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From:	Johan Barnard, Financial Counsellor, Permanent Representation of The Kingdom of The Netherlands to the EU
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To:	Carsten Pillath, Director-General, DGG-Economic Affairs and Competitiveness General Secretariat of the Council of the European Union
Subject:	Stability Programme of the Netherlands - 2014

Delegations will find attached the Stability Programme of the Netherlands - 2014

Stability Programme of the Netherlands

April 2014

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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]

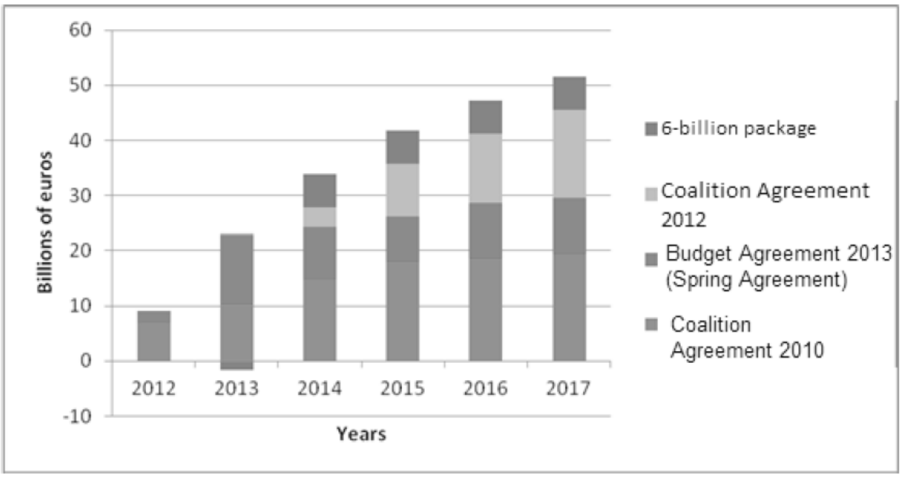
Table 1.2 Composition of the package of 6 billion euros

in billions of euros	Revenue 2014	Structural revenue
Category		
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.

<u>Rental market</u>

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