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**COVER NOTE**

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From: Mr Robert DE GROOT, Permanent Representative of the Kingdom of the Netherlands to the European Union

date of receipt: 12 October 2017

To: Mr Carsten PILLATH, Director General, Council of the European Union

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Subject: Netherlands:  
Draft Budgetary Plan of the Kingdom of the Netherlands as laid down in Article 6(1) of Reg. (EU) 473/2013 on Common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the member states in the euro area

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Delegations will find attached the Draft Budgetary Plan for 2018 of the Kingdom of the Netherlands **in English**. This document is aimed for discussion in the Eurogroup.

E-MAIL / FAX



IR 10577 2017  
12.10.2017

Permanent Representative  
of the Kingdom of the Netherlands  
to the European Union

Brussels, 12 October 2017

*Dear Mr. Pillath,*

I have the honour to enclose the 2018 Draft Budgetary Plan for the Netherlands, which has been prepared as required by the two-pack rules and within the framework of the European Semester. The Draft Budgetary Plan provides information on the impact of the 2018 budget on the Netherlands' public finances. The Draft Budgetary Plan has been submitted in advance to both chambers of Parliament.

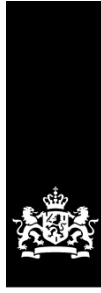
The Draft Budgetary Plan is based on the Draft Budget for 2018. On October 10, the negotiating parties have presented a Coalition Agreement. It is expected that a new government will be in place soon. After the new government takes place, the European Commission will, if necessary, be provided with more information about the budgetary outlook.

Yours sincerely,

Robert de Groot

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General Secretariat  
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# Draft Budgetary Plan of the Netherlands

**Autumn 2017**



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## Introduction

*This Draft Budgetary Plan presents the fifth budget of the Rutte-Asscher government. In recent years the government has implemented a combination of expenditure cuts and structural reforms. This means that Dutch public finances are now in better shape. According to the medium-term outlook by the CPB Netherlands Bureau for Economic Policy Analysis, public finances continue to improve in the years ahead.*

*This Draft Budgetary Plan contains a regular budget. In the 2018 budget the government has provided measures to improve the purchasing power of households. Without such measures, the median purchasing power of benefit recipients and retirees would decrease in 2018. The government thinks a balanced distribution of income among households is important. Aside from ensuring the sustainability of government finances and strengthening the sustainable economic structure, this is the third pillar of the coalition agreement. In addition, the government is providing additional resources for nursing home care and security, among other things.*

*The Netherlands remains fully committed to the European budgetary rules as laid down in the Stability and Growth Pact. Since the Netherlands' abrogation from the excessive deficit procedure in 2014, it is bound by the rules in the preventive arm of the SGP. The preventive arm poses requirements on development of the structural general government balance in relation to the Medium-term budgetary objective (MTO) and on the growth of public expenditure in relation to the expenditure benchmark. In 2018, the Netherlands has a structural government balance of -0.2% of GDP, and is therefore above the MTO of -0.5% of GDP. The Netherlands also complies with the debt rule. General government debt is currently just below the reference value of 60% of GDP, and decreases to 54.4% of GDP in 2018. With the Draft Budgetary Plan, the Netherlands therefore complies with the requirements of the Stability and Growth Pact.*

*This Draft Budgetary Plan presents the most current budgetary prospects. In the 2018 Stability Programme, the Dutch government will provide a complete update of the budgetary prospects.*

## 1. Macroeconomic forecasts

The Dutch economy is expected to continue to improve. The CPB projects an economic growth of 3.3% in 2017 and 2.5% in 2018. Over the past few months the growth prospects have been adjusted upwards as a result of positive achievements in the first half of 2017. Economic growth is broad based through household consumption, exports, and capital formation. The unemployment rate decreases to 4.3% in 2018, and will be at its lowest level since 2009.

A significant part of the growth is domestic, due to increases in household consumption and capital formation. Private consumption increases by 2.2% in 2017 and by 2.4% in 2018, whereas capital formation increases by 6.3% in 2017 and 4.5% in 2018. Household consumption is stimulated through increases in disposable income, consumer confidence, and price rises in the housing market. Capital formation increases both through a more positive economic situation in companies and increasing housing investments. Export is set to grow by 4.9% in 2017 and 4.5% in 2018, and thus grows slightly stronger than the growth of world trade that is relevant to the Netherlands.

The unemployment rate averaging at 4.9% in 2017 decreases to 4.3% in 2018, and the decrease shown in the last few years will continue. Not only is the demand for labour increasing, the supply of labour is set to grow too. Employment (in hours) increases by 2.0% in 2017 and by 1.6% in 2018. Compensation per employee develops in line with a pick-up in the labour market by 2.3% this year and by 3.1% next year.

Table 0.i) Basic assumptions

	2016	2017	2018
Short-term interest rate (annual average)	-0.3	-0.3	-0.2
Long-term interest rate (annual average)	0.3	0.6	0.8
USD/€ exchange rate (annual average)	1.11	1.11	1.14
Nominal effective exchange rate	2.9	0.7	1.1
World excluding EU 28, GDP growth	3.6	3.7	4.0
EU 28 GDP growth	1.7	2.0	1.8
Growth of relevant foreign markets	3.6	4.3	4.0
World import volumes, excluding EU	1.4	3.8	3.8
Oil prices (Brent, USD/barrel)	43.25	49.32	49.54

Table 0.ii) Main assumptions.

