

# *The Experience of the Netherlands with Fiscal Surveillance*

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# Main actors

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- Ministry of Finance
  - Official projections and nowcast figures budgetary variables
  - Construction budget
- Central Bureau of Statistics (CBS)
  - Figures of realised outcomes previous years
- CPB Netherlands Bureau of Economic Policy Analysis
- Both CBS and CPB are independent from government

# CPB Netherlands Bureau of Economic Policy

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- Official macro-economic projections (for government plans)
- Estimates public finances (benchmark for MoF estimates)
- Economic and budgetary consequences electoral plans
- Calculates effects contemplated measures during formation cabinet
- Provides medium-term scenario at start new cabinet
  - Calculation of budget margin based on unchanged policies
  - Measures required for fiscal sustainability → objective for structural balance at end cabinet period → expenditure rules; planned revenues
- Monitoring execution of fiscal policy

# The fiscal policy regimes

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- Fifties:

- Keynesian anti-cyclical policies
- Often worked out pro-cyclically

- 1958 – 1982: “Structural budgeting policy”

- Spending growth linked to rising revenues in line with structural output growth
- Matching public dissaving with private saving over medium run
- Position finance minister strengthened by making ministers collectively responsible for budget
- Regime became undermined by continuous expansion Dutch welfare state and overestimation structural growth rate economy

# The fiscal policy regimes

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- 1983 – 1993: “Headline deficit norm”
  - Targeting of *actual* balance
  - Frequent policy changes due to revisions real-time estimates of balance
- 1994 – now: “Trend-based budgeting policy”
  - Real expenditure ceilings
  - Deliberately cautious mid-term perspective
  - Strict separation spending and revenue sides of budget
  - Budget decisions at single moment in spring

# Trend-based budgeting policy

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- Helped to reduce size of public sector
- Exp. ceilings ensured implementation planned sp. cuts
- Systematic revenue windfalls from cautious budgeting
- Revenue windfalls not used for extra spending, because of separation of spending and revenues

# Trend-based budgeting policy

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- Start cabinet: CPB calculates budgetary space, based on projected medium-run growth and unchanged policies
- Govt. takes integral decisions spending, revenues and objective structural balance
- Fixes real spending to ceilings by sector
- Each year, real ceiling translated into nominal ceiling using CPB April estimate for deflator; ceiling fixed for rest of year

# Trend-based budgeting policy

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- Initially overspending in one sector could be compensated by under-spending in other sector; abolished by Balkenende-I
- Cautious budgeting came under pressure over time
  - 0.5% GDP as of 1993/1994
  - 0.25% GDP as of 2001
  - Abolished from 2007 onwards; hence, now based on neutral scenario by CPB
- Strict separation spending – revenues not always maintained
- From 2002 onwards: full operation automatic stab. on revenue side



# Forecasting performance in budgets

$$\underbrace{BAL_t^t}_{\text{Nowcast}} = \underbrace{BAL_t^{t-1}}_{\text{Plan}} + \underbrace{\left( BAL_t^t - BAL_t^{t-1} \right)}_{\text{Implementation Error}}$$

$$BAL_t^t = BAL_t^{t-1} + \left( BAL_t^t - BAL_t^{t-1} \right) =$$
$$\left[ REV_t^{t-1} + \left( REV_t^t - REV_t^{t-1} \right) \right] - \left[ EXP_t^{t-1} + \left( EXP_t^t - EXP_t^{t-1} \right) \right]$$

