EUROPEAN
COMMISSION

Brussels, 16.11.2016
SWD(2016) 514 final

COMMISSION STAFF WORKING DOCUMENT

Analysis of the draft budgetary plans of the Netherlands

Accompanying the document

COMMISSION OPINION

on the draft budgetary plan of the Netherlands

{C(2016) 8014 final}

COMMISSION STAFF WORKING DOCUMENT

Analysis of the draft budgetary plans of the Netherlands

Accompanying the document

COMMISSION OPINION

on the draft budgetary plan of the Netherlands

1. INTRODUCTION

The Netherlands has submitted its Draft Budgetary Plan for 2017 on 10 October 2016, in compliance with Regulation (EU) No 473/2013 of the Two-Pack. The Netherlands is subject to the preventive arm of the Stability and Growth Pact and should ensure sufficient progress towards its medium- term budgetary objective (MTO).

As the debt ratio was 67.7% of GDP in 2013 (the year in which the Netherlands corrected its excessive deficit), exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit the Netherlands is also subject to the transitional arrangements as regards compliance with the debt reduction benchmark. In this period it should ensure sufficient progress towards compliance.

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission 2016 autumn forecast. Section 3 presents the recent and planned fiscal developments, according to the Draft Budgetary Plan, including an analysis of risks to their achievement based on the Commission 2016 autumn forecast. In particular, it also includes an assessment of the measures underpinning the Draft Budgetary Plan. Section 4 assesses the recent and planned fiscal developments in 2016-2017 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 5 provides an analysis of implementation of fiscal-structural reforms in response to the latest country-specific recommendations adopted by the Council on 12 July 2016, including those to reduce the tax wedge. Section 6 summarises the main conclusions of the present document.

2. Macroeconomic developments underlying the draft budgetary plan

The macroeconomic projections underlying the Draft Budgetary Plan (DBP) are based on an updated forecast of the Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau, CPB) (see Box 1).

GDP growth is projected to have decelerated slightly from 2.0% in 2015 to 1.7% in 2016, and to stabilise in 2017. The DBP expects domestic demand to be the main driver of growth, with a marginally negative contribution coming from net exports. After a peak in investment growth of 9.9% in 2015, the DBP projects a gradual decline to more sustainable growth rates by 2017 of 2.6%. Private consumption growth is forecast to slow down temporarily to 1.3% in 2016, before picking up to 1.8% in 2017. Similarly, the harmonised consumer price index (HICP) is expected to stay flat in 2016, and to increase by 0.5% in 2017.

Compared with the 2016 Stability Programme, the current projection implies a slightly weaker growth path. The DBP projects growth to be 0.1 percentage point lower in 2016, and 0.3 percentage points lower in 2017. The downward revision is mostly explained by increased economic uncertainty as a result of the United Kingdom's vote on EU membership and, to a smaller extent, by lower than previously expected revenues from the production of natural gas. Nevertheless, the DBP projects a lower unemployment rate of 6.2% in both 2016 and 2017, in line with the recent positive developments in the labour market.

The Commission 2016 autumn forecast projects a similar path for GDP growth. As in the DBP, the Commission expects domestic demand to be the most important growth contributor, with consumption growth supported by increasing real wages and employment growth. Investment is also expected to decelerate, but the projected slowdown is somewhat less pronounced. Notable differences stem from labour market projections, as the Commission forecast expects a stronger reduction in unemployment to 5.8% in 2017, given that soft indicators continue to signal strong labour demand. Compared to the DBP, the autumn forecast projects a faster pick-up in consumer price growth, as measured by the harmonised index of consumer prices (HICP).

The biggest risks to the macroeconomic outlook stem from the uncertainty as a result of the United Kingdom's vote on EU membership. The United Kingdom is the Netherlands’ third most important export market in gross trade value and its second most important export market in value added terms. Both the DBP and the Commission 2016 autumn forecast have factored in a comparable negative short-run impact for 2016, but depending on further developments, the macroeconomic outlook could be affected. Overall, the DBP's macroeconomic assumptions are deemed plausible.