	2016	2017	2018
<b>1. External environment</b>			
a. Prices of commodities (Raw materials excluding energy (HWWI), Euro)	-12.9	13.0	-0.2
b. Spreads over the German bonds	0.2	0.2	0.2
<b>2. Fiscal policy</b>			
a. General government net lending / net borrowing	0.4	0.6	0.8
b. General government gross debt	61.8	57.5	54.4

<b>3. Monetary policy / Financial sector / interest rate assumptions</b>			
<b>a. Interest rates:</b>			
<b>i. Euribor</b>			
<b>ii. Deposit rate</b>			
<b>iii. Interest rates for loans</b>			
<b>iv. Yields to maturity of 10 year government bonds</b>	0.3	0.6	0.8
<b>b. Evolution of deposits</b>			
<b>c. Evolution of loans</b>			
<b>d. NPL trends</b>			
<b>4. Demographic trends</b>			
<b>a. Evolution of working-age population</b>	0.4	0.8	1.1
<b>b. Dependency ratios</b>	70.0	70.1	70.5
<b>5. Structural policies</b>			

Table 1.a. Macroeconomic prospects

		2016	2016	2017	2018	2019	2020	2021
	ESA Code	Level	growth	growth	growth			
<b>1. Real GDP*</b>	B1*g	702.6	2.2	3.3	2.5	1.6	1.6	1.6
<b>of which</b>								
<b>1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth</b>								
<b>2. Potential GDP</b>			1.6	2.0	2.0	1.7	1.6	1.5
<b>Contributions:</b>								
- labour			0.7	0.8	0.8			
- capital			0.5	0.7	0.7			
- total factor productivity			0.4	0.4	0.5			
<b>3. Nominal GDP</b>	B1*g		2.8	4.4	4.2			
<i>Components of real GDP</i>								
<b>4. Private final consumption expenditure</b>	P.3	310.7	1.6	2.2	2.4			
<b>5. Government final consumption expenditure</b>	P.3	173.7	1.2	0.6	1.6			
<b>6. Gross fixed capital formation</b>	P.51	140.0	5.3	6.3	4.5			
<b>7. Changes in inventories and net acquisition of valuables (% of GDP)</b>	P.52 + P.53	0.9	-0.4	0.0	0.1			
<b>8. Exports of goods and services</b>	P.6	579.3	4.3	4.9	4.5			
<b>9. Imports of goods and services</b>	P.7	502.0	4.1	4.5	5.1			
<i>Contributions to real GDP growth</i>								
<b>10. Final domestic demand</b>		624.4	1.9	2.3	2.3			
<b>11. Changes in inventories and net acquisition of valuables</b>	P.52 + P.53	0.9	-0.4	0.0	0.1			
<b>12. External balance of goods and services</b>	B.11	77.3	0.6	0.9	0.1			

\*Base year is 2016



Table 1.b. Price developments

		2016	2016	2017	2018	2019	2020	2021
	ESA Code	Level	rate of change	rate of change	rate of change			
1. GDP deflator			0.6	1.1	1.6	1.6	1.8	1.9
2. Private consumption deflator			0.8	1.6	1.5			
3. HICP			0.1	1.3	1.3			
4. Public consumption deflator			0.0	2.3	2.4			
5. Investment deflator			0.4	0.4	1.0			
6. Export price deflator (goods and services)			-2.6	2.3	0.0			
7. Import price deflator (goods and services)			-3.2	3.1	-0.2			

Table 1.c. Labour market developments

		2016	2016	2017	2018
	ESA Code	Level			
1. Employment, persons		8901.1	1.1	2.1	1.5
2. Employment, hours worked		12788.3	2.0	2.0	1.6
3. Unemployment rate (%)		538.5	6.0	4.9	4.3
4. Labour productivity, persons		78.9	1.1	1.1	1.0
5. Labour productivity, hours worked		54.9	0.2	1.2	0.8
6. Compensation of employees	D.1	339.8	3.0	4.6	4.7
7. Compensation per employee		38.2	0.7	2.3	3.1

Table 1.d. Sectoral balances

		2016	2017	2018
	ESA Code	% of GDP	% of GDP	% of GDP
1. -Net lending/net borrowing vis-à-vis the rest of the world	B.9	8.7	8.8	8.5
of which:				
- Balance on goods and services		11.0	11.1	10.9
- Balance of primary incomes and transfers		-1.2	-1.0	-1.0
- Capital account		-1.1	-1.3	-1.4
2. Net lending/net borrowing of the private sector	B.9	8.3	8.0	7.6
3. Net lending/net borrowing of general government	B.9	0.4	0.6	0.8
4. Statistical discrepancy				

## 2. Budgetary targets

Since the crisis, public finances have improved significantly under the influence of reforms and the economy recovery. The government deficit that existed since 2009 reversed into a surplus in 2016. A surplus is also projected for 2018. Debt decreases in 2017 both in euros and in terms of a percentage of GDP. The decrease of debt as a percentage of GDP will also continue in 2018.

