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From: Geert Beekhuis, Financial Counsellor, Permanent Representation of The Kingdom of The Netherlands to the EU

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To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

Subject: The Netherlands:
Draft Budgetary Plan 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

Delegations will find attached The Netherland's Draft Budgetary Plan for 2016 in English.

This document is aimed for discussion in the Eurogroup..



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

Brussels, 9 Octobre 2015

Mr. Pillath,

I have the honour to enclose the Draft Budgetary Plan of the Netherlands, dated September 2015.

Please accept, Mr. Pillath, the assurances of my highest consideration.

Yours sincerely,

Geert Beekhuis
Financial Counsellor

Mr. C. Pillath
Council of the European Union
JL
B-1048 Brussels

SECRETARIAT GÉNÉRAL DU
CONSEIL DE L'UNION EUROPÉENNE
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Draft Budgetary Plan of the Netherlands

September 2015

Contents

Introduction		
Chapter 1	Macroeconomic Forecasts	4
Chapter 2	Budget objectives	7
Chapter 3	Expenditure and revenue projections under the no-policy change scenario	12
Chapter 4	Expenditure and revenue targets. General government expenditure by function	13
Chapter 5	Discretionary measures included in the draft budget	15
Chapter 6	Possible links between the draft budgetary plan and the targets set by the Union's Strategy for growth and jobs and country-specific recommendations	18
Chapter 7	Comparison with the latest Stability Programme	25
Chapter 8	Distributional impact of the main expenditure and revenue measures	26
Annex	Methodological aspects including forecast effects of aggregated budgetary measures for economic growth underpinning the information contained in the DBP	27

Introduction

This Draft Budgetary Plan (DBP) presents the main outlines of the third budget of the Rutte-Asscher government. Thanks to a combination of cut-backs and structural reforms, the Netherlands is in a much better shape again. Dutch government finances are showing clear improvement.

The 2016 budget aims to distribute the positive budgetary effects of the economic growth as evenly as possible over the government's three priorities: ensuring the sustainability of government finances, sustainable economic growth and an equitable income distribution. The government therefore commits part of the improvements in the general government balance to a specific reduction of the tax burden on labour by € 5 billion in structural terms. This tax burden reduction has been designed as such that it supports the economic recovery and improves the functioning of the labour market. Without this reduction, the development of purchasing power for next year would have been negative.

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 last year the requirements in the preventive arm of the SGP apply. The preventive arm monitors the Medium-term budgetary objective (MTO) for the structural general government balance and the expenditure benchmark. According to current views the structural general government balance in 2015 amounts to -1.2% of GDP and -1.3% of GDP in 2016. Hence in 2016 the Netherlands deviates from the MTO, but the deviation is within the permitted margin. Cumulatively over 2015 and 2016 the Netherlands deviates somewhat, but not significantly. Aside from the structural government balance the expenditure benchmark is the other important criterion in the preventive arm. The permitted expenditure growth for the Netherlands is forecast at 1.4% in 2015 and 1.2% in 2016. On the basis of current views the Netherlands complies with the expenditure benchmark in both 2015 and 2016. This means that the Netherlands complies with both requirements of the preventive arm. Finally, the Netherlands also complies with the requirements of the transition period for the debt rule which is applicable for Member States who have recently been abrogated from the excessive deficit procedure.

1. Macroeconomic Forecasts

The economic recovery that started last year continues convincingly. The Netherlands Bureau for Economic Policy Analysis (CPB) forecasts an economic growth of 2.0% for 2015 and of 2.4% for 2016. In 2015 the GDP of the Netherlands reached the same level as in 2008. In addition, the economic growth is broadly based: not only domestic spending, but also exports provide a positive contribution to economic growth. After unemployment peaked in 2014 at 7.4% of the labour force, the CPB forecasts a decreasing unemployment rate from 6.9% in 2015 to 6.7% in 2016.

In 2015 exports will grow by 3.7% and by 5.1% in 2016. This means that exports continue to provide a positive contribution to economic growth. The economic recovery in the Eurozone results in a positive trend for Dutch exports. The most important trading partners of the Netherlands are situated in the Eurozone. Depreciation of the Euro stimulates the demand for Dutch products outside the Eurozone. On the other hand, the CPB indicated that the development of world trade is an important downside risk.

Domestic spending also provides a positive contribution to economic growth. Household consumption will rise by 1.6% in 2015 and by 1.9% in 2016 due to higher disposable incomes. The increase in disposable income relates to low inflation, contractual wage increases, rising employment and the reduction of the tax burden on labour in 2016. Consumer confidence has risen substantially since the summer of 2013. Capital formation¹ will increase by 6.5% in 2015 and by 6.0% in 2016. Capital formation growth is at its highest level since 2008. Producers have more confidence and the level of capacity utilisation has increased. Recovery of the housing market (a higher number of transactions and increasing house prices) contributes to an increase in housing investments and also to higher private spending.

In 2016 unemployment will drop further to 6.7% of the labour force. A decrease in unemployment will gradually follow the recovering economic growth. Production in the private sector will grow by 2.9% in 2015 and by 3% in 2016. Here growth in employment² lags by 0.9% and 1.3% respectively. Companies will first use their existing production capacity before hiring new people. This can be seen in the increase of labour productivity³ (2.0% in 2015 and 1.7% in 2016). While at the same time the labour force increases by 0.5% in 2015 and 0.8% in 2016. Especially in 2016 a smaller number of discouraged workers will withdraw from the labour market. The combination of a greater demand for and supply of labour, on balance, leads to the projected decrease in unemployment of 55 thousand people in the years from 2014 to 2016.