Box 1: The macro-economic forecast underpinning the budget in the Netherlands

The macroeconomic forecast underlying the draft budget for 2017 was produced by the Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau, CPB). While the

CPB is legally a government body, it enjoys complete operational freedom, formally guaranteed by law[1].

The government traditionally uses the CPB's macroeconomic forecast to present the budgetary and economic effects of planned measures. This established practice has been formalised in 2013 by virtue of the Law on the Sustainability of Public Finances (*Wet houdbare overheidsfinanciën*, or Wet HOF).

[1] The law *Wet houdende de voorbereiding van de vaststelling van een Centraal Economisch Plan* from 1947 gives the CPB the legal basis for its operations. The law *Aanwijzing op de Planbureaus* from 2012 codifies the independence of the CPB.

Table 1. Comparison of macroeconomic developments and forecasts

	2015	2016			2017		
	COM	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**
Real GDP (% change)	2.0	1.8	1.7	1.7	2.0	1.7	1.7
Private consumption (% change)	1.8	1.6	1.3	1.3	2.0	1.8	1.9
Gross fixed capital formation (% change)	9.9	4.8	6.0	6.9	3.2	2.6	4.4
Exports of goods and services (% change)	5.0	3.6	3.2	3.4	4.1	3.1	3.5
Imports of goods and services (% change)	5.8	5.0	3.7	3.7	4.5	3.8	4.4
Contributions to real GDP growth:							
- Final domestic demand	2.6	2.1	1.9	2.2	1.6	1.6	1.9
- Change in inventories	-0.6	0.2	-0.2	-0.6	0.2	0.2	0.0
- Net exports	0.0	-0.5	-0.1	0.1	0.2	-0.2	-0.3
Output gap[1]	-1.2	-0.9	-0.7	-0.8	-0.3	-0.3	-0.5
Employment (% change)	0.9	1.1	1.0	1.5	1.0	0.7	1.1
Unemployment rate (%)	6.9	6.5	6.2	6.1	6.3	6.2	5.8
Labour productivity (% change)	1.0	0.7	0.7	0.2	1.0	1.0	0.3
HICP inflation (%)	0.2	0.3	0.0	0.1	1.0	0.5	1.0
GDP deflator (% change)	0.1	1.1	0.5	0.3	0.9	0.9	1.2
Comp. of employees (per head, % change)	0.4	2.2	2.3	2.4	2.1	2.0	2.1
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	3.5	11.1	8.7	8.1	10.5	8.2	7.8

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2016 (SP); Draft Budgetary Plan for 2017 (DBP); Commission 2016 autumn forecast (COM); Commission calculations

