Eurogroup

Brussels, 22 November 2018
(OR. en)

EG 41/18

EUROGROUP 41
ECOFIN 1107
UEM 375

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	21 November 2018
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	C(2018) 8025 final
Subject:	COMMISSION OPINION of 21.11.2018 on the Draft Budgetary Plan of the Netherlands
Enclosed:	C(2018) 8025 final

Delegations will find attached document C(2018) 8025 final.

EUROPEAN
COMMISSION

Brussels, 21.11.2018
C(2018) 8025 final

COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of the Netherlands

{SWD(2018) 525 final}

EN EN

COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of the Netherlands

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING THE NETHERLANDS

3. On the basis of the Draft Budgetary Plan for 2019 submitted on 15 October 2018 by the Netherlands, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. The Netherlands is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with the medium-term budgetary objective of -0.5% of GDP.

5. According to the Commission 2018 autumn forecast, real GDP is expected to grow by 2.8% in 2018 and 2.4% in 2019. The macroeconomic scenario underlying the Draft Budgetary Plan, projecting similar economic growth rates, is plausible. The Netherlands complies with the requirement of Regulation EU No 473/2013, since the draft budget is based on independently produced macroeconomic forecasts.

6. The DBP expects a headline budget surplus of 0.8% of GDP in 2018 and 1.0% in 2019. The structural balance[1] of the DBP shows a deterioration from 0.7% of GDP in 2017 to 0.0% of GDP in 2018 and -0.5% in 2019. The Commission 2018 autumn forecast foresees slightly higher headline surpluses, at 1.1% of GDP in both 2018 and 2019. The difference for 2018 is related to the later cut-off date of the Comission 2018 autumn forecast and the inclusion of more recent budget execution information. The structural budget balance in the Commission 2018 autumn forecast is also slightly higher, forecast at 0.3% of GDP in 2018 and -0.3% of GDP in 2019. That difference is explained by the difference in headline surpluses, in combination with a somewhat lower estimate for the output gap, leading to a smaller cyclical correction.

7. Since 2017 the government's fiscal stance has been expansionary. That characteristic is illustrated by a substantial expected decline of the structural budget balance from a surplus of 0.7% of GDP in 2017 to a deficit of 0.3% in 2019, according to the Commission 2018 autumn forecast. Most of the discretionary policy measures relevant for 2019 were already included in the 2017 coalition agreement. In

[1] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

particular, there is a tax shift planned for 2019: labour income taxes will be lowered by 0.7% of GDP, which is partly financed by an increase in value-added -tax (VAT) via a hike of the lower rate from 6% to 9%. A newly-announced measure that restricts director major-shareholders from borrowing from their own firm without paying income taxes is expected to lead to a temporary increase in income tax revenues (the so-called *Rekening Courant Maatregel*). That measure will have an estimated revenue of EUR 1.8 billion, or 0.2% of GDP in 2019 and is considered to be a one-off. On balance, corporate income taxes will be increased in 2019. A lowering of the statutory corporate income tax rate will be more than offset by revenue increasing measures in the field of energy taxation and the implementation of the Directive (EU) 2016/1164[2]. Finally, the decision to lower the production of natural gas is considered a revenue-decreasing measure with an estimated impact of EUR 0.4 billion, circa 0.05% of GDP. With respect to the Recommendation of 13 July 2018 addressed by the Council to the Netherlands[3] to use fiscal and structural policies to raise public and private investment in research, development and innovation, the Draft Budgetary Plan highlights increased spending on education, research and innovation (EUR 1.9 billion, 0.25% of GDP), defence and security (together EUR 1.7 billion, 0.2% of GDP) and infrastructure (EUR 1 billion, 0.1% of GDP). Public sector wages are expected to grow by 2.8% in 2018 and 3.0% in 2019 based on the Commission 2018 autumn forecast.

8. According to the information provided in the Draft Budgetary Plan, the Netherlands is expected to achieve its medium-term budgetary objective of a structural deficit of 0.5% of GDP, with a recalculated structural balance of 0.0% of GDP in 2018 and -0.5% of GDP in 2019. The Commission 2018 autumn forecast broadly points to the same conclusion. Therefore, the Netherlands is assessed to be compliant with the requirements under the preventive arm of the Stability and Growth Pact.

9. Overall, the Commission is of the opinion that the Draft Budgetary Plan of the Netherlands is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2019 budget.

---

[2] Directive (EU) 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market *Official Journal of the European Union L 193/1*. EUR-Lex - 32016L1164.

[3] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of the Netherlands and delivering a Council opinion on the 2018 Stability Programme of the Netherlands, OJ C 320/18, 10.9.2018, pp. 80-83.

The Commission is also of the opinion that the Netherlands has made substantial progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and invites the authorities to complete implementation. A comprehensive description of progress made with the implementation of the CSRs will be made in the 2019 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission

CERTIFIED COPY
For the Secretary-General,

Jordi AYET PUIGARNAU
Director of the Registry
EUROPEAN COMMISSION