



STABILITY PROGRAMME
THE NETHERLANDS

APRIL 2021

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 31 March 2021 and Update of the 2022-2025 Medium-term Forecast of March 2021. The figures for 2020 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.

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SUMMARY

The Dutch economy shows resilience and will recover after the corona crisis. In the most recent actual figures, the Dutch economy has shrunk by 3.7% as a result of the crisis in 2020. In the forecast, which is the basis for this Stability Programme, the economy will recover by 2.2% in the course of 2021 and by 3.5% in 2022. In 2021, the Dutch government continues to pursue an expansive budgetary policy to mitigate the negative consequences of the corona crisis. It is for this reason that the forecast provides for a general government balance of -5.9% in 2021. The forecast assumes that the financial support packages under current policy plans will expire on 1 July, which will result in the general government balance being -1.7% of gross domestic product (GDP) by 2022. In 2021, general government debt is expected to rise to 58.6% and due to the economic recovery, it is expected to drop to 56.9% of GDP by 2022. According to the forecast, the Netherlands will remain below the European reference value of 60%.

Development of the COVID-19 virus remains uncertain, which leads to uncertainty about economic recovery. Due to this uncertainty, a forecast of an optimistic and pessimistic scenario by the CPB has been included. In the optimistic scenario, the economy recovers rapidly after discontinuation of contact-restricting measures. Consumer and producer confidence will increase sharply and lead to increased consumption and investments. Economic growth is higher than in the basic scenario and the government deficit and general government debt are developing favourably. In the pessimistic scenario, a new COVID-19 outbreak leads to a new recession. Contact-restricting measures will reduce household consumption, which, according to the forecast, will shrink the economy slightly and then show very little growth. The government will pursue a broad budgetary policy to mitigate the negative effects of the recession, resulting in a deterioration of the general government balance and general government debt.

Dutch public finances have deteriorated due to the budgetary and economic impact of the corona crisis. In 2019 there was still a budget surplus of 1.7% of GDP, and in 2020 we had a budget deficit of 4.3% of GDP. The economic consequences of the corona measures were so significant that the government decided to introduce additional emergency and support measures and to have this negatively influence the budget balance. Expenditures on corona measures amounted to a total of EUR 28 billion in 2020. Almost half of this (EUR 13.2 billion) went to the Temporary Emergency Bridging Measure to Preserve Employment (NOW). For 2021, the CPB also expects a budget deficit due to corona measures. Yet, the forecasts for future general government balances and general government debts for the years 2022-2025 are more positive than was previously expected. This difference is explained by the more favourable economic developments according to the Central Economic Plan (CEP) 2021.

Sustainability of public finances is not in danger in the medium-term, but development of the debt is surrounded by uncertainties. Compared with the Stability Programme of April 2020, projections as a result of the corona crisis impact have been substantially adjusted. Nevertheless, the risk of a sharply rising government debt appears to be limited in the medium-term. In an estimate of scenarios based on historical data, in 90% of cases government debt remains between 35% and 70% of GDP in 2030. An impact test shows that more extreme scenarios, such as a financial crisis, can have significant consequences for public finances.

Expenditures on corona measures have negatively impacted the sustainability balances projected by the European Commission and the CPB. The EC projects a sustainability gap of 3.3% of GDP and the CPB expects a deficit of 1.8% of GDP according to the 2021 CEP. The corona crisis has caused the sustainability balance, among other things, to deteriorate due to a higher government debt and therefore greater interest expenses. Yet, according to both institutions, the deficit is mainly caused by increasing healthcare expenditure as a result of the ageing population. Other factors that may have future budgetary implications are public guarantees. The present risk of government guarantees has increased by around EUR 60 billion in the past crisis year.

The Netherlands is temporarily derogating from national budgetary agreements due to the impact of the corona crisis. European budgetary rules currently provide scope for stabilisation. 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 Stability and Growth Pact (SGP), has entered into force. This means that Member States now do not need to be compliant with (the path towards) their medium-term budgetary objective (MTO), according to the preventive arm of the SGP. At this point in time, the Netherlands does not comply with the MTO. In a formal sense, the reference values of the corrective arm of the SGP are still applicable. According to CEP forecasts, the Netherlands exceeds the 3% reference value for the general government balance in 2020 and 2021. However, last year the European Commission concluded that starting excessive deficit procedures was not justified because of the macroeconomic and budgetary impact of the corona crisis. Thus, exceedance of a European reference value does not affect the Netherlands.

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 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. 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. This Stability Programme follows the guidelines for the format and content of Stability and Convergence Programmes.¹

The preventive arm requires that Member States comply with the medium-term budgetary objective, the MTO. For the Netherlands, an MTO of -0.5% of GDP applies. 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. However, activation of the general escape clause provides an exception to these requirements. 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. Yet, last year, the European Commission (EC) concluded that starting excessive deficit procedures was not justified because of the macroeconomic and budgetary impact of the corona crisis.

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 term. 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. However, the coronacrisis is not a normal cyclical wave, as the government was obliged to intervene directly in the economy by shutting down certain activities. It is for this reason that the government has made a choice to have temporary measures that are directly related to the corona crisis, negatively influence the budget balance. This means that there is no need for 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.

Within the boundaries of the SGP, the government takes measures that reduce the burden for households and strengthens the structural economic position of the Netherlands. For an overview of progress made in the government's reform programme, reference is made to 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.

¹ European Commission, Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes, 5 July 2016.

CHAPTER 2:

ECONOMIC OUTLOOK AND EPIDEMIOLOGICAL SCENARIOS

The CPB Netherlands Bureau for Economic Policy Analysis (CPB) predicts that the Dutch economy will recover quickly after the corona crisis. According to the latest CPB forecast, the Dutch economy will grow by 2.2% in 2021 and by 3.5% in 2022. Private consumption will rise sharply in 2022, while consumption expenditure rises sharply in 2021. Increased investments, exports and imports also show recovery. However, as a result of the crisis, unemployment is forecast to rise to 4.4% and 4.7% respectively in 2021 and 2022. In the following years, unemployment will stabilize at 4.5%.

Economic outlook

The Dutch economy is growing in 2021 and 2022 and is recovering after the sharp downturn of 2020. In 2020, real gross domestic product (GDP) decreased by 3.7%; an historically major downturn due to the corona crisis. The forecast predicts a recovery in 2021, in which economic growth will be 2.2% higher than potential growth. In 2022, further recovery growth is expected with an economic growth of 3.5%. Private consumption remains low in 2021 and will only rise 0.6% after a sharp 6.4% downturn in 2020. However, in 2022, private consumption will rise sharply and will recover towards the level prior to the corona crisis, partly due to high savings by households previously and a substantial rise in collective labour agreement wages in the years 2020 and 2021. Government consumption expenditure is rising sharply in 2021, basically by 5.7%. This increase, to a considerable extent, is due to the financial support packages, which the forecast assumes will expire on 1 July. In 2022, government spending will increase slightly by an expected growth of 0.2%.

Table 2.1 Macroeconomic prospects

in % of GDP	ESA Code	2020 (in billions of euro)	2020	2021	2022
1. Real GDP	B1*g	798.9	-3.7	2.2	3.5
2. Nominal GDP	B1*g		-1.4	3.7	5.2
Components of real GDP					
3. Private consumption expenditure	P.3	336.5	-6.4	0.6	6.1
4. Government final consumption expenditure	P.3	206.6	1.4	5.7	0.2
5. Gross fixed capital formation	P.51	27.4	-3.6	2.4	2.8
6. Changes in inventories (Δ)	P.52 + P.53	2.0	-0.1	0.0	0.0
7. Exports of goods and services	P.6	630.0	-4.3	2.6	5.2
8. Imports of goods and services	P.7	545.2	-4.3	3.0	5.4
Contributions to real GDP growth					
9. Final domestic demand		711.9	-3.3	2.1	3.0
10. Changes in inventories (Δ)	P.52 + P.53	2.0	-0.1	0.0	0.0
11. External balance of goods and services	B.11	84.8	-0.4	0.0	0.4

Business investments will grow in 2021 and 2022 as a result of rising confidence.

Investments respond positively to increasing revenue and better revenue expectations, supported

by low financing costs. However, investment growth will be hampered by disproportionate bankruptcies in some sectors when the support policy ends and balance sheet losses suffered by companies during the pandemic.

This year, exports will increase by 2.6% and imports by 3.0%, as restrictions are also lifted elsewhere in the world. However, the imports and exports of goods from the United Kingdom will decline in 2021, partly due to the consequences of the corona crisis in the UK and adjustment issues during the Brexit transition period. In January 2021, British exports of goods to the EU decreased by 41%, and British imports of goods from the EU decreased by 29% compared to December 2020. The CPB expects that these adjustment issues will also put constraints on trade in the course of 2021 and 2022. The Netherlands compensates part of this loss by trading more with other countries. The US support programme of USD 1,900 billion also has a positive impact on exports.

After a decrease in 2021, employment will recover as from 2022, due to an upswing in the economy. According to a higher population prognosis by Statistics Netherlands (CBS), the supply of labour is also higher. The unemployment forecast was substantially revised downwards by 1.7 percentage points to 4.4% in 2021. Unemployment will increase to 5% by the end of 2021 and will then decrease in the course of 2022. As usual, the economic recovery will only be reflected in the unemployment rate after some delay. A recovering economy is initially reflected in the number of hours worked, later in the number of employed people and only then in the unemployment rate itself.

The dynamism in the labour market will increase after the support measures have ended. On the basis of current policy proposals, the substantial current support measures end on 1 July. This will be accompanied, in the short term, by reorganisations and bankruptcies. This brings productivity-enhancing dynamism back to businesses, which benefits the economy in the long-term. As a result, labour productivity increases.

