Stability Programme of the Netherlands

April 2014

Preface

Programme status
A draft of the stability programme has been submitted to both houses of parliament. On 15 April consultation took place in the Upper House and a debate in the Lower House on 23 April, pursuant to the wish of both houses to have an opportunity to voice an opinion before submission to the European Commission.

The country-specific recommendation for the Netherlands from last year and the amended recommendation based on the excessive deficit procedure together represent the reason why the coalition government sent a letter to the Lower House. This letter was subsequently debated on 20 June 2013 during a General Consultation session with the Minister of Foreign Affairs.

In response to the recommendations within the framework of the excessive deficit procedure, the government sent the Commission the *effective action report* and the supplementary budget agreements 2014 on 30 September (with an addition on 15 October).

EDP report
In accordance with Article 10(3) of Regulation 473/2013 this document also contains the tables relating to the six-monthly reporting obligations within the framework of the excessive deficit procedure. These tables were submitted on the basis of the requirements in Delegated Regulation 877/2013.

Relationship to 'two-pack'
The Stability Programme also serves as medium term fiscal plan. The Netherlands thereby complies with the obligation laid down in Article 4 of Regulation 473/2013.

Relationship to the National Reform Programme
Within the framework of the streamlining of the European semester process, the National Reform Programme and the Stability Programme are both submitted to the European Commission at the end of April. With respect to the content, there is some overlap between the two documents, for example regarding the macro-economic outlook. The Stability Programme focuses on macroeconomic developments, the development of the Dutch public finances and the planned fiscal policy. The National Reform Programme focuses primarily on measures and structural reforms implemented in response to the country-specific recommendations issued to the Netherlands and outlines the progress towards the objectives of the Europe 2020 strategy. Where relevant, the two documents include cross-references.

Figures used
Unless indicated otherwise, the figures for 2014 and 2015 are based on the latest economic projection by the Netherlands Bureau of Policy analysis (CPB) published in the Central Economic Plan (CEP) on 18 March 2014. For the years after 2015 (in this case 2016 and 2017) the macroeconomic projections and the changes in deficit and debt are based on the medium-term projection by the CPB dating from November 2012 (Coalition Agreement) because the CEP does not have a projection for this period.

Content

Chapter 1: Implementation of the Excessive Deficit Procedure recommendations in the Netherlands

Recent figures show that the Dutch budget balance for 2013 is below the norm of 3 percent GDP (-2.5 percent GDP) and is expected to remain there in the subsequent years (-2.9 percent GDP in 2014 and -2.1 percent GDP in 2015). Gross government debt is projected to stabilise, with a forecast decline from 2015 onwards.

Introduction

This chapter provides an overview of the implementation of the recommendations issued to the Netherlands within the framework of the excessive deficit procedure. The tables relating to the reporting obligation can be found in Annex 1. Chapter 3 examines the economic developments in more detail.

The excessive deficit procedure

According to the most recent estimates, the deficit for the Netherlands during the period 2013-2015 will be lower than 3 percent GDP (see table 1.1). This means that, for the first time since 2008, the budget balance of the Netherlands will be below the reference value based in the Stability and Growth Pact (SGP). In 2013 the deficit was 2.5 percent GDP[1]. A deficit of 2.9 percent GDP is forecast for 2014. In 2015 the deficit is going to drop to 2.1 percent GDP, which is well below the reference value of 3 percent GDP, primarily due to a number of additional efforts on the part of the government. After four years, the deficit for the Netherlands will again be lower than the Eurozone average in 2015 (2.6 percent GDP), as estimated by the European Commission in the winter forecast.

Table 1.1 Development in public finances 2010-2015

in percentages of GDP	2010	2011	2012	2013	2014	2015
Budget balance	-5.1	-4.3	-4.1	-2.5	-2,9	-2.1
Structural budget balance	-4.1	-3.7	-2.6	-1.1	-1.2	-0.8
Gross government debt	63.4	65.7	71.3	73.5	74.6	74.7

The improvement between 2013 and 2015 is not only due to the economic recovery but is also reflected in the structural balance. The structural deficit will decrease to 0.8 percent GDP by 2015. Thereby the structural balance will approach the medium-term objective (MTO) of -0.5 percent GDP by 2015. If the excessive deficit procedure for the Netherlands is abrogated, the government's aim will be to comply with the requirements of the preventive arm of the SGP. These requirements relate to improving the structural balance to -0.5 percent and limiting the (net) expenditure growth to the growth of potential GDP. The budget balance is expected to stabilise in 2014 and 2015 at a level just under 75 percent GDP, after which a gradual decrease will set in during the years that follow.

In 2013, due to the worsened economic situation, the Netherlands was given an additional year in which to end the excessive deficit. The Commission was of the opinion that the Netherlands had taken effective action by improving the structural balance in the period 2011-2013 by an average of 1.1 percent GDP per annum. According to the new recommendation, new structural consolidation measures were necessary for the Netherlands in 2014, equivalent to 1 percent GDP on top of the baseline scenario[2].

1 The budget balance for 2013 is the basis of the April announcement by Statistic Netherlands (CBS). Eurostat is going to validate the CBS figures on 23 April.

2 Council recommendation to end the excessive deficit situation, European Commission (2013)

The Netherlands followed up on this recommendation in the form of a consolidation package of 6 billion euros (see table 1.2). On the expenditure side this package included, among other things, measures relating to the health care sector and the freezing of public sector salaries in 2014. On the income side a variety of measures were introduced, such as the non-indexation of tax brackets. This package was put together with a view to limiting impact on economic growth. In its opinion on the 2014 budget and the *effective action report* that was submitted, the Commission judged that the Netherlands had complied with the recommendation to end the excessive deficit.[3]

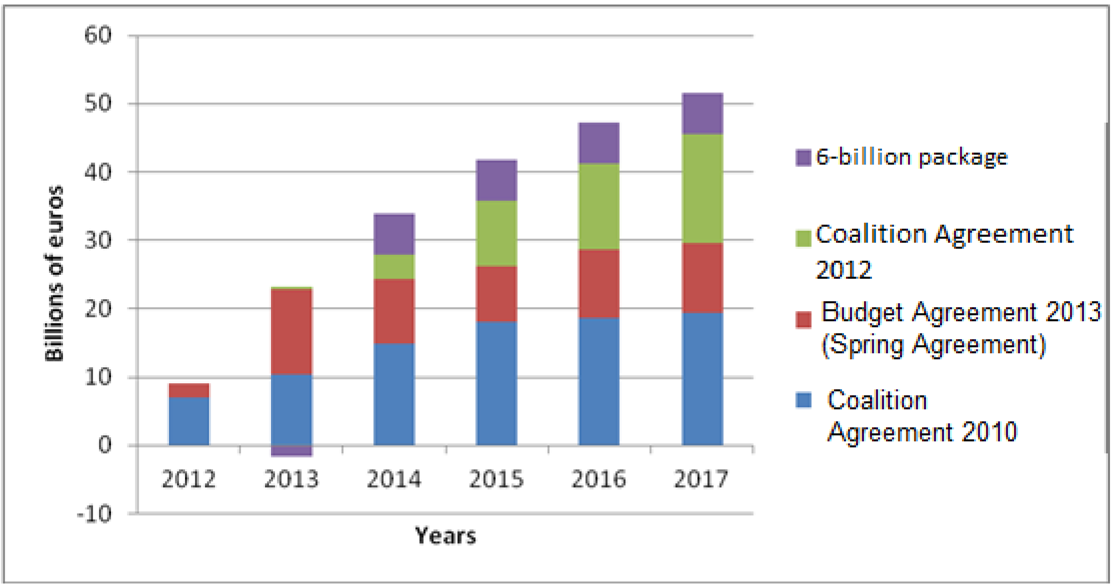
Table 1.2 Composition of the package of 6 billion euros

in billions of euros Category	Revenue 2014	Structural revenue
Health Care	1.5	2.1
Social security	-0.2	1.0
National Budget	1.9	1.2
Taxes and premiums	2.2	1.5
Other	0.6	0.4
Total	6.0	6.2

Source: Effective Action Report 2013 and letter detailing supplementary budget agreements 2014.

The improved budgetary situation and the early meeting of the deadline is the result of the cumulative effect of consolidation measures from a number of (coalition) agreements. Between 2012 and 2014, including the package referred to, measures of a total amount of 34 billion euros were taken (well over 5 percent GDP). The government is currently implementing these existing agreements with a view to the budget preparations for 2015, which increases the budgetary consolidation in that year to 42 billion euros. Until 2017 the budgetary consolidation will continue to increase to 51 billion euros based on the current agreements (more than 8 percent GDP). This will also contribute to achieving the MTO of -0.5 percent GDP.

Illustration 1.1: Cumulative effect of consolidation measures



Source: Numerous (coalition) agreements

Besides these measures, a large number of structural reforms were initiated which contribute to the sustainability of Dutch public finances (see chapter 2). This shows that the Netherlands has taken serious steps to ensure that public finances develop in a sustainable manner. As a result, the

[3] Commission communication to the Council on action taken, European Commission (2013)

starting position is favourable, both for the next few years and in the longer term. The consequences for the sustainability of public finances are discussed further in chapter 6.

Given that the deficit in 2014 and 2015 is expected to drop below 3 percent GDP, the government is not taking any additional austerity measures for the next few years. The imposition of the previously determined expenditure and revenue framework will be a central feature in the establishment of the budget for 2015. The focus will be on the implementation of the previously agreed measures laid down in the Coalition Agreement and later agreements. As also stated in the Coalition Agreement and the national fiscal rules, the Netherlands therefore remains fully committed to the European fiscal agreements.

Chapter 2: Overall policy framework and objectives

The government's fiscal policy is supported by measures aimed at reinforcing structural economic growth and promoting the sustainability of public services. The concluding of various agreements with the social partners (Social Agreement, Housing Agreement and Health Care Agreement), for example, has created a broad basis of societal support for these measures. Thanks to support from two coalition parties (VVD, PvdA) and three opposition parties (D66, CU and SGP), a broad basis of political support was also created.

Introduction

This chapter describes the progress of the government's reform agenda for the housing market, the labour market, pensions and health care.

Housing market reforms

Major steps have been taken on the housing market over the last year towards realising the government's ambitious reform agenda. With a fully integrated approach encompassing the owner-occupied and rental sectors, the focus is on a housing market that works more effectively across the board. A significant number of the reforms have now been passed by both Houses. This has created clarity as regards the long-term direction. This clarity, together with a number of supporting measures, is helping to restore stability and confidence in the housing market. The reforms also contribute to the improvement in public finances.

<u>House purchasing market</u>

In order to bring down private debt levels and allow the housing market to function more effectively, the following measures have now been passed by both Houses or laid down in lower levels of regulation:

- New loans are only eligible for mortgage interest deduction in case of repayment of the mortgage on (at least) an annuity basis over a 30-year period. This means that phased repayment will become the standard, limiting financial risks in the housing market.
- The maximum rate at which mortgage interest can be deducted on new and existing mortgages is to be reduced in 29 annual steps from 52 percent in 2014 to 38 percent.
- The maximum *loan-to-value ratio* of mortgages is to be reduced in steps of one percentage point per year from 106 percent in 2012 to 100 percent as from 2018. This limits financial risks for households and banks. In the event of a robust recovery on the housing market, the government will make proposals for a further reduction in the *loan-to-value ratio* as from 2018.
- These three measures are intended to reduce the budgetary loss of the mortgage interest deduction by more than 40 percent in structural terms. This revenue will be recycled via a reduction in the tax rates of the second, third and fourth brackets and an extension of the third bracket. This will reinforce the effect on the functioning of the economy as a whole.
- The cost threshold of the National Mortgage Guarantee Scheme (NHG) will also be further reduced in steps to 225,000 euros by 1 July 2016. From that moment on it will be linked to the average house price. This will reverse the temporary increase in response to the crisis and will aim the NHG, as it was before the crisis, at homes up to the average price. This will also reduce risks for the government. In addition, the new requirement that issuers of NHG mortgages take first-losses of up to 10 percent also contributes to better risk management.
- The government allows interest rate deductibility for a period of ten years (from income taxes) of debts that remain when a house is sold for less than the value of the mortgage (negative home equity).
- Under strict conditions, these remaining debts can be financed under the NHG mortgage of a new house. This supports mobility in the housing market.
- The transfer tax has been structurally lowered from 6 percent to 2 percent. This will also have a favourable effect on mobility.

