Stability Programme of the Netherlands

April 2018

Preface

Programme status
A draft version of the Stability Programme has been submitted to both Houses of Parliament. In addition, 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 Sustainable Public Finances Act (*Wet houdbare overheidsfinanciën*).

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 published at the beginning of April 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 of Policy Analysis (CPB), the Central Economic Plan (CEP) published on 22 March 2018. The figures for 2017 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 March the 26th. This is shown in the relevant tables in the annex. On 29 March. the government published a letter on the future of gas extraction in Groningen.[1] Since this is part of the spring decision-making process this aspect has not been included in the budgetary outlook in this Stability Programme.

[1] Government letter to Parliament dated 29 March 2018, no. 33529-457

Contents

Summary

In recent years, Dutch government finances have improved and in 2018 they are also in good shape. Through higher tax revenues and lower unemployment, the positive economic situation contributes to a sound position of public finances. According to the most recent insights, the Netherlands had a general government balance of 1.1% of GDP in 2017. The Netherlands maintains a surplus of 0.7% in 2018 and 0.9% in 2019. This means that the Netherlands remains well away from the -3% threshold for an excessive deficit. The structural government balance amounts to 0.7% of GDP in 2017, 0.0% of GDP in 2018 and -0.4% in 2019. Although the structural government balance deteriorates, the Netherlands remains above the threshold of the medium-term budgetary objective (MTO) of -0.5%.

The general government debt of the Netherlands continues to decline. The government debt falls from 56.7% of GDP in 2017 to 52.1% of GDP in 2018 and 48.4% of GDP in 2019. The debt stays below the European reference value of 60% of GDP.

The Netherlands is fully committed to European budgetary agreements. The Netherlands applies its regular national budgetary framework, pursuing a trend-based fiscal policy based on revenue and expenditure ceilings. With this Stability Programme, the Netherlands shows it is compliant with the requirements of the preventive arm of the SGP.

Chapter 1: Overall policy framework and objectives

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

The requirements of 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 with this balance yet must show sufficient improvement annually in their structural balance towards the MTO. Member States that have a structural government balance which is lower than the MTO must comply with the expenditure benchmark, which prescribes that non-cyclical expenditure growth, insofar as this is not compensated by a discretionary increase in revenues, does is below (in the event that the MTO has not been reached yet) or is equal (if the MTO has been reached) to the rate of 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 required to have a general government debt of under 60% of GDP, or a debt level that converges towards this threshold quickly enough, in conformity with the SGP debt rule.

The Dutch national budgetary framework is based on pursuing a trend-based fiscal policy. Within the boundaries of the SGP, the Coalition Agreement *"Vertrouwen in de toekomst* [Confidence in the future] of the Rutte III government leads to a tax reduction for households and businesses and strengthens the structural economic position of the Netherlands. For an overview of progress made with respect to structural economic policies, please refer to the National Reform Programme (NRP). This NRP provides an extensive description of the way in which the government fulfils the country-specific recommendations for the Netherlands within the European Semester, and in which progress regarding objectives in respect of the Europe 2020 strategy is also addressed.

Chapter 2: Economic outlook

The Dutch economy is growing rapidly. According to the latest forecast of CPB Netherlands Bureau for Economic Policy Analysis (CPB). the Dutch economy is set to grow by 3.2% in 2018 and by 2.7% in 2019. Growth remains broad-based, with a substantial contribution from domestic demand. Unemployment falls further to 3.5% in 2019, with employment increasing as well.

Introduction

This chapter provides a brief overview of the macroeconomic prospects for the Netherlands in 2018 and 2019. Since the Netherlands is a small and open economy, the international prospects are discussed first, followed by the prospects for the Dutch economy and labour market.

International developments and external assumptions

As an open economy the Netherlands is strongly influenced by foreign economic developments. In the forecast, the European economy is set to grow by more than 2% in 2018 and 2019. Relevant world trade is set to grow in both years by more than 4%. The external environment is enshrouded by a number of political uncertainties, for example, on the growth of world trade and uncertainties surrounding Brexit. In the short-term it is assumed that the oil price will rise from 54 dollars per barrel in 2017 to 64 dollars per barrel in 2019. In the forecast it is further assumed that the exchange rate of the euro in respect of the dollar will rise to 1.2 in 2018 and will remain unchanged in 2019.

Table 2.1 External assumptions

	2017	2018	2019
Short-term interest rate (annual average)	-0.3	-0.3	-0.1
Long-term interest rate (annual average)	0.5	0.7	0.9
USD/EUR exchange rate (annual average)	1.1	1.2	1.2
Nominal effective exchange rate*	1.4	2.2	0.1
GDP growth. World excluding EU	4.0	4.2	4.3
GDP growth. EU	2.5	2.5	2.2
Growth of relevant foreign markets	4.7	4.4	4.4
World import volume. excluding EU	4.4	4.4	4.4
Oil price (Brent. USD per barrel)	54.0	67.7	63.6

* percentage changes in respect of a basket of competitors

Economic outlook

The Dutch GDP is set to grow by 3.2% in 2018 and by 2.7% in 2019. which will be the 6th consecutive year of GDP growth. The growth is broad-based. Although exports continue to grow substantially too, consumption and capital formation provide an increasingly important contribution to growth. As of 2018, after some years of above-potential GDP growth, the Netherlands will have a positive output gap.

Table 2.2 Macroeconomic prospects

	ESA Code	**2017** Level (€ billion)	**2017** rate of change	**2018** rate of change	**2019** rate of change
1. Real GDP	B1*g	733.2	3.2	3.2	2.7
2. Nominal GDP	B1*g		4.3	5.1	5.1
Components of real GDP					
3. Private consumption expenditure	P.3	321.9	1.9	2.1	2.5
4. Government final consumption expenditure	P.3	177.8	1.2	3.0	2.4
5. Gross fixed capital formation	P.51	148.9	5.6	5.8	4.1
6. Changes in inventories (Δ)	P.52+P.53	-1.1	0.0	0.0	0.0
7. Exports of goods and services	P.6	633.9	6.1	4.9	4.6
8. Imports of goods and services	P.7	548.3	5.4	5.1	5.2
Contributions to real GDP growth					
9. Final domestic demand		648.6		2.7	2.4
10. Changes in inventories (Δ)	P.52+P.53	-1.1		0.0	0.0
11. External balance of goods and services	B.11	85.6		0.4	0.1

Household consumption increases by 2.1% in 2018 and by 2.5% in 2019. Consumption increases particularly due to growth in income, driven by both employment and wage growth. Increased consumer confidence and rising house prices also contribute to consumption, and as of 2019, the tax-decreasing measures in the Coalition Agreement will contribute to growth of disposable income. The actual growth in real income is tempered by rising inflation. Investments increase by almost 6% in 2018 and slightly more than 4% in 2019. Both business investments and housing investments are growing. but housing investment will be growing less than in the past few years.

