Stability Programme of the Netherlands

April 2017

Foreword

Programme status
A draft of the Stability Programme has been submitted to both houses of parliament. The European Commission requires that national parliaments are involved in drawing up the national stability programmes. The Upper and Lower Houses of Parliament have had the opportunity to respond in writing to the draft version before submission to the European Commission.

Furthermore, a draft of the Stability Programme was presented to the Council of State, the supervisory body in the Netherlands charged with the monitoring of compliance with European budgetary rules. This role emanates from Article 5 of the Treaty on Stability, Coordination and Governance (TSCG) and Council Regulation (EU) 473/2013, and has been codified in the Sustainability of Public Finances Act ('Wet HOF').

Relationship to 'two-pack'
The Stability Programme also serves as a National medium-term budget plan. The Netherlands hereby complies with the obligation as defined in Article 4 of Council Regulation (EU) 473/2013.

Relationship to the National Reform Programme
The contents of the National Reform Programme and the Stability Programme show some overlap, for example, in the field of macroeconomic prospects. The Stability Programme focuses on macroeconomic developments, development of Dutch public finances and planned budgetary policy. The National Reform Programme focuses foremost on measures and structural reforms in view of country-specific recommendations for the Netherlands under the European Semester and on progress of the objectives in respect of the Europe 2020 strategy. Where relevant, and to avoid any overlap, these documents refer to each other on certain points.

Figures used
Unless indicated otherwise, the figures used in this report are based on the most recent economic projection by CPB Netherlands Bureau for Economic Policy Analysis (CPB), the Central Economic Plan (CEP) published on 24 March 2017. The figures for 2016 in respect of public finances which are also reported in the April Notification to the European Commission, have been adjusted as a result of actual figures reported by Statistics Netherlands on 24 March. This is shown in the relevant tables.

Dutch versus English version
In case of any discrepancies between the Dutch text and this translated English version of the Stability Programme, the former shall prevail.

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Summary

This Stability Programme (SP) presents an update of the Dutch budgetary policy, in conformity with provisions of the Stability and Growth Pact (SGP).

In recent years Dutch government finances have improved and they are in better shape in 2017. During the crisis the government took a number of measures to bring public finances back on track and to strengthen the economy. Improvements in the economy are currently contributing to public finances; due to the increased economic activity, tax revenues are increasing.

According to the latest forecast, the actual general government balance for the Netherlands improves from a surplus of 0.4% of GDP in 2016 to 0.5% of GDP in 2017 and 0.8% of GDP in 2018. The general government balance is improving thanks to increased tax revenues and reduced unemployment expenditure. The actual general government balance improves by 0.1pp from 2016 to 2017 and by 0.3pp from 2017 to 2018. The Netherlands remains clear by a wide margin of the 3% excessive deficit reference value. On the basis of the CEP the structural government balance amounts to a surplus of 0.5% of GDP in 2016, 0.1% of GDP in 2017, and 0.3% of GDP in 2018. This means that the structural government balance will be higher than the medium-term budgetary objective (MTO) of -0.5% of GDP.

This year the general government debt is expected to reduce further. The debt decreases from 62.3% of GDP in 2016 to 58.5% in 2017, and 55.5% in 2018. From 2017 onwards, government debt will be below the European reference level of 60% of GDP.

The Netherlands is fully committed to European budgetary agreements. The Netherlands will adhere to the regular national budgetary framework, which is aimed at maintaining revenue and expenditure ceilings. Hence with this Stability Programme, the Netherlands complies with the permitted margins of the European budgetary rules under the preventive arm of the SGP.

Chapter 1: Overall policy framework and objectives

This Stability Programme (SP) presents an update of the Dutch budgetary policy, in conformity with provisions of the Stability and Growth Pact (SGP).

The requirements arising from the preventive arm of the SGP currently apply for the Netherlands. The preventive arm requires that Member States comply with the medium-term budgetary objective (MTO), which prescribes a minimum structural balance to be realised in the medium-term. Member states who do not comply yet with this balance, must show sufficient improvement annually in their structural balance towards the MTO. Furthermore, Member States must comply with the expenditure rule, which prescribes that non-cyclical expenditure growth, insofar as this is not compensated by a policy-related increase in revenues, is lower than (if the MTO has not been reached yet) or equal to (if the MTO is reached) the potential growth of the economy.

The minimum target for the MTO that Member States must strive for, is determined in the Commission's calculations, and agreements made by Member States in the Treaty on Stability, Coordination and Governance in the EMU (the so-called 'Fiscal Compact'). For the period 2017-2019, the MTO of the Netherlands is set at a structural government balance of -0.5% of GDP.

Finally, as is the case for all Member States, the Netherlands is obliged to reduce the general government debt to below 60% of GDP, in conformity with the SGP's debt rule.

The government's budgetary policy is supported by measures geared towards enhancing structural economic growth. For an overview of the government's reform programme progress, reference is made to the National Reform Programme. This provides an extensive description of the manner in which the government fulfils country-specific recommendations for the Netherlands in terms of the European Semester, and in which progress regarding Europe 2020 objectives is also addressed.

Chapter 2: Economic outlook

The Dutch economy is growing steadily. According to the latest figures of the CPB Netherlands Bureau for Economic Policy Analysis (CPB) the Dutch economy is set to grow by 2.1% in 2017 and 1.8% in 2018. Growth remains broadly based and is largely due to the growth in household consumption and investment. Unemployment continues to decrease to 4.7% in 2018, and employment is increasing.

Introduction

This chapter provides a brief overview of the macroeconomic prospects for the Netherlands in 2017 and 2018. Since the Netherlands is a small and open economy, the international prospects will be discussed first. Then the prospects for the Dutch economy and employment market will be addressed.

International developments and external assumptions

As an open economy the Netherlands is largely dependent on economic developments abroad. In the projection the global economy will grow by 3.5% in 2017 and by 3,7% in 2018. World trade relevant for the Netherlands is picking up by 3.0% in 2017 and 3.6% in 2018. External development is enshrouded by a number of (political) uncertainties, for example, on the growth of world trade. In the short-term it is assumed that the oil price will rise from 43.25 dollars per barrel in 2016 to 56.05 dollars per barrel in 2018. In the forecasts it is further assumed that the exchange rate of the euro against the dollar will drop in 2017 to 1.07 and this will remain unchanged in 2018.

Table 2.1 External assumptions

	2016	2017	2018
Short-term interest rate (annual average)	-0.3	-0.3	-0.2
Long-term interest rate (annual average)	0.3	0.7	0.7
USD/EUR exchange rate (annual average)	1.11	1.07	1.07
Nominal effective exchange rate*	2.8	-0.7	0.2
World GDP growth	3.1	3.5	3.7
EU GDP growth	1.6	1.7	1.7
World excluding EU, GDP growth	3.5	3.9	4.2
Relevant world trade	2.7	3.0	3.6
World import volume, excluding EU	1.5	3.2	4.3
Oil price (Brent, USD per barrel)	43.25	55.53	56.06

* Percentage changes in respect of a basket of competitors

Economic outlook

The Dutch economy is set to grow by 2.1% in 2017 and by 1.8% in 2018. The gross domestic product (GDP) will grow next year for the 5th consecutive year. While economic recovery in the first few years was mainly as a result of exports, now it is largely due to growth in household consumption and in investments. Exports also continues to contribute to economic growth.