Table 2.2 Labour market developments

	ESA Code	2020 (Level)	2020	2021	2022	2023	2024
1. Employment (x 1000 persons)		9511.2	-0.7	-0.2	0.8	1.2	0.8
2. Employment, no. hours worked (in millions)		13310.6	-3.5	2.0	1.5	0.8	0.8
3. Unemployment (% of the working population) ²		357.3	3.8	4.4	4.7	4.5	4.5
4. Labour productivity, persons		84.0	-3.1	2.4	2.7	0.6	0.6
5. Labour productivity, no. hours worked		60.0	0.0	0.3	1.9	0.8	0.5
6. Payroll of employees (in billions)	D.1	398.9	2.7	2.8	1.8	3.2	3.0
7. Compensation per employee (€)		41.9	6.2	0.7	0.4	2.3	2.2

As an open economy, the Netherlands is largely dependent on financial and economic developments abroad. In 2020 and in early 2021, there was a severe downturn in global and European production due to the corona crisis. In the forecast, global and European production will recover in the course of 2021 as a result of vaccinations and more generous monetary and budgetary policies. Global production will continue to increase in the years 2022 and 2023. This

² 357.5 shows the number of unemployed of the working population x1000

expected growth in production is surrounded by a number of uncertainties, such as the EU's trade policy with China and the US, among others, and development of the COVID-19 virus across the globe. However, the expected GDP growth in markets relevant to the Netherlands is higher than the global average, partly due to relatively positive expectations about the vaccination rate in these economies. In addition, it is forecast that the oil price will increase significantly in 2021 to USD 62.64 per barrel, and will then decrease slightly. The USD/EUR exchange rate is expected to increase in 2021 and will remain stable in subsequent years.

Table 2.3 External assumptions

	2020	2021	2022	2023
Short-term interest rate (annual average)	-0.4	-0.5	-0.5	-0.4
Long-term interest rate (annual average)	-0.4	-0.3	-0.2	0.0
USD/EUR exchange rate (annual average)	1.1	1.2	1.2	1.2
Nominal effective exchange rate*	2.0	1.2	0.2	0.8
GDP growth, World excluding EU	-4.0	4.8	4.2	3.9
GDP growth, EU	-6.8	4.0	4.0	1.7
Growth of relevant foreign markets	-9.0	6.0	6.0	4.1
World import volume, excluding EU	-11.1	5.7	7.8	4.5
Oil price (Brent, USD per barrel)	41.8	62.6	59.2	56.8

* percentage changes in respect of a basket of trading partners

Epidemiological scenarios

The economic outlook is highly dependent on the evolution of the epidemiological picture. Because of this major uncertainty, the CPB has projected a pessimistic and optimistic scenario in addition to the basic projection. Scenario analysis helps to uncover uncertainty about economic development and to gauge the order of magnitude of effects. Every scenario offers an internally consistent economic picture; given assumptions about the duration and depth of the economic shock. Policy can then take into account not only the most likely scenario in the basic projection, but also possible alternatives.

In the optimistic scenario, lifting measures against the spread of the coronavirus will allow the economy to recover quickly. In this scenario, consumer and producer confidence will increase significantly and households will use previous savings for additional consumer spending. Businesses will invest more, partly because of the low funding costs. In the optimistic scenario, other European countries will also recover quickly and exports will increase significantly. Employment will increase, which will tighten the labour market and wages will also increase. The rising wages will increase consumption and thus boost economic growth. In this scenario, GDP will grow by 2.6% in 2021 and by 5.1% in 2022. Unemployment will rise to 4.4% in 2021, but will drop to 4.2% in 2022. As a result of higher tax revenues and lower unemployment compensation benefits, the government debt and deficit are lower in this scenario.

In the pessimistic scenario, the coronavirus will continue to mutate and make vaccinations ineffective. A new outbreak of the virus leads to a new economic recession in this scenario. Households and businesses will become more cautious and uncertain, reducing consumption and investments. The government continues to take far-reaching measures to prevent the spread of the virus, further reducing consumption. In the pessimistic scenario, trading partners will also be faced with new outbreaks of the coronavirus which will lead to a decline in exports. New support packages mitigate the negative impact on production and unemployment, but lead to a deterioration in the government deficit and government debt. GDP development will be -0.8% in 2021 and 0.8% in 2022. Unemployment will rise sharply to 6.1% in 2022. As a result of lower tax revenues and higher benefit payments, government debt will increase further.

Table 2.4 Economic scenarios

	2020	2021	2022	2020	2021	2022	2020	2021	2022
	basic projection			optimistic scenario			pessimistic scenario		
Gross domestic product (GDP, economic growth, %)	-3.7	2.2	3.5	-3.7	2.6	5.1	-3.7	-0.8	0.8
Household consumption (volume in %)	-6.4	0.6	6.1	-6.4	1.2	8.9	-6.4	-3.3	1.6
Capital formation (including inventories, volume in %)	-4.0	2.3	2.8	-4.0	3.1	5.8	-4.0	-3.0	-2.0
Exports of goods and services (volume in %)	-4.3	2.6	5.2	-4.3	2.9	6.9	-4.3	-1.0	0.8
Unemployed working population (level in % of workforce)	3.8	4.4	4.7	3.8	4.4	4.2	3.8	4.6	6.1
Employment (in hours, change in %)	-3.5	2.0	1.5	-3.5	2.1	2.2	-3.5	0.1	-1.8
General government balance (level in % of GDP)	-4.3	-5.9	-1.7	-4.3	-5.7	-0.9	-4.3	-7.8	-5.7
General government debt (year-end, level in % of GDP)	54.4	58.6	56.9	54.4	58.2	54.7	54.4	62.2	66.7

CHAPTER 3: BUDGET BALANCE AND GOVERNMENT DEBT

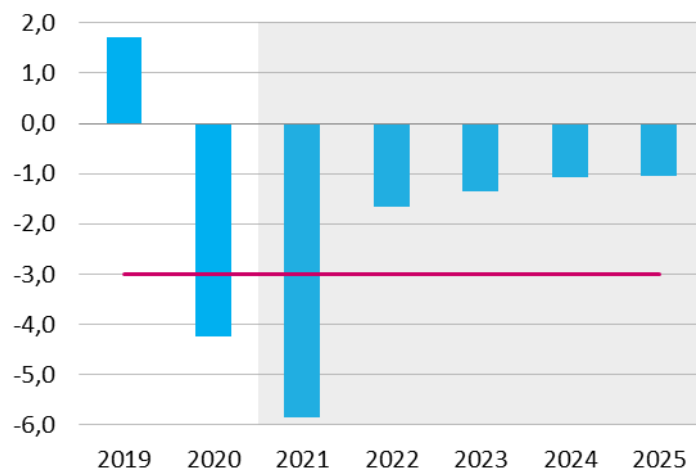
Dutch public finances have deteriorated due to the budgetary and economic impact of the corona crisis. In 2019, there was still a budget surplus of 1.7% of GDP, and in 2020 we had a budget deficit of 4.3% of GDP, according to CPB. We expect a budget deficit for the years ahead. Yet, the forecasts for future general government balances and general government debts are more positive than previously expected. This chapter contains both an explanation of budget balances and the debt ratio as a breakdown of expenditures on corona measures.

Budget balance and government debt

Higher expenditures and lower revenues due to the corona crisis have led to an historic budget balance of -4.3% of GDP in 2020, according to the 2021 Central Economic Plan (CEP). A deficit is also expected for the years ahead as shown in Figure 3.1. Compared to the CPB's November forecast, the budget deficit will increase in 2021. This difference is mainly due to substantial expansions of the support measures at the end of 2020 and the beginning of 2021. In 2022, the budget balance will improve due to the end of the support measures and the economic recovery. For the years 2022-2025, the government deficit will be lower than in the previous forecast due to improved economic development. This development will be reflected in various ways in the general government balance. On the one hand, more economic growth leads to more tax revenue and lower expenditure on unemployment benefits and social assistance benefits. On the other hand, a growing economy ensures a reduction of the balance, expressed as a percentage of GDP (denominator effect).

With the general government balances of 2020 and 2021, the Netherlands exceeds the European reference value of -3%; as from 2022 onwards, the general government balance will be below the European reference value of -3%. Strictly speaking, the reference values of the corrective arm of the Stability and Growth Pact (SGP) are still in force, despite activation of the general escape clause. However, last year the European Commission concluded that starting excessive deficit procedures was not justified because of the exceptional uncertainty relating to the macroeconomic and budgetary impact of the corona crisis. Thus exceedance of a European reference value does not affect the Netherlands.

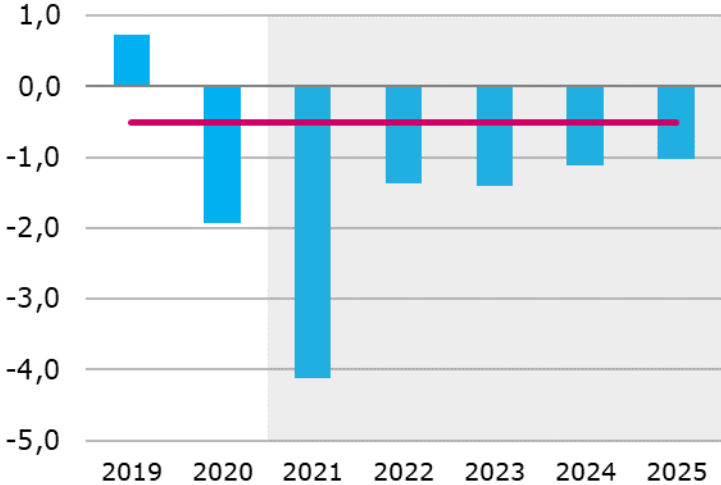
Figure 3.1 Development and projection of general government balance (in % of GDP)



At present, the Netherlands neither complies with the objective of the preventive arm of the Stability and Growth Pact (SGP), being the medium-term objective (MTO). This can be seen in figure 3.2. In the Netherlands, an MTO of -0.5% of GDP (pink line) applies, whereas the structural balance was -1.9% in 2020. It is expected that this balance will deteriorate to -4.1% of