### *General government balance*

The widespread economic recovery and the reforms of recent years ensure an improvement of public finances. This improvement can also be seen in the general government balance. The general government balance improves from a surplus of 0.6% of GDP in 2017 to 0.8% of GDP in 2018. The table below shows which factors contribute to this improvement between 2017 and 2018 - the so-called horizontal development.

**Table 2.1** % of GDP

<b>General government balance 2017</b>	<b>0.6</b>
Tax revenue and social contributions	1.6
Expenditure on healthcare (including wage and price adjustment)	-0.7
Expenditure on social security (including wage and price adjustment)	-0.1
Wage and price adjustment (national budget in a narrow sense)	-0.2
Contributions to the EC	-0.1
Municipalities Fund, Provinces Fund and VAT Compensation Fund	-0.1
Cash-accrual corrections	0.1
Interest on government debt	0.1
Other	-0.3
<b>General government balance 2018</b>	<b>0.8</b>

Tax revenues and social security contributions increase due to the economic recovery. This increase accounts for the largest share of improvement of the general government balance. Expenditures on healthcare and for social security will rise in 2018 respectively by 0.7% of GDP and 0.1% of GDP. The same applies for the indexation of part of the public expenditure for wage and price development, a deterioration of 0.2% of GDP. In addition, in 2018 the Netherlands is expected to contribute € 1.1 billion more to the European Union than this year, which causes the general government balance to deteriorate by 0.1% of GDP. Lower natural gas revenues (€ 0.3 billion) and higher expenditure on the Municipalities Fund, Provinces Fund, and VAT Compensation Fund (€ 0.4 billion) deteriorate the general government balance slightly. There is also a minor decrease (€ 0.4 billion) in interest charges.

Finally, so-called cash-accrual corrections improve the balance by € 1.1 billion, being 0.1% of GDP. The central government conducts a cash-based accounting system, but has to report to the European Union as if the accounting system is administered on an accrual-based system. The cash-accrual corrections adjust the general government balance for differences between cash and accrued expenses and revenue at the transaction time.

### Preventive arm

In the Stability and Growth Pact, member states of the European Union agreed on requirements for national budgets. These requirements ensure sound public finances, in both the short and in the long term. The requirements embody a so-called corrective and preventive arm. Since its abrogation from the excessive deficit procedure (corrective arm) in 2014 the Netherlands is subject to the preventive arm of the SGP.

In the preventive arm, the medium-term budgetary objective (MTO), and the expenditure benchmark apply as the budgetary rules. Table 2.a shows that the Netherlands is expected to have a structurally balanced budget in 2017 and a structural deficit of 0.2% of GDP in 2018. The MTO for the Netherlands is a structural deficit of 0.5% of GDP. This means that the Netherlands complies with the preventive arm requirements of the Stability and Growth Pact.

Aside from the structural government balance, the expenditure benchmark is a second important criterion in the preventive arm. In brief, the expenditure benchmark prescribes that public expenditure may not rise faster than potential economic growth, in which a deviation to the MTO is also taken into account. Now that the structural government balance meets the MTO, the development of the expenditure benchmark is not relevant for assessment of Dutch public finances in the preventive arm.<sup>1</sup>

**Table 2.a. General government budgetary targets broken down by subsector**

		2017	2018	2019	2020	2021
	ESA Code	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (+) / net borrowing (-) by subsector						
1. General government	S.13	0.6	0.8	1.2	1.4	1.6
2. Central government	S.1311	0.2	0.0			
3. State government	S.1312					
4. Local government	S.1313	-0.2	-0.2			
5. Social security funds	S.1314	0.6	1.1			
6. Interest expenditure	D.41	1.0	0.8			
7. Primary balance		1.5	1.6			
8. One-off and other temporary measures		0.3	0.1	0.1	0.0	0.0
9. Real GDP growth (%) (= 1 in table 1.a)		3.3	2.5	1.6	1.6	1.6
10. Potential GDP growth (%) (= 2 in table 1.a)		2.0	2.0	1.7	1.6	1.5
Contributions:						
- labour		0.8	0.8			
- capital		0.7	0.7			
- total factor productivity		0.4	0.5			
11. Output gap (% of potential GDP)		0.4	1.3	0.8	0.4	0.1
12. Cyclical budgetary component (% of the potential GDP)		0.3	0.8	0.5	0.3	0.1
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		0.3	0.0			
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		1.2	0.8			
15. Structural balance (13 - 8) (% of the potential GDP)		0.0	-0.2	0.6	1.1	1.5

<sup>1</sup> See: European Commission (2017). <<Vade Mecum on the Stability and Growth Pact>> p. 47.