Table 2.2 Macroeconomic prospects*

	ESA Code	2016	2016	2017	2018
		Level (€ billion)	rate of change	rate of change	rate of change
1. Real GDP	B1*g	697.2	2.2	2.1	1.8
2. Nominal GDP (€ billion)	B1*g		3.1	3.3	3.3
Components of real GDP					
3. Private consumption expenditure	P.3	309.7	1.7	2.0	1.4
4. Government consumption expenditure	P.3	174.4	1.0	0.8	1.0
5. Gross fixed capital formation	P.51	138.2	4.8	3.2	2.1
6. Changes in inventories (Δ)	P.52+P.53	-1.0	0.0	0.1	0.1
7. Exports of goods and services	P.6	562.0	3.4	3.5	3.9
8. Imports of goods and services	P.7	486.3	3.7	3.6	3.9
Contributions to real GDP growth					
9. Final domestic demand		622.3	1.9	1.7	1.2
10. Changes in inventories (Δ)	P.52+P.53	-1.0	-0.1	0.1	0.1
11. External balance of goods and services	B.11	75.7	0.3	0.3	0.4

*Growth percentages for 2016 are adjusted on the basis of realisations by Statistics Netherlands (CBS).

Household consumption picks up by 2.0% in 2017 and by 1.4% in 2018. Consumption increases particularly due to income growth driven by developments in employment as well as wage increases. A number of measures in recent years (such as the € 5 billion package) still have an effect on consumption, just like the increase in house prices. The actual growth in income is tempered by higher inflation. Capital formation will increase by 3.2% in 2017 and by 2.1% in 2018, for both housing as well as business investments. In 2017 and 2018 business investments will increase by 2.6% respectively 2.3% per annum, which is more or less the long term average. Housing investments increase more gradually than in recent years, but still grow by 6.6% in this year and 2.9% next year.

Exports also continue to increase, and will grow this year by 3.5%. Next year, growth will be slightly higher, at 3.9%. Imports will grow at more or less the same rate. In this period Dutch exports increase slightly more than the relevant world trade.

To summarize, the Dutch economy will continue to grow in the forthcoming years, due to positive domestic developments as well as exports.

Labour market

Growth of the economy is also seen in employment and unemployment developments. Employment by volume of people will grow by 1.8% in 2017 and by 0.9% in 2018. Growth in the labour force also continues but not as rapidly, which causes unemployment to drop further in the years ahead from 6.0% in 2016 to 4.9% in 2017 and 4.7% in 2018. Growth in labour productivity is still at a low level, but is also starting to improve.

Table 2.3 Labour market developments

	ESA Code	**2016**	**2016**	**2017**	**2018**
		Level	rate of change	rate of change	rate of change
1. Employment (x 1000 persons)		8897.4	1.2	1.8	0.9
2. Employment (bln hours worked)		12719.0	1.7	1.5	0.7
3. Unemployment (% of labour force)		538.3	6.0	4.9	4.7
4. Labour productivity (persons)		78.4	0.9	0.2	0.9
5. Labour productivity (hours worked)		54.8	0.2	0.5	1.0
6. Compensation of employees	D.1	344.6	3.9	4.0	3.3
7. Compensation per employee (€)		38.7	2.0	2.5	2.6

Chapter 3: Budget balance and government debt

Dutch public finances are in good shape. As a result of robust economic growth and government reforms the budget deficit has been turned into a budget surplus of 0.4% of GDP in 2016 and 0.5% of GDP in 2017. The general government debt continues its declining trend and drops to 58.5% of GDP in 2017.

Introduction

This chapter describes the policy strategy on public finances and provides an overview of development of the budget balance and government debt in the short-term.

Policy strategy

Expenditure ceilings are an important component in Dutch budgetary policy. Maximum growth of public expenditure is determined at the beginning of the cabinet period. The focus on expenditure ceilings in the past proven to be an effective means to ensure sustainable public finances. Every cabinet minister is financially responsible for expenditure in his or her policy area. This system is perceived as being clear, credible and predictable. By maintaining a ceiling for a policy-related increase in the tax burden, automatic stabilisers can work freely on the revenues side.

Budgetary forecast for the short and medium-term

CPB projections in the 2017 Central Economic Plan (CEP) are used as a starting point for the Stability Programme of the Netherlands. The economic outlook in the CEP projection by the CPB is the basis for the decision-making process for the budget of 2018. The CEP projection assumes an unchanged policy. A more detailed explanation is given in Chapter 7 on the institutional and legal codifying of European budgetary rules in the Netherlands.

Box: The Dutch national budgetary framework

The government envisages pursuing a trend-based fiscal policy within the boundaries of European budgetary agreements. Important starting points in the Dutch national budgetary framework are:

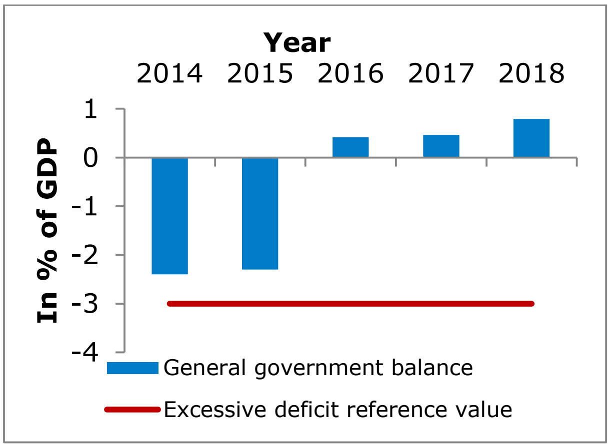
- Control of expenditure using a real net expenditure ceiling based on the multi-year forecast as laid down at the time of the Coalition Agreement.
- Macroeconomic stabilisation of the economy via revenues and control of the total tax burden for citizens and businesses, using a revenue ceiling based on the policy-related increase in the tax burden as determined at the time of the Coalition Agreement. This revenue ceiling is not a maximum, but a level of the predetermined tax burden. That means that an increase in the tax burden in one section, in respect of the level determined at the Coalition Agreement, should be compensated by tax relief elsewhere and vice versa. Developments in revenues themselves are considered as endogenous. These revenue fluctuations are absorbed in the balance.
- Separation between revenues and expenditure. This separation is the result of controlling expenditure by means of the expenditure ceiling and automatic stabilisation on the revenue side by means of the revenue ceiling. Through this separation, it is made even more explicit that additional expenditure must be accommodated under the expenditure ceiling, and tax relief or tax increases are compensated within the revenue ceiling.
- A primary decision-making moment on the expenditure side based on the CPB's Central Economic Plan (CEP) in spring, and a decision-making moment on the revenue side and the purchasing power based on the CPB's (draft) Macro Economic Outlook (MEV) in August.

These starting points are described in budgetary rules that were agreed to at the start of the government term, and which were published as an annex to the Coalition Agreement. The budgetary discipline regulations also form part of the budgetary rules. Budgetary discipline regulations have existed for a long time and had already been maintained long before the start of the trend-based fiscal policy in 1994. The most well-known rules are that every overspending of a budget must be compensated and that compensation, in principle, must take place in the same budget as where the overspending occurs. Windfalls may not be used for new policy expenditures.

Actual general government balance

In 2016 the general government balance was positive again for the first time since 2008. A budget surplus is also expected in the forthcoming years. In 2016 the surplus amounted to 0.4% of GDP. In 2017 the general government balance is expected to be 0.5% of GDP. Compared to 2015 revenues are improving faster than GDP, particularly due to a significant increase in corporation tax. The surplus in 2016 in respect of the 2016 Budget Memorandum was largely due to higher revenues from wage and income tax, VAT and corporate income tax.