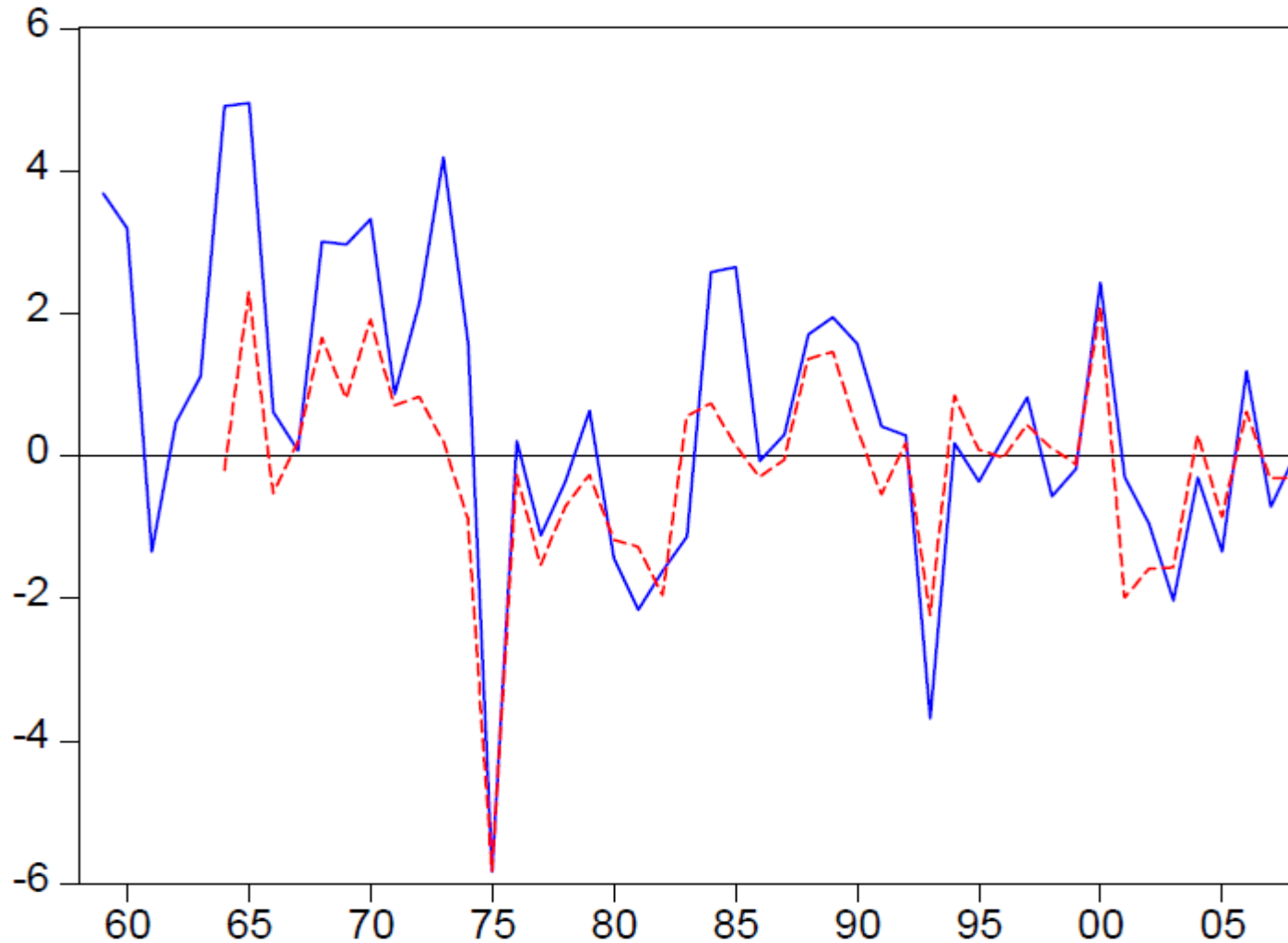
# Further decomposition implementation error

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- Base effect (BE): update previous year's position based on new info
- Growth effect (GE): arises from deviations of nominal revenue or spending growth from plan
- Denominator effect (DE): arises from projection errors in nominal output growth; Effects on revenues and spending errors essentially cancel in balance error
- Residual effect (RE): second order – neglected