- The central government's contribution to starter loans has been increased from €20 million to €50 million. With this contribution, the central government covers half the costs of the starter loans, with municipal and/or provincial governments paying the other half. As a result, it was possible to issue approximately 11,000 starter loans.
- The National Energy Saving Fund (Nationaal Energiebespaarfonds) has been set up. This creates the possibility of offering loans for energy-saving adaptations to residences under favourable conditions. The 75 million euro fund will be increased to 300 million euro by market funding.
- The limit for the exemption of gift tax for investment in one’s own home has been increased to 100,000 euros until the end of 2014. For this period, tax-exempted gifting is not limited to parents and children, but can be done to anyone. The gift can be used, for example, to pay off remaining debts or refurbishments.

Rental market

The reforms on the rental market laid down in the Coalition and Housing Agreements have largely been implemented:

- The government has expended possibilities for above-inflation rent increases depending on income as of 1 July 2013. This promotes turnover, which will increase the availability of social housing for the intended target group. The maximum rent increase above inflation is set at 4.0 percent for higher incomes (from 43,602 euros), 2.0 percent for middle incomes (34,085 euros to 43,604 euros) and 1.5 percent for low incomes (up to 34,085 euros).
- Corporations have to transfer part of the extra rental income to the government by means of a landlord levy. This levy amounted to € 50 million in 2013 and will increase to € 1.7 billion by 2017. The levy can largely be paid from the extra rental incomes. Housing corporations can also contribute themselves by working more efficiently and selling homes. In due course, the landlord levy makes the same contribution to straightening out public finances as that stated in the Coalition Agreement.
- As a measure to benefit the lowest income group, the budget for the rent benefit is to be increased. Extra budget has been made available for this purpose, increasing incrementally to an amount of 420 million euros in 2017. For the handicapped and the chronically ill an exception can be made to the above-mentioned income-dependent rent increases. People affected by the income-dependent rent increase who subsequently lose income are entitled to a rent reduction. Special attention is therefore focused on vulnerable groups.
- In order to create a well-functioning rental market, more room will be created for investments in the unregulated rental sector. The government is removing obstacles by bringing rental prices in the regulated portion of the rental market more in line with the value of the property, as well as by reducing government interventions on the buying/selling market.
- Legislation is currently being prepared that requires housing corporations to separate their SGEI (services services of general and economic interest) from their non-SGEI activities. This provides a better safeguard for the societal capital and creates a more level playing field with private parties in the deregulated sector. Corporations can choose a legal or an administrative split. With a legal split, the non-SGEI activities are carried out by a separate legal entity. In the case of corporations that opt for an administrative split, fewer non-SGEI activities are permitted. Activities that are permitted must serve the core task. Non-SGEI activities must be financed at market rates under both regimes.
- The government relaxed the rules for the sale of corporation housing units to private parties as of 1 October 2013. As a result, there is now more room for parties to invest in the rental market.
- Work is being done on setting up a revolving fund for energy-saving measures for lessors (as has already been established for the selling market). The idea is to offer loans subject to favourable conditions and to stimulate investment by lessors in energy-saving refurbishments. The 75 million euro fund will be increased to 300 million euro by market funding.

Lastly, a temporary reduction in VAT from 21 percent to 6 percent for building and renovation work carried out on existing buildings is to be extended until the end of 2014. The objective is to stimulate investments in real estate.

Labour market reforms

In the spring of 2013, the government and social partners made joint agreements on a structural approach for the Dutch economy and labour market. The main agreements have since been laid down in the Participation Act (Participatiewet) and the Employment and Social Security Act (Wet Werk en Zekerheid). Both Acts were adopted by the Lower House in February 2014. The measures to improve the position of flexible workers will take effect as from 1 July 2014. The new dismissal rules and the amended provisions on a succession of fixed-term employment contracts will come into effect as of 1 July 2015. The same applies to elements of the amendments to unemployment benefit, namely a more specific definition of the term 'suitable work'. The shortening of the maximum term of publicly financed unemployment benefit is to phased in as from 1 January 2016.

The aim of the government measures is to ensure that as many people as possible have a fair opportunity to find work and achieve economic independence. The government is taking measures to increase participation in the labour force and measures to improve the functioning of the labour market. The aim is for people to continue working in good health and to improve their job mobility. In addition, the government is taking measures in the short term to combat increasing unemployment.

Measures to increase participation in the labour force

- The government aims to improve the participation in the labour force of single parents by reforming the system of arrangements for children. The Bill, which was approved by the Lower House in March 2014, makes working financially attractive for single parents on social assistance benefit. The new Law is to come into effect as from January 2015.
- Starting in 2009 the transferable tax credit for breadwinner households is being phased out over a 15-year period. In 2014 the transferability of this tax credit will be further phased out. This measure encourages non-working partners to find a job.
- In 2014 the maximum labour tax credit will increase from 1,723 euros to 2,097 euros. This amount will increase further in the years ahead to 2,559 euros in 2017. This will reduce the poverty trap for low and middle incomes and make the switch from benefit to a job more attractive financially.
- In 2015 various laws are to be combined in the Participation Act (Participatiewet). To encourage participation in the labour force of people with an occupational disability and people at the lower end of the labour market, employers can claim a wage cost subsidy in the amount of the difference between the employee's wage and the statutory minimum wage. A mobility bonus will also be made available to employees who are not covered by the Participation Act. The Disablement Assistance Act for Handicapped Young Persons (Wajong) will only be available to young people who have absolutely no capacity to work, even in the long term. Access to the Sheltered Employment Act (Wsw) will be closed to new claimants.
- Employers (market and public sector) are offering guarantees of additional jobs for people with an occupational limitation, increasing to 125,000 jobs as from 2026. The agreements are not voluntary and the government is going to measure progress annually. If employers do not generate the additional jobs, a statutory quota obligation will be activated. This is proposed in a Bill to be sent to Parliament in 2014.

Measures to improve the functioning of the labour market

- The long-term engagement of employees under temporary contracts will be reduced. Amendments will be made to provisions that currently allow employment under a succession of fixed-term contracts, resulting in a permanent contract only after three years. In the new situation, employees will be legally entitled to a permanent contract after two years. Collective Labour Agreements may only deviate from this new provision if working with temporary contracts is necessary given the nature of the work.

- Measures will be taken to restrict the improper use of structures to evade obligations towards employees. The special dismissal rules that currently apply for *payrolling*, for example, will be scrapped and an action plan to combat various sham structures has been drawn up.
- Dismissal law will become more activating, fairer and simpler. Depending on the reason for the dismissal, there will be a single dismissal procedure and the employer will pay a legally standardised and capped transition allowance, from which certain training costs can be deducted.
- Starting in 2016, the maximum term to benefit from the Unemployment Insurance Act (WW) will be gradually reduced (by one month per quarter) from 38 to 24 months. In their first ten years of employment, employees will accrue entitlement to one month's unemployment benefit per year, and half a month's benefit per year thereafter. The definition of suitable work in the WW will be widened, as a result of which people who have been claiming unemployment benefit for longer than six months will be expected to accept all available work as suitable work.

<u>Measures to combat unemployment in the short term</u>
- In 2013 and 2014, 67 million euros extra has been set aside for reintegration activities involving older unemployed people.
- The government has made 600 million euros available for the co-financing of sector plans that the social partners are drawing up to prevent unemployment and to keep people employable for work in the long term.
- The government has set aside extra resources to tackle youth unemployment at the regional level. In addition, an ambassador has been appointed whose task is to ensure that the regional and sectoral partnerships reinforce each other. One third of the resources intended for the sector plans is to be used to combat youth unemployment.

Pension reforms

As indicated in last year's stability programme, government policy with regard to the state pension (AOW) and the supplementary pensions is geared towards safeguarding these provisions for younger generations as well. The number of elderly people is growing rapidly, while the working-age population is barely increasing. The government is taking the necessary measures in order to guarantee the affordability of the state pension and the supplementary pensions (see also the Dutch National Reform Programme 2014):

- The state pension age is to be increased more rapidly. In the years between 2015 and 2018 the retirement age will rise by three months a year instead of two, and from 2018 to 2021 the retirement age will rise by four months a year instead of three. This will result in a retirement age of 66 in 2018 and 67 in 2021. Thereafter, the retirement age will then be linked to life expectancy.
- The pension target age has been increased to 67 and, as from 2015, will be linked to the development in life expectancy at age 65.
- The maximum annual accrual rate qualifying for tax relief (Witteveen Framework) is to be reduced from 2.15 percent to 1.875 percent for average earned wage schemes.
- A cap will also be introduced. Fiscal incentives for accrual of second pillar pension rights for income exceeding 100,000 euros a year (three times modal income) will no longer be available. However, people affected by this are allowed to take out a net annuity policy that is exempt from capital gains tax. This will make the fiscal incentives for pension accrual more targeted and more effective.

Health care reforms

With the Coalition Agreement, the government takes a major step towards securing a feasible growth path for health care expenditure. The increase in health care expenditure is to be reduced by more than 6.5 billion euro during the term of this government.

In the curative care sector the focus is on improving the functioning of the system and reducing the growth in volume in the specialist medical care and mental healthcare (GGZ) to 1.5 percent for 2014 and 1 percent from 2015 to 2017. Both insurers and providers bear more risk, the claims package will be streamlined and contributions for clients will increase. This generates a structural saving of 3.1 billion euros, including the measures from the 2014 budget agreements.

Long-term care will undergo a comprehensive reform. The government's aim is to provide more tailor-made care, delivered closer to home. Supporting care, daytime activities and some aspects of mental healthcare are to be devolved to municipal authorities. Home care of a more medical nature is to be covered by the Health Care Insurance Act (Zorgverzekeringswet). This will ensure optimum use of the synergies between the different areas. The claims package will be brought more in line with neighbouring countries and will focus on the neediest. The financial capacity of patients will be taken into consideration more when determining their contributions. This package involves structural cuts of 3.7 billion euros, as a result of which expenditure on long-term care in the period 2013-2017 is expected to stay more or less equal.

With a view to increasing public support for the drastic measures relating to long-term care, agreements have been made with relevant interest groups, including the Health Care Agreement (spring 2013) and the results of the consultations with the Association of Netherlands Municipalities (VNG) (December 2013). In the Healthcare Agreement the degree of incremental reduction of domestic assistance has been reduced from 75 percent to 40 percent. However, at the same time, agreements have been made to reduce labour costs. In addition to the VNG consultation results, transitional agreements were made with the VNG and other partners (representatives of insurers, care providers, clients) in early 2014. The Social Support Act (Wet maatschappelijke ondersteuning, WMO) and the Long-Term Care Act (Wet Langdurige Zorg, Wlz) are currently being debated by the Lower House, with all efforts being directed at a devolution of responsibilities to municipal authorities as from 1 January 2015. The Youth Act (Jeugdwet) has already been approved by Parliament and will enter into effect on 1 January 2015.

Chapter 3: Economic outlook

Since mid-2013 the Dutch economy has slowly recovered. The most recent forecast of the CPB Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau) expects the Dutch economy to grow by ¾ percent in 2014 and by 1¼ percent in 2015. Although the growth is largely driven by exports, the contribution made by domestic factors is increasing. This year unemployment increases to 7¼ percent, after which it is expected to drop to 7 percent in 2015.

Introduction

This chapter first assesses international economic developments, including the underlying macro-economic assumptions used in the Stability Programme. Second, economic developments and prospects for the medium term are outlined.

International developments and technical assumptions

Due to its openness and relatively limited size, the Dutch economy strongly depends on international developments. The forecast is based on a number of assumptions relating to the international economy and various technical assumptions. Although the global growth recovery is continuing, growth continues to be moderate at 3½ percent in 2014 and 3¾ percent in 2015. Eurozone growth is lagging behind at 1 percent growth in 2014 and 1½ percent in 2015. World trade is showing a similar picture of moderate growth. Relevant world trade is increasing, thanks to the recovery in the US and the Eurozone, by 4¼ percent in 2014 and 5 percent in 2015. Inflation in the Eurozone, particularly in a number of southern countries, will remain low this year and next.