Exports also continue to increase, and will grow this year by 4.9%. Export growth declines somewhat in 2019, but is nonetheless still slightly above the growth of relevant world trade.

To summarize, the Dutch economy will continue to grow steadily in the forthcoming years, due to positive domestic and foreign demand.

Labour market

The positive economic cycle also translates into further growth of employment and a downward trend in unemployment. The number of working people grows by 1.9% in 2018 and by 1.3% in 2019. Recently, unemployment has fallen below 4% and is expected to drop even further next year. The tighter labour market leads to higher wage growth, and the wage bill per employee grows this year by 2.9% and by 3.9% in 2019.

Table 2.3 Labour market developments

	ESA Code	**2017** Level	**2017** rate of change	**2018** rate of change	**2019** rate of change	**2020** rate of change	**2021** rate of change
1. Employment (x 1000 persons)		9099.0	2.1	1.9	1.3	0.3	0.1
2. Employment (bln hours worked)		13043.0	1.7	1.9	1.5	0.4	0.2
3. Unemployment (% of labour force)		438.0	4.9	3.9	3.5	3.7	3.8
4. Labour productivity. persons		80.7	0.9	1.3	1.4	1.3	1.4
5. Labour productivity (hours worked)		56.5	1.3	1.2	1.1	1.1	1.2
6. Compensation of employees	D.1	352.7	3.8	5.2	5.6	4.1	3.6
7. Compensation per employee (€)		38.8	1.8	2.9	3.9	3.8	3.4

Chapter 3: Budget balance and government debt

Dutch public finances are in good shape. For the third successive year, there is a budget surplus of 1.1% of GDP in 2017 and 0.7% of GDP in 2018 respectively. General government debt continues to decline and drops to 52.1% of GDP in 2018.

Introduction

This chapter describes the policy strategy on public finances and provides an overview of development of the general government balance and general government debt in the short and medium-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 government term. The focus on expenditure ceilings in the past appears to have been an effective means to ensure manageability of public finances. Every cabinet minister is financially responsible for expenditure in his policy area. This system is perceived as being clear, credible and predictable.

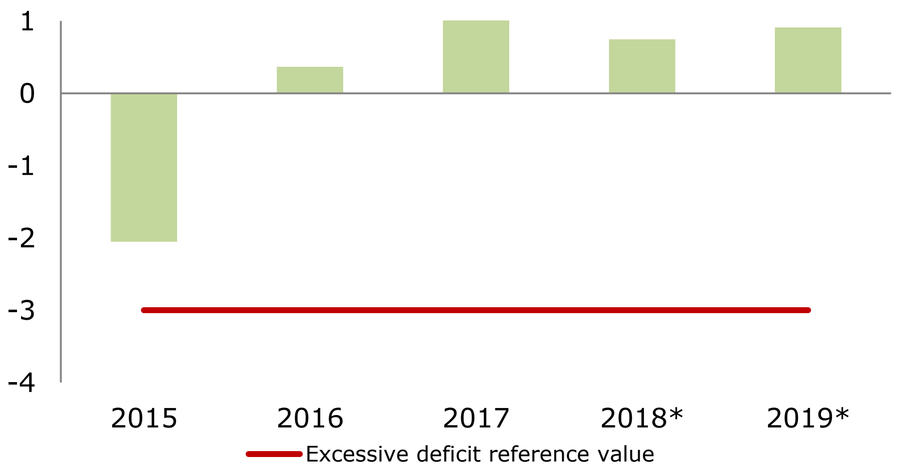
Budgetary forecast for the short and medium-term

CPB projections in the 2018 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 2019 budget. A more detailed explanation is given in Chapter 7 on the institutional and legal codifying of European budgetary rules in the Netherlands.

Actual general government balance

In 2017, the budget surplus amounted to 1.1% of GDP. A budget surplus is also expected in the forthcoming years. In 2018 the general government balance is expected to be 0.7% of GDP.

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



Compared to the Draft Budgetary Plan (DBP) of October 2017 the expected budgetary outlook has improved further. Since October, the expected surplus in 2017 increased from 0.6% of GDP to 1.1% of GDP. CEP projections for 2018 and onwards have further been adjusted upwards.

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 an expenditure ceiling based on the multi-year forecast as adopted at the time of the Coalition Agreement.
- Macroeconomic stabilisation of the economy on the revenue side and a part of the expenditure side of the budget. On the revenue side of the budget, the principle of automatic stabilisation applies. Revenue windfalls are used to reduce the government balance and revenue setbacks burden the general government balance. This means that higher revenues – for example, more tax receipts as a result of higher economic growth – cannot be used for additional expenditure. On the other hand, setbacks on the revenue side in principle do not lead to the need for consolidation. Policy decisions on the revenue side (taxes and social security contributions) must be compensated by other measures on the revenue side. In the context of automatic stabilisation, the Rutte III cabinet also placed cyclical unemployment and social benefits expenditure outside of the scope of the expenditure ceiling.
- Distinction between revenues and expenditure. This distinction is the result of containing expenditure by means of the expenditure ceiling and automated stabilisation on the revenue side through the revenue ceiling. Through this distinction, it is made even more explicit that additional expenditure under the expenditure ceiling must be fitted in, and additional tax measures need to be compensated within the revenue ceiling.
- A primary decision-making moment in the expenditure and revenue side of the budget in spring, based on the Central Economic Plan (CEP) of the CPB. Further decision-making on the revenue side and developments in purchasing power take place in August, based on a new projection by the CPB.