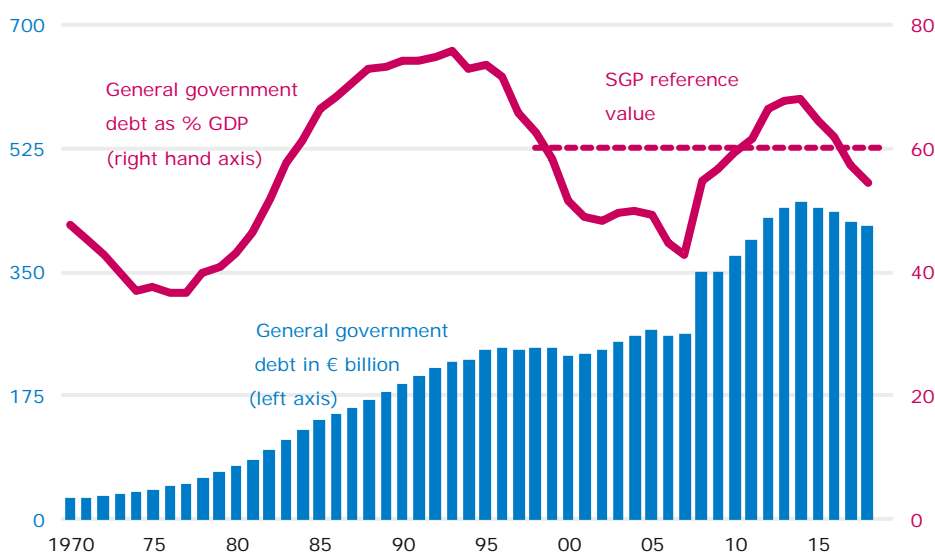
### *General government debt*

Having a forecast debt of 54.4%<sup>2</sup> of GDP in 2018, the Netherlands has a relatively low general government debt in comparison to many other EU Member States. In 2017, the Dutch general government debt is already below the reference value of 60% of GDP as established in the Stability and Growth Pact.

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<sup>2</sup> The recent sale of shares in ABN AMRO and a.s.r. Bank have not been processed in these figures yet.

**Figure 1. Development of general government debt (in % of GDP and in € billion)**



Source: Statistics Netherlands, CPB Netherlands Bureau for Economic Policy Analysis, Ministry of Finance.

The general government debt decreases for a fourth consecutive year, measured in euros. As figure 1 shows, that is quite an exceptional fact. The general government debt is expected to decrease in 2018 to € 415.8 billion and 54.4% of GDP. In respect of the expected government debt at the end of 2017, that means that the debt decreases next year by € 5.6 billion. This means that the general government debt is below 60% of GDP, and the Netherlands therefore complies with the debt rule.

Table 2.2 shows that the decreased general government debt in 2018 as a percentage of GDP, can largely be explained by the denominator effect. Because the GDP is growing, the debt as a percentage of that GDP is lower. In addition, the budget surplus also contributes to the decreasing debt as a percentage of GDP.

The other changes virtually cancel each other out. There are higher interest revenues from derivatives and there is a debt reduction because treasury banking institutions retain more credits in the treasury. But those changes are about the same size as the additionally granted student loans and cash-accrual corrections that lead to higher debt and so cancel each other out.

**Table 2.2** % of GDP

<b>General government debt end 2017</b>	<b>57.5</b>
Denominator effect	-2.3
General government balance 2018	-0.8
Interest revenue derivatives	-0.2
Treasury banking	-0.2
Student loans	0.3
Cash-accrual corrections	0.2
Other financial transactions	0.0
<b>General government debt end 2018</b>	<b>54.4</b>

**Table 2.b. General government debt developments**

		2017	2018	2019	2020	2021
	ESA Code	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Gross debt		57.5	54.4	51.6	48.6	45.6
2. Change in gross debt ratio		-4.3	-3.0			
Contributions to changes in gross debt						
3. Primary balance (= item 7 in Table 2.a.i)		1.5	1.6			
4. Interest expenditure (= item 6 in Table 2.a.i)	<b>D.41</b>	1.0	0.8			
5. Stock-flow adjustment		-3.8	-2.3	-1.6	-1.6	-1.4
<i>of which:</i>						
- Differences between cash and accruals		-0.4	0.2			
- Net accumulation of financial assets		-0.5	0.1			
<i>of which:</i>						
- privatisation proceeds		-0.4	0.0			
- valuation effects and other		0.0	0.0			
p.m.: Implicit interest rate on debt		1.7	1.5			
Other relevant variables						
6. Liquid financial assets		0.0	0.0			
7. Net financial debt (7=1-6)		57.4	54.4			
8. Debt amortization (existing bonds) since the end of the previous year		5.7	5.3			
9. Percentage of debt denominated in foreign currency*		4.1				
10. Average maturity*		6.0	6.3			

\* position as at 1 September 2017

### Guarantees

A guarantee is a commitment by the State to pick up the costs incurred by a certain party when a certain risk is materialised. Hence guarantees and the damages which could perhaps derive from it, are a risk for public finances. It is for this reason that the government tightened the Dutch government's guarantee policy at the end of 2013. The already existing 'no, unless policy' has further been extended in order to deal with implicit risks more consciously. For every decision concerning contingent liability the government ascertains the risks, formulates adequate control measures, and parliament gets involved. The framework for guarantees also poses demands on the design of guarantees such as a break-even premium and an evaluation every five years. This framework for guarantees has a preventative and alerting operation in which the risks of apparently 'free' policy remains transparent and manageable.

In 2018 the State guarantees a total amount of € 180.6 billion (23.6% of GDP). Of this amount, € 148.2 billion (19,4%) is associated with the financial sector. The majority of these guarantees stem from international agreements, such as guarantees linked to the European debt crisis, international development banks, and the International Monetary Fund (IMF).