Table 0.i) Basic assumptions

	2014	2015	2016
Short-term interest rate (annual average)	0.2	0.2	0.2
Long-term interest rate (annual average)	1.5	0.7	0.9
USD/EUR exchange rate (annual average)	1.33	1.1	1.09
Nominal effective exchange rate	0.5	-3.4	-0.3
World, excluding EU 28, GDP growth	4.2	3.7	4.1
EU 28 GDP growth	0.9	1.3	1.9
Growth of relevant foreign markets	3.9	2.8	5.4
World import volumes, excluding EU	3.8	0.1	4.9
Oil prices (Brent, USD/barrel)	99	57	60

¹ Defined as the sum of gross fixed capital formation and changes in inventories & net acquisition of valuables, see table 1.a

² Defined as employment growth in working years. Employment growth in persons is 0.7 and 1.1 respectively, see table 1.c

³ Defined as labour productivity in the private sector. Labour productivity defined as real GDP per employee is 1.4% and 3.4% respectively, see table 1.c

Table 0.ii) Main assumptions

	2014	2015	2016
1. External environment			
a. Prices of commodities (Raw materials excluding energy (HWWI), Euro)	-7.5	-37.1	2.9
b. Spreads over the German bonds	0.2	0.2	0.2
2. Fiscal policy			
a. General government net lending / net borrowing	-2.4	-2.2	-1.5
b. General government gross debt	67.9	67.2	66.2
3. Monetary policy / Financial sector / interest rate assumptions			
a. Interest rates:			
i. Euribor	0.2	0.2	0.2
ii. Deposit rates			
iii. Interest rates for loans			
iv. Yields to maturity of 10-year government bonds	1.5	0.7	0.9
b. Evolution of deposits			
c. Evolution of loans			
d. NPL trends			
4. Demographic trends			
a. Evolution of working-age population	-0.4	0.5	0.8
b. Dependency ratios	70.1	70.1	70.3
5. Structural policies			

Table 1.a. Macroeconomic prospects

		2014	2014	2015	2016
	ESA Code	Level	rate of change	rate of change	rate of change
1. Real GDP	B1*g	662.8	1.0	2.0	2.4
of which:					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP			0.4	0.9	1
Contribution:					
- labour			0.0	0.2	0.2
- capital			0.2	0.4	0.5
- total factor productivity			0.2	0.3	0.3
3. Nominal GDP	B1*g		1.8	2.8	3.3
<i>Components of real GDP</i>					
4. Private final consumption expenditure	P.3	296.1	0.0	1.6	1.9
5. Government final consumption expenditure	P.3	171.2	0.3	-0.4	0.8
6. Gross fixed capital formation	P.51	120.4	3.5	7.4	5.4
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-0.5	-0.1	-0.2	0.1
8. Exports of goods and services	P.6	549.4	4.0	3.7	5.1
9. Imports of goods and services	P.7	473.8	4.0	4.1	5.7
<i>Contributions to real GDP growth</i>					
10. Final domestic demand		587.7	0.7	1.9	2
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-0.5	-0.1	-0.2	0.1
12. External balance of goods and services	B.11	75.6	0.5	0.2	0.2

Table 1.b. Price developments

		2014	2014	2015	2016
	ESA Code	Level	rate of change	rate of change	rate of change
1. GDP deflator			0.8	0.8	1.0
2. Private consumption deflator.			1.3	1.0	1.3
3. HICP			0.3	0.5	1.1
4. Public consumption deflator			0.4	0.1	1.4
5. Investment deflator			-0.2	-0.5	1.7
6. Export price deflator (goods and services)			-1.8	-1.2	1.1
7. Import price deflator (goods and services)			-2.3	-2.0	1.7

Table 1.c. Labour market developments

		2014	2014	2015	2016
	ESA Code	Level	rate of change	rate of change	rate of change
1. Employment, persons¹		8738.6	-0.2	0.7	1.1
2. Employment: hours worked²		6977	-0.3	0.5	1.0
3. Unemployment rate (%)³		659.7	7.4	6.9	6.7
4. Labour productivity, persons⁴		75.8	1.2	1.3	1.3
5. Labour productivity, hours worked⁵		95	1.3	1.5	1.4
6. Compensation of employees	D.1	328.5	1.5	1.4	3.4
7. Compensation per employee		37.6	2.1	0.9	2.5

1) Labour force, domestic concept national accounts definition

2) Definition national accounts

3) Harmonized definition, Eurostat; levels

4) Real GDP per employee

5) Real GDP per hours worked

Table 1.d. Sectoral balances

		2014	2015	2016
	ESA Code	% of GDP	% of GDP	% of GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	10.6	10.9	10.7
of which:				
- Balance on goods and services		11.4	11.7	11.2
- Balance of primary incomes and transfers		1.3	1.2	1.2
- Capital account		-2.0	-2.0	-1.6
2. Net lending/net borrowing of the private sector	B.9	13.0	12.9	12.0
3. Net lending/net borrowing of general government	B.9	-2.4	-2.2	-1.5
4. Statistical discrepancy				

2. Budget objectives

The government has made room for a specific easing of the tax burden on labour. Government finances in the Netherlands have suffered severely as a result of the crisis. Furthermore, the economic recovery initially had difficulties in gathering pace. Thanks to a combination of cut-backs and structural reforms, the Netherlands is in a much better shape again. Now that public finances are improving under the influence of a recovering economy, the government is reducing the tax burden on labour. This reduction has been designed so that it supports the economic recovery and improves the functioning of the labour market. Without the reduction of the tax burden the development of purchasing power would have been negative.

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 government deficit. The general government balance improves from a deficit of 2.2% of GDP in 2015 to 1.5% of GDP in 2016. The table below shows which factors contribute to this improvement between 2015 and 2016 - the so-called horizontal development.

