CPB Netherlands Bureau for Economic Policy Analysis

Dutch long-term fiscal projections

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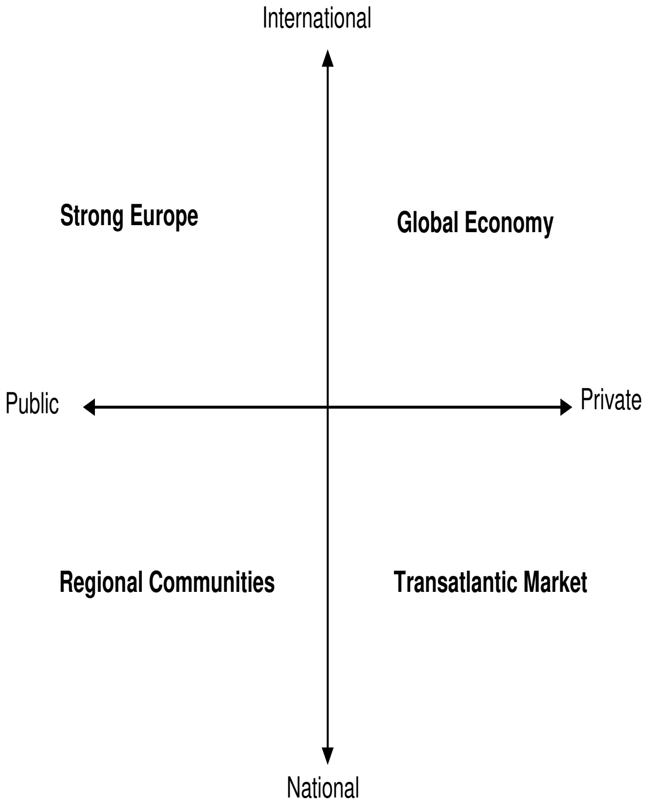
- OECD Parliamentary Budget Officials and Independent Fiscal Institutions
- Fifth Annual Meeting
- Ottawa
- 21-22 February 2013

Content

- CPB's long-term non-fiscal projections
  - To support policy makers in making strategic choices

- CPB's long-term fiscal projections
  - Focus: government budget (not GDP)

Long-term non-fiscal projections



- Since 1955, CPB conducts long-term scenarios.
- Aim: to support policymakers in making strategic choices
- Scenario approach.
- In 2004 publication 4 scenarios. Scenarios comprehensive and quantitative in detail.
- GDP per capita: 0.7 - 2.1 % p/a
- In 2010 new publication 'The Netherlands in 2040'. Focus: development cities.
- There will always be demand for this kind of long-term projections/scenarios.

Long-term fiscal projections

- Since 1997, CPB analyses sustainability of Dutch public finance.
- Calculation of sustainability gap made:
    1. Before elections (based on unchanged policy)
    2. As part of the analysis of election platforms
    3. After elections on the basis of the Coalition Agreement / Government Agreement
    4. For major policy packages (on request government)

CPB applies more or less standard approach

1. Expenditure not related to demographics (for instance defence) kept constant as a per cent of GDP.
2. Health outlays only influenced by demographics and rise in GDP (so, we do not extrapolate strong trend rise of recent past).
3. Government wages and social benefits increase in line with private wages
4. Tax rates kept unchanged (tax brackets indexed with wages).

