STABILITY PROGRAMME

THE NETHERLANDS

APRIL 2022

FOREWORD

Programme status

A draft 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 institution in the Netherlands charged with the fiscal monitoring of compliance with European budgetary rules. This role ensues 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, '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.

Figures used

Unless indicated otherwise, the figures used in this report are based on the most recent projections of CPB Netherlands Bureau for Policy Analysis (CPB), as published in the Central Economic Plan (CEP) of 9 March 2022 and the Update of the 2022-2026 Medium-term Forecast of March 2022. The figures for 2021 in respect of public finances which are also reported in the April Notification to the European Commission (EC), have been adjusted as a result of actual figures by Statistics Netherlands. This is shown in the relevant tables in the Annex. The figures do not contain data on the Recovery and Resilience Facility (RRF), as the Netherlands has not yet submitted its application for the fund. These figures will be submitted with the Recovery and Resilience Plan (RRP), by the end of July at the latest.

INHOUDSOPGAVE

SUMMARY

The Dutch economy shows resilience and is recovering rapidly after the corona crisis. The CPB projects an economic growth of 3.6% for 2022 and 1.7% for 2023. According to the estimates, unemployment also remains extremely low. Rising inflation, particularly as a result of rising energy prices, affects the purchasing power of households and leads to economic uncertainty.

The Russian invasion of Ukraine causes a great deal of human suffering. It also entails economic uncertainties. The direct impact of the war on the Dutch economy and public finances is expected to be limited. To reflect this uncertainty, this Stability Programme includes several economic scenarios by CPB Netherlands Bureau for Economic Policy Analysis (CPB). In a scenario where energy prices and general inflation remain higher than in the basic projection, medium-term economic growth may be lower. In a highly negative scenario – in which the war in Ukraine leads to worldwide negative shocks in trade, among other things – the Netherlands may end up in a short-term recession.

The strong economic recovery in 2021 has made public finances better than was expected at the time of the previous Stability Programme. The general government balance for 2021 was -2.5%, whereas last year -5.9% was assumed. Government revenues were higher than expected in 2021 and expenditure on corona-related support packages was lower. The projected general government balance is -2.5% of GDP in 2022 and -2.3% of GDP in 2023, within the reference value of the Stability and Growth Pact (SGP) of 3%.

The government chooses to use the room for budgetary manoeuvre to invest in relevant societal challenges and to strengthen sustainable growth. An ambitious investment agenda has been announced in this cabinet's coalition agreement, with investments in, among other things, combating climate change, housing and education. In addition, the National Growth Fund is used to invest in the structural earning capacity of the Netherlands. The government considers these investments to be necessary and thus works towards the future resilience of the Netherlands by investing in the conditions for sustainable growth in the future. This does justice to the European Commission’s country-specific recommendations for the Netherlands. The additional expenditure will lead to a deterioration in public finances in the short term. However, the cabinet considers this temporary deterioration acceptable, with regard to the urgency of the investments.

Sustainability of public finances is not in danger in the medium-term, but development of the debt is surrounded by uncertainties. Various indicators accentuate an exceptional macroeconomic environment. In the CPB’s negative economic scenario, in which the war in Ukraine leads to worldwide negative shocks, as an open economy the Netherlands is relatively hard hit by declining trade. In such a scenario, public finances could also be affected: for example, the CPB forecasts that in that case the general government balance will reach -3.1% of GDP in 2022 and -3.5% of GDP in 2023.

The Netherlands is temporarily derogating from national budgetary agreements due to the impact of the corona crisis. The government has decided that the measures related to the corona crisis will negatively influence the budget balance. This means a temporary derogation of the Dutch budgetary rules for expenditures on corona measures. Under normal policy, the government continues to adhere as much as possible to normally applicable budgetary rules. There are also exceptions on a European level because of the corona crisis. The general escape clause of the European budgetary rules, as laid down in the SGP, has entered into force. This means that in 2022 Member States do not need to be compliant with (the path towards) their medium-term budgetary objective (MTO), according to the preventive arm of the SGP. The Netherlands is currently not compliant with the MTO, which is temporarily permissible because of the active general escape clause.

As from 2023, when the general escape clause is expected to be lifted, the EC will assess the Stability Programme based on the fiscal policy guidance. These are five qualitative principles that are not related to the path towards the MTO nor the expenditure benchmark based on the numerical requirements. In a formal sense, the reference values of the corrective arm of the SGP are still applicable. In its communication on budgetary policy for 2023, the EC stated that countries with an expected deficit exceeding 3% of GDP in their Stability Programme, should indicate how they are going to reduce the deficit to below the reference value. At the earliest, the EC will only be looking in the autumn whether excessive deficit procedures should be opened.

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).

Stability and Growth Pact

The SGP's general escape clause as a response to the COVID-19 pandemic, gives European Member States the leeway to pursue budgetary policies beyond the scope of the SGP budgetary frameworks. In 2022, the general escape clause allows Member States in the preventive arm (such as the Netherlands) to derogate from the path towards the medium-term objective (MTO), if this does not jeopardize sustainability in the medium-term. Activation of the clause does not suspend SGP procedures. The general escape clause is expected to be deactivated in 2023. This Stability Programme is based on the guidelines relating to the format and content of Stability and Convergence Programmes.[1] This Stability Programme is also in line with the European Commission's (EC) fiscal policy guidance of 2 March 2022.[2]

The preventive arm requires that Member States comply with the structural balance for the medium-term, the medium-term budgetary objective, the MTO. The Netherlands opts for an MTO of -0.75% of GDP. On one hand, this falls in line with the balance between the investments that the Netherlands is making in the future and, on the other hand, the intention of not allowing public finances to fall out of line. Member States who do not comply with the MTO yet, must show sufficient improvement annually in their structural balance towards the MTO. Member States with a structural balance that is more negative than the MTO must adhere to the expenditure benchmark. This benchmark prescribes that non-cyclical expenditure growth, insofar as this is not compensated by a policy-related increase in revenues, lags behind (if the MTO has not been reached yet) or is equal (if the MTO is reached) to the potential growth of the economy. Application of the EC's general escape clause due to corona, however, is a ground for exception to these requirements. As from 2023, when the general escape clause is expected to be lifted, the EC will assess the Stability Programme based on the fiscal policy guidance. These are five qualitative principles that are not related to the path towards the MTO nor the expenditure benchmark based on the numerical requirements. These principles are explained in Chapter 3.

In formal terms, the Netherlands, like all other Member States, also has an obligation to comply with the reference values of the corrective arm of the SGP. The EC states that it does not intend to open excessive deficit procedures in the spring of 2022. The extraordinary macroeconomic and budgetary impact of the corona crisis combined with the current geopolitical situation creates exceptional uncertainty. In the autumn, the EC will reconsider whether excessive deficit procedures should be opened.

The government invests in important societal challenges such as combating climate change, housing and education. For example, the government invests in the building of additional housing and has established a climate fund to contribute to the climate transition. A nitrogen fund has also been set up to reduce nitrogen deposition and to improve natural recovery. In this respect, the government takes steps in the context of the country-specific recommendations. The Recovery and Resilience Plan (RRP) also contributes fully to implementation of the country-specific recommendations. Formal submission of the Dutch RRP is envisaged by the end of July this year.

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[1] European Commission, Specifications on implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes, 5 July 2016.
[2] European Commission, Communication from the Commission to the Council: fiscal policy guidance for 2023 COM(2022) 85 final, 2 March 2022.

National budgetary rules

The Dutch national budgetary framework is based on pursuing a trend-based fiscal policy. The model of trend-based budgeting, which has been used by cabinets since 1994, was designed to absorb economic fluctuations. In order to manage public finances properly, expenditure benchmarks are used which are agreed to at the beginning of the government's term of office. On the revenue side of the budget and with regard to unemployment expenditure, the principle of automatic stabilisation applies: cyclical windfalls are used to benefit the balance and cyclical setbacks to burden the balance. For the corona crisis, however, there is no normal economic cycle. For the sake of public health, the government was forced to intervene directly in the economy by shutting down certain activities and closing down sectors. It is due to the unique character of the corona crisis that the government opted to have temporary measures that are directly related to the corona crisis, negatively influence the budget balance. This means that there was no need for pro-cyclical expenditure cuts, to provide manoeuvrability within the expenditure benchmarks. For normal policy, the government maintains the current budgetary rules to maintain as much calm and predictability as possible.

In the Initial Policy Memorandum, the government adopts the budgetary rules proposed by the 16th Budget Margin Study Group (SBR). Some changes have been proposed in this respect compared to the previous government. Firstly, decision-making on the main features of expenditures takes place in the spring and there is room for making changes relating to purchasing power in the summer. Secondly, a separate investment ceiling has been introduced. This includes the climate fund and nitrogen fund, amongst others. Thirdly, there is communication on the year-on-year horizontal development of expenditure and revenue. Finally, the government takes over the recommendation on dealing with health insurance contributions in the revenue framework. This means that in the spring and in the decision-making process of July and August, a decision must be taken on applying a possible ceiling-relevant windfall in expenditure based on the Dutch Health Insurance Act (*Zorgverzekeringswet, Zvw*).

In relation to the Budget Margin Study Group rules, some adjustments have been made to the budgetary rules. The government applies a positive scenario formula. If public finances develop better than expected, they will primarily benefit government debt. If these benefits are significant, then it is partially designated to tax-relief measures. The positive scenario formula enters into force if the forecast of the actual general government balance is better for the long-term than a balance of –1% of GDP. In addition, a number of technical changes have been made to the rules on risk arrangements and tax arrangements, following comments from the Netherlands Court of Audit.

CHAPTER 2:
ECONOMIC OUTLOOK AND SCENARIOS

The CPB predicts that the Dutch economy will recover rapidly after the corona crisis. According to the latest CPB forecast, the Dutch economy will grow by 3.6% in 2022 and by 1.7% in 2023. In the forecast, the CPB no longer assumes permanent macroeconomic losses as a result of COVID-19. However, the economic developments are particularly uncertain, partly because of the war in Ukraine. In particular, energy prices have risen and are highly volatile; it is unclear to what extent this will continue to have a lasting impact on the (international) economy as a whole. The course of the pandemic is also relevant to economic growth, but its prominence is diminishing.

Economic outlook

The Dutch economy will continue to grow in 2022 and 2023 after the strong economic recovery in 2021. The CPB forecasts economic growth at 3.6% and 1.7% in 2022 and 2023, respectively. All expenditure categories contribute to the recovery; increasing consumption and exports contribute the most. In the forthcoming period, growth will also be strengthened by additional expenditure under the coalition agreement.

