Lessons from the Netherlands

by

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Outline

- CPB forecasting practice
  - medium term
election platforms, coalition agreement
  - short term
annual budget cycle

- Position of CPB
  - Conditions for quality and independence

- Lessons
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Brussels, 1-2-2006

CPB forecasting practice...

DIFFICULT JOB
Medium term

- **timing: political cycle**
  - every new cabinet + mid-term?

- **two scenarios**
  - cautious / optimistic (about potential growth)
  - end-year cyclically neutral

- **relation with budgetary framework**
  - asymmetric loss => use cautious scenario
  - cyclical fluctuations in receipts run in govt balance

- **relation with long term**
  - analysis fiscal sustainability, other LT studies
Implementation

- cautious scenario is baseline…
  - for assessment election platforms
  - for coalition negotiations

- and benchmark
  - updated baseline + effects coalition agreement
    defines real expenditure ceilings
    in new cabinet period

- system supported by
  - advice (Study Group, Social Economic Council)
  - no formal rules
Short term

- timing: fixed schedule
  March - June - Sept - Dec
- covers current year and next year
- draft figures for March, June and Sept available to Ministries
  (and usually leaked to the press)
- draft texts for March and Sept discussed with officials and cabinet
Relation CPB - politicians

- CPB determines forecast and assesses likely effects of policy measures
- Politicians weigh the results and choose policy measures
- No formal obligation to use CPB forecast in budget
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Coalition negotiations...

NO CHEMISTRY
Position of CPB (1)

- Part of Ministry of Economic Affairs
  - Budget (11,5 mln), labour statute
  - Outside requests need Minister’s fiat
- No political interference with methods and analysis
- No paid assignments from private parties or local government
- About 15% project funding
  - Ministries
  - EU, OECD
Position of CPB (2)

- **Advice on work program from**
  - Central Planning Commission (experts from business and science)
  - Committee for Economic Affairs (top level civil servants)

- **Quality ensured by**
  - Open attitude, transparency, accountability
  - Broad scope, comprehensive knowledge base
  - Active contacts with scientific community
  - Peer evaluations, reviews, …

- Protocol contains code of conduct
Independence

- formal rules not decisive
- CPB relies largely on quality (track record, trust, public opinion)
- refrain from political statements (e.g. no unconditional advice)
- checks and balances (external scrutiny and reviews)
Lessons (1)

Independent quality forecasts

- help improve the quality of the policy debate
  - avoid political quarrels about assumptions and policy impact

- cannot remove uncertainty, but help cope with it

- lead to better policies??
Lessons from NL

Safeguards for independence

- rules are not decisive
  - institutional setup country-specific

- checks and balances
  - trust must be earned

- freedom of publication
  - visit us at www.cpb.nl
Good idea?

They easily find those 20 BLN in savings

And how about closing down the CPB?