Summary of the 2015 Budget Memorandum

Despite sustained signs of recovery, the impact of the crisis will continue to be felt in 2015.

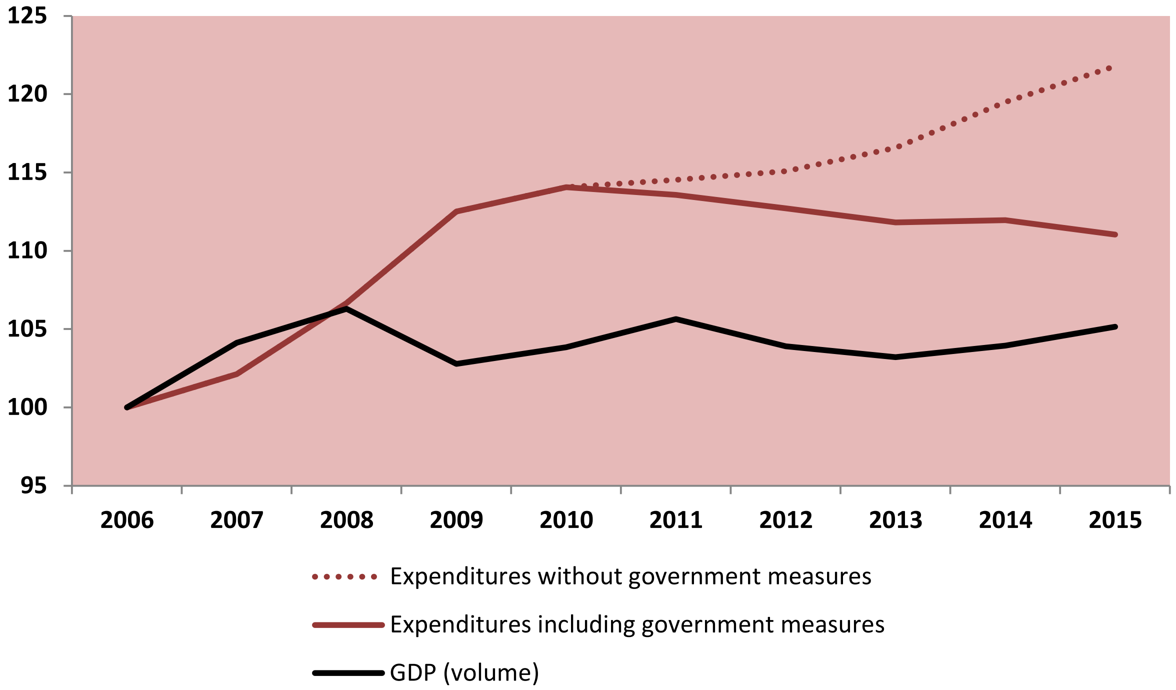
The Dutch economy is slowly emerging from recession. Exports, corporate investments and consumption are stronger than in recent years and the housing market is recovering. The recovery, however, is fragile and we still have a long way to go. Many people are still looking for jobs. The persistent high level of unemployment has the government's full attention. The improved economic outlook presented in the 2015 Budget Memorandum is also reflected in the budget.

Earlier government interventions have helped reduce the budget deficit and improve public finances. The 2015 EMU balance is projected at -2.2%, comfortably below the European deficit limit of 3%. Nevertheless, we will spend €14.6 billion more than we receive in revenue next year. Our ambition for the longer term remains a balanced budget. Even though the government has significantly curbed the increase in spending in recent years, public expenditure in real terms is still about 10% higher than before the crisis, yet our gross domestic product (GDP) is on balance unchanged.

EMU balance and EMU debt

	2008	2009	2010	2011	2012	2013	2014	2015
EMU balance								
- as a % of GDP	0.2	-5.5	-5.0	-4.3	-4.0	-2.3	-2.9	-2.2
- in billions of euros	1.2	-33.7	-31.9	-27.8	-25.3	-14.6	-19.0	-14.6
EMU debt								
- as a % of GDP	54.8	56.5	59.0	61.3	66.5	68.6	69.8	70.0
- in billions of euros	348.1	348.9	372.6	393.9	426.1	441.0	454.1	467.2

Public expenditure and GDP (index, 2006 = 100)



The 2015 budget is prudent. It offers scope to pursue the balanced development of purchasing power, measures to create jobs, and targeted expenditure in response to the international situation, such as additional structural spending on defence, the General Intelligence and Security Service, and additional expenditure on emergency aid and the reception of asylum seekers during their first year in the Netherlands.

