



Brussels, 22.11.2022
C(2022) 9517 final

COMMISSION OPINION

of 22.11.2022

on the Draft Budgetary Plan of The Netherlands

{SWD(2022) 950 final}

(Only the Dutch text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan by 15 October, presenting the main aspects of the budgetary outlook of the general government and its subsectors for the forthcoming year.
3. The general escape clause of the Stability and Growth Pact has been active since March 2020¹. On 23 May 2022, the Commission indicated, in its Communication on the European Semester,² that heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023 and it considered that the conditions to deactivate it as of 2024 were met. The continued activation of the general escape clause in 2023 will provide the space for national fiscal policy to react promptly when needed, while ensuring a smooth transition from the broad-based support to the economy during the pandemic times towards an increasing focus on temporary and targeted measures and fiscal prudence required to ensure medium-term sustainability.³
4. The Recovery and Resilience Facility, as established by Regulation (EU) 2021/241, provides financial support for the implementation of reforms and investment, notably to promote the green and digital transitions, thereby strengthening the economies' resilience and potential growth. Part of this support is in the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the RRF is supporting a fair and inclusive recovery in the EU in line with the European Pillar of Social Rights. It also boosts growth and job creation in the medium and long term, and thereby strengthens sustainable public finances. According to the Commission

¹ Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, COM(2020) 123 final of 20 March 2020.

² COM(2022) 600 final.

³ On 17 June 2022, the Council agreed its recommendations on the 2022 National Reform Programmes and the opinions on the 2022 Stability and Convergence Programmes, which takes into account the continuation of the Stability and Growth Pact's general escape clause into 2023. (See: <https://www.consilium.europa.eu/en/meetings/ecofin/2022/06/17/>)

proposal of 18 May 2022⁴, the Facility should also aim at increasing the resilience of the Union energy system by reducing dependence on fossil fuels and diversifying energy supplies at Union level (‘REPowerEU objectives’).

5. On 12 July 2022, in the recommendations delivering Council opinions on the 2022 Stability Programmes⁵, the Council recalled that the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis), including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth.⁶ Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is consistent with the green and digital transitions, energy security and ensuring social and economic resilience, attention is also paid to the evolution of nationally financed⁷ primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.
6. The shocks unleashed by the Russian invasion of Ukraine are impacting the EU economy both directly and indirectly, setting it on a path of lower growth and higher inflation. Intensifying and broadening inflationary pressures have been prompting faster normalisation of monetary policy in the euro area. Public spending on measures containing the social and economic impact of high energy costs, on security and defence and on humanitarian assistance to the displaced persons from Ukraine is weighing on public finances. The specific nature of the macroeconomic shock imparted by Russia’s invasion of Ukraine, as well as its long-term implications for the EU’s energy security needs, call for a careful design of fiscal policy in 2023. Public spending on security and defence, on humanitarian assistance to the displaced persons from Ukraine and on measures containing the social and economic impact of high energy costs is weighing on public finances. At the same time, a broad-based fiscal impulse to the economy in 2023 does not appear warranted. The focus should instead be on protecting the vulnerable, allowing automatic stabilisers to operate and providing temporary and targeted measures to mitigate the impact of the energy crisis and to provide humanitarian assistance to people fleeing from Russia's invasion of Ukraine, while maintaining the agility to adjust, if needed. Fiscal policy should combine higher investment with controlling the growth in nationally-financed primary current expenditure, while allowing automatic stabilisers to operate and providing temporary and targeted measures to mitigate the impact of the energy crisis and to provide humanitarian assistance to people fleeing from Russia's invasion of Ukraine. Full and timely implementation of the Recovery and Resilience Plans is key to achieving higher levels of investment. Fiscal policies should aim at preserving debt sustainability as well as raising the growth potential in a sustainable manner, thus also facilitating the task of monetary policy to ensure the timely return of

⁴ COM(2022) 231 final.