General government balance 2015	-2.2%
Denominator effect	0.1%
Tax revenue and social contributions	1.1%
Healthcare expenditure	-0.3%
Expenditure on Social security and labour market policy	-0.2%
Wages and price indexation	-0.2%
Contributions to the EC	0.4%
GF/PF/BCF	-0.3%
Cash and accrual expenses	0.1%
Natural gas revenues	-0.1%
Interest on government deficit	0.0%
Other	0.1%
General government balance 2016	-1.5%

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. The healthcare expenditure and expenditures for social security will rise in 2016 and lead to a deterioration of the general government balance by 0.5 percentage points of GDP. The same applies for indexation of a portion of the public expenditure for wage and price development. Ratification of the Own Resources Decision in all Member States is no longer expected to take place before the end of 2015. As a result, the annual Dutch discount on the contributions to the EC, which form part of the Own Resources Decision, will therefore be incorporated in 2016 for three years (2014 - 2016). This leads to lower net expenditures in 2016 compared to 2015. In 2016 the State will spend 0.3% of GDP more on municipal and provincial funds and the VAT Compensation Fund (*BCF*). Corrections for differences between cash and accrual expenses (*KTVs*), particularly one relating to the public transportation card for students, improve the general government balance in respect of 2015. Finally, a lower expected gas price leads to decreasing natural gas revenues.

Preventive arm

Through the extensive package of savings and reforms the Netherlands has been discharged from the excessive deficit procedure a year sooner than required. Hence the Netherlands now is subject to the so-called preventive arm of the SGP. The European Commission maintains two criteria to monitor a Member State on compliance with the requirements: the structural government balance and the expenditure benchmark. The structural general government balance amounts to -1.2% of GDP in 2015 and -1.3% of GDP in 2016. Hence in 2016 the Netherlands deviates from the MTO, but the deviation is within the permitted margin. At any given point in time the structural government balance is dependent on the underlying *output gap*, which is volatile. As a result, the

required development of the structural government balance can differ significantly between different forecasts. In order to ensure predictability in the assessment of compliance against the requirements of the European budgetary rules, the Commission freezes the required development of the structural government balance for the next year on the basis of the forecast available in spring. The required development can then no longer increase, but it can be reduced if more recent forecasts allow for that.

On the basis of the spring forecast the Netherlands had a structural government balance of -0.3% of GDP in 2015, which, vis-à-vis the standard of -0.5% of GDP for the MTO, implies that the balance may deteriorate by 0.2 percentage in 2016. The structural government balance deteriorates from -1.2% of GDP in 2015 to -1.3% of GDP in 2016, a deterioration of a little more than 0.1pp⁴. That means that there is no deviation from the required development based on the freezing⁵.

Cumulatively over 2015 and 2016 the Netherlands deviates somewhat, but not significantly. For 2015 too, the requirements are frozen, after which the most beneficial forecast of the structural government balance applies. On the basis of the spring forecast the Netherlands had a structural government balance of -0.2% of GDP in 2014, which implies that the balance may deteriorate by 0.3pp in 2015. The structural government balance deteriorates from -0.5% of GDP in 2014 to -1.2% of GDP in 2015, or 0.7pp. This means that the deterioration is 0.4pp higher than the permitted 0.3pp for 2015. The cumulative deviation for 2015 and 2016 therefore amounts to 0.3pp (0.4pp for 2015 and -0.1pp for 2016). That is not a significant deviation.

Aside from the structural government balance the expenditure benchmark is the other important criterion in the preventive arm. The permitted expenditure growth for the Netherlands is forecast at 1.4% in 2015 and 1.2% in 2016. On the basis of current views the Netherlands complies with the expenditure benchmark in both 2015 and 2016. Finally, the Netherlands also complies with the requirements of the transition period for the debt rule which is applicable for Member States who have recently been discharged from the excessive deficit procedure.

⁴ See table on page 14 of the Assessment by the European Commission of the Stability Programme 2015 for an example of the application of freezing.

(http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2015/19_nl_scp_en.pdf)

⁵ A deviation to the requirements in the preventive arm is considered significant if it is higher than 0.5% of GDP in a year, or cumulatively in two years.

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

	ESA Code	2015 % of GDP	2016 % of GDP
Net lending (+) / net borrowing (-) by subsector			
1. General government	S.13	-2.2	-1.5
1.a. Central government	S.1311	-1.8	-1.6
1.b. State government	S.1312		
1.c. Local government	S.1313	-0.3	-0.3
1.d. Social security funds	S.1314	-0.1	0.4
2. Interest expenditure	D.41	1.3	1.2
3. Primary balance		-0.9	-0.3
4. One-off and other temporary measures		-	-
5. Real GDP growth (%) (= item 1 in table 1.a)		2.0	2.4
6. Potential GDP growth (%) (= item 2 in table 1.a)		0.9	1.0
contributions:			
- labour		0.2	0.2
- capital		0.4	0.5
- total factor productivity		0.3	0.3
7. Output gap (% of potential GDP)		-1.6	-0.2
8. Cyclical budgetary component (% of the potential GDP)		-1.0	-0.2
9. Cyclically-adjusted balance (item 1 - item 8) (% of the potential GDP)		-1.2	-1.3
10. Cyclically-adjusted primary balance (item 9 + item 6) (% of the potential GDP)		0.1	-0.1
11. Structural balance (item 9 - item 4) (% of the potential GDP)		-1.2	-1.3

General government debt

In 2016 the general government debt will decrease to 66.2 percent of GDP from a level of 67.2 percent of GDP at the end of the current year.

