Dutch parties reach minority coalition deal

The coalition agreement finances higher defence spending with cuts to healthcare and higher income taxes, limiting budget deficits. Its economic agenda focuses on improved competitiveness to boost structural annual GDP growth to 1.5%

Dutch Party leaders Rob Jetten (C) of the D66, Henri Bontenbal (R) of the CDA, and Dilan Yesilgoz (L) of the VVD present their coalition agreement at a press conference in Nieuwspoort, The Netherlands.

Quick formation with challenges to come for new minority government

A new Dutch government is drawing closer as the social liberal D66, Christian Democrats (CDA) and liberal conservative VVD parties have reached a coalition agreement. This means that a formation period will now follow in which a cabinet will be assembled. The parties expect to be able to have the new government in place by the end of next month. This would mark a significantly faster government formation period than in previous Dutch elections.

The government will face considerable challenges with their agenda from the onset as they only hold 66 out of 150 seats in parliament. This type of minority government is new for Dutch politics and means that majorities will need to be found across parliament for every proposed policy.

A competitiveness agenda aimed at improving growth prospects

The economic agenda is pro-business, despite increased taxes to pay for higher defence spending. The coalition focuses on lowering energy costs for Dutch manufacturers and subsidies for greening energy production. The construction sector will benefit from additional funds for housing, while high nitrogen emissions will be reduced largely through financial support for farmers who choose to terminate their business.

It also aims to reduce regulatory burdens for businesses and maintain attractive conditions for expats, to name a few measures. The programme is also more supportive of longer-term innovation and reverses previous cuts to the science and education budget. It actively targets a structural GDP growth rate of 1.5%.

Higher spending on defence comes with cuts elsewhere

Although the numbers have not been run by the Central Planning Bureau yet, the Netherlands looks set to keep its budget deficit within 3% of GDP in the coming government period. This is despite large extra defence spending efforts. Large cuts to healthcare spending (largely via increased co-payments), social security and higher taxes for households and businesses are a result. With government debt levels already well within the 60% debt-to-GDP EU target, the Dutch are set to remain among the best in class from a European budgetary perspective. Although we do note that longer-term spending plans will also raise budgetary pressure beyond the upcoming period.

A more cooperative stance on Europe

Finally, the incoming government is likely to turn more positive towards the EU. And while it denounces Eurobonds, it only does so using a very narrow definition: it excludes the pooling of national public debt. However, it remains constructive towards existing instruments for common financing, an important nuance compared to the previous government. It is supportive of the capital market, and banking unions.

A political experiment with ambition

All in all, the Netherlands is set to have a new government rather quickly. The coalition is keen on implementing measures to improve business competitiveness, increase defence spending, according to the new NATO target, and produce significant cuts to healthcare and social security to keep the budgetary impact of increased spending plans limited. Whether they can achieve this will depend on the willingness of the opposition to offer its support. A new political experiment begins.

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