

The Dutch budget process and the role of the CPB

Introduction

The Netherlands

The Kingdom of the Netherlands is 200 years old and has at the moment 17 million inhabitants. The foundation for the democratic legal order was laid in 1813. In 1848 freedom of assembly and association and the freedom of education were added to the fundamental rights enshrined in the Dutch Constitution. Universal suffrage was introduced in 1919.

Normally once every four years the Dutch citizens entitled to vote elect the people who will represent them in Parliament, The Dutch Parliament is called “the States General”. It is bicameral, which means it consists of two chambers: the Senate (Eerste Kamer der Staten-Generaal) and the House of Representatives (Tweede Kamer der Staten-Generaal).

The House of Representatives has two main duties: making laws and scrutinising the work of the Government. The Senate is not elected directly by the Dutch people. As far as legislation is concerned, a bill adopted by the House of Representatives must be approved by the Senate in order to become law. The Senate does not have the right to amend a bill, however; it can only adopt or reject it. Nor do Senators have the right of initiative, i.e. the right to propose a bill.

CPB Netherlands Bureau for Economic Policy Analysis (CPB)

CPB Netherlands Bureau for Economic Policy Analysis (CPB) was founded in 1945. CPB's founding director was Jan Tinbergen (1945-1955), pioneer of econometrics and laureate of the Nobel Memorial Prize in Economic Sciences (1969)

CPB is a part of the ministry of Economic Affairs. Its director is appointed by the Minister, in consultation with other members of the government. However, CPB is fully independent as far as the contents of its work are concerned. It also has its own legal mandate and an independent executive and advisory committee. Being part of a ministry had the advantage of getting crucial inside information and being effective in the daily policy making.

CPB does scientific research aimed at contributing to the economic decision-making process of politicians and policymakers. Besides economic forecasting, widely known CPB publications include its analyses of the election manifestos of political parties and societal cost-benefit analyses of infrastructural plans (from education to physical infrastructure).

Research at CPB is carried out on CPB's own initiative, or at the request of the government, Parliament, individual members of parliament, national trade unions or employers federations.

CPB is an independent fiscal institute (ifi).¹ Its independent position is partly based on law but most of all on its reputation of quality.

Budget preparations before elections

After elections, the coalition agreement sets the medium-term framework of the government budget for a period of 4 years. As a result, the coalition negotiations are the key decision moment on the budget for the coming 4 years. Such a key decision moment requires good preparations.

Well before elections, CPB publishes a medium-term outlook on economic growth, inflation, unemployment. It also shows government outlays, revenues and deficit on the basis of unchanged policy. The publication looks beyond the coming 4 year government period as it contains a sustainability analysis. This analysis of Dutch public finance takes the current tax system and the organisation of public services such as health care, education and public pensions as given. Public finance is said to be sustainable if current public arrangements can be maintained "for ever" without public debt exploding. The sustainability analysis is providing a long-term anchor to medium-term budgetary policy.

After publication of the medium-term outlook by the CPB, the Studiegroep Begrotingsruimte (Study Group on the Budget Margin / the Advisory Group on Fiscal Policy) comes with its advice on the budget for the coming four years. The study group consists of senior civil servants, including the Director of the CPB. The advice concerns the government deficit in the coming years and the budgetary rules for the coming years.

Finally, from 1986 onwards, CPB has offered interested political parties an analysis of the economic effects of the policy proposals in their election manifestos. The plans of the participating parties are analysed identically, thus offering voters a comprehensive tool for comparison of the parties, contributing to the transparency of the election process.

The CPB analysis of the election manifestos has proven to be a great help to facilitate the coalition negotiations after the election.

¹ See for more information: Bos, F. and C. Teulings, 2012, The world's oldest fiscal watchdog: CPB's analyses foster consensus on economic policy, CPB Discussion Paper 207 ([link](#)); Bos, F. and C. Teulings, 2012, The Dutch CPB: What can be learned from the world's oldest fiscal watchdog?, vox ([link](#))

The coalition agreement

As a result of the proportional election system (0,7% of the votes is sufficient for a party to have a seat in the House of Representatives), no party will get a majority of seats during elections. Thus, formation of a coalition by parties is required.

Key decisions on the budget for the coming 4 years are made during the coalition negotiations. It gives economic policy a medium-term perspective. It is difficult for the new government to change decisions presented in the coalition agreement as it requires approval of all parties of the coalition. The medium-term perspective of the government budget is strengthened by the budgetary rules a new government agrees on during its constituent assembly.

After the elections, CPB is almost always requested to analyse the policy proposals put forward during the negotiations for a new government. These analyses use the same methods as those used during the analysis of the election manifestos. Most of the time, the budgetary annex of the coalition agreement is based on CPB calculations done. CPB also publishes its own report on the coalition agreement.

After the formation of government, CPB updates its medium-term outlook to take the impact of the coalition agreement on board. On the basis of this CPB medium-term outlook, the ministry of Finance sets the medium-term budget, including annual outlay ceilings.

The annual budget process

On Budget Day (Prince's Day), on the third Tuesday in September, the government announces its plans for the coming year. The King travels in the Golden Coach to the Hall of Knights in The Hague where he reads the Speech from the Throne. Later that day, the Minister of Finance presents the National Budget and the Budget Memorandum to the House of Representatives in the ceremonial briefcase. At the same time, CPB publishes its short-term forecast.

Although the public focus is on Budget Day in September, key decisions on the annual budget of coming year are made well before: in Spring. On taxes, some decisions can still be taken in August.

A Dutch law (wet Houdbare overheidsfinanciën) requires that the annual budgets have to be based on the macroeconomic forecasts of the CPB. This approach prevents the optimism bias often seen in forecasts made by the Ministry of Finance itself.

CPB publishes 4 times a year an update of its short-term forecast, 3 of which are crucial for the budget process. The March forecast provides input for the key decisions on the budget of next year. The June forecast includes the impact of the decisions taken concerning the budget

of next year and is input for the finalisation of the budget in August. The September forecast is consistent with the draft budget of the government and is published at the same time.