The CPB no longer assumes permanent macroeconomic losses as a result of corona. Initially, in line with previous shocks of this magnitude, the pandemic was expected to permanently shift the economic growth path to a lower level, especially as a result of missed investments in (human) capital. The robust recovery in 2021 makes it less likely that this effect will occur; the CPB now assumes – just like international institutions such as the International Monetary Fund (IMF) – that the economy will return to the structural growth path shown prior to the corona pandemic. Basically, it should be noted that the corona pandemic could indeed have significant economic effects, such as shifts in sector structure through accelerated digitisation and reduced capital formation in impacted sectors due to affected buffers. In addition, there are also concerns about the effects on broad-based prosperity, such as psychological issues and learning disadvantages in youngsters as a consequence of school closures.

Table 2.1 Macroeconomic prospects

in % of GDP	ESA Code	2021 (in billions of euro)	2021	2022	2023
1. Real GDP	B1*g	859.1	5.0	3.6	1.7
2. Nominal GDP	B1*g		7.4	7.1	4.8
Components of real GDP					
3. Private consumption expenditure	P.3	357.9	3.5	4.7	1.5
4. Government final consumption expenditure	P.3	227.2	5.5	1.7	2.6
5. Gross fixed capital formation	P.51	184.2	3.5	3.7	3.6
6. Changes in inventories (Δ)	P.52 + P.53	-6.4	0.2	0.3	0.1
7. Exports of goods and services	P.6	721.8	6.6	4.9	4.3
8. Imports of goods and services	P.7	625.6	5.1	5.5	5.5
Contributions to real GDP growth					
9. Final domestic demand		769.3	5.1	3.6	2.3
10. Changes in inventories (Δ)	P.52 + P.53	-6.4	-1.2	0.3	0.1
11. External balance of goods and services	B.11	96.3	1.9	0.1	-0.5

Inflation is particularly high and has been forecast by CPB at 5.2% in 2022 and 2.4% in 2023. Inflation is mainly due to higher energy prices, largely driven by the war in Ukraine, but is also more widely sustained as in rising food prices. Inflation has been forced up by economic effects from the pandemic, such as increasing demand as well as disruptions in global value chains. With a worldwide scale back of COVID-19 measures and emerging economies, increasing demand also causes a worldwide increase in inflation.

Exports are expected to increase by 4.9% this year and imports by 5.5%, but these forecasts are extremely uncertain as a result of the war in Ukraine. The fact that restrictions will also be lifted elsewhere in the world means that world trade is on the rise. As a relatively open economy, the Netherlands benefits from the global economic recovery through trade. The war in Ukraine does, however, create particular uncertainty regarding this development. The volume of trade that the Netherlands has with Ukraine and Russia is meagre in terms of the total trade, thus limiting the risks of direct effects. As a relatively open economy, effects in international value chains can have a relatively strong impact. In order to identify this uncertainty, the CPB has assessed a pessimistic scenario, which is discussed in detail in Chapter 3.

Employment is increasing as the economy recovers; the labour market is historically tight. The number of hours worked is expected to increase by 2.9% this year, which is a powerful driving force for economic growth. Unemployment has declined from 4.2% in 2021 to 4.0% in 2022. Later, unemployment is forecast to rise slightly to 4.4% in 2025. Such a low unemployment is good for the economy and the prosperity of households. At the same time, the tight labour market poses other challenges: companies and organisations are finding it relatively difficult to attract new personnel.

As of 1 April this year, the government will cease with the generic corona support packages. Measures such as the Reimbursement Fixed Costs (TVL), the Temporary Emergency Bridging Measure for Sustained Employment (NOW) and the generic deferral of tax payments are lapsing. Knowing that corona will remain with us for a long time and that generic corona support measures are unsustainable in the long-term, it is necessary that the economy should return to normal dynamics as soon as possible, with corona largely being part of the normal entrepreneurial risk. In fact, ongoing support prevents people from moving on to a job where they can be more productive and where they are needed more urgently. In addition, the current corona support is increasingly ineffective. It leads to competitive disadvantages and maintains companies which would be non-viable under normal circumstances. This undermines the future earning capacity of the Netherlands. The phasing out of the corona support packages and the return to normal economic dynamics are expected to lead to an increase in bankruptcies and job changes. For the time being, it is expected that this will not have a very significant impact on the macroeconomic outlook. In general, this is also conducive to the dynamism of the labour market. In the government's long-term corona strategy, there is only support for long-term, complete closure of companies.

The policy mix of public expenditure shifts from consumer spending to investments in societal challenges for sustainable growth. Government consumption expenditure is lower in 2022 and 2023 than in 2021, partly due to the phasing out of the corona support packages. According to the CPB's forecast, private fixed asset investments are also increasing: by 3.6% in 2022 and 3.7% in 2023.

Table 2.2 Labour market developments

	ESA Code	2021 (Level)	2021	2022	2023	2024	2025
1. Employment (x 1000 persons)		9707.5	1.7	1.5	0.6	1.0	0.6
2. Employment, no. hours worked (in millions)		13721.1	2.2	2.9	0.9	1.1	0.6
3. Unemployment (% of the working population)[3]		407.8	4.2	4.0	4.3	4.4	4.4
4. Labour productivity, persons		88.5	3.0	2.1	1.1	1.0	1.1
5. Labour productivity, no. hours worked		62.6	2.9	0.6	0.7	0.9	1.2
6. Payroll of employees (in billions)	D.1	416.4	3.4	5.6	4.0	5.2	4.5
7. Compensation per employee (€)		30.3	0.1	2.6	3.6	4.1	3.9

As an open economy, the Netherlands is largely dependent on financial and economic developments abroad. Major trading partners of the Netherlands also saw a strongly recovering economy in 2021 and this is expected in 2022 too. For example, GDP growth in the EU averaged 5.9% in 2021 and the CPB forecasts a growth of 4.3% in 2022.

Table 2.3 External assumptions

	2021	2022	2023	2024
Short-term interest rate (annual average)	-0.5	-0.5	-0.1	0.2
Long-term interest rate (annual average)	-0.3	0	0.1	0.2
USD/€ exchange rate (annual average)	1.18	1.14	1.14	1.15
Nominal effective exchange rate*	0.7	-1.1	0.2	0.7
GDP growth, World excluding EU				
GDP growth, EU	5.9	4.3	3.8	3.7
Growth of relevant foreign markets	5.1	4	2.4	1.5
World import volume, excluding EU	7.5	6.6	4.9	3.5
Oil price (Brent, USD per barrel)	11.2	6.8	4.7	3.7

* percentage changes in respect of a basket of trading partners

Economic scenarios in respect of energy prices

Due to the economic uncertainty regarding the fluctuation of energy prices, the CPB has calculated the effects of higher or lower energy prices compared to the basic scenario. In the low-inflation scenario, by this summer the energy prices will return to the level of 2019. In 2022, inflation (CPI) will then be 2.2 percentage points lower and in 2023 it will be 0.4 percentage points lower. In the high-inflation scenario, energy prices remain at the level of early this year in 2022 and 2023, while the basic projection includes a gradual decrease. These higher energy prices lead to a 0.8 percentage point higher inflation in 2022 and to a 0.6 percentage point higher inflation in 2023 compared to the basic projection.

In the short term, inflation has a particular impact on purchasing power. In the basic scenario, average purchasing power is declining by -2.7% in 2022, whereas in a scenario with lower inflation, it is projected to be -0.6% and in a scenario with high inflation -3.4%. This calculation has not yet taken the package of measures of €2.8 billion into account to improve purchasing power. The government has decided to increase the target amount for the energy

[3] 357.5 shows the number of unemployed of the working population x1000

surcharge for approximately 800,000 households earning the social minimum or just above it by €600 (to €800), to reduce VAT on energy from 21% to 9% as of 1 July, and to reduce excise duty on petrol and diesel by 21% as of 1 April.[4]

Table 2.4 Economic scenarios

	2021	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
	basic projection			low inflation		high inflation	
National consumer price index (CPI, %)	2.7	5.2	2.4	3.0	2.0	6.0	3.0
Gross domestic product (GDP, economic growth, %)	4.8	3.6	1.7	4.2	2.6	3.5	1.4
Household consumption (volume in %)	3.5	4.7	1.5	5.8	2.6	4.4	0.9
Capital formation (including inventories, volume in %)	-2.0	5.4	4.4	6.1	5.3	5.3	4.0
Exports of goods and services (volume in %)	6.9	4.9	4.3	5.0	4.5	4.9	4.2
Market sector negotiated wages (%)	2.1	2.7	3.5	2.7	3.2	2.7	3.7
Purchasing power ; statistical ; all households median (%)	0.1	-2.7	1.9	-0.6	1.9	-3.4	1.5
Unemployed working population (level in % of workforce)	4.2	4.0	4.3	3.9	4.1	4.0	4.4

[4] Letter to Parliament Additional 2022 purchasing power measures (Parliamentary Papers II, 2021-2022, 74 083).

CHAPTER 3:
BUDGET BALANCE AND GOVERNMENT DEBT

The CPB forecasts a budget deficit of 2.5% of GDP in 2022. The public debt ratio is expected to decline from 55.1% in 2021 to 53.8% in 2022. This chapter explains the expected budget balances and the debt ratios for the coming years.

Fiscal Policy Guidance for 2023

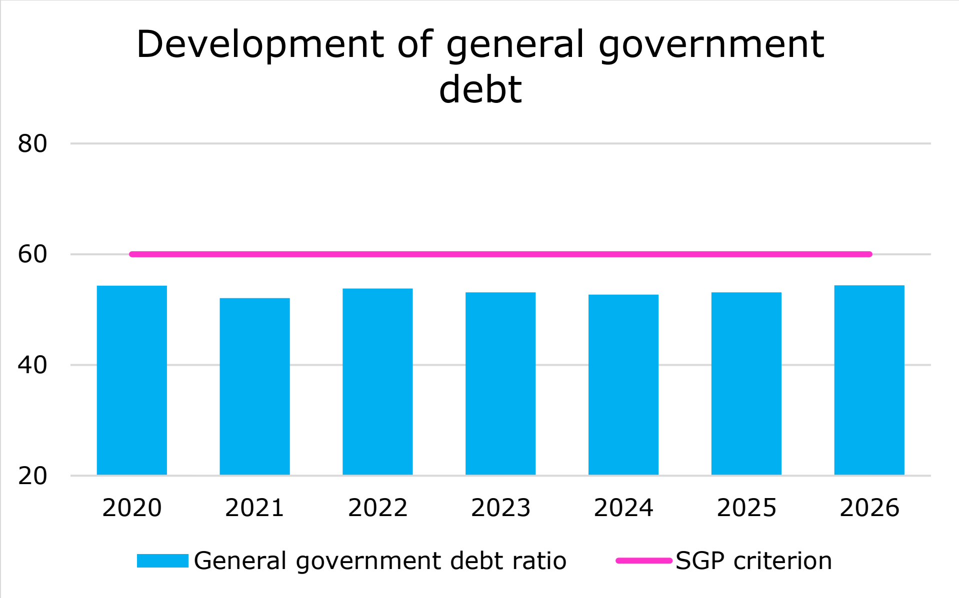
The Fiscal Policy Guidance for 2023 is the EC publication of the principles and implications on the basis of which the Stability Programmes of Member States are assessed.
Firstly, the EC emphasises the importance of policy coordination and consistency. According to the second principle, Member States must pay attention to the sustainability of public finances by way of prudent budgetary policies as well as ensuring economic growth. Thirdly, the EC considers the encouragement of investment to be of vital importance, particularly in the twin transition (green and digital transition). With the fourth principle, the EC calls on Member States to demonstrate in their Stability Programmes how the government debt will develop in the medium-term. The fifth principle distinguishes between high-debt Member States and low/medium-debt Member States. For high-debt Member States, the EC emphasises the need for a gradually declining path. Member States with a low/medium-debt should prioritise investments in the twin transition.