Figure 3.1 Development and projection of general government balance (% of GDP)



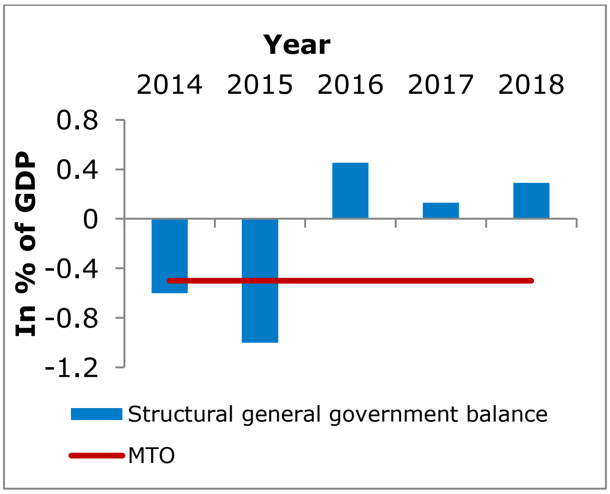
Compared to the Draft Budgetary Plan (DBP) of September 2016, the expected deficit has improved substantially. In September, the deficit was still expected to be 1.1% of GDP for 2016, and that has turned into a surplus of 0.4% of GDP. This is largely as a result of tax revenues being higher than expected. Projections for 2017 and onwards have also been revised upwards.

Structural balance

The higher general government balance also leads to an improved structural balance. In 2016 the structural balance was a surplus of 0.5% of GDP. The cyclical component amounted to -0.4% of GDP. The structural balance was lowered in 2016 by a one-off correction related to the Own Resources Decision. In 2017 the structural balance is expected to be 0.1% of GDP and is projected to remain positive thereafter.

The medium-term budgetary objective (MTO) for the Netherlands is a structural general government balance of at least -0.5% of GDP. In 2016 the Netherlands complied with its MTO and according to projections, will continue to meet the MTO in the years ahead. This means that the Netherlands complies with the requirements of the preventive arm.

Figure 3.2 Development and projection of structural balance (% of GDP)



The Netherlands complies with its MTO, so an assessment of adjusted public expenditure is not required.[1]

[1] See: Vade Mecum on the Stability and Growth Pact p.48 (https://ec.europa.eu/info/sites/info/files/file_import/ip021_en_2.pdf)

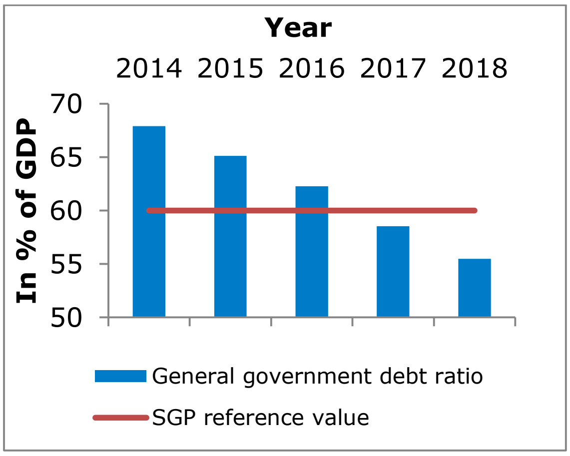
General government debt

Table 3.2 reflects the volume and development of public debt. The government debt amounted to € 434 billion at the end of 2016, which corresponds with a debt ratio of 62.3% of GDP. Measured in euros, the government debt decreased in 2016 for a second consecutive year. Both the budget surplus and the further privatisation of ABN Amro and Propertize contributed to the decline in government debt. Higher economic growth contributes to the declining debt ratio via the denominator effect. Government debt is expected to decline in 2017 to 58.5% of GDP. This means the government debt will be below the 60% reference value.

Table 3.1 General government debt developments

in % of GDP	ESA Code	**2016**	**2017**	**2018**
1. Gross debt		62.3	58.5	55.5
2. Change in gross debt ratio		-2.9	-3.7	-3.1
- Of which:				
3. Primary balance		-1.4	-1.4	-1.7
4. Interest expenditure	EDP D.41	1.1	1.0	0.9
- Denominator effect		-1.9	-1.9	-1.8
5. Stock/flow adjustment and other		-0.7	-1.3	-0.4
- Of which: Privatisation proceeds		-0.3	-	-

Figure 3.3 Development and projection of general government debt (% of GDP)



Chapter 4: Sensitivity analysis and comparison with previous update

Compared with the Stability Programme of April 2016 the projections of macroeconomic core variables have been adjusted. Forecasts for economic growth are currently more favourable. The general government debt is decreasing faster than presumed in April 2016 and the budget deficit has turned into a budget surplus. The outcome of these variables is sensitive to external economic shocks, which include developments of the global economy and share prices. In order to provide a better insight into these effects for the economy and for public finances, this chapter describes two alternative scenarios.

Introduction

This chapter describes how forecasts of economic growth, general government balance and government debt differ in respect of the previous update of the Stability Programme (April 2016). After that, the consequences of two uncertainty alternatives are examined.

Comparison with Stability Programme of April 2016

Table 4.1 shows how current forecasts for GDP growth, general government balance and general government debt have been adjusted compared to the projections in the previous Stability Programme. The Dutch economy is growing slightly faster than predicted in April 2016. The general government balance is developing more favourably. In current projections the deficit already turns into a surplus in 2016, the previous Stability Programme only projected a surplus as from 2019. Government revenues are much higher than predicted in April 2016. Among other things, corporation tax, wage and income tax and VAT yield more revenue than previously forecast. Expenditures are developing in line with previous forecasts. Lower financing costs contribute slightly to an improved general government balance. While concurrently gas revenues were lower than forecast.

General government debt is also developing more favourably than expected at the time of the previous Stability Programme as a result of the improved general government balance. A strongly improved primary balance contributes towards a more positive development of the government debt than expected. The denominator effect also contributes to a lower deficit when measured as a percentage of GDP. Due to the positive developments the government debt is expected to drop below 60% of GDP as early as 2017.

Table 4.1 Divergence from Stability Programme of 2016

in % of GDP	ESA Code	**2016**	**2017**	**2018**
Real GDP growth				
Update April '16		1.8	2.0	1.9
Current update		2.2	2.1	1.8
Difference		0.4	0.1	-0.1
General government balance	EDP B.9			
Update April '16		-1.7	-1.2	-0.4
Current update		0.4	0.5	0.8
Difference		2.1	1.7	1.2
General government debt				
Update April '16		65.4	64.1	61.6
Current update		62.3	58.5	55.5
Difference		-3.1	-5.6	-6.1

Alternative scenarios and risks

The Netherlands, as a small open economy, is sensitive to developments in the global economy. Via relevant world trade and exports, shocks in the global economy have an effect on the Dutch economy. However, domestic developments are also uncertain: for example, the supply of and demand for labour could develop differently than previously forecast. The sensitivity analyses below show how the economy could develop in two alternative scenarios in respect of the baseline in the CEP. Both scenarios assume an economic shock that occurs at the beginning of 2017, and present the effects of that shock in 2017 and 2018. The first scenario is derived from the 2017 Central Economic Plan (CEP). The second scenario has been drawn up by the Ministry of Finance, based on a background document for SAFFIER (CPB's model for short-term projections, medium-term scenarios, and analyses of Coalition Agreements and policy options).[2] A more detailed risk analysis of the public finances is available in the 2015 Public Finances Impact Test, presented in the 2015 Budget Memorandum.[3]

Scenario 1: Higher employment growth

Employment has increased rapidly in the past 2 years. In the years ahead unemployment is expected to decline less rapidly, because the demand for labour is developing more or less at the same rate as the supply of labour. However, it is possible that in the forthcoming two years, companies would still have a great deal of additional demand for staff, and that employment growth in 2017 and 2018 is the same as that in 2015 and 2016. For 2017 and 2018 (in both years) that would mean a 0.4pp higher employment growth than in the central forecast. In the first year unemployment will decline much more than in the basic forecast, and wages are slightly higher. This results in a 0.1pp higher private consumption. The flip side to higher wages is a 0.1pp lower growth in business investments. The general government balance improves by 0.1pp in respect of the baseline. In the second year unemployment drops even more, and wage growth will rise further compared to the baseline. Both private consumption and now also business investments will grow slightly faster than in the baseline (by 0.2pp respectively 0.1pp). The total GDP volume is 0.1pp higher, and the general government balance improves by 0.2% of GDP compared to the original forecast.