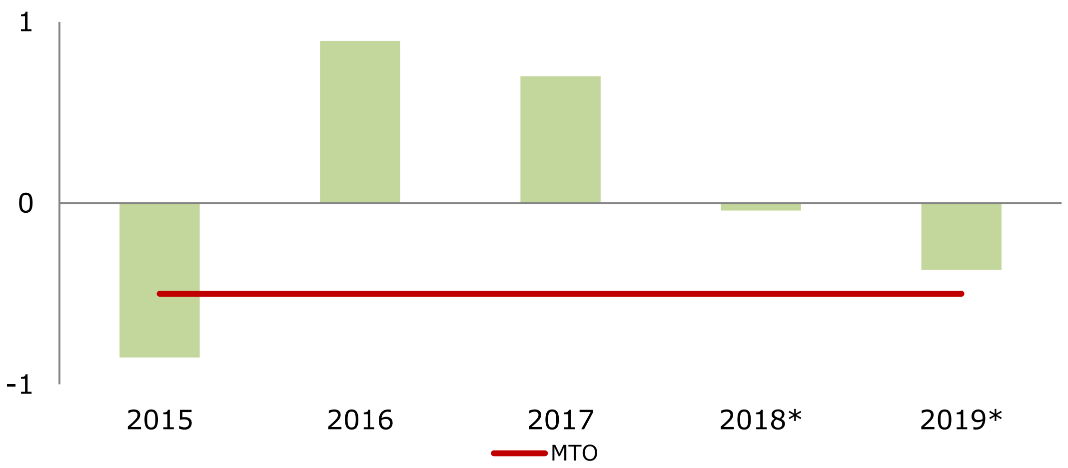
These starting points are described in the budgetary rules agreed at the start of the Rutte III government term, which were published as an annex to the Coalition Agreement[2]. The budgetary rules consist of basic principles, budgetary rules of play and technical specifications. The basic principles of budgetary policy describe the key starting points and the rationale behind it. The budgetary rules of play ensure that in practical terms the basic principles are respected. 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 spending on new policy.

[2] See annex 1 of Initial Policy Memorandum – Budgetary Rules 2018-2022: https://www.rijksoverheid.nl/documenten/kamerstukken/2017/11/03/bijlage-1-bij-startnota-%E2%80%93-begrotingsregels-2018-2022

Structural balance

The structural government balance is the actual general government balance corrected for the economic cycle and one-off factors. In 2017, the structural budget balance resulted in a surplus of 0.7% of GDP. The structural balance is expected to turn into a small deficit in 2018, within the medium-term budgetary objective (MTO) of at least -0.5% of GDP. According to projections, in the coming years, the Netherlands continues to meet its MTO, meeting the requirements of the preventive arm.

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



This means that an assessment of the corrected public expenditure based on the expenditure benchmark is not necessary[3]. The expenditure benchmark is aimed at the sustainability of public finances in the medium term and requires that the percentual increase of corrected public expenditure does not exceed the potential growth of the economy, corrected for discretionary budgetary effort.

Table 3.1 Development of expenditure in relation to the expenditure benchmark

in % of GDP	2017	2018	2019
1. Corrected public expenditure (volume. %)	0.3	4.3	1.8
2. Standard growth (maximum growth corrected public expenditure)	3.5	2.7	3.6

[3] See: Vade Mecum on the Stability and Growth Pact p.47 (https://ec.europa.eu/info/publications/economy-finance/vade-mecum-stability-and-growth-pact-2017-edition_en)

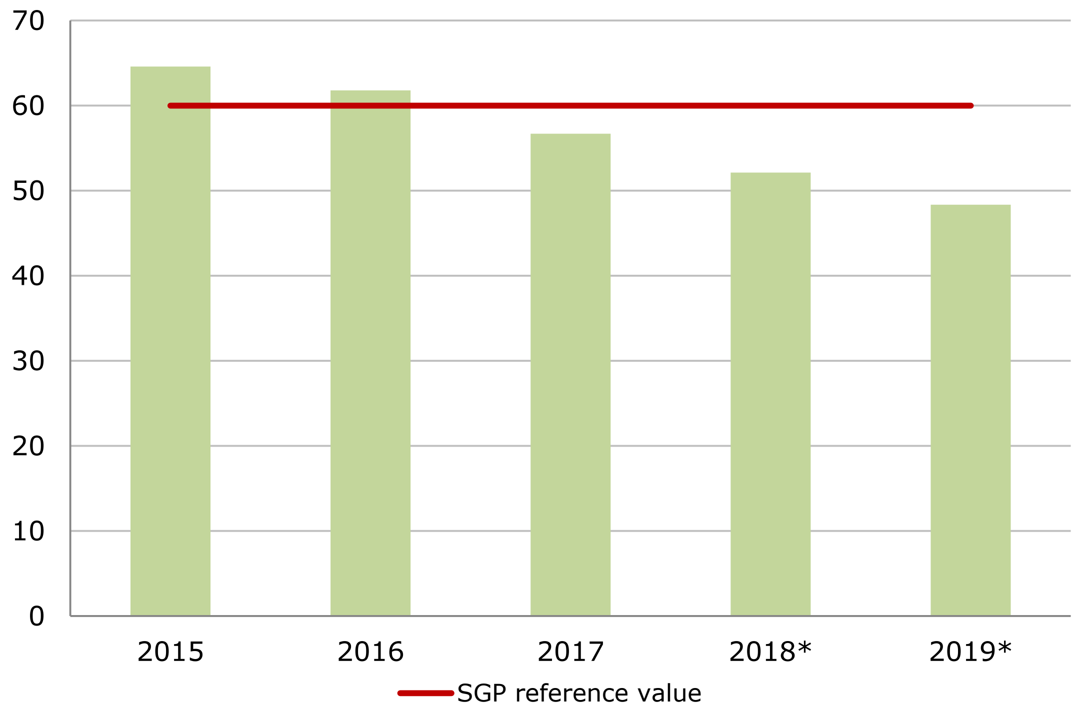
General government debt

Table 3.2 shows the development of general government debt. Government debt amounted to 56.7% of GDP at the end of 2017, falling below the 60% threshold. Not only did the budget surplus contribute to the decline in the government debt, but further privatisation of ABN Amro, a.s.r. and Propertize did so as well. Higher economic growth contributes to the declining debt ratio via the denominator effect. It is expected that the government debt falls to 52.1% of GDP in 2018 and declines further in the forthcoming years.

Table 3.2 General government debt developments

in % of GDP	ESA Code	**2017**	**2018**	**2019**
1. Gross debt		56.7	52.1	48.4
2. Change in gross debt ratio		-5.1	-4.6	-3.8
of which:				
3. Primary balance		2.1	1.5	1.6
4. Interest expenditure	EDP D.41	1.0	0.8	0.7
5. Stock/flow adjustment and other		-4.0	-3.8	-2.9
of which:				
- Denominator effect		-2.5	-2.7	-2.5
- Privatisation proceeds		0.8	0.0	0.0

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



Chapter 4: Sensitivity analysis and comparison with previous update

Compared with the Stability Programme of April 2017, the projections of macroeconomic variables have improved. Forecasts for economic growth are currently somewhat more favourable. General government debt is falling faster than presumed in April 2017 and the budget surplus for 2017 is higher than expected. The actual development of these variables, of course, is sensitive to external economic shocks. In order to provide a better understanding of risks to the economic outlook, two alternative scenarios are presented.

