



CPB Netherlands Bureau for Economic
Policy Analysis

CPB's role in the Dutch medium-term budgetary framework

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Parliamentary budget officials &
independent fiscal institutions

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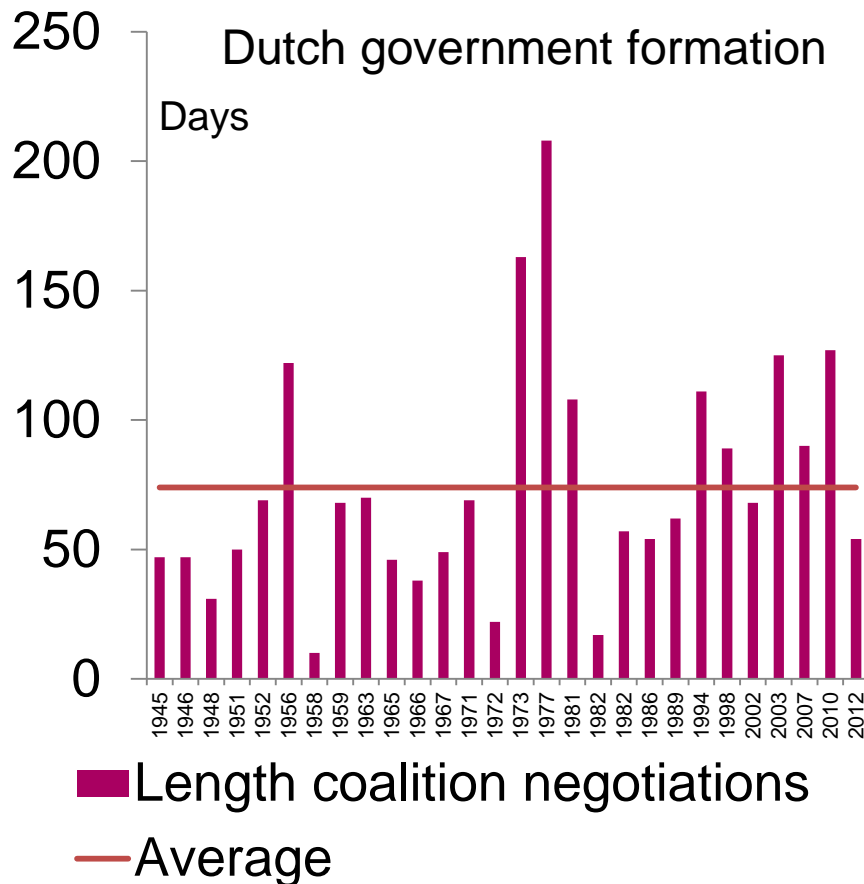
CPB Netherlands Bureau for Economic
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Content

- Decisive Coalition Agreements
- Implementing the Agreement
- Preparing the Agreement
- Problems in the recent past
- Challenges in the near future



Coalition Agreements are key in the Netherlands



- One key decision moment on budgetary policy every 4 years after the general election.
- Lengthy negotiations
- Detailed agreements
- Trend-based budgetary policy since 1994.
- In case the government or a coalition party wants a change in the Agreement it needs to provide an alternative with the same budgetary impact.