Table 4.2 - Alternative scenario 1: higher employment growth (deviations in %)

	Deviation from basic scenario in 2017	Deviation from basic scenario in 2018
Volume of GDP	0.0	0.1
Private consumption	0.1	0.2
Capital formation, excl. housing	-0.1	0.1
Inflation	0.0	0.1
Contract wages market sector	0.1	0.2
Employment market sector (hours worked)	0.4	0.4
Labour supply	0.0	0.1
Unemployment (% working population)	-0.3	-0.5
General government balance (% of GDP)	0.1	0.2

Scenario 2: Drop in world trade

Developments in world trade have a direct effect on Dutch exports and hence on GDP growth. Table 4.3 shows a scenario with a 1% decrease of world trade. In this scenario, a one-off shock of

[2] See also: CPB (2011) SAFFIER II Alternatives, background document to SAFFIER II, CPB document 217.
[3] See: 2015 Budget Memorandum, p. 107.

1% of the level of world trade takes place in 2017 and that shock has a permanent effect. In the short-term (i.e. in 2017) the shock leads to a decline of 0.9% in the export of goods (excluding energy) and a GDP downturn of 0.2%. Capital formation also drops by 1.1% and unemployment rises slightly. The general government balance deteriorates by 0.1% of GDP compared to the baseline. In 2018 the shock will further affect private consumption and there is some recovery in exports and capital formation. The GDP volume drops by 0.1% and the general government balance deteriorates by 0.1% of GDP.

Table 4.3 - Alternative scenario 2: world trade shock of -1pp (deviations in %)

	Deviation from basic scenario in 2017	**Deviation from basic scenario in 2018**
Volume of GDP	-0.2	-0.1
Private consumption	0.0	-0.2
Capital formation, excl. housing	-1.1	0.1
Export of goods, excl. energy	-0.9	0.1
Inflation	0.0	-0.1
Unemployment (% working population)	0.1	0.1
General government balance (% of GDP)	-0.1	-0.1

Chapter 5: Sustainability of public finances

During the past government term measures were taken in the Netherlands to improve the long-term sustainability of public finances. In the recent Central Economic Plan the CPB calculated and published a new sustainability balance. The actual sustainability balance of the Netherlands is a surplus of 0.5% of GDP. Sustainability of public finances of EU Member States, including the Netherlands, is regularly examined by the European Commission. This chapter provides an overview of results of both reports. An overview is also provided on the contingent liabilities of the Dutch government.

Introduction

This chapter provides an explanation on the calculation of the sustainability balance by CPB and the European Commission, and on forecasts of government expenditure and revenue until 2060. Finally, an overview is provided of contingent liabilities of the Dutch government, pursuant to European budgetary rules.

Sustainability balance

The sustainability of public finances is assessed on the basis of the so-called sustainability balance. This balance shows whether future tax revenues are sufficient to cover future government expenditure (including expenses for interest on outstanding government debt). With non-sustainable public finances, government debt continues to rise and will get out of hand in the long-term. However, the sustainability balance alone says nothing about how debt develops over time, or about the level at which government debt will possibly stabilize.

An assumption will have to be made about future developments for a quantification of sustainability of public finances. In calculating the sustainability balance, the assumption of 'consistent arrangements' plays an important role. This definition means that future generations can benefit to a similar degree from public services with an unchanging tax burden (as a percentage of GDP) as for present generations. 'Consistent arrangements' are therefore different to an unchanged policy. An unchanged policy would mean that, assuming that revenues continue to rise, in the long-term everyone would end up in the highest tax bracket and the tax burden would therefore increase. In the case of 'consistent arrangements' the tax burden as a percentage of GDP, on the other hand, will remain the same.

Development of the demographic build-up influences development of public expenditure and revenue. Table 5.1 illustrates that the share of seniors aged 65+ within the total population will increase in the future. Public old-age pension expenditure (AOW) and care expenditure (both long-term as well as curative healthcare) will increase between 2010 and 2060. This increase happens despite the previous reforms carried through in the area of healthcare and pensions. But by the same token, government revenues rise in the same period through greater private spending and fewer savings. After all, there is some dissaving due to an ageing population because more pensions are paid out than are being accrued by younger generations. Table 5.1 also shows that the labour force participation rate for those aged 15 to 64 will increase. For those aged 55+ the labour force participation rate will rise further due to a raised statutory retirement age and phased out pre-pension schemes. The labour force participation rate of those aged 65+ will rise due to the raised statutory retirement age.

Table 5.1 Sustainability of public finances

% of GDP	2010	2020	2030	2040	2050	2060
Total expenditure	48.2%	42.9%	44.1%	46.2%	46.2%	45.8%
of which:						
Age-related expenditure	20.8%	21.8%	22.8%	25.7%	25.9%	25.5%
Pension expenditure	6.2%	6.9%	7.2%	8.2%	8.0%	7.7%
Social security expenditure	11.7%	11.8%	12.0%	13.1%	12.9%	12.6%
Old-age and early retirement pension	4.5%	5.0%	5.5%	6.4%	6.2%	5.7%
Other pensions (occupational disability, surviving relatives)	1.7%	1.9%	1.7%	1.8%	1.8%	1.9%
Occupational pensions (government)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Healthcare (cure)	5.9%	7.2%	7.8%	8.5%	8.6%	8.5%
Long-term care	3.5%	2.6%	3.1%	3.8%	4.3%	4.4%
Education expenditure	5.1%	5.1%	4.8%	5.1%	5.0%	4.9%
Other age-related expenditure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest expenditure	1.8%	0.7%	1.0%	0.1%	-0.1%	-0.2%
Total revenue	43.2%	44.2%	46.9%	47.3%	46.9%	46.6%
of which: property income	2.7%	1.0%	0.8%	0.7%	0.7%	0.7%
of which: pension contributions (or social security premiums)	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Pension reserve fund assets	138.8 %	179.9 %	177.9 %	166.3 %	153.8 %	147.5 %
of which: consolidated public pension fund assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Systemic pension reforms						
Social contributions diverted to mandatory private scheme	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pension expenditure paid by mandatory private system	4.8%	5.5%	6.9%	7.2%	6.4%	5.7%
Assumptions						
Labour productivity growth	1.5%	1.1%	2.2%	1.5%	1.4%	1.5%
Real GDP growth	1.0%	1.7%	1.9%	1.5%	1.7%	1.5%
Participation rate males (15-64)	83.4%	85.9%	88.0%	88.6%	88.5%	88.8%
Participation rate females (15-64)	72.4%	75.6%	77.4%	78.4%	78.6%	78.8%
Total participation rate (15-64)	77.9%	80.8%	82.7%	83.5%	83.5%	83.8%
Unemployment rate (20-64)	4.5%	4.7%	4.7%	4.7%	4.7%	4.7%
Population aged 65+ as % of total population	16.2%	20.7%	24.9%	27.3%	27.0%	27.1%

In the CPB's updated sustainability analysis in the CEP 2017 the sustainability balance amounts to +0.5% of GDP. Hence the sustainability balance has improved by 0.1pp in respect of the previous Stability Programme. This slight sustainability surplus means that public finances are sustainable, which means that they will stabilize on the assumption of consistent arrangements. It is important to underline that these results are highly dependent on assumptions, as is also emphasized in the sensitivity analyses in a previous CPB population-ageing survey.[4] In one of these sensitivity scenarios, healthcare costs rise 1pp faster per annum than in the reference scenario. This higher care expenditure growth leads to a deterioration of the sustainability balance by 5.6% of GDP. This shows the importance of controlling healthcare expenditure for the long-term sustainability of public finances.

