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Brussels, 18.11.2020
C(2020) 8515 final

COMMISSION OPINION

of 18.11.2020

on the Draft Budgetary Plan of the Netherlands

{SWD(2020) 865 final}

(Only the Dutch text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact 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 by 15 October, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In its Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.[3] As indicated in the Annual Sustainable Growth Strategy 2021[4] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[5], Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

4. On 27 May 2020, the European Commission put forward its proposal for the creation of a new recovery instrument Next Generation EU[6], alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. This proposal includes the establishment of a Recovery and Resilience Facility offering large-scale financial support for both public investments and reforms. By contributing to the economic recovery and by providing financial support to strengthen the economy's long-term

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[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

[3] https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

[4] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[5] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

[6] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe's moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020, COM(2020) 456 final.

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growth, the Recovery and Resilience Facility will help public finances to return to more favourable positions in the near term and will contribute to strengthening their sustainability in the medium and long term.

CONSIDERATIONS CONCERNING THE NETHERLANDS

5. On 14 October 2020, the Netherlands submitted its Draft Budgetary Plan for 2021. On the basis of that document, the Commission has adopted an opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

6. On 20 July 2020, the Council recommended the Netherlands[7] to take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended the Netherlands to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

   On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as the Netherland's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that, after the assessment of all relevant factors, the deficit criterion in 2020 was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken

7. According to the Commission 2020 autumn forecast, the Dutch economy is expected to contract by 5.3% in 2020 and grow by 2.2% in 2021. According to the Draft Budgetary Plan, the Dutch economy is expected to contract by 5.0% in 2020 before partially recovering by 3.5% in 2021. Economic activity is contracting in almost all areas in 2020. Household consumption, investment as well as exports are shrinking. Overall, the macroeconomic projections underpinning the 2021 Draft Budgetary Plan are in line with the Commission 2020 autumn forecast. The main differences are caused by a more negative assumption on the development of restrictive measures to contain the pandemic and the relatively strong impact of assumed changes in the EU-UK trade relations by the Commission.

   The Netherlands complies with the requirement of Regulation EU No 473/2013 since the draft budget is based on independently-produced macroeconomic forecasts. In its endorsement of the forecasts, the Council of State (Advisory Division of Raad van Staten, Independent Fiscal Institute), nevertheless flagged that a worse economic outlook should have been taken into account.

8. The Draft Budgetary Plan foresees the general government surplus of 1.7% in 2019 to turn into a deficit of 7.2% of GDP in 2020. The worse macroeconomic outlook explains about half of the downward revision, whereas additional fiscal measures adopted by the government to limit the economic effects from the lockdown and restriction measures to contain the pandemic explain the rest. The Commission 2020 autumn forecast also projects a deficit of 7.2% of GDP despite slightly worse growth projections. According to the 2021 Draft Budgetary Plan, the deficit ratio is expected

[7] Council Recommendation of 20 July 2020 on the National Reform Programme of the Netherlands and delivering a Council opinion on the 2020 Stability Programme of the Netherlands, OJ C 282, 26.8.2020, p 122.

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to narrow to 5.5% of GDP in 2021, helped by the rebound in activity. The Commission 2020 autumn forecast projects a larger headline deficit, of 5.7% of GDP. This mainly reflects the somewhat smaller economic recovery expected by the Commission, with similar cyclical sensitivity of public expenditure as in the Plan's projections. The Draft Budgetary Plan does not include any assumptions on revenue from and expenditure financed under the Recovery and Resilience Facility. For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact.[8] In the case of the Netherlands, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 603 million in 2021. On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast. The evolution of the deficit in 2021 could turn out more favourable because of the higher economic growth from the implementation of measures financed by the Recovery and Resilience Facility. As in other countries, the government has provided public guarantees to sustain economic activity and sectors particularly hit by the pandemic. Should these guarantees be called, this will be reflected in public debt and deficits in the future. After 2021, the headline deficit is expected to decrease to below 3% of GDP by 2023.

The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will increase from 59.1% at the end of 2020 to 61.1% in 2021, below the Commission's projection of 63.5%.