⁵ Council Recommendation of 12 July 2022 on the National Reform Programme of the Netherlands and delivering a Council opinion on the 2022 Stability Programme of the Netherlands, OJ C 334, 1.9.2022, p. 154.

⁶ The estimates on the fiscal stance and its components in this Opinion are Commission estimates based on the assumptions underlying the Commission 2022 autumn forecast. The Commission’s estimates of medium-term potential growth do not include the full positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

⁷ Not financed by grants under the Recovery and Resilience Facility or other Union funds.

inflation to the ECB's 2% medium-term target. Fiscal plans for 2023 should be anchored by prudent medium-term adjustment paths reflecting fiscal sustainability challenges associated with high debt-to-GDP levels that have increased further due to the pandemic as well as reforms and investment challenges associated with the twin transition, energy security and social and economic resilience.

7. Russia's war of aggression against Ukraine has resulted in substantial additional increases in and volatility of the prices of energy. The price shock in imported energy implies a substantial terms-of-trade loss to Member States' economies. In parallel, the exceptionally high temperatures in summer 2022 pushed up demand for electricity, while, at the same time, energy production from certain technologies has been significantly below historical levels due to technical and weather-dependant circumstances. All Member States have been negatively affected by the current energy crisis, albeit to a different extent, calling for a rapid and coordinated response.
8. Given that budgetary resources are limited and need to be used in the most efficient way, in order to manage a durable and equitable adjustment across society, the quality and design of the policy response is highly important. Therefore, also in line with the Council Regulation on an emergency intervention to address high energy prices adopted on 6 October 2022⁸, measures should focus on providing temporary support, targeted to households and firms most vulnerable to energy price increases, while maintaining the right incentives to reduce energy demand and increase energy efficiency, in line with the European Green Deal⁹. Policies should also help reducing the energy consumption and develop the energy autonomy of the Union.

CONSIDERATIONS CONCERNING THE NETHERLANDS

9. On 13 October 2022, the Netherlands submitted the Draft Budgetary Plan for 2023. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
10. On 12 July 2022, the Council recommended that the Netherlands¹⁰ take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance¹¹, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The Netherlands should stand ready to adjust current spending to the evolving situation. The Netherlands was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, the Netherlands should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.

⁸ Commission proposal for a Council Regulation on an emergency intervention to address high energy prices, COM/2022/473 final.

⁹ Communication from the Commission, the European Green Deal, COM(2019) 640 final.

¹⁰ Council Recommendation of 12 July 2022 on the National Reform Programme of the Netherlands and delivering a Council opinion on the 2022 Stability Programme of the Netherlands, OJ 334, 1.9.2022, p. 154.

¹¹ Based on the Commission autumn 2022 forecast, the medium-term (10-year average) potential output growth of the Netherlands, that is used to measure the fiscal stance, is estimated at 6.7% in nominal terms. The Commission's estimates of medium-term potential growth do not include the full positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

11. According to the Commission 2022 autumn forecast, the Dutch economy is expected to grow by 4.6% in 2022 and by 0.6% in 2023, while inflation is forecast at 11.6% in 2022 and 4.2% in 2023.

According to the Draft Budgetary Plan, the Dutch economy is expected to grow by 4.6% in 2022 and 1.5% in 2023, while inflation is projected at 11.4% in 2022 and 2.5% in 2023. In both sets of projections private consumption is the main growth driver in 2022. However, the Commission projects much lower consumption growth in 2023 compared to the projection underlying the Draft Budgetary Plan, which explains a large part of the difference in the GDP forecasts for 2023. The difference in the consumption outlook mainly stems from the disparity in real disposable income growth as a result of the different inflation projections. The projected inflation rate in 2023 is significantly higher in the Commission forecast compared to the projection underlying the Draft Budgetary Plan as a result of differences in energy price assumptions.

Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are plausible in 2022 and favourable in 2023.

The Netherlands complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently produced macroeconomic forecasts.