The slightly positive sustainability balance, as calculated by the CPB, differs significantly from the result in the most recent forecast by the European Commission in December 2016. The Commission projects a sustainability gap of -3.1% of GDP in the long-term. A reason for this is that the Commission places less emphasis on an increase of tax revenues due to the aforementioned dissaving related to population ageing. In comparison to other countries, the Netherlands has accrued vast pension savings. So this future population ageing-related dissaving will lead to greater spending and therefore more VAT revenues. The Commission's calculation takes less note of this specific Dutch pension aspect than the CPB does. Nonetheless, the Commission's calculations underline the necessity to pay continuous attention to securing sustainability of social security services in Member States. After all, social security services must also be accessible and affordable for future generations.

Contingent liabilities

The policy for guarantees is laid down in budgetary rules and in the framework for guarantees. The rules regarding guarantees can be summarized as follows[5]:

- Based on budgetary rules, a "no, unless" policy applies with regard to risk arrangements. Although new risk arrangements are sometimes necessary, the Dutch government acts in the most cautious manner possible. The government deems it important not only to assess new arrangements, but also to use restraint with regard to (broadening) existing arrangements. In principle, all arrangements will have a sunset clause.
- The assessment framework for risk arrangements is always submitted to Parliament.
- In case of new arrangements and amendments to existing arrangements, (other) risk arrangements will have to be decreased.
- A rule will ensure the scaling down of unused caps.
- Retrenchment of arrangements being considered.
- A second opinion will be requested from an independent, specialist party with regard to risk management and the setting of premiums for large and complicated risks.

The actual assessment has been implemented via the Assessment Framework for Risk Arrangements[6]. Three key elements of the assessment framework are:

- Reason for government intervention and choice of instrument, in other words effectiveness and necessity;
- Management of risks, both ex-ante and ex-post (governance);
- Pricing of the risk as well as implementation costs and costs of losses.

At the time of entering into a new guarantee scheme the assessment framework is submitted to parliament.

[4] CPB (2014) *Minder zorg om vergrijzing*, CPB Book 12.
[5] For a full overview see: http://www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2013/09/17/rapport-commissie-risicoregelingen-en-kabinetsreactie.html
[6] http://wettenpocket.overheid.nl/portal/7ec1a250-bb0b-4d72-929e-d270ddae2817/document/Toetsingskader%20Risicoregelingen.pdf

In the period 2008-2012 the number and extent of government guarantees rose significantly. The most important explanation for this is the financial crisis. Notwithstanding reservations that the government has about providing fresh guarantees, measures were necessary to counter substantial systemic risks, both nationally and in the Eurozone. 2013 saw a decline for the first time in the outstanding exposure of contingent liabilities. This decline is still ongoing. Where the contingent liabilities at the end of 2015 still amounted to € 196 billion (28.9% of GDP), in 2016 this dropped to € 166 billion (24.5% of GDP).

The projected decline in contingent liabilities is particularly the result of expiring obligations to the European Financial Stability Facility (EFSF). By contrast the contingent liabilities increased due to the new guarantee for the Single Resolution Fund (SRF) and higher contingent liabilities in the area of export credit insurance.

Table 5.2 shows the position of contingent liabilities at the end of 2016. All guarantee liabilities above € 1 billion have been shown separately in the table. In the table a distinction is made between guarantees entered into in view of international agreements and national guarantees. More than three-quarters of the contingent liabilities were entered into in the context of international agreements.

Table 5.2 Contingent liabilities*

in € billion	**2016**
Guarantees total	**165.6**
Which include	
International guarantees total	**128.8**
European Stability Mechanism (ESM)	35.4
European Financial Stability Facility (EFSF)	34.2
DNB - participation in IMF capital	31.2
European Investment Bank (EIB)	9.9
World Bank	4.9
Single Resolution Fund	4.2
European Financial Stabilisation Mechanism (EFSM)	2.8
EU Balance-of-payments (BoP) assistance	2.4
Regional development bank guarantees	2.3
National guarantees total	**36.8**
Export credit insurance (EKV)	15.8
Facility for nuclear disasters (WAKO)	9.8
Guarantee De Nederlandsche Bank (DNB)	5.7
Guarantee for loans to SMEs (BMKB)	1.8

*Includes all guarantee schemes with an outstanding exposure greater than € 1 billion. This overview has been drawn up by the Ministry of Finance and represents the status at the end of 2016.

Aside from guarantees, the Netherlands also has so-called indirect guarantees. This concerns a total sum of about € 283 billion in 2016. However, risk run by the government for indirect guarantees essentially differs from risk that the government runs for direct guarantees. There are a number of reasons for this. Firstly, in the case of an indirect guarantee the guarantee obligation is not issued directly by the government, but by a specially appointed indirect guarantee fund, and the government is therefore an indirect guarantor. Secondly, indirect guarantees have multiple layers which significantly limit risk for the government. The fund's own equity forms the first layer. This is followed by the obligation for participants to support the fund financially if the fund's equity drops to below a certain level, the equity participation of the participants. Only in an extreme case can the fund have recourse to the government. A fund then gets an interest-free loan from the central government, sometimes together with local and regional governments. This loan must then be repaid, so the impact is of a temporary nature.

Chapter 6: Quality of public finances

Securing the quality of public finances is essential to arrive at an effective and efficient deployment of public resources. The Dutch government uses various instruments to enhance the quality of government expenditure. Conducting evaluations and other impact research gives insight into the effect of policy. These insights are then used to develop new policy and to amend existing policy.

Introduction
Different types of research are conducted in the Netherlands. Departments organise evaluation studies and monitors of individual policy programmes. In the Netherlands there is also a system of policy audits and interdepartmental policy reviews (IBOs), which work in a comparable manner for all policy areas. Prior to commencement of certain large projects, an analysis of social costs and benefits is also carried out.

This chapter begins with an overview of the most important central evaluation instruments in the Netherlands: policy audits, interdepartmental policy reviews (IBOs) and Social Costs and Benefits Analyses (MKBAs).

Policy audits
In a policy audit a certain policy area is assessed by the department responsible for specific policy for its effectiveness and efficiency. An important feature of a policy audit is that it is synthesis research: the research entails assessing the coherent effect of various policy instruments. This often happens on the basis of underlying evaluative research, supplemented with other sources of information.

The policy audit assesses achieving policy objectives as they have been formulated in the policy article of departmental budgets. Every policy area is audited in this manner at least once every seven years. The results of the policy audit are communicated to the Lower House. In this way the Lower House is periodically informed in a structured manner on the results of policy, so that it can monitor the minister who is responsible for specific policy and intervene, if required.

In the coming year, 17 new policy audits will be carried out. The subjects extend across the broad spectrum of public policy: for example, policy audits are carried out for policy in areas such as young disabled persons, curative healthcare, accessibility and affordability of healthcare, and citizenship.