**Table 2.c Contingent liabilities**

	<b>2017</b>	<b>2018</b>
	% of GDP	% of GDP
<b>Public guarantees</b>	25.3	23.6
<b>Including: associated with the financial sector</b>	21.0	19.4
Asian Infrastructure Investment Bank ( AIIB)	0.1	0.1
DNB - participation in IMF capital	6.1	5.9
Guarantee De Nederlandsche Bank (DNB)	0.8	-
European Bank for Reconstruction and Development (EBRD)	0.1	0.1
European Financial Stabilisation Mechanism (EFSM)	0.4	0.4
European Financial Stability Facility (EFSF)	4.7	4.5
European Investment Bank (EIB)	1.3	1.3
European Stability Mechanism (ESM)	4.8	4.6
FMO	0.8	0.8
Regional development bank guarantees	0.3	0.3
EU Balance-of-payments (BoP) assistance	0.3	0.3
Single Resolution Fund (SRF)	0.6	0.5
World Bank	0.7	0.6

### 3. Expenditure and revenue projections under the no-policy change scenario

The following table shows the total expected government revenue and expenditure at unchanged policies in conformity with the 2018 Budget Memorandum.

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components.

		2017	2018
General government (S.13)	ESA Code	% of GDP	% of GDP
<b>1. Total revenue at unchanged policies</b>	TR	43.6	43.5
<b>of which</b>			
1.1. Taxes on production and imports	D.2	11.6	11.7
1.2. Current taxes on income, wealth, etc.	D.5	12.4	11.8
1.3. Capital taxes	D.91	0.3	0.3
1.4. Social contributions	D.61	14.6	15.2
1.5. Property income	D.4	1.0	0.9
1.6. Other		3.8	3.7
<b>p.m.: Tax burden</b> (D.2+D.5+D.61+D.91-D.995)		38.8	38.9
<b>2. Total expenditure at unchanged policies</b>	TE	43.0	42.7
<b>of which</b>			
2.1. Compensation of employees	D.1	8.6	8.4
2.2. Intermediate consumption	P.2	5.7	5.7
2.3. Social payments	D.62	21.0	20.8
<b>of which Unemployment benefits</b>	D.632	1.8	1.6
2.4. Interest expenditure	D.41	1.0	0.8
2.5. Subsidies	D.3	1.2	1.2
2.6. Gross fixed capital formation	P.51	3.4	3.3
2.7. Capital transfers	D.9	0.6	0.8
2.8. Other		1.5	1.6



## 4. Expenditure and revenue targets

The tables below give a more detailed view in the projected general government expenditures and revenues in 2017 en 2018.

Table 4.a General government expenditure and revenue targets, broken down by main components.

		2017	2018
<b>General government (S.13)</b>	ESA Code	% of GDP	% of GDP
<b>1. Total revenue target</b>	TR	43.6	43.5
<b>of which</b>			
<b>1.1. Taxes on production and imports</b>	D.2	11.6	11.7
<b>1.2. Current taxes on income, wealth, etc.</b>	D.5	12.4	11.8
<b>1.3. Capital taxes</b>	D.91	0.3	0.3
<b>1.4. Social contributions</b>	D.61	14.6	15.2
<b>1.5. Property income</b>	D.4	1.0	0.9
<b>1.6. Other</b>		3.8	3.7
<b>p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)</b>		38.8	38.9
<b>2. Total expenditure target</b>	TE	43.0	42.7
<b>of which</b>			
<b>2.1. Compensation of employees</b>	D.1	8.6	8.4
<b>2.2. Intermediate consumption</b>	P.2	5.7	5.7
<b>2.3. Social payments</b>	D.62	21.0	20.8
<b>of which Unemployment benefits</b>	D.632	1.8	1.6
<b>2.4. Interest expenditure</b>	D.41	1.0	0.8
<b>2.5. Subsidies</b>	D.3	1.2	1.2
<b>2.6. Gross fixed capital formation</b>	P.51	3.4	3.3
<b>2.7. Capital transfers</b>	D.9	0.6	0.8
<b>2.8. Other</b>		1.5	1.6

Table 4.b Amounts to be excluded from the expenditure benchmark

		2016	2017	2018
	ESA Code	% of GDP	% of GDP	% of GDP
<b>1. Expenditure on EU programmes fully matched by EU funds revenue</b>		0.0	0.0	0.0
<b>2. Cyclical unemployment benefit expenditure*</b>		0.2	-0.0	-0.1
<b>3. Effect of discretionary revenue measures</b>		-0.1	0.4	-0.1
<b>4. Revenue increases mandated by law</b>		0.0	0.1	0.2

\*This item contains: Unemployment Act (WW), social assistance benefit for the self-employed, implementation costs of the Employee Insurance Agency (UWV), 60+ unemployment benefits (IOW), mobility bonus for older beneficiaries and the occupationally disabled, BUIG and revenue of government implementation fund (UFO)

#### 4.c.i) General government expenditure on education, healthcare and employment

	2017		2018	
	% of GDP	% general government expenditure	% of GDP	% general government expenditure
<b>Education</b>	5.2	12.1	5.2	12.1
<b>Healthcare</b>	7.6	17.8	7.8	18.2
<b>Employment*</b>	0.4	0.9	0.4	1.0

\*This item contains: Participation Budget and Sheltered Employment Act (WSW, since 2015 via social participation fund), reintegration programmes for occupationally disabled, 50+ workforce participation, sector plans, life-course transitional arrangement, contribution reduction for youth, start-up deduction in case of disability, youth unemployment approach and low-income benefit.