Table 2.2

General government debt end 2015	67.2%
Denominator effect	-2.2%
EMU deficit 2016	1.5%
Correction for change in cash-accrual corrections	0.2%
Treasury banking	-0.2%
Interest revenues from derivatives	-0.2%
Net government participations	0.0%
Repayment ABN AMRO	-0.1%
Student loans	0.2%
Various loans	0.0%
Other financial transactions	-0.1%
General government debt end 2016	66.2%

The denominator effect decreases the general government debt in 2016 by 2.2%. The government deficit, in principle, results in a rise by 1.5% of GDP. Due to the fact that a portion of the budget deficit comprises cash-transaction differences, a correction for these is needed. Treasury-banking by local and regional governments will also reduce the general government debt in 2016. In addition, the interest revenues from derivatives increase. These revenues don't count toward the general government balance, but they do reduce the debt. The repayment by ABN AMRO of the capital support from the government results in a lower debt. However, increases in loans, particularly student loans, has a debt-increasing effect. The item "Other financial transactions" contains several smaller items which, on balance, have a debt-reducing effect.

Table 2.b. General government debt developments

		2015	2016
	ESA Code	% of GDP	% of GDP
1. Gross debt		67.2	66.2
2. Change in gross debt ratio		-0.7	-1.0
Contributions to changes in gross debt			
3. Primary balance (= item 3 in Table 2.a)		-0.9	-0.3
4. Interest expenditure (= item 2 in Table 2.a)	D.41	1.3	1.2
5. Stock-flow adjustment		-2.9	-2.4
<i>of which:</i>			
- Differences between cash and accruals		-0.1	0.1
- Net accumulation of financial assets		-1.0	-0.3
<i>of which:</i>			
- privatisation proceeds		0	0
- valuation effects and other		-1.8	-2.2
p.m.: Implicit interest rate on debt		1.9	1.8
Other relevant variables			
6. Liquid financial assets		0.3	0.3
7. Net financial debt (= item 1 - item 6)		66.9	66.0
8. Debt amortization (existing bonds) since the end of the previous year		5.8	4.3
9. Percentage of debt denominated in foreign currency		3.2	
10. Average maturity		7.6	

In recent years the sustainability of the Dutch government finances has improved significantly. The CPB's⁶ sustainability indicator reflects how public expenditure and revenues develop until 2060, taking index-linked public provisions into account. In other words: can future generations benefit from the same level of public provisions as at present under the same effective tax rates? From this yardstick it appeared that even before the crisis, some existing institutions were unsustainable in the long-term without government interventions. As a result of the crisis, sustainability has deteriorated further. The government has since taken various measures, the most notable of which are the increased statutory retirement age and constraining cost increases in the healthcare sector. The measures taken have resulted in a sustainability indicator that is now a positive number: the most recent calculations show a positive balance of 0.4% of GDP. The government is and remains committed to the sustainability of government finances through a combination of measures which enhance economic growth and by way of prudent budget policy.

Guarantees

A guarantee is a commitment by the State to pick up the costs incurred by a third party when a certain risk is materialised. This means that guarantees, or phrased in a broader term, contingent liabilities⁷, are a risk for public finances. It is for this reason that government tightened the policy concerning contingent liabilities two years ago. The already existing "*no, unless*" policy was improved to take implicit risks better into account. For every decision concerning contingent liability the government explains the risks, formulates adequate control measures and involves parliament. That the tightened guarantee policy is starting to bear fruit, was an important conclusion in the State's Annual Financial Report 2014.⁸ The guarantee framework works both to prevent new risks and as a signal for existing risks. For this reason the government is pursuing the "*no, unless*" policy concerning contingent liabilities.

In 2016 the State guarantees a total amount of € 195.6 billion (27.8% of GDP). The majority of these guarantees stem from international agreements, such as the guarantees linked to the European debt crisis, regional development banks and the International Monetary Fund (IMF). The international guarantees comprise € 153 billion of the outstanding guarantees. The other € 42 billion are national guarantees.

⁶ Van Ewijk, Draper, Ter Rele and Westerhout (2006). "Ageing and the sustainability of Dutch public finances", CPB Special Publication 16.

⁷ Aside from guarantees, the term "contingent liabilities" also includes indirect guarantees and loans.

⁸ Parliamentary Papers II, 2014/2015, 34 200, no. 1.

Table 2.c Contingent liabilities

	2015	2016	2015	2016
	billion	billion	% of GDP	% of GDP
Public guarantees	194.3	195.6	28.5	27.8
<i>of which: nationally</i>	41.3	42.4	6.1	6.0
Facility for nuclear disasters (<i>WAKO</i>)	9.8	9.8	1.4	1.4
Guarantee De Nederlandsche Bank (<i>DNB</i>)	5.7	5.7	0.8	0.8
Government participations	1.0	1.0	0.1	0.1
Guarantee SNS REAAL	3.6	3.6	0.5	0.5
Guarantee for loans to SMEs (<i>BMKB</i>)	1.7	2.2	0.3	0.3
Export credit insurance (<i>EKV</i>)	13.4	13.4	2.0	1.9
Other	6.2	6.8	0.9	1.0
<i>of which: internationally</i>	153.0	153.2	22.5	21.8
Asian Infrastructure Investment Bank	0.7	0.7	0.1	0.1
European Financial Stability Facility (<i>EFSSF</i>)	49.6	49.6	7.3	7.1
European Financial Stabilisation Mechanism (<i>EFSSM</i>)	2.8	2.8	0.4	0.4
European Stability Mechanism (<i>ESM</i>)	35.4	35.4	5.2	5.0
<i>DNB - participation in IMF capital</i>	47.5	47.5	7.0	6.7
European Bank for Reconstruction and Development (<i>EBRD</i>)	0.6	0.6	0.1	0.1
European Investment Bank (<i>EIB</i>)	10.1	10.1	1.5	1.4
EU Balance-of-payments (<i>BoP</i>) support	2.4	2.4	0.3	0.3
World Bank	3.9	4.1	0.6	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 Budget Memorandum 2016.