In the past two years the structure and scope of individual policy audits were shared with parliament in advance of Budget Day. Parliament is able to pose questions and make remarks beforehand on audits that will be finalised in 2017. This extends the Lower House's involvement in policy audits. Furthermore, the Lower House has designated policy audits as a focus topic for the 2016 Accountability. This underlines the importance that the Lower House attaches to policy audits. Comparable to broad-based reviews, on the basis of the analysis, all policy audits will depict what measures could be taken if there were significantly fewer resources available for the specific policy area. This enhances the synergy of policy audits in the decision-making process.

Interdepartmental policy reviews (IBOs)
Every year a number of interdepartmental policy reviews are instituted. Under the leadership of an independent chairman IBOs are carried out by a working group of policy departments, the Ministry of Finance and other experts, on policy alternatives for a perceived budgetary, political or other social issue.

In 2017 five IBOs will be completed. One of these IBOs focuses on innovation in healthcare and how obstacles can be removed for implementation of innovations. In 2017 an IBO will also be carried out to establish policy on eliminating educational disadvantage. This IBO focuses on increasing the effectiveness and efficiency of policy that encourages equal opportunities for young people in disadvantaged positions and prevents or combats educational disadvantage.

Other IBOs use the subsidies instrument, the manner in which the preparedness of defence is organised and how this can be improved, and the possibilities of increasing labour force participation of people with disabilities using an employee insurance scheme.

As is the case with policy audits, IBOs are submitted to the Lower House. Having regard to the outgoing character of the Rutte II cabinet, submission to the Lower House will not be accompanied by a government's appreciation.

Social Costs and Benefits Analyses (MKBAs)
Social cost-benefit analyses (MKBAs) are carried out in preparation of a decision on a policy proposal. An MKBA responds to the question whether certain policy proposals that envisage to resolve a social issue are expected to be welfare-enhancing or not. For this purpose, all (social) expenses and revenues of a policy measure, as well as possible alternatives, are identified. A policy measure is welfare-enhancing if there is a positive net balance of social expenses and revenues.

This instrument has already been used for many years in infrastructure and spatial economy as a common step in preparation of the decision-making process. The carrying out of an MKBA has been mandatory for major infrastructure projects since 2000. Aside from the Go or No-go decision, MKBAs can also be of influence on the quality and phasing of projects. In order to improve applicability of the MKBA in the decision-making process, the government had a general guideline developed by the CPB and the PBL (Netherlands Environmental Assessment Agency) in 2015. The guideline is a set of minimum conditions for a good methodological quality and for a sufficiently transparent presentation. Methodological standards broaden the comparableness of MKBAs.

The government has expressed its ambition to also apply the MKBA instrument in areas other than infrastructure and the spatial environment. The intention is that a manual is drawn up for each policy area which supports MKBA institutions, in implementing an MKBA. In 2016, on assignment for the Ministry of Public Health, Welfare and Sport (VWS), Ministry of Social Affairs and Employment (SZW), Ministry of Education, Culture and Science (OCW) and the Ministry of the Interior and Kingdom Relations (BZK), a manual was drawn up for the social domain. Furthermore, on assignment for the Ministry of Economic Affairs (EZ) and Ministry of Infrastructure & Environment (I&M), new manuals were drawn up for policy relating to nature and the environment.

Research instruments examined closely
In 2016, in view of the recommendation from the Advisory Group on Fiscal Policy (SBR), an analysis was prepared on the effects of evaluation instruments themselves, and the contribution that instruments such as IBOs and policy audits will provide into making the policy mechanism sufficiently transparent. Last year the Advisory Group on Fiscal Policy advised starting an operation ‘Insight into Quality’ which aims to improve insight into the effectiveness and efficiency of policies. This recommendation is geared towards the next government term. In the coming time a number of improvement measures will be introduced, as indicated in a letter to the Lower House in December 2016 (Parliamentary Paper 31865 no. 90). This involves a pilot for the Ministry of Public Health, Welfare and Sport (VWS) by means of an alternative approach, to associate evaluations more with the policy process, adding a paragraph to improve policy audits, involving department heads of other departments in policy audits, and starting a tailor-made training to better equip policy officers to carry out a policy audit.

Chapter 7: Institutional features of public finances

An important purpose of the intensified Stability and Growth Pact (SGP) and the Treaty on Stability, Coordination and Governance in the EMU (TSCG), is reinforcing budgetary discipline, among other things, by enlarging 'ownership' of European agreements for individual Member States. So, in conformity with European budgetary agreements, the European budgetary objectives have therefore legally been codified in the Netherlands on a national level in the Sustainability of Public Finances Act ('Wet HOF'). This chapter provides a short description of the contents of 'Wet HOF' and the fulfilment of independent budgetary supervision in the Netherlands. In this, the CPB and the Council of State (RvS) play a prominent role. Furthermore, attention was paid to the report by the Advisory Group on Fiscal Policy published in July 2016.

Sustainable Public Finances Act ('Wet HOF')

The essence of 'Wet HOF' is to codify European budget agreements and to stipulate that the State and local governments (municipalities, provincial authorities and regional water boards) must make an equal effort to comply with these agreements. Additionally applicable for the State is that the most important starting points of the Netherlands' budgetary policy trend have also legally been codified in this legislation.

Reinforcement of budgetary discipline through independent monitoring

Dutch budgetary policy, by tradition, is based on independent projections and analyses from the CPB. Aside from the CPB as an independent forecasting institute, 'Wet HOF' provides for a prominent role for the Advisory Division of the Council of State. In the spring the Council of State assesses whether the envisaged budgetary development in the Netherlands complies with European budgetary agreements based on figures by CPB's Central Economic Plan (CEP). The Council of State's assessment in the spring is available prior to the government's budgetary decision-making taking place, and can therefore have an impact in an early phase of the budgetary cycle. Furthermore, at the time of the Budget Memorandum, the Council of State assesses whether the draft budget complies with European budgetary agreements. Early in 2016 two extraordinary State councillors were engaged by the Council of State, and in August 2016 a third extraordinary State councillor was appointed. This has further strengthened the fulfilment of independent budgetary supervision at the Council of State.

Advisory Group on Fiscal Policy

In July 2016 the fifteenth report by the Advisory Group on Fiscal Policy (SBR) was published. Prior to the election of the Lower House the SBR, by tradition, submits a recommendation on budget policy and budgetary objectives for the coming government term. The SBR is led by the Secretary-General of the Ministry of Finance. Various departments are represented in the SBR, namely the Ministry of General Affairs; Ministry of Finance; Ministry of Economic Affairs; Ministry of Social Affairs and Employment; Ministry of Public Health, Welfare and Sport; and the Ministry of the Interior and Kingdom Relations. In addition, the CPB and Dutch Central Bank are also represented. A new government is not obliged to take over the recommendation that is provided by the SBR. However, in the course of time, many recommendations by the SBR have been taken over, for example, the current trend-based fiscal policy stems from a recommendation made by the SBR.

The SBR recommends that the next government should follow the existing revenue and expenditure line so that a margin continues to exist in respect of the European frameworks. The national budgetary policy can be followed by maintaining a distance in respect of the European frameworks, both on the government balance as well as on government debt. This puts the Netherlands in a better position to apply automatic stabilisation. Furthermore, technical recommendations have also been made in the report to further improve the functioning of Dutch budgetary policy.