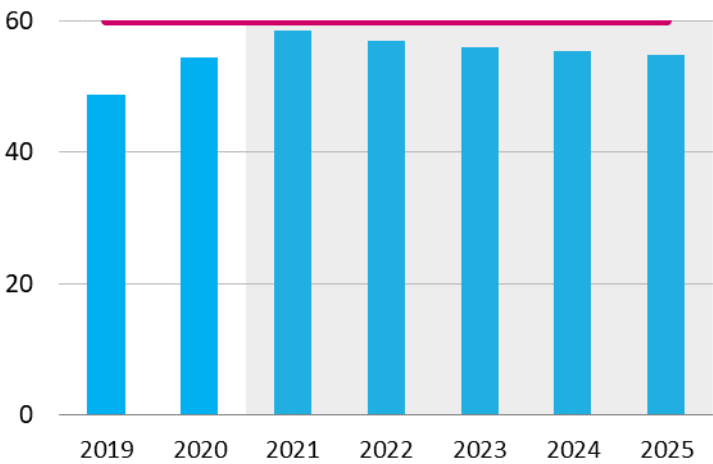
GDP in 2021. In the following years, the structural balance will improve but will remain below the MTO. Activation of the escape clause of the SGP means that Member States in the preventive arm may provisionally derogate from their structural budgetary efforts. For the time being, Member States do not have to comply with the expenditure benchmark, which normally enters into force on non-compliance of the MTO. This expenditure benchmark is geared to sustain public finances in the medium-term and requires that the percentual increase of corrected public expenditure does not exceed the potential growth of the economy, corrected for a set budgetary effort.

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



At the end of 2020, general government debt was 54.4% of GDP, according to the 2021 CEP, and thus remained below the European reference value of 60%. In 2021, the debt ratio will increase to 58.6% due to budget deficits, tax deferrals granted and additional government loans to businesses. In the following years, government debt will decrease slowly. Debt ratios for the years 2020-2025 are lower in the CEP than in the CPB projection of last November. This difference, just like the budget balance, is due to improved economic development resulting in fewer expenditures, more revenue and a larger economy (denominator effect).

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



Corona crisis expenditure

The automatic stabilisers were inadequate to limit the economic effects of the corona crisis. The government’s coronavirus rules have halted both the services and economic activities in many sectors. It has therefore been decided to introduce additional emergency and support measures to minimise the impact on citizens and businesses. These support packages prevent

businesses and their related employment from going bankrupt due to the sudden restrictions on services. This will confine the detrimental economic effects caused by this exceptional crisis. The government has also determined that expenditures on corona measures are to negatively influence the budget balance in order to avoid cuts in other expenditure. This means that corona measures fall outside the expenditure benchmark.

In total, discretionary expenditure on corona-related measures amounted to EUR 28 billion in 2020. This amount is more than the budgets of the ministries of Justice & Security and Defence, together. In comparison with other countries too, the Netherlands has supported the economy extensively, according to the IMF's 2021 World Economic Outlook. Table 3.1 shows expenditures on corona measures per budget chapter. More than half of the total amount has been spent by the Ministry of Social Affairs and Employment, partly because of the Temporary Emergency Bridging Measure to Preserve Employment (NOW). In the past year, the NOW spent EUR 13.2 billion. Other major expenditures on corona measures are the Temporary Support Scheme for Self-Employed Persons (TOZO) and the Reimbursement Fixed Costs (TVL)/Compensation for Entrepreneurs in Affected Sectors (TOGS). Expenditures for these measures amounted to EUR 2.7 billion and EUR 2 billion respectively in 2020.

The government's support package also consists of tax measures to cushion the impact on entrepreneurs during the corona crisis. These tax measures reduce current tax revenues. Figure 3.3 shows that tax deferral for entrepreneurs as at 31 December 2020 amounted to EUR 12.9 billion.

In addition, the government has attempted to partially dispel uncertainties in the economy through various risk arrangements. At the European level too, risk arrangements have been harnessed following the corona crisis, which the Netherlands partly guarantees. The total amount of present risk related to the corona crisis is EUR 52.7 billion, as shown in figure 3.4. Chapter 5 explains the policy on risk arrangements.

Due to the March 2021 elections, the Netherlands has not yet submitted a plan for use of the Recovery and Resilience Facility (RRF) as part of the European recovery plan Next Generation EU (NGEU). This means there have been no RRF expenditures in the Netherlands.

Table 3.1 Expenditures on corona measures per budget chapter

In millions of euros	2020
Total	27,751
Home Affairs	46
Foreign Affairs	7
Defence	43
Economic Affairs and Climate	2,507
Finance and National Debt	298
Municipalities Fund	848
Infrastructure and Water Management	803
Justice and Security	137
Kingdom Relations and BES Fund	50
Agriculture, Nature and Food Quality	245
Education, Culture and Science	715
Social Affairs and Employment	16,497
Public Health, Welfare and Sport	5,557

Figure 3.3 Corona-related revenue measures

- Belastingmaatregelen
- Belastinguitstel

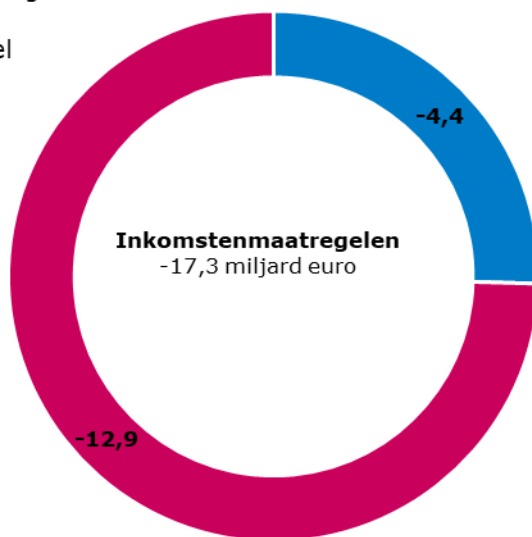
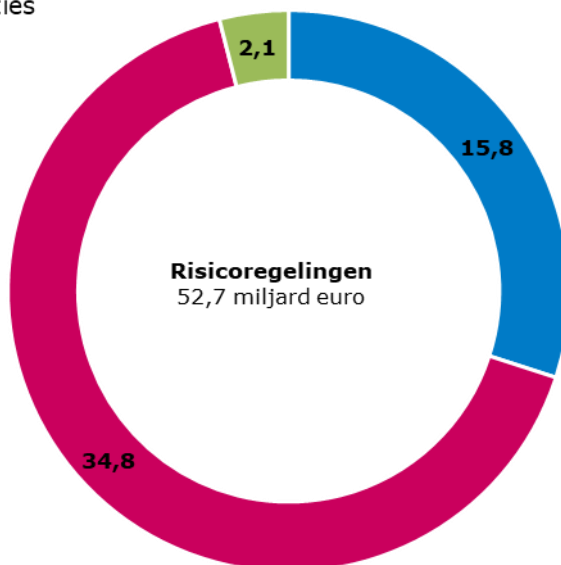


Figure 3.4 Corona-related risk arrangements

- Nationale garanties
- Internationale garanties
- Leningen



CHAPTER 4:

COMPARISON WITH PREVIOUS STABILITY PROGRAMME AND SENSITIVITY ANALYSIS

In comparison with the Stability Programme of April 2020, projections as a result of the impact of the COVID-19 crisis have been extensively adjusted. This resulted in a substantial budget deficit in 2020, and as a result, a higher general government debt. Relative general government debt is expected to decrease again after 2022, but actual development is clearly susceptible to shocks. To clearly set out its impact on public finances, this chapter will look at the medium-term debt developments and the uncertainties surrounding it.

Comparison with the 2020 Stability Programme

The Dutch economy is in a weaker position than was predicted at the time of the 2020 Stability Programme. The basis of projections in the 2020 Stability Programme had not yet envisaged the impact of the COVID-19 crisis. In the meanwhile, it is clear that the crisis has had a profound impact on the economy. The comparison of this 2021 Stability Programme with the 2020 Stability Programme therefore shows considerable differences.

The Dutch economy shrank in 2020 but will grow more rapidly in 2021 and 2022 than expected at the time of the Stability Programme in April 2020. Table 4.1 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 GDP growth rate in 2020 has a negative difference of 5.1 percentage points as a result of the corona crisis. In 2021, however, there is a positive difference of 0.6 percentage points and 2022 shows that recovery growth is expected with a positive difference of 2.0 percentage points.

The general government balance is significantly lower than was expected at the time of the previous Stability Programme. The Dutch government has pursued expansive budgetary policy to mitigate the negative consequences of the corona crisis. This has negative consequences for the general government balance. In 2020, 2021 and 2022, the general government balance is respectively 5.3, 6.0 and 1.7 percentage points lower than was projected at the time of the previous projection in April 2020. The difference in the projected general government balance will improve in 2022 when the coronavirus comes under control and the economy bounces back. Fewer support policies will be required in this phase.

General government debt has increased significantly compared to the expectations in the previous Stability Programme, because the impact of the corona crisis was not envisaged. In 2020, general government debt rose to 54.4% instead of 46.3% in the March 2020 projection. In 2021, general government debt will rise further as a result of the crisis and this results in 13.4 percentage points higher than previously expected. However, in 2022, the projected debt will decrease as the economy recovers from the COVID-19 crisis. The difference in the expected general government debt in this Stability Programme compared with the previous Stability Programme therefore also reduces.