3. Recent and planned fiscal developments

3.1. Deficit developments

The projected general government balance of the DBP shows a deficit of 1.1% of GDP in 2016, smaller than the deficit projected in the 2016 Stability Programme (1.7% of GDP). The difference stems mostly from higher than previously expected tax revenues, specifically from the taxation of corporate income. A further positive surprise came from the labour market performing better than expected, resulting in greater tax revenues from households. The projected government expenditure in terms of GDP is comparable to the forecast of the Stability Programme.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2015	2016			2017			Change: 2015-2017
	COM	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**	**DBP**
Revenue	**43.2**	**42.7**	**43.4**	**43.9**	**42.7**	**43.8**	**43.8**	**0.6**
of which:								
- Taxes on production and imports	11.3	11.3	11.4	11.4	11.3	11.5	11.5	0.2
- Current taxes on income, wealth, etc.	11.6	11.2	11.6	12.0	11.5	12.3	12.3	0.7
- Capital taxes	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.1
- Social contributions	14.7	15.0	15.1	15.1	14.7	14.8	14.9	0.1
- Other (residual)	5.4	5.0	5.1	5.1	5.0	4.9	4.9	-0.5
Expenditure	**45.1**	**44.4**	**44.6**	**44.7**	**43.9**	**44.3**	**44.0**	**-0.8**
of which:								
- Primary expenditure	43.9	43.2	43.5	43.6	42.7	43.3	43.0	-0.6
of which:								
Compensation of employees	8.8	9.0	8.9	9.0	8.9	8.7	9.0	-0.1
Intermediate consumption	6.0	5.7	5.9	5.9	5.7	5.9	5.8	-0.1
Social payments	22.1	21.3	21.9	21.9	20.9	21.8	21.6	-0.3
Subsidies	1.2	1.2	1.3	1.3	1.3	1.3	1.3	0.1
Gross fixed capital formation	3.5	3.3	3.4	3.4	3.2	3.3	3.3	-0.2
Other (residual)	2.2	2.7	2.1	2.1	2.7	2.3	2.0	0.1
- Interest expenditure	1.3	1.2	1.1	1.1	1.2	1.0	1.0	-0.3
General government balance (GGB)	**-1.9**	**-1.7**	**-1.1**	**-0.8**	**-1.2**	**-0.5**	**-0.3**	**1.4**
Primary balance	**-0.6**	**-0.5**	**0.0**	**0.3**	**0.0**	**0.5**	**0.7**	**1.1**
One-off and other temporary measures	0.1	0.3	0.3	0.2	0.0	0.3	0.3	0.2
GGB excl. one-offs	**-2.0**	**-2.0**	**-1.4**	**-1.0**	**-1.2**	**-0.8**	**-0.6**	**1.2**
Output gap[1]	-1.2	-0.9	-0.7	-0.8	-0.3	-0.3	-0.5	1.0
Cyclically-adjusted balance[1]	-1.1	-1.2	-0.6	-0.3	-1.0	-0.3	0.1	0.8
Structural balance (SB)[2]	**-1.2**	**-1.4**	**-0.9**	**-0.5**	**-1.0**	**-0.6**	**-0.2**	**0.5**
Structural primary balance[2]	0.1	-0.2	0.2	0.6	0.2	0.4	0.8	0.3

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/programme as recalculated by Commission on the basis of the DBP/programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2016 (SP); Draft Budgetary Plan for 2017 (DBP); Commission 2016 autumn forecast (COM); Commission calculations

For 2017, the DBP plans a government deficit of 0.5% of GDP, substantially smaller than the deficit of 1.2% of GDP expected in the Stability Programme. Again, the difference is mostly explained by a general upward revision of income tax revenues. Specifically, a one-off tax measure related to SMEs is estimated to lead to additional tax revenues of EUR 2.1 billion in 2017 (0.3% of GDP) in the DBP, which is in line with the Commission forecast. Finally, the refugee-related expenditures in 2017 have been revised downward by EUR 0.8 billion (0.1% of GDP) due to the reduced inflow.

The Commission 2016 autumn forecast projects a deficit for 2016 at 0.8% of GDP, which is 0.3% of GDP smaller than that of the DBP. The difference is explained by a more positive outlook for tax revenues based on more recent data. Moreover, the Commission forecast shows a more positive labour market development, leading to a lower unemployment rate and thus lower unemployment benefit expenditure.

For 2017, the Commission forecast also expects a 0.2% of GDP smaller deficit at 0.3% of GDP. A more positive outlook on labour market developments would lead to higher social security contributions and lower unemployment benefits than in the DBP.

The (recalculated)[2] structural balance as projected in the DBP shows an improvement from -1.2% of GDP in 2015 to -0.9% of GDP in 2016 and -0.6% of GDP in 2017. The Commission forecast expects a stronger improvement in structural terms to -0.5% of GDP in 2016 and -0.2% of GDP in 2017, stemming from both a faster increase in the headline balance and slower closure of the output gap. The latter stems from a higher potential growth estimate by the Commission, which is linked to a higher labour supply projection.

