STABILITY PROGRAMME

THE NETHERLANDS

APRIL 2020

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 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.

Relationship to the National Reform Programme

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

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 17 March 2020 and Scenarios of economic consequences of the corona crisis of 26 March 2020.
The figures for 2019 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.

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SUMMARY

The economic impact of the COVID-19 coronavirus is difficult to predict at the moment. In the forecast used at the time of preparing the Stability Programme, it was still assumed that the virus would rapidly be under control. The risk of the virus spreading more widely and having a longer-lasting impact, has already become reality at the time of publication. If the spread of the virus is not rapidly stopped, this could have a severely negative effect on economic growth. Macroeconomic data on the extent of the economic impact is not yet available; other than anecdotal figures, there is only financial data and a few confidence indicators available. Drawing up a new forecast in this situation is not viable, since the margin of uncertainty around such a forecast would be so great that a central forecast would have little significance.

To be able to provide an impression of the impact on the economy, the scenarios published by CPB Netherlands Bureau for Economic Policy Analysis (CPB) on 26 March are included. These scenarios have been included as an illustration of possible outcomes; for a full calculation of the implications on the economy and public finances, it must first be clearer how the crisis will develop. For this, the next regular forecast in June will be awaited. In times of major uncertainty, scenario analysis can help in providing an insight into the possible order of magnitude and uncertainty of economic effects. The scenarios have been chosen to illustrate some of the key uncertainties, thus giving an impression of the possible economic consequences. Other scenarios are conceivable and one is not more likely than the other. The scenarios should therefore not be seen as a lower or upper limit of possible outcomes.

The outcomes of these scenarios are not the figures being submitted by the Netherlands with this Stability Programme. The scenarios are merely included as information. The figures that are being submitted, are based on the most recent full forecast from the 2020 Central Economic Plan and are given in the Annex. The whole report is based on these figures, with the exception of chapter 2.

Aside from automatic stabilisers having an effect, the Dutch government has taken additional measures. This is to counter the economic impact of the COVID-19 coronavirus. At the time of writing, no estimate was available on the budgetary impact of these measures. According to an initial estimate[1] by the Ministry of Finance, this package of measures includes an additional EUR 14.6 billion in expenditure over the next three months to support businesses and to preserve employment. These measures are included in incidental supplementary budgets of the Ministry of Social Affairs and Employment (SZW), Ministry of Agriculture, Nature and Food Quality (LNV), Ministry of Economic Affairs and Climate (EZK) and the Ministry of Finance[2]. This amount may be higher or lower depending on the extent to which these measures are made use of. The government also provides opportunities for tax deferral for entrepreneurs who experience liquidity issues due to the corona crisis. It is uncertain how many businesses will make use of this, but the government is taking 50-75% into account. Additionally, tax revenues obviously reduce considerably as a result of the deteriorating economic situation. The extent of this is still uncertain. The government is taking into account that, as a result of economic deterioration, but mainly as a result of tax deferral, the tax revenues in the next three months are approximately EUR 35-45 billion less than originally estimated. The intention is that a large proportion of these revenues will be received later on, but this depends on how long the crisis lasts and how deep it will be. In combination with the measures on the expenditures side and the uncertainty surrounding them, the government takes into account an additional financing need of approximately EUR 45-65 billion over the next three months. What the ultimate impact of both the slowing economy and the

[1] See Letter to Parliament '*Overleg bankensector 19 maart 2020 en financieringsbehoefte i.v.m. noodpakket*' ['Banking sector consultation of 19 March 2020 and financing need for emergency package', 20 March 2020, 2020D11196.
[2] Cover letter on incidental supplementary budgets applying to the emergency package for employment and the economy.

package of emergency measures will be on public finances cannot yet be predicted at the time of writing.

Measures in the emergency package for employment and the economy[3]:

- **Wage cost compensation:** The current Regulation for Reduction in Working Hours (WTV) has been revoked and replaced by a new *Tijdelijke noodmaatregel overbrugging voor werkbehoud* (NOW) [Temporary Emergency Bridging Measure to Preserve Employment]. This compensation scheme makes it possible to accommodate more employers financially and to do so faster than within the revoked Regulation for Reduction in Working Hours (WTV). The Temporary Emergency Bridging Measure to Preserve Employment (NOW) applies to businesses of all sizes. Employers who expect a decline of at least 20% in revenue, can – in relation to the loss of revenue – request an allowance in the wage costs for a period of three months of up to 90% of the wage sum. Employers continue to pay 100% of the wages to affected employees. This period can be extended once for another three months.
- **Additional temporary support for established entrepreneurs and the self-employed:** The procedure for requesting support will be temporarily relaxed. Support can be applied for in the form of an additional benefit to meet livelihood standards and/or for working capital. The benefit to meet livelihood standards tops up the income to the social minimum. Recourse can also be made to resolve liquidity problems with a loan for working capital.
- **Emergency desk:** To support firms that are directly affected by the government's measures to combat the corona crisis and who see their turnover largely disappear or disappear altogether, an emergency desk will be introduced to compensate the initial need. This is an emergency response to the other measures. This particularly concerns hospitality and other establishments that have been forced to close down most of their activities, such as beauty salons and others, who could be in trouble due to the 1.5 metre distance requirement. This amounts to a one-off lump sum of EUR 4,000 for the three-month period in the form of a donation and applies only to firms which, in any case, meet the above conditions in terms of type and sector.
- **Guarantee facility for SME loans (BMKB):** With the Guarantee facility for SME loans (BMKB), the Ministry of Economic Affairs and Climate guarantees the loans to SMEs, so it is easier for them to borrow money. Entrepreneurs can contact credit providers such as banks for this purpose. In the normal regulation, the guarantee facility covers 50% of the credit provided by the financier. This extension will increase the size of the Guarantee facility for SME loans from 50% to 75%. As a result, banks and other financiers can increase credit easier and quicker, and businesses have the opportunity to borrow more money sooner.
- **Loan under government-guaranteed scheme for agricultural holdings (BL):** This scheme allows agricultural holdings to finance bridging loans up to the maximum government-guaranteed credit per business of EUR 1.2 million (EUR 2.5 million for GL or BL plus loan). This scheme has been extended to include an additional module, which allows businesses that exceed the current government-guaranteed credit to be able to additionally finance up to EUR 300,000 in BL-C credit.
- **Business Loan Guarantee Scheme (GO-regulation):** Companies that are experiencing difficulties in obtaining bank loans and bank guarantees have been able to make use of the GO-regulation since 2009. The Ministry of Economic Affairs and Climate has provided the GO-regulation, through which SMEs can secure a 50% guarantee on bank loans and bank guarantees, starting at EUR 1.5 million. The GO-facility's guaranteed ceiling will be substantially increased from EUR 400 million to EUR 1.5 billion. The maximum GO-facility per business will also be substantially increased from EUR 50 million to EUR 150 million.
- **Qredits:** In recent years, Qredits has financed some 20,000 start-ups and/or small businesses. The corona crisis is likely to have a disproportionate impact on this group of vulnerable entrepreneurs. To mitigate this target group's risks, the government is prepared to support

[3] For a complete overview, see Letter to Parliament '*Noodpakket banen en economie*' ['Emergency package for employment and the economy'], 17 March 2020, 2020D10884

Qredits financially with a maximum amount of EUR 6 million, to support businesses affected by the corona crisis. In principle, this support will apply for a period of nine months.