An ambitious investment agenda has been presented in the coalition agreement in order to meet major societal challenges. One of these challenges is climate change. Over the next 10 years, €35 billion will be allocated to a climate and transition fund, to create, among other things, the necessary energy infrastructure and to make the built environment more sustainable. This fund contributes to a climatically-neutral Netherlands and to achieving the targets of the European Green Deal. In addition, a cumulative transition fund of €25 billion will be made available until 2035 to address the challenges of agriculture and nature. The government has thus committed itself to nitrogen reduction, nature restoration, and improving the sustainability of agriculture. In the field of infrastructure, too, several investments have been announced. For example, a structural €1.25 billion has been allocated to remove backlogs in the management and maintenance of roads, bridges, viaducts, waterways and railway tracks. In addition, €7.5 billion will be added to the Mobility Fund to improve accessibility of the 14 urban development areas. Investments are also being made in housing: the government is accelerating the building of up to 100,000 homes per year. Special attention is being paid to first-time buyers, senior citizens and middle-income households. Moreover, several investments in education have been announced. To improve educational quality and to enhance equality of opportunity, a structural investment of €1 billion per annum is being made. In addition, a total of €5 billion will be invested over the next decade to promote free and impartial research and development. Along with investments in the coalition agreement, the National Growth Fund was established in 2020 to invest in the structural and sustainable earning capacity of the Dutch economy. In the years 2020 – 2024, €20 billion will be made available for projects in the fields of knowledge development and research, development, and innovation.

Government debt

According to Statistics Netherlands, government debt at the end of 2021 amounted to 52.1% of GDP and therefore remained below the prescribed European criterion of 60%. This outcome is lower than the CPB forecasts. On the basis of CPB forecasts, the debt ratio of 55.1% of GDP is expected to drop to 53.8% of GDP in 2022 and to drop further to 52.7% of GDP in 2023. This decline is due to the denominator effect: due to the high inflation rate and forecast economic growth, the nominal size of the Dutch economy increases. Hence, the level of debt remains below the prescribed European criterion of 60% of GDP. This is consistent with the fourth principle of the fiscal policy guidance on medium-term sustainability. The expected medium-term debt development is shown in Figure 3.1.

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

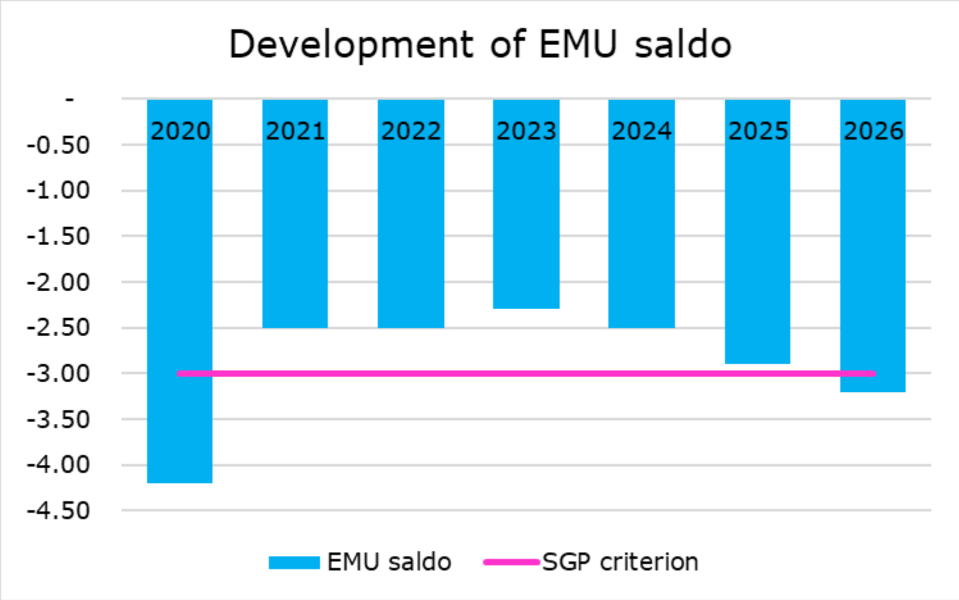


Budget balance

According to Statistics Netherlands, the budget deficit was 2.5% of GDP in 2021. This was lower than the Central Economic Plan (CEP) projection, where 4.4% of GDP was expected. The CEP projection was published earlier than the Statistics Netherlands' outcomes, so the CEP figures do not yet contain outcomes for 2021. The deficit is expected to remain at 2.5% of GDP in 2022. It is expected to drop to 2.3% in 2023. The government has announced an ambitious investment agenda, which will invest in major societal challenges. Hence, the government follows the third principle in the fiscal policy guidance, being the prioritisation of investments in societal challenges such as digitisation and climate. The CPB also expects a general government balance of 2.9% of GDP in the period 2022–2025, thus keeping the budget balance within the European reference value of 3% of GDP.

The projected general government balances of 2022 and 2023 remain below the European reference value of 3% of GDP. In 2026, however, the general government balance will exceed this reference value. This is mainly due to the planned investments, which are explained later in this chapter. Development of the balance is shown in Figure 3.2. In the fiscal policy guidance, the EC announced that it would not open excessive deficit procedures this spring based on the 3% reference value. This is because of exceptional uncertainty due to the geopolitical situation and the extraordinary budgetary and economic impact of the corona crisis. Member States with expected overspending must explain how they will return to the reference value of 3% of GDP. In the autumn, the EC will reconsider opening any excessive deficit procedures.

Figure 3.2 Development and projection of general government balance (in % of GDP)

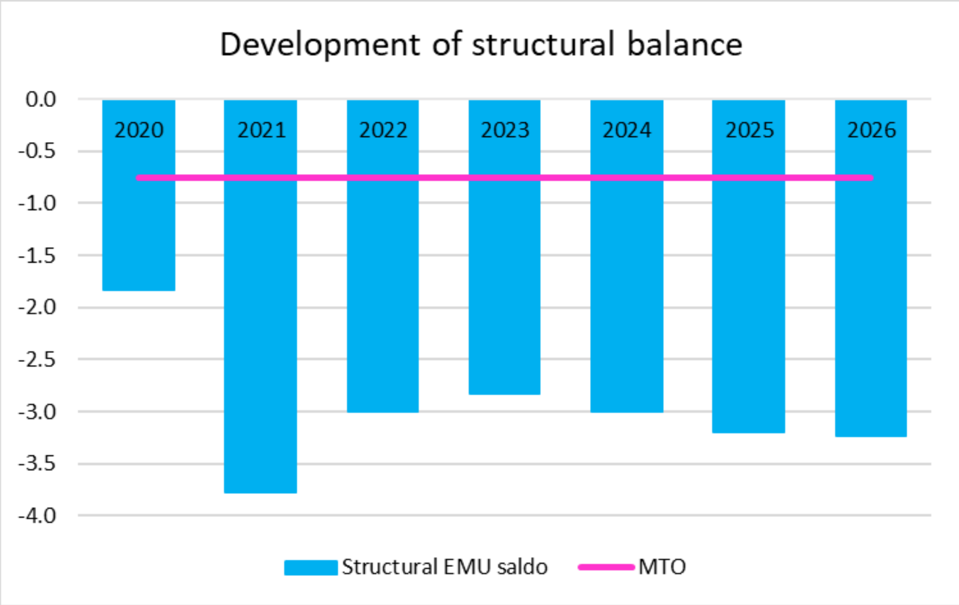


The preventive arm of the SGP requires that Member States comply with the structural balance for the medium-term, the MTO (medium-term objective). The Netherlands opts for an MTO of -0.75% GDP. On one hand, this falls in line with the balance between the investments that the Netherlands is making in the future and, on the other hand, the intention of not allowing public finances to fall out of line. Member States who do not comply with the MTO yet, must show sufficient improvement annually in their structural balance towards the MTO. Member States with a structural balance that is more negative than the MTO must also adhere to the expenditure benchmark. This benchmark prescribes that non-cyclical expenditure growth, insofar as this is not compensated by a policy-related increase in revenues, lags behind (if the MTO has not been reached yet) or is equal (if the MTO is reached) to the potential growth of the economy. Application of the EC's general escape clause due to corona, however, is a ground for exception to these requirements up to 2022. As from 2023, when the general escape clause is likely to be lifted, the EC will, according to the 2023 fiscal policy guidance, assess the Stability Programmes for the time being based on the five qualitative principles, but not based on the numerical requirements relating to the path towards the MTO nor the expenditure benchmark.

The coalition agreement contains ambitious investments in major societal challenges. Additional expenditure will lead to a deterioration in public finances in the short term. The government has deliberately opted for this based on the belief that investments will help society and that deferral in future will lead to higher costs and loss of broad-based prosperity. The policy mix of public expenditure shifts from consumer spending to investments for the purpose of major societal challenges. According to the cabinet, balance is found between the required investments and the risks for the government finances with the budgetary arrangements in the coalition agreement. However, there is tension with the European budgetary norms as stated in the SGP. Investments tentatively lead to higher expenditure and coincide with an increase in expenditure related to ageing of the population. The additional expenditure is reflected in the structural general government balance, which is expected to decrease to -3.2% of GDP in 2030. Since most investments are sporadic, deterioration of the structural balance resulting from them will also be tentative. Moreover, additional expenditure is expected to lead to a greater earning capacity and higher productivity in future. Enhancing sustainable growth can also benefit public finances. The increase in government debt remains limited notwithstanding the additional expenditure. The CPB forecasts an increase to 61% of GDP in 2030. In the coalition agreement, the government announced that it will take measures to get the debt on a descending path, including spending reductions in the care sector. All in all, as the additional expenditure is necessary, the government considers the risks of the temporary deterioration of the government balance acceptable.