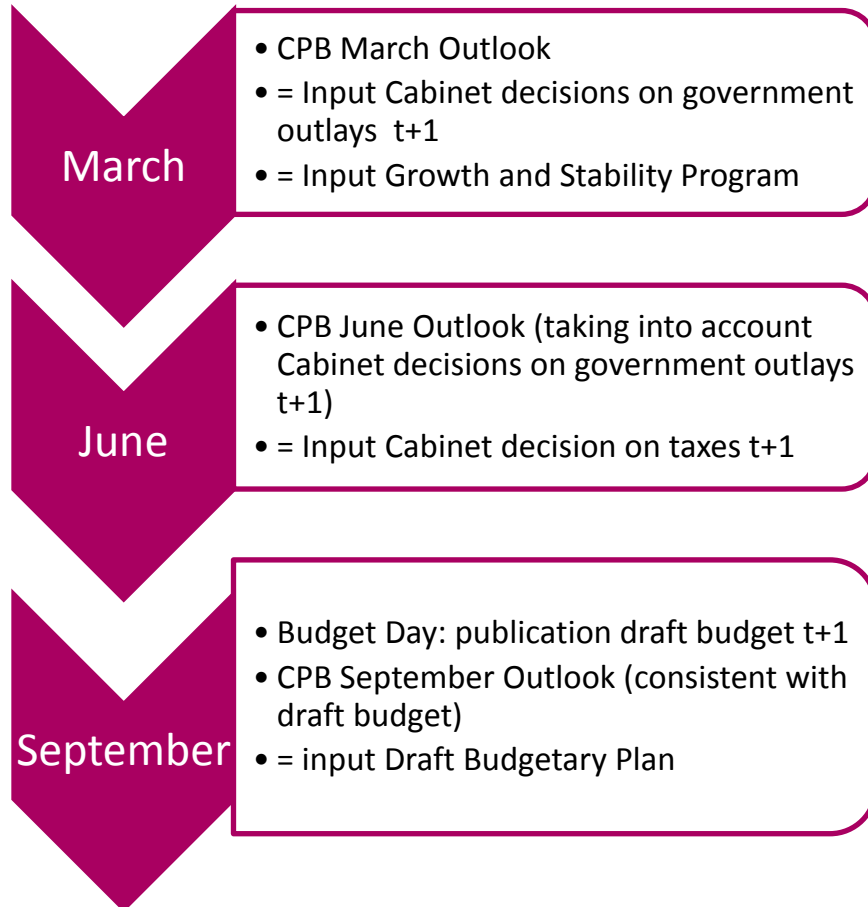
Implementing the Coalition Agreement within the fiscal framework

- Annual budgets should be in line with the Coalition Agreement
- Expenditure overruns vis-à-vis the expenditure ceilings should be offset by reductions in other expenditures.
- Tax revenue windfalls cannot be used to offset expenditure overruns.
- Automatic stabilisers can play their full role on the tax side.





CPB's role in implementing the Agreement



- Providing the official economic projection used in the budgetary process
- Providing information on expenditure overruns and discretionary tax measure overruns. (Also done by Ministry of Finance)
- No explicit assessment of budgetary policy. No surveillance by CPB.
- New: providing the Council of State information needed for its budgetary surveillance (of the European rules)



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Preparing the Agreement

Publications in series
Promising Policies (CPB,
SCP, PBL)

CPB: Medium-term
baseline
Including sustainability
analysis

SBR-Committee of high-
level civil servants
(including director CPB):
advice on deficit target
and budgetary rules



Preparing the Agreement

CPB analyses
of the election
manifestos





The coalition negotiations



- CPB will analyse the Coalition Agreement (close to the final decision by the negotiating political parties). The analysis provides information on impact on key variables (economic growth, unemployment government deficit and sustainability). The analysis is published by CPB after final decisions on the Agreement.
- CPB plays comparable role in case of an additional package.



- CPB adjusts its medium-term baseline on the basis of the Coalition Agreement.
- Coalition Agreement and CPB's adjusted medium-term baseline are integrated in new multi-annual budget by Ministry of Finance (Startnota including outlay ceilings).