- **Deferred payment of taxes:** The Tax and Customs Administration will grant special deferral of payment to all entrepreneurs who have or will face liquidity issues due to the corona crisis. Entrepreneurs may apply for deferred payment at the Tax and Customs Administration by letter. Once the application has been received, the Tax and Customs Administration ceases any collection measures and entrepreneurs immediately get deferral of payment. Individual assessment of the application will be made later.
- **Other tax measures:** Entrepreneurs currently pay tax based on a provisional assessment on income tax or corporation tax. Entrepreneurs who expect lower profits due to the corona crisis may submit a request for a reduction in the provisional assessment. To facilitate that entrepreneurs can easily apply for deferral of payment, the government has temporarily reduced interest on overdue taxes (which must normally be paid if an assessment is not paid on time) as at 23 March 2020 from 4% to 0.01%[4].
  The interest on taxes has also been reduced to 0.01%. This is charged if an assessment is made too late, for example, because the tax return is not submitted on time or it has been submitted for an incorrect amount to the Tax and Customs Administration. This reduction will apply to all taxes that are subject to interest on tax. The government will adjust the rate as soon as possible.

In recent years, Dutch public finances have improved and at present they are in good shape. In 2019, government debt decreased to 48.6% of GDP. This means that debt is well below the European reference value of 60% of GDP. In 2019, the Netherlands had an effective general government balance of 1.7% of GDP, and according to the forecast used, the Netherlands would have had a surplus of 1.1% in 2020. The structural government balance was 1.0% of GDP in 2019.

Hence, with this Stability Programme, the Netherlands complies with the requirements applicable under the preventive arm of the Stability and Growth Pact (SGP). The Netherlands remains committed to European budgetary agreements. If necessary to combat the effects of the COVID-19 coronavirus, the Netherlands will diverge from the regular national budgetary framework, based on pursuing a trend-based fiscal policy in which the revenue ceiling and expenditure benchmark are maintained.

[4] As it is technically not possible to reduce the percentage to 0% in administrative terms, the percentage is temporarily fixed at 0.01%.

CHAPTER 1:
OVERALL POLICY FRAMEWORK AND OBJECTIVES

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

The requirements arising from the preventive arm of the SGP currently apply for the Netherlands. The preventive arm requires that Member States comply with the medium-term objective for the structural budget balance, the MTO (medium-term objective). At this point in time an MTO of -0.5% of GDP applies for the Netherlands. Member States who do not comply with this balance 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 rule 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. Furthermore, just like all Member States, the Netherlands is obliged to have a general government debt of below 60% of GDP, or a debt that moves fast enough to this threshold, in conformity with the SGP's debt rule.

The Dutch national budgetary framework is based on pursuing a trend-based fiscal policy. Within the boundaries of the SGP, the government has taken measures that reduce the burden for households and strengthen the structural economic position of the Netherlands. An overview of progress made on the government's reform agenda is available in the National Reform Programme. This contains a detailed description of the manner in which the government fulfils the country-specific recommendations for the Netherlands consistent with the European Semester.

CHAPTER 2:
SCENARIOS FOR THE ECONOMY AND PUBLIC FINANCES

When the forecast was established,[5] it was still assumed that the COVID-19 coronavirus would be under control quickly and the economic consequences would be temporary and limited to China. The risk of a wider spread has already occurred by the time this is published. If these outbreaks are not under control quickly and governments need to further curb trade and traffic flows in response, the economic effects could be significant. Due to the major uncertainties and lack of data, no new forecast is available. To gain an insight into the possible order of magnitude and uncertainty of the economic effects, a scenario analysis by the CPB is included in this chapter[6]. ***The results of this analysis are not the figures being submitted by the Netherlands; these are based on the 2020 Central Economic Plan (CEP) and are presented in the Annex.***

It is clear that the economic consequences are huge, but at the same time there is still a great deal of uncertainty. The most important factor of uncertainty is the development of the pandemic itself, and what measures are needed to prevent further spread of the virus. Further, it is uncertain to what extent the economy is being affected by contact restrictions and to what extent it can adapt itself. It is very clear that contact restrictions intervene deeply in the economy, but how deep is still difficult to say. The partial lockdown of the economy for three months or more is unprecedented and there is hardly any data available at the moment about the impact of the pandemic on production and consumer spending. It is also uncertain how production chains are holding up, and how productive it is to work remotely. A last uncertainty is the extent to which economic support measures are effective domestically and internationally.

In times of major uncertainty, scenario analysis can help in providing an insight into the possible order of magnitude and uncertainty of the economic effects. A scenario offers an internally consistent economic picture, given assumptions about the duration and depth of the economic shock. With those assumptions, an attempt was made to make a somewhat plausible variation, but in the end these are choices, other assumptions are possible. The scenarios should therefore not be seen as a lower or upper limit of possible outcomes. It is also not really relevant whether a scenario is materialising or which scenario is most plausible. It is by comparing between the different scenarios that developments can be considered in an organised manner. The differences give an impression of the order of magnitude of possible outcomes and provide an insight into the impact of the main uncertainties.

When determining the economic impact of the scenarios, CPB has used the following assumptions:

- The impact of contact restrictions has been approached on a sector basis, based on an input-output analysis of industries. In most scenarios, consumer spending has been assumed at almost 10% lower as a result of the restrictive measures, in scenario 3 a drop of 15% was assumed.
- Little is known about the extent of the drop in world trade. The scenarios assume a decline of about 10% in scenario 1, to a decline of nearly 15% in scenario 3. This decline continues for one quarter (scenario 1) to a year and a half (scenario 4).
- The drop of approximately 30% already realised in stock market prices and the oil price is used, with the scenarios varying in terms of recovery or further decline in stock market prices.
- In all scenarios it is assumed that pension benefits will not be cut back in 2021 because of the exceptional circumstances, despite the impact felt in the pension sector in all scenarios.
- For public finances, the CPB has assumed that the announced government support measures will remain in force for as long as contact restrictions continue.

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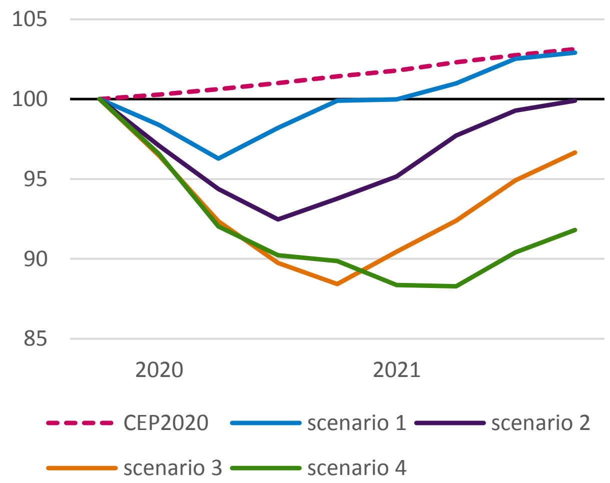
[5] See Central Economic Plan (CEP), 2020, Netherlands Bureau for Economic Policy Analysis (CPB)
[6] For further details: see Scenarios of economic consequences of corona crisis, CPB, 26 March 2020

Table 2.1 Scenarios of economic impact of the coronavirus

	GDP growth (%)		Unemployment (%)		General government balance (% of GDP)		General government debt (% of GDP)	
Scenarios:	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**
1: 3 months' restrictions	-1.2	3.5	4	4.5	-1.3	-0.5	49.9	48.4
2: 6 months' restrictions	-5	3.8	4.2	5.3	-4.6	-2.9	55.4	56.1
3: 6 months' restrictions, more negative impact	-7.7	2	6.3	8.4	-6.8	-5.7	60.4	65.5
4: 12 months' restrictions	-7.3	-2.7	6.1	9.4	-7.3	-9.9	61.7	73.6