Introduction

This chapter first describes how forecasts of economic growth, general government balance and government debt differ compared to the previous Stability Programme (April 2017). Additionally, the consequences of two risk scenarios are discussed.

Comparison with Stability Programme of April 2017

Table 4.1 shows how current forecasts for GDP growth, general government balance and general government debt have been adjusted compared to the previous Stability Programme. The Dutch economy is growing faster than predicted in April 2017. The general government balance in 2017 is higher than forecast in the previous year. Higher economic growth leads to additional tax revenues and lower expenditures. In later years, the general government balance worsens in comparison to April 2017 as a result of the new government's additional expenditure and tax-relief measures.

General government debt is developing more favourably than expected at the time of the previous Stability Programme. A strongly improved primary balance compared to April 2017 contributes to a more favourable development of the government debt than expected. The denominator effect also contributes to a lower deficit, measured as a percentage of GDP. Due to these positive developments, government debt dropped to below 60% of GDP in 2017. According to the most recent projections, government debt is set to decline further in the coming years.

Table 4.1 Divergence from Stability Programme of 2017

in % of GDP	ESA Code	2017	2018	2019
Real GDP growth				
Update April '17		2.1	1.8	1.7
Current update		3.2	3.2	2.7
Difference		1.1	1.4	1.0
General government balance	EDP B.9			
Update April '17		0.5	0.8	1.1
Current update		1.1	0.7	0.9
Difference		0.6	0.0	-0.2
General government debt				
Update April '17		58.5	55.5	52.2
Current update		56.7	52.1	48.4
Difference		-1.8	-3.4	-3.9

Alternative scenarios and risks

As a small open economy, the Netherlands is sensitive to developments in the world economy, for example via trade and international financial markets. However, domestic dynamics are also uncertain: e.g. the supply and demand for labour could develop differently than previously forecast.

The sensitivity analyses below show how the economy could develop itself in two alternative scenarios with respect to the baseline in the CEP. Both scenarios assume that the economic shock occurs at the beginning of 2018, and then presents the effects of that shock in 2018 and 2019. Both scenarios have been drawn up by the Ministry of Finance based on SAFFIER (CPB's model for short-term projections. medium-term scenarios. and analyses of Coalition Agreements and policy options) scenarios.[4] A more detailed risk analysis of public finances is available in the 2015 Public Finances Impact Test, presented in the 2015 Budget Memorandum.[5]

Scenario 1: higher oil price (demand scenario)

This scenario assumes that the oil price rises due to an increase of global economic activity and thus an increasing demand for oil. In this scenario, a one-time oil price rise of 20% takes place in 2018 with a permanent effect.

In the short term (i.e. in 2018) the shock leads to significant additional growth in exports and capital formation, but to less private consumption. In 2018, GDP grows by an additional 0.6 percentage point and in 2019 by an additional 0.1 percentage point. The inflation rate rises with 1.3 percentage points of GDP in 2018 and 1.9 percentage points of GDP in 2019. The general government balance improves by 0.3 percentage points of GDP in respect of the baseline.

4See also: CPB (2011), Varianten SAFFIER II, Achtergronddocument bij SAFFIER II, CPB document 217.

5 See: Ministry of Finance, 2014, 2015 Budget Memorandum [Miljoenennota 2015], p. 107. In the Budget Memorandum, the government reports annually on a number of specific financial budgetary risks. In addition, the CPB (Risicorapportage Financiële Markten) and DNB (Overzicht Financiële Stabiliteit) regularly report on risks of financial stability and in financial markets.

Table 4.2 - Alternative scenario 1: higher oil price, demand scenario (deviations in percentage points)

	Deviation to basic scenario in 2018	Deviation to basic scenario in 2019
Volume of GDP	0.6	0.1
Private consumption	-0.3	-0.1
Capital formation businesses	2.4	-0.7
Investments in housing	-0.8	-2.4
Export of goods. excl. energy	3.3	1.0
Unemployment (level. %)	-0.2	-0.2
Inflation (CPI)	1.3	1.8
General government balance (% of GDP)	0.3	0.4

Scenario 2: declining housing prices

House prices in the Netherlands have grown rapidly in recent years. In this scenario, a one-off negative shock of 10% of the level of house prices takes place in 2018, with a permanent effect.

In the short-term (i.e. in 2018) the shock leads to a decline in consumption and capital formation of 0.3 percentage points and to a GDP downturn of 0.1 percentage point. In 2019, the shock leads to a further decrease in consumption and housing investments, but on balance, there is no additional effect on GDP growth. In both years the rate of inflation is lower and unemployment rises somewhat. The general government balance deteriorates in 2018 by 0.1 percentage points of GDP compared to the baseline.

Table 4.3 – Alternative scenario 2: decline in house prices (deviations in percentage points)

	Deviation to basic scenario in 2018	Deviation to basic scenario in 2019
Volume of GDP	-0.1	0.0
Private consumption	-0.3	-0.2
Capital formation businesses	-0.3	0.0
Investments in housing	0.0	-0.1
Export of goods. excl. energy	0.0	0.1
Unemployment (level. %)	0.0	0.1
Inflation (CPI)	-0.1	-0.3
General government balance (% of GDP)	-0.1	0.0

Chapter 5: Sustainability of public finances

The Dutch government not only values the government balance and debt position in the short term, but also the sustainability of public finances in the longer term. The current sustainability balance of the Netherlands is a deficit of 0.4% 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 the results of both the Netherlands Bureau for Economic Policy Analysis (CPB) and the European Commission (EC). An overview is also provided in this chapter of the contingent liabilities of the Dutch government.

Introduction

This chapter provides an explanation of the sustainability balance by CPB and the European Commission, and on projections of government expenditures and revenues until 2060. Finally, an overview is provided of contingent liabilities of the Dutch government, as prescribed by European budgetary rules.

Sustainability balance

Sustainability of public finances is assessed on the basis of the so-called sustainability balance. This balance indicates whether the current government arrangements are sustainable in the future, without expenses needing to be reduced or taxes needing to be raised. This requires some assumptions to be made about future developments. In calculating the sustainability balance, the CPB applies the assumption of 'constant arrangements' . This means that future generations can benefit to a similar level of public services at a similar tax burden (as a percentage of GDP) as present generations. 'Constant arrangements' are therefore different then unchanged policy. An unchanged policy would mean that, assuming that incomes 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 'constant 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 portion of seniors aged 65+ will increase in the total population in future. Public old-age pension expenditure (AOW) and care expenditure (both long-term and curative healthcare) will increase between 2010 and 2060. This increase happens despite 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 a dissaving due to an ageing population since 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.