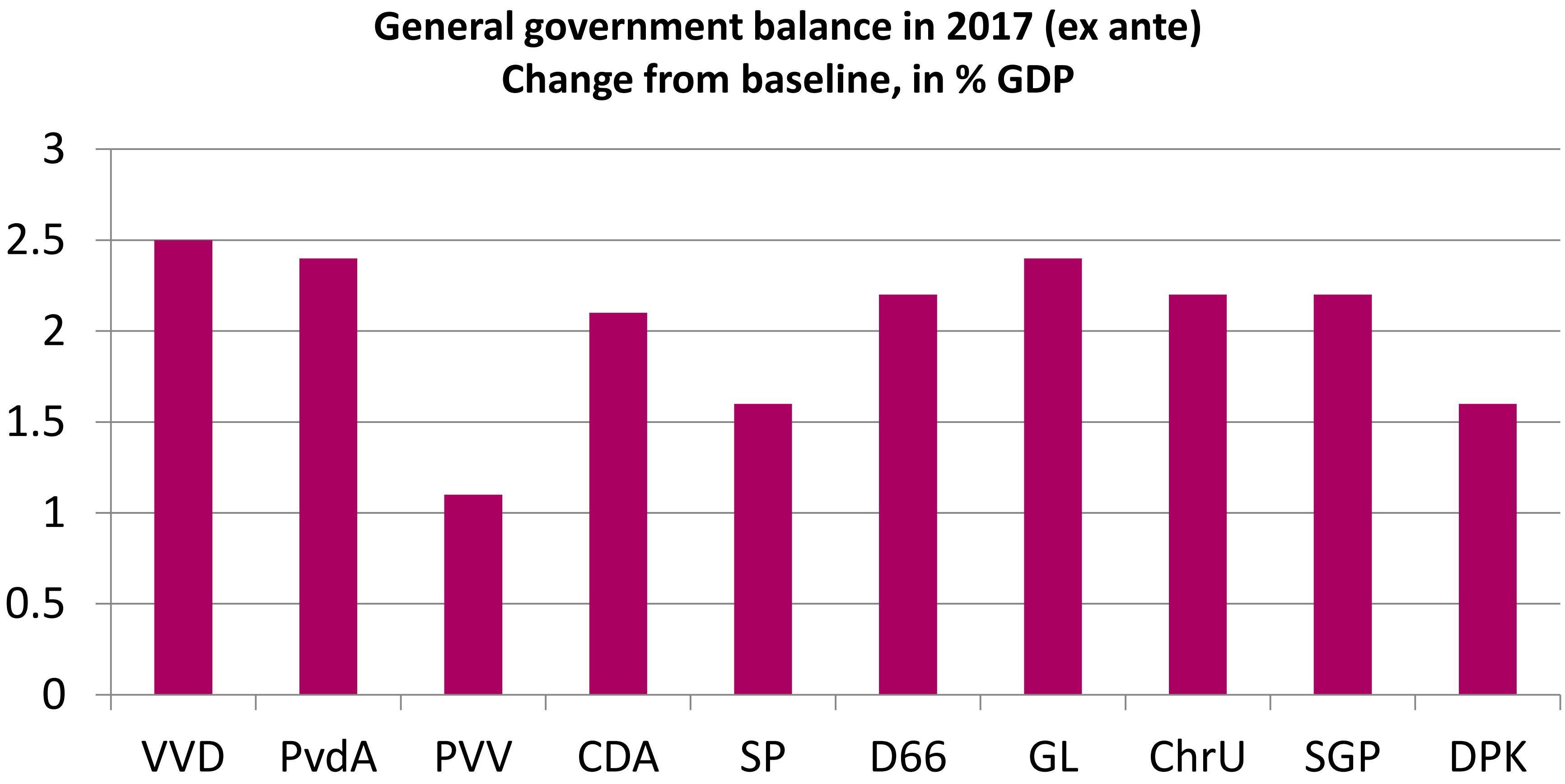
A couple of differences with standard approach

1. VAT/GDP rising; due to rising number of pensioners; rise in consumption/GDP possible due to current strong surplus current account balance of payments.
2. All announced policy measures (adopted and intended) are taken into account (European Commission only adopted measures and only retirement age and pension measures)
3. Sustainability gap is not calculated for a year in the recent past but for the end year of the (coming) government period.
   – This facilitates the integration in the medium-term budget process (but makes calculation conditional on accomplishing medium-term budgetary measures).

Relevant for the Netherlands:

- Depletion of natural gas is taken into account.