Table 3.1 External assumptions

	2013	2014	2015
Short-term interest rate (annual average)	0.2	0.3	0.3
Long-term interest rate (annual average)	2.0	2.3	2.6
USD/€ exchange rate (annual average)	1.33	1.36	1.36
World GDP growth	2.9	3½	3¾
GDP growth in the Eurozone	-0.4	1	1½
Relevant world trade	1.9	4¼	5
Oil price (Brent, USD per barrel)	108.72	108	108

Economic developments and prospects for the medium term

After two years of primarily negative quarterly figures, the Netherlands has reported positive growth figures again since the second quarter of 2013. According to the cyclical indicator of Statistics Netherlands (Centraal Bureau voor de Statistiek, CBS), the Dutch economy has moved into recovery. This turning point was due to developments relating to exports, investments and consumption. In 2013 the Dutch economy contracted by 0.8 percent GDP, partly due to negative run-on spill-over from 2012 and a negative first quarter. The economic recovery as from the second quarter of 2013 is expected to continue, resulting in a growth of ¾ percent GDP in 2014 and 1¼ percent GDP in 2015. This nature of the recovery is subdued, as is usual after a financial crisis. At the domestic level, households, banks and the government need to repair their balance sheets. As a result, growth is expected to remain relatively moderate in 2014 and 2015.

Table 3.2 Contributions to real GDP growth, 2012-2015[4]

in percentage of GDP	2012	2013	2014	2015
Household consumption	-0.5	-0.6	0	0
Investments in housing	-0.3	-0.3	0	0
Investments in business	-0.3	-0.3	¼	¼
Government spending	-0.1	-0.1	¼	0
Exports	0.0	0.5	½	1
Total (real GDP growth)	-1.2	-0.8	¾	1¼

This year, exports (adjusted for import components) will contribute approximately 0.5 percentage points to GDP growth, as is seen in Table 3.2. Last year, exports were the only GDP component that contributed positively to growth. In 2015 the contribution of exports to GDP growth is expected to increase to 1 percentage point. As usual, global economic developments continue to be very important for the Dutch economy. Increases or decreases in world trade will, therefore, have a significant influence on Dutch economic development, as detailed further in Chapter 5.

The reduced sales outlets at home and abroad had a negative impact on investments in business in recent years. As a reaction to improving exports, the level of investment has increased again since mid-2013. Moreover, industrial production, capacity utilisation and producer confidence rose during the second half of 2013. After two years of negative growth contributions, business investments are expected to contribute positively to growth by 0.25 percentage points in the next two years.

After four years of decline, household consumption will grow by ½ a percent in 2015. The decreasing consumption of the previous four years was driven by both negative income developments (developments in wages and unemployment) and capital developments (falling house prices). Disposable income will grow in both 2014 and 2015 and house prices will stabilise. Households are expected to repair some of their capital losses, as a result of which consumption will continue to decrease in 2014 and increase slightly in 2015.

[4] The total may differ from the sum of the parts due to the figures being rounded off.

Table 3.3 Macro-economic prospects

	ESA code	2013 Level (in billions of euros)	2013 rate of change	2014 rate of change	2015 rate of change
Actual GDP	B1*g	605.5	-0.8	¾	1¼
Nominal GDP	B1*g		1.0	0	0
Components of actual GDP					
Private consumption expenditure	P.3	273.9	-2.1	-¼	½
Government consumption expenditure	P.3	171.5	-0.5	½	-¼
Gross fixed capital formation	P.51	97.2	-4.8	3¾	3¼
Changes in inventories (Δ)	P.52+P.53	0.6	-0.4	¼	0
Exports of goods and services	P.6	532.6	1.3	2¼	4¼
Imports of goods and services	P.7	470.3	-0.5	2½	4
Contributions to actual GDP growth					
Final domestic demand		542.7	-1.9	¾	¾
Changes in inventories (Δ)	P.52+P.53	0.6	-0.4	¼	0
External balance of goods and services	B.11	62.2	1.5	0	½

Labour market

In 2013 unemployment increased further to 6.7 percent of the working population. As usual, the level of unemployment shows a lagged response to economic recovery. Labour productivity grew very moderately in recent years. Companies will first restore their productivity levels before recruiting new staff. In 2014, employment in all sectors is expected to decrease further, resulting in an unemployment percentage of 7¼ percent of the labour force. The continuing increase in production, combined with a moderate development of wages in real terms, will result in rising employment levels in 2015. Unemployment will, as a result, drop to 7 percent.

Table 3.4 Labour market developments

	ESA code	2013	2013	2014	2015
		level	Rate of change	Rate of change	Rate of change
1. Employment, people (x 1,000)		8,591.2	-1.0	-½	½
2. Employment, number of hours worked		6,654.7	-1.2	-¾	½
3. Unemployment (% of the working population)		602.5	6.7	7¼	7
4. Labour productivity, per employee		70,479	0.3	1½	¾
5. Labour productivity, per hour worked		91.0	0.4	1½	¾
6. Total wage of employees	D.1	309.8	0.2	2	2
7. Wage per employee (€)		36.1	2.1	3	2

Chapter 4: Budget balance and government debt

According to the most recent estimates, the budget deficit of the Netherlands fell below the 3 percent of GDP benchmark in 2013, for the first time since the start of the excessive deficit procedure. For 2014 and 2015, the forecast deficit outcome remains consistently below the excessive deficit benchmark, with a forecast for 2014 of -2.9 percent of GDP and -2.1 percent of GDP for 2015. The deficit-reducing measures totalling 42 billion euros in 2015 (approximately equalling 7 percent of GDP) which the government has taken are the main drivers of this favourable trend. As a result, the structural budget balance will improve to -0.8 percent of GDP in 2015, meaning that the medium-term objective of -0.5 percent of GDP for 2015 for the Netherlands is within reach. Gross government debt will stabilise in 2015 at around approximately 75 percent of GDP. The government is confident that these figures provide an important step towards sustainable public finances in the longer run.

Introduction

This chapter provides an overview of the budget balance and the public debt for the period 2014 to 2017 and assesses both the government's policies and its ambitions.

Government Policies

The government's financial and socio-economic policy is based on three pillars: providing fiscal sustainability, maintain a socially acceptable distribution in austerity measures and stimulating sustainable growth. This strategy is in accordance with the Annual Growth Survey 2014, which calls upon Member States to restore the sustainability of public finances by implementing structural reforms. The positive development of the public balance offers the possibility of returning to the regular decision-making process of Dutch fiscal policy. This policy is based on a separation of revenue and expenditure through the application of a predetermined expenditure and revenue framework.

The enforcement of the expenditure and revenue framework will be a key element in drawing up the budget for 2015. The focus will be on the implementation of the previously agreed measures agreed upon in the Coalition Agreement and in later agreements. As also stated in the Coalition Agreement and in the national budget rules, the Netherlands therefore remains fully committed to the European fiscal agreements.

Medium-term budgetary outlook

Table 4.1 shows developments in the public budget outcome. In 2013, the public balance decreased below -3 percent of GDP for the first time since the start of the excessive deficit procedure. According to Statistics Netherlands, the deficit reaches 2.5 percent of GDP. However, this number does not include any effects on the government balance sheet of the nationalisation of SNS Bank. As a result, based upon currently available information, there is an upward risk of at most 0.3 percentage points. The exact outcome is uncertain until a decision is taken by Eurostat regarding the statistical settlement of the nationalisation of the SNS Bank. According to the most recent forecasts, the budget deficit will remain consistently below the excessive deficit norm in 2014 and 2015. Compared to the projections in the Draft Budgetary Plan (DBP), the deficit outcome is more positive for 2014 and 2015 based on the CEP figures. This is due to positive developments in government expenditure and an increase in tax revenue. The lower public expenditure figure is due primarily to reduced spending on unemployment-related benefits. In addition, interest payments and health care expenditure were lower than expected. The government revenue will be higher than forecast in the Draft Budgetary Plan (DBP), particularly in 2015. This is almost exclusively the result of developments in social security premiums and wage taxation as a consequence of both a greater growth in employment and a stronger increase in wages than assumed in the DBP. As a result, the projected government deficit will drop from 3.3 percent of GDP to 2.9 percent of GDP in 2014. In 2015, the improvement is even greater, with an estimated deficit of 2.1 percent of GDP.

Table 4.1 Forecast budget balance

in percentage GDP (+ improves balance)	2014	2015
Budget balance DBP 2014	**-3.3**	**-2.8**
Expenditures	**0.5**	**0.6**
of which:		
deviation due to nominal developments	0.2	0.1
unemployment expenditure	0.1	0.3
health care	0.1	0.1
interest payments	0.1	0.2
education	0.0	-0.1
other	0.0	0.1
Gas revenue	**-0.1**	**-0.2**
Revenue	**0.0**	**0.3**
Total difference	**0.4**	**0.7**
Budget balance CEP	**-2.9**	**-2.1**

In addition to a reduction of the government deficit in the short term, the Netherlands is also focusing on reducing the structural deficit in the medium term. In 2014, the structural budget balance is estimated to be -1.2 percent of GDP. In 2015, this balance is expected to improve to -0.8 percent of GDP, which is close to the medium-term objective of -0.5 percent of GDP for the Netherlands.

Table 4.2 Medium-term objective

in percentage of GDP	2013	2014	2015
Structural government balance	-1.1	-1.2	-0.8

Government debt

Table 4.3 shows the long-term development in government debt. From 2014, the debt level stabilises at around 75 percent of GDP. This development is the result of a number of policy measures, such as the privatisation of the *Illiquid Assets Back-up Facility* (IABF). Moreover, the treasury banking of local government authorities will have a dampening effect on the government debt (see also Chapter 7). Lastly, there is a denominator effect: the increase in GDP will slow down the growth of the debt ratio. The CEP forecast for gross government debt is lower than the estimates in DBP 2014: the DBP estimates a debt level of over 76 percent of GDP for the period 2014-2017, while the current debt estimate remains below 75 percent of GDP. This is primarily the consequence of a lower estimated deficit.

Table 4.3 Components of government debt (% of GDP)

in percentage of GDP	2013	2014	2015	2016	2017
1. Gross debt	73.5	74.6	74.7	74.1	73.2
2. Change in gross debt	2.3	1.1	0.0	-0.6	-0.9
of which:					
3. Primary balance	-0.7	-1.1	-0.4	0.1	0.6
4. Interest payments	1.8	1.8	1.8	2.1	2.1
5. Stock/flow changes	-0.2	-1.8	-2.2	-2.6	-2.4
of which:					
Differences between cash and accruals	-0.1	0.0	-0.2	-0.1	0.0
Net increase in financial assets	1.1	0.1	-0.2	-0.6	-0.5
Denominator effect	-1.2	-1.9	-1.8	-1.9	-1.9

Chapter 5: Sensitivity analysis and comparison with previous update

Compared to the Stability Programme 2013, economic developments in 2013 turned out worse at -0.8 percent of GDP than previously forecast (-0.5 percent of GDP). The same applies to 2014, with the added observation that growth is no longer expected to be negative. However, due to the measures taken, the budget deficit is lower for both years and will consistently be under the threshold of 3 percent of GDP. Government debt is adjusted downwards for 2014 compared to the previous version of the Stability Programme.

Introduction

This chapter describes how a number of macro-economic core variables differ compared to the previous update of the Stability Programme. This is followed by an analysis of how these variables develop in alternative scenarios.

Comparison with Stability Programme of April 2013

As table 5.1 shows, GDP growth for 2013 to 2015 is lower than assumed in the previous Stability Programme. The effect of the lower GDP growth forecast on the budget deficit is, however, compensated for by the effect of the measures taken in the Coalition Agreement and the so-called 6 billion euro package. Compared to the previous update, the deficit is lower than forecast for 2013 and 2014. The development of the government debt is also revised downwards for 2014.

Table 5.1 Differences compared to the Stability Programme of April 2013

in percentages of GDP	ESA Code	2013	2014	2015
Actual growth in GDP				
Update April '13		-0.5	1.0	1.6**
Current update		-0.8	0.8	1.2
Difference		-0.3	-0.2	-0.4
Budget deficit	EDP B.9			
Update April '13		3.4	3.0	1.8**
Current update		2.5*	2.9	2.1
Difference		-0.9	-0.1	0.3
Government debt				
Update April '13		74.0	75.0	71.4**
Current update		73.5	74.6	74.7
Difference		-0.5	-0.4	3.3

* This number does not take any account of effects on the government balance sheet of the nationalisation of the SNS Bank. As a result, based upon currently available information, there is an upward risk of at most 0.3 percentage points.
**2012 Position in Initial Policy Document (Coalition Agreement)
Source: CBS, CPB and Stability Programme 2013.