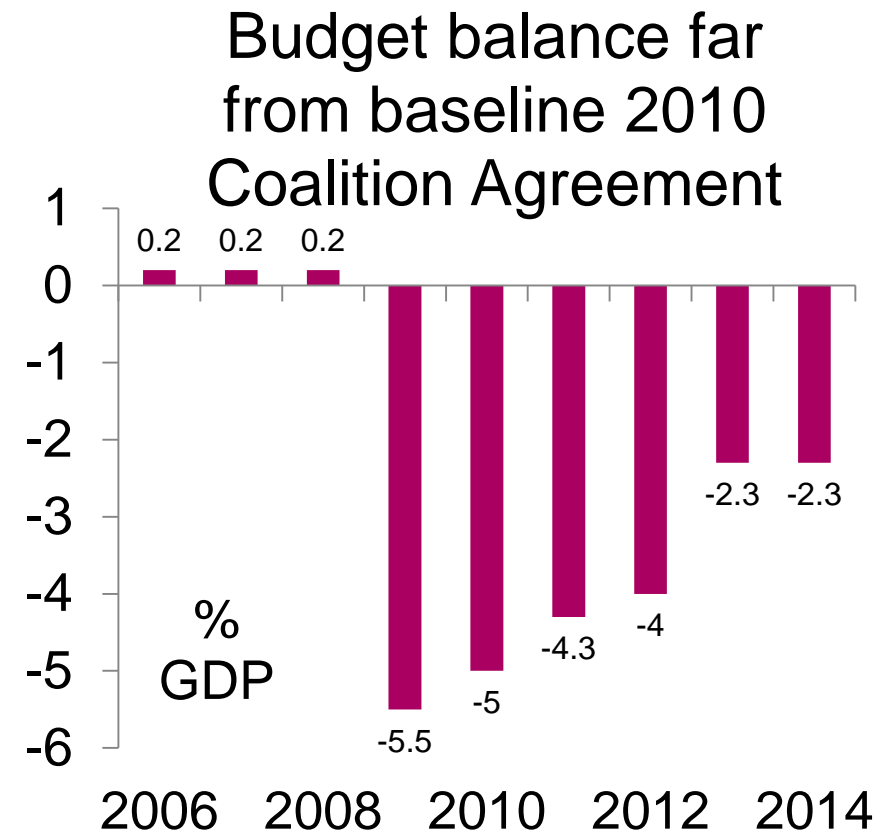
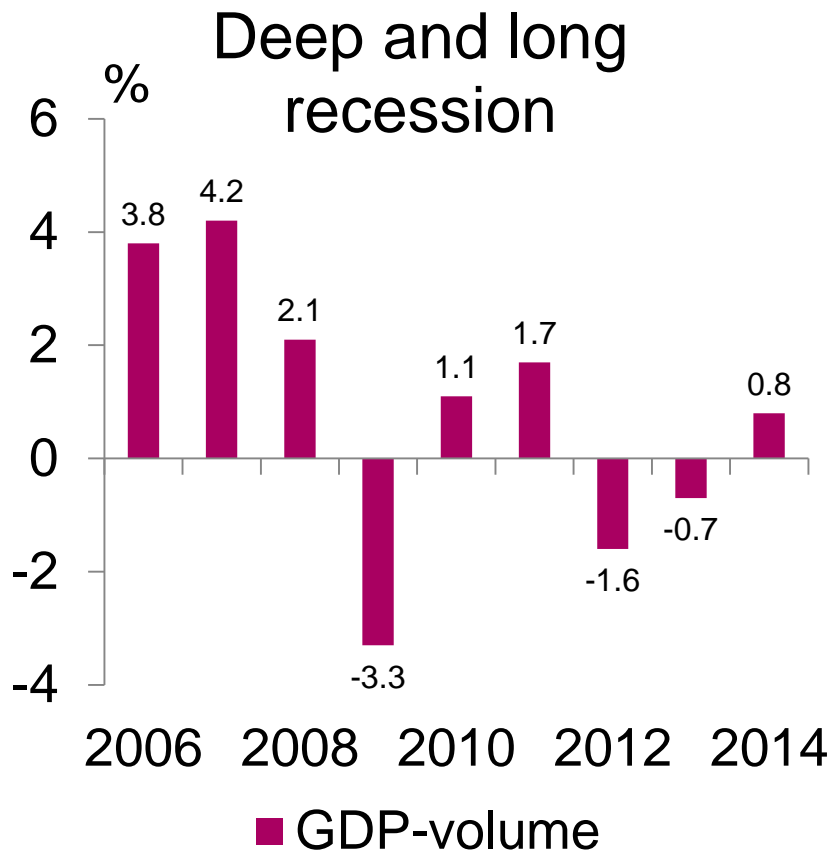
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Problems in the recent past





Problems in the recent past

- Rules (trend-based budgetary policy and Coalition Agreements) should cover 95% of all possible events.
- In 5% one should improvise.