CPB's analysis of election manifestos (2012)



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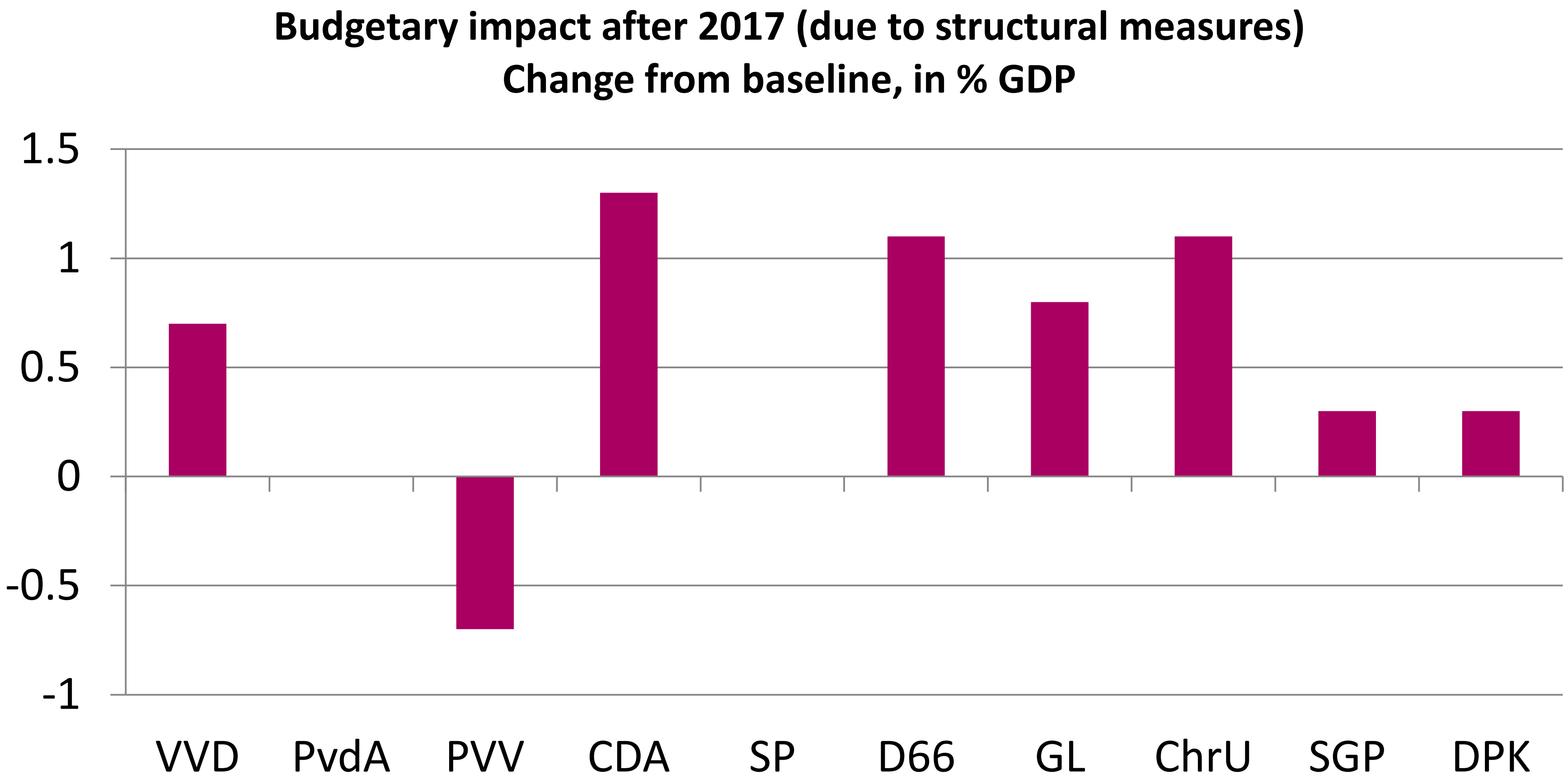

