB, the slightly positive sustainability balance (0.4% of GDP) calculated by the CPB would turn into a substantial sustainability deficit of 5.6% of GDP. The recently proposed package of tax-relief measures has also led to the disappearance of this sustainability surplus.

The conclusion of the Spring Report that the most important uncertainties and challenges lie in the area of growth and controlling healthcare expenditure remains as topical as ever.

3.6 Uncertainties and risks

Risk assessment should be a systemic part of the Division's assessments and reports.

It is important to avoid seemingly precise figures being taken to suggest certainty about the presented forecasts. This is why it is worth paying attention to uncertainties and risks that affect both forecasts and analyses.
It is good to note that the Budget Memorandum, in a box in Chapter 1, identifies risks with an international origin and also devotes a separate chapter to risk analyses and policies for the management of risks.

The Advisory Division is aware that all objective variables of economic policy are surrounded by uncertainty, but based on its responsibility as the supervisory authority, the Advisory Division concentrates on the risks for the budget.
This allows for the distinction between both uncertainties and risks in the economic prospects as well as in the forecast budget forecasts.

Uncertainty in economic prospects

The uncertainties in the forecasts are illustrated by the CPB – following many international organisations and economic institutions – with the aid of 'fan charts', where the seemingly precise forecasts of some key variables such as growth, inflation and unemployment are provided with uncertainties and the possibilities that these margins may apply.
This shows that the forecast of the budget deficit for the year 2016 has a wide margin of uncertainty.[24] The prediction of an actual budget deficit of 1.5% of GDP in 2016 has a 25% chance of exceeding the -3% of GDP reference value, with the risk that the excessive deficit procedure will once again be brought into view.

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[24] 2016 Macroeconomic Outlook, p. 35.

The 2016 Macroeconomic Outlook contains alternative scenarios and points out that a decline in economic growth in China more and more has an effect on growth in the Netherlands, certainly if one considers the ultimate destination and the added value of trade. For the Netherlands, China has overtaken France, Italy and Belgium as trading partner, and is now in fourth place. Other uncertainties, like the American monetary policy, are also important.
On balance, a 2pp lower growth in world trade will result, as shown by the CPB, to 0.5% lower economic growth in 2016.

The Macroeconomic Outlook also shows the uncertainty regarding the recovery in the housing market. This recovery could very well go faster than is assumed in the basic forecast and could lead to more growth (0.3% of GDP), employment and a lower budget deficit (0.2% of GDP).

Uncertainty in the interest rates

Section 2 has already looked at the, from a historical point of view, extremely low interest rate that is owed on the government debt. The Macroeconomic Outlook shows in a diagram[25] that the relative interest payments in the budget have never been this low since 1970.
For 2017 and 2018, the 2015 Stability Programme assumes a long-term interest rate of 0.7%.[26] If the long-term interest rate were permanently 1% higher, with the current financing policy of the Dutch State Treasury Agency, after about seven years this could lead to interest payments that are approximately € 3.5 billion (0.5% of GDP) higher. This identifies an important risk for the budgetary room for manoeuvring in the next government's term of office, both prior to and during the execution of a coalition agreement.

This short-term risk analysis makes it clear that, in addition to important macroeconomic uncertainties and risks of an international nature, there are also important risks for the budget with regard to future interest rates.

[25] 2016 Macroeconomic Outlook, Figure 3.2.
[26] Annex Stability Programme, Table 8.

3.7 Monitoring European recommendations

The Advisory Division sees it as its task to regularly review whether, and to what degree, the recommendations by the Council of Ministers of the EU (ECOFIN) relevant to the fiscal policy are being followed by the government.

In the assessment of the Dutch Stability Programme of this past May,[27] the Netherlands complied with the European fiscal rules and did not receive any recommendations in the area of fiscal policy.

4. Comments by the government and the response of the Advisory Division

The concept assessment was submitted to the government. The government's response is included in its entirety in the annex to this report.