Table 4.1 Divergence from 2020 Stability Programme

in % of GDP	ESA Code	2020	2021	2022
<i>Real GDP growth</i>				
Update April '20		1.4	1.6	1.5
Current update		-3.7	2.2	3.5
Difference		-5.1	0.6	2.0
<hr/>				
<i>General government balance</i>				
	EDP B.9			
Update April '20		1.1	0.1	0.1
Current update		-4.3	-5.9	-1.7
Difference		-5.3	-6.0	-1.7
<hr/>				
<i>General government debt</i>				
Update April '20		46.3	45.2	44.0
Current update		54.4	58.6	56.9
Difference		8.1	13.4	12.9

Debt development in the medium-term

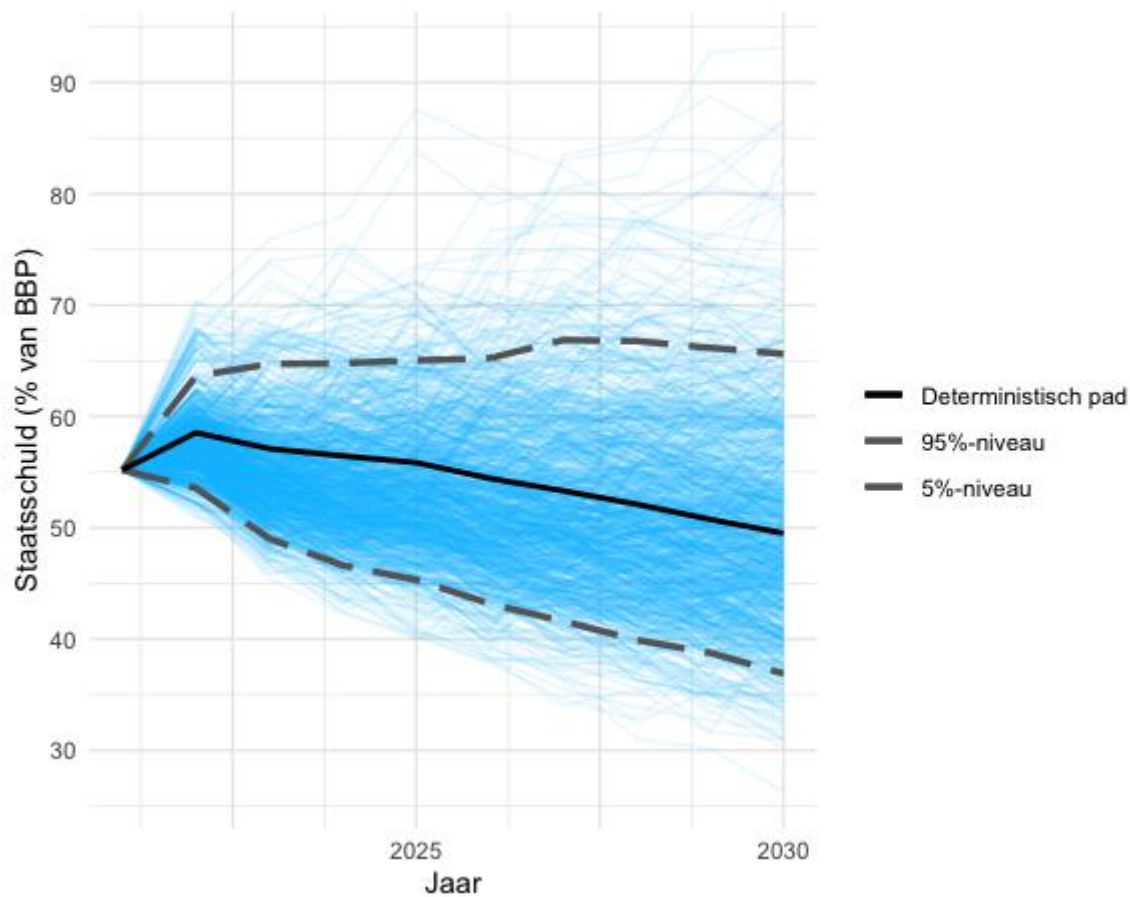
The projection shows that government debt will decrease after 2021. As from 2022, the general government balance deficit is expected to drop below 3%. Economic growth in that year and the following years will lead to a steady reduction in the debt ratio, to below 55% of GDP in 2025.

Table 4.2 Key data on debt development

	2020	2021	2022	2023	2024	2025
Economic growth	-3.7%	2.2%	3.5%	1.8%	1.4%	1.3%
General government balance	-4.3%	-5.9%	-1.7%	-1.4%	-1.1%	-1.0%
General government debt	54.4%	58.6%	56.9%	56.0%	55.3%	54.9%

A simulation analysis shows that development of government debt is surrounded by considerable uncertainties, but in the medium-term the risks are manageable. The graph in Figure 4.1 shows simulated scenarios for debt development. Growth and primary balance are based on CPB assumptions. The uncertainty about growth, changes in interest rates, and the primary balance are simulated on the basis of historical data. The methodology is described in more detail in Annex 2. In more than 90% of cases, debt remains between 35% and 70% of GDP up to and including 2030.

Figure 4.1 Key data on debt development



New shocks may be ongoing in the future. Although the risk of extreme shock is low, it is interesting to analyse the impact of such a major shock on public finances. To get a picture of the impact of a number of major shocks on public finances, CPB has carried out a so-called Impact Test.³ In doing so, three extreme scenarios have been identified using the CRASH model developed by the CPB: a financial crisis, a European debt crisis, and a global economic crisis. The Impact Test shows that an economic shock can lead to a significantly increasing government debt. For example, the financial crisis scenario leads to an increase in the debt ratio by almost 40% of GDP in 2025, partly because implicit government guarantees are called upon. In the most recent financial crisis, government debt increased by 25% of GDP. The scope and timing of new shocks remains difficult to project. If an extreme shock occurs, it may possibly have consequences for the sustainability of public finances.

³ See Westerhout, E., A. Trommelen and S. van Veldhuizen 2020, *Schokproef overheidsfinanciën 2020* [2020 public finance impact test], CPB Background document.

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. This balance indicates whether current government arrangements are sustainable in future, without expenses 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. Consistent arrangements, for that matter, are quite different from unchanged policy. Unchanged policy would mean that, assuming incomes continue to rise, in the long-term everyone would end up in the highest tax bracket and this means the tax burden would increase. For example, when there are new technologies that improve care, they are also categorised under the consistent (care) arrangements.

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 collective pension expenditure (AOW) and healthcare expenditure will increase for the upcoming decades. Although reforms already undertaken in the area of healthcare and pensions cause an easing of the increase, these collective 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 indexation of the second tax bracket for pensioners⁴.

Another factor affecting the sustainability balance is expenditures on corona measures, albeit to a lesser extent than demographic developments. To finance expenditures on corona measures, additional funds have been borrowed, resulting in higher government debt and more burdensome interest expenses in future. Table 5.1 lists the expected interest expenditure for decades to come.

⁴ For an overview, see section 3.5, *Zorgen om Morgen* [Caring about Tomorrow], CPB 2019

Table 5.1 Sustainability of public finances

in % of GDP	2010	2021	2030	2040	2050	2060
Total expenditure	48.2	48.7	44.9	48.2	49.3	49.8
<i>of which:</i>						
Age-related expenditure	20.8	22.2	23.3	25.4	25.8	25.5
Pension expenditure	6.2	7.2	7.5	8.1	7.8	7.6
Social security expenditure	11.7	12.1	12.3	12.9	12.6	12.4
Old-age and early retirement pension	4.5	5.2	5.6	6.2	5.9	5.7
Other pension provisions (occupational disability, survivors' benefits)	1.7	2.0	2.0	1.9	1.9	2.0
Healthcare (cure)	5.9	6.5	6.7	7.1	7.2	7.0
Long-term care	3.5	3.7	4.4	5.3	5.9	6.1
Education expenditure	5.1	4.8	4.7	4.8	4.9	4.7
Interest expenditure	1.8	0.6	1.2	2.5	3.2	4.0
Total revenue	43.2	44.5	44.1	45.1	45.3	45.2
of which: property income	2.7	0.8	0.7	0.7	0.7	0.7
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	224.6	208.5	203.0	189.8	179.4
Pension expenditure paid by mandatory private system	4.8	5.4	6.3	8.2	7.7	7.0
Assumptions						
Labour productivity growth	1.5	-0.5	1.5	0.8	0.9	1.1
Real GDP growth	1.0	-3.9	1.6	1.0	1.3	1.3
Participation rate (males) (15–64)	83.4	84.2	86.3	86.7	86.2	86.3
Participation rate (females) (15–64)	72.4	77.2	81.0	82.6	83.2	84.0
Total participation rate (15–64)	77.9	80.7	83.7	84.7	84.8	85.1
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

Analyses of comparison

CPB projects the sustainability balance at -1.8% of GDP according to the 2021 CEP. The coronavirus outbreak has clearly increased the financial burden for the next generations. The CPB, in fact, projected the sustainability balance at -0.8% in the 2020 CEP. However, the sustainability balance is better than that in the November projection: when the deficit was 2.4%. The difference is due to the fact that economic developments are more favourable according to the 2021 CEP, which will lead to structural improvement in public finances. Although expenditures on corona measures have a clear impact on the sustainability balance, the deficit is mainly caused by increasing healthcare expenditure as a result of the ageing population.

The EC also forecasts the sustainability of EU Member States, including that of the Netherlands. In the long-term, the EC assumes a larger sustainability gap than the CPB.

The EC forecasts two different sustainability balances. 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. In this respect, the Netherlands has a deficit of 0.1% of GDP. On the other hand, there is the S2 indicator, which is similar to the sustainability balance calculated by CPB and indicates the long-term sustainability. According to this indicator, the Netherlands has a sustainability gap of 3.3% of GDP. 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.

The first explanation for the difference between the sustainability balances of the CPB and EC, is that the EC does not take current policy for general old-age pension into account. The EC takes a sustainability deterioration into account for the increasing General Old Age Pension costs after deducting taxes on pension incomes (statutory and supplementary pensions). The CPB does not do this, because the increase in pension incomes combined with the limited indexing of the extent of the second tax bracket for pensioners born after 1945, fully compensates the rising statutory retirement age. The CPB also takes into account a future increase in the degree of labour force participation, which tempers the increase in expenditure as part of the GDP. The difference is mitigated because the EC did not take into account the pension agreement: due to interlinking the statutory retirement age to life expectancy, it means that the EC's expenditure increase is lower.