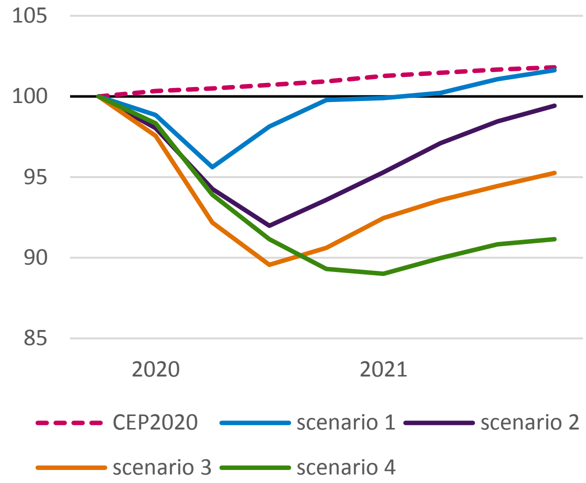
1. In the first scenario, in which contact restrictions last three months, parts of the service sector are especially affected, and recovery immediately occurs in the third quarter of 2020. A substantial part of the recovery growth already takes place in 2020.
2. In the second scenario, restrictive measures last for six months which is followed by recovery as from the fourth quarter of 2020. In comparison to scenario 1, the economic crisis is deeper, and the industry will also be heavily affected. World trade declines further, but there are no major issues in the financial sector.
3. In the third scenario, restrictive measures also last for six months, but it is assumed that the shock's impact is worse and there are more problems in the global economy and the financial sector. This will mean the economic downturn will last longer, and economic recovery will only occur in the spring of 2021.
4. In the fourth scenario, restrictive measures last for one year. Businesses and households find other ways to produce, work and consume despite restrictive measures. The depth of the crisis in this scenario is therefore initially somewhat less than in scenario 3, but the recession continues for a year and a half, recovery only occurs in the second half of 2021. The length of the crisis causes problems for the financial sector and increases the problems from abroad, which will continue to take its toll after 2021.

Figure 2.1 GDP per quarter (4th quarter 2019 = 100)



All scenarios show a recession taking place in 2020, however, the depth and duration differ considerably. The downturn in economic activity and in world trade are so great in the short-term that a recession does not seem preventable in 2020. In March and the second quarter in particular, the economy will be hard hit by the contact restrictive measures. Although it is still difficult to estimate the current economic downturn, a 10-15% drop in the second quarter of 2020 seems likely. Even in the most favourable scenario, in which the economy recovers strongly in the third quarter, the economy shrinks by more than 1% in 2020, whereas a growth of 1.4% was assumed in the Central Economic Plan. The depth of the recession in 2020 varies from about 1% to 8%. The variation in outcomes for 2021 is even greater, from a recovery growth of almost 4% to a unrelenting decline of almost 3%. In scenario 4, the cumulative decline is more than 10%.

Figure 2.2 Employment in worked hours (4th quarter 2019 = 100)



Unemployment rises in all scenarios, but policy measures help to alleviate the impact. The restrictive measures and (partly as a result the) downturn in economic activity are seriously affecting the labour market. In all scenarios, the number of hours worked will drop sharply, by 1.4% to 7% in 2020. As many businesses would like to retain their personnel in service pending better times (*labour hoarding)* and supported by the government wage costs allowance, initially unemployment will not increase proportionally. On recovery of the economic growth, which varies greatly among the scenarios, employment will also recover. In all scenarios, unemployment will rise in 2020. In the mildest scenario, unemployment stabilises during recovery growth in 2021, but if restrictions and the recession persist for longer, unemployment will rise further to 10% in the most unfavourable scenario. In this respect, it is also good to note that an important reason for rising unemployment in scenarios 3 and 4 is that the economic recession persists longer than the duration of the contact restrictive measures, and it is assumed that the support measures will discontinue when the restrictions are abolished. A second reason for the rising unemployment is that in this case many temporary contracts will not be renewed, and school leavers will have difficulties finding a job.

The support package and automatic stabilization could lead to a substantial budget deficit, but the CPB's scenario analysis shows that public finances can cope with this. In every scenario there are substantial budget deficits, but even in the worst of the four scenarios, sustainability of the government debt in the short-term is not directly at risk. There have been budget surpluses since 2016. Government debt therefore dropped to 48.6% of GDP in 2019. As a result, the Netherlands has fiscal space to cope with the consequences of an economic downturn. The largest expenses in the support package are for compensation of reductions in working hours and compensation for self-employed workers. Government revenues will decline due to reduced consumer spending, lower employment income and setbacks in profits. In scenarios 3 and 4, an additional EUR 10 billion and EUR 20 billion respectively was added to government debt, as a consequence of assumed capital injections in the financial sector. In a favourable scenario, government debt does not rise, in the most unfavourable scenario, debt increases by 25% of GDP to 74% of GDP. That is a level comparable to the peak in the previous crisis.

CHAPTER 3:
SENSITIVITY ANALYSIS AND COMPARISON WITH PREVIOUS STABILITY PROGRAMME

Compared with the Stability Programme of April 2019, projections of a few core macroeconomic variables have been adjusted. General government debt decreased a bit faster than presumed in April 2019. The budget surplus achieved for 2019 was higher than expected. The prospects for economic growth are currently surrounded by uncertainty and are very sensitive to further developments in respect of the COVID-19 coronavirus and its impact on the global economy. To understand some of the potential effects on the Dutch economy, this chapter presents an analysis of the impact of a European debt crisis and of an interest rate shock.

European debt crisis scenario

To understand the potential effects of a possible economic crisis, a scenario from the most recent Impact Test for public finances has been included[7]. The Impact Test on public finances identifies extreme, correlated risks. These can have a major influence on public finances. Through various channels, the government can face unexpected and significant costs. A significant shock does not only coincide with problems in the financial markets, for example, but could also lead to rising unemployment, lower housing prices and falling credit ratings of exporters. The Impact Test gives an idea of the impact of a European debt crisis. The results of the scenarios show effects relative to the CPB's baseline[8]. To illustrate, if a general government balance of -1.8% of GDP is presented in year 1, then that means a deterioration in the general government balance of 1.8 percentage points compared to development of the general government balance in the baseline (i.e. the normal CPB estimate).

Table 3.1 Effects of European debt crisis, divergence from the baseline in percentages[9]

	t	t+1	t+2	t+4	t+5
Volume of relevant world trade	-7.4	-8.7	-5.8	-5.7	-6.4
Long-term interest rate	-0.1	-0.1	0	0	0.1
Gross domestic product (volume)	-3.7	-5.5	-5	-4.5	-4.1
Private consumption	-5.4	-7.9	-9.8	-11.1	-11
Export of goods, excl. energy	-5.7	-7.7	-5.5	-5.2	-5.8
Gross domestic product (price)	-0.2	-1.2	-1.1	-0.5	-0.2
Unemployment rate (level)	1.1	3.1	3.1	1.9	1.1
Financial balance government (EMU, % of GDP)	-1.7	-3.2	-3.4	-3.1	-2.9
Gross collective sector debt (% of GDP)	4	8.5	11.4	13.5	15.6

This scenario assumes that the economic situation deteriorates in some euro countries. In these countries, the government debt becomes unsustainable without any additional measures. Private parties are compelled to write off on government bonds, while governments extend the maturity of loans and reduce interest rates. This scenario is based on the following assumptions: world trade falls sharply; the euro rate drops by 20%, but due to reduced world trade, import prices narrowly increase; share prices drop by 40% and housing prices by 20%; the number of housing transactions declines by 40%; nominal long-term interest rates remain virtually

[7] See Ministry of Finance, 2018, Budget Memorandum 2019 Annexes, pp. 387.
[8] Baseline CEP 2018 has been used for this purpose.
[9] The long-term interest rates, unemployment rate, general government balance and general government debt diverge from the baseline in percentage points.

unchanged, but the risk premium is up by 1 percentage point; a negative impulse from lower consumer confidence.

The trading partners of the Netherlands are affected by the new euro crisis, which means that Dutch exports will drop considerably. Deterioration in the financial position in some euro countries also means reduced confidence in the euro zone. Such uncertainty leads to higher risk aversion in the financial markets, which increases risk premiums on loans. In the Netherlands, unemployment rises and consumer spending declines. These economic developments lead to a direct effect on government debt of more than 15 percentage points of GDP in year 5. In this scenario, the turmoil in the financial markets will cause the Dutch central banks profit transfer to evaporate. Losses will be suffered on the National Mortgage Guarantee scheme (NHG) due to higher unemployment and a sharp fall in housing prices. In addition, in years 3 to 5 the government will grant an interest-free loan to the Homeownership Guarantee Fund (WEW) to cover losses on the National Mortgage Guarantee scheme. Through these channels, including losses on the guarantees, a debt-driving effect of about 0.2% is created in year 5.