On 14 September, the draft assessment was discussed in a consultation with the Minister of Finance. In that consultation, the minister indicated that he agrees with the Advisory Division's assessment in the Budget Supervision September Report that the Dutch budget complies with the fiscal rules regarding public expenditure and debt; whether that is also the case with regard to the fiscal rule for the structural deficit will become apparent from the assessment by the European Commission in November.

The minister does note, however, that in his view, the tone of the assessment is rather stern. This is has to do with the risks regarding long-term low energy prices (and, accordingly, gas revenues) and the risk regarding increasing interest rates being presented as facts. He believes, however, that there are different views among experts. Secondly, the minister points out that the volatility of the criterion makes it difficult to calculate the extent of the structural deficit. He believes the Advisory Division should pay more attention to this in its assessment and could take this more closely into account in its description of the consequences of the increase of the structural government balance in 2015 and 2016 in later years. Finally, the minister feels that the actual budget deficit declines more strongly since 2014 than the Advisory Division suggests with the qualification 'slight' in the draft assessment. A few more editorial point were discussed.

The Advisory Division points out that it is part of its task to outline and highlight the risks in its assessment of the budget, so that the government can take that into account, without intending to present these risks as actual facts. The Advisory Division also notes that – given the relatively favourable economic developments in recent years – a greater decrease in the actual deficit could have been expected. The Advisory Division decided to replace the qualification of a 'slight' decrease of the actual deficit in the draft assessment with the qualification

[27] European Commission, COM (2015) 268, Recommendation for a recommendation by the Council on the 2015 national reform programme of the Netherlands and with the Council's advice on the 2015 Stability Programme of the Netherlands.

'limited' decrease in the final assessment. On the other points, the government's response gives the Advisory Division no cause to alter its assessment, given the fact that this mainly concerns a weighing up of the elements in question.

5. Assessment

The findings and conclusions of the foregoing analysis bring the Advisory Division of the Council of State to the following assessment.

- In 2015 and 2016, the Netherlands is compliant with the European fiscal rules that apply in the preventive arm of the Pact with regard to expenditure and debt.
  With regard to the MTO for the structural budget deficit, the Advisory Division has established that the forecasts in the 2016 Budget Memorandum of 1.2% of GDP respectively 1.3% of GDP are clearly well above the medium-term objective for the budget deficit of 0.5% of GDP. By invoking an approach (freezing forecasts) not yet publically published by the European Commission, in the formulation of the policy efforts for reducing this deficit in 2016, according to the Budget Memorandum, one may use the favourable forecasts from the spring. Assuming that, the reduction of the structural balance for 2016 with regard to 2015 included in the Budget Memorandum should be sufficient to comply with the effort requested in the spring. The European Commission's assessment in November, based on a broader consideration of factors (the 'overall assessment'), will reveal whether the fiscal rule was complied with in respect of the structural budget balance.
  The Advisory Division points out that this depends partly on how the European Commission deals with the one-time favourable effect of the settling of the EU rebate.

  Either way, the Advisory Division is of the opinion that the following considerations are important for an assessment:

- Despite the relatively favourable economic development since 2014, the actual budget deficit is showing only a limited decrease. The structural deficit relevant to the European assessment increases in the Budget Memorandum, to 1.3% of GDP in 2016.
  The Netherlands is thus distancing itself even further from the medium-term objective for the budget deficit (MTO) of 0.5% of GDP, whereas in the spring it appeared that that objective was attained in 2014 and remained within reach in 2015 and 2016 and thereafter too.

- The distance to the limit value (-3% of GDP), where the excessive deficit procedure comes into the picture – despite two years of almost 3% economic growth in the market sector – remains small. To borrow the metaphor from the 2015 Budget Memorandum: we are staying away from the crash barrier (the -3% limit), but are still driving in the emergency lane next to it, which is why unexpectedly strong crosswinds make high demands on the driver.