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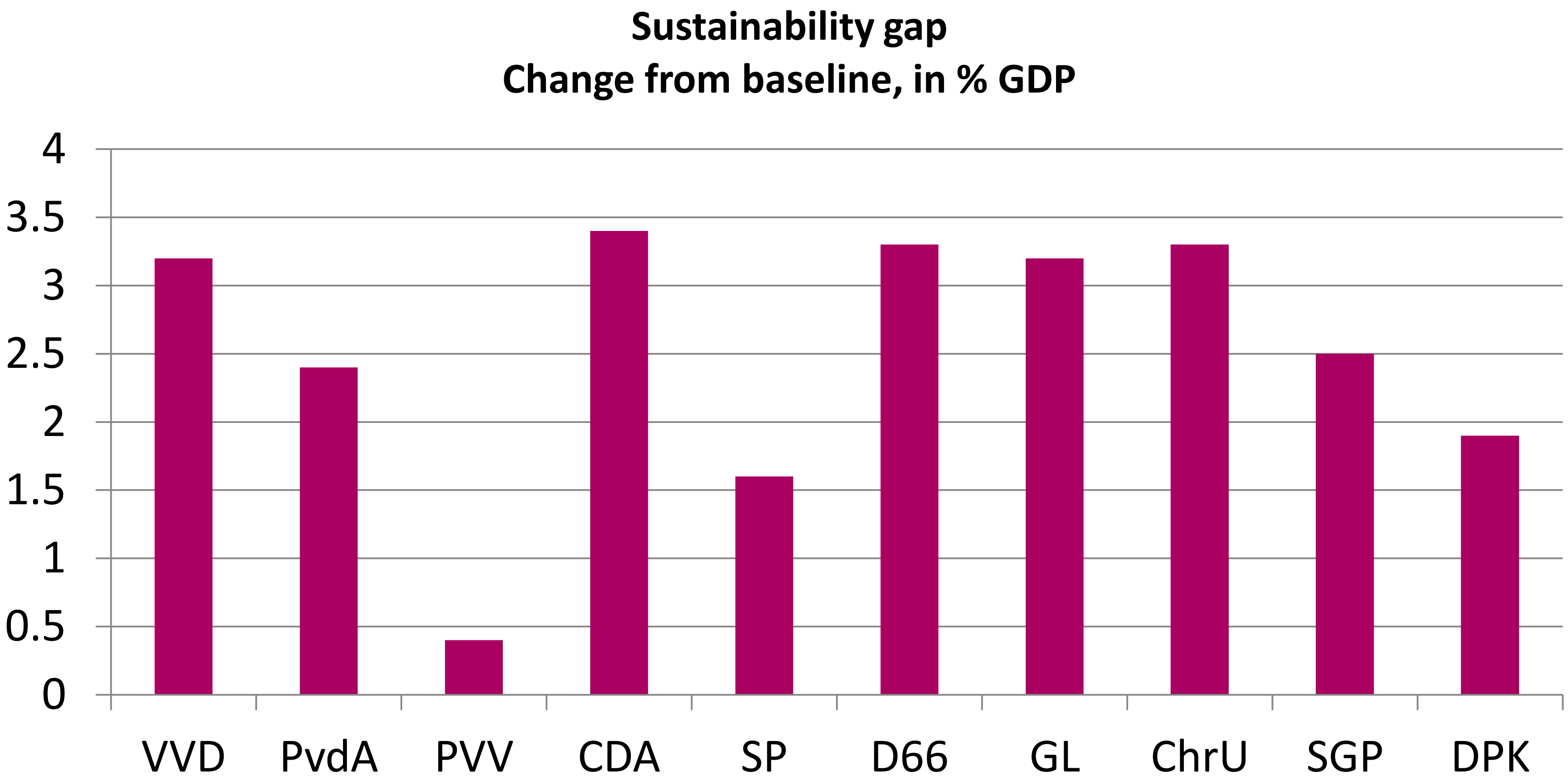


CPB's sustainability calculation has been influential

- Anchor for budgetary policy

- For instance: Government of Prime-Minister Balkenende in Coalition Agreement of 2007: target fiscal policy: to close sustainability gap in 3 government periods (12 years).