Impact of interest rate shock on interest expenses

Three scenarios have been included to understand the impact of an interest rate shock. The table below shows the cumulative effect of higher interest expenses resulting from an interest rate shock, which would come on top of the estimated interest expenses in the baseline. For this interest rate shock, both short and long-term interest rates are increased for all the estimated years.

Table 3.2 Divergence in respect of interest expenses in the baseline

Interest rate risk in million euro (+1% interest rate shock)	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Effect on interest expenses of long- and short-term debt (relevant to general government balance)	467.5	656.3	920.2	229.3	539.4	728.8
Effect on interest expenses on derivatives (not relevant to general government balance)	-16.7	168.0	399.1	318.9	185.6	137.9
Effect on interest expenses including derivatives	450.8	824.3	319.3	548.2	724.9	866.8
Interest rate risk in million euro (+0.5% interest rate shock)	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Effect on interest expenses of long- and short-term debt (relevant to general government balance)	233.7	328.2	460.1	614.7	769.7	864.4
Effect on interest expenses on derivatives (not relevant to general government balance)	-8.3	84.0	199.5	159.4	92.8	69.0
Effect on interest expenses including derivatives	225.4	412.2	659.7	774.1	862.5	933.4
Interest rate risk in million euro (+0.25% interest rate shock)	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Effect on interest expenses of long- and short-term debt (relevant to general government balance)	116.9	164.1	230.1	307.3	384.8	432.2
Effect on interest expenses on derivatives (not relevant to general government balance)	-4.2	42.0	99.8	79.7	46.4	34.5
Effect on interest expenses including derivatives	112.7	206.1	329.8	387.1	431.2	466.7

Comparison with 2019 Stability Programme

According to the 2020 estimates used, the Dutch economy is growing somewhat slower than expected at the time of the Stability Programme in April 2019. Table 3.3 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 general government balance is higher both in 2019 and 2020 than was forecast in April of last year. This is mainly due to forecast delays in the implementation of planned government investments.

General government debt is developing more favourably than expected at the time of the previous Stability Programme. This is mainly due to better realizations and forecast of the general government balance. According to the forecast used, government debt is expected to decline to 46.3% of GDP this year. According to the most recent forecasts, government debt is set to decline further to 45.2% in 2021.

Table 3.3 Divergence from Stability Programme 2019 Stability Programme

In % of GDP	ESA Code	**2019**	**2020**	**2021**
Real GDP growth				
2019 Stability Programme		1.5	1.5	1.2
2020 Stability Programme		1.7	1.4	1.6
Difference		0.2	-0.1	0.4
General government balance	EDP B.9			
2019 Stability Programme		1.2	0.8	0.2
2020 Stability Programme		1.7	1.1	0.1
Difference		0.5	0.3	-0.1
General government debt				
2019 Stability Programme		49.1	47.1	45.7
2020 Stability Programme		48.6	46.3	45.2
Difference		0.5	0.4	0.5

CHAPTER 4:
SUSTAINABILITY OF PUBLIC FINANCES

In addition to the short-term development of the general government balance and general government debt, the Dutch government attaches importance to the sustainability of public finances in the long-term. The CPB calculates this regularly. Sustainability of public finances of Member States, including that of the Netherlands, is regularly scrutinized by the European Commission (EC). This chapter compares the outcomes of both analyses. An overview is also presented of the Dutch government's contingent liabilities.

Sustainability of public finances is assessed based on what is known as the sustainability gap. This gap indicates whether current government arrangements are sustainable in the future, without expenses needing to be reduced or taxes needing to be raised. Assumptions must be made of future developments 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 mutual differences between the various age groups in society remain the same in terms of income, tax burden and the benefits of public services. As part of lifetime earnings, every future generation will then benefit equally from the government. Consistent arrangements are therefore somewhat different to unchanged policy. Unchanged policy would mean that, assuming wages continue to rise, in the long-term everyone would end up in the highest tax bracket and this means the tax burden would increase.

Development of public expenditure and revenue depends to a large extent on demographic developments. Table 4.1 illustrates that the portion of seniors aged 65+ – as a percentage of the total population – will increase by more than a quarter in the future. General old-age pension expenditure (AOW) and healthcare expenditure (being both long-term as well as curative healthcare) will therefore increase between 2010 and 2060. This increase happens despite previous reforms implemented in terms of care and pensions. 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 credit and the limited indexation of the second tax bracket for pensioners[10]. Table 4.1 also shows that the labour force participation rate for those aged 15 to 64 will increase. For those aged 55+ the labour force participation rate in particular will rise, partly due to a further increase in the statutory retirement age. The labour force participation rate of those aged 65+ will also increase due to the interlinking of the statutory retirement age and the increasing life expectancy.

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

Table 4.1 Sustainability of public finances

In % of GDP	2010	2020	2030	2040	2050	2060
Total expenditure	**48.2**	**42.4**	**44.2**	**47.3**	**48.2**	**48.3**
Of which:						
Age-related expenditure	20.8	21.0	22.8	25.0	25.5	25.1
Pension expenditure	6.2	6.9	7.5	8.1	7.9	7.7
Social security expenditure	11.7	11.3	12.1	12.7	12.5	12.2
Old-age and early retirement pension	4.5	4.9	5.6	6.3	6.1	5.8
Other pensions (occupational disability, surviving relatives)	1.7	1.9	1.9	1.8	1.9	1.9
Occupational pensions (government)	0.0	0.0	0.0	0.0	0.0	0.0
Healthcare (cure)	5.9	6.1	6.7	7.2	7.2	7.1
Long-term care	3.5	3.4	4.2	5.2	5.8	6.0
Education expenditure	5.1	4.6	4.3	4.5	4.6	4.4
Other age-related expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure	1.8	0.6	0.9	1.8	2.2	2.7
Total revenue	**43.2**	**43.6**	**43.8**	**45.1**	**45.4**	**45.5**
Of which: Property income	2.7	0.8	0.6	0.7	0.7	0.7
Of which: Pension contributions (or social security contributions)	3.3	3.3	3.3	3.3	3.3	3.3
Pension reserve fund assets	138.8	200.5	194.9	196.4	188.2	180.7
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	5.2	6.1	7.7	7.5	7.0
Assumptions						
Labour productivity growth	1.5	0.3	1.5	0.9	0.9	1.1
Real GDP growth	1.0	1.4	1.4	1.0	1.3	1.2
Participation rate (males) (15–64)	83.4	84.1	85.8	85.8	85.4	85.6
Participation rate (females) (15–64)	72.4	77.1	80.5	81.8	82.5	83.4
Total participation rate (15–64)	77.9	80.7	83.6	84.5	84.7	85.2
Unemployment rate (20–64)	4.5	3.2	4.3	4.3	4.3	4.3
Population aged 65+ as % of total population	16.2	20.5	24.1	26.3	26.1	26.2

Sustainability balance

CPB estimates the sustainability gap at -0.8% of GDP in the most recent calculation in CEP 2020[11]. The negative balance is mainly due to the increasing costs of health care as a result of the ageing population. CPB takes measures already taken, such as the Climate Agreement and the Pension Agreement, into account. The sustainability gap translates to a deficit of EUR 8 billion in 2025. Compared to the population-ageing survey of 2014, the sustainability balance has deteriorated by 1.2% of GDP, partly because of the later and slower increase in the statutory retirement age. CPB has also reduced the discount rate by 0.5%-point to 2.5%, partly because of the low interest rate[12].

[11] CPB, Central Economic Plan 2020
[12] This however means a deterioration of the sustainability gap calculated by the CPB.