#### 4.c.ii) Classification of functions of the Government

Functions of the Government		2017	2018
	COFOG Code	% of GDP	% of GDP
<b>1. General public services</b>	1	4.3	4.3
<b>2. Defence</b>	2	1.2	1.2
<b>3. Public order and safety</b>	3	1.9	1.8
<b>4. Economic affairs</b>	4	3.8	3.8
<b>5. Environmental protection</b>	5	1.4	1.4
<b>6. Housing and community amenities</b>	6	0.3	0.3
<b>7. Health</b>	7	7.6	7.8
<b>8. Recreation, culture and religion</b>	8	1.3	1.3
<b>9. Education</b>	9	5.2	5.2
<b>10. Social protection</b>	10	15.9	15.6
<b>11. Total Expenditure (= item 2 in Table 2.c.i)</b>	TE	43.0	42.7

## 5. Description of discretionary measures included in the draft budget

The Coalition Agreement of the outgoing Rutte-Asscher government contains three pillars, which include the sustainability of public finances. The general government debt has dropped to below the prescribed European criterion of 60% of GDP. Since last year there has been a budget surplus, and a budget surplus of 0.8% of GDP is expected in 2018. In the draft budget for 2018 the government presents measures to improve purchasing power, and it is releasing resources for bolstering security, and for improving the quality of nursing home care, among other things. This package will ensure that the Netherlands continues to meet the requirements of the Stability and Growth Pact.

**Table 5.a. Discretionary measures since the 2017 Budget Memorandum**

<b>in € billions, + means deteriorating balance</b>	<b>2017</b>	<b>2018</b>
<b>Expenditure</b>		
Quality framework nursing home care	0.1	0.6
Security	0	0.1
Healthcare	0.4	0.1
Gas revenues	0.5	0.5
Primary education	0	0.3
Other expenditure	0	0.3
<b>Revenue</b>		
Purchasing power package 2018 (excluding health care benefit)	0	0.1
Health insurance premiums	-0.7	0.9
Other income	0	-0.1

### *Expenditure*

In 2017, the quality framework nursing home care came into force. The quality framework includes standards for adequate staff and should improve the quality of care. There is a development pathway for implementation of the quality framework. On the basis of current insights, expenditure increases structurally from € 435 million in 2018 to over € 2 billion per year, in which the best performing institutions are standard for others. The government has processed the additional costs involved in the full implementation in the budget of the Ministry of Public Health, Welfare and Sport. Not only are additional costs for deployment of extra staff taken into account, but also transition costs (€ 125 million in 2018-2021) and implementation costs (€ 12 million structurally).

The government makes additional resources available for security. Among other things, this budget is used to raise the capability for border surveillance, cyber security and the counter-terrorism strategy.

Expenditures on health care benefits are higher both in 2017 and 2018 than previously forecast. In addition for 2018, the government has concluded care agreements and made administrative arrangements with various actors in the care sector. Due to the agreed moderate growth, care expenditure estimates will be € 280 million lower as from 2018.

In 2018, gas revenues are expected to be € 500 million less than was expected in the 2017 Budget Memorandum. This decrease is particularly the result of policy-related decisions to reduce the gas production in connection with the safety of the community living in Groningen. In addition, there is a negative development in the price of gas.

The government invests an additional € 270 million for improvement of and new agreements on working conditions in primary education. This has been annexed via a memorandum of amendment to the 2018 budget of the Ministry of Education, Culture and Science.

Items included in Other expenditures are Invest-NL, and incidental resources for the Investment Agenda of the Tax and Customs Administration and the Netherlands Food and Consumer Product Safety Authority (NVWA).

### *Purchasing power*

The assumption of a constant tax burden implies that € 336 million is made available for repairing purchasing power (compensation of higher health care insurance premiums). Additionally, € 59 million has been committed for purchasing power repair. These resources postpone the phasing out of the double general tax credit in the social assistance benefit, which has a positive effect on the incomes of minimum-income households. The health care benefit and child-related budget have been increased to meet the needs of families with low incomes. The tax credit for the elderly also increases to further support retirees.