The most recent sustainability balance of the CPB, including the Coalition Agreement. amounts to -0.4% of GDP (or a deficit of 3 billion euro).[6] This is a deterioration of the

6 CPB, 2017, *Analyse economische en budgettaire effecten van de financiële bijlage van het Regeerakkoord*

sustainability balance in comparison to the previous Stability Programme, which still showed a small sustainability surplus. Based on constant arrangements, this sustainability gap means that measures are needed to increase revenues or to put constraints on expenditures. These results are highly dependent on assumptions, as is also emphasized in the sensitivity analyses in a previous CPB population-ageing survey.[7] For example, the sustainability balance is sensitive to assumptions about rising costs in healthcare, life expectancy and labour force participation.

The European Commission also forecasts the sustainability of EU Member States, including the Netherlands[8]. The EC forecasts two different sustainability balances. On the S1-indicator, which shows how much room for budgetary manoeuvre a Member State has to achieve a debt ratio below 60% in 2032, the Netherlands has a surplus of 1.9% of GDP. The S2-indicator, similar to the CPB sustainability balance, shows the long-term sustainability. Here, the Netherlands has a sustainability deficit of 3.0% of GDP.

The sustainability deficit of the Netherlands, according to EC calculations, is larger than that reflected in the most recent CPB calculation. There are a number of reasons for this difference. The most important reason is that the EC places less emphasis on an increase in 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 keeps less account of this specific Dutch pension arrangement than the CPB does. For household taxes, for example in the case of the deductible pension contributions and healthcare insurance contributions, there is a difference with the EC, since the EC keeps these tax burdens consistent (as part of GDP). There are also a number of relatively smaller differences in the forecast of expenditures and the underlying assumptions.

[7] CPB (2014) *Minder zorg om vergrijzing*, CPB Boek 12.
[8] The most recent forecast is: European Commission, 2017, Debt Sustainability Monitor.

Table 5.1 Sustainability of public finances

% of GDP	2010	2020	2030	2040	2050	2060
Total expenditure	48.2	43.3	45.1	47.9	48.6	48.7
of which:						
Age-related expenditure	20.8	21.4	23.0	25.9	26.1	25.8
Pension expenditure	6.2	6.8	7.2	8.2	8.0	7.7
Social security expenditure	11.7	11.8	12.2	13.2	13.0	12.7
Old-age and early retirement pension	4.5	4.9	5.5	6.4	6.1	5.7
Other pensions (occupational disability. surviving relatives)	1.7	1.9	1.7	1.8	1.9	2.0
Occupational pensions (government)	0.0	0.0	0.0	0.0	0.0	0.0
Healthcare (cure)	5.9	6.9	7.6	8.4	8.4	8.3
Long-term care	3.5	2.8	3.4	4.2	4.7	4.9
Education expenditure	5.1	4.9	4.7	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	1.6	1.4	1.7	2.2
Total revenue	43.2	42.6	46.1	46.9	46.6	46.4
of which: property income	2.7	0.9	0.7	0.6	0.6	0.6
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	174.0	172.8	164.0	153.4	148.4
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	5.3	6.7	7.0	6.3	5.7
Assumptions						
Labour productivity growth	1.5	1.1	2.1	1.5	1.4	1.5
Real GDP growth	1.0	1.6	1.8	1.5	1.7	1.5
Participation rate males (15-64)	83.4	85.8	86.6	87.4	87.2	87.5
Participation rate females (15-64)	72.4	75.8	76.7	77.7	77.8	78.1
Total participation rate (15-64)	77.9	80.8	81.6	82.5	82.5	82.8
Unemployment rate (20-64)	4.5	4.5	4.7	4.7	4.7	4.7
Population aged 65+ as % of total population	16.2	20.7	24.9	27.4	27.1	27.2

Contingent liabilities

Policy in respect of contingent liabilities under risk arrangements is laid down in the budgetary rules. The rules regarding guarantees can be summarized as follows[9]:

- 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 thinks it is 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. For major and complicated risks, a second opinion is requested from an independent specialist party with regard to risk management and the setting of premiums.
- In case of new arrangements and amendments to existing arrangements, cut-backs may take place on other risk arrangements.

The assessment is implemented via the Assessment Framework for Risk Arrangements (Toetsingskader Risicoregelingen), which has been laid down in the budgetary rules.[10] Three key elements of the assessment framework are:

- Reason for government intervention and choice of instrument, in other words purpose 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 to ensure transparency of the commitments made.

Table 5.2 shows the amount of contingent liabilities. At the end of 2017, the outstanding commitments totalled € 184 billion (25.1% of GDP). This is expected to drop to € 181 billion (23.4% of GDP) in 2018. The table includes all guarantees connected with the financial sector that have an outstanding risk greater than € 1 billion. More than three-quarters of the contingent liabilities are connected with the financial sector. The majority of these obligations arise as a result of international agreements, including any guarantees related to the European debt crisis, international development banks and the International Monetary Fund (IMF).

[9] For a full overview, see annex 3 of the budgetary rules: https://www.rijksoverheid.nl/documenten/kamerstukken/2017/11/03/bijlage-1-bij-startnota-%E2%80%93-begrotingsregels-2018-2022
[10] http://wettenpocket.overheid.nl/portal/0ff0f42b-2a70-45b7-a9c9-3b4253b292e7/document/TOETSINGSKADER%20RISICOREGELINGEN%20RIJKSOVERHEID.pdf

Table 5.2 Contingent liabilities

	2017	2018
	% of GDP	% of GDP
Public guarantees	**25.1**	**23.4**
Including: associated with the financial sector	**20.5**	**19.2**
DNB - participation in IMF capital	5.8	5.8
Guarantee De Nederlandsche Bank (DNB)	0.8	-
European Financial Stabilisation Mechanism (EFSM)	0.4	0.4
European Financial Stability Facility (EFSF)	4.7	4.4
European Investment Bank (EIB)	1.3	1.3
European Stability Mechanism (ESM)	4.8	4.6
Netherlands Development Finance Company (FMO)	0.7	0.7
Regional development bank guarantees	0.3	0.3
EU Balance-of-payments (BoP) assistance	0.3	0.3
Single Resolution Fund (SRF)	0.6	0.5
World Bank	0.6	0.6

Aside from guarantees, the Netherlands also has three so-called indirect guarantees. This concerns a total sum of about € 286 billion in 2017. 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. In addition, for two of the three indirect guarantees, participants have an obligation to support the fund financially if the fund's equity drops to below a certain level, the liability. Only in an extreme case can the fund have recourse to the government. A fund then gets an interest-free loan from central government, sometimes together with local and regional governments. This loan must be repaid.