The EC also forecasts the sustainability of EU Member States, including the Netherlands[13]. In the long-term, the EC assumes a larger sustainability gap than the CPB. The EC forecasts two different sustainability gaps. On the S1-indicator, which shows how much fiscal space an EU Member State has to reach a debt ratio below 60% in 2033, the Netherlands has a surplus of 3.2% of GDP. The S2-indicator, just like the sustainability gap calculated by the CPB, shows the long-term sustainability. According to this indicator, the Netherlands has a sustainability gap of 2.8% of GDP. The EC therefore expects a sustainability gap which is 2.0% of GDP higher than the -0.8% of GDP predicted by CPB. The EC also highlights the higher healthcare costs as mainly being caused by ageing of the population. The EC rates this sustainability balance as an average risk.

The first explanation for the difference is that the EC does not take current policy for the general old-age pension allowance into account. The EC sets a sustainability deterioration of 0.5% of GDP for the increase in pension costs after deducting taxes on pension incomes (from statutory and supplementary pensions). The CPB sets this at 0% of GDP: the increase in pension incomes combined with the limited indexation of the extend of the second tax bracket for pensioners born after 1945, fully offsets the rising pension expenditure. The EC does not take account of this policy, so their figures result in a lower increase in taxes on pension incomes. This explains the negative sustainability effect of 0.5% of GDP. The CPB also takes into account a higher future increase in labour market participation, which tempers the increase in expenditure as part of GDP. The difference is mitigated because the EC did not take into account the Pension Agreement: in the calculations of the EC the one-to-one link between the statutory retirement age and life expectancy was still applied, so the EC's expenditure increase is lower.

In the CPB study, care expenditure has a greater negative effect than in the EC analysis. For care expenditure, the negative effect the CPB uses is 0.8% of GDP (3.3% versus 2.5% of GDP) higher. This difference is a consequence of a downward review by the EC of the future cost increase for care (long-term care). The number of persons who initially make use of expensive nursing and nursing homes has been reduced, which means that the ageing of the population will have a smaller impact on future cost increases. A minor factor is also the differences in projection methods.

The fact that the EC does not take into account policy on the revenue side of the budget after 2025, also leads to a greater sustainability gap. This particularly concerns the tax burden on households (excluding taxes on pension incomes). The EC leaves this as constant while the CPB gradually increases it, resulting in an improvement in the sustainability gap of 1.5% of GDP. The reason for the increase is that standing policy is also taken into account in the CPB projections. These include the increase in health insurance premiums in the period up to 2025, the scale down of possibilities of mortgage interest tax relief, and the restriction of the transferability of the general tax credit.

[13] European Commission, Debt Sustainability Monitor 2019

Contingent liabilities

Policy in respect of contingent liabilities resulting from risk arrangements is laid down in this government's budgetary rules[14]. A guarantee is a conditional, financial obligation of the government to a third party outside the government, which only results in payment if a certain circumstance (realisation of a risk) occurs with the other party. Although new risk arrangements are sometimes necessary, the Dutch government acts in the most cautious manner possible when concluding new risk arrangements.

A "no, unless" policy applies in respect of risk arrangements. In so doing, the government thinks it is important not only to assess new arrangements, but also to use restraint with regard to broadening existing arrangements. In principle, all arrangements will have a sunset clause. 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 assessment of the risks involved in a risk arrangement, an Assessment Framework has been developed. 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 management and the setting of premiums for large and complicated risks. Beyond that, on concluding new arrangements and in broadening existing arrangements, a cut back of other risk arrangements must take place.

The actual assessment is done through the Assessment Framework for Risk Arrangements[15], which has also been laid down in the budgetary rules. At the time of entering into a new guarantee scheme the assessment framework is submitted to parliament to ensure transparency of the commitments made. 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.

Table 4.2 Contingent liabilities

In % of GDP	2019	2020
Public guarantees	**22.3**	**21.7**
of which: Associated with the financial sector	18.4	17.9
Asian Infrastructure Investment Bank (AIIB)	0.1	0.1
DNB - participation in IMF capital	5.4	5.2
European Bank for Reconstruction and Development (EBRD)	0.1	0.1
European Financial Stability Facility (EFSF)	4.2	4.1
European Financial Stabilisation Mechanism (EFSM)	0.4	0.4
European Investment Bank (EIB)	1.5	1.4
European Stability Mechanism (ESM)	4.4	4.2
Netherlands Development Finance Company (FMO)	0.7	0.7
Regional development bank guarantees	0.3	0.3
EU Balance-of-payments (BoP) assistance	0.3	0.3
Single Resolution Fund (SRF)	0.5	0.5
World Bank	0.7	0.6

Source: Budget Memorandum 2020

[14] Budgetary rules 2018-2022 https://www.rijksoverheid.nl/binaries/rijksoverheid/documenten/kamerstukken/2017/11/03/bijlage-1-bij-startnota-%E2%80%93-begrotingsregels-2018-2022/bijlage-1-bij-startnota-%E2%80%93-begrotingsregels-2018-2022.pdf

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

In 2019, outstanding liabilities totalled 22.3% of GDP. This is expected to drop to 22.1% of GDP in 2020. The extent of contingent liabilities is shown in Table 4.2. The table includes all guarantees connected to the financial sector that have an outstanding risk greater than EUR 1 billion. More than 80% of the contingent liabilities are associated with the financial sector. The majority of these obligations arise as a result of international agreements, like guarantees related to the European debt crisis, the International Monetary Fund (IMF) and international development banks.

Table 4.3 Indirect guarantees

In millions of euros	**2019**	**2020**
Total	**295,837**	**306,193**
Of which:		
Guarantee Fund for the Healthcare Sector	6,737	9,393
Homeownership Guarantee Fund	206,500	212,000
Social Housing Guarantee Fund	82,600	84,800

Source: Budget Memorandum 2020

Aside from guarantees, the Netherlands also has three so-called indirect guarantees. An overview of this is shown in Table 4.3. This concerns a total sum of EUR 296 billion in 2019. The risk run by the government for indirect guarantees essentially differs from risk that the government runs for direct guarantees. There are a number of reasons for this. Firstly, in the case of an indirect guarantee, the guarantee obligation is not issued directly by the government but by a specially appointed indirect guarantee fund, so the government only acts as an indirect guarantor. Secondly, indirect guarantees have multiple layers which limit risks for the government. The fund's own equity forms the first layer. More than 70% of indirect guarantees are in the Homeownership Guarantee Fund. For the remaining two of the three indirect guarantees, being the Guarantee Fund for the Healthcare Sector (*Waarborgfonds voor de Zorgsector, WFZ*) and the Social Housing Guarantee Fund (*Waarborgfonds Sociale Woningbouw, WSW*), participants 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 public authorities. A fund then gets an interest-free loan from central government, sometimes together with local and regional authorities. This loan must be repaid. The risk of an indirect guarantee is therefore limited.

CHAPTER 5:
QUALITY OF PUBLIC FINANCES

Securing the quality of public finances is essential for an effective and efficient deployment of public funds. The Dutch government has various instruments to encourage this. Evaluations and other impact studies are not only necessary for accountability of policy, but also for gaining an insight into the functioning of policy. Since the coalition agreement 2017 – 2021 'Vertrouwen in de toekomst' ['Trust in the future'], the government has been working on 'Inzicht in Kwaliteit' ['Insight into Quality'] to further broaden its insights into effectiveness and efficiency of government policy, and to apply such insights in shaping new policy and the ongoing adjustment and improvement of existing policy.

Introduction

The Dutch government conducts different types of research. Ministries are responsible for evaluating and monitoring their own policy areas, by conducting individual studies and synthesis research (policy audits). In addition, there are Interdepartmental Policy Reviews (IBOs) that investigate alternatives to existing policies across a broad spectrum of policy areas. In 2020, sixteen broad-based social reviews were also conducted for substantiated choices of possible investments or cut-backs. Prior to commencement of certain large projects, analyses of social costs and benefits (MKBAs) are also carried out.

