

# Finally! A Dutch government is formed with an 'orange touch'

Agreement comes after record breaking negotiations



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## The government's main themes

Lower taxes and combating climate change are the main themes of the coalition agreement of the new Dutch government. The treaty, 'Confidence in the Future', promises to deliver that primarily by curbing an increase in health care spending and worsening the sustainability of public finances. The mildly expansionary fiscal stance is adding somewhat to already firm economic growth.

Today (Tuesday), 209 days after the general election in the Netherlands, the four negotiating political parties have finally come to a coalition agreement, beating the previous record of 208 days by the Van Agt government in 1977 by one day. As broadly expected, the VVD (Conservative Liberals), CDA (Christian Democrats), D66 (Social Liberals) and ChristenUnie (Social Christians) have agreed to govern with incumbent Mark Rutte (pictured) continuing as Prime Minister. The coalition parties hold the smallest possible majority in parliament. Although a one-seat majority is a small base, we still expect the governing parties to stick closely together. In order to ensure this, three out of four party leaders will remain members of their parliamentary faction.

## Why households could be celebrating

The coalition agreement contains some revision of the tax system, including fewer and lower marginal tax rates on labour income, a higher labour tax credit, an increase in the reduced-VAT rate, a higher wealth tax credit, lower mortgage-interest rate deductibility, abolition of the dividend tax and a lowering of corporate tax rates by 4 percentage points combined with broadening of the corporate tax base; this is a macro tax relief of 6,4 billion euro. Households are benefitting, on average, close to 700 euro per year. So, while also considering the very unlikely scenario that the national football team doesn't beat Sweden 7-0 in tonight's world cup qualification match, most households might still have something to celebrate.

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Furthermore, the Rutte III government is aiming to boost sustainability, with more ambitious climate goals, a minimum price for carbon emission for the energy sector, higher taxation of gas, a road tax for trucks and possibly a tax on air traffic. The new government will also increase spending on defence, education and infrastructure.

National pride is given a boost in this coalition agreement. School children will be encouraged to visit the Rijksmuseum and parliament at least once during their school life. In addition, they will be taught the world's oldest known - and thus also record breaking - national anthem "Wilhelmus". Dutch citizens turning eighteen and those obtaining a Dutch passport will receive a book about the national history of the Netherlands.

## Was the agreement worth the wait?

Generally, a mildly positive reception is expected from economic analysts. From an economic perspective, most policy changes are in the right direction, apart from the worsening of the sustainability of public finances. Working should generally become more financially rewarding, while consumption and pollution will become more expensive. It is, however, considered to be less ambitious than economists and government advisors had recommended in terms of the extent of reforms. Economists, however, aren't known for winning popularity polls.

While the formation process was underway and the conservative liberal-labour (VVD-PVDA) Rutte II government was acting as caretaker, the Dutch economy was performing strongly. The quarter-on-quarter growth figure of 1.5% in Q2 had not been seen since the first quarter of 1999. The uptake in economic activity is broad-based. Domestic demand is benefitting from pent-up demand in the housing market, improvements in the labour market and high confidence among consumers. High confidence among businesses as well as improving business opportunities and investment appetite have translated into employment growth, leading the unemployment rate to drop to 4.7% in August.

## The economic assessment

The policies in the new coalition agreement will boost GDP in the short term by 0.2 percentage points, on average, per year up to 2021, according to the Netherlands Bureau of Economic Policy Analysis (a.k.a. CPB), despite the fact that the output gap was already expected to be closed in

2018. Hence the plans currently appear to be adding somewhat to overheating pressures going forward. Public finances worsen considerably. The sustainability balance is now projected at -0.4% GDP, while it was slightly positive before the new policy plans. This despite the fact that the government budget balance is still increasing to 0.5% GDP in 2021 and the debt ratio is dropping to 45.8% in 2021.

In conclusion, at the expense of sustainability of public finances, the strongly competitive Dutch economy will be growing even more strongly in the years ahead and many citizens are set to benefit much more than expected earlier.

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