The budgetary outlook is influenced by the current low interest rate environment, although its overall impact is moderate in the case of the Netherlands. The euro area sovereign bond yields remain at historically low levels, with 10-year rates in the Netherlands currently standing at 0.3%[3]. As a consequence, total interest payments by the general government have continued to decrease as a share of GDP. Based on the information included in the Draft Budgetary Plan, interest expenditure is expected to decrease slightly from 1.3% of GDP in 2015 to 1.1% in 2016 and to 1.0% in 2017. The picture stemming from the DBP is confirmed by the Commission forecast.

The Advisory Division of the Council of State[4] (CoS-AD) issued a comprehensive opinion on the draft budget on 16 September 2016[5]. The budgetary projection underlying this assessment is more pessimistic for 2017, showing a deficit of 0.7% of GDP, which is 0.2% of GDP higher than the DBP and 0.4% of GDP higher than the Commission forecast, which explains differences between the assessments.

3.2. Debt developments

The DBP projects the government debt-to-GDP ratio to decline over the forecast horizon, from 65.1% of GDP in 2015 to 62.1% by 2017.

Compared to the Stability Programme, the DBP implies a somewhat faster reduction in the debt ratio, stemming from both a more favourable primary balance and somewhat more positive stock-flow adjustments. For 2016, the latter can be partly linked to the privatisation of state-owned financial institutions.

[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

[3] 10-year bond yields as of 31 October 2016. Source: Bloomberg.

[4] The Council of State is an independent public body established by the Constitution. The Wet HOF broadened the mandate of its Advisory Division.

[5] https://www.rijksoverheid.nl/binaries/rijksoverheid/documenten/kamerstukken/2016/09/20/beoordeling-rijksbegroting/oordeel-begrotingsautoriteit-over-miljoenennota-2017.pdf

Table 3. Debt developments

(% of GDP)	2015	2016			2017		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**65.1**	**65.4**	**63.4**	**63.0**	**64.1**	**62.1**	**61.3**
Change in the ratio	-2.8	0.3	-1.7	-2.2	-1.4	-1.3	-1.7
Contributions[2] :							
1. Primary balance	**0.6**	**0.5**	**0.0**	**-0.3**	**0.0**	**-0.5**	**-0.7**
2. "Snow-ball" effect	**-0.1**	**-0.6**	**-0.3**	**-0.1**	**-0.7**	**-0.5**	**-0.8**
Of which:							
Interest expenditure	1.3	1.2	1.1	1.1	1.2	1.0	1.0
Growth effect	-1.3	-1.1	-1.1	-1.1	-1.3	-1.1	-1.0
Inflation effect	-0.1	-0.7	-0.3	-0.2	-0.6	-0.5	-0.7
3. Stock-flow adjustment	**-3.4**	**0.4**	**-1.4**	**-1.7**	**-0.7**	**-0.3**	**-0.2**
Of which:							
Cash/accruals difference		-0.2	0.10		0.0	-0.10	
Net accumulation of financial		0.7	-1.20		-0.7	-0.10	
of which privatisation proceeds		0.0	-0.30		0.0	0.00	
Valuation effect & residual		-1.9	-1.40		-1.9	-1.60	

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual

Source:

Stability Programme 2016 (SP); Draft Budgetary Plan for 2017 (DBP); Commission 2016 autumn forecast (COM); Commission calculations

The Commission 2016 autumn forecast projects a similar reduction in the debt-to-GDP ratio compared to the DBP, albeit at a marginally faster pace due to a more positive deficit outlook.

3.3. Measures underpinning the draft budgetary plan

The budgetary development over the horizon of the DBP is largely determined by the macroeconomic environment and earlier adopted measures. The impact of new policy measures since the Stability Programme 2016 is limited. Table 4a and 4b give an overview of discretionary policy measures presented in the DBP[6]. In 2017, the government plans to increase the general tax credit (with a budget impact of -0.1% of GDP) and the tax credit for the elderly (-0.1% of GDP). These are partly offset by small revenue increasing measures, such as a shift in the threshold of tax brackets, leading to an overall revenue decreasing effect of 0.1% of GDP in 2017.