This chapter begins with an overview of the most important central evaluation instruments in the Netherlands: policy audits, Interdepartmental Policy Reviews (IBOs) & Broad-based Social Reconsiderations (BMHs) and Analyses of Social Costs and Benefits (MKBAs).

Policy audits

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

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

This year, seventeen policy audits will be carried out. The topics extend across a broad spectrum of government policy: for example, policy audits are carried out on policy in areas such as Public-Private Sector Financing Activities (shares in state owned enterprises), the Labour market and Media.

In the past few years, the structure, phrasing of questions, and scope of individual policy audits were shared with parliament in advance of Budget Day. Parliament is able to pose questions and make remarks beforehand on audits that will be finalised. This increases the Dutch House of Representatives' involvement in policy audits. In addition, all policy audits depict which measures could be taken if significantly fewer funds were available for specific policy areas. This enhances the synergy of policy audits in the decision-making process.

IBOs and BMHs

Every year a number of Interdepartmental Policy Reviews (IBOs) are carried out. 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 budgetary, political or other social issue. As is the case with policy audits, IBOs are submitted to the Dutch House of Representatives which include the government's appreciation of the findings. In 2020, the new IBO on Allowances was concluded. The topics for the new IBOs for 2020/2021 are currently being inventoried.

Aside from the IBOs, sixteen Broad-based Social Reconsiderations (BMHs) were carried out across the full extent of the public sector in 2019/2020. In preparation for a following economic downturn or economic crisis, the Dutch House of Representatives has 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, led by an independent chairman and supported by an independent secretariat, in elaborating the options for both investments and added expenditures as well as reforms and expenditure cut-backs. The topics range from 'A future-proof healthcare system' to 'Ready for climate change' and 'Future-proof mobility'. The ultimate aim is to make informed choices possible in the future by providing an insight into effective policy and implementation options, and their possible consequences, without judging the desirability of these options.

Analyses of social costs and benefits (MKBAs)

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

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

The government has expressed its ambition to also apply the MKBA instrument in areas other than infrastructure and the spatial environment. The intention is that a methodology is drawn up for each policy area which supports MKBA institutions in implementing an MKBA. In the meantime, the following methodologies have been published: *MKBA werkwijzer in het sociale domein* (2016) [MKBA methodology in the 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 on multi-year infrastructure, spatial and transportation programme], and the *Werkwijzer MKBA's digitale overheid* [MKBA methodology for a digital public government] (Ministry of the Interior and Kingdom Relations, 2019). For *Werkwijzer MKBA's voor energie* [MKBA methodology for energy] (Ministry of Economic Affairs and Climate) an initial survey was published.

Insight into Quality operation

The government has decided, in light of recommendations by the Study Group on Fiscal Policy, to set up the operation 'Insight into Quality'. This was started in 2018. *Inzicht in Kwaliteit* ['Insight into Quality'](IIK) aims to increase the social added value of public funds to gain a better insight into the impact of policy and to act accordingly. For this purpose, 'Insight into Quality' sees these challenges: *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 use it in collaboration.

The operation consists of various tracks. For example, work is primarily undertaken to set up specific activities to increase the impact of policy. A total of sixteen (16) initiatives are being taken in various policy areas to increase specific usable insights. The first three initiatives have now been completed. The initiatives provide lessons on what is needed to carry out good evaluations and monitoring, given the often imperfect research environments. An example of this is that evaluations can be used more often as a starting point for improvement. In practice, this is only achieved to a limited extent. The initiatives show that this is possible despite the obstacles.

Secondly, the evaluation system is being improved. To achieve this, research was done in 2018 into the functioning of current policy instruments in the evaluation system, including policy audits, and Interdepartmental Policy Reviews. Individual policy departments also started initiatives to improve the quality of the evaluation system: for example, at the Ministry of Finance the Policy Evaluation Commission was started by analogy of the Policy Evaluation Commission at the Ministry of Economic Affairs and Climate (EZK).

Based on research into policy audits, 'Insight into Quality' works on the further development of this. Due to mandatory moments of audits, the current instrument sometimes offers insufficient flexibility to be able to tie into the policy cycle properly. Additionally, there are not always enough good underlying evaluations available. To this end, the ministerial budgets for 2021 will take a first step towards setting up a Strategic Evaluation Agenda for each ministry. With the Strategic Evaluation Agenda, each ministry shows how the most relevant insights into effectiveness and efficiency can be gained for the important social and budgetary policy topics.

Finally, the operation monitors Section 3.1 of the Government Accounts Act 2016 (*Comptabiliteitswet*). This section argues that policy proposals, plans and commitments submitted to the Dutch House of Representatives must be accompanied by – among other things – explanatory notes on prospective effectiveness and efficiency. The second monitor shows that improvements have been made, in comparison with the start, when it comes to actual compliance with the obligations. There is room for improvement of the evaluation section and the quality of explanatory notes.

CHAPTER 6:
INSTITUTIONAL FEATURES OF PUBLIC FINANCES

An important purpose of the Stability and Growth Pact (SGP) and the Treaty on Stability, Coordination and Governance in the EMU (TSCG), is reinforcing budgetary discipline. This is done, among other things, by increasing 'ownership' of the European agreements at Member State level. So, in conformity with European budgetary agreements, the European budgetary objectives have therefore legally been codified in the Netherlands on a national level in the Sustainability of Public Finances Act (Wet houdbare overheidsfinanciën, 'Wet HOF'). This chapter provides a short description of the contents of the Sustainable Public Finances Act ('Wet HOF') and the fulfilment of independent fiscal monitoring in the Netherlands. In this, the CPB and the Council of State play a prominent role.

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 of vital importance that the State 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 State, is that the most important starting points of the Netherlands' trend-based fiscal policy has also legally been 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, 'Wet HOF' provides for a prominent role for the Advisory Division of the Council of State. In the spring, the Council of State assesses whether envisaged budgetary development in the Netherlands complies with European budgetary agreements based on figures by CPB's CEP. The Council of State's assessment in the spring is available prior to the government's budgetary decision-making taking place and can therefore have an impact in a prior phase of the budgetary cycle. Furthermore, also at the time of the Budget Memorandum, the Council of State assesses whether the draft budget complies with European budgetary agreements.

In principle, the budgetary rules consist of budgetary rules of play and technical specifications. The basic principles of budgetary policy describe the key starting points and the rationale behind it. The budgetary rules of play ensure that in practical terms the basic principles are respected. The most well-known rules are that 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 policies.

Budgetary policy

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

- *Fixed expenditure benchmarks*
  Expenditure benchmarks are an important component in Dutch budgetary policy. Maximum growth of public expenditure is determined at the beginning of the government term. Fixing expenditure has been an effective means to ensure manageability of public finances in the past. Every minister is financially responsible for expenditure in his policy area. This system is generally perceived as being clear, credible and predictable.
- *Macroeconomic stabilisation*
  Macroeconomic stabilisation of the economy takes place on the revenue side and a portion on the expenditure side of the budget. On the revenue side of the budget, the principle of automatic stabilisation applies. This means that revenue windfalls benefit the general government balance and revenue setbacks burden the general government balance. This means that higher revenues – for example, more tax receipts as a result of higher economic growth – cannot be used for additional expenditures. On the other hand, setbacks on the revenue side, in principle, do not have to lead to cutbacks. Policy-related developments in public spending (particularly taxes and social security contributions) must be compensated on the revenue side. In the context of automatic stabilisation, the Rutte III cabinet also placed cyclical unemployment and social benefit expenditure beyond the scope of the expenditure benchmark.
- *Separation between revenue and expenditure frameworks.*
  This separation is the result of containing expenditure by means of the expenditure benchmark and automatic stabilisation on the revenue side by means of the revenue framework. Through this distinction, it is made even more explicit that additional expenditure must be fitted in under the expenditure ceiling, and tax relief or tax burdens are compensated within the revenue framework.
- *A single major decision-making moment on the expenditure and revenue side of the budget.*
  This moment is in spring and is based on CPB's CEP. Further decision-making on the revenue side and developments in purchasing power take place in August, based on a new projection by the CPB.