Development of both the government debt and government deficit remains uncertain. Projections and outcomes may vary substantially. The outcome published on 25 March 2022 by Statistics Netherlands shows that the deficit was 2.5% of GDP for 2021, whereas in the CEP, the CPB projected a deficit of 4.4% of GDP. The outcome of the debt amounted to 52.1% of GDP for 2021. This is 3 percentage points lower than the projected 55.1% of GDP.

Figure 3.3 Development and projection of structural balance (in % of GDP)



In its country-specific recommendations for the Netherlands, the Council of the European Union also stressed the importance of investing in infrastructure, climate and housing. The government is responding to this with the investment agenda presented. Furthermore, this is in line with the principles of the fiscal policy guidance, specifically investing in sustainable growth and the twin transition. Partly due to this ambitious investment agenda the budget deficit and government debt also increase, particularly in the years following this government's term of office. The 2022 CEP shows that the budget deficit increases to 3.5% of GDP and the debt to 61% of GDP in 2030.

The coalition agreement announced measures to confine the increasing debt, particularly in terms of rising healthcare costs. For example, the government announced that it will progressively separate housing and care for the elderly in the care sector. This will encourage the elderly to live at home for longer. It is estimated that this measure will structurally save €1.2 billion. In concluding the Comprehensive Care Agreement, a structural saving of €1.4 billion is expected. This includes care-specific arrangements and budgetary frameworks.

Aftermath to the corona crisis

The corona crisis has had a serious impact on the national budget and will still resonate somewhat in 2022. In 2020 and 2021, the government has so far spent almost €70 billion (see Table 3) on additional corona-related expenditure to respond to the crisis as best as possible and to curtail the economic consequences. In 2022, too, more than €11 billion is expected to be spent to support society, including on education to eliminate educational backlogs.

Additional public expenditure in the form of corona support and recovery packages are expected to have contributed to a strong recovery of the Dutch economy.
Due to the contact-restricting measures during the corona crisis, both services and economic activities were halted in many sectors. These corona support and recovery packages prevent businesses and their corresponding employment from going bankrupt due to the sudden restrictions on services. Tax measures were also taken to cushion the impact for entrepreneurs.

The government has also tried to reduce uncertainties in the economy with various risk arrangements. Chapter 5 explains the policy on risk arrangements in more detail.

The budget deficit is projected at 2.5% of GDP in 2022. Compared to the outcome of 2021 by Statistics Netherlands, the deficit remains the same. By (largely) ending corona support, in the CEP the CPB projected an improvement in the budget deficit from 4.4% of GDP in 2021 to 2.5% of GDP in 2022. This is partly due to discontinuation of the corona support and recovery packages. Development of the budget deficit also depends on economic growth due to the denominator effect. The evolution and aftermath of the pandemic will remain relevant to development of the GDP in forthcoming years, but its significance will diminish. It is uncertain whether new virus variants will lead to contact-restrictive measures again. However, the impact of successive lockdowns on the macroeconomy is diminishing: the slowdown is more confined and the economy recovers faster.

Table 3. Expenditures on corona measures per budget chapter 2020 – 2022

In millions of euros	2020	2021	2022
Total	**27,800**	**36,284**	**14,687**
Home Affairs	46	214	24
Foreign Affairs	7	19	0
Defence	43	40	21
Economic Affairs and Climate	2,508	6,928	1,907
Finance and National Debt	298	546	375
Municipalities Fund	849	1,205	104
Infrastructure and Water Management	803	1,647	386
Justice and Security	137	241	39
Kingdom Relations and BES Fund	50	57	0
Agriculture, Nature and Food Quality	245	234	90
Education, Culture and Science	716	4,325	3,743
Social Affairs and Employment	16,541	9,902	3,242
Public Health, Welfare and Sport	5,557	10,912	3,585

CEP's additional scenario following the war in Ukraine

The CPB has calculated the effects on the Dutch economy of the ongoing threat and uncertainty regarding the war in Ukraine. The war causes a great deal of human suffering. The EU faces major challenges, including refugee flows, sanctions against Russia, as well as possible countersanctions. The sanctions imposed include, for example, the freezing of assets of a number of Russian banks and exclusion from the SWIFT payment systems. There are also economic consequences. These uncertainties and risks have a negative impact on the expected economic growth in Europe, including a decline in consumer confidence as well as nervous unrest in the financial markets. The greatest effect for the Netherlands is the rising energy prices, resulting in higher inflation and a deterioration in purchasing power. The Netherlands is dependent on Russian gas for about 15%. If gas supplies from Russia are restricted or closed down, then economic consequences may be substantial.

Due to the Dutch economy's open nature, the Netherlands is expected to be hit harder than the economies of the eurozone as a whole. In the negative CEP scenario, economic growth will drop to 1.9% in 2022 (compared to 3.6% in the basic projection) and the Dutch economy will fall into a short-term recession. This will be caused by prolonged high prices for energy and raw materials, a sharp decline in trade with Russia and Ukraine, and negative effects on consumer and producer confidence. In 2022, the projected CPI inflation is 7.9% and purchasing power will drop by 5.1%. In the scenario, the budget deficit increases to 3.1% of GDP in 2022 and 3.5% of GDP in 2023. This would exceed the European reference value of 3% of GDP. The projection does not take into account any additional expenditure on defence, the provision of reception facilities to refugees, nor any higher gas revenues.

CHAPTER 4:

COMPARISON WITH PREVIOUS STABILITY PROGRAMME

In comparison with the Stability Programme of April 2021, projections as a result of the impact of the COVID-19 crisis have been extensively adjusted. The actual 2021 figures are far more favourable than was expected a year ago. For example, the budget deficit amounted to 2.5% of GDP compared to a forecast 5.9% of GDP. The relative general government debt is expected to decrease slightly as from 2022 and to rise again slightly from 2024 onwards. The actual development, however, is surrounded by uncertainty and is sensitive to general economic development.

Comparison with the 2021 Stability Programme

The Dutch economy is in a better position than was predicted at the time of the 2021 Stability Programme. Table 4 shows how current forecasts for GDP growth, general government balance and general government debt have been adjusted in respect of projections in the previous Stability Programme. The economic growth achieved in 2021 was 5.0% compared to a forecast growth of 2.2%. Growth forecasts for 2022 and 2023 have been adjusted slightly. Economic recovery is expected to be strong in 2022, while growth is expected to normalise in 2023 and 2024.

The general government balance was considerably lower than expected in 2021; for the years 2022 and beyond, the general government balance is forecast to be higher than expected at the time of the previous Stability Programme. The outcome of the general government balance in 2021 was -2.5%, whereas the previous Stability Programme forecast a balance of -5.9%. The strong upturn of the Dutch economy this year led to higher tax revenues and lower expenditure on corona support packages. For the years 2022, 2023 and 2024, the expected general government balance is slightly higher than last year's forecast. The government has decided to use available budgetary manoeuvrability to invest in relevant societal challenges, such as climate, education and the housing market. These investments will partly be at the expense of the general government balance, but also improves sustainable growth of the Dutch economy in the medium- and long-term.

General government debt is lower than expected at the time of the previous Stability Programme. In 2022, the general government debt is expected to be 53.8%, instead of the 56.9% expected last year. The debt is currently expected to drop to 52.7% in 2024; in the previous Stability Programme it was expected to drop to 55.3%.

Table 4. Divergence from Stability Programme 2021 Stability Programme

in % of GDP	ESA Code	2021	2022	2023	2024
Real GDP growth					
Update April '21		2.2	3.5	1.8	1.4
Current update		5.0	3.6	1.7	2.0
Difference		2.8	0.1	-0.1	0.6
General government balance	EDP B.9				
Update April '21		-5.9	-1.7	-1.4	-1.1
Current update		-2.5	-3.0	-2.8	-3.0
Difference		3.4	-1.3	-1.4	-1.9
General government debt					
Update April '21		58.6	56.9	56.0	55.3
Current update		55.1	53.8	53.1	52.7
Difference		-3.5	-3.1	-2.9	-2.6

CHAPTER 5:
SUSTAINABILITY OF PUBLIC FINANCES

In addition to short-term development of the general government balance and general government debt, the government attaches importance to sustainability of Dutch public finances in the medium- to long-term. Both the CPB and the European Commission (EC) regularly calculate this sustainability. This chapter discusses the potential determinants of the sustainability balance and compares the results of the various analyses. An overview is also presented of the National government's contingent liabilities. These liabilities could have budgetary consequences in the future.

Sustainability factors

The CPB assesses the sustainability of public finances based on the sustainability balance and a projection of government debt in the year 2060. The sustainability balance indicates whether current government arrangements are sustainable in future, without expenditure needing to be reduced or taxes needing to be raised. Assumptions must be made for quantification of the sustainability of public finances. In calculating the sustainability balance, the assumption of 'consistent arrangements' plays an important role. Consistent arrangements are based on the principle that interrelationships between various age groups in society remain the same in terms of income, tax burden and the benefits of public services such as care and education. As part of lifetime earnings, every future generation will benefit equally from the government. Equal benefit from public services also means that healthcare expenditure automatically increases as a percentage of GDP when society ages and thus becomes more in need of care.

In an analysis of the effects of the coalition agreement, the CPB projects a sustainability balance of -4.3% of GDP. This analysis concerns a *partial* calculation of the financial implications of the coalition agreement, which does not take into account the general equilibrium effects of proposed government policy. Due to the announced policy package, the balance deteriorates in this analysis by 2.7% of GDP compared to the baseline of -1.6% of GDP. If the CPB assumes that anticipated extraordinary expenditure is actually extraordinary, the sustainability balance will be -3.6%. Deterioration is caused by the structural additional expenditure on defence, education, climate and social security, among others. A number of anticipated policy measures in the care sector have not been included in this analysis, because the CPB considers that, without further development, the preconditions are still inadequate to achieve the planned savings. Among other things, the government has proposed to restrict the future growth of healthcare expenditure to ensure long-term sustainability of public finances.

The CPB estimates that government debt can grow to 75% or 92% of GDP in 2060, depending on the assumption of the duration of proposed investments. The government is investing in, among other things, sustainability and education which are sporadically provided for. The CPB also calculates debt developments until 2060, so too on the assumption that these investments will be made structurally, as in the calculation of the sustainability gap. In the forecast long-term debt developments, the similarly proposed cutbacks in the care sector have not been included, because the CPB considers that, without further development, the preconditions are still inadequate to achieve the planned savings.