- Lower gas revenues since the spring (amounting to € 1.85 billion in 2016) and the proposed package of tax-relief measures of € 5 billion for 2016 change the spring outlook in which the MTO had been attained.
  Windfalls with regard to the 2012 Coalition Agreement seemed to offer room for manoeuvring.[28] But in its Spring Report, the Advisory Division had already pointed out that the 'windfalls' with regard to the forecasts at the beginning of this government's term in office was needed to comply with the agreements that applied in the preventive arm of the SGP. The structural budget balance estimated in the Initial Policy Memorandum for 2016 and 2017 (-1.1% and -1.2% of GDP respectively) did not comply with the European fiscal rules. Given the European rules, the Advisory Division in the Spring Report (April 2015) concluded that there was no extra fiscal space.

- More detailed arrangements between the European Commission and the Member States to assume the spring forecasts in determining the policy objective for the fiscal policy are, for the sake of a proper decision-making process in the summer/autumn, in themselves understandable. During a decision-making process, new exogenous developments, or decisions inevitably made because of them, cannot constantly lead to a change in the decision-making about the present budgetary room. From an administrative point of view, that is understandable.
  The Advisory Division ascertains, however, that its application with regard to the present Budget Memorandum means that the reality of a rising structural deficit since 2014 to 1.3% in 2016 is not receiving enough attention.
  The application of this approach with regard to the decision in June 2015 to restrict gas production even more because of the increasing earthquake risk, could be justified with a view to the intention of the approach. However, its application to new, voluntarily proposed policy measures (e.g., the € 5 billion package in tax-relief measures) at a time when, in the most recent forecasts, it is already apparent that the necessary fiscal space is not within the European rules (after all, the structural deficit is clearly rising), does not fit in with the objectives of the approach. This application means that decision-making about the budget coverage of the proposed policy measures has been shifted to the 2017 budget preparation. The

[28] From the viewpoint of the national budgetary rules, it is striking that windfalls can benefit the budget as long as there is no long-term surplus in sight in the budget (rule 6). The revenue framework is being adjusted in the Budget Memorandum for the amount of the tax-relief package that deviates from the budgetary rule about the fixed revenue framework (rule 34). See Annex 1 of the Initial Policy Memorandum by the Rutter-Asscher Government, 7 December 2012, as well as Annex B on budgetary rules of the Coalition Agreement 'Building bridges,' 29 October 2012.

inevitable budgetary coverage of the loss of gas revenues will be on the agenda at that time too. This complicates the 2017 budget preparation.

- The increase of the structural deficit in the years 2015 and 2016 means that, as from next spring, the structural deficit will have to be reduced in steps of an average of 0.5% of GDP per year (€ 3.5 billion). In the expenditure benchmark, the room for growth in expenditure will then also be reduced over several years until the Netherlands once again complies with the MTO.
  The deviation to the MTO could, in 2017 and later, lead to the need for expenditure cuts or increases in the tax burden in order to meet the objective of a balanced budget in the medium-term, unless there are major windfalls that are not yet in view.

- In any case, the approach of the European Commission makes it necessary when preparing the budget for the budget year to have available more information about the effects of budget decisions on the European budget criteria in the following year; that requires a suitable basic forecast with a longer horizon as well as information about the European review criteria regarding the years after the budget year.

  Conclusion

- Despite the relatively favourable economic development since 2014, there has only been a limited decrease in the actual budget deficit, and the structural deficit will increase in 2015 and 2016. This structural deficit consequently exceeds the medium-term objective of 0.5% of GDP. Even though this may not play a role in the European Commission's assessment of the policy effort for 2016, it nevertheless means that the way lost gas revenues and the tax-relief measures will be covered needs to be discussed at the budget preparation next year.
  The 2017 budget preparation is complicated by the deviation to the MTO that, since the spring, appears in 2015 and 2016.

The Vice-President of the Council of State,

Annex Comprehensive response by the government

To the Vice-President of the Council of State

11 September 2015

Since 1906 the Advisory division of the Council of State (hereafter: the Advisory Division) delivers an annual advice on the Budget Memorandum of the Government. Under the Sustainable Public Finance Act (Wet HOF), the Advisory Division has also been designated as the body responsible for the independent monitoring of compliance with EU budgetary rules. The task of the independent fiscal institution is to assess whether the Dutch budget complies with the fiscal agreements that are recorded in the Stability and Growth Pact (SGP). The Advisory Division assesses the Dutch budget twice a year, with a Spring Report on the Stability Programme and a September Report on the Budget Memorandum.