These starting points are set out in the budgetary rules. These starting points were agreed to at the start of the Rutte III government term and were published as an annex to the Initial Policy Memorandum[16].

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

ANNEX:
STABILITY PROGRAMME TABLES

All figures in the Annex are based on CEP 2020, or actual figures by Statistics Netherlands.

Table 1a. Macroeconomic prospects*

In % of GDP	ESA Code	**2019** (billions of euro)	**2019**	**2020**	**2021**	**2022**	**2023**
1. Real GDP	B1*g		1.8	1.4	1.6	1.5	1.5
2. Nominal GDP	B1*g	812.1	4.7	3.2	3.5	3.3	3.1
Components of real GDP							
3. Private consumption expenditure	P,3	354.9	1.4	1.9	1.9	1.4	1.4
4. Government final consumption expenditure	P,3	197.8	1.6	2.5	2.6	1.9	2.1
5. Gross fixed capital formation	P,51	27.3	5.3	1.3	2.0	1.5	1.5
6. Changes in inventories (Δ)	P,52 + P,53	1.7	-0.1	-0.2	-0.1	0.1	0.0
7. Exports of goods and services	P,6	670.1	2.6	2.7	2.8	2.7	2.8
8. Imports of goods and services	P,7	583	3.2	3.3	3.4	3.1	3.2
Contributions to real GDP growth							
9. Final domestic demand		721.2	1.9	1.7	1.8	1.4	1.4
10. Changes in inventories (Δ)	P,52 + P,53	1.5	-0.1	-0.2	-0.1	0.1	0.0
11. External balance of goods and services	B,11	87.8	-0.2	-0.1	-0.1	0.0	0.0

* Figures for 2019 have been adjusted based on actual figures by Statistics Netherlands

Table 1b. Price developments

In % of GDP	ESA Code	**2019** (billions of euro)	**2019**	**2020**	**2021**	**2022**	**2023**
1. GDP deflator		3.00	1.8	1.8	1.7	1.6	1.5
2. Private consumption deflator		2.60	1.6	1.7	1.6	1.6	1.6
3. HICP		2.70	1.6	1.6	1.5	1.5	1.5
4. Public consumption deflator		3.00	2.1	2.0	1.6	1.5	1.4
5. Investment deflator		2.90	2.0	1.9	1.6	1.3	1.2
6. Export price deflator (goods and services)		0.30	0.7	0.7	0.7	0.7	0.7
7. Import price deflator (goods and services)		-0.40	0.7	0.6	0.4	0.5	0.6

Table 1c. Labour market developments

In % of GDP	ESA Code	2019 (billions of euro)	**2019**	**2020**	**2021**	**2022**	**2023**
1. Employment (x 1000 persons)		9532.8	1.8	1.2	0.7	0.5	0.5
2. Employment (bln hours worked)		13638.2	1.7	1.1	0.9	0.7	0.5
3. Unemployment (% of labour force)		314.0	3.4	3.2	3.4	3.5	3.8
4. Labour productivity, persons		85.0	-0.1	0.2	0.9	1.0	0.9
5. Labour productivity (bln hours worked)		59.4	0.0	0.3	0.7	0.8	0.9
6. Compensation of employees	D.1	390.0	5.6	4.4	4.5	3.5	2.9
7. Compensation per employee (€)		40.9	3.2	3.2	3.4	2.7	2.4

* Figures for 2019 have been adjusted based on actual figures by Statistics Netherlands

Table 1d. Sectoral balances

In % of GDP	ESA Code	**2019**	**2020**	**2021**	**2022**	**2023**
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	9.6	9.7	9.1	9.0	8.8
Of which:						
- Balance on goods and services		10.8	10.5	10.1	10.0	9.9
- Balance of primary incomes and transfers		-0.6	0.0	0.0	0.0	0.0
- Capital account		-0.6	-0.7	-1.0	-1.0	-1.1
2. Net lending/net borrowing of private sector	B.9	7.7	8.3	8.7	8.7	8.5
3. General government balance	EDP B.9	1.7	1.1	0.1	0.1	0.0
4. Statistical discrepancy						

Table 2a General government budgetary targets broken down by subsector

In % of GDP	ESA Code	2019 (billions of euro)	2019	2020	2021	2022	2023
Net lending/net borrowing (EDP B.9) by subsector							
1. General government	S.13	14.0	1.7	1.1	0.1	0.1	0.0
2. Central government	S.1311	8.8	1.1	0.3	-0.7	-0.7	-0.7
3. State government	S.1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S.1313	-1.6	-0.2	0.0	-0.1	-0.1	-0.1
5. Social security funds	S.1314	6.9	0.8	0.8	0.9	0.9	0.9
Total General government (S13)							
6. Total revenue	TR	354.3	43.9	43.5	43.0	42.9	42.9
7. Total expenditure	TE	340.2	42.3	42.4	42.9	42.8	42.8
8. General government balance	EDP B.9	14.0	1.7	1.1	0.1	0.1	0.0
9. Interest charges	EDP D.41	6.2	0.8	0.6	0.5	0.5	0.4
10. Primary balance		20.3	2.5	1.7	0.6	0.6	0.4
11. One-off and other temporary measures		-1.4	-0.2	-	-	-	-
Selected components of revenues							
12. Total taxes (=12a+12b+12c)		314.8	38.8	25.4	25.0	25.2	25.0
12a. Taxes on production and imports	D.2	87.7	10.8	12.0	12.1	12.0	12.0
12b. Current taxes on income and wealth	D.5	54.0	6.6	13.1	12.7	12.9	12.8
12c. Capital taxes	D.91	1.9	0.2	0.2	0.2	0.2	0.2
13. Social contributions	D.61	83.2	10.2	13.6	13.6	13.5	13.7
14. Property income	D.4	6.9	0.8	0.7	0.7	0.6	0.6
15. Other		30.1	3.7	3.7	3.7	3.6	3.6
16. Total revenue (=6)	TR	354.3	43.9	43.5	43.0	42.9	42.9
Tax burden		314.8	38.8	39.0	38.6	38.6	38.7
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1 + P.2	114.2	14.1	14.4	14.4	14.2	14.2
17a. Compensation of employees	D.1	66.8	8.2	8.4	8.5	8.5	8.4
17b. Intermediate consumption	P.2	47.5	5.8	6.0	5.9	5.8	5.8
18. Social payments		167.1	20.6	20.6	21.0	21.1	21.3
of which Unemployment benefits		11.2	1.4	1.3	1.3	1.3	1.3
18a. Social benefits in kind through market output	D.6311, D.63121, D.63131	84.0	10.3	10.3	10.6	10.8	10.9
18b. Social benefits not in kind	D.62	83.2	10.2	10.3	10.4	10.4	10.4
19. Interest expenditure (=9)	EDP D.41	6.2	0.8	0.6	0.5	0.5	0.4
20. Subsidies	D.3	9.3	1.1	1.2	1.2	1.2	1.1
21. Gross fixed capital formation	P.51	27.3	3.4	3.3	3.4	3.4	3.4
22. Capital transfers		4.6	0.6	0.8	0.7	0.7	0.7
23. Other		11.5	1.4	1.5	1.7	1.7	1.7
24. Total expenditure (=7)	TE	340.2	41.9	42.4	42.9	42.8	42.8
25: Public consumption (nominal)	P.3	196.5	24.2	24.6	24.9	24.9	25.1

* Figures for 2019 have been adjusted for items 1 to 11 and 17 to 24 based on actual figures by Statistics Netherlands.