On the expenditure side, the rent allowance is increased (with a budget impact of -0.1% of GDP). Moreover, the government plans to increase expenditure on national security measures

[6] The DBP does not report previously implemented measures for 2016, such as the tax-cut package (0.7% of GDP) and thus the tables differ from the discretionary impact underlying the preventive arm assessment. Moreover, the DBP does not include measures for 2018, as general elections will be held in March 2017.

(-0.1% of GDP) and to cancel earlier planned cut-backs in care expenditure (-0.1% of GDP). In total, the DBP reports discretionary expenditure increasing measures worth 0.3% of GDP in 2017.

Overall, discretionary measures reported in the Draft Budgetary Plan have a deficit increasing effect of 0.4% of GDP.

The budgetary impact of measures reported in the DBP appears plausible. The measures outlined in the DBP have also been taken into account in the Commission 2016 autumn forecast. Budgetary risks from higher than anticipated expenditure on asylum seekers have decreased as a consequence of the persistently lower than expected inflows.

For 2017, both the DBP and the Commission forecast include a revenue-increasing one-off measure (0.3% of GDP) linked to the taxation of specific SMEs, which implies one-time tax payments.

The measures reported in the DBP do not contribute to meeting the fiscal country-specific recommendation regarding the budgetary position.

Table 4. Main discretionary measures reported in the DBP[7]

A. Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2016	**2017**	**2018**
Taxes on production and imports	n.a.	n.a.	n.a.
Current taxes on income, wealth, etc.	n.a.	-0.1	n.a.
Capital taxes	n.a.	n.a.	n.a.
Social contributions	n.a.	0.0	n.a.
Property Income	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.
Total	n.a.	-0.1	n.a.

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.

Source: Draft Budgetary Plan for 2017

B. Discretionary measures taken by general Government- expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2016	**2017**	**2018**
Compensation of employees	n.a.	-0.1	n.a.
Intermediate consumption	n.a.	-0.1	n.a.
Social payments	n.a.	-0.2	n.a.
Interest Expenditure	n.a.	n.a.	n.a.
Subsidies	n.a.	n.a.	n.a.
Gross fixed capital formation	n.a.	n.a.	n.a.
Capital transfers	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.
Total	n.a.	-0.3	n.a.

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.

Source: Draft Budgetary Plan for 2017

[7] The DBP does not follow the ESA2010 breakdown for reporting the measures.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

The Netherlands is subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO of -0.5% of GDP. Currently, the Netherlands is also subject to the transitional debt rule. Box 2 reports the latest country specific recommendations in the area of public finances.

Box 2: Council recommendations addressed to the Netherlands

On 12 July 2016, the Council addressed recommendations to the Netherlands in the context of the European Semester. In particular, in the area of public finances, the Council recommended to the Netherlands to limit the deviation from the medium-term budgetary objective in 2016 and achieve an annual fiscal adjustment of 0.6% of GDP in 2017, and to prioritise public expenditure towards supporting more investment in research and development.

4.1. Compliance with the debt criterion

Following the abrogation of the EDP based on 2013 outturn data, the Netherlands is required to comply with the transitional debt rule (as defined by the linear structural adjustment, MSLA) until 2016, and with the debt reduction benchmark from 2017 onwards.

Table 5. Compliance with the debt criterion*

	2015	2016			2017		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio	65.1	65.4	63.4	63.0	64.1	62.1	61.3
Gap to the debt benchmark [1,2]					-4.4	n.a.	-4.0
Structural adjustment [3]	-0.5	-0.6	0.2	0.7	0.4	0.3	0.3
To be compared to:							
Required adjustment [4]	-1.7	-5.1	n.a.	-3.7			

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining minimum annual structural adjustment over the transition period which ensures that – if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source:

Stability Programme 2016 (SP); Draft Budgetary Plan for 2017 (DBP); Commission 2016 autumn forecast (COM); Commission calculations

* An ex-ante assessment of planned compliance with the debt criterion can be based on the DBP only for the concerned countries providing extended data series (i.e. covering years up to t+4) in the DPB on a voluntary

basis, as agreed at the EFC-A on 22 September 2014 and reflected in the updated Code of Conduct of the two-pack.