Alternative scenarios and risks

Given the openness and the relatively limited size of the Dutch economy, the main risks with regard to the baseline scenario come from international developments, primarily via world trade. Recently, political developments in the Ukraine in particular have provided an additional uncertain element. Possible economic risks relate not only to world trade, but also to energy prices. This sensitivity analysis therefore presents the possible effects of a slowdown in relevant world trade and increasing energy prices. Both scenarios assume a change in variables at the start of 2014, and then present the effects for the period 2014-2015. The scenarios are drawn up based on the most recent versions of NiGEM and SAFFIER[5].

Scenario 1: Delayed recovery of the global economy and world trade

The global economic recovery and world trade may end up being weaker than expected as a consequence of, for example, a slower recovery in consumer and producer confidence, the effects of tapering of monetary policy in the US or possible new financial turmoil in the European Union. Table 5.2 presents the effects of a fall in spending of 1 percent in 2014 of key trading partners Japan, US, United Kingdom, Belgium, Germany and France. This impulse would cause expected growth in relevant world trade to decrease by 1.9 percentage points in 2014. It would decline further in 2015 by 1.6 percentage points. The decrease in world trade would have a negative impact on Dutch exports. The prospects for the private sector would worsen due to lower exports and this, in turn, would result in lower investments, rising unemployment and an ensuing reduction in consumption. Lower VAT receipts, in combination with an increase in unemployment benefits, would result in a deterioration of the budget balance in this scenario. For the Netherlands a shock in world trade has a major downward effect on the budget balance. In this scenario the budget balance is projected at -3.1 percent in 2014 and -2.5 percent in 2015.

Scenario 2: Higher energy prices

In addition to a negative effect on world trade, the unrest in the Ukraine and political tensions with Russia could drive up oil and gas prices. Table 5.2 presents a scenario in which the energy prices are 10 percent higher than expected for a period of two years. Higher energy prices will push up inflation and drive down international spending and world trade. Investments, employment, consumption and the budget balance will worsen via the private sector. The effects of the economic downturn on the EMU balance are offset by higher gas revenue; the overall effect is marginally positive for 2014 and neutral for 2015. In this scenario the budget balance is projected at -2.7 percent in 2014 and -2.1 percent in 2015.

Table 5.4 Alternative scenarios

Deviation from baseline scenario (percentage point)	1. Fall in spending of trading partners		2. Higher energy prices	
	2014	2015	2014	2015
Volume of world trade (excl. energy)	-1.9	-1.6	-0.6	-1.2
Competitors' price (excl. energy)	-0.1	-0.7	0.4	0.9
Import price of goods	-0.2	-0.5	1.9	2.2
GDP (market prices)	-0.5	-0.6	-0.2	-0.5
Household consumption	-0.1	-0.3	-0.1	-0.3
Investments	-0.9	-2.2	-0.1	-1.4
Exports of goods and services	-1.5	-1.3	-0.4	-1.0
Imports of goods and services	-1.3	-1.3	-0.4	-1.0
Market sector production	-0.7	-0.8	-0.2	-0.7
Employment (years of employment)	-0.2	-0.5	-0.1	-0.3
Unemployment rate (percentage)	0.1	0.4	0.0	0.2
Market sector negotiated wages	-0.2	-1.0	0.2	0.2
Consumer price index (CPI)	-0.1	-0.4	0.3	0.6
EMU balance (% GDP)	-0.2	-0.4	0.2	0.0

1: Assumes a loss of spending power of 1 percent in 2014 affecting Japan, US, United Kingdom, Belgium, Germany and France.
2: Assumes 10 percent higher energy prices in 2014 and 2015.

[5] See also CEP 2014. NiGEM is a model of the global economy produced by the National Institute of Economic Research. Saffier is the model used by the CPB for short-term projections, medium to long-term scenarios and analyses of Coalition Agreements and policy options.

Chapter 6: Sustainability of public finances

During the past few years various measures have been taken to improve the long-term sustainability of public finances. According to the most recent analysis by the CPB, the Netherlands currently has a positive sustainability balance of 1.0 percent GDP[6]*. According to the calculations performed by the European Commission, the Netherlands has a sustainability gap of 5.9 percent GDP*[7]*. This considerable discrepancy is caused by differences in policy assumptions and calculation method. Both the CPB and the European Commission demonstrate an improvement in the sustainability of public finances, with the increase in pension age and the linking of the state pension age to life expectancy being the most significant contributing factors. Government guarantees, which have increased significantly since 2008 as a consequence of the financial crisis, are now being scaled down. As regards new guarantees, a strict 'no, unless' policy has been included in the fiscal rules.*

Introduction

This chapter discusses the definition of the sustainability gap and the projections for public finances up to 2060. It also clarifies the differences between the CPB estimates and the winter forecast by the European Commission. Lastly, an overview is provided of the contingent liabilities of the Dutch government.

The sustainability balance

The sustainability balance reflects the future resilience of Dutch public finances. Public finances are regarded as sustainable if future income is sufficient to pay for future expenditure, including the interest on the existing debt. If this is not the case, public debt will become uncontrollable at a certain point in time. The sustainability balance reflects the difference between the budget balance actually expected at the end of the government's term in office and the minimum budget balance at which public finances are sustainable[8].

The sustainability calculations are not a projection of the most realistic scenario. The principal aim of these calculations is to assess whether current policy can be continued into the distant future. One thing is key: the assumption of constant arrangements. The term 'constant arrangements' means that the expenditure on, for example, health care or education per person as a proportion of income remains constant over time. In short, this means that each generation spends an equal amount of its income on health care and education.

The sustainability of Dutch public finances and the sustainability balance are affected primarily by demographic developments. The ratio of retired to working people is set to increase significantly in the period up to 2040. As a result, age-related expenditure on state pension (AOW) and healthcare will increase significantly faster than revenue. It is therefore important for policy to focus on making collective arrangements future-proof. Without this policy, budget deficits and the national debt will become uncontrollable in the future.

[6] CPB, Update analysis of the economic effects on the Coalition Agreement financial framework (12 November 2012)

[7] European Commission, Fiscal Sustainability Report 2012.

[8] This figure is determined by a technical assumption that the collective arrangements in 2017 will be adapted in one go so that in the future – despite ageing – no additional adaptations will be necessary. These more cautious arrangements therefore apply for both current and future generations.

Table 6.1 Development of sustainability balance [9]

	as percentage of GDP	**in billions of euros**
Sustainability June 2010 CPB Ageing divided	-4.5	-29
Rutte 1 policy, pension agreement and economic situation	*1.9*	*11*
Sustainability CEP 2012	-2.6	-17
improvement in sustainability through 2013 Budgetary Agreement	*1.8*	*12*
economic situation	*-0.3*	*-2*
Sustainability including Budgetary Agreement *(June 2012)*	-1.1	-7
worsening of budgetary situation	*-0.2*	*-1*
Sustainability of Financial Framework baseline (*Oct 2012*)	-1.3	-9
improvement of sustainability of financial framework	*2.3*	*15*
of which State and other pensions	*0.2*	*1*
housing market	*0.3*	*2*
health care	*1.3*	*9*
other	*0.5*	*3*
Position including Coalition Agreement improvement	**1.0**	**7**

The most recent estimate of the Dutch sustainability balance dates from November 2012. This analysis takes account of the Coalition Agreement. The Rutte-Asscher Coalition Agreement contained various measures to improve sustainability and it has resulted in an improvement of 2.3 percent. This is mainly due to health care related measures, contributing 1.3 percentage points towards a more positive sustainability balance. Policy focussing on State and other pensions, the housing market and the other deficit-reducing measures account for the other 1.0 percent improvement. The Coalition Agreement builds on the 2013 budgetary agreement, which already contained the important State pension reforms and previous policy by the Rutte-Verhagen government aimed at improving the sustainability of government expenditure (see Table 6.1).

Projections until 2060

Table 6.2 provides an overview of the most recent projection by the CPB. This projection dates from November 2012 and therefore does not take any account of later measures such as the 2014 budgetary agreement. Neither does it include the most recent demographic projections by CBS. The estimate by the European Commission (from 2012[10]) differs considerably from the CPB estimate by calculating a sustainability balance of -5.9 percent. Policy weighting is the most important factor behind this significant difference: the CPB's sustainability calculation takes account of all government policies up to and including 2017. The European Commission only includes current policy in the calculation insofar as it has already been implemented and has been reflected in an improved budget balance or has been laid down in law. In the meantime a large number of the relevant measures have already been agreed. The two bodies use a different technique and different sources. The European Commission uses Eurostat as a source for the population forecast, while the CPB uses the forecast by CBS. The assumptions concerning the development of indirect tax revenue also differ: the CPB forecasts an increase, while the European Commission expects no change. Lastly, the initial budget position also differs to some extent. The CPB forecasts a certain

[9] This connecting table follows from the CPB memorandum of 19 June 2012 - *Further analysis of sustainability gains and balance objective for the next government's term in office-* and the CPB memorandum of 29 October 2012 - *Analysis of the effects of the Coalition Agreement's financial framework*.

[10] European Commission, 2012, *Fiscal Sustainability Report 2012*, European Economy 8/2012.

degree of recovery growth after 2017, which will lead to an improvement in the sustainability of public finances.

Table 6.2 Projection of public finances as estimated by the CPB

in percentage of GDP	2010	2020	2030	2040	2050	2060
Total expenditure	51.0	47.2	48.5	50.3	49.9	49.4
Of which: Age-related expenditure	20.5	21.8	23.7	26	25.9	25.5
Pension expenditure	6.9	7.4	8	8.9	8.7	8.5
Social security expenditure	12.6	13.1	13.8	14.6	14.4	14.2
Old age and early retirement pension	4.9	5.7	6.3	7.2	7	6.8
Other pensions (invalidity, surviving relatives)	2.0	1.7	1.7	1.7	1.7	1.7
Occupational pensions						
Health care	6.3	7.5	8.2	8.6	8.5	8.4
Long-term care	3.8	3.5	4.3	5.1	5.4	5.4
Education expenditure	5.5	5.1	5	5.1	5.1	5.0
Assumptions						
Growth in labour productivity	2.0	1.5	1.5	1.5	1.5	1.5
Actual growth of GDP	1.6	1.5	1	1.6	1.6	1.5
Participation rate men (age 15-64)	80.5	81.4	81.4	81.6	81.7	81.7
Participation rate women (age 15–64)	61.4	64.4	65.4	67.1	68.1	68.1
Total participation rate (age 15–64)	71.0	72.9	73.4	74.3	75.0	75.0
Unemployment (20-64)	5.5	3.4	3.4	3.4	3.4	3.4
Population of people aged 65+ compared to total population (%)	15.7	19.1	20.5	22.2	22	21.3

Contingent liabilities

The number of guarantees has significantly increased in recent years. Notwithstanding the reservations that the government has about providing fresh guarantees, measures were necessary to counter substantial systemic risks, both national and in the Eurozone. In 2013, a decrease was seen again for the first time, partly as a consequence of the lowering of the ceiling on the guarantee issued by the Dutch government to the temporary European Financial Stability Facility (EFSF). This lowering is the consequence of the entry into force of the European Stability Mechanism (ESM).

The decrease in the guarantee issued to the EFSF is partly offset by a new guarantee to the Dutch Central Bank (De Nederlandsche Bank, DNB) in the amount of 5.7 billion euros. Within the framework of the common monetary policy in the Eurozone, the central banks of the Euro system conduct monetary policy transactions with counterparties. As a consequence of the ECB's unconventional monetary policy, DNB's exposure has increased, as have the associated financial risks. The guarantee applies for a five-year period, but is extended in the event that DNB is exposed to a risk that cannot be absorbed with its own equity capital. Without the State guarantee, DNB would have been compelled to take a provision, which would have resulted in a lower profit distribution to the State.