Development of public expenditure and revenue depends to a large extent on demographic developments. Table 5.1, for example, shows that the proportion of over-65s in our total population will increase to more than a quarter by 2040. This is why public pension expenditure (AOW) and healthcare expenditure will increase in upcoming decades. Although reforms already undertaken in the area of healthcare and pensions cause an easing of the increase, these public expenditures will continue to rise in future. While concurrently, government revenues increase, particularly through policies implemented with effects after 2025, such as the scale down in the rate of mortgage interest tax relief and the limited indexing of the second tax bracket for pensioners[5]. Extraordinary, high expenditures could also affect the sustainability balance, such as expenditures on corona measures. Additional loans have been made to cover these expenditures, resulting in a higher national debt and higher interest expenses.

Table 5.1 Sustainability of public finances

in % of GDP	2010	2020	2030	2040	2050	2060
Total expenditure	48.2	48.4	47.9	52.7	55.3	57.3
of which:						
Age-related expenditure	20.8	22.3	24.0	26.1	26.6	26.2
Pension expenditure	6.2	7.2	7.6	8.2	8.0	7.8
Social security expenditure	11.7	12.0	12.9	13.5	13.2	13.0
Old-age and early retirement pension	4.5	5.2	5.6	6.3	6.0	5.7
Other pensions (occupational disability, surviving relatives)	1.7	2.0	2.1	1.9	2.0	2.1
Occupational pensions (government)	0.0	0.0	0.0	0.0	0.0	0.0
Healthcare (cure)	5.9	6.5	6.8	7.2	7.3	7.1
Long-term care	3.5	3.7	4.6	5.5	6.1	6.4
Education expenditure	5.1	4.9	5.0	5.2	5.2	5.0
Other age-related expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure	1.8	0.7	1.6	4.5	6.6	8.9
Total revenue	43.2	44.3	43.7	45.2	45.5	45.5
of which: property income	2.7	0.5	0.6	0.7	0.8	0.8
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	227.1	199.7	195.9	185.5	177.2
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	6.0	7.9	7.5	6.9
Assumptions						
Labour productivity growth	1.5	-1.1	1.7	0.8	0.9	1.1
Real GDP growth	1.0	-3.8	1.7	1.0	1.3	1.3
Participation rate (males) (15–64)	85.4	86.1	88.5	88.9	88.7	88.6
Participation rate (females) (15–64)	72.0	77.9	82.2	83.8	84.6	85.4
Total participation rate (15–64)	78.7	82.0	85.4	86.4	86.7	87.0
Unemployment rate (20–64)	4.5	3.8	4.3	4.3	4.3	4.3
Population aged 65+ as % of total population	16.2	20.5	24.1	26.1	25.7	26.1

Source: CPB

The EC also forecasts the sustainability of EU Member States, including that of the Netherlands. The EC forecasts two different sustainability balances and publishes them in the Debt Sustainability Monitor (DSM). On the one hand, there is the S1 indicator, which shows how much budgetary manoeuvre a Member State needs over the next five years to reach a debt ratio of below 60% in 15 years' time. The Netherlands has a deficit of 0.1% of GDP in the 2020 DSM. On the other hand, there is the S2 indicator, which is similar to the sustainability balance calculated by the CPB and indicates long-term sustainability. According to this indicator, the Netherlands has a sustainability gap of 3.3% of GDP in the 2020 DSM. The 2021 DSM has not yet been published.

[5] For an overview, see section 3.5, *Zorgen om Morgen* [Caring about Tomorrow], CPB 2019.

The EC rates both sustainability balances as an average risk. The EC, just like the CPB, concludes that the medium- to long-term sustainability deficits are caused by higher expenditure on pension incomes and (prolonged) care due to ageing of the population.

Look ahead to 2030

According to the CEP projection, the debt ratio is expected to rise temporarily in the years after the government's term of office to 61% of GDP and the budget deficit to 3.5% of GDP in 2030. This is partly caused by high additional expenditure that continues after the government's term of office, such as amounts for both the climate and nitrogen funds, as well as investments in education. According to the government, some of these additional expenditures are of a temporary nature. GDP growth is also expected to slow down due to a lower growth in labour supply and the gradual cooling down of the economy. Furthermore, costs related to population ageing continue to rise, such as the General Old Age Pension (AOW) and prolonged care. A marginal note here is that the announced investments will also have benefits, leading, for example, to a better climate and environment, as well a higher growth potential in the long-term. However, expenditures will rise much faster than revenues, increasing both the deficit and debt towards 2030.

Contingent liabilities

Policy in respect of contingent liabilities under risk arrangements is set out in the government's budgetary rules. A guarantee is an example of a conditional financial government liability to a third party outside the government. This liability is only payable if a certain circumstance (outcome of a risk) arises for the counterparty. Although new risk arrangements are sometimes necessary, the government acts in the most cautious manner possible when concluding the new risk arrangements. After all, risk arrangements involve a conditional financial liability that entails risks for the budget.

Hence, a 'no, unless' policy applies in respect of risk arrangements. In doing so, the government not only looks at new arrangements, but is also cautious (in the relaxation of) existing arrangements. In principle, all arrangements will have a sunset clause. In addition, a government guarantee scheme almost always has a maximum, what is known as a ceiling. This ceiling may be an annual ceiling (maximum number of guarantees to be granted per year) or a total ceiling (no more guarantees to be granted than the ceiling).

To arrive at a thorough weighing up of the risks involved in a risk arrangement, an assessment framework has been developed[6]. Three key elements of the assessment framework are:

- Reasons for government intervention and choice of instrument (effectiveness and necessity);
- Governance of risks, both ex-ante and ex-post;
- Pricing of the risk including both implementation costs and costs of losses.

The Assessment Framework for Risk Arrangements is always sent to parliament when assessing a new risk. A second opinion will be requested from an independent, specialist party with regard to risk governance and the setting of premiums for large and complicated risks.

During times of crisis, risk arrangements, such as guarantees and loans, could be an efficient way to temporarily dispel increased risks in the market. In view of the exceptional nature of the corona crisis, in addition to existing arrangements, there were sixteen additional guarantees plus twelve loans in 2021. In 2021, the corona-related guarantees amount to approximately €38 billion, of which approximately €33 billion consists of international guarantees Support to mitigate Unemployment Risks in an Emergency (SURE) and Next Generation EU (NGEU). Considering the urgency and severity of the crisis, the Dutch government has decided to temporarily derogate from three common principles within the risk arrangements policy. For

[6] Government Assessment Framework Risk Arrangementshttp://wettenpocket.overheid.nl/portal/0ff0f42b-2a70-45b7-a9c9-3b4253b292e7/document/TOETSINGSKADER%20RISICOREGELINGEN%20RIJKSOVERHEID.pdf

example, in the first instance, the extent to which premiums for risk arrangements matches market requirements has been examined less strictly. In the second instance, the corona risk arrangements are covered by general government and not by a specific ministry. And thirdly, decisions regarding risk arrangements have been taken much faster than usual because of the urgency of the corona crisis.

The total amount of outstanding public guarantees amounts to €211.8 billion in 2021. This is a decrease of around €23 billion compared to 2020. In 2020, the total amount was €233.4 billion, of which €183.2 billion were ordinary guarantees. In 2022, the outstanding guarantees are expected to be €210.9 billion. Approximately €41 billion of this is still corona-related, of which €33.2 billion consists of guaranteed for the European recovery plans SURE and NGEU. The development of guarantees in 2021 compared to 2022 is shown in Table 5.2. The guarantees specifically mentioned all have a present risk that is > €0.5 billion and are associated with the financial sector. Through the financial sector, these guarantees assist the real economy abroad and stem from international agreements, such as the Next Generation EU (NGEU), the IMF and international development banks. The total amount of public guarantees as a share of the GDP has decreased compared to 2020: from 29.2% of GDP to 24.6% of GDP.

Table 5.2 Public guarantees

In % of GDP	2020	2021
Public guarantees	29.2	24.6
of which: associated with the financial sector	22.5	19.5
Asian Infrastructure Investment Bank (AIIB)	0.1	0.1
DNB - participation in IMF capital	5.4	3.5
European Bank for Reconstruction and Development (EBRD)	0.1	0.1
European Financial Stabilisation Mechanism (EFSM)	0.3	0.3
European Financial Stability Facility (EFSF)	4.3	4.0
European Investment Bank (EIB)	1.5	1.4
European Stability Mechanism (ESM)	4.4	4.1
Development Finance Company (FMO)	0.7	0.6
EU Balance-of-payments (BoP) assistance	0.5	0.4
Next Generation EU (NGEU)	3.4	3.2
Single Resolution Fund	0.5	0.5
Support to mitigate Unemployment Risks in an Emergency (SURE)	0.8	0.7
World Bank	0.6	0.6

Source: 2021 Annual Financial Report

Aside from guarantees, the Netherlands also has other conditional liabilities, namely indirect guarantees. An overview of the outcomes in 2020 and 2021 is shown in Table 5.3. This concerns a total rounded off sum of €286 billion in 2021. This figure is expected to rise to approximately €311 billion in 2022. The main reason for this rise is that 70% of the total number of indirect guarantees is part of the Homeownership Guarantee Fund (*Waarborgfonds Eigen Woning, WEW*), covering the National Mortgage Guarantee (*Nationale Hypotheek Garantie, NHG*). Due to the upward trend in housing prices , and thus the value of mortgages, the present risk in the NHG scheme increases.

The risk of indirect guarantees essentially differs from risk that the government runs for 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 designated indirect guarantee fund, so that the government merely acts as an indirect guarantor. Secondly, the financial security of indirect guarantees have multiple layers, which limit risks for the government. For example, participants in the Guarantee Fund for the Healthcare Sector (*Stichting Waarborgfonds voor de Zorgsector, WFZ*) and the Social Housing Guarantee Fund (*Waarborgfonds Sociale Woningbouw, WSW*), have an obligation to support the fund financially if the fund's equity drops to below a certain level, known as the liability. Only in an extreme case can the fund rely on the government. A fund then gets an interest-free loan from central government, sometimes together with local and regional authorities. This loan must be repaid.

Table 5.3 Indirect guarantees

In millions of euros	2020	2021
Total	**285,138**	**285,868**
Guarantee Fund for the Healthcare Sector	6,460	6,278
Social Housing Guarantee Fund (WSW)	81,284	83,262
Homeownership Guarantee Fund (WEW)	197,394	196,328

Source: 2021 Annual Financial Report

CHAPTER 6:
QUALITY OF PUBLIC FINANCES

Securing the quality of public finances is essential for an effective and efficient deployment of public funds. Evaluations and other impact studies are not only necessary for accountability of policy, but also for gaining an insight into the functioning of policy. In the period 2018-2021, the previous government worked on the 'Inzicht in Kwaliteit' ['Insight into Quality'] operation to improve the understanding of efficiency and effectiveness of government policy. These insights are applied in creating new policy and to continuously improve current policy.