Table 2b. Breakdown of revenue*

In % of GDP	ESA Code	**2019** (billions of euro)	**2019**	**2020**	**2021**	**2022**	**2023**
1. Total revenue at unchanged policy	S.13	354.3	43.6	43.5	43.0	42.9	42.9
2. Total expenditure at unchanged policy	S.1311	340.2	41.9	42.4	42.9	42.8	42.8

* Figures for 2019 have been adjusted based on actual figures by Statistics Netherlands

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

In % of GDP	ESA Code	**2019** (billions of euro)	**2019**	**2020**	**2021**	**2022**	**2023**
1. Expenditure in EU programmes fully matched by EU funds revenue	S.13	0.1	0.0	0.0	0.0	0.0	0.0
1.a Of which investment expenditure fully matched by EU funds revenue	S.1311	0.0	0.0	0.0	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure		-1.9	-0.2	-0.2	-0.1	0.0	0.1
3. Effect of discretionary revenue measures							
4. Revenue increases mandated by law		1.0	0.1	-0.1	0.1	0.1	0.1

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

In % of GDP	COFOG Code	**2019**	**2023**
1. General public services	1	4.0	4.4
2. Defence	2	1.1	1.3
3. Public order and safety	3	1.8	1.6
4. Economic affairs	4	3.6	3.6
5. Environmental protection	5	1.3	1.4
6. Housing and community amenities	6	0.3	0.4
7. Health	7	7.2	8.4
8. Recreation, culture and religion	8	1.1	1.2
9. Education	9	4.9	5.0
10. Social protection	10	14.7	15.5
11. Total expenditure	TE	40.1	42.8

Table 4. General government debt developments*

In % of GDP	ESA Code	**2019**	**2020**	**2021**	**2022**	**2023**
1. Gross debt		48.6	46.3	45.2	44.0	43.1
2. Change in gross debt ratio		-3.8	-2.5	-1.1	-1.2	-0.9
Of which:						
3. Primary balance		2.5	1.7	0.6	0.6	0.4
4. Interest charges	EDP D.41	0.8	0.6	0.5	0.5	0.4
5. Stock/flow adjustment and other		-1.8	-1.2	-1.0	-1.1	-0.8
- Of which: Difference between cash and accruals		0.0	0.0	0.0	0.0	0.0
- *Of which:* Net accumulation of financial assets		0.5	0.1	0.5	0.3	0.5
- *Of which:* Privatisation proceeds		-0.1	0.0	0.0	0.0	0.0
- *Of which:* Valuation effects and other		0.6	0.1	0.5	0.3	0.5
Implicit interest rate on debt (%)		1.5	1.2	1.1	1.1	0.9
6. Liquid financial assets (% of GDP)		-0.2	0.2	0.2	0.2	0.2
7. Net debt (7=1–6)		48.8	46.1	43.3	40.6	39.7
8. Debt amortization (existing bonds) since end of previous year (€ billion)		3.7	3.6	1.9	3.4	3.4
9. Percentage of debt denominated in foreign currency		0.0	0.0			
10. Average maturity		7.9	8.3			

* Figures for 2019 have been adjusted for items 1 to 5 based on actual figures by Statistics Netherlands.

Table 5. Cyclical developments

In % of GDP	ESA Code	2019	2020	2021	2022	2023
1. Real GDP growth		1.7	1.4	1.6	1.5	1.5
2. Net lending of general government	EDP B.9	1.7	1.1	0.1	0.1	0.0
3. Interest charges	EDP D.41	0.8	0.6	0.5	0.5	0.4
4. One-off and other temporary measures		-0.2	0.0	0.0	0.0	0.0
4.a Of which: on revenue side		-0.2	0.0	0.0	0.0	0.0
4.b Of which: on expenditure side		0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth		1.9	1.8	1.8	1.5	1.4
Contribution to growth						
- Labour		1.0	0.9	0.8	0.5	0.4
- Capital		0.6	0.6	0.6	0.6	0.5
- Total factor productivity		0.3	0.3	0.4	0.4	0.4
6. Output gap (EC method)		0.9	0.5	0.4	0.2	0.0
7. Cyclical budgetary component		0.5	0.3	0.2	0.1	0.0
8. Cyclically-adjusted balance (2–7)		1.2	0.8	-0.1	0.0	0.0
9. Cyclically-adjusted primary balance (8+3)		0.0	0.0	0.0	0.0	0.0
10. Structural balance (8–4)		1.0	0.8	-0.1	0.0	0.0

Table 6. Divergence from 2019 Stability Programme

In % of GDP	ESA Code	2019	2020	2021
Real GDP growth				
Update April '19		1.5	1.5	1.2
Current update		1.7	1.4	1.6
Difference		0.2	-0.1	0.4
General government balance	EDP B.9			
Update April '18		1.2	0.8	0.2
Current update		1.7	1.1	0.1
Difference		0.5	0.3	-0.1
General government debt				
Update April '18		49.1	47.1	45.7
Current update		49.3	47.6	46.9
Difference		0.2	0.5	1.2

Table 7. Sustainability of public finances

In % of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	**48.2**	**42.4**	**44.2**	**47.3**	**48.2**	**48.3**	**48.2**
Of which:							
Age-related expenditure	20.8	21.0	22.8	25.0	25.5	25.1	20.8
Pension expenditure	6.2	6.9	7.5	8.1	7.9	7.7	6.2
Social security expenditure	11.7	11.3	12.1	12.7	12.5	12.2	11.7
Old-age and early retirement pension	4.5	4.9	5.6	6.3	6.1	5.8	4.5
Other pensions (occupational disability, surviving relatives)	1.7	1.9	1.9	1.8	1.9	1.9	1.7
Occupational pensions (government)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Healthcare (cure)	5.9	6.1	6.7	7.2	7.2	7.1	5.9
Long-term care	3.5	3.4	4.2	5.2	5.8	6.0	3.5
Education expenditure	5.1	4.6	4.3	4.5	4.6	4.4	5.1
Other age-related expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure	1.8	0.6	0.9	1.8	2.2	2.7	1.8
Total revenue	**43.2**	**43.6**	**43.8**	**45.1**	**45.4**	**45.5**	**43.2**
Of which: Property income	2.7	0.8	0.6	0.7	0.7	0.7	2.7
Of which: Pension contributions (or social security contributions)	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Pension reserve fund assets	138.8	200.5	194.9	196.4	188.2	180.7	138.8
Of which: Consolidated public pension fund assets	0.0	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	0.0
Pension expenditure paid by mandatory private system	4.8	5.2	6.1	7.7	7.5	7.0	4.8
Assumptions							
Labour productivity growth	1.5	0.3	1.5	0.9	0.9	1.1	1.5
Real GDP growth	1.0	1.4	1.4	1.0	1.3	1.2	1.0
Participation rate (males) (15–64)	83.4	84.1	85.8	85.8	85.4	85.6	83.4
Participation rate (females) (15–64)	72.4	77.1	80.5	81.8	82.5	83.4	72.4
Total participation rate (15–64)	77.9	80.7	83.6	84.5	84.7	85.2	77.9
Unemployment rate (20–64)	4.5	3.2	4.3	4.3	4.3	4.3	4.5
Population aged 65+ as percentage of total population	16.2	20.5	24.1	26.3	26.1	26.2	16.2

Table 8. External assumptions

	2019	2020	2021	2022	2023
Short-term interest rate (annual average)	-0.4	-0.4	-0.3	-0.2	-0.1
Long-term interest rate (annual average)	-0.1	0.0	0.1	0.2	0.3
USD/EUR exchange rate (annual average)	1.1	1.1	1.1	1.1	1.2
Nominal effective exchange rate*	-0.8	-0.6	0.2	0.7	1.1
GDP growth World excluding EU	3.4	3.5	3.5	3.7	3.7
GDP growth EU	2.9	3.0	3.0	3.2	3.2
Growth of relevant foreign markets	1.2	1.1	1.2	1.3	1.3
World import volume excluding EU	2.4	1.9	2.2	2.7	3.0
Oil price (Brent, USD per barrel)	0.7	2.1	2.6	3.4	3.5

* Percentage changes in respect of a basket of competitors