# Performance growth relative to forecasts (solid is error nominal growth)

**Figure 2: Errors in nominal and real output growth**



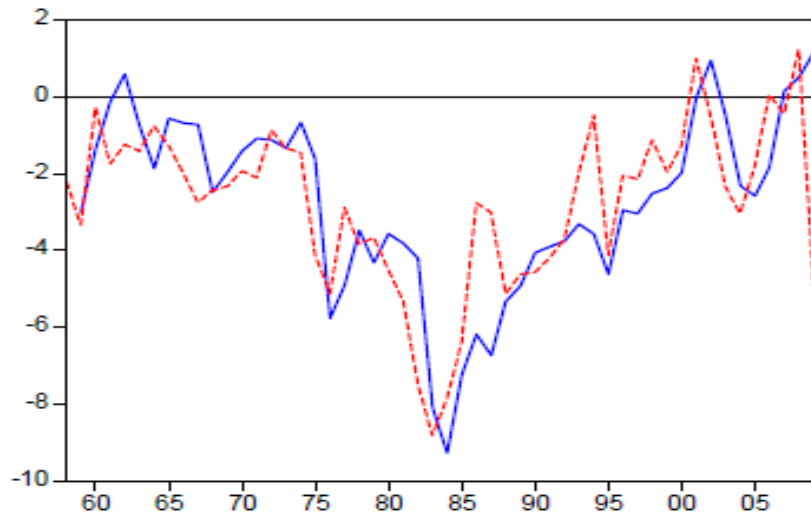
# Performance growth relative to forecasts

**Table 2: Errors in nominal and real output growth**

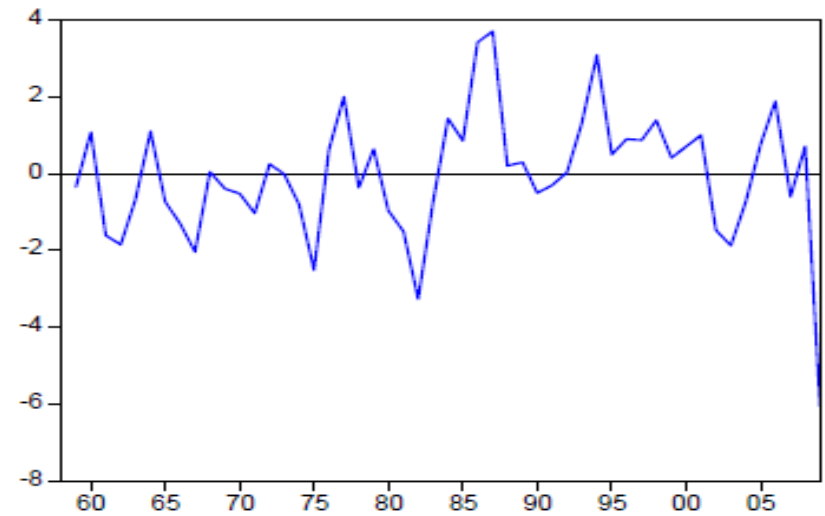
	<b>1959- 2008</b>	<b>1959- 1982</b>	<b>1983- 1993</b>	<b>1984- 2008</b>
Nominal	0.58* (0.30)	1.01* (0.52)	0.60 (0.56)	-0.12 (0.28)
Real	-0.14 (0.21)	-0.31 (0.41)	0.16 (0.30)	-0.15 (0.27)