Policy evaluation

In the Netherlands, we have a government-wide evaluation system to gain insight into the quality of public finances. This evaluation system focuses on the system of laws, actors and instruments aimed at gaining insight into the quality of policy choices, the implementation of these choices, and the results achieved. Ministers are responsible for regularly evaluating their policy areas. In addition, there are Interdepartmental Policy Reviews (IBOs) and Broad-based Social Reconsiderations (BMHs) that map out a broad spectrum of alternative policy areas. Another instrument in the evaluation system is the Social Cost Benefit Analyses (MKBAs) which are carried out before the start of certain major projects. In order to improve policy evaluation, the previous government set up the '*Inzicht in Kwaliteit*' operation. This chapter contains an overview of the reflections and lessons of this operation and highlights a number of instruments in the evaluation system.

'Inzicht in Kwaliteit' ('Insight into Quality') operation

The objective of the operation is to gain a better understanding of policy results and to use these insights better to enhance the socially added-value of policies. This objective has been elaborated in three change assignments in the progress reports: strategic evaluation to gain more insight during the entire policy cycle; continuous improvement to make full use of insights for redirecting or improving; and learning together to gain more insight and leverage in collaboration. The operation consisted of three tracks:

1. **Ministerial initiatives**: In cooperation with the ministries, the operation has set up actual initiatives aimed at enhancing the impact of policies. The initiatives differ greatly in their design and scope, but are roughly divided into three categories: 1) policy experiments; 2) setting up a monitoring or evaluation structure; and 3) innovation in the execution of evaluations or data analyses. The initiatives have provided various types of lessons on what is needed to carry out good evaluations and monitoring, in the often imperfect research environments.
2. **Strengthening the evaluation system**: Aside from specific ministerial initiatives, efforts have also been made to strengthen the government-wide evaluation system. These improvements have been elaborated in four substreams:
    a. *Improve the Strategic Evaluation Agenda of ministries*:
    For this purpose, the Strategic Evaluation Agenda (SEA) instrument has been developed, which enables policy departments to plan ahead in a structured way in a timely manner. This instrument has now been introduced government-wide.
    b. Improve substantiation and ability to evaluate in policy preparation:
    Several tools have been introduced for this purpose. The most important is a mandatory substantiation of (financially significant) policy proposals to the Dutch House of Representatives in terms of efficiency and effectiveness as well as the inclusion of a monitoring and evaluation plan.
    c. Regularly map out policy alternatives for major issues:
    Making use of IBOs and BMHs means that various policy options can be mapped out for decision-making.
    d. Working in a structured manner on improving working methods within existing frameworks:

In order to analyse a policy topic *ex durante*, a new instrument has been developed: the Public Valuation Scan (PWS).

3. **Supporting behavioural change, knowledge sharing and skill building:** In addition to strengthening the evaluation system, achieving the change assignments in the '*Inzicht in Kwaliteit*' operation requires effectual capacity and skills of employees. It is also essential to have understanding and conviction at policy departments. So, more attention is given to supporting ministries in the required behavioural change. In doing so, several instruments have been introduced:
    a. Organising conferences and workshops
    b. A policy evaluation toolbox
    c. A training programme *Monitoring, Learning and Evaluating*

Lessons from the 'Inzicht in Kwaliteit' operation

The operation's activities have been rounded off. The main findings are summarized below. More information can be found in the report: *Reflecties en lessen '2018-2021 Inzicht in Kwaliteit'* [Reflections and lessons from '2018-2021 Insight into Quality'][7]

- **Leeway to experiment, learn and improve**: In addition to ex-post evaluation of the effectiveness of conducted policy, it is important to make a clear assessment of the policy's objectives and to monitor in the interim whether the right approach is being taken. In this, it may be beneficial to experiment with this. Experimentation helps to try new practices on a small scale, where possible, to continue and, if necessary, to adjust in time.
- **Make explicit objectives and expected operation of policies**: It is important to define, as early as possible in policy-making, how the policy is expected to lead to the envisaged objective, what side-effects there could be and what other factors play a role. Research into how policy works in practice is needed to understand policy effectiveness and update where necessary.
- **Prioritise research into the operation of policies**: It is important to involve policy officers in the design and implementation of research, so that the research question and outcomes are in line with the need for having insight. It is also important that policy makers have the right tools and develop skills to conduct research effectively and efficiently.
- **Balance between customisation and uniformity**: A balance must be struck between existing evaluation rules and room for flexibility. In this, it is necessary to define frameworks that require a high quality content, but not to prescribe too closely which design or timing is appropriate.

Policy-making and policy-evaluation instruments

There are various instruments to support policy making and policy evaluation. Some of the instruments are explained in more detail below.

Strategic Evaluation Agenda

Based on the 2016 Government Accounts Act, each minister is responsible for regularly examining the effectiveness and efficiency of policies pursued. In a previous analysis of the evaluation system, common practice shows that policy audits do not always lead to a good picture of the effectiveness and efficiency of policies pursued.[8] In-depth research by SEO Amsterdam Economics (*Stichting voor Economisch Onderzoek, SEO*) shows that two-thirds of policy audits make statements about effectiveness and only one-third (also) about efficiency. The conclusions on effectiveness and efficiency are of a varying quality. According to SEO, taking into account the complexity of research into many policy areas, more insight should be possible.

[7] *Reflecties en lessen '2018-2021 Inzicht in Kwaliteit'* [Reflections and lessons from '2018-2021 Insight into Quality'], 30 April 2021 [Reflecties en lessen - Inzicht in Kwaliteit 2018-2021 (overheid.nl)]
[8] Detailed in Annex 2 to the first progress report (Parliamentary Papers II 2018/19 31865 no. 126) and the research '*Beleidsdoorlichtingen belicht*' [Policy Audits highlighted] by SEO in Annex 3.

Following the SEO study, development of a ministerial Strategic Evaluation Agenda (SEA) was started. The aim of the SEA is to gain better and useful insights into the (conditions for) effectiveness and efficiency of policies, making use of these insights, and therefore increasing the socially added-value of policies. The SEA provides an overview of the most important policy topics of a ministry, an explanation on the need for having insight into each topic, and appropriate specified attention for the evaluation research. This specified attention makes insights clear for each topic on how the most insight is gained within the (conditions for) effective and efficient policies and how they are reported. The existing policy audit is included in the SEA, as an obligation to report the most important conclusions, once every 4-7 years for each topic.

Regular reporting will be reviewed for insights into the effectiveness and efficiency of policies. Insofar as is relevant, the operation of various policy instruments are also assessed on coherence. This often happens on the basis of underlying evaluation research, supplemented with other sources and analyses. In the past few years the study design of this type of regular reporting (formerly policy audits) was shared with parliament in advance of Budget Day. In this way, parliament is able to pose questions and make remarks on the study design beforehand.

In the 2021 budget, ministries gained their initial practical experience as a result of an improvement strategy towards the SEA. This improvement strategy was customised for each ministry and therefore looked different for each ministry. As a result of the lessons in the first improvement strategy and the demand for further specification and formalisation of the context, an SEA framework has been drawn up[9]. This framework forms the basis for continued development of the SEA in the years ahead. Moreover, this framework is the starting point for the necessary adaptations to the Regular Evaluation Research Regulations (RPE) and the National Budget Regulations (RBV).

Interdepartmental Policy Review

Every year a number of Interdepartmental Policy Reviews (IBOs) are conducted on a number of policy areas. 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, addressing policy alternatives for a social issue. IBOs are submitted to the Dutch House of Representatives, which include the government's appreciation of the findings. In 2021/2022, six new IBOs were launched, including care for the elderly and juvenile crime. The remits were published in the Annex to the 2021 Autumn Memorandum and the 2022 Budget Memorandum.

Broad-based Social Reconsiderations

In 2019/2020 (before the corona crisis) sixteen Broad-based Social Reconsiderations (BMHs) were carried out across the board of the public sector.[10] In preparation of a following economic downturn or economic crisis, the Dutch House of Representatives at the time asked the government to ascertain effective policy options and reforms including all the pros and cons. Based on the BMHs, sixteen official working groups have been assisted by external experts, in elaborating the options for both investments and intensifications as well as reforms and savings. The topics range from a future-proof healthcare system to climate change and future-proof mobility. The ultimate aim is to make informed choices possible in future by providing an insight into effective policy and implementation options, and their possible consequences, without judging the political desirability.

Analyses of social costs and benefits

Analyses of social costs and benefits (MKBAs) could be 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. For this purpose, all social costs and

[9] Detailed in Annex 2 to the fourth progress report '*Inzicht in Kwaliteit*' (Insight into Quality) operation, Parliamentary Paper 31865, no. 184

[10] Reports on Broad-based social reconsiderations, 22 April 2020, *Rapporten Brede maatschappelijke heroverwegingen | Kamerstuk | Rijksoverheid.nl* [Reports on Broad-based social reconsiderations | Parliamentary Paper | Rijksoverheid.nl]

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.

MKBAs have already been used in infrastructure and spatial planning for many years as a commonly used step in preparation of decision-making. 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. To improve viability of the MKBA in decision-making, the CPB Netherlands Bureau for Economic Policy Analysis and PBL Netherlands Environmental Assessment Agency developed a general guideline in 2015. The guideline is a set of minimum conditions for a good methodological quality and sufficiently transparent presentation. Methodological standards enhance the comparability of MKBAs. This guideline has recently been analysed in terms of a perspective of broad-based prosperity[11]. This results in a number of areas of interest, on the basis of which the guideline can be updated, including use of the Broad-based Prosperity Monitor as a source of inspiration for effects to be studied, more attention to non-monetised prosperity effects, and more explicitly of long-term effects.

The government has expressed its ambition to also apply the MKBA instrument in areas other than infrastructure and the spatial environment. Several methodologies have now appeared to support institutions in the implementation of an MKBA[12]. At the request of the government, the 2020 Discount rate task force issued a recommendation on the extent of discount rates to be maintained in MKBAs. The task force recommends a risk-weighted standard discount rate of 2¼% (adjusted for inflation), composed of a risk-free part (-1%) and a risk premium (3¼%). The task force recommends setting these values for a period of five years, but to review this if the long-term interest rate changes by more than 1 percentage point or if there are other clear indications that certain yield requirements have changed substantially. The CPB has a responsibility to identify in good time whether a mid-term review is relevant. The government has adopted all the recommendations contained in the task force's report.