**Table 5.b Detailed breakdown of the purchasing power package**

<i>In € billions, + means deteriorating balance</i>	<b>Amount (billion)</b>
<b><i>Purchasing power (total 0.4 billion)</i></b>	
Social assistance benefit	0.0
Health care benefits	0.3
Child-related budget	0.0
Elderly person's tax credit	0.2
General tax credit	-0.1
General old age pension	-0.0
Single elderly person's tax credit	-0.0

## 6. Indication of how measures in the DBP address CSR and the targets set by the Union's strategy for growth and jobs

Table 6.a Country-specific recommendations (CSRs)

CSR number	Measures (actual progress/new in respect of 2017 NRP)	Description of direct relevance
<p>1. With due observance of the medium-term objective, use budgetary and structural policies to support potential growth and domestic demand, including investments in research and development.</p> <p>Take measures to reduce the remaining distortions in the housing market and cut back on advantaging debts of householders, particularly by restricting the mortgage interest tax relief.</p>	<ul style="list-style-type: none"> <li>In this draft budget the government presents measures to strengthen the purchasing power of households and in so doing to increase domestic demand.</li> <li>As of 1 January 2018 the maximum Loan-to-value ratio reduces to 100%. In addition, as of 1 January 2018 the maximum mortgage interest tax relief percentage is reduced by 0.5pp to 49.5%.</li> </ul>	<ul style="list-style-type: none"> <li>It is up to the next government to take a decision in this context on possible measures to boost investments in research and development.</li> <li>The measures taken by the government contribute to a healthier housing market and reduced risks for households and the financial sector. It is up to the next government to take further action, if necessary.</li> </ul>
<p>2. Tackle obstructions that remain in the hiring of personnel based on permanent contracts. Restrict the excessive rise in the number of self-employed workers, partly as a result of fiscal distortions that facilitate self-employment, without posing a negative impact on entrepreneurship, and by promoting access to affordable social protection for those self-employed workers.</p> <p>Based on the broad preparatory process already in progress, make the second pillar of the pension system more transparent and fairer between generations, and more shock resistant.</p> <p>Establish favourable conditions for higher real wage growth, duly taking into account the role of the social partners.</p>	<ul style="list-style-type: none"> <li>In 2016, the government outlined a more future-proof pension system. Important sections in this, which are consistent with specific recommendations of the Commission, relate to considerations for a new pension contract and adapting the average pension contribution system.</li> </ul>	<ul style="list-style-type: none"> <li>The government acknowledges that in the long term a more fundamental solution is needed to reduce the resultant differences in institutional treatment between employees and the self-employed. It is up to the next government to further address recommendations and to take measures in this area.</li> <li>It is up to the next government to take further steps towards a future pension system, in cooperation with the social partners and those in the pension field. In 2016, the government outlined a more future-proof pension system.</li> <li>The government acknowledges that wage increases can contribute to strengthening domestic demand and to sustaining economic growth. In wage negotiations, the social partners must take the lead. In general terms, the government creates conditions for real wage growth with a growth-oriented financial and economic policy.</li> </ul>

Table 6.b Targets set by the Union's Strategy for growth and jobs

National 2020 headline targets	Measures (actual progress/new in respect of 2017 NRP)	Description of direct relevance to address the target
National 2020 employment target [80%]	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	
National 2020 R&D target [2.5%]	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	
<b>GHG emission reduction target</b> - non-ETS sectors [-16%] - ETS sectors [not applicable]	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	
National renewable energy target [14%]	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	
National energy efficiency target [1.5% per year]	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	
National early school leaving target [>8%]	<ul style="list-style-type: none"> <li>The percentage of early school leaving was 8.0% in 2016<sup>3</sup>, compared to an EU average of 10.7%. This will achieve the target of 8% in 2020 in the Netherlands which is derived from the EU target of halving to 10% in 2020. However, successful elements in the early school leaving strategy will be continued. In each of the 39 regions that have an Early School Leaver's Regulation, schools and municipalities have jointly drawn up a regional programme of measures for approaching early school leavers and young people in a vulnerable position. Regional programme funding is available for the implementation of those measures. Every region must have at least one plus facility for vulnerable youngsters. In 2018, an amount of € 52.25 million is available for the implementation of those measures.</li> </ul>	<ul style="list-style-type: none"> <li>The government nonetheless considers the tackling of the school dropout rate as being a matter of urgency. There's a powerful sequel to the early school leaving strategy, with a target of up to 20,000 new early school leavers per year in 2021, measured for school year 2019/2020, for ages 12-23 years. This involves close cooperation at a regional level between schools and municipalities, and cooperation between other local actors is encouraged. More attention is also paid to young people in a vulnerable position.</li> </ul>

<sup>3</sup> EU definition, Dutch target 8%. See: [http://ec.europa.eu/eurostat/tgm/table.do?tab=table&tableSelection=1&labeling=labels&footnotes=yes&layout=time\\_geo\\_cat&language=en&pcode=tsdsc410&plugin=1](http://ec.europa.eu/eurostat/tgm/table.do?tab=table&tableSelection=1&labeling=labels&footnotes=yes&layout=time_geo_cat&language=en&pcode=tsdsc410&plugin=1)