Secondly, healthcare expenditure in the CPB study has a greater negative effect than in the EC analysis. This difference is a consequence of a downward review by the EC of the future cost increase for care (prolonged care). The number of persons who initially make use of nursing- and care homes has been reduced, which means that the ageing of the population will have a smaller impact on future cost increases. Another (minor) factor is also the differences in projection methods.

The third explanation is that the EC does not take policy on the revenue side of the budget into account after 2025. This particularly concerns the burden of households excluding taxes on pension incomes. The EC leaves this as constant and the CPB increases it, resulting in an improvement in the sustainability balance. The reason for this increase is that initiated policy is also taken into account in the CPB projections. This includes the increase in health insurance premiums in the period up to 2025, the scale down in the mortgage interest tax relief, and the restriction of transferability of tax credits.

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 developed⁵. Three key elements of the assessment framework are:

- Reasons for government intervention and choice of instrument (effectiveness and necessity);

⁵ Government Assessment Framework Risk Arrangements <http://wettenpocket.overheid.nl/portal/0ff0f42b-2a70-45b7-a9c9-3b4253b292e7/document/TOETSINGSKADER%20RISICOREGELINGEN%20RIJKSOVERHEID.pdf>

- 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 indirect guarantees, 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 the existing arrangements, fourteen risk arrangements were launched in 2020, plus four expansions of existing risk arrangements. 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 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 present risk on government guarantees has increased significantly in this past year of crisis, from EUR 181 billion in 2019 to more than EUR 240 billion in 2020. It is important to actively reduce the present risk in economically good times, as these government guarantees pose a risk to the Government and to public finances. This creates a kind of buffer to be able to bear more risks in bad times. After the previous crisis, the introduction of the 'no, unless' policy made a significant contribution to this.

Table 5.2 Government guarantees

in % of GDP	2019	2020	2021
Public guarantees	22.3	30.5	29.1
<i>of which: associated with the financial sector</i>	17.9	22.7	21.9
Asian Infrastructure Investment Bank (AIIB)	0.1	0.1	0.1
DNB - participation in IMF capital	5.4	5.4	5.1
European Bank for Reconstruction and Development (EBRD)	0.1	0.1	0.1
European Financial Stabilisation Mechanism (EFSM)	0.4	0.3	0.3
European Financial Stability Facility (EFSF)	4.2	4.3	4.1
European Investment Bank (EIB)	1.2	1.6	1.4
European Stability Mechanism (ESM)	4.4	4.4	4.3
Development Finance Company (FMO)	0.7	0.7	0.7
EU Balance-of-payments (BoP) assistance	0.3	0.5	0.4
Next Generation EU (NGEU)		3.4	3.3
Single Resolution Fund	0.5	0.5	0.5
Support to mitigate Unemployment Risks in an Emergency (SURE)		0.8	0.7
World Bank	0.7	0.6	0.7

Source: Budget Memorandum 2021

The upward trend in the present risk on public guarantees is also shown in Table 5.2. In 2019, total liabilities was the equivalent of 22.3% of GDP versus 30.5% in 2020. The present risk is expected to decline to 29.1% of GDP in 2021. The guarantees specifically mentioned all have a present risk that is greater than half a billion euro 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 European recovery plan Next Generation EU (NGEU), the International Monetary Fund (IMF) and international development banks.

Aside from guarantees, the Netherlands also has other conditional liabilities, namely indirect guarantees. An overview of this is shown in Table 5.3. This concerns a total rounded off sum of EUR 290 billion in 2017. This figure will rise to EUR 307 billion in 2021. 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 (NHG). Due to the upward trend in house prices and thus the value of the 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	289,745	307,731
Guarantee Fund for the Healthcare Sector	6,390	6,130
Social Housing Guarantee Fund (WSW)	81,355	87,100
Homeownership Guarantee Fund (WEW)	202,000	214,501

Source: Budget Memorandum 2021

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. Based on the 2017–2021 coalition agreement 'Vertrouwen in de toekomst' ['Trust in the future'], the government has worked on the 'Inzicht in Kwaliteit' ['Insight into Quality'] operation to further broaden its insights into effectiveness and efficiency of government policy, and to apply such insights in shaping new policy and the ongoing improvement of existing policy.

Introduction

In the Netherlands, we have a government-wide evaluation system to gain insight into the quality of public finances. This government-wide 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 (MKBA's) which are carried out before the start of certain major projects. This chapter describes the preliminary results of the 'Insight into Quality' operation and highlights a number of instruments in the evaluation system, namely the Strategic Evaluation Agenda, IBOs and MKBA.

'Insight into Quality' operation

In the coalition agreement, the government decided to set up the 'Insight into Quality' operation. This was started in 2018. During the cabinet period, the Dutch House of Representatives was informed on progress semi-annually. The following is a brief summary of the operation. Further information is available in the progress reports⁶.

The objective of the 'Insight into Quality' 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 than ever 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 than ever before. For this purpose, three tracks have been started:

1. *Ministerial initiatives*: Efforts are being undertaken to set up concrete initiatives focused on increasing the impact of policy. Nineteen initiatives have been started since October 2018. Most of them have been completed, some are still being run by the ministries who are responsible. The initiatives provide various types of lessons on what is needed to carry out good evaluations and monitoring, given the often imperfect research environments. The initiatives also show that more is often possible than initially seemed to be the case.
2. *Strengthening the evaluation system*: Aside from specific ministerial initiatives, efforts have also been made to strengthen the government-wide evaluation system. Among them were more strategic evaluations for a specified date, improving the substantiation in policy preparation, and focusing more on public value. As a result, the Strategic Assessment Agenda (SEA) was launched, a pilot was carried out with a separate annex for substantiation of policy proposals according to Section 3.1 of the Government Accounts Act 2016 (*Comptabiliteitswet*), and a new evaluation instrument was introduced using the Public Value Scan. Section 3.1 of the Government Accounts Act states that policy proposals, policy intentions and policy commitments submitted to the Dutch House of

⁶ Fourth progress report on 'Insight into Quality' operation, 10 March 2021 [Kamerbrief over vierde voortgangsrapportage operatie Inzicht in Kwaliteit | Kamerstuk | Rijksoverheid.nl](#) [Letter to Parliament on Fourth Progress Report Insight into Quality operation | Parliamentary Paper | Rijksoverheid.nl]

Representatives must be accompanied by explanatory notes on prospective effectiveness and efficiency. Monitoring of the operation has shown that improvements have been made when it comes to actual compliance with the obligations. The quality of the explanatory notes remains a point of concern.

3. *Supporting behavioural change, knowledge sharing and skill building*: In addition to strengthening the evaluation system, achieving the change assignments in the 'Insight into Quality' operation, requires effectual capacity and skills. It is also essential to have understanding and conviction at policy departments. That is why work has been done to support ministries in the necessary behavioural change, as well as a policy evaluation toolbox and a training programme 'Monitoring, Learning and Evaluating' have been introduced.

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, carried out in the context of the 'Insight into Quality' operation, in common practice it shows that policy audits do not always lead to a good picture of the effectiveness and efficiency of policies pursued⁷. In-depth research by SEO shows that two-thirds of policy audits make statements about effectiveness and (also) in one-third 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.

Following the above, development of a ministerial Strategic Evaluation Agenda (SEA) was started. The aim of the SEA is to gain better and more useful insights into the (conditions for) effectiveness and efficiency of policies, to make better use of these insights, and thus ultimately to increase the socially added-value of policies. The SEA will provide an overview of important policy themes of a ministry, an explanation on the need for having insight per theme, and appropriate attention for the evaluation study. This specified attention make insights clear for each theme on how the most relevant insight is gained within the (conditions for) effective and efficient policies and how they are reported. The existing policy audit is included in the framework for the SEA, as an obligation to report the conclusions on insight gained, once every 4-7 years for each theme.

The regular reporting of conclusions on insights gained will be reviewed in a different way than to insights into effectiveness and efficiency of policies. Insofar as is relevant, the study also assesses the coherent effect of various policy instruments. This often happens on the basis of underlying evaluative research, supplemented with other sources and analyses. Other forms are also conceivable, which are best suited to the policy theme. 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. Parliament is able to pose questions and make remarks beforehand on audits that will be finalised.

In the spirit of the change assignments of the 'Insight into Quality' operation, ministries have first gained practical experience for the 2021 budget with an improvement strategy for the SEA. The improvement strategy for the SEA was tailor-made per ministry and this also 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 up⁸. 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 Evaluations Regulation (RPE) and the National Budget Regulations (RBV).

IBOs and BMHs

⁷ 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 *Stichting voor Economisch Onderzoek, SEO* [SEO Amsterdam Economics] in annex 3

⁸ Detailed in annex 2 to the fourth progress report 'Insight into Quality' operation, Parliamentary Paper 31865, no. 184

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 social issue. IBOs are submitted to the Dutch House of Representatives, which include the government's appreciation of the findings. In 2020, five new IBOs were started, of which the mandates are included in the attachment to the 2021 Budget Memorandum.

Before the start of the corona crisis, sixteen Broad-based Social Reconsiderations (BMHs) were carried out across the board of the public sector in 2019/2020.⁹ In preparation for a next economic downturn or economic crisis, the Dutch House of Representatives 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 'Ready for 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 desirability.

Social cost benefit analyses (MKBA's)

MKBA's 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 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, MKBA's 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 Netherlands Environmental Assessment Agency (PBL) in 2015. The guideline is a set of minimum conditions for a good methodological quality and for a sufficiently transparent presentation. Methodological standards enhance the comparability of MKBA's. This guideline has recently been analysed as a result of the Sneller motion in terms of a perspective of widespread prosperity¹⁰. This results in a number of areas of interest, on the basis of which the guideline can be updated, including use of the widespread 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. 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 various methodologies have been published¹¹.

