Sound Public Finances

Experience with Fiscal Institutions in the Netherlands

Laura van Geest
Director CPB
• The CPB

• Lessons from the Netherlands
What’s the CPB?

_Netherlands Bureau for Economic Policy Analysis_
CPB is an IFI (Independent Fiscal Institute)

1. Responsible for the official Dutch short-term economic forecast
2. Preparing medium-term forecasts
3. Responsible for sustainability analysis government budget
4. Involved in financial annex of Government Agreements
5. Assessing the impact of major supplementary budget packages
6. Costing of major reforms
7. Analysis of election platforms
CPB’s role in budget cycle

March
- CPB March Outlook
  - Input Cabinet decisions on government outlays t+1
  - Input Growth and Stability Program

June
- CPB June Outlook (taking into account Cabinet decisions on government outlays t+1)
  - Input Cabinet decision on taxes t+1

September
- Budget Day: publication draft budget t+1
- CPB September Outlook (consistent with draft budget)
  - Input Draft Budgetary Plan

- 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)
Lessons from the Netherlands

• 1. Commitment
Commitment: lessons learnt

- General government gross debt
- General government financial balance
Commitment: Play by the International rules

The Netherlands,

part of Europe,

and part of the world
Lessons from the Netherlands

• 1. Commitment
• 2. Know the past
Know the Past
Know the Past

• Timely & Sound Statistics -> Independent Statistics Office

• Timely & Sound Public Finance Data -> Independent Court of Auditors
Lessons from the Netherlands

1. Commitment
2. Know the past
3. Clear eyed view of the Future
The case for independent forecasts

Mean 1-year ahead budget forecast errors (1999-2011)
Forecasts in countries with independent forecasters [UK, NL, Aus, Bel] less biased
Source: Frankel & Schreger, 2013
Lessons from the Netherlands

1. Commitment
2. Know the past
3. Clear eyed view of the Future
4. Simple Fiscal Framework
Clear Goal

- Intergenerational fairness
- Stress test
- Policy Mix
- Stability and Growth Pact
Rules: arguments for expenditure ceilings

• Expenditure rules enhance fiscal discipline:
  – Expenditures more frequently cause overruns than tax cuts
  – Volatility of government expenditure declines
  – Expenditure rules go together with stronger fiscal performance

• Other advantages:
  – It can be combined with automatic stabilization of revenues
  – Easy to communicate and easy to monitor by IFI/Media

• Expenditure rule introduced in EU-regulations
Lessons from the Netherlands

1. Commitment
2. Know the past
3. Clear eyed view of the Future
4. Simple Fiscal Framework
5. Rules of the Game
Rules of the Game

• **Concentrated Budget discussions**; budget claims are assessed at one point in time.

• **Individual budget responsibility.** Ministers must offset expenditure overruns by other expenditure reductions in their budget.

• **Overall expenditure ceiling** overcomes non intervention ministers
Lessons from the Netherlands

1. Commitment
2. Know the past
3. Clear eyed view of the Future
4. Simple Fiscal Framework
5. Rules of the Game
6. Evidence Based Policy
Expenditure reviews, CBA, Evaluations
Lessons from the Netherlands

1. Commitment
2. Know the past
3. Clear eyed view of the Future
4. Simple Fiscal Framework
5. Rules of the Game
6. Evidence Based Policy
7. Commitment in Practice
Coalition Agreements are key in the Netherlands

- One key decision moment on budgetary policy every 4 years after the general elections
- Lengthy negotiations
- Detailed agreements
- Extensive financial annex (30 pages)
- Trend-based budgetary policy since 1994.
CPB: Fiscal Watchdog
The Results: EMU Balance and Debt

- General government financial balance
- General government gross debt
Take away

• Independent Institutions help (statistics, auditors, forecasters)

• Proper Analysis (expenditure reviews, CBA, evaluations) helps

• Fiscal Framework: keep it simple

• Expenditure ceilings are effective

• Rules of the Game help to deliver

• Commitment, Commitment, Commitment