Annex –Stability Programme Tables

Table 1a. Macroeconomic prospects*

	ESA Code	2016 Level (€ billion)	2016 rate of change	2017 rate of change	2018 rate of change	2019 rate of change	2020 rate of change
1. Real GDP	B1*g	697.2	2.2	2.1	1.8	1.7	1.7
2. Nominal GDP (€ billion)	B1*g		3.1	3.3	3.3	3.4	3.4
Components of real GDP							
3. Private consumption expenditure	P.3	309.7	1.7	2.0	1.4	1.0	1.0
4. Government consumption expenditure	P.3	174.4	1.0	0.8	1.0	1.4	1.6
5. Gross fixed capital formation	P.51	138.2	4.8	3.2	2.1	1.8	1.9
6. Changes in inventories (Δ)	P.52+P.53	-1.0	0.0	0.1	0.1	0.0	0.0
7. Exports of goods and services	P.6	562.0	3.4	3.5	3.9	4.1	4.2
8. Imports of goods and services	P.7	486.3	3.7	3.6	3.9	4.0	4.2
Contributions to real GDP growth							
9. Final domestic demand		622.3	1.9	1.7	1.2	1.1	1.2
10. Changes in inventories (Δ)	P.52+P.53	-1.0	-0.1	0.1	0.1	0.0	0.0
11. External balance of goods and services	B.11	75.7	0.3	0.3	0.4	0.5	0.5

*Growth rates for 2016 has been adjusted on the basis of realisations by Statistics Netherlands. Domestic and external contributions to growth are calculated by means of the CPB method.

Table 1b. Price developments

	ESA Code	2016 Level	2016 rate of change	2017 rate of change	2018 rate of change	2019 rate of change	2020 rate of change
1. GDP deflator		100	1.0	1.2	1.4	1.7	1.6
2. Private consumption deflator		100	0.8	1.7	1.5	1.8	1.8
3. HICP		100	0.1	1.6	1.4	1.6	1.6
4. Public consumption deflator		100	1.0	1.8	1.8	2.1	1.9
5. Investment deflator		100	0.3	1.3	1.3	1.5	1.5
6. Export price deflator (goods and services)		100	-2.6	3.1	1.0	0.7	0.7
7. Import price deflator (goods and services)		100	-3.3	4.0	1.0	0.8	0.9

Table 1c. Labour market developments

	ESA Code	2016 Level	2016 rate of change	2017 rate of change	2018 rate of change	2019 rate of change	2020 rate of change
1. Employment (x 1000 persons)		8897.4	1.2	1.8	0.9	0.7	0.7
2. Employment (bln hours worked)		12719.0	1.7	1.5	0.7	0.6	0.7
3. Unemployment (% of labour force)		538.3	6.0	4.9	4.7	4.7	4.7
4. Labour productivity (persons)		78.4	0.9	0.2	0.9	1.0	1.1
5. Labour productivity (hours worked)		54.8	0.2	0.5	1.0	1.1	1.1
6. Compensation of employees	D.1	344.6	3.9	4.0	3.3	3.6	3.1
7. Compensation per employee (€)		38.7	2.0	2.5	2.6	2.9	2.5

Table 1d. Sectoral balances

% of GDP	ESA Code	2016	2017	2018	2019	2020
1. Net lending/borrowing vis-à-vis the rest of world	B.9	8.7	8.2	8.2	8.4	8.5
of which:						
- Balance on goods and services		10.9	10.5	10.6	10.7	10.8
- Balance of primary incomes and transfers		-0.7	-0.7	-0.7	-0.6	-0.6
- Capital account		-1.4	-1.6	-1.7	-1.6	-1.6
2. Net lending/borrowing of private sector	B.9	8.6	7.6	7.3	7.2	7.2
3. General government balance	EDP B.9	0.4	0.5	0.8	1.1	1.3
4. Statistical discrepancy						

Table 2a General government budgetary targets broken down by subsector

	ESA Code	2016	2016	2017	2018	2019	2020
		Level					
		(€ billion)	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending/borrowing (EDP B.9) by subsector							
1. General government	S.13	2.9	0.4	0.5	0.8	1.1	1.3
2. Central government	S.1311	-4.6	-0.7	0.0	0.1	0.4	0.8
3. State government	S.1312						
4. Local government	S.1313	0.3	0.0	-0.3	-0.2	-0.2	-0.2
5. Social security funds	S.1314	7.3	1.0	0.7	0.9	0.9	0.7
Total General government (S13)							
6. Total revenue	TR	307.0	44.0	44.3	44.2	44.4	44.3
7. Total expenditure	TE	304.1	43.6	43.9	43.4	43.3	43.0
8. General government balance	EDP B.9	2.9	0.4	0.5	0.8	1.1	1.3
9. Interest expenditure	EDP D.41	7.6	1.1	1.0	0.9	0.8	0.7
10. Primary balance		10.5	1.5	1.4	1.7	1.9	2.0
11. One-off and other temporary measures		-1.9	-0.3	-0.3	-0.1	-0.1	-
Selected components of revenues							
12. Total taxes (=12a+12b+12c)		165.6	23.8	24.5	24.2	24.1	24.5
12a. Taxes on production and imports	D.2	81.8	11.7	11.8	11.8	11.8	11.8
12b. Current taxes on income and wealth	D.5	82.0	11.8	12.4	12.1	12.0	12.4
12c. Capital taxes	D.91	1.8	0.3	0.3	0.3	0.3	0.3
13. Social contributions	D.61	104.3	15.0	14.9	15.2	15.6	15.2
14. Property income	D.4	7.5	1.1	1.1	1.1	1.0	1.0
15. Other		29.6	4.3	3.8	3.7	3.6	3.6
16. Total revenue (=6)	TR	307.0	44.0	44.3	44.2	44.4	44.3
Tax burden		272.2	39.0	39.3	39.3	39.6	39.6
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	101.7	14.6	14.6	14.3	14.2	14.1
17a. Compensation of employees	D.1	61.4	8.8	8.7	8.6	8.6	8.5
17b. Intermediate consumption	P.2	40.3	5.8	5.8	5.7	5.7	5.6
18. Social payments		148.4	21.3	21.5	21.4	21.6	21.5
of which: Unemployment benefits		13.6	2.0	1.8	1.7	1.8	1.6
19. Interest expenditure (=9)	EDP D.41	7.6	1.1	1.0	0.9	0.8	0.7
20. Subsidies	D.3	8.4	1.2	1.3	1.3	1.2	1.2
21. Gross fixed capital formation	P.51	23.8	3.4	3.3	3.3	3.2	3.2
22. Capital transfers		1.3	0.2	0.6	0.6	0.6	0.6
23. Other		12.9	1.9	1.7	1.7	1.6	1.6
24. Total expenditure (=7)	TE	304.1	43.6	43.9	43.4	43.3	43.0

Figures for 2016 have been adjusted on the basis of realisations by Statistics Netherlands.

Table 2b. Breakdown of revenue

	2016	2016	2017	2018	2019	2020
	Level (billion €)	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenue at unchanged policy	307.0	44.0	44.3	44.2	44.4	44.3
2. Total expenditure at unchanged policy	304.1	43.6	43.9	43.4	43.3	43.0

Figures for 2016 have been adjusted on the basis of realisations by Statistics Netherlands.

Table 2c. Amounts to be excluded from the expenditure benchmark

	2016	2016	2017	2018	2019	2020
	Level (billion €)	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure in EU programmes fully matched by EU funds revenue	0.3	0.0	0.1	0.1	0.0	0.1
1.a Of which investment expenditure fully matched by EU funds revenue	0.0	0.0	0.0	0.0	0.0	0.0
2a. Unemployment benefit expenditure	12.7	1.8	1.6	1.5	1.5	1.5
2b. Cyclical unemployment benefit expenditure	0.8	0.1	-0.1	-0.1	-0.1	0.0
3. Effect of discretionary revenue measures	-1.0	-0.1	0.5	-0.1	0.2	-0.2
4. Revenue increases mandated by law	0.3	0.0	0.1	0.3	0.2	0.2

The bottom two rows of this table are forecast by the Ministry of Finance.