Moreover:

The Netherlands entered the Excessive Deficit Procedure in 2009.

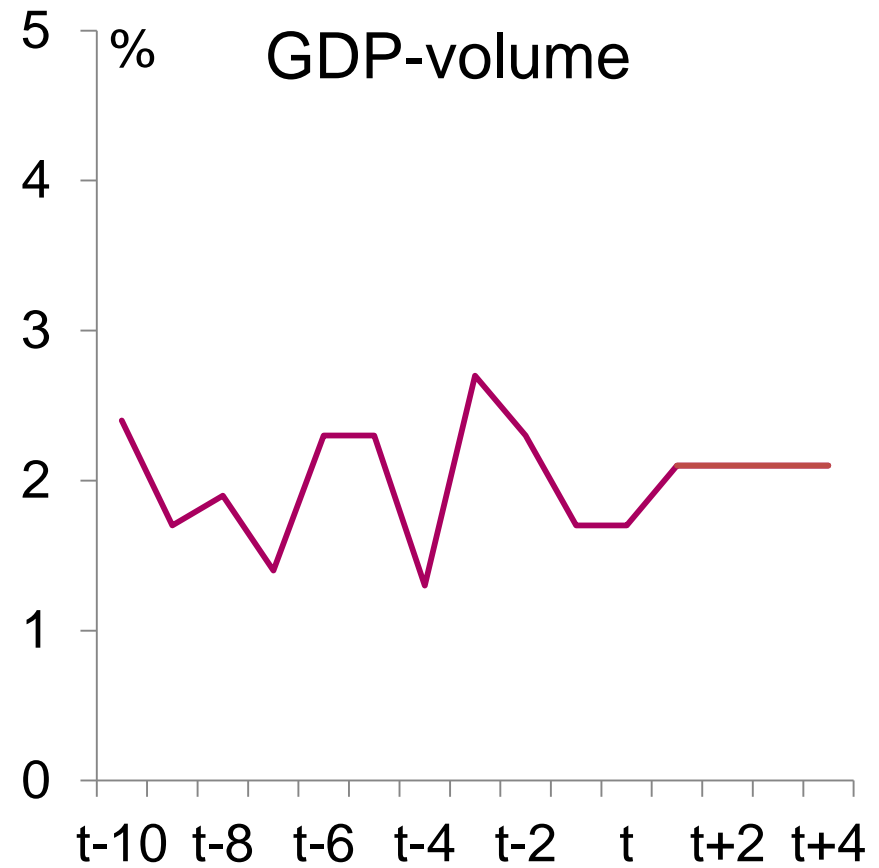
European budgetary rules were crash barriers for Dutch trend-based budgetary policy.





Challenges in the near future

- The medium-term outlook used to be rather simple:
- Projected GDP-growth = rather stable potential output growth + some supplementary growth in case of a small negative output gap in the starting year.