Section 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 brings about understanding into the effects of policy. These insights are then used to develop new policy and to amend existing policy. Since the Rutte III cabinet took office, possibilities have been explored to improve insights into effectiveness and efficiency of government policy by way of the 'Insight into Quality' operation.

Introduction

Different types of research are conducted in the Netherlands. Departments organise evaluation studies and monitor individual policy programmes. In the Netherlands there is also a system of policy audits and interdepartmental policy reviews (IBOs). Prior to major projects starting, 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 analyses of social costs and benefits (MKBAs).

Policy audits

In a policy audit a certain policy area is examined for its effectiveness and efficiency by the department responsible for this policy. 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, 15 new policy audits will be carried out. The subjects extend across a broad spectrum of public policy: for example, policy audits are carried out of policy in areas such as public administration and democracy, development of a joint Defence Helicopter Command and a care allowance for parents.

In the past two years the structure, phrasing of the questions 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 2018. This extends the Lower House's involvement in policy audits. Comparable to broad-based reviews, all policy audits will also 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 jointly 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 2018, three IBOs will be completed. One of these IBOs focuses on persons with minor mental disabilities. In 2018 an IBO will also be carried out to establish policy on compensation for land used for energy supply. Similarly, an IBO will also be carried out to establish policy on youths distanced from the labour market.
As is the case with policy audits, IBOs are submitted to the Lower House including the government's appreciation of the findings.

Analyses of social costs and benefits (MKBAs)

Analyses of social costs and benefits (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 costs and benefits 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 costs and benefits.

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 commission for the Ministry of Public Health, Welfare and Sport (VWS), the Ministry of Education, Culture and Science (OCW), the Ministry of Social Affairs and Employment (SZW) and the Ministry of the Interior and Kingdom Relations (BZK), a manual was published for the social domain. A commission was also granted by the Ministry of Economic Affairs and Climate (EZK) and Ministry of Infrastructure & Environment (IenW) to draw up new guidelines for policy relating to nature and the environment.

Insight into Quality

The government has decided, inter alia, in light of recommendations by the Study Group On The Budget Margin, to launch the operation 'Insight into Quality' [*Inzicht in Kwaliteit]* which aims to enhance the understanding of effectiveness and efficiency of policies. Prior to this, a number of improvement measures have been introduced, as indicated in a letter to the Lower House in December 2016 (Kamerstuk 31865. Nr. 90). This concerns the pilot 'learning from evaluation' for the Ministry of Health, Welfare and Sport (VWS), to find an approach in which evaluations correspond better with the policy process. It also concerns adding a paragraph to improve policy audits, involving department heads of other ministries in policy audits, and starting a tailor-made training to better equip policy officers in carrying out a policy audit.

Section 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. In conformity with European budgetary agreements, the European budgetary objectives have 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. Attention is also paid to the budgetary policy of the Rutte III cabinet, which took office in October 2017.

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 trend-based budgetary policy 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, the 'Wet HOF' assigns 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 are compliant 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 a prior phase of the budgetary cycle. Furthermore, also at the time of the Budget Memorandum, the Council of State assesses whether the draft budget complies with European budgetary agreements.

Budgetary policy of the Rutte III cabinet

In October 2017, the Rutte III cabinet took office. The government is sustaining current budgetary rules and the trend-based fiscal policy. In this, the government is aiming for a margin in respect of European rules. The national budgetary policy can be followed by maintaining a distance in respect of European rules, both on the government balance as well as on government debt. This puts the Netherlands in a better position to apply automatic stabilisation also when there are budgetary setbacks.

The government further strengthens automatic stabilisation by removing the cyclical part of expenditure on unemployment and social benefits from the expenditure ceiling. As a result, lower expenditure on unemployment and social benefits in times of economic boom will not lead to greater room for manoeuvre under the expenditure ceiling and, conversely, higher unemployment and social benefits expenditure in times of recession does not automatically lead to the need for fiscal consolidation. In addition, the expenditure ceiling will no longer be indexed to the GDP deflator, but to actual wage and price developments of government expenditure. This means there is no longer a question of windfalls or setbacks in this area, the so-called terms of trade issue.

Annex – Tables for Stability Programme

Table 1a. Macroeconomic prospects*

	ESA Code	**2017** Level (€ bln)	**2017** rate of change	**2018** rate of change	**2019** rate of change	**2020** rate of change	**2021** rate of change
1. Real GDP	B1*g	733.2	3.2	3.2	2.7	1.5	1.5
2. Nominal GDP	B1*g		4.3	5.1	5.1	3.5	3.4
Components of real GDP							
3. Private consumption expenditure	P.3	321.9	1.9	2.1	2.5	1.7	1.7
4. Government final consumption expenditure	P.3	177.8	1.2	3.0	2.4	1.9	1.7
5. Gross fixed capital formation	P.51	148.9	5.6	5.8	4.1	1.4	1.4
6. Changes in inventories (Δ)	P.52+P.53	-1.1	0.0	0.0	0.0	0.0	0.0
7. Exports of goods and services	P.6	633.9	6.1	4.9	4.6	3.7	3.8
8. Imports of goods and services	P.7	548.3	5.4	5.1	5.2	4.2	4.2
Contributions to real GDP growth							
9. Final domestic demand		648.6		2.7	2.4	1.4	1.4
10. Changes in inventories (Δ)	P.52+P.53	-1.1		0.0	0.0	0.0	0.0
11. External balance of goods and services	B.11	85.6		0.4	0.1	0.1	0.1

* Figures for 2017 have been adjusted on the basis of realisations by Statistics Netherlands (CBS).

Table 1b. Price developments

	ESA Code	**2017** Level	**2017** rate of change	**2018** rate of change	**2019** rate of change	**2020** rate of change	**2021** rate of change
1. GDP deflator		100	1.3	1.8	2.4	2.0	1.8
2. Private consumption deflator		100	1.6	1.7	2.5	1.8	1.8
3. HICP		100	1.3	1.6	2.3	1.7	1.6
4. Public consumption deflator		100	1.9	2.2	2.4	2.4	2.3
5. Investment deflator		100	0.7	1.8	2.0	1.8	1.7
6. Export price deflator (goods and services)		100	3.1	1.0	0.8	0.7	0.8
7. Import price deflator (goods and services)		100	3.6	1.0	0.6	0.6	0.8

Table 1c. Labour market developments

	ESA Code	2017 Level	2017 rate of change	2018 rate of change	2019 rate of change	2020 rate of change	2021 rate of change
1. Employment (x 1000 persons)		9099.0*	2.1	1.9	1.3	0.3	0.1
2. Employment (bln hours worked)		13043.0*	1.7	1.9	1.5	0.4	0.2
3. Unemployment (% of labour force)		438.0	4.9	3.9	3.5	3.7	3.8
4. Labour productivity. persons		80.7	0.9	1.3	1.4	1.3	1.4
5. Labour productivity (hours worked)		56.5	1.3	1.2	1.1	1.1	1.2
6. Compensation of employees	D.1	352.7	3.8	5.2	5.6	4.1	3.6
7. Compensation per employee (€)		38.8	1.8	2.9	3.9	3.8	3.4

* adjusted on the basis of realisations by Statistics Netherlands (CBS).