Table 3. General government expenditure by function (based on unchanged policy)

in % of GDP	COFOG Code	2015	2017	2020
1. General public services	1	5.02%	4.90%	4.78%
2. Defence	2	1.14%	1.17%	1.16%
3. Public order and safety	3	1.81%	1.67%	1.57%
4. Economic affairs	4	3.97%	3.94%	3.69%
5. Environmental protection	5	1.43%	1.39%	1.36%
6. Housing and community amenities	6	0.32%	0.31%	0.31%
7. Health	7	7.99%	7.80%	8.14%
8. Recreation, culture and religion	8	1.40%	1.37%	1.34%
9. Education	9	5.44%	5.29%	5.09%
10. Social protection	10	16.60%	16.03%	15.52%
11. Total expenditure	TE	45.14%	43.88%	42.96%

Table 4. General government debt developments

in % of GDP	ESA Code	2016	2017	2018	2019	2020
1. Gross debt		62.3	58.5	55.5	52.2	49.3
2. Change in gross debt ratio		-2.9	-3.7	-3.1	-3.3	-2.9
Of which:						
3. Primary balance		-1.4	-1.4	-1.7	-1.9	-2.0
4. Interest expenditure	EDP D.41	1.1	1.0	0.9	0.8	0.7
- Denominator effect		-1.9	-1.9	-1.8	-1.8	-1.7
5. Stock/flow adjustment and other		-0.7	-1.3	-0.4	-0.4	0.0
- *Of which: Privatisation proceeds*		-0.3	-	-	-	-
Implicit interest rate on debt (%)		1.7	1.6	1.5	1.4	1.3
6. Liquid financial assets (% of GDP)		0.4	0.2	0.2	0.2	0.2
7. Net financial debt (7=1-6)		61.9	58.3	55.3	52.0	49.1
8. Debt amortization (existing bonds) since end of previous year (€ billion)		36.0	39.6	43.5	30.7	30.5
9. Percentage of debt denominated in foreign currency		1.3	0.9	0.1	0.1	0.1
10. Average maturity		7.4	7.7	-	-	-

Figures for 2016 have been adjusted on the basis of realisations by Statistics Netherlands.

Table 5. Cyclical developments

in % of GDP	ESA Code	2016	2017	2018	2019	2020
1. Real GDP growth		2.2	2.1	1.8	1.7	1.7
2. Net lending of general government	EDP B.9	0.4	0.5	0.8	1.1	1.3
3. Interest expenditure	EDP D.41	1.1	1.0	0.9	0.8	0.7
4. One-off and other temporary measures		0.3	0.3	0.1	0.1	0.0
4.a Of which one-offs on the revenue side: general government		0	0.3	0.1	0.1	0
4.b Of which one-offs on the expenditure side: general government		0.3	0	0	0	0
5. Potential GDP growth		1.3	1.7	1.6	1.6	1.6
Contribution to growth						
- Labour		0.5	0.8	0.6	0.6	0.5
- Capital		0.5	0.5	0.6	0.6	0.6
- Total factor productivity		0.3	0.3	0.4	0.4	0.5
6. Output gap (EC method)		-0.6	0.1	0.6	0.6	0.4
7. Cyclical budgetary component		-0.4	0.0	0.4	0.4	0.3
8. Cyclically-adjusted balance (2-7)		0.7	0.4	0.4	0.7	1.0
9. Cyclically-adjusted primary balance (8+3)		1.8	1.4	1.3	1.5	1.7
10. Structural balance (8-4)		0.5	0.1	0.3	0.6	1.0

The real GDP growth and general government balance for 2016 have been adjusted on the basis of realisations by Statistics Netherlands.

Table 6. Divergence from 2016 Stability Programme

in % of GDP	ESA Code	**2016**	**2017**	**2018**
Real GDP growth				
Update April ‘16		1.8	2.0	1.9
Current update		2.2	2.1	1.8
Difference		0.4	0.1	-0.1
General government balance	EDP B.9			
Update April ‘16		-1.7	-1.2	-0.4
Current update		0.4	0.5	0.8
Difference		2.1	1.7	1.2
General government debt				
Update April ‘16		65.4	64.1	61.6
Current update		62.3	58.5	55.5
Difference		-3.1	-5.6	-6.1

Table 7. Sustainability of public finances

% of GDP	2010	2020	2030	2040	2050	2060
Total expenditure	48.2%	42.9%	44.1%	46.2%	46.2%	45.8%
of which:						
Age-related expenditure	20.8%	21.8%	22.8%	25.7%	25.9%	25.5%
Pension expenditure	6.2%	6.9%	7.2%	8.2%	8.0%	7.7%
Social security expenditure	11.7%	11.8%	12.0%	13.1%	12.9%	12.6%
Old-age and early retirement pension	4.5%	5.0%	5.5%	6.4%	6.2%	5.7%
Other pensions (occupational disability, surviving relatives)	1.7%	1.9%	1.7%	1.8%	1.8%	1.9%
Occupational pensions (government)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Healthcare (cure)	5.9%	7.2%	7.8%	8.5%	8.6%	8.5%
Long-term care	3.5%	2.6%	3.1%	3.8%	4.3%	4.4%
Education expenditure	5.1%	5.1%	4.8%	5.1%	5.0%	4.9%
Other age-related expenditure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest expenditure	1.8%	0.7%	1.0%	0.1%	-0.1%	-0.2%
Total revenue	43.2%	44.2%	46.9%	47.3%	46.9%	46.6%
of which: property income	2.7%	1.0%	0.8%	0.7%	0.7%	0.7%
of which: pension contributions (or social security premiums)	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Pension reserve fund assets	138.8 %	179.9 %	177.9 %	166.3 %	153.8 %	147.5 %
of which: consolidated public pension fund assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Systemic pension reforms						
Social contributions diverted to mandatory private scheme	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pension expenditure paid by mandatory private system	4.8%	5.5%	6.9%	7.2%	6.4%	5.7%
Assumptions						
Labour productivity growth	1.5%	1.1%	2.2%	1.5%	1.4%	1.5%
Real GDP growth	1.0%	1.7%	1.9%	1.5%	1.7%	1.5%
Participation rate males (15-64)	83.4%	85.9%	88.0%	88.6%	88.5%	88.8%
Participation rate females (15-64)	72.4%	75.6%	77.4%	78.4%	78.6%	78.8%
Total participation rate (15-64)	77.9%	80.8%	82.7%	83.5%	83.5%	83.8%
Unemployment rate (20-64)	4.5%	4.7%	4.7%	4.7%	4.7%	4.7%
Population aged 65+ as % of total population	16.2%	20.7%	24.9%	27.3%	27.0%	27.1%

Table 8. External assumptions

	2016	2017	2018	2019	2020
Short-term interest rate (annual average)	-0.3	-0.3	-0.2	0.0	0.2
Long-term interest rate (annual average)	0.3	0.7	0.7	0.9	1.3
USD/EUR exchange rate (annual average)	1.11	1.07	1.07	1.09	1.11
Nominal effective exchange rate*	2.8	-0.7	0.2	0.8	1.3
World GDP growth	3.1	3.5	3.7	3.9	4.0
EU GDP growth	1.6	1.7	1.7	1.7	1.7
World excluding EU, GDP growth	3.5	3.9	4.2	4.4	4.6
Relevant world trade	2.7	3.0	3.6	4.2	4.7
World import volume, excluding EU	1.5	3.2	4.3	4.9	4.8
Oil price (Brent, USD per barrel)	43.25	55.53	56.06	55.72	55.88

* Percentage changes in respect of a basket of competitors