12. The Draft Budgetary Plan assumes that expenditure amounting to 0.1% in 2023 and 0.1% in 2024 will be financed by non-repayable financial support (grants) from the Recovery and Resilience Facility. Expenditures financed by grants from the Recovery and Resilience Facility will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government deficit and debt of the Netherlands. The Commission 2022 autumn forecast estimates a higher uptake of the expenditure financed by the Recovery and Resilience Facility.

13. In its 2023 Draft Budgetary Plan, the Netherlands' general government deficit is planned to increase from 0.9% of GDP in 2022 to 3.0% of GDP in 2023¹², mainly due to measures taken in response to the increase of the energy prices and additional investments in areas such as the green transition. The general government debt ratio is planned to decrease from 49.8% of GDP in 2022 to 49.5% of GDP in 2023. These projections are lower than the Commission 2022 autumn forecast. The Commission projects a similar deficit of 1.1% of GDP in 2022, but a higher deficit of 4.0% of GDP for 2023 as it takes into account the planned price cap on gas and electricity which was not yet included in the Draft Budgetary Plan.

The outlook for public finances continues to be subject to the high uncertainty that surrounds the macroeconomic projections, including macroeconomic risks related to the Russian invasion of Ukraine, energy price hikes and continued supply chain disturbances.

14. The Draft Budgetary Plan contains several fiscal measures, addressing the challenges related to education, the labour market, benefits and allowances, justice and security, defence, climate, rural areas, housing and infrastructure, and local and regional development. On the expenditure side, the main measures for 2023 are the increase of the minimum wage by 10%, additional investments in education and skills, construction of new and affordable housing, the increase in the child benefits and

¹² The Plan sets targets for the government deficit and debt in line with the 2023 Budget Memorandum ('Miljoenennota 2023') approved by the government, without details on the composition of budgetary adjustment underlying these targets.

support measures for Ukrainian refugees (total increase of expenditure by 2.9% of GDP, according to the Draft Budgetary Plan). The revenue measures for 2023 concern raising the tax bracket limits and tax credits for income tax (total increase of revenue by 0.5% of GDP, according to the Draft Budgetary Plan). The Draft Budgetary Plan does not include the precise budgetary impact of these measures and only reports the Centraal Planbureau (Bureau for Economic and Policy Analysis) forecast. The Commission 2022 autumn forecast takes into account the Centraal Planbureau estimates.

The government deficit is also impacted by the measures adopted to counter the economic and social impact of the exceptional increases in energy prices, which aggravated over the course of the summer.¹³ The budgetary cost of these measures is projected in the Commission 2022 autumn forecast to amount to 1.0% of GDP in 2022 and 1.9% of GDP in 2023. They consist of measures reducing government revenue, namely a temporary reduction in the excise duty on fuel, and increasing expenditure, such as a price cap on energy and gas.¹⁴ Most measures have been announced as temporary, expiring by the end of 2023, but most do not appear targeted to vulnerable households or firms¹⁵ and do not fully preserve the price signal to reduce energy demand and increase energy efficiency.¹⁶ As a result, the amount of temporary and targeted support to households and firms most vulnerable to energy price hikes that can be taken into account in the assessment of compliance with the fiscal country-specific recommendation for 2023 is estimated at 0.1% of GDP in 2022 and 0.7% of GDP in 2023 in the Commission 2022 autumn forecast.

The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 autumn forecast are projected at 0.1% of GDP in 2022 and 0.1% in 2023.

15. Based on the Commission 2022 autumn forecast and including the information incorporated in the Netherlands' 2023 Draft Budgetary Plan, gross fixed capital formation is expected to amount to 3.4% of GDP in 2022 and 3.5% of GDP in 2023, compared to 3.2% of GDP recorded in 2021. This includes investment for the green and digital transitions, such as investing and facilitating the development of offshore wind parks, incentivising the use of hydrogen and improving the digital literacy of students, which are partly funded by the Recovery and Resilience Facility and other EU funds.
16. In 2023, the fiscal stance is projected in the Commission 2022 autumn forecast to be expansionary (- 1.1% of GDP¹⁷). This follows an already expansionary fiscal stance in 2022 (- 1.7% of GDP).