Discount rate task force

At the request of the government, the 2020 discount rate task force has issued an opinion on the discount rates to be used in social costs and benefits analyses (MKBA's). The task force

⁹ 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]

¹⁰ Parliamentary Paper, 355570-IX, no. 33

¹¹ *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]. The following methodologies are being prepared: MKBA methodology for digital public authority (Ministry of Foreign Affairs) and MKBA methodology for energy (Ministry of Economic Affairs and Climate).

recommends a risk-weighted standard discount rate of 2¼% (adjusted for inflation), consisting of a risk-free part (i.e. the risk-free discount rate) of -1% and a risk premium of 3¼%. The task force recommends setting these values for a period of five years, but to review this if, within this period, 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.

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'). At the moment, due to the corona crisis, exceptions have been made to the usually applicable budgetary rules, both at a European and a national level. This chapter provides a brief explanation of 'Wet Hof', the interpretation of the independent budget supervision in the Netherlands, and the impact of the corona crisis 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 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.

- *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 cabinet period, the cabinet makes clear agreements on what maximum can be spent in one year (the expenditure benchmark). It is also agreed to what extent policy-related adjustments of taxes should be per year (the revenue framework). Agreements on revenue and expenditure clarify the limits within which budgetary policy can take place.

This system is generally perceived as being 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

The economic consequences of the corona measures have been so significant that the automatic stabilising factors were inadequate to cope with them. Due to the impact of the coronavirus on public health, the government was forced to immediately halt part of the economic activities. It has therefore been decided to introduce additional emergency and support measures so that the impact on citizens and businesses are curtailed as much as possible. The government has also determined that measures related to the corona crisis will negatively influence the budget balance. This means that there is no need for expenditure cuts, to provide manoeuvrability within the expenditure benchmark. These discretionary measures are used to derogate temporarily from the Dutch budgetary rules. In the case of standard policy; measures that are not related to the corona crisis, the government will continue to comply with the applicable budgetary rules to maintain as much transparency and predictability as possible.

On a European level too, exceptions have been made on the normally applicable budgetary rules. In March 2020, the European Commission (EC) activated the general escape clause of the European budgetary rules, as set out in the Stability and Growth Pact (SGP). This allows Member States in the preventive arm to temporarily derogate from their structural budgetary effort. This means that Member States do not currently have to comply with (the path towards) their medium-term objective (MTO), provided that sustainability of government debt is not jeopardized in the medium-term. The reference values of the corrective arm of the SGP are still formally applicable. However, last year the EC concluded that starting excessive deficit procedures was not justified because of the exceptional uncertainty relating to the macroeconomic and budgetary impact of the corona crisis.

Activation of the general escape clause does not affect the procedures of the Stability and Growth Pact. The reporting obligation in the form of the Stability Programme and Draft Budgetary Plan remains. Member States will, however, be accountable through the Stability Programme on how donations and loans resulting from the Recovery and Resilience Facility (RRF) are used, insofar as Member States make use of them. As is common practice, the EC will provide country-specific recommendations based on the Stability Programme. In 2021, these will be inhibited to recommendations in the field of budgetary policy. In the absence of excessive deficit procedures, no additional reporting is required, such as an Economic Partnership Programme.

ANNEX 1: STABILITY PROGRAMME TABLES

All figures in the annex are based on the 2021 CEP or on actual figures by Statistics Netherlands.

Table 1a. Macroeconomic prospects

in % of GDP	ESA Code	2020 (in billions of euro)*	2020	2021	2022	2023	2024
1. Real GDP	B1*g	798.9	-3.7	2.2	3.5	1.8	1.4
2. Nominal GDP	B1*g		-1.4	3.7	5.2	3.6	3.0
<i>Components of real GDP</i>							
3. Private consumption expenditure	P.3	336.5	-6.4	0.6	6.1	2.3	2.0
4. Government final consumption expenditure	P.3	206.6	1.4	5.7	0.2	2.2	1.7
5. Gross fixed capital formation	P.51	27.4	-3.6	2.4	2.8	1.8	1.1
6. Changes in inventories (Δ)	P.52 + P.53	2.0	-0.1	0.0	0.0	-0.2	0.0
7. Exports of goods and services	P.6	630.0	-4.3	2.6	5.2	3.5	3.1
8. Imports of goods and services	P.7	545.2	-4.3	3.0	5.4	4.0	3.7
<i>Contributions to real GDP growth</i>							
9. Final domestic demand		711.9	-3.3	2.1	3.0	1.9	1.5
10. Changes in inventories (Δ)	P.52 + P.53	2.0	-0.1	0.0	0.0	-0.2	0.0
11. External balance of goods and services	B.11	84.8	-0.4	0.0	0.4	0.0	-0.1

Table 1b. Price developments

In %	ESA Code	2020 (Level)	2020	2021	2022	2023	2024
1. GDP deflator		2.4	2.4	1.5	1.6	1.9	1.6
2. Private consumption deflator		1.3	1.3	2.1	1.6	1.7	1.7
3. HICP		1.1	1.1	1.9	1.4	1.6	1.6
4. Public consumption deflator		2.7	2.7	1.4	1.5	1.5	1.4
5. Investment deflator		2.9	2.9	2.3	1.9	1.2	0.9
6. Export price deflator (goods and services)		-2.3	-2.3	3.2	0.6	0.9	0.8
7. Import price deflator (goods and services)		-3.3	-3.3	4.0	0.5	0.3	0.4

Table 1c. Labour market developments

In %	ESA Code	2020 (Level)	2020	2021	2022	2023	2024
1. Employment (x 1000 persons)		9511.2	-0.7	-0.2	0.8	1.2	0.8
2. Employment, no. hours worked (in millions)		13310.6	-3.5	2.0	1.5	0.8	0.8
3. Unemployment (% of the working population) ¹²		357.3	3.8	4.4	4.7	4.5	4.5
4. Labour productivity, persons		84.0	-3.1	2.4	2.7	0.6	0.6
5. Labour productivity, no. hours worked		60.0	0.0	0.3	1.9	0.8	0.5
6. Payroll of employees (in billions)	D.1	398.9	2.7	2.8	1.8	3.2	3.0
7. Compensation per employee (€)		41.9	6.2	0.7	0.4	2.3	2.2

Table 1d. Sectoral balances

in % of GDP	ESA Code	2020	2021	2022	2023	2024	2025
1. Net lending/borrowing vis-à-vis the rest of world	B.9	8.9	8.9	9.0	9.1	9.1	9.1
<i>of which:</i>							
- Balance on goods and services		10.7	10.1	10.0	10.1	10.1	10.1
- Balance of primary incomes and transfers		-0.6	0.0	0.0	0.0	0.0	0.0
- Capital account		-1.1	-1.2	-1.0	-1.0	-0.9	-0.9
2. Net lending/borrowing of private sector	B.9	13.4	14.8	10.6	10.2	9.7	9.7
3. General government balance	EDP B.9	-4.3	-5.9	-1.7	-1.4	-1.1	-1.0
4. Statistical discrepancy							

Table 2a General government budgetary targets broken down by subsector

in % of GDP	ESA Code	2020 (in billions of euro)	2020	2021	2022	2023	2024
Net lending/borrowing (EDP B.9) by subsector							
1. General government	S.13	-34.0	-4.3	-5.9	-1.7	-1.4	-1.1
2. Central government	S.1311	-37.5	-4.7	-6.4	-2.0	-1.7	-1.4
3. State government	S.1312						
4. Local government	S.1313	-1.8	-0.2	-0.2	-0.2	-0.2	-0.2
5. Social security funds	S.1314	5.3	0.7	0.8	0.5	0.5	0.6
Total General government (S13)							
6. Total revenue	TR	350.5	43.9	43.5	43.1	42.8	42.9
7. Total expenditure	TE	384.5	48.1	49.3	44.8	44.2	43.9
8. General government balance	EDP B.9	-34.0	-4.3	-5.9	-1.7	-1.4	-1.1
9. Interest charges	EDP D.41	5.6	0.7	0.5	0.4	0.2	0.2
10. Primary balance		-28.4	-3.6	-5.4	-1.3	-1.1	-0.9
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0	0.0
12. Total taxes (=12a+12b+12c)		204.6	25.6	25.3	25.5	25.1	25.5

¹² 357.3 shows the number of unemployed of the working population x1000

12a. Taxes on production and imports	D.2	96.7	12.1	12.2	12.1	12.0	12.0
12b. Current taxes on income and wealth	D.5	105.7	13.2	12.8	13.1	12.9	13.3
12c. Capital taxes	D.91	2.2	0.3	0.3	0.3	0.3	0.3
13. Social contributions	D.61	112.8	14.1	13.9	13.4	13.6	13.3
14. Property income	D.4	4.1	0.5	0.6	0.6	0.6	0.6
15. Other		30.0	3.8	3.6	3.6	3.5	3.4
16. Total revenue (=6)	TR	350.5	43.9	43.5	43.1	42.8	42.9
Tax burden		313.4	39.2	39.1	38.8	38.7	38.7
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1 + P.2	120.3	15.1	15.5	14.8	14.8	14.6
17a. Compensation of employees	D.1	70.8	8.9	8.8	8.6	8.5	8.5
17b. Intermediate consumption	P.2	49.6	6.2	6.7	6.2	6.2	6.1
18. Social payments		174.3	21.8	22.5	22.1	21.9	21.9
<i>of which Unemployment benefits</i>		11.6	1.5	1.6	1.6	1.5	1.5
18a. Social benefits in kind through market output	D.6311, D.63121, D.63131	85.1	10.6	11.3	11.1	11.2	11.3
18b. Social benefits not in kind	D.62	89.2	10.5	11.2	10.9	10.7	10.7
19. Interest expenditure (=9)	EDP D.41	5.6	0.7	0.5	0.4	0.2	0.2
20. Subsidies	D.3	39.6	5.0	4.2	1.5	1.3	1.3
21. Gross fixed capital formation	P.51	27.4	3.4	4.0	3.8	3.8	3.8
22. Capital transfers		5.9	0.7	1.1	0.7	0.6	0.6
23. Other		2.9	0.4	1.7	1.6	1.5	1.5
24. Total expenditure (=7)	TE	384.5	48.1	49.3	44.8	44.2	43.9
PM: Public consumption (nominal)	P.3	207.3	25.9	26.8	26.0	26.0	26.0