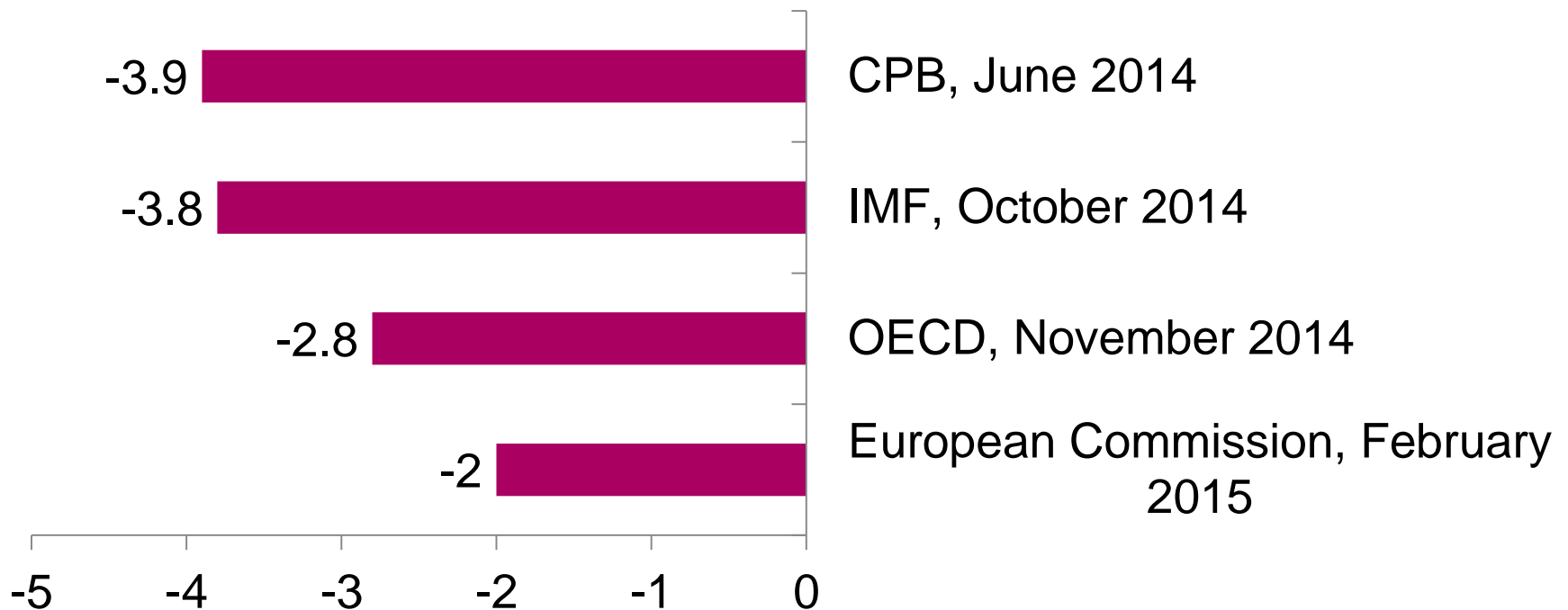




Challenges in the near future

- More uncertainty now about the current size of the Dutch output gap.

