The Dutch government's new budget proposals

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, but it doesn't raise fiscal sustainability concerns

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

Higher energy prices inspire new policies

While the ink of the policy plans of Mark Rutte's fourth administration, which started ruling in January 2022, has only just dried, a long list of policy changes has already been announced. This started in March when the expectation of prolonged higher energy and fuel prices inspired new measures (+€2.8bn / 0.3% of GDP in 2022) aimed at boosting the purchasing power of households, even though similar measures had already been decided upon by the previous government in the autumn of 2021 (+€3.2bn / 0.4% GDP).

Most notable was a temporary 21% lower excise duty on fuel (gasoline and diesel) as of 1 April 2022, a temporary reduction of the VAT on energy (9% instead of 21%) as of 1 July 2022, and an increase in the one-off energy compensation benefit in 2022 for lower-income households. Most of this additional spending was covered in an unconventional fashion, namely by assuming higher tax revenues from gas production, which is clearly no discretionary measure and provides a high degree of uncertainty about the actual receipts.

Spring memo filled with more new policies as a result of external events

In May, when the regular annual Spring budget memo ("Voorjaarsnota") was published, geopolitical turmoil, court rulings on the incorrect taxation of wealth, and the failure of the timely finalisation of international agreements on taxation of multinationals inspired even more changes. In light of criticism of the democratic function of effective dualism between the government and parliament in recent years, the government this time prepared the memo using a novel procedure. It collected views from a broad spectrum of parties in parliament, including the opposition, before presenting an update of its spending plans (not only for spending in the usual current year but also the broad strokes of taxation for several years). Remember, the government holds no majority in the Senate.

Some surprising symbolic gestures on pension policies for parliamentary support

This led to some measures that were mainly seen to please the opposition, such as the stepwise increase in the minimum wage (by a cumulative 7.5% in 2025). In some cases, it led to surprising outcomes. For instance, by popular demand (mainly from the left-wing opposition), it was agreed that the statutory pension would be raised by a cumulative 7.5% in 2023-24 (+€2.4bn / 0.2% GDP), even though the elderly in the Netherlands have one of the lowest poverty rates among OECD countries.

Surprisingly, this increase in pension benefits will largely be covered by a reduction in the tax credit for the elderly and a lowering of supplementary pension benefits for the less well-off elderly (such as those with incomplete statutory pension claims). This means that for low-income pensioners, in particular, incomes either remain roughly unchanged or will worsen in 2023, to the benefit of higher-income pensioners. This is most likely counterproductive for the goal of reducing income inequality, the goal that the left-wing opposition generally advocates for. This choice was even more surprising given the fact that recent energy price compensation measures were criticised for being badly targeted at the most vulnerable households.

More spending on pensions, defence and compensating savers

Besides changes to the state pension and minimum wage, the most notable changes announced in May that increase net spending are:

• The structural increase in defence spending (+€2bn / 0.2% GDP) to 2% GDP in line with NATO norms, as of 2024. This is stepwise, starting with €600m in 2023.

• One-off compensation (+€2.8bn / 0.3% GDP in 2022) for taxpayers who objected to the method of wealth taxation (in 2017-22) based on an imputed return, in response to a court ruling. The decision to compensate a broader (unobjecting) group of taxpayers seems to be pending (which could cost up to €4bn / 0.4% GDP).

More tax on corporations, entrepreneurs and wealth and real estate

The most notable changes (most of which start in 2023) that reduce net public spending are:

• One-off cuts (-€2.2bn / 0.2% GDP in total) to the National Growth Fund for knowledge, research and development, innovation (-€660m), climate fund (-€880m) and the transition fund for buying out farmers to reduce nitrogen emissions (-€660m).

• The structural increase in labour income tax (known as "Box 1") and capital gains tax (known as "Box 2) for director-major shareholders (>5% share), through a higher imputed wage, lower tax credits and the introduction of a second tax bracket (26% tax rate for dividends up to €67K, 29.5% for >€67K).

• The cancellation of the planned structural increase in the wealth tax (known as "Box 3") from the current €50,650 per person to €80,000.

• The structural increase in transaction tax on non-residential real estate and housing owned by investors (not for owner-occupied) from the intended 9% to 10.1% (it is 8% in 2022).

• The structural reduction in the corporate tax bracket from €395K to €200K profit (tax rate of 15% up to €200K, 25.8% for >€200K) as of 2023, considering the postponement of the introduction of the OECD Pillar 2 minimum effective tariff of 15% for large multinationals from 2023 to 2024 (worth €1.3bn / 0.1% GDP in total).

• The abolishment of fiscal facilities for business owners for retaining profits in the business for pension purposes as of 2023.

A pattern emerges: the shift of taxation from households to businesses that were already observed in the coalition will be intensified by these new policy adjustments. This time we see lower investment in growth-enhancing, semi-public capital, lower investment in natural capital and more taxation on entrepreneurial capital (firms, entrepreneurs and property owners) paying for higher benefits, higher pensions and better military capabilities in the Spring memo. In light of the large sums of additional investment in the coalition agreement, minor cuts to these items do not seem to be the end of the world. At the same time, it is understandable that several unavoidable external events lead to the calibration of public spending. Also, consensus politics often requires compromise.

But from an economic perspective, we can't help being surprised about some of the striking choices that have been made, such as minor violations of the government's own fiscal rules and the surprising policy mix for pensioners.

While new policies worsen the government budget balance in the short run, new debt ratio estimates are better

In the short run, the austerity measures in the Spring budget memo do not fully match the additional spending. The additional net spending for 2022 amounts to 0.4% of GDP, 0.0% for 2023 and 0.2% for 2024. This expansion provides more fuel to an already overheating labour market (with a record low unemployment rate of 3.2% in April), while the coalition agreement already implied a large increase in public spending in the medium term.

It also worsens fiscal indicators somewhat. According to the government's own estimates, the headline government budget balance stands at -3.4% of GDP in 2022 and varies from -2.5% to -3.0% of GDP in 2023-27. Public debt is estimated to increase from 52.9% of GDP in 2022 to 56.9% in 2027, most of which is driven by the already existing plans in the coalition agreement.

Looking at the new policy measures only, we observe that these cause a one-off jump in the debt ratio: structurally the new tax measures fully match the new spending plans. This makes it less troublesome. What's also a relief is the fact that debt ratio estimates are lower than initially expected, mainly because of better-than-expected GDP developments. This is the case even though the government is expecting fewer firms to be able to pay back the Covid-related deferred taxes. The government is now expecting to write off €7bn of the €20.5bn pending deferred taxes, instead of earlier estimates of €1.5bn.

More headwinds for the low-income elderly, but mildly optimistic GDP projections maintained

In the GDP growth forecast of our base case, we projected occasional quarters with negative consumption development due to the strain that high energy prices put on the budget of lower-income households [NB: link is in Dutch]. This risk has increased somewhat for 2023 with the remarkable pension policy mix. Nevertheless, the outlook for the Dutch economy remains mildly optimistic. Business sentiment remained strong after the start of the Ukraine war and the termination of most Covid support measures on 1 April.

Export and investment expectations of businesses remain largely unchanged compared to the start of 2022, while a large and increasing share (40%, seasonally adjusted) of non-financial businesses report labour shortage as the main factor limiting sales or production. While worldwide supply chain issues also disrupt business in the Netherlands, the fact that only 8% of Dutch businesses report insufficient demand as a limiting factor illustrates that demand is at least, for now, not a major issue. All in all, we project some short-term sluggishness, but still 2.7% GDP growth for the year 2022.

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