- Advantage of focus on sustainability gap: highlighting the possibility to improve government budget by structural measures.

Pros and cons sustainability analysis

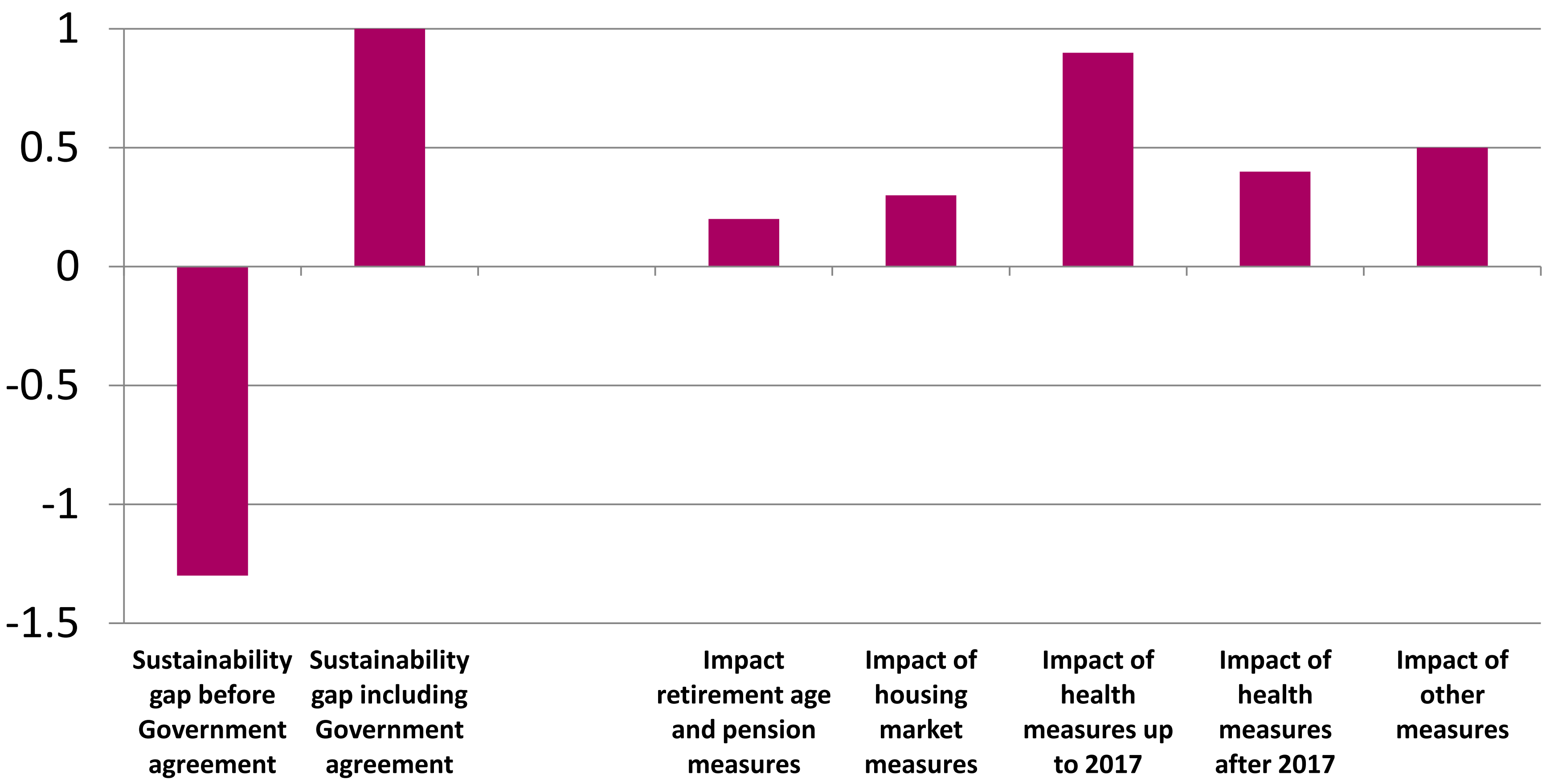
Advantages:

- Forward looking on economic developments (ageing)
- Forward looking on economic policy measures
- Makes long-term budgetary effects of structural measures visible.

Disadvantages:

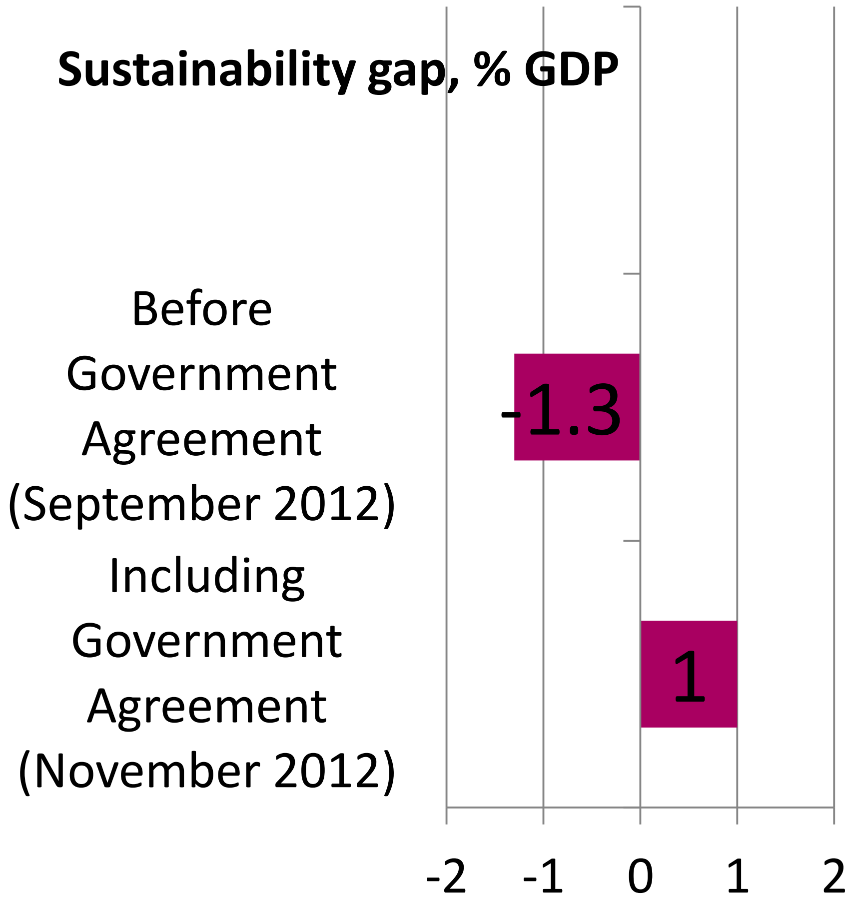
- Complex indicator (current deficit is much simpler for politicians)
- Estimate of sustainability gap influenced by uncertain medium-term outlook.
- Estimate of sustainability gap influenced by (uncertain) estimate of output gap
- Does not say anything on optimal debt level.

2012 calculation: Sustainability indicator in surplus



2012: Sustainability indicator in surplus

- For the first time!
- What does surplus mean?
  - Surplus reflects uncertainties?
  - Coalition parties expect stronger growth health outlays after 2017?
  - Sustainability indicator no longer the anchor of fiscal policy? European rules (deficit <3, struc. improvement of 0.5% p/a, debt rule) more prominent?



Thanks for your attention.