Another new arrangement is the guarantee for the real estate management organisation set up during the nationalisation of SNS Reaal. During the nationalisation of SNS Reaal it was decided to transfer the real estate portfolio of SNS Reaal into a separate real estate management organisation, with the purpose of winding down this real estate portfolio as efficiently as possible. However, this real estate management organisation first had to become the owner of the real estate portfolio by purchasing it from SNS Reaal. To this end, the organisation is expected to acquire financing using a State guarantee. The winding down of the real estate portfolio will lead to a reduction in the outstanding financing, and with that also the guaranteed amount.

Lastly, it should be mentioned that the guarantee scheme for interbank loans will end in 2014. This scheme was set up in 2008 to stimulate credit lending between banks. The phasing out of this scheme began in 2011 by, in first instance, making the conditions under which the banks could obtain such a guarantee from the government less attractive. The service desk for new loans was also closed in December 2010. This led to a rapid decrease in the risk for the government. While the government guarantee stood at 47.1 billion euros in 2009, the last guaranteed loan will expire in 2014. Because the last contract expires in November 2014, the guarantee will only be fully entered up in December 2014 in the budget and the guarantee overview. This will be visible in the budget for 2015. To date, the government has not suffered any loss or damage via this scheme.

The most recent overview (September 2013) is shown in Table 6.3. The government's annual financial report, containing the final figures for 2013, is to be published soon, ready for Accountability Day on 21 May.

Table 6.3: Guarantees provided by the central government

in billions of euros	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Total guarantees	63.5	152.7	152.2	238.2	258.0	217.5	218.5
of which:							
European Financial Stability Facility (EFSF)	-	-	25.9	97.8	97.8	49.6	49.6
DNB participation in IMF capital	9.9	23.4	28.8	47.3	46.5	46.5	46.5
European Stability Mechanism (ESM)	-	-	-	-	35.4	35.4	35.4
Interbank loans guarantee	2.7	47.1	39.0	33.2	17.2	14.1	14.1
European Investment Bank (EIB)	7	9.9	9.9	9.9	9.9	9.9	9.9
De Nederlandsche Bank guarantee	-	-	-	-	-	5.7	5.7
SNS Reaal guarantee	-	-	-	-	-	5.0	5.0

In the light of the increased guarantees, the Risk Arrangements Commission (Commissie Risicoregelingen, CRR) made some recommendations to make the government's risk policy more stringent. As a result of these recommendations and the advice given by the Court of Audit (Algemene Rekenkamer), the government developed a guarantee framework in order to manage risks more effectively. More details can be found in Chapter 7.

Chapter 7: Quality of public finances

The Dutch government promotes quality and sustainability of public finances through legislation, regulations, rules and (fiscal) policy. Another contributing factor is the interplay of 'checks and balances' between organisations such as the Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau), the Council of State (Raad van State) and the Court of Audit (Algemene Rekenkamer). In addition to the existing quality requirements for public finances, the Dutch government recently tightened and improved risk management relating to contingent liabilities, derivatives and Treasury banking. The critical assessment of contingent liabilities, the maintaining of excess funds by local government bodies with the state and the tightening of the derivatives policy all limit the risks for public finances and therefore contribute to a more sustainable development of public finances.

Introduction

The State safeguards the quality of public finances for both the expenditures and revenue. On the expenditure and revenue side, quality is secured by periodically evaluating efficiency and effectiveness of the policy. In addition, annual interdepartmental policy reviews are carried out. During these reviews an area of policy is thoroughly investigated and alternative policy options are presented with a view to making savings or spending more efficiently[11].

Building on the Stability Programme 2013, this chapter focuses on another quality aspect of public finances, namely risk management. The risks for public finances have increased substantially in recent years as a consequence of the financial crisis. The State has taken measures in the form of guarantees, indirect guarantees and loans, for example. As a result, the State's outstanding guarantees rose from 63.5 billion euros in 2008 to 258.0 billion euros in 2012, and then dropped again to 218.5 billion euros in 2014. The risk that the State runs via indirect guarantees has also increased significantly, with the total value of indirect guarantees increasing from 177.7 billion in 2008 to 250.4 billion in 2012. In addition to contingent liabilities, public finances face risks because of the use of derivatives by semi-public bodies and through the risks that local government bodies are exposed to on their excess funds.

This chapter describes the more stringent policy with regard to contingent liabilities, the use of derivatives with public funds and the Treasury banking obligation of local government bodies. It ends with an assessment of the recommendations of the Van Dijkhuizen Commission for revising the tax system.

Risk arrangements

The Dutch government opts to limit explicit risks where necessary or to reduce them to an efficient level. In addition, the Dutch government chooses to reduce implicit (financial) risks by identifying them and including them in the standard (financial) decision making process within the frameworks of the fiscal policy.

The policy for contingent liabilities is laid down in the fiscal rules and in the new framework for guarantees. Based on the fiscal rules, a 'no unless' policy applies with regard to contingent liabilities. Although new arrangements are sometimes necessary, the Dutch government acts in the most reserved manner possible. The government thinks it is important not only to assess new arrangements, but also to use restraint with regard to (amendments to) existing arrangements. Policy initiatives to start a new guarantee will be assessed via the Assessment Framework Contingent Liabilities [12]. The three key elements of the assessment framework are:

[11] The 2013 Stability Programme contains a more detailed clarification of how quality is guaranteed via policy evaluations.

[12] http://www.rijksoverheid.nl/documenten-en-publicaties/regelingen/2012/03/05/toetsingskader-risicoregelingen.html

- Reason for government intervention and choice of instrument, in other words usefulness and necessity;
- Management of risks, both ex ante and ex post (governance);
- Pricing the risk and associated costs (a risk premium).

Additional to the fiscal rules, the framework for guarantees lays down a set of concrete requirements applicable to new and existing risk arrangements.

The *guarantee framework* can be summarised as follows[13]:

- A 'no unless' policy applies to all guarantees and loans.
- In principle all arrangements will have a sunset clause.
- The assessment framework for contingent liabilities is always submitted to Parliament.
- In the case of new arrangements and amendments to existing arrangements, (other) contingent liabilities will have to be decreased.
- A rule will ensure the scaling down of unused ceilings.
- Retrenchment of contingent liabilities is being considered.
- A *second opinion* will be requested from an independent, specialist party with regard to risk management and the setting of premiums for large and complex risks.

Derivatives

The Dutch government is restraining speculation with public funds. Derivatives – financial products with a value derived from underlying products or indices – are not a problem in themselves, given that they can contribute to the management of risks and, at relatively low costs, can provide security with regard to future interest obligations. However, financial innovation has also resulted in products of a speculative nature, offering the chance of large gains and large losses. Speculating with tax or premium revenues is not the task of public and semi-public bodies.

Derivatives policy framework

The government has decided only to permit derivatives in the (semi-)public domain if they provide protection against upward interest risks (*payer swaps* and *interest caps*). *Receiver swaps*, *forward starting swaps* and *interest swaptions* may only be used under strict conditions. The advantage of this limitative list is that the market cannot bypass the public speculation ban on new products. The government has also imposed stricter demands on financial management, control, accountability and supervision of organisations with derivatives on their balance sheets. Line ministers are responsible for a sector-specific interpretation of the ban on speculation. The general framework contains a number of provisions from which the line minister can deviate if there are sound reasons for doing so. After all, sector-specific circumstances may give cause to deviate from the general, overarching framework. That makes customisation possible and ensures that rules are not necessarily restrictive. As regards all other provisions, the sectoral interpretation may be stricter, but not more permissive than the general policy.

The *derivatives policy framework* can be summarised as follows[14]:

- Financial derivatives are only permitted in order to limit upward interest risks.
- Derivatives are not larger than the covered loan and do not run for longer than the covered loan (with a maximum term of 10 years).
- Derivatives are acquired in euros from financial institutions with a single-A rating or higher.
- A bilateral collateral obligation is permitted, as is a unilateral collateral obligation from the financial institution. Collateral obligations necessitate sufficiently large buffers.
- The financial institution may not have a unilateral termination option.
- Institutions that use financial derivatives have an adequately structured internal organisation.

[13] For a full overview see: http://www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2013/09/17/rapport-commissie-risicoregelingen-en-kabinetsreactie.html

[14] For the full derivatives policy framework see: http://www.rijksoverheid.nl/documenten-en-publicaties/publicaties/2013/09/17/beleidskader-derivaten.html

- Institutions are accountable with regard to derivatives in a transparent, complete and clear manner in their annual reports. The accountant checks the external accounting.
- Line ministers explicitly appoint a sectoral supervisor.
- Derivatives that are not in line with the framework are scaled down, unless this would result in major losses.

Treasury banking

Since the end of 2013, local governments are required to maintain their excess funds[15] with the Treasury. This obligation reduces government debt as a whole because it is defined as the government's debt to third parties. The obligation also reduces the risks of local governments in relation to their excess funds. Experience has shown that local governments with excess funds, like other economic actors, try to optimise the yield. However, a higher yield also means greater risks. The case of the Icelandic bank Icesave underlined the correlation between high yield and substantial risk for governments. Making it obligatory to put aside excess funds with the State limits the credit risk for local governments. In that way, it also contributes to risk management within the public sector.

Treasury banking means local governments receive interest equal to the interest paid by the Dutch State on financial markets. In return for this yield on excess funds, presumably lower yields than local governments were used to, the corresponding risks lower governments face are also lower. What is more, it is not necessary for every municipal authority to maintain a treasury department to control the risks on outstanding funds. This approach allows Treasury banking to also contribute to efficient spending of public funds. If they wish, local governments can lend out excess funds to each other, on condition that relationships of mutual supervision between the lending and borrowing government bodies do not exist. A provincial authority may not, therefore, loan out funds to a municipal authority inside its own provincial borders. This gives local governments the option of achieving a slightly higher yield while still keeping the risk manageable.

Developments on the revenue side

The Commission on Income Tax and Allowances (Commissie inkomstenbelasting en toeslagen) (Van Dijkhuizen Commission) has made a number of proposals for revising the tax system as regards income tax, allowances and a shift from wage/income tax to indirect taxes. The Commission published its interim report at the end of 2012 and the final report was published in June 2013[16]. These reports contain proposals for creating a simple, solid and fraud-proof tax system. For example, the Commission proposes a rate structure with two tax brackets and fewer allowable deductions and allowances. The government will issue a response to these recommendations during the first six months of 2014.

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[15] Defined as all funds that local government bodies do not directly need for the execution of their public tasks.

[16] http://www.rijksoverheid.nl/documenten-en-publicaties/rapporten/2013/06/18/eindrapport-commissie-inkomstenbelasting.html

Chapter 8: Institutional features of public finances

The Law on the Sustainability of Public Finances (Wet Houdbare Overheidsfinanciën, Wet Hof) came into effect on 15 December 2013. This Law codifies the European fiscal agreements regarding the budget balance and gross government debt and the core of the trend-based fiscal policy in national legislation. The most noticeable European fiscal agreement is that, in the medium term, countries will have to balance their budgets in structural terms.

Introduction

This chapter provides an overview of the most important institutional innovations relating to public finances, in this case the entry into force of the Law on the Sustainability of Public Finances. It also assesses the contents of the Law and its effect in practice.

The Law on the Sustainability of Public Finances (Wet HOF)

The essence of the Law is to codify European fiscal agreements and the stipulation that the State and the local governments (municipalities, provincial authorities and regional water authorities) must make an equivalent effort to comply with these agreements. The Law also entrenches the principles of trend-based fiscal policy for the State in national law.

The national codifying of the European fiscal agreements is laid down in Article 2, paragraph 3 of the Law on the Sustainability of Public Finances, which states that the trend-based fiscal policy will exist within the boundaries of the European fiscal agreements. This refers to the requirements in both the corrective arm and the preventive arm of the SGP. The chosen formulation in the Law on the Sustainability of Public Finances, a reference to the European requirements without any additional quantification, means that any future amendments to the SGP, for example the measures to tighten the SGP as implemented in 2011, do not require a change in the law. Also, the medium-term objective (MTO) is recalculated periodically. In the event of literal standardisation in the text of the law, recalculation would require a change in the law. In this way the European requirements are codified in national legislation for the long term.