Table 1d. Sectoral balances

% of GDP	ESA Code	2017	2018	2019	2020	2021
1. Net lending/borrowing vis-à-vis the rest of world	B.9	9.5	9.4	9.2	8.7	8.6
of which:						
- Balance on goods and services		11.5	11.5	11.3	11.1	10.9
- Balance of primary incomes and transfers		-0.7	-0.7	-0.7	-0.6	-0.6
- Capital account		-1.3	-1.4	-1.4	-1.8	-1.7
2. Net lending/borrowing of private sector	B.9	8.3	8.5	8.2	8.1	8.2
3. General government balance	EDP B.9	1.1	0.7	0.9	0.5	0.3
4. Statistical discrepancy						

Table 2a General government budgetary prospects*

	ESA Code	**2017** Level (€ billion)	**2017** % of GDP	**2018** % of GDP	**2019** % of GDP	**2020** % of GDP	**2021** % of GDP
Net lending/borrowing (EDP B.9) by subsector							
1. General government	S.13	8.0	1.1	0.7	0.9	0.5	0.3
2. Central government	S.1311	6.6	0.9	0.0	0.4	0.2	0.2
3. State government	S.1312	-	-	-	-	-	-
4. Local government	S.1313	-1.1	-0.1	-0.2	-0.2	-0.2	-0.2
5. Social security funds	S.1314	2.5	0.3	0.9	0.7	0.5	0.3
Total General government (S13)							
6. Total revenue	TR	320.0	43.6	43.5	43.6	43.3	43.0
7. Total expenditure	TE	312.0	42.6	42.8	42.7	42.8	42.7
8. General government balance	EDP B.9	8.0	1.1	0.7	0.9	0.5	0.3
9. Interest expenditure	EDP D.41	7.0	1.0	0.8	0.7	0.7	0.6
10. Primary balance		15.0	2.0	1.5	1.6	1.1	0.9
11. One-off and other temporary measures		-3.3	-0.5	-0.1	-0.1	-	-
Selected components of revenues							
12. Total taxes (=12a+12b+12c)		180.1	24.5	24.2	24.7	24.5	24.4
12a. Taxes on production and imports	D.2	84.5	11.5	11.5	12.0	12.1	12.2
12b. Current taxes on income and wealth	D.5	94.2	12.8	12.4	12.4	12.1	12.0
12c. Capital taxes	D.91	1.4	0.2	0.3	0.3	0.3	0.3
13. Social contributions	D.61	105.5	14.4	14.8	14.5	14.5	14.3
14. Property income	D.4	7.5	1.0	1.0	0.9	0.8	0.8
15. Other		27.5	3.7	3.6	3.5	3.5	3.5
16. Total revenue (=6)	TR	320.6	43.7	43.5	43.6	43.3	43.0
Tax burden		285.5	38.9	38.9	39.1	38.9	38.7

* Figures for 2017 have been adjusted for items 1 to 11 on the basis of realisations by Statistics Netherlands (CBS).

	ESA Code	2017	2017	2018	2019	2020	2021
Selected components of expenditure		€ billion	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
17. Compensation of employees + intermediate consumption	D.1 + P.2	104.9	14.3	14.3	14.1	14.1	14.0
17a. Compensation of employees	D.1	63.2	8.6	8.6	8.5	8.5	8.4
17b. Intermediate consumption	P.2	41.7	5.7	5.7	5.6	5.6	5.6
18. Social payments		153.9	21.0	20.5	20.5	20.8	21.1
of which Unemployment benefits		13.1	1.8	1.6	1.5	1.5	1.5
18a. Social benefits in kind through market output	D.6311. D.63121. D.63131	74.3	10.1	10.1	10.3	10.5	10.8
18b. Social benefits not in kind	D.62	79.6	10.8	10.4	10.2	10.3	10.3
19. Interest expenditure (=9)	EDP D.41	7.0	1.0	0.8	0.7	0.7	0.6
20. Subsidies	D.3	9.1	1.2	1.2	1.2	1.2	1.2
21. Gross fixed capital formation	P.51	25.3	3.4	3.6	3.5	3.5	3.4
22. Capital transfers		1.4	0.2	0.8	1.0	1.0	1.0
23. Other		11.2	1.5	1.5	1.6	1.6	1.5
24. Total expenditure (=7)	TE	312.9	42.7	42.8	42.7	42.8	42.7
PM: Public consumption (nominal)	P.3	178.8	24.3	24.4	24.3	24.5	24.7

Table 2b. No-policy change projections *

	2017 Level (billion €)	**2017** % of GDP	**2018** % of GDP	**2019** % of GDP	**2020** % of GDP	**2021** % of GDP
1. Total revenue at unchanged policy	320.0	43.6	43.5	43.6	43.3	43.0
2. Total expenditure at unchanged policy	312.0	42.6	42.8	42.7	42.8	42.7

* Figures for 2017 have been adjusted on the basis of realisations by Statistics Netherlands (CBS)

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

	2017 Level (billion €)	**2017** % of GDP	**2018** % of GDP	**2019** % of GDP	**2020** % of GDP	**2021** % of GDP
1. Expenditure in EU programmes fully matched by EU funds revenue	1.1	0.1	0.2	0.2	0.2	0.2
1.a Of which investment expenditure fully matched by EU funds revenue	0.0	0.0	0.0	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure	0.1	0.0	-0.1	-0.2	-0.0	0.1
3. Effect of discretionary revenue measures	3.2	0.4	-0.1	0.1	-0.4	-0.3
4. Revenue increases mandated by law	0.9	0.1	0.1	0.3	0.2	0.1

Table 3. General government expenditure by function

in % of GDP	COFOG Code	**2016**	**2021**
1. General public services	1	4.3	4.3
2. Defence	2	1.2	1.4
3. Public order and safety	3	1.9	1.7
4. Economic Affairs	4	3.9	3.6
5. Environmental protection	5	1.4	1.4
6. Housing and community amenities	6	0.3	0.3
7. Healthcare	7	7.7	8.3
8. Recreation. culture and religion	8	1.3	1.3
9. Education	9	5.3	5.1
10. Social protection	10	16.2	15.4
11. Total expenditure	TE	43.4	42.7