Table 2b. Breakdown of revenue

in % of GDP	ESA Code	2020 (in billions of euro)	2020	2021	2022	2023	2024
			2020	2021	2022	2023	2024
1. Total revenue at unchanged policy	S.13	350.5	43.9	43.5	43.1	42.8	42.9
2. Total expenditure at unchanged policy	S.1311	384.5	48.1	49.3	44.8	44.2	43.9

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

in % of GDP	ESA Code	2020 (in billions of euro)	2020	2021	2022	2023	2024
1. Expenditure in EU programmes fully matched by EU funds revenue	S.13	0.2	0.0	0.0	0.0	0.0	0.0
1.a Of which investment expenditure fully matched by EU funds revenue	S.1311	0.1	0.0	0.0	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure		-0.6	-7.3	17.0	26.2	18.1	17.2
3. Effect of discretionary revenue measures		-9.1	-1.1	1.1	-0.8	0.2	-0.1
4. Revenue increases mandated by law		-0.8	-10.1	20.7	6.3	8.4	8.2

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

in % of GDP	COFOG Code	2019	2024
1. General public services	1	4.1	4.4
2. Defence	2	1.3	1.4
3. Public order and safety	3	1.8	1.9
4. Economic affairs	4	3.8	1.4
5. Environmental protection	5	1.4	1.5
6. Housing and community amenities	6	0.4	0.4
7. Health	7	7.7	8.9
8. Recreation, culture and religion	8	1.2	1.3
9. Education	9	5.0	5.6
10. Social protection	10	15.4	17.2
11. Total expenditure	TE	42.0	43.9

Table 4. General government debt developments

in % of GDP	ESA Code	2020	2021	2022	2023	2024
1. Gross debt		54.4	58.6	56.9	56.0	55.3
2. Change in gross debt ratio		5.7	4.1	-1.7	-0.9	-0.7
<i>Of which:</i>						
3. Primary balance		-3.6	-5.4	-1.3	-1.1	-0.9
4. Interest charges	EDP D.41	0.7	0.5	0.4	0.2	0.2
5. Stock/flow adjustment and other		1.5	-1.7	-3.3	-2.2	-1.8
- Of which: difference between cash and accruals		0.7	-2.0	-2.9	-2.0	-1.6
- Of which: net accumulation of financial assets		0.8	0.2	-0.4	-0.2	-0.1
- Of which: privatisation proceeds		-0.3	-0.1	0.0	0.0	0.0
- Of which: valuation effects and other		1.0	0.3	-0.4	-0.2	-0.1
Implicit interest rate on debt (%)		1.3	0.8	0.7	0.4	0.4

6. Liquid financial assets (% of GDP)	-1.2	0.2	0.2	0.2	0.2
7. Net debt (7=1-6)	55.7	58.4	56.7	55.9	55.2
8. Debt amortization (existing bonds) since end of previous year (€ billion)	3.7	2.0	3.5	3.5	3.3
9. Percentage of debt denominated in foreign currency	0.0	0.0	0.0	0.0	0.0
10. Average maturity	8.3	8.5			

Table 5. Cyclical developments

in % of GDP	ESA Code	2020	2021	2022	2023	2024
1. Real GDP growth		-3.7	2.2	3.5	1.8	1.4
2. Net lending of general government	EDP B.9	-4.3	-5.9	-1.7	-1.4	-1.1
3. Interest charges	EDP D.41	0.7	0.5	0.4	0.2	0.2
4. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0
4.a Of which: on the revenue side		0.0	-0.9	0.0	0.0	0.0
4.b Of which: on the expenditure side		0.0	0.9	0.0	0.0	0.0
5. Potential GDP growth		1.5	1.2	1.1	1.2	1.3
<i>Contribution to growth</i>						
- Labour		0.9	0.5	0.3	0.5	0.5
- Capital		0.4	0.4	0.5	0.5	0.5
- Total factor productivity		0.2	0.3	0.3	0.3	0.4
6. Output gap (EC method)		-3.8	-2.9	-0.5	0.1	0.1
7. Cyclical budgetary component		-2.3	-1.7	-0.3	0.0	0.0
8. Cyclically-adjusted balance		-1.9	-4.1	-1.4	-1.4	-1.1
<i>(2-7)</i>						
9. Cyclically-adjusted primary balance (8+3)		-1.2	-3.6	-1.0	-1.1	-0.9
10. Structural balance		-1.9	-4.1	-1.4	-1.4	-1.1

Table 6. Divergence from 2020 Stability Programme

in % of GDP	ESA Code	2020	2021	2022
<i>Real GDP growth</i>				
Update April '20		1.4	1.6	1.5
Current update		-3.7	2.2	3.5
Difference		-5.1	0.6	2.0
<i>General government balance</i>				
	EDP B.9			
Update April '20		1.1	0.1	0.1
Current update		-4.3	-5.9	-1.7
Difference		-5.3	-6.0	-1.7
<i>General government debt</i>				
Update April '20		46.3	45.2	44.0
Current update		54.4	58.6	56.9
Difference		8.1	13.4	12.9

Table 7. Sustainability of public finances

in % of GDP	2010	2021	2030	2040	2050	2060
Total expenditure	48.2	48.7	44.9	48.2	49.3	49.8
<i>of which:</i>						
Age-related expenditure	20.8	22.2	23.3	25.4	25.8	25.5
Pension expenditure	6.2	7.2	7.5	8.1	7.8	7.6
Social security expenditure	11.7	12.1	12.3	12.9	12.6	12.4
Old-age and early retirement pension	4.5	5.2	5.6	6.2	5.9	5.7
Other pensions (occupational disability, surviving relatives)	1.7	2.0	2.0	1.9	1.9	2.0
Occupational pensions (government)	0.0	0.0	0.0	0.0	0.0	0.0
Healthcare (cure)	5.9	6.5	6.7	7.1	7.2	7.0
Long-term care	3.5	3.7	4.4	5.3	5.9	6.1
Education expenditure	5.1	4.8	4.7	4.8	4.9	4.7
Other age-related expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure	1.8	0.6	1.2	2.5	3.2	4.0
Total revenue	43.2	44.5	44.1	45.1	45.3	45.2
of which: property income	2.7	0.8	0.7	0.7	0.7	0.7
of which: pension contributions (or national insurance contributions)	3.3	3.3	3.3	3.3	3.3	3.3
Pension reserve fund assets	139	225	208	203	190	179
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	5.4	6.3	8.2	7.7	7.0
Assumptions						
Labour productivity growth	1.5	-0.5	1.5	0.8	0.9	1.1
Real GDP growth	1.0	-3.9	1.6	1.0	1.3	1.3

Participation rate (males) (15–64)	83.4	84.2	86.3	86.7	86.2	86.3
Participation rate (females) (15–64)	72.4	77.2	81.0	82.6	83.2	84.0
Total participation rate (15–64)	77.9	80.7	83.7	84.7	84.8	85.1
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 7a. Contingent liabilities

In millions of euros	2020	2021
Public guarantees	30.5%	29.1%
Of which: related to the financial sector	22.7%	21.9%

Table 8. External assumptions

In %	2020	2021	2022	2023	2024	2025
Short-term interest rate (annual average)	-0.4	-0.5	-0.5	-0.4	-0.3	-0.1
Long-term interest rate (annual average)	-0.4	-0.3	-0.2	0.0	0.1	0.2
USD/EUR exchange rate (annual average)	1.1	1.2	1.2	1.2	1.3	1.3
Nominal effective exchange rate*	2.0	1.2	0.2	0.8	1.2	1.2
GDP growth, World excluding EU	-4.0	4.8	4.2	3.9	3.7	3.2
GDP growth, EU	-6.8	4.0	4.0	1.7	1.3	1.3
Growth of relevant foreign markets	-9.0	6.0	6.0	4.1	3.9	3.2
World import volume, excluding EU	-11.1	5.7	7.8	4.5	3.3	3.0
Oil price (Brent, USD per barrel)	41.8	62.6	59.2	56.8	55.5	54.9

* percentage changes in respect of a basket of trading partners

Additional table 1a. Stock of guarantees adopted/announced

Measures		Date of adoption	Maximum amount of contingent liabilities ¹ (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19	See additional table 1b 'Total Dutch Guarantees', classification 'c=covid' for the entire list	Q2 2020 onwards	6%	0,005%
	Subtotal		6%	0.005%
Others	See additional table 1b 'Total Dutch Guarantees', classification 'r=regular' for the entire list	NA	30%	0.017%
	Subtotal		30%	0.017%
Total			36%	0.022%

Additional table 1b. Total Dutch guarantees.