Besides the European agreements, the principal elements of the Dutch trend-based fiscal policy are laid down in the Law on the Sustainability of Public Finances in accordance with a request by the Lower House to anchor the Dutch fiscal rules in law[17]. The three principal points for fiscal policy are included in the law (see also Article 2, paragraph 2):

1. The use of fixed expenditure frameworks;
2. The principle of automatic stabilisation on the revenue side of the budget;
3. Fiscal policy based on the long-term figures and the macro-economic estimates of the relevant variables by the CPB.

Trend-based fiscal policy combines budgetary discipline with stabilisation of the economy. As already mentioned, trend-based fiscal policy fits within the boundaries of the European fiscal agreements. The stabilising effect of the trend-based fiscal policy is framed by the European fiscal rules because these rules limit the effect of the automatic stabilisers. The disciplining effect of trend-based fiscal policy is strengthened as a result. The Law obliges the Netherlands to take sufficient measures if, based on the economic estimates by the CPB, it is expected that the national and/or European fiscal rules are not respected. The same applies if the European Commission or Council decides that the budget of the Netherlands does not comply with European fiscal rules. The Law also contains a correction mechanism which comes into effect in the event of significant deviations from the MTO or the adjustment path to the MTO as prescribed by the European Commission.

The Law is fully in line with European definitions regarding the circumstances to trigger the correction mechanism and regarding the circumstances for triggering, extending and exiting escape

[17] Parliamentary Documents II, 2010/11, 32,565, no. 4

clauses. A recovery plan based on the MTO that is created as part of the entry into force of the correction mechanism, is included in a budgetary memorandum to be presented to the States-General. If a recovery plan is in effect, the progress being made regarding its execution will be reported in any event annually in the Budget Memorandum. Independent advice is ensured by involving the Council of State as an independent budgetary authority in an advisory role in relation to the recovery plan, both during the presentation of the plan to the States-General and during the monitoring of its execution - in any event annually via the Budget Memorandum. This fulfils principle 7 from the European Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

The fact that the European fiscal agreements monitor the income and expenditure of the entire public sector, including municipalities, provincial authorities and regional water authorities, means that the Law provides a procedure aimed at having local governments make an equivalent effort to the national government as regards achieving and maintaining the European fiscal agreements. The Law provides for formal consultation with the local government bodies before their equivalent effort is determined. In anticipation of the entry into force of the Law on the Sustainability of Public Finances, an agreement was reached in January 2013 with the local government authorities regarding their contribution to the European fiscal agreements during this term of government. The financial agreement contains an ambition and a standard for the multi-annual budget balance path of local governments. The agreed ambition corresponds to the forecast by the CPB for the balance of the local governments, after taking into account the effects of the Coalition Agreement in the period 2014-2017. The agreed upon standard for the budget balance of local governments offers some margin with respect to the ambition. In the event of a deviation from the ambition it is, therefore, not immediately necessary for local governments to take further measures.

Table 8.1: Standardisation of EMU balance for local governments

as percentage of GDP	**2013**	**2014**	**2015**	**2016**	**2017**
Ambition for shared EMU balance of joint local governments	-0.5	-0.3	-0.3	-0.2	-0.2
The agreed deficit standard for this term of government, in accordance with the HOF Law[18]	-0.5	-0.5	-0.5	(-0.4)	(-0.3)

In 2013 a deficit standard of 0.5 percent GDP applied to all local government bodies jointly. The realised balance of the local government bodies was -0.3 percent of GDP in 2013. This means an overachievement of the agreed deficit standard.

[18] At the end of 2015 official consultations will take place to assess whether, on the basis of the realisations available at that time, the projected reduction is justifiable and possible in 2016 and 2017.

ANNEX 1: Tables relating to the reporting obligation within the framework of the excessive deficit procedure

Table 1a: Budgetary prospects on a quarterly basis and cash basis for the entire government and other governing bodies

in millions of euros	**2014***			
	Q1	Q2	Q3	Q4
Net financing balance per public government sector				
1. General government	-4,471	-4,471	-4,471	-4,471
2. Central government	-2,645	-2,645	-2,645	-2,645
3. State government	-2,633	-2,633	-2,633	-2,633
4. Local government	-579	-579	-579	-579
5. Social security funds	-1,247	-1,247	-1,247	-1,247
6. Total revenue	72,876	72,876	72,876	72,876
of which:				
central government:	43,118	43,118	43,118	43,118
state government:	42,919	42,919	42,919	42,919
local government	9,434	9,434	9,434	9,434
social security funds:	20,324	20,324	20,324	20,324
of which:				
direct taxes	17,576	17,576	17,576	17,576
indirect taxes, of which:				
VAT	18,464	18,464	18,464	18,464
social security contributions	26,281	26,281	26,281	26,281
other	10,061	10,061	10,061	10,061
income from capital	49	49	49	49
7. Total expenditure				
of which:				
intermediate consumption	10,766	10,766	10,766	10,766
compensation of employees	14,575	14,575	14,575	14,575
interest payments	2,762	2,762	2,762	2,762
subsidies	1,930	1,930	1,930	1,930
social security benefits	38,239	38,239	38,239	38,239
other	354	354	354	354
capital transfers	493	493	493	493
gross investment in fixed assets	5,091	5,091	5,091	5,091

*The figures provided are largely based on the 2014 Central Economic Plan (CPB). These figures are only available on an annual basis. Breakdown into quarterly figures is the result of straight-line interpolation.

Table 1b: Budgetary prospects for the entire government and other governments based on ESA standards and not-adjusted for seasonal effects

in millions of euros	**ESA code**	**2014**			
		Q1	Q2	Q3	Q4
Net financing balance					
1. General government	S.13	-4,471	-4,471	-4,471	-4,471
2. Central government	S.1311	-2,645	-2,645	-2,645	-2,645
3. State government	S.1312	-2,633	-2,633	-2,633	-2,633
4. Local government	S.1313	-579	-579	-579	-579
5. Social security funds	S.1314	-1,247	-1,247	-1,247	-1,247
6. Total revenue	TR	72,876	72,876	72,876	72,876
of which:					
taxes on production and import levies	D.2	18,464	18,464	18,464	18,464
taxes on income, assets, etc.	D.5	17,576	17,576	17,576	17,576
capital levies	D.91	49	49	49	49
social security contributions	D.61	26,281	26,281	26,281	26,281
income from assets	D.4	397	397	397	397
other		10,061	10,061	10,061	10,061
7. Total expenditure	TE	77,374	77,374	77,374	77,374
of which:					
compensation of employees	D.1	14,575	14,575	14,575	14,575
intermediate consumption	P.2	10,766	10,766	10,766	10,766
social security benefits	D.62, D.632c	38,239	38,239	38,239	38,239
interest charges	D.41	2,762	2,762	2,762	2,762
subsidies	D.3	1,930	1,930	1,930	1,930
gross investment in fixed assets	P.51	5,091	5,091	5,091	5,091
capital transfers	D.9	493	493	493	493
other		354	354	354	354
8. Gross debt	D.1	114,834	114,834	114,834	114,834

*The figures provided are largely based on the 2014 Central Economic Plan (CPB). These figures are only available on an annual basis. Breakdown into quarterly figures is the result of straight-line interpolation.

Table 1c: Annual budgetary objectives in accordance with ESA standards for the entire government and other governments

as percentage of GDP	**ESA Code**	**2013**	**2014**	**2015**
Net financing balance per government sector				
1. General government	S.13	-2.5*	-2.9	-2.1
2. Central government	S.1311	-0.9	-1.7	-2.6
3. State government	S.1312	-0.9	-1.7	-2.6
4. Local government	S.1313	-0.3	-0.4	-0.3
5. Social security funds	S.1314	-1.3	-0.8	0.8
6. Total revenue	TR	47.3	47.4	47.7
7. Total expenditure	TE	49.8	50.3	50.0
8. Interest charges	D.41	1.8	1.8	1.8
9. Primary balance		-0.7	-1.1	-0.4
10. One-off and other temporary measures		0.6	0.0	0.0
		change	change	change
11. Actual GDP growth		-0.8	¾	1¼
12. Potential GDP growth		0.3	¼	¼
of which:				
- labour		0.0	-¼	-¼
- capital		0.2	¼	¼
- total factor productivity		0.1	¼	¼
		% pot. GDP	% pot. GDP	% pot. GDP
13. Output gap		-3.6	-3	-2¼
14. Cyclical budgetary component		-2.1	-1.7	-1.3
15. Cyclically adjusted balance (1 - 14)		-0.5	-1.2	-0.8
14. Cyclically adjusted primary balance (13 + 6)		1.3	-0.9	-0.5
15. Structural balance (13 - 10)		-1.1	-1.2	-0.8

* This number does not take any account of effects on the government balance sheet of the nationalisation of the SNS Bank. As a result, based upon currently available information, there is an upward risk of at most 0.3 percentage points.

Table 2: Objectives for income and expenditure of the entire government in accordance with ESA standards

as percentage of GDP	ESA Code	2013	2014	2015
1. Total revenue target	TR	47.3	47.4	47.7
of which:				
1.1. Taxes on production and import levies	D.5	11.7	12	11.8
1.2. Taxes on income, assets, etc.	D.91	10.9	11.4	11.9
1.3. Capital levies	D.61	0.3	0.3	0.3
1.4. Social security charges	D.4	16.9	17.1	17.3
1.5. Income from assets		3.2	2.6	2.5
1.6. Other		4.1	4.0	3.9
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		39.6	40.7	41.3
2. Total expenditure target	TE	49.8	50.3	50.0
of which:				
2.1. Compensation of employees	D.1	9.7	9.5	9.4
2.2. Intermediate consumption	P.2	7.4	7.0	7.0
2.3. Social security benefits	D.62, D.6311, D.63121, D.63131f	24.6	24.9	25.2
of which:				
Unemployment benefits	D.41			
2.4. Interest payments	D.3	1.8	1.8	1.8
2.5. Subsidies	P.51	1.3	1.3	1.2
2.6. Gross investments in fixed assets	D.9	3.2	3.3	3.2
2.7. Capital transfers	D.41	0.3	0.3	0.3
2.8. Other	D.3	1.5	2.3	2.1

Table 3a: Budgetary measures taken by the entire government and other governments to achieve the objectives for income and expenditure in Table 2

List of measures	Detailed description	Objective (Expenditure / income) ESA Code	Accounting principle	Status	Incremental budgetary effect per year (millions of euros)					
						2014	2015	2016	2017	struc
Health care*						**-1,475**	**-1,584**	**-1,865**	**-2,148**	**-2,141**
Health agreement	The new agreements states that healthcare expenditure (curative care) growth rates are going to be reduced further.	D.63p		Completed		-250	-500	-750	-1,000	-1,000
Reversal of transfer of health conditions with low impact to supplementary insurance	The intended restriction of the basic healthcare package relating to the scrapping of treatment for disorders with a minimum burden of disease is no longer going ahead.	D.63p		Completed			1,200	1,200	1,200	1,200
Healthcare benefit based on average healthcare contributions, including group contracts	From 2014, 320 million euro is going to be saved on the healthcare benefit.	D.62p		Completed		-320	-320	-320	-320	-320
Medicines	The realisation of a coherent whole of measures will achieve savings on medicines expenditure.	D.62p		Completed		-750	-975	-975	-975	-975
Limitation of the special facility for chronically ill	As a result of maintaining the fiscal support for chronically ill, the special expenditure facility for chronically ill will be limited. The remaining budget for the special expenditure facility remains available for	D.62p		Completed			-438	-438	-438	-438

	municipalities.								
Miscellaneous	Several measures: cross-border health care, academic component, tariff instrument for medical devices, MEE-budget, transition reform of long-term care and more effective procurement of care in EMEA.	D.63p		Completed	-155	-551	-582	-615	-608
Social security					**194**	**-829**	**-1,171**	**-1,019**	**-984**
Phased introduction of household benefit[19]	The government is going to streamline current benefits and simplify them by introducing the household benefit.	D.62p		In preparation	279	-639	-1,148	-1,155	-1,166
Incapacity allowance	In 2014 the disabled persons allowance has been reduced.	D.62p		In preparation	-114	-165	-158	-150	-145
General child benefit (differentiation of benefits by child's age is maintained)	The measure that would abolish age differentiation in the child benefits is fully reversed.	D.62p		Completed	47	236	422	560	560
Miscellaneous	Several measures, eg the planned increase in the child budget for first and second child is halved and regional employment.	Several		Completed, except child budget	-18	-261	-287	-274	-233

[19] As announced in a letter to Parliament on 14 April 2014, the government may specify alternative measures with the same budgetary scope.