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

General government (S.13)	ESA Code	2015	2016
		% of GDP	% of GDP
1. Total revenue at unchanged policies	TR	42.9	42.7
of which			
1.1. Taxes on production and imports	D.2	11.1	11.2
1.2. Current taxes on income, wealth, etc.	D.5	11.3	10.9
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	14.5	14.9
1.5. Property income	D.4	1.9	1.7
1.6. Other		3.8	3.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		37.0	37.1
2. Total expenditure at unchanged policies	TE	45.0	44.1
of which			
2.1. Compensation of employees	D.1	9.1	8.9
2.2. Intermediate consumption	P.2	5.7	5.6
2.3. Social payments	D.62	21.6	21.4
	D.632		
of which Unemployment benefits		2.1	1.9
2.4. Interest expenditure	D.41	1.3	1.2
2.5. Subsidies	D.3	1.2	1.2
2.6. Gross fixed capital formation	P.51	3.3	3.2
2.7. Capital transfers	D.9	0.7	1.0
2.8. Other		2.0	1.5

4. Expenditure and revenue targets. General government expenditure by function.

The tables below give a more detailed view in the projected general government expenditures and revenues in 2015 en 2016.

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

General government (S.13)	ESA Code	2015	2016
		% of GDP	% of GDP
1. Total revenue target	TR	42.9	42.7
of which			
1.1. Taxes on production and imports	D.2	11.1	11.2
1.2. Current taxes on income, wealth, etc.	D.5	11.3	10.9
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	14.5	14.9
1.5. Property income	D.4	1.9	1.7
1.6. Other		3.8	3.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		37.0	37.1
2. Total expenditure target	TE	45.0	44.1
of which			
2.1. Compensation of employees	D.1	9.1	8.9
2.2. Intermediate consumption	P.2	5.7	5.6
2.3. Social payments	D.62	21.6	21.4
	D.632		
of which Unemployment benefits		2.1	1.9
2.4. Interest expenditure (= item 6 in table 2.a)	D.41	1.3	1.2
2.5. Subsidies	D.3	1.2	1.2
2.6. Gross fixed capital formation	P.51	3.3	3.2
2.7. Capital transfers	D.9	0.7	1.0
2.8. Other		2.0	1.5

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

	ESA Code	2014	2014	2015	2016
		Level (billion)	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		1.2	0.2	0.2	0.1
2. Cyclical unemployment benefit expenditure¹		2.4	0.4	0.2	0.1
3. Effect of discretionary revenue measures		10.5	1.6	0	-0.1
4. Revenue increases mandated by law		-2.5	-0.4	-0.2	0.1

1) Unemployment Act (*WW*), self-employed assistance, implementation costs of the Unemployment Act, 60+ unemployment benefits (*IOW*), mobility bonus for older beneficiaries and the occupationally disabled, BUIG and revenue of government implementation fund (*UFO*).

Table 4.c General government expenditure by function

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

	2015		2016	
	% of GDP	% general government expenditure	% of GDP	% general government expenditure
Education	5.4	11.9	5.2	11.9
Healthcare	7.9	17.6	7.8	17.7
Employment¹	0.5	1.2	0.5	1.1

1) This item contains: Participation Budget Act and Sheltered Employment Act (*WSW*) (since 2015 via social participation fund), reintegration programmes occupationally disabled (*AO*), reintegration provisions for occupationally disabled, workforce participation 50+, sector plans, mobility bonus, training threshold, life-course transitional arrangement, career-break leave credit, contribution exemption for older employees, contribution reduction for youth, start-up deduction in case of disability, rebates for education, parental leave rebate and youth unemployment approach.

4.c.ii) Classification of functions of the government

Functions of the government	COFOG Code	2015	2016
		% of GDP	% of GDP
1. General public services	1	4.8	4.7
2. Defence	2	1.1	1.1
3. Public order and safety	3	2.0	1.9
4. Economic affairs	4	4.0	4.0
4. Environmental protection	5	1.4	1.3
6. Housing and community amenities	6	0.4	0.4
7. Health	7	7.9	7.8
8. Recreation, culture and religion	8	1.4	1.3
9. Education	9	5.4	5.2
10. Social protection	10	16.6	16.2
11. Total Expenditure (= item 2 in Table 3)	TE	45.0	44.1

5. Discretionary measures included in the draft budget.

The Netherlands is in a substantially better shape than a few years ago. Through an extensive package of consolidation measures government finances have been made sustainable again. The Netherlands has also been abrogated from the excessive deficit procedure a year ahead of the deadline. The consolidation measures were accompanied by a broad-based reform programme, geared towards enhancing economic growth and sustainable systems. For 2015 and 2016 a widespread recovery is forecast, in which all sectors of the economy contribute positively towards growth.

There are three pillars in the coalition agreement: ensuring the sustainability of government finances, sustainable economic growth and an equitable income distribution. The 2016 budget aims to distribute the positive budgetary effects of the economic growth evenly over these priorities. The government therefore commits part of the improvement in the general government balance to a specific reduction of the tax burden on labour by € 5 billion in structural terms. If the government had taken no further measures, then the net developments of balance and debt would have been more positive. By contrast, developments in purchasing power for next year would have been negative, partly as a result of previously planned increases in the tax burden. This would entail risks for the economy, particularly in consumer confidence. Since the government is committed to a balanced income distribution, purchasing power of benefit recipients and retirees will be repaired.

The € 5 billion package structurally reduces the tax wedge on labour which, in an international perspective, is on the high side. This is in line with recommendations from the European Commission and the Organisation for Economic Cooperation and Development (OECD). Lowering the tax wedge on labour improves the functioning of the labour market in the long-term and leads to more employment. The CPB estimates its impact at 35,000 jobs. On the expenditures side the budget contains a few discretionary measures geared towards various societal priorities. The following clarifies the new measures.

In summarising, the government sees the € 5 billion package as a balanced compromise between several priorities, including public finances. With this package of measures the government remains within the scope offered by the European rules. The actual deficit, moreover, is developing more positively than was expected at the time of drawing up the Coalition Agreement.