As published in the Budget Memorandum, higher economic growth has and will result in higher government revenues which further improve the public finances. The government has announced to act on this improvement by structurally decreasing the tax wedge via lowering the taxes on labour and also to achieve a more balanced level of purchasing power for all incomes. These elements are fully in line with the three pillars of the Coalition Agreement: getting the public finances in a better shape, achieving sustainable economic growth and socially acceptable distribution.

The government agrees with the assessment of the Advisory Division that the Budget Memorandum complies with the fiscal rules for expenditure and debt. The Advisory Division points out that the government uses the spring forecasts of the structural government balance, and that the European Commission will publish its final assessment in November. The government is confident that the Budget Memorandum of the Netherlands is compliant with the SGP.

The preventive arm of the SGP aims at attaining the medium-term objective (MTO). The MTO is defined in structural terms. Compliance with the preventive arm is assessed via the structural balance rule and the expenditure benchmark. These two rules together provide a more balanced view of the government budget. The structural government balance corrects the actual deficit for the cyclical and one-time costs and benefits, but it is an inherently volatile budgetary indicator. Thus the expenditure benchmark has been introduced to complement the development of the structural balance. This budget rule states that the growth rate of government spending does not exceed economic growth, depending on the budgetary position with respect to the MTO. Compliance with the debt rule is of course also considered. A national debt above 60 percent of GDP must decrease sufficiently. In its assessment, the Advisory Division focuses on the situation of the structural government balance in particular, and concentrates to a lesser extent on the balance between the indicators of the structural government balance and expenditure benchmark as it is considered in the 'preventive arm'.

The Advisory Division notes that, concerning the structural government balance for 2015 and 2016, the government uses the assessment methodology of the European Commission (EC). This methodology allows government to use the most favourable level of the structural balance reached between spring forecast 2015 and the latest forecast when designing the Budget Memorandum 2016. This is also called the 'freezing principle'. The Advisory Division states that the explanation of this methodology has not yet been published. The government would like to point out that the EC has already applied and published this freezing principle in its spring forecasts and assessment documents. This approach however has not yet been included in the more accessible and explanatory documents in which the operation of the European budgetary rules are explained like, for example, the Code of Conduct or the Vade Mecum SGP. These documents have not yet been updated.

If a Member State deviates on one of the two budgetary indicators, but this deviation is not significant, the Budgetary Plans fall within the permissible “margins” of the preventive arm. The Advisory Division notes that the EC will in this specific case assess the Dutch Budgetary Plans within a broader set of relevant factors. Based on the European fiscal agreements, the EC will make an overall assessment of the budgetary situation. The government is fully committed to the Stability and Growth Pact, and looks forward to this analysis with much confidence.

In drawing up the budget, the government uses the current, independent forecasts by the CPB Netherlands Bureau for Economic Policy Analysis (CPB). However, the European budgetary rules and all of its available forecasts do not monitor and assess the compliance with EU fiscal rules for the year after the budget year. Given the fact that this timeline for assessment does not exceed the year 2016, and the volatile nature of the structural government balance, the government is of the opinion that well-founded conclusions about compliance with European budgetary rules will not be possible until there has been an update of the economic and budgetary forecast for the year 2017.

The government supports sustainable economic development via reducing the tax burden on labour. The government also recalls its statement that sustainable economic growth has an unmistakable influence on public finances. The government is fully committed to the SGP.

The government thanks the Advisory Division for its assessment and the extensive comply-or-explain procedure. The government looks forward to a constructive collaboration between the Advisory Division in its role as the Independent Budget Supervisor in the years ahead.

Yours sincerely,
The Minister of Finance,

J.R.V.A. Dijsselbloem