Dutch government budget for 2024 offers more help to the poor

This week, the Dutch government presented the budget for 2024. The central theme of the policy changes is income support for low-income households. The desire for more poverty reduction and some gaps in the spring budget brought about minor policy changes of about 0.3% of GDP and left the budget balance largely unchanged

View of the Binnenhof House of Parliament and the Hofvijver lake

Business as usual for a wider range of topics than usual

The coalition government collapsed in July 2023 and is now acting as a caretaker government. As such, it has now most likely presented its final budget. It's a budget with relatively few and small policy changes. As is the custom with the fall of the government, a number of topics, such as the start of construction, new road infrastructure, a new road tax and refugee policies, have been deemed "controversial" by parliament. This means that the caretaking government has refrained from presenting policy initiatives on these topics in the budget for 2024 and will present no new initiatives during the rest of its caretaking period. The government, however, also stressed that it is continuing to work on issues such as poverty, allowances reform, earthquake damage repair caused by gas production in Groningen and support to Ukraine. Parliament has agreed on allowing the caretaker government to continue with these topics, and this time agreed on an unusually high number of other topics to continue as well.

Policy changes for 2024 much smaller than in previous year

The bulk of the proposed policy adjustments for 2024 are dedicated to poverty reduction. This concerns €2.3 billion (0.2% of GDP). The amount stands in stark contrast to 2023 when the energy crisis brought about a large fiscal boost of €15.5 billion (1.6% of GDP). The main effect of the new policy proposals for 2024 is that it keeps the poverty rate constant. High incomes, in particular, will be footing the bill, via non-indexation of the highest tax bracket.

Income support for low incomes to cushion the disappearance of temporary energy crisis policies

With the temporary policies implemented in 2022 and/or 2023 inspired by increasing energy prices (such as temporary higher allowances for healthcare and energy, new energy allowance, temporary cuts to fuel taxes and a subsidised energy price cap) set to expire by the end of 2023, projections signalled that the poverty rate would return to pre-pandemic levels (5.7% of citizens in 2017-2019) in 2024, rising from the 2022-2023 lows (4.7%-4.8%). This inspired a broad spectrum of political parties – both opposition and coalition parties – to support more income redistribution amid campaigns for the November 2023 parliamentary election.

The bulk of the additional expenditures will be spent on higher child allowance, an increase in the rental allowance and a labour income tax cut for low incomes. This will keep the general poverty rate constant at 4.8% (and will even reduce the share of children in poverty from 6.2% in 2023 to 5.1% in 2024). In the government's proposed budget, small additional amounts will be spent on the continuation of free school meals, abandonment of the intended halving of a tax cut for young disabled people and combatting poverty in the Caribbean Netherlands. The government also decided to forgo intended reductions in tax breaks for people on welfare. Furthermore, the energy emergency fund for households in financial trouble is extended to 2024.

Higher labour tax for high incomes

The new expenditures are largely covered by higher discretionary taxation. High-income households will pay, mainly through an incomplete (+3.55% instead of +9.9%) inflation adjustment of the tax threshold (from €73K to about €76K instead of €80K) where the highest labour income tax rate (of 49.5%) kicks in. Also, the excise tax on tobacco and alcohol will be raised a little bit and higher-than-expected revenues of the corporate income tax will be used to finance the policy changes. Other policy changes, such as the lowering of the tax cut for entrepreneurs or the increase in the wealth tax rate, were already at least partly foreseen and part of the base case, in line with the coalition agreement.

Also filling some gaps

Since the spring budget memo, the government also still had to cover a few gaps (0.1% of GDP) that resulted from lower than expected revenues originating from the new OECD-Pillar-2 minimum effective tariff of 15% on large corporations, from the postponement of the introduction of a wealth tax based on actual returns (instead of on imputed returns) and from disappointing revenues from technical reforms in several tax instruments. These gaps were mainly filled by a disability insurance premium, a lower tax break for SMEs and an increase in the wealth tax rate.

Several proposals for amendments to the proposed budget

The proposed policy changes will have to be agreed upon by parliament. Parliament may propose amendments to the government's proposals. The process might lead to some additional policy changes given that political parties are trying to create a public profile in light of the elections of November 2023. Some parties for instance have already signalled they might refrain from normalising fuel taxes, possibly financed by extracting €1.2 billion (0.1% GDP) from the National Growth fund which hasn't been spent yet. Others are considering broadening the base of the air travel tax in order to lower energy taxes, while there are also proposals by other parties to increase taxes on banks and corporations in order to increase the minimum wage and its related benefits (such as the statutory pension) and to lower prices in public transportation.

Fiscal challenges in the medium- and long-term

If the proposed budget is adopted without major changes, the government budget balance will largely remain unchanged due to the policy changes. It is expected to be -2.4% of GDP in 2024. In the medium term, this is expected to worsen to -3.6% of GDP by 2028, where additional expenditures on ageing-related expenditures (healthcare and statutory pensions) are an important cause. It will be up to the next government to decide whether to address the potential violation of the European Stability and Growth Pact and how to deal with the projected sustainability balance – the net present value of future revenues and future expenditures – which is negative at -4.6% of structural GDP.

High level civil servants suggest some austerity

An advisory body of high-level civil servants (Studiegroep Begrotingsruimte) has provided some guidance. It suggests that the Dutch government should aim for a structural budget deficit of -1.6% GDP in the medium term (2028), with a gradual adjustment of four years. This implies a structural adjustment of about 1.5% of GDP, either through higher taxation and/or lower expenditures. While this would not address the entire sustainability deficit, it would at least provide some distance from the -3% of GPD rule and would make the budget less expansionary than the no-intervention base case.

Uncertainty concerning course of fiscal policy in the medium term, but 2024 on balance largely as expected

Looking at the political parties, there is no immediate consensus on the future stance of public finances judging by some of the party manifestos that have been released so far. This, combined with the fact that election polls suggest that the composition of the House of Representatives might change dramatically, involving possible large gains for relatively new parties such as the farmer's party BBB (BoerBurgerBeweging) and Pieter Omtzigt's New Social Contract, makes it hard to predict the actual future course of Dutch fiscal policy. This leaves the question of whether the newly elected government will be as historically expansionary as the fallen Rutte IV government intended to be. For 2024 at least, we can conclude that the proposed budget does not really provide any significant additional inflationary pressure to the overheated Dutch economy.

Author

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

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