¹³ Deficit developments in 2023 are also affected by the complete phasing-out of COVID-19 emergency temporary measures, which are estimated in the Commission autumn 2022 forecast at 0.6% of GDP in 2022.

¹⁴ The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

¹⁵ Targeted measures amount to 0.1% of GDP in 2022 and 0.7% of GDP in 2023, while untargeted measures amount to 0.9% of GDP in 2022 and 1.2% of GDP in 2023.

¹⁶ Income measures amount to 0.6% of GDP in 2022 and 0.4% of GDP in 2023, while price measures amount to 0.4% of GDP in 2022 and 1.6% of GDP in 2023.

¹⁷ A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy. The fiscal stance includes the fiscal impulse funded by the Union.

Growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a broadly neutral contribution to the fiscal stance¹⁸. Support measures adopted to counter the economic and social impact of the exceptional increases in energy prices are expected to increase current expenditure by 1.0% of GDP¹⁹, with temporary and targeted support measures to households and firms most vulnerable to energy price hikes accounting for 0.6% of GDP. At the same time, subsidies are expected to return gradually to pre-pandemic levels and therefore to decrease in 2023, even when measures directly related to COVID-19 are excluded. The authorities have also announced some discretionary revenue measures that counterbalance the increased expenditure on energy support. Finally, the expansionary fiscal stance is also driven by a strong increase in capital transfers related to several funds²⁰.

The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to remain stable in 2023 compared to 2022. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.2 percentage points in 2023.

17. The Draft Budgetary Plan does not include precise budgetary projections beyond 2023, although it refers to the government's medium-term budgetary strategy to achieve sustainable public finances. Even though the general government debt is low compared to other euro area Member States and the increase in debt in the medium term is projected to remain limited, there is a possibility, according to the model included in the Draft Budgetary Plan, that government debt might exceed the 60% criterion in the medium-term.
18. On 12 July 2022, the Council also recommended the Netherlands to reduce the debt bias for households and the distortions in the housing market, including by supporting the development of the private rental sector and taking measures to increase housing supply. The Council also recommended to enact and implement the reform of the pension system agreed in 2019 and 2020. In response, the government is planning in the Draft Budgetary Plan to abolish the landlord levy, cancel the extended gift tax exemption for a beneficiary's own home, accelerate residential construction to about 100,000 homes per year, and better regulate the rental market. Furthermore, the planned reform of the second pillar of the pension system is expected to enter into force by 2023.
19. In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan, the overall fiscal policy stance is estimated to be expansionary in a situation of high inflation. This expansionary fiscal stance is not the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine. Overall, the expansionary fiscal stance is not in line with the recommendation of the Council. The Netherlands plans to finance additional investment through the RRF and other EU funds and it plans to preserve nationally-financed investment. It plans

¹⁸ This follows an expansionary contribution from this component of -1.1 percentage points in 2022.

¹⁹ The budgetary impact of targeted price and income measures is projected to increase by 0.3% of GDP, while the budgetary impact of untargeted price and income measures is projected to increase by 0.9% and decrease by 0.5% of GDP respectively.

²⁰ The Commission 2022 autumn forecast includes significant amounts of expenditure on the National Growth Fund, the Delta Fund and the Nitrogen Fund for 2023. As a consequence, other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.9 percentage points of GDP.

to finance investment for the green and digital transitions, including through dedicated funds.

Overall, the Commission is of the opinion that the Draft Budgetary Plan for the Netherlands is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites the Netherlands to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022.

While the Netherlands rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish.

The Commission is also of the opinion that the Netherlands has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

Done at Brussels, 22.11.2022

For the Commission
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