Revenues side:

Reduction of the tax burden on labour. The government structurally reduces the tax burden on labour by € 5 billion. This tax burden reduction comprises the following parts:

- An intensification of the employed person's tax credit for earnings up to about € 50,000 to a maximum of € 638 (total budgetary costs: € 2.6 billion).
- A reduction of the tax rates in the second and third tax bracket by approximately 1.85pp (budgetary costs: € 2.6 billion).
- A raising of the starting point of the top rate (budgetary costs: € 0.8 billion). Hence, at a higher income people will pay the tax rate of 52%. This brings the starting point of the top rate more in line with what is common in other countries.
- An incentive in the income-related combination tax credit (*IACK*) of € 0.3 billion and an increase of the child care benefit of also € 0.3 billion to encourage workforce participation of working parents with young children.
- A low-income benefit (*LIV*) to make it more attractive for employers to employ people with low incomes (budgetary costs: € 0.5 billion).
- Co-financing of these measures by a full phasing out of the general tax credit (revenue of € 2.1 billion).

Purchasing power package. The government is repairing the purchasing power of those who are not economically active with a package of measures. Coverage was found for this within the existing budgetary framework. The measures are reflected below.

Measures:

- No cut-backs in 2016 on the rent benefit (€ 214 million).
- A one-off extension of the temporary increase of the healthcare benefit (€ 252 million).
- A one-off increase of the supplementary child benefit for the second child (€ 16 million).
- A one-off increase of the tax credit for the elderly (€ 395 million).

Financing:

- Freefall from the low-income benefit (LIV) as a result of introduction in 2017 instead of 2016 (€ 500 million).
- Postponement of a small portion of the increased employed person's tax credit (€ 67 million).
- Postponement of a small portion of the decreased tax rates (€ 80 million).
- A one-off coverage within the expenditure framework (€ 230 million).

Expenditures side:

- *Defence.* The government invests in enhancing the basic preparedness and deployability of the armed forces. There will be additional investments in equipment for resources and international collaboration will be expanded further. For these priorities the government structurally raises expenditure by a total of € 345 million.
- *Missions.* The expenditures on crisis management operations will structurally be increased by € 60 million.
- *Security.* The government has decided to substantially improve the domestic security on several aspects. It concerns a package totalling € 129 million structurally, to be realised by increasing expenditure incrementally as from 2015.
- *Quality of life in nursing homes.* The quality of life for people in nursing homes will be improved. A total of € 210 million is structurally made available for this.
- *Child care facilities for all toddlers and paternity leave.* Municipalities will be given more scope to offer the possibility of child care facilities to all toddlers in the Netherlands. In addition, paternity leave for partners is being extended from two to five days. There is a total of € 135 million structurally available for these priorities.
- *Terms of employment (CLAs).* The government has concluded a wage agreement for the public sector, which includes civil servants, the police, teachers and the armed forces. The government proposes to make additional resources available for this.
- *Immigration.* In order to provide refugees with shelter in the first safe country, the government proposes to make € 110 million available for refugee camps in the Middle East region in 2015.

Table 5.a Discretionary measures taken by the General Government

	2015	2016	2017
	in billion Euro - increases the general government balance + deteriorates the general government balance		
Expenditure			
Expenditure ceiling at DBP 2015	-0.9	-0.5	-0.7
Macroeconomic changes	0.2	1.5	1.0
Budget implementation changes	-0.7	-0.8	-0.9
Policy amendments	1.4	-0.2	0.5
of which			
Defence	0.0	0.2	0.2
Missions	0.0	0.1	0.1
Security	0.0	0.1	0.1
Nursing homes	0.0	0.2	0.2
Child care and maternity leave	0.0	0.0	0.1
Terms of employment (CLAs)	0.0	0.4	0.4
Immigration	0.1	0.0	0.0
Other	1.2	-1.1	-0.5
Expenditure ceiling at DBP 2016	0.0	0.0	0.0
Revenue			
€ 5 billion package of measures			
Income-related combination tax credit (IACK)		0.3	0.3
Employee tax credit		2.6	2.6
Tax rate second and third tax bracket		2.6	2.6
Raising of third tax bracket		0.8	0.8
Low-income benefit		0.0	0.5
General tax credit		-2.1	-2.1
Tax measures for improving purchasing power			
Provisionally increasing care allowance		0.3	0.0
Increasing tax credit for the elderly		0.4	0.0
Reducing employee tax credit		-0.1	0.0
Increasing second and third tax bracket		-0.1	0.0

6. Possible links between the draft budgetary plan and the targets set by the Union's Strategy for growth and employment and country-specific recommendations.

Table 6.a Country-specific recommendations (CSRs)

CSR number	Measures (actual progress/new in respect of NRP 2015)	Description of direct relevance
<p>1. <i>Shifting public expenditure to supporting investments in R&D and working on limiting conditions for improving private individual R&D expenditures, in order to curb the downward trend in public R&D expenditures and to increase the potential for economic growth.</i></p>	<ul style="list-style-type: none"> • For investments in new and existing research facilities the Future Fund Credit Research Facilities Regulation provides for € 40 million in the form of a credit. • The Research & Development Allowance (RDA) will be merged with the R&D tax rebate (WBSO) into a regulation that is settled via the wage tax and social security contributions. In this way the government has created a more effective regulation and simplified the application procedure for companies. While drafting this regulation account was kept of the financial disadvantage that companies may possibly experience due to the consolidation. The budget will therefore be increased by € 85 million as from 2016. Over and above that, an extra € 100 million will be available for the regulation in 2016, and € 115 million as from 2017. • As from 2015, € 50 million has structurally been made available for stimulating European research among the publicly financed knowledge institutions of the Netherlands. These institutions receive an allowance on the approved project subsidies granted by the European Commission for fundamental and implementation-oriented research. 	<ul style="list-style-type: none"> • The various measures enable budget to be reallocated to support investments in R&D and for tackling improvements to limiting conditions for easing private individual R&D expenditures.

