Dutch budget for 2023: a big bazooka firing at high energy inflation

On 20 September, the Dutch government presented its budget for 2023. It consists of no less than 1.6% GDP extra spending aimed at supporting purchasing power of households. While the package seems effective in keeping many households out of poverty, it could be more targeted

High energy costs concerns lead to large support measures for 2023

Because of concerns about high energy costs, the government decided to spend €15.5 billion (1.6% GDP) more in 2023 than it already planned. Such a large change is very unusual. More than €10 billion (1.0% GDP), two-thirds of the additional spending, is temporary. Most of the measures are a continuation of (tweaked) measures taken in the course of 2022 (then estimated at €7 billion). As such, the additional spending impulse compared to last year is about €9 billion (0.9%), still a very substantial amount.

Continuation of temporary energy measures and additional benefits

The most important **temporary** measures aimed at boosting purchasing power of households in 2023 are:

- (further) lowering on energy taxes (€5.4 billion)
- one-off energy compensation benefit for lower-income households of €1,300 (€1.4 billon)
- continuation of the 21% reduction in excise duty on fuel (€1.2 billion)
- increase in health care allowance by €412 (€2.1 billion)

One measure implemented in 2022 that is not extended is the reduction in the VAT on energy from 21% to 9%.

Structurally especially more spending on benefits

€5.3 billion of the extra spending in 2023 is due to **structural** measures. The main changes from 2023 onwards are:

- decrease in tax on labour (€1.2 billion)
- increase in child allowance (€0.7 billion)
- increase in rental allowance (€0.2 billion)
- 10% increase in statutory pension benefits (aow)
- 10% increase in welfare benefits (bijstand)

The pension and welfare benefits are always automatically increased in line with the statutory minimum wage. Recipients now benefit from a discretionary increase in the statutory minimum wage by 10%. While the coalition agreement already intended to increase the minimum wage, this is done earlier and with a bigger jump than initially intended. The related increase in pension and welfare benefits together are the most expensive structural expansion (€3.2 billion) in the 2023 budget.

Especially mining & quarrying, businesses, entrepreneurs and the wealthy will pay

The new measures will only partially (€7.1 billion) be covered by higher revenue measures, of which €3.3 billion is structural. This means that the government debt ratio is increasing (by 1.7%-point to 48.8%). €2.3 billion will be financed by higher receipts from existing taxes on gas production. Most additional revenues will be generated by higher taxation for businesses, entrepreneurs, and the wealthy, also structurally. As a one-off, taxation on mining & quarrying is increased by €2 billion. The most important structural revenue measures are the increase in the (lowest) corporate tax rate from 15% to 19% worth €1.5 billion, a reduction in possibilities for beneficial fiscal treatment of real estate and an increase in the wealth tax (box-3). Taxes on director-major shareholders (dga) and the self-employed are raised by smaller amounts. The impact for SMEs will, only partially, be offset by i.e. a reduction in the premium for disability insurance for small employers.

Large and levelling effect on purchasing power

The purchasing power packages does what it is aimed at: the projections for the median (+3.3%) development of real disposable income improved very substantially, even though the measures cannot fully stop the entire loss of purchasing power in 2022-2023 that results from high inflation.

Policies are levelling for the real income distribution: lower income households benefit the most. In fact it even seems that the median change in purchasing power of the 20% poorest households is improving over two years' time. This does not, however, mean that the policy package is well aimed at the most vulnerable households only: the positive effects on the purchasing power of higher incomes are also substantial, namely a few percentage points.

Share of population in poverty and with default risks falls levels of the time before high inflation

It is remarkable that the projected share of the population below the poverty line is even falling below the level of 2019 (6.0%) on average in 2022-2023 (5.8%). Additionally, stress tests based on microdata show that policy measures cut the projected number of households that face a risk of being unable to pay for the basic cost of living in half, from about 1 million to a little over half a million (7% of the households). This projected number is comparable to the number of January 2021, when inflation still stood at a low 1.6% year-on-year and energy costs were not a major concern yet.

More expenditures but lower inflation

More purchasing power for most households and especially for lower incomes should result in a more favourable development of consumption. That is the mean reason why the 2023 GDP projections of the governments' independent forecaster CPB was raised by 0.4%. Usually, additional expenditures during high utilisation rates means additional inflation, but because a number of policy measures directly lower prices, the estimated net effect on inflation is negative (-1.7%-point). This is also why the policy packages has such a large impact on purchasing power.

Remaining homework is the replacement of the lower energy tax by an energy price cap

These projections are however indicative, because on the day of presentation, the new budget memorandum (Miljoenennota) was already partially outdated. On the same day, the government announced that is working on an energy price cap for households and a subset of (usually smaller) firms. Up to the level of average energy consumption the price of electricity and gas will be capped. The government will subsidise the difference between the market price and the price cap.

For the average household, this could have a very large impact: the government estimates the effect to be €2,280 per year. Such a general measure is expensive. Nobody knows for sure how expensive it ultimately will be, given the fact that future energy prices are hard to predict. Estimations vary between €5 billion (0.5% of GDP) to €15 billion (1.5% of GDP). While the price cap is intended to be implemented by 1 January 2023, households would already benefit from it as of November 2022, as the government agreed that energy suppliers would already start charging lower prepayment amounts from November onwards.

How the price cap subsidy will be paid for, is also still largely uncertain. Most certainly, the intended lowering of the energy tax will be cancelled (worth €5.4 billion). Furthermore, the Dutch government may make use of the proposal by the European Commission to tax rents of energy producers. Additional sources of revenues are yet to be found and may be investigated for the budget memorandum of spring 2023.

Risk that the package turns out too large and causes overheating

It is very likely that the price cap turns out more generous than the plans in the budget memorandum that it will replace. All in all, in any case it is evident that the government provides huge support for households' purchasing power. Even so much that it may constitute a risk that it will be too much in hindsight. As such, there is a risk for upward pressure on inflation than currently foreseen, more strain on the already tight labour market and resulting difficulties to execute other government plans that might need personnel to be executed in full. Clearly positive is the fact that much fewer households, especially on the lower end of the income distribution, have reason to worry whether they can make ends meet. But it is doubtful whether a purchasing power bazooka of this size and with this limited degree of targeting on the vulnerable households needs to be fired.

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