Regarding compliance with the (transitional) debt rule, the DBP does not include extended data series that warrant an ex-ante assessment. Based on the Commission forecast, the Netherlands is projected to comply with the required Minimum Linear Structural Adjustment (MLSA) in 2016 given the structural improvement of 0.7% of GDP, well above its MLSA of -3.7% of GDP[8]. After the end of the transition period, the Netherlands is forecast to comply with the debt rule as its debt-to-GDP ratio is expected to remain 4.0% of GDP below the debt benchmark in 2017.

Downward risks to the planned debt development appear limited. In case the government proceeds with the planned privatisation of financial institutions, the debt reduction could accelerate somewhat over the forecast horizon.

In its opinion on the draft budget, the CoS-AD assessed the debt reduction in 2016 and 2017 to be compliant with the numerical fiscal rules in the Netherlands.

4.2. Compliance with the Medium Term Objective (MTO)

With a structural balance of -0.3% of GDP, the Netherlands was above its MTO of -0.5% of GDP in 2015. Based on the Commission 2016 autumn forecast, the Netherlands is projected to remain at or above the MTO in 2016 and 2017, respectively. Similarly, an assessment of the recalculated DBP implies compliance with the provisions of the Stability and Growth Pact in both years.

In its opinion on the draft budget, the CoS-AD acknowledged that the government finances are projected to comply with the provisions of the Stability and Growth Pact in 2016. For 2017, the CoS-AD concluded that both the structural balance and net expenditure growth entail a risk of a non-significant deviation under the preventive arm, but the underlying budgetary projection is more pessimistic than the DBP. The CoS-AD criticised the decision by the government to adjust the pre-defined national revenue and expenditure ceilings in order to finance additional expenditure measures in 2017.

[8] The MLSA defines the minimum change in the structural balance that is needed to ensure that the debt reduction benchmark is respected after the transition period.

Table 6: Compliance with the requirements of the preventive arm

(% of GDP)	2015	2016		2017	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	-1.2	-0.5		-0.2	
Structural balance based on freezing (COM)	-0.3	-0.5		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		At or above the MTO	
(% of GDP)	**2015**	**2016**		**2017**	
	COM	**DBP**	**COM**	**DBP**	**COM**
Structural balance pillar					
Required adjustment[4]	Compliant				
Required adjustment corrected[5]					
Change in structural balance[6]					
One-year deviation from the required adjustment [7]					
Two-year average deviation from the required adjustment [7]					
Expenditure benchmark pillar					
Applicable reference rate[8]					
One-year deviation [9]					
Two-year average deviation [9]					
Conclusion					
Conclusion over one year					
Conclusion over two years					

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 27.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) was carried out on the basis of Commission 2015 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Draft Budgetary Plan for 2017 (DBP); Commission 2016 autumn forecast (COM); Commission calculations.

5. IMPLEMENTATION OF FISCAL STRUCTURAL REFORMS

The DBP does not contain information on the fiscal structural reforms recommended by the Council on 12 July 2016, in particular the recommendation to prioritise public expenditure towards supporting more investment in research and development. While the DBP provides supplementary information on the innovation performance of the Netherlands, no policy measures addressing investment in research and development have been identified.

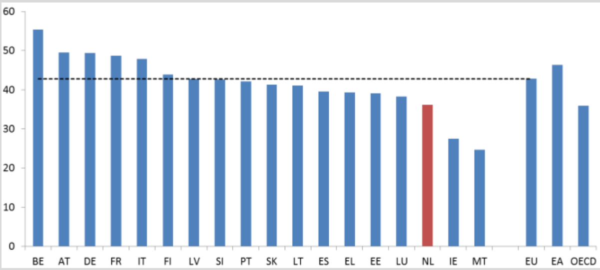
A comprehensive assessment of progress made with the implementation of the country-specific recommendations will be made in the 2017 Country Report and in the context of the country-specific recommendations to be adopted by the Council in 2017.