	<ul style="list-style-type: none"> The target established by government at the start of the business policy is to establish public private partnership projects (PPP) for € 500 million by the end of 2015, of which 40% is realised with private funding. In 2014 the estimated total of PPP projects amounted to € 813 million, to which private parties contributed € 359 million (44%). Because the target has been realised, an increased ambition of € 800 million for PPP projects in 2020 has been set (for which a Top Consortium for Knowledge and Innovation (TKI) allowance has been requested), of which 40% is financed privately. 	
<p>2. In case of a strengthening the economic recovery, to introduce a faster reduction of the mortgage interest tax deduction in order to reduce tax incentives to invest in unproductive assets. Achieving a more market-oriented price mechanism in the rental housing market and linking monthly rent payments in the social housing sector to a greater extent to the earnings of households.</p>	<ul style="list-style-type: none"> As of 1 July 2016 the maximum loan-to-value (LTV) will be reduced further to 102%. In addition, as of 1 January 2016 the maximum mortgage interest tax deduction percentage is reduced by 0.5% to 50.5%. As of 1 October 2015 a more market-oriented rental mechanism will be realised because of a change in the housing evaluation system (WWS). With effect from 2016 the government intends to substitute the above-inflation income-dependent rent increases with a cap on total rent increases in combination with a periodic income test that allows for supplemental increase and a widening of options for temporary rental agreements. 	<ul style="list-style-type: none"> Since June 2013 there has been a recovery of the housing market. However, there is still a substantial number of underwater mortgages and potential residual debts among households. Predictability is important in order to consolidate this recovery. The phasing out of the mortgage interest tax deduction will contribute to this. It provides consumers with clarity. The change in the WWS envisages a better reflection of the desirability of the home in the highest rental. Furthermore, the proposed cap on total rent increases will give landlords more leeway to increase the rents of higher incomes on the basis of the income test. above-inflation rent increases.
<p>3. Reduce the extent of the contribution to the second pillar of the pension scheme for people in</p>	<ul style="list-style-type: none"> On 6 July 2015 the government submitted a framework memorandum to the Lower House 	

<p><i>the first years of their career.</i></p>	<p>of the Dutch Parliament. This indicated that the government aims to abolish the 'doorsneesystematiek' and to introduce a new methodology which is actuarially fair.</p> <ul style="list-style-type: none"> • The government's provisional preference - in view of the position of the elderly in the labour market - is in favour of a methodology in which all employees within a pension scheme continue to pay the same premiums, but would accrue pension entitlement which decreases with age (degressive accrual). The government will explore the possibilities for a balanced transition in consultation with social partners and the pension sector. 	
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Table 6.b Targets set by the Union's Strategy for growth and employment

National 2020 targets	Measures (actual progress/new in respect of NRP 2015)	Description of direct relevance to address the target
<p>National 2020 employment target [80%]</p>	<ul style="list-style-type: none"> • The modernisation of labour law and regulations regarding 'suitable work' entered into force as of 1 July 2015 (Work and Security Act). • Occupational Disability (Employment Targets and Quotas) Act entered into force on 1 April 2015. This Act confirms the agreement between government and employers to create a total of 125 thousand jobs for people with a disability by 2026. An interim assessment found that up to 1 January 2015 a total of 10,732 jobs were created for people in this target group. • Sector plans and transitional unemployment benefit scheme: the deadline for submission of the third tranche of sector plans was extended until 15 September 2015. The Transitional Unemployment Benefit scheme entered into force as of 1 March 2015. • Employment will be more rewarding due to a € 5 billion package of measures to ease the tax burden on labour. The package also concerns an increase of the employed person's tax credit, a reduction of the rates of the second and third tax brackets, and increases in the childcare allowance and the Income-related combination tax credit (IACK). 	<ul style="list-style-type: none"> • The total package of measures as described in the National Reform Programme (NRP) 2015 will have a permanent positive effect of 0.6% on employment.

National 2020 target R&D spending [2.5%]	<ul style="list-style-type: none"> • See CSR 1 	<ul style="list-style-type: none"> • See CSR 1
National target reduction of greenhouse gases - non-ETS sectors [-16%] - ETS sectors [not applicable]	<ul style="list-style-type: none"> • In conformity with the latest ECN and PBL points of view, the non-ETS CO₂ emission reduction target for 2020 will met easily. 	<ul style="list-style-type: none"> • This contributes to the long-term EU target in respect of a reduction of greenhouse gases by 2050 (80-95% CO₂ reduction).
National target for renewable energy [14%]	<ul style="list-style-type: none"> • The measures as agreed in the Dutch Energy Agreement have been elaborated and implemented. Progress is being monitored carefully by an independent committee. ECN and PBL report annually about the extent to which the targets are met. Between 2014 and 2020 the Netherlands will undergo substantial growth in the share of renewable energy, but ECN and PBL have estimated that the target of 14%, in present-day thinking, will not be achieved entirely by 2020. The share will possibly remain at around 13%. • On the other side, the national objective of 16% in 2023 is expected to be achieved. ECN and PBL envisage that particularly public support issues resulting in delays in the implementation could be a reason for possibly not achieving the target. 	<ul style="list-style-type: none"> • Contributes to the long-term EU objectives in respect of the reduction of greenhouse gases by 2050 (80-95% CO₂ reduction) and an improvement of the security of energy supply in the long-term.