Central government budget					**-1,880**	**-1,161**	**-1,123**	**-991**	**-1,185**
Reduction in scope for salary increases in public sector in 2014, excl. health care (increasing salaries at expense of fringe benefits)	Besides the wage moderation agreed in the Healthcare Agreement for 2014 up to and including 2017, the wage adjustment or government and education sectors (excluding healthcare) is to be deducted insofar as negotiated wage development is concerned in 2014.	D.1p		Completed	-750	-750	-750	-750	-750
Price adjustment 2013 (adjusted for net general changes)	The long-term effect of the 2013 tranche of the price adjustment is to be deducted. This is adjusted for net general changes.	Several		Completed	-579	-709	-566	-444	-638
Price adjustment 2014	Reduction of the public sector services price development correction in 2014.	Several		Completed	-480	-480	-480	-480	-480
Education quality (and innovation)	An investment in the quality of education.	Several		Completed		650	600	600	600
Contribution from ministerial budgets (excl. Min. of Soc. Affairs & Empl. and Health, Welfare & Sport)	Contribution from ministerial budgets of156 million euro.	D.1p		Completed	-156	-156	-156	-156	-156
Miscellaneous	Several measures, eg Reversal of the coalition agreement measure "abolishment of free schoolbooks", investment in Defense, and redistribution of subsidies.	Several		Completed, except redistribution of subsidies	85	284	229	239	239
Taxes and contributions					**-2219**	**-1809**	**-1815**	**-1916**	**-1469**

Taxation of annuities	As from 1 January 2014, it is going to be possible for existing annuity rights to withdraw, in one go, the full entitlement from banks, insurers or an annuity right company. This entitlement is going to be partially, that is for just 80 percent, subject to income tax. The annuity right exemption for new severance pay is to be abolished as of 1 January 2014.	D.5r		Completed		-2,065	-840	-840	-840	-420
Taxation box 2	The tax rate for income from shares forming a substantial shareholding (Box 2 income) will be in 2014 incidentally reduced from 25% to 22% resulting in extra cash revenue on the short term and in lower tax yields on the longer run. Furthermore, under conditions, the deemed salary may deviate by up to 30% from what is considered a "normal salary".	D.5r (households)		Decrease in tax rate is completed, adjustment of deemed salary is in preparation		-1018	-446	-45	19	-150
Freezing tax brackets and tax credits	The tax brackets and tax credits are to be frozen by not implementing the adjustment for inflation in the income tax and wage tax for the year 2014.	D.5r (households)		Completed		-981	-981	-981	-981	-981
Retention of business-related revenue envelopes	The envelopes available to ease the tax and premium burden faced by companies are not going to be implemented.	Several		Completed		-640	-640	-640	-640	-640

Extension of employer’s levy on high incomes (crisis levy)	The pseudo final levy for high incomes (also referred to as the crisis levy) is an employer levy of 16 percent on an employee's income insofar as this exceeds an amount of 150,000 euro. This levy is going to be introduced for 2013. The pseudo final levy for high incomes is to be extended on a one-off basis.	D.29r (corporations)		Completed	-500				
Earlier increase in employed person’s tax credit	In 2014 the employed person's tax credit for lower incomes is to be increased by 127 euro.	D.5r (households)		Completed	785				
Reduction of the tax rate of the first bracket	The income tax rate of the first bracket will be reduced in 2014.	D.5r (households)		Completed	1517				
Cancelling cutbacks on the self-employed person's tax reduction	In the amendment on the Budget the planned reduction of the self-employed person's tax reduction will be canceled.	D.5r (households)		Completed		500	500	500	500
The Chronically Ill and Disabled Persons Allowances (including the ‘Compensation of specific health care expenses Act’)	The disabled persons allowance based on the Chronically Ill and Disabled Persons Allowances Act will be maintained in adapted form for the years 2014 and further.	D.5r (households)		Completed		438	438	438	438
Tax reduction businesses	The contributions due by the employer for the unemployment insurance and the disability fund will be reduced resulting in lower burden on labour.	D.611r		Completed	368	857	670	518	653

Miscellaneous	Several measures eg decreasing the CO2-threshold motor vehicle tax, increasing tap water tax, the working bonus will be abolished for new cases, abolition of VAT integration levy, Combating artificial arrangements and easing of gift tax.	Several		Completed, except Combating artificial arrangements		315	-697	-917	-930	-869
Other						**-628**	**-637**	**-36**	**56**	**-390**
Spending shifts involving development cooperation revolving fund, nature management and security	Spending shifts involving development cooperation revolving fund, nature management and security	Several		Completed		-290	-290	240	340	0
Ex ante impact of Municipalities Fund/Provinces Fund	Adjustment of the Municipalities Fund and the Provinces Fund resulting from the methodology that relates the development of both funds to the development of net central government expenditure.	Several		Completed		-338	-347	-276	-284	-390
					TOTAL	-6008	-6020	-6010	-6018	-6008

Table 3b: Quarterly report on the budgetary impact of the measures from Table 3a

List of measures	Report on measures affecting the 2014 budget					Expected budgetary effect in 2014
	Budgetary effect per quarter in 2014*				Cumulative effect	
Health care*	-369	-369	-369	-369		**-1475**
Health agreement	-63	-63	-63	-63		-250
Healthcare benefit based on average healthcare contributions, including group contracts	-80	-80	-80	-80		-320
Medicines	-188	-188	-188	-188		-750
Miscellaneous	-39	-39	-39	-39		-155
Social security	49	49	49	49		**194**
Phased introduction of household benefit	70	70	70	70		279
Incapacity allowance	-29	-29	-29	-29		-114
General child benefit (differentiation of benefits by child's age is maintained)	12	12	12	12		47
Miscellaneous	-5	-5	-5	-5		-18
Central government budget	-470	-470	-470	-470		**-1880**
Reduction in scope for salary increases in public sector in 2014, excl. health care (increasing salaries at expense of fringe benefits)	-188	-188	-188	-188		-750
Price adjustment 2013 (adjusted for net general changes)	-145	-145	-145	-145		-579
Price adjustment 2014	-120	-120	-120	-120		-480
Contribution from ministerial budgets (excl. Min. of Soc. Affairs & Empl. and Health, Welfare & Sport)	-39	-39	-39	-39		-156
Miscellaneous	21	21	21	21		85
Taxes and contributions	-555	-555	-555	-555		**-2219**
Taxation of annuities	-516	-516	-516	-516		-2065
Taxation box 2	-255	-255	-255	-255		-1018
Freezing tax brackets and tax credits	-245	-245	-245	-245		-981
Retention of business-related revenue envelopes	-160	-160	-160	-160		-640
Extension of employer's levy on high incomes (crisis levy)	-125	-125	-125	-125		-500
Earlier increase in employed person's tax credit	196	196	196	196		785
Reduction of the tax rate of the first bracket	379	379	379	379		1517
Tax reduction businesses	92	92	92	92		368
Miscellaneous	79	79	79	79		315
Other	-157	-157	-157	-157		**-628**
Spending shifts involving development cooperation revolving fund, nature management and security	-73	-73	-73	-73		-290

Ex ante impact of Municipalities Fund/Provinces Fund	-85	-85	-85	-85		-338
TOTAL	**-1502**	**-1502**	**-1502**	**-1502**		**-6008**

*The figures provided are largely based on the 2014 Central Economic Plan (CPB). These figures are only available on an annual basis. Breakdown into quarterly figures is the result of straight-line interpolation.

Table 4: Developments in the debt position of the entire government

		2013	2014	2015
	ESA Code	% GDP	% GDP	% GDP
1. Gross debt		73.5	74.6	74.7
2. Change in gross debt ratio		2.3	0.3	0.1
Contributions to changes in gross debt				
3. Primary balance		-0.7	-1.1	-0.4
4. Interest payments	D.41	1.8	1.8	1.8
5. Stock/flow adjustment		-0.2	-2.6	-2.2
of which:				
- Differences between cash and accruals		-0.1	0.0	-0.2
- Net accumulation of financial assets		1.1	-0.7	-0.2
of which:				
- Privatisation revenues		n/a	n/a	n/a
- Valuation effects and other		-1.2	-1.9	-1.8
Implicit interest on debt (%)		2	2.3	2.5
Other relevant variables				
6. Liquid financial assets		n./a.	n./a.	n./a.
7. Net debt (7=1-6)		n./a.	n./a.	n./a.
8. Debt amortization (existing debt) since the end of last year (billions of euros)		28.7	32.0	45.6
9. Percentage of debt in foreign currency		2	n./a.	n./a.
10. Average maturity		7	n./a.	n./a.
11. Real GDP growth (%)		-0.8	0.8	1.2

ANNEX 2: Tables relating to the Stability Programme

Table 1a. Macro-economic prospects

	ESA code	2013 Level (in billions of euros)	2013 rate of change	2014 rate of change	2015 rate of change	2016 rate of change	2017 rate of change
Real GDP	B1*g	n/a	-0.8	¾	1¼	1.6	1.6
Nominal GDP (€ billion)	B1*g	605.5	1.0	0	0	2.5	2.5
Components of real GDP							
Private consumption expenditure	P.3	273.9	-2.1	-¼	½	0.1	0.1
Government consumption expenditure	P.3	171.5	-0.5	½	-¼	0.1	0.1
Gross investments in fixed assets	P.51	97.2	-4.8	3¾	3¼	2.6	2.6
Changes in inventories (Δ)	P.52+P.53	0.6	-0.4	¼	0	0.0	0.0
Exports of goods and services	P.6	532.6	1.3	2¼	4¼	5.1	5.1
Imports of goods and services	P.7	470.3	-0.5	2½	4	4.5	4.5
Contributions to real GDP growth							
Final domestic demand		542.7	-1.9	¾	¾	0.5	0.5
Changes in inventories (Δ)	P.52+P.53	0.6	-0.4	¼	0	0.0	0.0
External balance of goods and services	B.11	62.2	1.5	0	½	1.1	1.1

Table 1b. Pricing developments

	2013	2013	2014	2015	2016	2017
	level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator	100	1.8	¾	1¼	0.9	0.9
2. Private consumption deflator	100	2.3	1½	1½	1.8	1.8
3. HICP	100	2.6	1	1¼	1.5	1.5
4. Government consumption deflator	100	1.1	½	1¾	1.5	1.5
5. Investment deflator	100	0.1	1¼	1¼	0.7	0.7
6. Export price deflator	100	-0.3	-½	¾	0.2	0.2
7. Import price deflator	100	-1.0	-½	1	0.7	0.7

Table 1c. Employment market developments

	ESA code	2013	2013	2014	2015	2016	2017
		level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, people (x 1,000)		8,591.2	-1.0	-½	½	0.5	0.5
2. Employment, number of hours worked (x 1,000,000)		6,654.7	-1.2	-¾	½	0.2	0.2
3. Unemployment (% of the working population)		602.5	6.7	7¼	7	6.6	6.1
4. Labour productivity per person		70,479	0.3	1½	¾	1.1	1.1
5. Labour productivity per hour worked		91.0	0.4	1½	¾	1.4	1.4
6. Total wage of employees	D.1	309.8	0.2	2	2	1.6	1.6
7. Total wage per employee (€)		36.1	2.1	3	2	1.3	1.3

Table 1d. Sectoral balances

as percentage of GDP	ESA code	2013	2014	2015	2016	2017
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	9.7	9½	9¾	11.1	11.5
of which:						
- Balance of goods and services		10.3	10	10	11.0	11.3
- Balance of primary income and transfers		1.1	1¼	1¼	1.6	1.6
- Capital account		-1.7	-1½	-1½	-1.5	-1.4
2. Net lending/borrowing of the private sector	B.9	12.9	12¾	12	12.9	13.0
3. Net lending/borrowing of general government	EDP B.9	-2.9	-2.9	-2.1	-1.8	-1.6
4. Statistical discrepancy		0	0	0	0	0