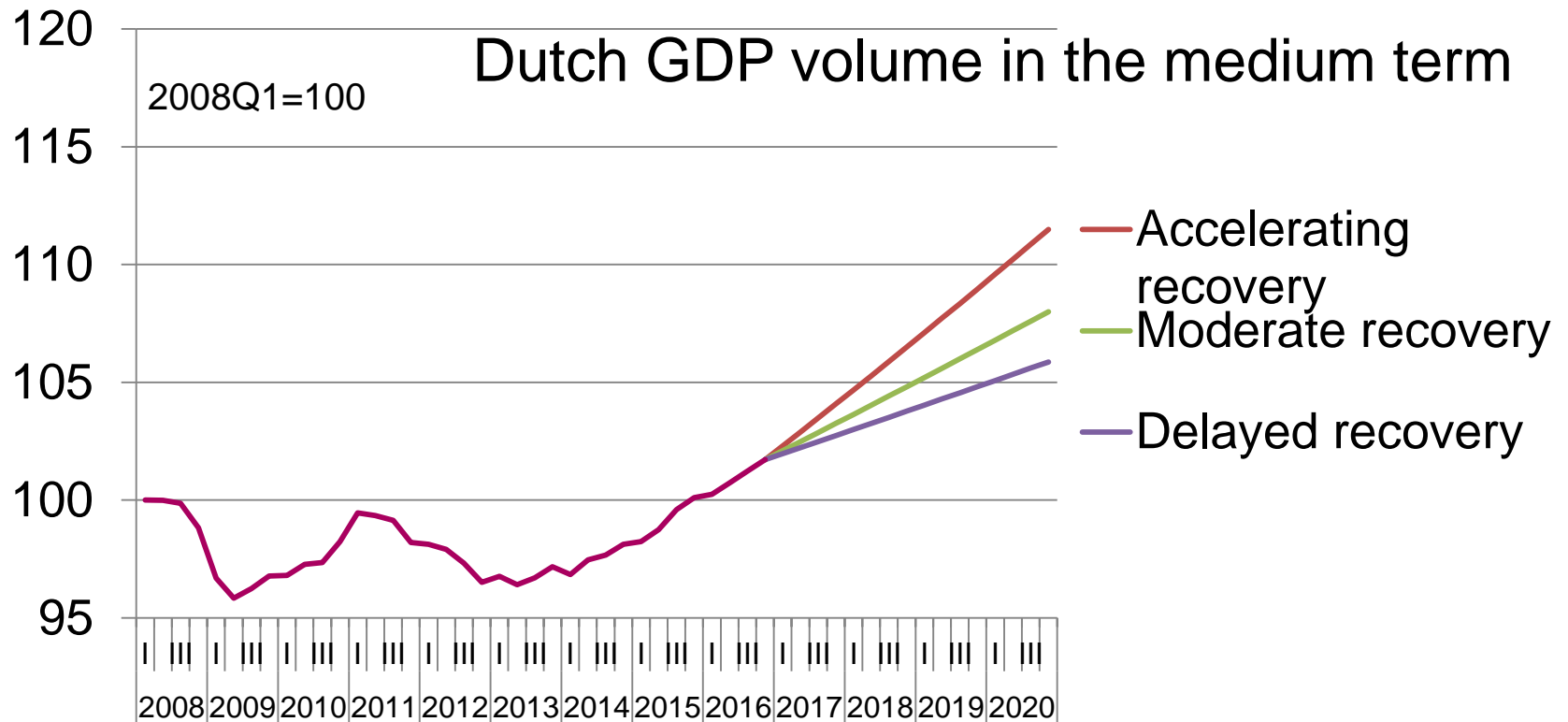
Dutch output gap in 2015





Challenges in the near future

- More uncertainty now about potential output growth in the medium term. This and gap uncertainty results in uncertainty about growth





Challenges in the near future

Moreover:

- More uncertainty about inflation in the medium term: when will inflation be in line with the ECB target of inflation close but below 2%) [However, in the Dutch budgetary framework overall inflation is not extremely sensitive as the effects on revenues and outlays are more or less the same. But relative wages are highly relevant in case of real outlay ceilings]
- How long will interest rates (and thus interest payments) stay very low?



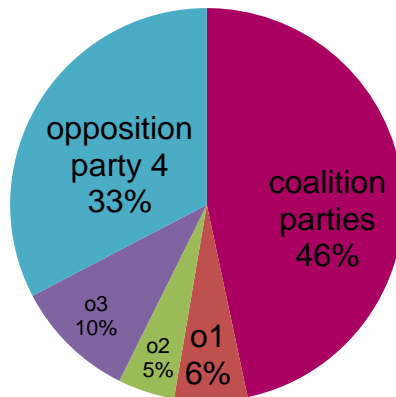
Challenges in the near future

- Will a detailed Coalition Agreement for four years be feasible in case of a minority government (without stable partners in opposition)?

Perhaps frictions between:

- a national trend-based budgetary policy with a focus on the whole period in office
- European fiscal policy rules with an annual focus

?



FRICTION



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Thanks for your
attention