# Budgetary performance relative to forecasts

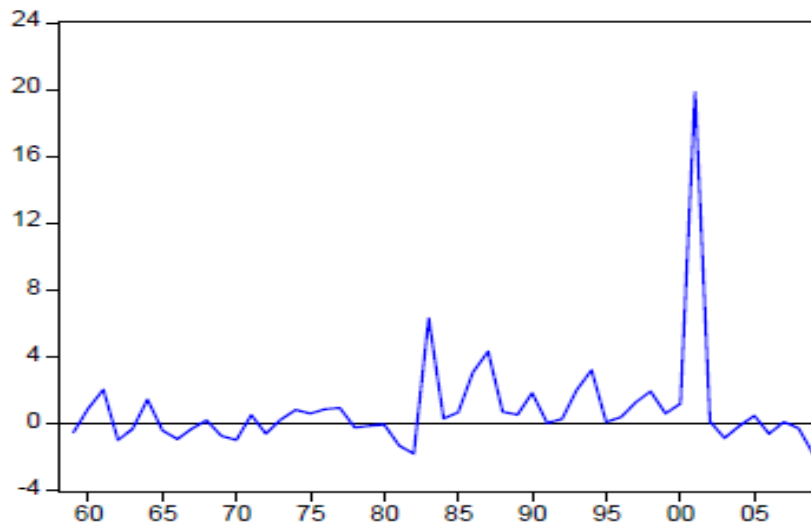
a. Forecast and nowcast of balance



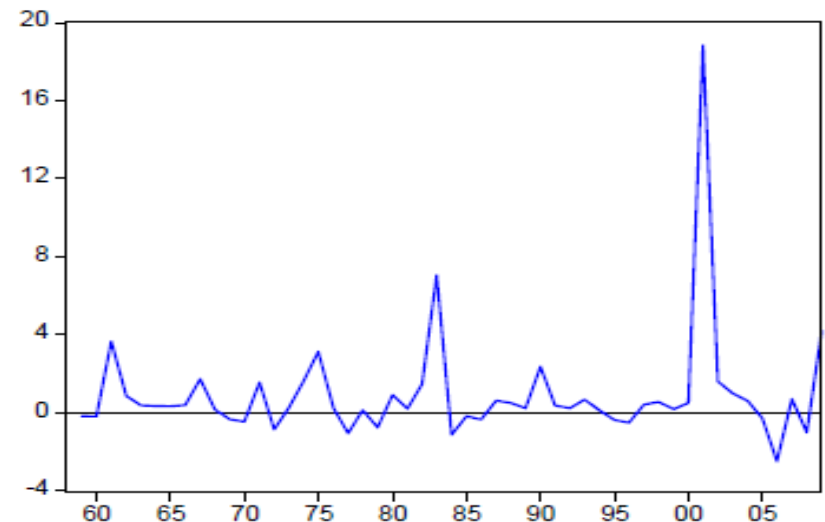
b. Implementation error of balance



c. Implementation error of revenues



d. Implementation error of expenditures



# Regimes and performance

**Table 3: Decomposition of implementation errors**

<b>Full Sample: 1959-2008</b>				
	<i>TE</i>	<i>BE</i>	<i>GE</i>	<i>DE</i>
<i>BAL</i>	0.05 (0.21)	0.40*** (0.11)	-0.32* (0.17)	-0.01 (0.008)
<i>REV</i>	0.55*** (0.21)	0.26 (0.16)	0.39** (0.15)	0.10 (0.07)
<i>EXP</i>	0.50** (0.20)	-0.14 (0.16)	0.70*** (0.12)	0.11 (0.08)
<b>“Structural budgeting”: 1959-1982</b>				
	<i>TE</i>	<i>BE</i>	<i>GE</i>	<i>DE</i>
<i>BAL</i>	-0.58** (0.25)	0.50*** (0.18)	-1.00*** (0.18)	-0.0036 (0.0084)
<i>REV</i>	-0.026 (0.19)	0.22 (0.16)	-0.056 (0.14)	0.17 (0.10)
<i>EXP</i>	0.56** (0.24)	-0.29** (0.13)	0.94*** (0.16)	0.17 (0.11)

# Regimes and performance

**Table 3: Decomposition of implementation errors**

<b>“Headline deficit norm”: 1983-1993</b>				
	<i>TE</i>	<i>BE</i>	<i>GE</i>	<i>DE</i>
<i>BAL</i>	0.89 <sup>*</sup> (0.45)	0.30 <sup>**</sup> (0.14)	0.54 (0.37)	-0.038 (0.029)
<i>REV</i>	1.83 <sup>**</sup> (0.60)	0.64 (0.59)	1.34 <sup>***</sup> (0.38)	0.19 (0.17)
<i>EXP</i>	0.94 (0.66)	0.34 (0.60)	0.79 <sup>**</sup> (0.30)	0.23 (0.20)
<b>“Trend-based budgeting”: 1994-2008</b>				
	<i>TE</i>	<i>BE</i>	<i>GE</i>	<i>DE</i>
<i>BAL</i>	0.48 (0.35)	0.29 (0.20)	0.18 (0.23)	0.0009 (0.0041)
<i>REV</i>	0.55 <sup>*</sup> (0.29)	0.041 (0.12)	0.40 (0.25)	-0.081 (0.10)
<i>EXP</i>	0.069 (0.27)	-0.25 (0.22)	0.22 (0.16)	-0.082 (0.11)

# Concluding remarks

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- Over full sample:
  - Positive spending error (0.5% GDP) cancelled by positive revenues error
- Trend-based budgeting:
  - Balance on average 0.5% GDP better than planned
  - Result of revenues being higher on average than planned
  - Revenues error largely driven by “growth effect”
  - Overall, regime has been quite successful in promoting discipline