Euro focus: Dutch government outlines new spending commitments

With high energy prices, geopolitical turmoil, and the postponement of a minimum tax on multinationals, the Dutch government has presented a budget memo with tons of policy measures. These imply an even more expansionary fiscal policy and a further shift of taxation from households to businesses

Dutch Prime Minister, Mark Rutte at a European Summit on Ukraine in late May

Higher energy prices inspire new policies

Mark Rutte's fourth administration, which started ruling in January 2022, has announced a lengthy list of policy changes. The expectation of prolonged higher energy and fuel prices has inspired new measures aimed at boosting households' purchasing power, even though similar measures (+0.4% GDP) were already implemented by the previous government. The new measures include the following three already announced in March, together already worth 0.3% of GDP in 2022.

- A temporary 21% reduction in excise duty on fuel.
- A temporary reduction in VAT on energy (9% instead of 21%).
- An increase in one-off energy compensation benefits for lower-income households.

There's now also going to be more spending on pensions and defence. The minimum wage has been increased as have pension benefits.

[The Dutch government's new budget proposals | Article | ING Think]

More tax on corporations and real estate

There's also been notable action to reduce net public spending. They include a reduction in pensioner tax credits and other benefits. And we're also seeing an increase in some taxes, notably for corporations and in the real estate sector.

A pattern is clearly emerging; a shift of taxation from households to businesses, that we witnessed in the previous coalition is being intensified by these new policy adjustments. The government's spring budget update shows lower investment in growth-enhancing, semi-public capital, lower investment in natural capital, and more taxation on entrepreneurial capital (firms, entrepreneurs and property owners) which is paying for higher benefits, higher pensions and better military capabilities. Considering the additional investment of the coalition agreement, minor cuts to these items do not seem to be too onerous, however.

Budget balance worsens but debt ratios improve

The total additional net spending in the spring memorandum for 2022 amounts to 0.4% of GDP, 0.0% for 2023 and 0.2% for 2024. This provides more fuel to an already overheating labour market, while the coalition agreement already implied a large increase in public spending in the medium term. The new measures only cause a one-off jump in the debt ratio: structurally the new tax measures fully match the new spending plans. Reassuringly, the debt ratio estimates were revised downwards, because of better-than-expected GDP developments, even though the government is expecting fewer firms to be able to pay back Covid-related deferred taxes.

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