Table 4. General government debt developments

in % of GDP	ESA Code	**2017**	**2018**	**2019**	**2020**	**2021**
1. Gross debt		56.7*	52.1	48.4	46.0	44.0
2. Change in gross debt ratio		-5.1*	-4.6*	-3.8	-2.4	-2.0
of which:						
3. Primary balance		2.1*	1.5	1.6	1.1	0.9
4. Interest expenditure	EDP D.41	1.0*	0.8	0.9	0.7	0.6
5. Stock/flow adjustment and other		-4.0*	-3.8*	-2.9	-1.9	-1.7
- Of which: difference between cash and accruals		-0.5	0.1	0.3	0.2	0.2
- Of which: net accumulation of financial assets		-0.0	-0.0	-0.0	-0.0	-0.0
- Of which: Privatisation proceeds		0.8	-0.0	-0.0	-	-
- Of which: valuation effects and other		-0.8	0.0	0.0	-0.0	-0.0
Implicit interest rate on debt (%)		1.6	1.4	1.4	1.4	1.4
6. Liquid financial assets (% of GDP)		0.5	0.2	0.2	0.2	0.2
7. Net financial debt (7=1-6)		56.2	51.8	48.1	45.7	43.8
8. Debt amortization (existing bonds) since end of previous year (€ billion)		43.4	40.2	30.7	30.5	16.5
9. Percentage of debt denominated in foreign currency		0.1	0.1	0.1	0.1	0.1
10. Average maturity		7.6	7.7			

* Figures adjusted on the basis of realisations by Statistics Netherlands (CBS).

Table 5. Cyclical developments

in % of GDP	ESA Code	**2017**	**2018**	**2019**	**2020**	**2021**
1. Real GDP growth		3.2	3.2	2.7	1.5	1.5
2. Net lending of general government	EDP B.9	1.1	0.7	0.9	0.5	0.3
3. Interest expenditure	EDP D.41	1.0	0.8	0.7	0.7	0.6
4. One-off and other temporary measures		0.5	0.1	0.1	0.0	0.0
4.a Of which: on the revenue side		0.5	0.1	0.1	0.0	0.0
4.b Of which: on the expenditure side		0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth		2.0	2.2	2.2	2.0	1.9
Contribution to growth						
- Labour		0.9	0.9	0.7	0.6	0.4
- Capital		0.6	0.7	0.8	0.8	0.8
- Total factor productivity		0.5	0.6	0.6	0.7	0.7
6. Output gap (EC method)		-0.1	1.0	1.8	1.2	0.6
7. Cyclical budgetary component		-0.1	0.7	1.2	0.8	0.4
8. Cyclically-adjusted balance (2-7)		1.2	0.0	-0.3	-0.3	-0.1
9. Cyclically-adjusted primary balance (8+3)		2.2	0.8	0.4	0.4	0.5
10. Structural balance (8-4)		0.7	0.0	-0.4	-0.3	-0.1

Table 6. Divergence from previous update (2017 Stability Programme)*

in % of GDP	ESA Code	**2017**	**2018**	**2019**
Real GDP growth				
Update April '17		2.1	1.8	1.7
Current update		3.2	3.2	2.7
Difference		1.1	1.4	1.0
General government balance	EDP B.9			
Update April '17		0.5	0.8	1.1
Current update		1.1	0.7	0.9
Difference		0.6	0.0	-0.2
General government debt				
Update April '17		58.5	55.5	52.2
Current update		56.0	52.1	48.4
Difference		-2.6	-3.4	-3.9

* Figures for 2017 have been adjusted on the basis of realisations by Statistics Netherlands (CBS)

Table 7. Long-term sustainability of public finances

% of GDP	2010	2020	2030	2040	2050	2060
Total expenditure	48.2	43.3	45.1	47.9	48.6	48.7
of which:						
Age-related expenditure	20.8	21.4	23.0	25.9	26.1	25.8
Pension expenditure	6.2	6.8	7.2	8.2	8.0	7.7
Social security expenditure	11.7	11.8	12.2	13.2	13.0	12.7
Old-age and early retirement pension	4.5	4.9	5.5	6.4	6.1	5.7
Other pensions (occupational disability. surviving relatives)	1.7	1.9	1.7	1.8	1.9	2.0
Occupational pensions (government)	0.0	0.0	0.0	0.0	0.0	0.0
Healthcare (cure)	5.9	6.9	7.6	8.4	8.4	8.3
Long-term care	3.5	2.8	3.4	4.2	4.7	4.9
Education expenditure	5.1	4.9	4.7	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	1.6	1.4	1.7	2.2
Total revenue	43.2	42.6	46.1	46.9	46.6	46.4
of which: property income	2.7	0.9	0.7	0.6	0.6	0.6
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	174.0	172.8	164.0	153.4	148.4
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	5.3	6.7	7.0	6.3	5.7
Assumptions						
Labour productivity growth	1.5	1.1	2.1	1.5	1.4	1.5
Real GDP growth	1.0	1.6	1.8	1.5	1.7	1.5
Participation rate males (15-64)	83.4	85.8	86.6	87.4	87.2	87.5
Participation rate females (15-64)	72.4	75.8	76.7	77.7	77.8	78.1
Total participation rate (15-64)	77.9	80.8	81.6	82.5	82.5	82.8
Unemployment rate (20-64)	4.5	4.5	4.7	4.7	4.7	4.7
Population aged 65+ as % of total population	16.2	20.7	24.9	27.4	27.1	27.2

Table 8. External assumptions

	2017	2018	2019	2020	2021
Short-term interest rate (annual average)	-0.3	-0.3	-0.1	0.3	0.7
Long-term interest rate (annual average)	0.5	0.7	0.9	1.1	1.3
USD/EUR exchange rate (annual average)	1.13	1.22	1.22	1.23	1.25
Nominal effective exchange rate*	1.4	2.2	0.1	0.7	0.9
EU GDP growth	2.5	2.5	2.2	1.6	1.6
World excluding EU. GDP growth	4.0	4.2	4.3	4.2	4.1
Relevant world trade	4.7	3.0	3.6	4.2	4.7
World import volume. excluding EU	4.4	3.2	4.3	4.9	4.8
Oil price (Brent. USD per barrel)	53.97	55.53	56.06	55.72	55.88

* percentage changes in respect of a basket of competitors