<p>National target energy efficiency [1.5% per year]</p>	<ul style="list-style-type: none"> • The measures as agreed in the Energy Agreement have been elaborated and implemented. Progress is being monitored carefully by an independent committee. ECN and PBL report annually about the (expected) target achievement. ECN and PBL have estimated that the target under the Energy Efficiency Directive will be met easily particularly due to the implementation of the National Energy Agreement. 	<ul style="list-style-type: none"> • Contributes to the long-term EU objective in respect of reduction of greenhouse gases in 2050 (80-95% CO2 reduction) and a reduction of energy expenditure by households and businesses.
<p>National target early school-leavers [<8%]</p>	<ul style="list-style-type: none"> • The current active approach geared towards the reduction of leaving school prematurely will also continue after 2015/2016. The follow-up approach is currently being elaborated. This approach and the performance subsidy are expected to become part of the new quality agreements that have been made with the Senior Secondary Vocational Education sector, geared towards improving the quality of secondary vocational education. 	<ul style="list-style-type: none"> • The measures contribute to keeping the percentage of early school-leavers as low as possible.
<p>National target tertiary education [>40%]</p>	<ul style="list-style-type: none"> • The new student finance system was introduced for students starting in the academic year 2015-2016. 	<ul style="list-style-type: none"> • Measures to raise the quality of higher education and to guarantee accessibility, contribute towards maintaining the percentage of higher educated persons above 40%.

<p>National target social inclusion and poverty [100,000 fewer jobless households]</p>	<p>Section 4.5 of the NRP and the NSR 2015 include most policy measures, such as:</p> <ul style="list-style-type: none"> • Reforming arrangements for families with children • Structurally providing additional resources for the poverty and debt policy and a comprehensive approach to poverty and debts • Subsidy scheme for social organisations (€ 4 million in 2015). • Participation Act • Reduced contributions for benefit recipients. <p>All other measures geared towards improving labour participation are also applicable (NRP 2015 section 3.4).</p>	<ul style="list-style-type: none"> • Working will be made more financially rewarding for recipients of benefits. This will stimulate more (single) parents with young children to find work • More effective, efficient and sustainable policies aimed at combating of poverty and debt reduction at the decentralised level • Stronger cooperation between public and private organizations will result in better and more efficient reaching of target groups • Encouraging and supervising people who have some working capacity left. Employers are stimulated to employ benefit recipients. <p>In 2013 the number of persons in a household with a low work intensity in the Netherlands (0-64 years) amounted to 1,624,000. This is a slight decrease in respect of 2012 (1,635,000).</p>
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7. Comparison with the latest Stability Programme

Table 7. Divergence from latest SP

		2014	2015	2016
	ESA Code	% of GDP	% of GDP	% of GDP
<i>Target general government net lending / net borrowing</i>	B.9			
Stability Programme		-2.3	-1.8	-1.2
Draft Budgetary Plan		-2.4	-2.2	-1.5
Difference		-0.1	-0.4	-0.3
<i>General government net lending projection at unchanged policies</i>	B.9			
Stability Programme		-2.3	-1.8	-1.2
Draft Budgetary Plan		-2.4	-2.2	-1.5
Difference		-0.1	-0.4	-0.3

8. Distributional impact of the main expenditure and revenue measures

The table below shows the changes in purchasing power in 2016 for 18 typical households. These figures show the purchasing power development as a result of the average wage and price development, and as a result of generic measures such as adjustments in taxes, (medical costs) premiums, healthcare benefit, child support benefit and supplementary child benefit, which apply to everyone in the relevant group. For households with children, the calculations assume two children between the ages of 6 and 11.

Table of standardised forecast of purchasing power (forecast 2016)

	%
Economically active	
Single-income households with children	
Modal	1.8
2 x modal	0.5
Double-income households	
modal + ½ x modal with children	3.7
2 x modal + ½ x modal with children	2.2
modal + modal without children	2.8
2 x modal + modal without children	1.7
Single householder	
Minimum wage	5.3
Modal	2.8
2 x modal	1.0
Single parent	
Minimum wage	4.3
Modal	4.0
Economically inactive	
Minimum-income households	
Couple with children	0.0
Single householder	0.0
Single parent	0.0
Retirees (single)	
(Only) State pension	0.8
State pension +10,000	0.1
Retirees (couple)	
(Only) State pension	0.3
State pension +10,000	0.1

After four years of decreasing purchasing power in the period 2010–2013, purchasing power in 2016 will increase for a third consecutive year. In the forthcoming year, more than 80% of the households will see an increase in their purchasing power. The median purchasing power of all households increases by 1.4%. Economically active households equal to the median will benefit by 2.5%. This is due to the structural reduction of the tax burden on labour by € 5 billion. The € 5 billion package has particularly positive effects on the purchasing power of those who are economically active with low and middle incomes. The employed person's tax credit will be raised for earnings up to approximately € 50,000. In addition, the tax rates for earnings between about € 20,000 and € 66,000 will be decreased and the third tax bracket will be extended by € 8,000, resulting in people only paying the 52% tax rate for earnings above approximately € 66,000. This will ensure that the starting point of the top rate is more in line with what is common

in other countries. Working parents with young children will also gain in purchasing power due to an intensification of the income-dependent combination rebate and child care benefit.

The tax burden reduction for economically active workers has no negative consequence for non-economically active people. Due to measures taken previously, these groups would have lost out in any case. In order to ensure that retirees and benefit recipients also gain from the recovering economy, the purchasing power of these groups will be repaired in 2016. The tax credit for the elderly will see a one-off increase, and cut-backs on allowances will be postponed.

Annex - Methodological aspects including estimated effects and aggregated budgetary measures for economic growth underpinning the information contained in the DBP.

Table 8. Methodological aspects

Estimation technique	Use in budgetary process¹	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	Forecasts of purchasing power, employee costs, social security and personal income tax	Micro simulation model
MIMIC	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 government 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 forecasting expenditure and revenue under the no-policy change scenario
- when forecasting 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 forecasting how reforms included in the DBP address targets set by the Union's Strategy for growth and jobs and the country-specific recommendations (CSRs).