[11] Parliamentary Paper, 355570-IX, no. 33
[12] *MKBA werkwijzer in het sociale sociaal domein (2016)* [MKBA methodology in the socio-social domain], *MKBA werkwijzer op het gebied van milieu (2017)* [MKBA methodology in the environmental field], *MKBA werkwijzer natuur (2018)* [MKBA methodology on nature], *MKBA werkwijzer bij MIRT Verkenningen (2018)* [MKBA methodology for MIRT Surveys], *MKBA werkwijzer digitale overheid (2021)* [MKBA methodology for digital public authority]. The following methodologies are being prepared: MKBA methodology for energy (Ministry of Economic Affairs and Climate (EZK)).

CHAPTER 7:
INSTITUTIONAL FEATURES OF PUBLIC FINANCES

The Stability and Growth Pact (SGP) and the Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union aim to strengthen Member States' budgetary discipline. This is done, among other things, by increasing 'ownership' of the European agreements at Member State level. In conformity with European budgetary agreements, the European budgetary objectives have therefore legally been codified in the Netherlands on a national level in the Sustainable Public Finances Act (Wet houdbare overheidsfinanciën, 'Wet HOF'). As a result of the corona crisis, the general escape clause is still in force at this point in time. This allows Member States to temporarily derogate from the usual budgetary rules in the preventive arm. This clause is expected to expire in 2023. This chapter provides a brief explanation of 'Wet HOF', the interpretation of the independent budget supervision in the Netherlands, the impact of the corona crisis, and the war in Ukraine on compliance with the budgetary rules.

Sustainable Public Finances Act (Wet HOF) and budgetary rules

The core of the Sustainable Public Finance Act ('*Wet HOF*') is twofold. On the one hand, the Sustainable Public Finances Act is a legal codifying of European budgetary agreements. On the other hand, it is emphasised that the Government and local and regional authorities (municipalities, provinces and water boards) should make an equal effort to comply with these budgetary agreements. Additionally applicable for the Government is that the most important basic principles of the Netherlands' trend-based fiscal policy has also been legally codified in this legislation.

Dutch budgetary policy, by tradition, is based on independent projections and analyses by the CPB. Aside from the CPB as an independent forecasting institute, the Sustainable Public Finance Act provides for a prominent role for the Advisory Division of the Council of State (RvS). In the spring, the Council of State assesses whether envisaged budgetary development of 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 a prior phase of the budgetary cycle. Furthermore, also at the time of the Budget Memorandum in September, the Council of State assesses whether the draft budget complies with European budgetary agreements.

The budgetary rules consist of basic principles, budgetary rules of play, and a technical specification. 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. These rules are set out in Annex 1 to the Initial Policy Memorandum. The most well-known rules of play are that any overspending of a budget must be compensated and that compensation, in principle, must take place in the same budget where the overspending occurs. Windfalls may not be applied for new invigoration of policy.

Budgetary policy

The Dutch government envisages pursuing a trend-based fiscal policy within the boundaries of European budgetary agreements. The current budgetary rules are based on the three basic principles of Dutch budgetary policy:

- *Efficient allocation of public funds*
  Budgetary policy contributes to the proper allocation of public funds. Budgetary rules create the conditions allowing government and politicians – given the objectives they pursue – to spend each euro as effectively as possible. In so doing, a government carefully weighs up the various choices against each other. To achieve a proper overall balance, budget decisions are taken at a fixed point in time during the year, at what is known as the 'primary decision-making moment'. This moment is in the spring. At this primary decision-

making moment, decisions are also made on the main features of revenues. The basis for decision-making in the spring is the CEP by the CPB. In August, the decision-making on purchasing power development will be completed based on a new CPB forecast: the draft Macroeconomic Outlook (cMEV).

- *Control of public finances*
  Controlling public finances, first and foremost, means that a government itself has control of the development of revenue and expenditure and adheres to budgetary commitments in order not to transfer the bill to subsequent generations. That is why, at the beginning of a government's term of office, the cabinet makes clear agreements on what maximum can be spent in one year. This is the expenditure benchmark. It is also agreed to what extent policy-related adjustments of taxes should be per year. This is the revenue framework. Agreements on revenue and expenditure clarify the limits within which budgetary policy can take place.
  This system is generally perceived as transparent, credible and predictable.
- *Macroeconomic stabilisation*
  The national budget has an important role to play in stabilising the economy on both the revenue side and part of the expenditure side. On the expenditure side of the budget, when the economic tide is favourable, the government will not spend more than the agreed expenditure benchmark. On the other hand, there is no need to cut back when the economy temporarily performs poorly. So, when there is additional unemployment and social benefit expenditure during an economic crisis, there is no need to make cuts in other expenditure. On the revenue side of the budget, tax revenues automatically increase in good times. The government does not spend this extra revenue, but uses it to accrue buffers for lesser times.

Corona crisis and budget rules

During the corona crisis, the government decided that the corona-related measures would negatively influence the budget balance. This means that there was no need for expenditure cuts, to provide manoeuvrability within the expenditure benchmark. These discretionary measures were used to derogate temporarily from the Dutch budgetary rules. For standard policy (measures not related to the corona crisis) the government continued to comply with applicable budgetary rules to maintain as much transparency and predictability as possible.

Government debt has remained within bounds due to the accumulated buffers. Despite the fact that debt has risen in recent years (from 48.5% of GDP in 2019 to 52.1% of GDP in 2021 according to Statistics Netherlands outcomes), debt remains below the prescribed European criterion of 60% of GDP. On top of that, there was a budget surplus for the period 2017-2019. Due to the declining debt and budget surplus in the years prior to the coronacrisis, the government accrued a buffer. This buffer allowed the government to provide extensive support measures. An economic shock such as the corona crisis can lead to a sudden increase in the debt ratio, which endorses the importance of buffers.

It is important to return to a regular budgetary process after the corona crisis. The fact that corona measures were placed outside the budgetary framework made it more difficult to monitor budgetary discipline. Decisions were frequently made ad hoc to respond rapidly to developments. The Netherlands Court of Audit noted in its 2020 accountability audit that there were several inconsistencies in the rapid introduction of corona-related regulations and subsidies. Effective and efficient budgetary policy is an important precondition for the best possible expenditure of taxpayers' money. Comprehensive weighing up and careful decision-making is of major importance in this respect. This means that decision-making is preferably made at a single decision-making moment in which all relevant information is available.

ANNEX 1:
STABILITY PROGRAMME TABLES

All figures in the annex are based on the 2022 CEP or on actual figures by Statistics Netherlands.

Table 1a. Macroeconomic prospects

in % of GDP	ESA Code	2021 billion euro	2021	2022	2023	2024	2025	2026
1. Real GDP	B1*g	859.1	4.8	3.6	1.7	2	1.7	1.4
2. Nominal GDP	B1*g		7.4	7.1	4.8	4.6	4.3	3.6
Components of real GDP								
3. Private consumption expenditure	P.3	357.9	3.5	4.7	1.5	2.1	1.4	1.2
4. Government final consumption expenditure	P.3	227.2	7.1	1.7	2.6	2.7	2.2	2.3
5. Gross fixed capital formation	P.51	184.2	3.3	3.7	3.6	2.4	2.5	1.3
6. Changes in inventories (Δ)	P.52 + P.53	-6.4	-1.2	0.3	0.1	0.1	0.1	0.1
7. Exports of goods and services	P.6	721.8	6.9	4.9	4.3	3	2.9	2.6
8. Imports of goods and services	P.7	625.6	5.2	5.5	5.5	3.6	3.4	3
Contributions to real GDP growth								
9. Final domestic demand		769.3	4.5	3.6	2.3	2.4	1.9	1.6
10. Changes in inventories (Δ)	P.52 + P.53	-6.4	-1.2	0.3	0.1	0.1	0.1	0.1
11. External balance of goods and services	B.11	96.3	1.9	0.1	-0.5	-0.2	-0.1	-0.1

Table 1b. Price developments

In %	ESA code	2021 Level	2021	2022	2023	2024	2025	2026
1. GDP deflator		859.1	2.5	3.4	3	2.5	2.5	2.2
2. Private consumption deflator		357.9	3.1	5.2	2.5	2.4	2.5	2
3. HICP			2.8	5.9	2.2	1.9	2.3	1.8
4. Public consumption deflator		227.2	2.2	2.7	2.6	2.9	2.9	2.6
5. Investment deflator		184.2	4.6	4.4	2.8	2	1.8	1.8
6. Export price deflator (goods and services)		721.8	8.4	8	0.3	0.6	0.8	0.9
7. Import price deflator (goods and services)		625.6	10.2	9.2	0	0.3	0.5	0.7

Table 1c. Labour market developments

In %		2021	2021	2022	2023	2024	2025	2026
	ESA code	*Level*						
1. Employment, (x 1000 persons)		9707.5	1.7	1.5	0.6	1	0.6	0.2
2. Employment, no. hour worked (in millions)		13721.1	2.2	2.9	0.9	1.1	0.6	0.2
3. Unemployment (% of working population)		407.8	4.2	4	4.3	4.4	4.4	4.6
4. Labour productivity, persons		88.5	3	2.1	1.1	1	1.1	1.2
5. Labour productivity, no. hours worked		62.6	2.9	0.6	0.7	0.9	1.2	1.1
6. Payroll of employees (in billions)	D.1	416.4	3.4	5.6	4	5.2	4.5	4
7. Compensation per employee (€)		30.3	0.1	2.6	3.6	4.1	3.9	3.8

Table 1d. Sectoral balances

in % of GDP		2021	2022	2023	2024	2025	2026
	ESA code						
1. Net lending/net borrowing vis-à-vis the rest of world	B.9	9.4	9.8	9.1	8.8	8.5	8.4
Of which:							
- Balance on goods and services		11.2	10.5	9.8	9.4	9.2	9.1
- Balance of primary incomes and transfers		-0.6	-0.1	-0.1	-0.1	-0.1	-0.2
- Capital account		-1.2	-0.7	-0.6	-0.6	-0.6	-0.6
2. Net lending/borrowing of private sector	B.9	13.9	12.5	11.6	11.3	11.4	11.4
3. General government balance	EDP B.9	-4.4	-2.5	-2.3	-2.5	-2.9	-3.2
4. Statistical discrepancy							