9. The Draft Budgetary Plan reports discretionary fiscal measures with a direct budgetary impact in 2020 of 5.8% of GDP, of which 5.1% of GDP are revenue and expenditure measures in response to the COVID-19 outbreak and its related economic effects[9]. Almost all expenditure measures relate to the COVID-19 pandemic, with a budgetary impact of 4.4% of GDP.[10] The most important measures in 2020 focus on preserving employment, supporting self-employed and compensating entrepreneurs in affected sectors. From October 2020, the support package has been adapted, with support directly linked to the incurred losses and increased conditionality. The latest support package lasts until July 2021. COVID-19 related revenue measures add up to 0.7% of GDP and include tax exemption on certain goods (VAT) and corona tax reserve measure. Another 0.6% of GDP relates to measures adopted prior to COVID-19 and in particular to a decrease in the lower income tax rate, an increase in the labour tax deductibility and a reduction in the

[8] The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). In line with the customary no policy-change assumption, the forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of the Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

[9] This does not include tax deferral since this measure has no direct impact on the budget.

[10] Non-COVID related expenditure measures add up to only 0.1% of GDP

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lower corporate tax rate. According to the Commission forecast, while all COVID-19 related measures are temporary, these last measures are assessed as not temporary.

In addition, the Netherlands announced measures that, while not having any direct impact on the deficit, provide liquidity support to businesses. Besides tax deferrals for companies and loans this also includes guarantees which the Draft Budgetary Plan estimates at 7.7% of GDP. The take-up of the guarantees as of October 2020 is estimated at 4.9% of GDP (based on Commission assessment using available public data).

The Plan presents all measures in sufficient detail, which therefore have been included in the Commission forecast. The Commission forecasts a slightly higher uptake of the support measures, but a lower uptake of subsidies because of a different classification of certain measures and a lack of explanation for the very high expectation of subsidies in the Plan.

Overall, the measures taken by the Netherlands in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

10. For 2021, the Draft Budgetary Plan reports discretionary fiscal measures with a direct budgetary impact of 1.4% of GDP. The extension of the emergency support measures as well as new measures aimed at supporting the envisaged recovery lead to an increase in expenditure of 2.1% of GDP.[11] The extension concerns the three most important 2020 emergency measures focussing on preserving employment. Additional support is foreseen for healthcare, culture and education. The recovery measures include additional spending on training and retraining and supporting transition to other work, the establishment of a national scale-up facility, and support to start-ups and scale-ups. Private investment, especially housing construction, is supported and public investment projects are brought forward. A National Growth Fund is set up for public investments in the earning capacity of the economy in the areas of infrastructure, research and innovation and skills (EUR 20 billion over the next five years, 2.5% of GDP). Revenue measures imply a (positive) budgetary impact of 0.7% of GDP and include a permanent reduction of the lower income tax rate, an increase in the labour tax deductibility, a reduction in the lower corporate tax rate, the increase in the stamp duty on company buildings and an increase in health care premium.

Liquidity measures, namely in the form of guarantees on loans, continue to play an important role, preventing liquidity shortages from threatening business solvency. According to the Commission forecast, almost all measures are temporary, with only 0.1% of GDP revenue measures that appear not to be temporary or matched by offsetting measures. These relate to measures adopted prior to COVID-19 and in particular to lowering of labour taxes. All the measures are presented in sufficient detail in the Plan and the 2021 Budget Memorandum[12] and thus included in the Commission forecast, with no difference in their assessment.

11. The Commission is of the opinion that the Draft Budgetary Plan of the Netherlands is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures in the Draft Budgetary Plan are supporting economic activity against the background of considerable uncertainty. The Netherlands is invited to

[11] COVID-19 related expenditure measures add up to 1.5% of GDP in 2021.

[12] Tweede Kamer der Staten-Generaal, Miljoenennota 2021, year 2020–2021, 35 570, nr. 1

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regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

It is anticipated that the Netherlands will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Done at Brussels, 18.11.2020

For the Commission
Paolo GENTILONI
Member of the Commission

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