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COMMISSION OPINION

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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 for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) 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 presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING THE NETHERLANDS

3. On the basis of the Draft Budgetary Plan for 2017 submitted on 10 October 2016 by the Netherlands, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. The Commission opinion is to be seen in light of the latest economic and budgetary data. In this context, as indicated in the Commission recommendation for a Council Recommendation on the economic policy of the euro area as well as in the Commission Communication 'Towards a positive fiscal stance in the euro area', it is important that the aggregate fiscal stance of the euro area is positive and supports the ongoing recovery, while ensuring the long-term sustainability of national public finances.

5. The Netherlands is subject to the preventive arm of the SGP and should ensure sufficient progress towards its medium-term budgetary objective (MTO) of -0.5% of GDP. In particular, in its country-specific recommendations adopted on 12 July 2016, the Council recommended to the Netherlands to limit the deviation from the MTO in 2016 and achieve an annual fiscal adjustment of 0.6% of GDP in 2017. As the debt ratio was 67.7% of GDP in 2013 (the year in which the Netherlands corrected its excessive deficit), exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit (2014-2016), the Netherlands is also subject to the transitional arrangements as regards compliance with the debt reduction benchmark. In that period it should ensure sufficient progress towards compliance.

6. The macroeconomic scenario underlying the Draft Budgetary Plan is plausible. It projects GDP growth to decelerate from 2.0% in 2015 to 1.7% in 2016, and to stabilise in 2017. The slightly lower growth compared with the 2016 Stability Programme is mostly explained by increased economic uncertainty as a result of the United Kingdom's vote on EU membership and to a smaller extent by lower than previously expected revenues from the production of natural gas. The Commission 2016 autumn forecast implies a similar rate for GDP growth in 2016 and 2017 as the Draft Budgetary Plan, but projects a somewhat stronger decline in the unemployment rate and a faster pick-up in consumer prices.

7. The Netherlands complies with the requirement of Regulation (EU) No 473/2013 that the draft budget has to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecast underlying the Draft Budgetary Plan has been produced by the Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau, CPB). While the CPB is a government body, it enjoys complete operational freedom, formally guaranteed by law.

8. The Draft Budgetary Plan expects a budget balance of -1.1% of GDP in 2016 and -0.5% of GDP in 2017, which is 0.6% of GDP and 0.7% of GDP better respectively, compared with the Stability Programme. The difference stems mostly from higher than expected tax revenues, in particular from corporate taxes. The debt-to-GDP ratio in the Draft Budgetary Plan is projected to improve to 62.1% by 2017, compared to 64.1% of GDP in the Stability Programme, mostly due to the improved outlook for the budget deficit.

   The budgetary outlook is influenced by the current low interest rate environment, but the overall impact is moderate in the case of the Netherlands. Based on the information included in the Draft Budgetary Plan, interest expenditure is expected to decrease slightly from 1.3% of GDP in 2015 to 1.1% in 2016 and to 1.0% in 2017. The improvement in the structural balance is mostly explained by a better primary balance, which is expected to increase from -0.6% of GDP in 2015 to 0.0% of GDP in 2016 and further to 0.5% of GDP in 2017.

9. Discretionary measures reported in the Draft Budgetary Plan for 2017 have a deficit-increasing effect of 0.4% of GDP. On the revenue side, the government plans to increase labour tax credits, which is partly financed by a shift in the threshold of tax brackets, leading to an overall revenue decreasing effect of 0.1% of GDP in 2017. On the expenditure side, the Draft Budgetary Plan reports expansionary measures worth 0.3% of GDP in 2017, including national security measures and the cancellation of previously adopted cut-backs in nursing home care. The discretionary measures have also been taken into account in the Commission 2016 autumn forecast.

10. The Commission 2016 autumn forecast projects a deficit of 0.8% of GDP in 2016 and 0.3% of GDP in 2017, which is 0.3% and 0.2% of GDP smaller than the projected deficit of the Draft Budgetary Plan. The difference in 2016 can be explained by higher projected tax revenues based on most recent data, while the difference in 2017 is largely explained by a lower projected unemployment rate, with a budget-improving impact on social security contributions and unemployment benefit expenditure. The Commission forecast projects a structural balance of -0.5% of GDP in 2016 and -0.2% of GDP in 2017, which is 0.4% of GDP higher in both years compared to the Draft Budgetary Plan. The difference is due to a faster increase in the headline balance and slower closure of the output gap. Downward risks to the planned debt development appear limited. If the government proceeds with the planned privatisation of State-owned financial institutions, the debt reduction could accelerate somewhat over the forecast horizon.

11. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional arrangements for the debt reduction benchmark. Based on the Commission 2016 autumn forecast, the Netherlands is making sufficient progress towards compliance with the debt rule in 2016 as the projected change in the structural balance (0.7% of GDP) is above the requirement (-3.7% of GDP). In 2017, the debt reduction benchmark is projected to be met.

12. According to the Draft Budgetary Plan, the improvement in the structural balance and the expenditure benchmark point to compliance with the required adjustment towards the MTO in 2016. Based on the Commission forecast, the Netherlands is projected to have achieved its MTO in 2016. Similarly, based on the Draft Budgetary Plan, the Netherlands is expected to comply with the required adjustment in 2017. The Commission 2016 autumn forecast expects the structural balance to be above the MTO in 2017.

13. The DBP does not contain information on fiscal structural reforms recommended by the Council on 12 July 2016, in particular the recommendation to prioritise public expenditure towards supporting more investment in research and development. The Draft Budgetary Plan provides supplementary information on the innovation performance of the Netherlands but it identifies no policy measures addressing investment in research and development.

14. Overall, the Commission is of the opinion that the Draft Budgetary Plan of the Netherlands, which is currently under the preventive arm and subject to the (transitional) debt rule, is compliant with the provisions of the SGP. In line with the Commission Communication 'Towards a positive fiscal stance for the euro area', the Netherlands' budgetary situation could provide some scope to ensure a supportive budgetary stance, while preserving the long-term sustainability of national public finances.

    The Commission is also of the opinion that the Netherlands has made no progress with regard to the structural part of the fiscal country specific recommendations issued by the Council in the context of the 2016 European Semester and thus invites the authorities to accelerate progress. A comprehensive assessment of progress made with the implementation of the country-specific recommendations will be made in the 2017 Country Reports and in the context of the country-specific recommendations to be adopted by the Council in 2017.

Done at Brussels, 16.11.2016

For the Commission
Pierre MOSCOVICI
Member of the Commission