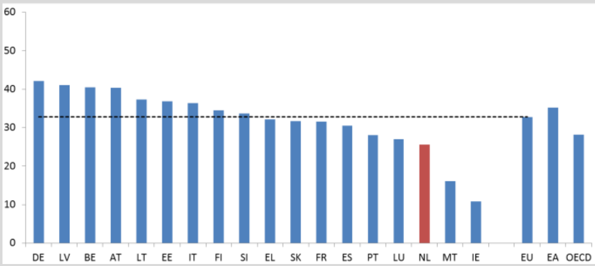
Box 3: Addressing the tax burden on labour in the euro area

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against this background, the Eurogroup has expressed a commitment to reduce the tax burden on labour. On 12 September 2015, the Eurogroup agreed to benchmark euro area Member States' tax burden on labour against the GDP-weighted EU average, relying in the first instance on indicators measuring the tax wedge on labour for a single worker at average wage and a single worker at low wage. It also agreed to relate these numbers to the OECD average for purposes of broader comparability.

The tax wedge on labour measures the difference between the total labour costs to employ a worker and the worker’s net earnings. It is made up of personal income taxes and employer and employee social security contributions. The higher the tax wedge, the higher the disincentives to take up work or hire new staff. The graphs below show the tax wedge in the Netherlands for a single worker earning respectively the average wage and a low wage (50% of the average) compared to the EU average.

The tax burden on labour in the Netherlands at the average wage and a low wage (2015)





Notes: No recent data is available for Cyprus. EU and EA averages are GDP-weighted. The OECD average is not weighted. These graphs represent only the tax wedge on labour; compulsory health care and pension contributions, which in the case of the Netherlands account for a relatively large part of the burden on labour, are not included.

Source: European Commission Tax and Benefit Indicator database based on OECD data.

Benchmarking is only the first step in the process towards firm, country-specific policy conclusions. The tax burden on labour interacts with a wide variety of other policy elements such as the benefit system and the wage-setting system. A good employment performance indicates that the need to reduce labour taxation may be less urgent while fiscal constraints can dictate that labour tax cuts should be fully offset by other revenue-enhancing or expenditure-reducing measures. In-depth, country-specific analysis is necessary before drawing policy conclusions.

In the context of the 2016 European Semester, the Netherlands was not issued a recommendation directly linked to the tax wedge on labour.

The Netherlands' Draft Budgetary Plan for 2017 contains the following new measures since the adoption of the Stability Programme that affect the tax wedge on labour:

- An increase in the general tax credit (budgetary effect: EUR -0.5 bn, 0.1% of GDP).

- A reduction in the employment tax credit (budgetary effect: EUR +0.5 bn, 0.1% of GDP).
- Partly rewinding a planned shift in the thresholds of tax brackets (budgetary effect: EUR +0.1 bn, <0.1% of GDP).

The net effect of the newly announced measures on employment is estimated to be marginal. Labour market developments are expected to be mostly determined by the EUR 5 billion (0.7% of GDP) package of policy measures from 2016, which specifically targets the tax wedge on labour. One of these measures, a tax advantage for low income workers (budgetary effect: EUR -0.5 bn, 0.1% of GDP), becomes effective only in 2017.

6. OVERALL CONCLUSION

Based on the Commission 2016 autumn forecast, the Netherlands is projected to comply with the transitional debt rule in 2016 and with the debt reduction benchmark in 2017.

Following an assessment of the Netherlands' DBP, the planned structural adjustment is in line with the required path towards the MTO in both 2016 and 2017. According to the Commission 2016 autumn forecast, the Netherlands is projected to be at or above its MTO in 2016 and 2017 respectively.