There are still many uncertainties. Geopolitical tensions can quickly and seriously disrupt the world trade that is so important to the Netherlands. Emerging markets are in danger of overheating. Closer to home, the debts of the government, households, businesses and pension funds are serious concerns.

Public finances are now in calmer waters. Trend-based budgetary policy allows the government to calmly pursue its chosen course. Cyclical fluctuations can be cushioned by the budget balance without the government having to make additional spending cuts. The government has made substantial reforms to strengthen the economy in recent years. The Netherlands has one of the most generous welfare states and is among the most prosperous countries in the world, but it has not been spared the consequences of the financial and economic crisis. A sweeping reform agenda has made much-needed improvements in such areas as the housing market, the labour market, pensions and the financial sector. These steps will ensure that the Netherlands comes out of the crisis stronger.

Economic growth is vital to maintain prosperity. The government has identified ways of accelerating economic growth and creating jobs. The measures it proposes are set out in a letter to Parliament on employment and growth. Short-term measures are directed at improving education, helping people find jobs and lowering labour costs. In the longer term, prosperity will be determined in part by the quality of the labour force. High standards of education and knowledge will help create opportunities for everyone. Gains can also be made on the labour market itself. Labour market participation is high in the Netherlands – including in comparison with other countries – but on average people work few hours a week. The government wants to remove obstacles to finding work and to working more hours. Spatial planning is also an economic factor. Cities are increasingly becoming the 'factories of the 21st century'. They should therefore be given the space they need.

Systems of public provision need constant maintenance. Public systems for the provision of health, education, pensions and so on must adapt to changing circumstances. Only by adapting can they survive into the future. In the coming period of cautious economic recovery, we must remove the barriers to economic growth and employment. Increasingly expensive systems of public provision are one such barrier. They weaken competitiveness and undermine solidarity. The cost of such systems must therefore be kept under control. Adapting them now will avoid the need for more rigorous change later.

A measure is effective only if it can be carried out. Since policies that cannot be put into practice are inefficient and ineffective, the practicability of policies is a key focus of the debate about the reforms. The outcome of the reforms will depend largely on who implements the measures. The government expects that the transfer to the municipalities of care tasks and the introduction of the Participation Act will improve both policy and its implementation. Problems will doubtless arise during the transitional period but in the longer term the services available will better match the needs, and the costs will be lower.

A robust budget and lower debt will enable the government to absorb shocks. The shock test in the Budget Memorandum reveals that public finances are very sensitive to economic shocks. A global crisis could increase public debt by more than 31% of GDP. A debt of that size would curtail economic growth. It therefore makes sense for the Netherlands and other EU member states to create buffers in their budgets to cushion any future economic setbacks. Structural reforms are needed to strengthen the competitiveness of the European economies and make their social provision systems sustainable for the future. Only then will governments continue to be able to absorb financial and economic shocks.

The guarantee framework is proving its worth. Not only do the deficit and the rising public debt deserve attention, so do state guarantees. State guarantees could significantly drive up the debt. What appear at first sight to be 'risk-free' guarantees could increase the public debt by 30% of GDP. The introduction of the guarantee framework has reduced the potential risk of guarantees by nearly €1 billion. Furthermore, premiums have been brought more into line with the risks the government runs on the guarantees. The premiums are being set aside in budget reserves in case anything goes wrong.

Financial risks must always be identified. Great strides have been made in many areas since the crisis broke out in 2008. The banking union to be launched this autumn will shift risks in the financial sector from taxpayers to investors. Investors reap the benefits in good times and so should bear the costs in bad times. The Dutch financial sector is now in better shape, including in an international context, and is expected to satisfy the stricter buffer requirements. Pension funds are also performing better than during the crisis. The new financial assessment framework is remedying the problems experienced by the Dutch pension system in recent years.

In brief, the 2015 Budget Memorandum shows that the Netherlands is in a better condition in structural terms but still has a lot to do to return to pre-crisis levels of employment.