Guarantee overview outstanding risk (x 1000 euro)			Guarantee to a party within the public sector	Outstanding guarantees 2019	Granted guarantees 2020	Expired guarantees 2020	Outstanding guarantees 2020	Guarantee -ceiling 2020	Total ceiling	International /corona /national and regular	
b	a	Description									
VI II	3	Council of Europe	No	176,743	0	0	0		176,743	i	r
VI II	7	Building loans to academic hospitals	No	151,212	0	12,709	138,503		176,631	n	r
IX B	14	Indemnity regulation (Indemniteitsregeling)	No	250,354	375,956	555,413	70,897		300,000	n	r
IX B	14	Back guarantee agreement NRF	No	327,989	60,753	37,833	350,909		380,000	n	r
IX B	2	Single Resolution Fund	No	4,163,500	0	0	4,163,500		4,163,500	i	r
IX B	2	WAKO (nuclear accidents)	No	9,768,901	0	0	9,768,901		9,768,901	n	r
IX B	3	Entrepreneurial Development Bank (FMO)	No	5,507,000	0	0	5,507,000		5,507,000	n	r
IX B	3	Guarantee and indemnification regarding sale and financing of State holdings		309,165	0	300,000	9,165	0	9,165	n	r
IX B	3	Guarantee KLM	No	0	2,160,000	0	2,160,000		2,160,000	n	c
IX B	4	Credits EU-support in balances of payment	No	2,450,000	1,262,000	0	3,712,000		3,712,000	i	r
IX B	4	European Stability Mechanism (ESM)	No	35,429,900	0	6,200	35,423,700		35,423,700	i	r
IX B	4	World Bank	No	5,387,429	0	455.282	4,932,147		4,932,147	i	r
IX B	4	European Investment Bank (EIB)	No	9,895,547	1,900,425	0	11,795,972		11,795,972	i	r
IX B	4	European Financial Stabilisation Mechanism (EFSM)	No	2,940,000	0	168,418	2,771,582		2,771,582	i	r
IX B	4	European Bank for Reconstruction and Development (EBRD)	No	589,100	0	0	589,100		589,100	i	r
IX B	4	DNB – financial contribution IMF	No	43,832,909	0	680,531	43,152,378		43,152,378	i	r
IX B	4	Asian Infrastructure Investment Bank (AIIB)	No	734,378	0	62,061	672,317		672,317	i	r
IX B	4	European Financial Stability Facility (EFSF)	No	34,154,159	0	0	34,154,159		34,154,159	i	r
IX B	4	Next Generation EU (NGEU)	No	0	27,401,109	0	27.401.109		27,401,109	i	c
IX B	4	EIB - pan European guarantee fund	No	0	1,301,381	0	1,301,381		1,301,381	i	c
IX B	4	Support to mitigate Unemployment Risks in an Emergency (SURE)	No	0	6,071,150	0	6,071,150		6,071,150	i	c
XI II	5	Reinsurance of supplier credits	No	0	12,000,000	27,880	11,972,120		12,000,000	n	c
XI II	5	Export credit insurance	No	16,402,594	7,830,777	5,391,249	18,842,123	10,000,000		n	r
XI II	2	BMKB	No	1,868,331	379,510	441,175	1,806,666	765,000		n	r
XI II	2	GO-Corona	No	0	611,505	54,378	557,127		8,500,000	n	c
XI II	2	GO	No	320,912	187,173	104,066	404,019	1,500,000		n	r
XI II	2	SME-financing	No	268,200	0	40,000	228,200		268,200	n	r
XI II	2	Micro credits	No	124,980	5,000	0	129,980		130,000	n	r
XI V	2	BMKB-Corona	No	0	448,317	22,024	426,293		735,000	n	c
XI V	2	Small Credits Corona	No	0	36,352	0	36,352		713,000	n	c

X VI	11	Guarantees investments & working capital agricultural businesses	No	329,853	91,691	35,399	386,145	120,000		n	r
X VI	12	Guarantees nature reserves and landscapes	No	327,501	0	22,190	305,311		327,502	n	r
X VI	2, 3, 9	Health care institutions		182,672	0	29,080	153,592	0	153,592	n	r
X VI	1	Guarantee vaccine development	No	0	171,445	0	171,445		171,445	n	c
X VI	1	Guarantee test materials	No	0	230,500	0	230,500		230,500	n	c
X VI I	1	Guarantee Synlab	No	0	123,600	0	123,600		123,600	n	c
X VI I	1	Guarantee Eurofins	No	0	169,700	0	169,700		169,700	n	c
X VI I	1	Guarantee DGGF	No	157,642	47,808	81,149	124,301		675,000	n	r
X VI I	1	Guarantee DTIF	No	8,730	21,667	11,503	18,894		140,000	n	r
	5	Guarantee IS-NIO	No	119,044	0	14,470	104,574		104,574	i	r
	5	Guarantees regional development banks		2,221,252	799,704	61,762	2,959,194	0	2,959,194	i	r
		Other corona					43,512				
		Other		533,991	57,346	109,068	438,757	206,977	366,357		
		Total		178,933,988	63,744,869	8,723,840	233,778,275	12,591,977	222,386,599	National / international	Corona / regular

Additional table 2. Discretionary measures adopted/announced according to the Programme

Measures		ESA Code (Expenditure / Revenue component)	Date of adoption	Budgetary impact (% of GDP - change from previous year)			
				2020	2021	2022	2023
<i>Temporary measures</i> ²	Lower 'usual wage' for owner-director in 2020 and 2021 due to lower revenues	D.5: Current taxes on income, wealth, etc	24-4-2020	-0,12%	0,05%	0,07%	0,00%
	Possibility of creating a fiscal reserve for corporations in CIT year 2019, anticipating losses in 2020	D.5: Current taxes on income, wealth, etc	24-4-2020	-0,38%	0,72%	-0,34%	0,00%
	Other revenue measures	Various taxes	Various	-0,06%	0,00%	0,04%	0,01%
	'TVL/TOGS', fixed cost compensation	NA	Q2 2020	0,25%	0,58%	-0,83%	0,00%
	'NOW', temporary employment support	NA	Q2 2020	1,69%	-0,42%	-1,24%	-0,03%
	'TOZO', support for self-employed workers	NA	Q2 2020	0,35%	-0,26%	-0,09%	0,00%
	Other additional COVID expenditures	NA	Q2 2020	1,26%	1,23%	-1,90%	-0,43%
Subtotal				3,00%	1,90%	-4,28%	-0,45%
<i>Non-temporary measures</i>	Delayed introduction 'excessive borrowing owner-directors from own company' from 2022 to 2023	D.5: Current taxes on income, wealth, etc	24-4-2020	0,00%	0,00%	-0,06%	0,11%
	Subtotal				0,00%	0,00%	-0,06%
Total				3,00%	1,90%	-4,34%	-0,33%

ANNEX 2: SIMULATION ANALYSIS

Chapter 4 contains a simulation analysis of the development of government debt in relation to GDP (the debt ratio) until 2030. In support, variables are simulated which determine the debt ratio, i.e. the interest rate, economic growth, and the primary balance.

Model

Debt/GDP (d_t) develops according to the equation below (1). In this, ps_t represents the primary balance over the period from t-1 to t, relative to GDP at the end of the period.

$$d_t = \frac{1+r_t}{1+g_t} d_{t-1} + ps_t \quad (1)$$

The interest payments in respect of the debt (r_t) are simulated by a random walk, combined with a lower bound of 0%. The model thus contains a zero lower bound. Changes in interest rates (v_t) are simulated with random draws from the historical distribution of changes in the relative interest payment, after this has been centred to an average of zero. The term structure of the government debt means that interest payments will follow current market conditions in the years ahead. For this purpose, the baseline will be adjusted in the first few years (ρ_t).

$$r_t = \begin{cases} r_{t-1} + \rho_t + v_t, & \text{if } r_t \geq 0 \\ 0, & \text{if } r_t < 0 \end{cases} \quad (2)$$

GDP growth rates (g_t) follow a baseline (γ_t). The uncertainty concerning this line (η_t) is simulated with random draws from the historical distribution of changes of growth rates, after this has been centred to an average of zero.

$$g_t = \gamma_t + \eta_t \quad (3)$$

Growth of the primary balance follows a baseline (π_t), responds to unexpected economic growth with elasticity (β), and is finally characterised by uncertainty (ε_t). Policies are taken into account by making use of a baseline. Elasticity is estimated with ordinary least squares (OLS) based on historical data in development of the primary balance relative to growth.¹³ Values of ε_t are randomly drawn from the residuals of the same estimate.

$$ps_t = \pi_t + \beta \eta_t + \varepsilon_t \quad (4)$$

The model is not checked for inflation, correlation between variables, or events such as the introduction of Economic and Monetary Union (EMU). This facilitates interpretation of the model. In addition, robust analyses show that these additions to the model increase the risk of overfitting. This means that the model predicts the future values of the debt ratio less accurately.

Data and baselines

The historical data is derived from the International Monetary Fund (IMF), covering the period 1980 to 2020.¹⁴In addition, medium- and long-term predictions by the CPB have been used for the baseline. For the period 2021–2025, the baselines follow the updated medium-term forecast (MLT)

¹³ The regression equation to which OLS is applied is: $ps_t = \alpha + \delta g_t + \omega_t$, for which ps_t and g_t are used as historical data. The estimated value of δ is then used as elasticity (β).

¹⁴ The data is derived from: Carton, B. and A. Foejieu 2020, Assessing Dutch Fiscal and Debt Sustainability, IMF Working Paper. For the interest rate, data of the interest payments will be used in respect of the debt.

published by the CPB on 31 March 2021.¹⁵ For the period after 2025, the baselines are based on a consistent interest rate development (resulting in a random walk), a nominal growth of 2.5%,¹⁶ and the primary balance follows the most recent CPB population-ageing survey.¹⁷ This means that this model also assumes 'consistent arrangements'. The simulated debt lines are only realistic if future governments manage to align various expenditure (e.g. care) with GDP growth.

Output

Based on the model and data described, 1000 different scenarios were simulated. Each thin line represents a unique scenario. The starting point of this simulation is the position at the end of 2020, characterised by a government debt of 54.4% of GDP. The simulation indicates a 90% confidence interval for each moment in time. A deterministic scenario has been simulated too. In this scenario, all uncertainties have been omitted. What remains, are the baselines described above.

15 In the case of the interest rate, ρ_t equates to the year-on-year difference of the pursued MLT line of interest payments in relation to the debt.

16 In comparison, in its most recent population-ageing survey, CPB projects real productivity growth for the coming decades at 1%. See Adema, Y., and I. van Tilburg 2019, *Zorgen om morgen* [Care for tomorrow], CPB population-ageing survey.

17 See Adema, Y., and I. van Tilburg 2019, *Zorgen om morgen* [Care for tomorrow], CPB population-ageing survey.