Table 2a General government budgetary targets broken down by subsector

in % of GDP	Column2 ESA Code	2021 Level	20212	2022	2023	2024	2025	2026
Net lending/net borrowing by sector								
1. General government	S.13	-38.2	-4.4	-2.5	-2.3	-2.5	-2.9	-3.2
2. Central government	S.1311	-39.8	-4.6	-2.9	-2.7	-3.1	-3.4	-3.6
3. State government	S.1312							
4. Local government	S.1313	-2.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2
5. Social security funds	S.1314	3.8	0.4	0.5	0.6	0.7	0.7	0.7
Total General government (S13)								
6. Total revenue	TR	373.0	43.4	42.4	42.9	42.4	42.4	42.5
7. Total expenditure	TE	411.2	47.9	44.8	45.2	44.9	45.4	45.7
8. General government balance	EDP B.9	-38.2	-4.4	-2.5	-2.3	-2.5	-2.9	-3.2
9. Interest charges	EDP D.41	4.2	0.5	0.4	0.3	0.3	0.3	0.3
10. Primary balance		-34.0	-4.0	-2.0	-1.9	-2.2	-2.6	-2.9
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue components								
12. Total taxes (=12a+12b+12c)		226.0	26.3	25.6	26.1	25.8	25.5	25.6
12a. Taxes on production and imports	D.2	103.2	12.0	11.5	11.8	11.8	11.6	11.6
12b. Current taxes on income and wealth	D.5	120.3	14.0	13.8	14.0	13.8	13.6	13.8
12c. Capital taxes	D.91	2.5	0.3	0.3	0.3	0.3	0.3	0.3
13. Social contributions	D.61	113.1	13.2	12.9	13.0	12.8	13.2	13.3
14. Property income	D.4	3.2	0.4	0.4	0.4	0.5	0.5	0.4
15. Other		30.6	3.6	3.5	3.4	3.4	3.3	3.2
16. Total revenue (=6)	TR	373.0	43.4	42.4	42.9	42.4	42.4	42.5
17: Tax burden		339.4	39.5	38.6	39.1	38.6	38.6	38.9
Expenditure components								
17. Compensation of employees + intermediate consumption	D.1 + P.2	132.5	15.4	14.8	14.7	14.8	14.8	14.8
17a. Compensation of employees	D.1	74.6	8.7	8.7	8.7	8.8	8.8	8.9
17b. Intermediate consumption	P.2	57.9	6.7	6.1	6.0	6.0	6.0	6.0
18. Social payments		187.9	21.9	21.2	21.3	21.5	21.8	22.1
of which Unemployment benefits		11.4	1.3	1.2	1.2	1.3	1.3	1.3
18a. Social benefits in kind through market output	D.6311, D.63121, D.63131	93.4	10.9	10.8	10.9	11.1	11.4	11.6
18b. Social benefits not in kind	D.62	94.5	11.0	10.4	10.4	10.5	10.5	10.6
19. Interest expenditure (=9)	EDP D.41	4.2	0.5	0.4	0.3	0.3	0.3	0.3
20. Subsidies	D.3	31.2	3.6	2.6	1.7	1.9	2.0	2.1
21. Gross fixed capital formation	P.51	29.5	3.4	3.5	3.6	3.7	3.8	3.8
22. Capital transfers	D.9	10.0	1.2	0.5	1.6	0.8	0.8	0.7
23. Other		15.8	1.8	1.9	1.9	1.9	1.9	1.9
24. Total expenditure (=7)	TE	411.2	47.9	44.8	45.2	44.9	45.4	45.7
25: Public consumption (nominal)	P.3	227.3	26.5	25.8	25.9	26.2	26.4	26.8

Table 2b. Breakdown of revenue

in % of GDP	ESA Code	2021 Level in billion	2021	2022	2023	2024	2025	2026
1. Total revenue at unchanged policy								
2. Total expenditure at unchanged policy	S.1311	411.162	47.858	44.834	45.179	44.938	45.356	45.703

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

in % of GDP	ESA Code	2021 Level	2021	2022	2023	2024	2025	2026
1. Expenditure in EU programmes fully matched by EU funds revenue	S.13							
1.a Of which investment expenditure fully matched by EU funds revenue	S.1311	10.822	1.260	1.143	1.170	1.189	1.194	1.197
2. Cyclical unemployment benefit expenditure		2.503	0.291	0.227	0.328	0.389	0.422	0.443
3. Effect of discretionary revenue measures		0.907	0.106	-0.153	0.995	-0.687	0.113	0.124
4. Revenue increases mandated by law		1.624	0.189	-0.058	0.084	0.096	0.105	0.079

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

in % of GDP	COFOG Code	2020	2025
1. General public services	1	9.3	8.8
2. Defence	2	1.3	1.7
3. Public order and safety	3	1.7	1.6
4. Economic affairs	4	4.6	2.3
5. Environmental protection	5		
6. Housing and community amenities	6		
7. Health	7	10.2	10.2
8. Recreation, culture and religion	8		
9. Education	9	5.3	5.2
10. Social protection	10	12.0	11.4
11. Total expenditure	TE	48.0	45.4

Table 4. General government debt developments

in % of GDP	ESA Code	2021 Level	2021	2022	2023	2024	2025	2026
1. Gross debt		473.275	53.830	53.055	52.721	53.119	54.401	56.078
2. Change in gross debt ratio			-1.258	-0.774	-0.334	0.398	1.282	1.677
of which:								
3. Primary balance		-33.976	-2.045	-1.945	-2.249	-2.648	-2.887	-3.114
4. Interest charges	EDP D.41	4.214	0.416	0.313	0.289	0.276	0.277	0.279
5. Stock/flow adjustment and other			-0.049	-0.572	-0.544	-0.359	-0.034	0.004
of which:								
Difference between cash and accruals			-0.055	-0.049	-0.047	-0.042	-0.008	-0.008
Net accumulation of financial assets			0.006	-0.523	-0.497	-0.317	-0.026	0.011
Privatisation proceeds								
Implicit interest on debt								
Other relevant variables								
6. Liquid financial assets								
7. Net debt								
8. Debt write-off (existing debt) since end of previous year (billion euro)			16.5	30.7	31.7	32.8	19.9	
9. Debt denominated in foreign currency (million euro)			1772	160	140	115	92	
10. Average maturity (in years)			8.7	9				

Table 5. Cyclical developments

in % of GDP	ESA code	2021 Level	2021	2022	2023	2024	2025	2026
1. Real GDP growth		860.7*	4.8	3.6	1.7	2	1.7	1.4
2. General government balance entire government	EDP B.9		-2.5*	-2.5	-2.3	-2.5	-2.9	-3.2
3. Interest charges	EDP D.41							
4. One-off and other temporary expenditures			0	0	0	0	0	0
4a. Of which: on the revenue side								
4b. Of which: on the expenditure side								
5. Potential GDP growth			1.9	1.6	1.7	1.8	1.8	1.6
Contributions to growth:								
Labour			1	0.6	0.7	0.8	0.6	0.5
Capital			0.5	0.5	0.6	0.6	0.6	0.6
Total factor productivity			0.4	0.4	0.4	0.5	0.6	0.6
6. Output gap			-1.1	0.9	0.9	0.8	0.5	0.1
7. Cyclical budgetary component			-0.6	0.5	0.5	0.5	0.3	0.0
8. Cyclically-adjusted balance (2 - 7)			-3.8	-3.0	-2.8	-3.0	-3.2	-3.2
9. Cyclically-adjusted primary balance (8 + 3)								
10. Structural balance (8 - 4)			-3.8	-3	-2.8	-3	-3.2	-3.2

* Actual figures Statistics Netherlands, 25/03/2022

Table 6. Divergence from 2021 Stability Programme

in % of GDP	ESA Code	2021	2022	2023
Real GDP growth				
Update April '21		2.2	3.5	1.8
Current update		4.8	3.6	1.7
Difference		2.6	0.1	-0.1
General government balance	EDP B.9			
Update April '21		-5.9	-1.7	-1.4
Current update		-2.5	-3.0	-2.8
Difference		3.4	-1.3	-1.4
General government debt				
Update April '21		58.6	56.9	56.0
Current update		55.1	53.8	53.1
Difference		-3.5	-3.1	-2.9

Table 7a. Sustainability of public finances

in % of GDP	2010	2020	2030	2040	2050	2060
Total expenditure	48.2	48.4	47.9	52.7	55.3	57.3
of which:						
Age-related expenditure	20.8	22.3	24.0	26.1	26.6	26.2
Pension expenditure	6.2	7.2	7.6	8.2	8.0	7.8
Social security expenditure	11.7	12.0	12.9	13.5	13.2	13.0
Old-age and early retirement pension	4.5	5.2	5.6	6.3	6.0	5.7
Other pensions (occupational disability, surviving relatives)	1.7	2.0	2.1	1.9	2.0	2.1
Occupational pensions (government)	0.0	0.0	0.0	0.0	0.0	0.0
Healthcare (cure)	5.9	6.5	6.8	7.2	7.3	7.1
Long-term care	3.5	3.7	4.6	5.5	6.1	6.4
Education expenditure	5.1	4.9	5.0	5.2	5.2	5.0
Other age-related expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure	1.8	0.7	1.6	4.5	6.6	8.9
Total revenue	43.2	44.3	43.7	45.2	45.5	45.5
of which: property income	2.7	0.5	0.6	0.7	0.8	0.8
of which: pension contributions (or national insurance contributions)	3.3	3.3	3.3	3.3	3.3	3.3
Pension reserve fund assets	138.8	227.1	199.7	195.9	185.5	177.2
of which: consolidated public pension fund reserves	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	6.0	7.9	7.5	6.9
Assumptions						
Labour productivity growth	1.5	-1.1	1.7	0.8	0.9	1.1
Real GDP growth	1.0	-3.8	1.7	1.0	1.3	1.3
Participation rate (males) (15–64)	85.4	86.1	88.5	88.9	88.7	88.6
Participation rate (females) (15–64)	72.0	77.9	82.2	83.8	84.6	85.4
Total participation rate (15–64)	78.7	82.0	85.4	86.4	86.7	87.0
Unemployment rate (20–64)	4.5	3.8	4.3	4.3	4.3	4.3
Population aged 65+ as % of total population	16.2	20.5	24.1	26.1	25.7	26.1

Table 7b. Contingent liabilities

in % of GDP	2020	2021
Public guarantees	29.2	24.6
Of which: related to the financial sector	22.5	19.5

Table 8. External assumptions

In %	2021	2022	2023	2024	2025	2026
Short-term interest rate (annual average)	-0.5	-0.5	-0.1	0.2	0.4	0.5
Long-term interest rate (annual average)	-0.3	0	0.1	0.2	0.2	0.3
USD/€ exchange rate (annual average)	1.18	1.14	1.14	1.15	1.17	1.19
Nominal effective exchange rate*	0.7	-1.1	0.2	0.7	1	1
GDP growth, World excluding EU	5.9	4.3	3.8	3.7	3.7	3.7
GDP growth, EU	5.1	4	2.4	1.5	1.3	1.2
Growth of relevant foreign markets	7.5	6.6	4.9	3.5	3.1	2.9
World import volume (excluding EU)	11.2	6.8	4.7	3.7	3.2	3.3
Oil price (Brent, USD per barrel)	70.7	91.3	83.1	78.9	76.5	75.3

* percentage changes in respect of a basket of trading partners