Table 2a Budgetary prospects for the general government

	ESA Code	2013 Level (billion €)	2013 % GDP	2014 % GDP	2015 % GDP	2016 % GDP	2017 % GDP
Net lending (EDP B.9) by subsector							
1. General government	S.13	-15.1*	-2.5*	-2.9	-2.1	-1.9	-1.4
2. Central government	S.1311	-5.4	-0.9	-1.7	-2.6	-0.4	0.0
3. State government	S.1312	-5.4	-0.9	-1.7	-2.6	-0.4	0.0
4. Local government	S.1313	-1.8	-0.3	-0.4	-0.3	-0.2	-0.2
5. Social security funds	S.1314	-7.9	-1.3	-0.8	0.8	-1.2	-1.2
General government (S13)							
6. Total revenue	TR	286.4	47.3	47.4	47.7	46.7	46.5
7. Total expenditure	TE[1]	301.5	49.8	50.3	50.0	48.7	48
8. Net lending/borrowing	EDP B.9	-15.1	-2.5	-2.9	-2.1	-1.9	-1.4
9. Interest expenditure	EDP D.41	11.1	1.8	1.8	1.8	2.1	2.1
10. Primary balance		-4.1	-0.7	-1.1	-0.4	0.1	0.6
11. One-off and other temporary measures		3.8	0.6	0.0	0.0	0.0	0.0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		138.4	22.9	23.7	24.0	24.8	24.9
12a. Taxes on production and imports	D.2	70.7	11.7	12.0	11.8	11.9	12.0
12b. Current taxes on income, wealth, etc	D.5	66.0	10.9	11.4	11.9	12.6	12.8
12c. Capital taxes	D.91	1.7	0.3	0.3	0.3	0.2	0.2
13. Social contributions	D.61	102.5	16.9	17.1	17.3	15.7	15.6
14. Property income	D.4	19.3	3.2	2.6	2.5	2.1	2.0
15. Other		24.8	4.1	4.0	3.9	4.0	3.9
16=6. Total revenue	TR	286.4	47.3	47.4	47.7	46.7	46.5
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		239.9	39.6	40.7	41.3	40.4	40.5
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	103.4	17.1	16.5	16.3	15.8	15.5
17a. Compensation of employees	D.1	58.5	9.7	9.5	9.4	8.9	8.7
17b. Intermediate consumption	P.2	44.9	7.4	7.0	7.0	6.9	6.7
18. Social payments (18=18a+18b)		149.2	24.6	24.9	25.2	24.2	24.0
of which **Unemployment benefits**			2.2	2.4	2.3	2.3	2.3
19=9. Interest expenditure	EDP D.41	11.1	1.8	1.8	1.8	2.1	2.1
20. Subsidies	D.3	7.9	1.3	1.3	1.2	1.0	1.1
21. Gross fixed capital formation	P.51	19.7	3.2	3.3	3.2	2.9	2.8
22. Capital transfers		1.9	0.3	0.3	0.3	0.3	0.3
23. Other		9.1	1.5	2.3	2.1	2.7	2.5
24=7. Total expenditure	TE[1]	301.5	49.8	50.3	50.0	48.7	48.0
Government consumption (nominal)	P.3						

* This number does not take any account of effects on the government balance sheet of the nationalisation of the SNS Bank. As a result, based upon currently available information, there is an upward risk of at most 0.3 percentage points.

Table 2b. No-policy change projections

	Year 2013	**Year 2013**	**Year 2014**	**Year 2015**	**Year 2016**	**Year 2017**
	Level (billion €)	% GDP	% GDP	% GDP	% GDP	% GDP
1. Total revenue at unchanged policies	286.4	47.3	47.4	47.7	46.7	46.5
2. Total expenditure at unchanged policies	301.5	49.8	50.3	50.0	48.7	48.0

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

	Year 2013	**Year 2013**	**Year 2014**	**Year 2015**	**Year 2016**	**Year 2017**
	Level (billion €)	% GDP	% GDP	% GDP	% GDP	% GDP
1. Expenditure on EU programmes that is fully compensated for by income from EU funds	2.0	0.3	0.3	0.3	0.3	0.3
2. Cyclical unemployment expenditure	13.4	2.2	2.4	2.3	2.3	2.3
3. Effect of discretionary income measures	9.4	1.6	1.5	0.6	0.4	0.2
4. Increase in income mandated by law	1.8	0.3	-0.2	0.2	0.2	0.2

Table 3. General government expenditure by function

as percentages of GDP	COFOG Code	2012	2015	2017
1. General public services	1	10.8	9.8	9.0
2. Defence	2	1.1	1.0	1.0
3. Public order and safety	3	1.9	1.8	1.7
4. Economic affairs	4	4.4	4.3	4.2
5. Environmental protection	5	0.8	0.9	0.9
6. Housing and community amenities	6	0.9	0.9	0.9
7. Health care	7	10.7	10.8	10.8
8. Recreation, culture and religion	8	1.0	1.0	1.0
9. Education	9	5.5	5.4	5.2
10. Social security	10	12.9	13.9	13.3
11. Total expenditure (=item 7=23 in Table 2)	TE[1]	50.0	50.0	48.0

Table 4. Developments in the debt position of the entire government

as percentages of GDP	**ESA Code**	**2013**	**2014**	**2015**	**2016**	**2017**
1. Gross debt		73.5	74.6	74.7	74.1	73.2
2. Change in gross debt ratio		2.3	1.1	0.0	-0.6	-0.9
3. Primary balance		-0.7	-1.1	-0.4	0.1	0.6
4. Interest payments	EDP D.41	1.8	1.8	1.8	2.1	2.1
5. Stock/flow adjustment		-0.2	-1.8	-2.2	-2.6	-2.4
of which:						
- Differences between cash and accruals		-0.1	0.0	-0.2	-0.1	0.0
- Net accumulation of financial assets		1.1	0.1	-0.2	-0.6	-0.5
of which:						
- privatisation revenues		n/a	n/a	n/a	n/a	n/a
- Valuation effects and other		-1.2	-1.9	-1.8	-1.9	-1.9
Implicit interest on debt		2.0	2.3	2.5	3.3	3.5
6. Liquid financial assets		n./a..	n./a.	n./a.	n./a.	n./a.
7. Net debt (7=1-6)		n./a..	n./a.	n./a.	n./a.	n./a.
8. Debt amortization (existing debt) since the end of last year (billion euros)		28.7	32.0	45.6	28.5	30.3
9. Percentage of debt in foreign currency		2.0	n./a.	n./a.	n./a.	n./a.
10. Average maturity		7.0	n./a.	n./a.	n./a.	n./a.

Table 5: Economic developments

as percentages of GDP	ESA Code	2013	2014	2015	2016	2017
1. Real GDP growth		-0.8	¾	1¼	1.6	1.6
2. Net lending of general government	EDP B.9	-2.5*	-2.9	-2.1	-1.9	-1.4
3. Interest expenditure	EDP D.41	1.8	1¾	1¾	2.1	2.1
4. One-off and other temporary measures		0.6	0	0	0	0
5. Potential GDP growth		0.3	¼	¼	0.8	0.9
Contributions to growth:						
- Employment		0.0	-¼	-¼	0	0
- Capital		0.2	¼	¼	0.3	0.3
- Total factor productivity		0.1	¼	¼	0.5	0.6
6. Output gap (EC method)		-3.6	-3	-2¼	-1.4	-0.7
7. Cyclical budgetary component		-2.1	-1.7	-1.3	-0.8	-0.4
8. Cyclically-adjusted balance (2-7)		-0.5	-1.2	-0.8	-1.1	-1.0
9. Cyclically-adjusted primary balance (8+3)		1.3	-0.9	-0.5	1.0	1.1
10. Structural balance (8 - 4)		-1.1	-1.2	-0.8	-1.1	-1.0

* This number does not take any account of effects on the government balance sheet of the nationalisation of the SNS Bank. As a result, based upon currently available information, there is an upward risk of at most 0.3 percentage points.

Table 6. Difference compared to previous update

as percentage of GDP	ESA Code	2013	2014	2015	2016	2017
Real GDP growth (%)						
Update April '13		-0.5	1.0	1.6	1.6	1.6
Current update		-0.8	0.8	1.2	1.6	1.6
Difference		-0.3	-0.2	-0.4	0.0	0.0
Budget deficit	EDP B.9					
Update April '13		3.4	3.0	1.8	1.8	1.6
Current update		2.5*	2.9	2.1	1.9	1.4
Difference		-0.9	-0.1	0.3	0.1	-0.2
Public debt						
Update April '13		74.0	75.0	71.4	71.4	70.8
Current update		73.5	74.6	74.7	74.1	73.2
Difference		-0.5	-0.4	3.3	2.7	2.4

* This number does not take any account of effects on the government balance sheet of the nationalisation of the SNS Bank. As a result, based upon currently available information, there is an upward risk of at most 0.3 percentage points.

Table 7. Sustainability of public finances

as percentage of GDP	2010	2020	2030	2040	2050	2060
Total expenditure	51.0	47.2	48.5	50.3	49.9	49.4
of which: age-dependent expenditure	20.5	21.8	23.7	26.0	25.9	25.5
Pension expenditure	6.9	7.4	8.0	8.9	8.7	8.5
Social security expenditure	12.6	13.1	13.8	14.6	14.4	14.2
Old age and early retirement pensions	4.9	5.7	6.3	7.2	7.0	6.8
Other pension benefits (invalidity, orphan's)	2.0	1.7	1.7	1.7	1.7	1.7
Occupational pensions (government)						
Health care (cure)	6.3	7.5	8.2	8.6	8.5	8.4
Long-term health care (care)	3.8	3.5	4.3	5.1	5.4	5.4
Education	5.5	5.1	5.0	5.1	5.1	5.0
Other age-dependent expenditure	0	0	0	0	0	0
Interest expenditure	1.9	2.1	1.6	1.1	0.8	0.5
Total income	45.9	47.8	49.3	50.4	50.2	49.8
of which: income from property	3.1	2.5	1.5	1.2	1.0	0.9
of which*:* pension contributions (or social security premiums)	3.5	3.5	3.5	3.5	3.5	3.5
Pension fund reserves	157	162	189	200	198	199
of which: consolidated public pension fund reserves	157	162	189	200	198	199
Systematic pension reforms						
Social security premiums reformed in line with the obligatory private system	0	0	0	0	0	0
Pension expenditure paid by the obligatory private system	5.0	5.2	5.7	6.6	6.9	6.9
Assumptions						
Growth in labour productivity	2.0	1.5	1.5	1.5	1.5	1.5
Real GDP growth	1.6	1.5	1.0	1.6	1.6	1.5
Participation rate men (15-64)	80.5	81.4	81.4	81.6	81.7	81.7
Participation rate women (15-64)	61.4	64.4	65.4	67.1	68.1	68.1
Total participation rate (15-64)	71.0	72.9	73.4	74.3	75.0	75.0
Unemployment	5.5	3.4	3.4	3.4	3.4	3.4
Population aged 65+ compared to total population	15.7	19.1	20.5	22.2	22.0	21.3

Table 7a. Contingent liabilities

in billions of euros	2013
Total guarantees	217.5
of which:	
European Financial Stability Facility (EFSF)	49.6
DNB participation in IMF capital	46.5
European Stability Mechanism (ESM)	35.4
Interbank loans guarantee	14.1
European Investment Bank (EIB)	9.9
De Nederlandsche Bank guarantee	5.7
SNS Reaal guarantee	5.0
European Financial Stability Mechanism (EFSM)	2.8

Table 8. External assumptions

	2013	2014	2015	2016	2017
Short-term interest rate (annual average)	0.2	0.3	0.3	1.7	2.2
Long-term interest rate (annual average)	2.0	2.3	2.6	3.3	3.5
USD/€ exchange rate (annual average)	1.33	1.36	1.36	1.25	1.25
Nominal effective exchange rate	n./a.	n./a.	n./a.	n./a.	n./a.
World GDP growth	2.9	3½	3¾	n./a.	n./a.
Global GDP growth excl. the EU	3.4	4	4	n./a.	n./a.
GDP growth in the EU	-0.4	1	1½	1.6	1.6
Growth of relevant foreign markets	1.9	4¼	5	6.2	6.2
World import volume, excl. the EU	3.4	5¾	6	n./a.	n./a.
Oil price (Brent, USD per barrel)	108.72	108	108	101	103