<p><b>National tertiary education target [&gt;40%]</b></p>	<ul style="list-style-type: none"> <li>• The share of highly qualified persons in the Netherlands was 45.7%<sup>4</sup> in 2016 compared to the EU benchmark of at least 40% and an average result of 39.1% (aged 30-34 years). The Strategic Agenda for Dutch Higher Education and Research provides a guideline up to and including 2025, and focuses on boosting the quality of higher education and education-related research with funds derived from the Student loan system.</li> </ul>	<ul style="list-style-type: none"> <li>• The government is committed to guaranteeing accessibility and equal opportunities in higher education and raising the quality by means of small-scale and intensive education, talent programmes, education-related research, study facilities, digital development and internationalisation, among other things. This contributes to maintaining the share of highly qualified persons above the EU benchmark.</li> </ul>
<p><b>National social inclusion and poverty target [100,000 fewer <i>jobless households</i>]</b></p>	<ul style="list-style-type: none"> <li>• Additional structural budgetary resources for poverty and debt policy (€ 100 million annually since 2015)</li> <li>• Subsidy scheme for civil society organisations (€ 4 million in 2018 and 2019).</li> <li>• Structurally, an additional € 100 million annually for children in poverty (since 2017);</li> <li>• SER (Social and Economic Council) survey into combination jobs</li> <li>• SER publication of recommendation on children in poverty</li> </ul>	<ul style="list-style-type: none"> <li>• More effective, efficient, and sustainable combating by means of an integrated approach to poverty and debt.</li> <li>• Specific investment in children in poverty to prevent social exclusion and future deprivation.</li> <li>• Strengthening cooperation between public and private organizations which results in a wider and more efficient reaching of target groups.</li> <li>• More knowledge about the effectiveness of financial incentives as well as employment and reintegration obligations, to accomplish an outflow into employment of Participation Act beneficiaries.</li> </ul>

<sup>4</sup> <https://www.trendsinbeeldocw.nl/internationaal/eu2020-strategie/percentage-hoger-opgeleiden-in-de-leeftijdsgroep-30-34-jarigen>



## 7. Divergence from latest Stability Programme

Table 7. Divergence from latest Stability Programme

		2016	2017	2018
	ESA Code	% of GDP	% of GDP	% of GDP
<b>Target general government net lending / net borrowing</b>	B.9			
<b>Stability Programme</b>		0.4	0.5	0.8
<b>Draft Budgetary Plan</b>		0.4	0.6	0.8
<b>Difference</b>		0.0	0.1	0.0
<b>General government net lending/borrowing projection at unchanged policies</b>	B.9			
<b>Stability Programme</b>		0.4	0.5	0.8
<b>Draft Budgetary Plan</b>		0.4	0.6	0.8
<b>Difference</b>		0.0	0.1	0.0

## 8. Distributional impact of the main expenditure and revenue measures

Table 8 shows the forecast median development in purchasing power in 2018 for various households. These figures show developments in purchasing power as a result of the average wages and price development and as a result of income policy.

In 2018, the purchasing power increases for a fifth consecutive year. It is expected that more than 80% of households in the Netherlands will enjoy greater purchasing power in 2018. The expected median developments in purchasing power of all households is +0.6%. Economically active households benefit from real wage increases. In the spring it was still expected that benefit recipients and retirees would suffer a decline in purchasing power in 2018. The purchasing power of households with the lowest incomes would lag behind those households that have higher incomes. In the government's opinion this was not a balanced development of purchasing power. It was therefore decided to repair the purchasing power of those groups who threatened to lag behind by means of a purchasing power package. The purchasing power package entails an increase in the health care benefit, child-related budget, elderly person's tax credit, and the social assistance benefit. Especially retirees and benefit recipients will benefit from this repair. The median purchasing power change after the repair, results in +0.8% for economically active households in 2018. Retirees will have a median development in purchasing power of +0.6% and benefit recipients +0.3%.

**Table 8. Development in purchasing power for various household groups (\*\* = Minimum Wage and Minimum Holiday Allowance Act)**

	2018
<b>Income level</b>	
< 175% **	0.6
175-350% **	0.6
350-500% **	0.8
< 500% **	1.1
<b>Source of income</b>	
Economically active households	0.8
Benefit recipients	0.3
Retirees	0.6
<b>Household type</b>	
Double-income households	0.7
Single householders	0.6
Single-income households	0.6
<b>Composition of the family</b>	
With children	0.9
Without children	0.6
<b>All households</b>	0.6

## Annex. Methodology, economic models and assumptions underpinning information contained in the DBP

**Table 9. Methodological aspects.**

Estimation technique	Step of the budgetary process for which it was used <sup>1</sup>	Relevant features of the model/technique used
SAFFIER II	Macro forecast for the Dutch economy in the short and medium-term	Macro-econometric model
MIMOSI	Forecast purchasing power, wage costs, social security and personal income tax	Micro simulation model
MICSIM	Forecast of policy effects on structural labour supply	General equilibrium model
ISIS	Forecast trend structural labour supply	HP-filter
TAXUS	Short and medium term forecast of tax revenue (with the exception of personal income tax)	Detailed forecast tax revenue
ZOEM	Forecast of healthcare expenditure and employment in healthcare sector	Arithmetic model for employment in healthcare sector and for healthcare expenditure in the short and medium term
Government account	Forecast of government employment, public expenditure and revenue, with the exception of taxes, healthcare and social security	Detailed arithmetic model for government employment and for total public finances in the short and medium term
EVIEWES in combination with EC software	Forecast output gaps	Econometric model

1/ Modelling tools may have been used:

- when doing macro forecasts
- when estimating expenditure and revenue at an unchanged policies scenario
- when estimating the distributional impact of the main expenditure and revenue measures
- when quantifying the expenditure and revenue measures to be included in the draft budget
- when estimating how reforms included in the Draft Budgetary Plan address targets set by the Union's Strategy for growth and jobs and the country-specific recommendations.