

The Dutch coalition has collapsed. Now what?

The Dutch economy and public finances are currently in good shape. So don't expect a major reaction from financial markets to this news. However, political decisions still need to be made to maintain the Netherlands' economically strong position. The collapse of the incumbent coalition delays progress on this front



Netherlands' Prime Minister Dick Schoof has stepped down

One of Europe's least happy political marriages has come to an end today as the major coalition party PVV announced that it would withdraw its support for the Dutch cabinet. After less than a year, the cabinet under minister President Dick Schoof has come to a premature end. The relationship between the four coalition partners had been difficult from the get-go, which resulted in recurring tensions over policymaking.

Supply-side constraints are mounting in a strong economy, which requires a political response

From an economic perspective, the Dutch economy has performed decently in recent years. Many of the current issues affecting the economy do not arise from a lack of demand. Supply-side issues

are limiting economic growth more. But while economic growth has been strong in recent years compared to other eurozone members, there is a sense of urgency. Issues such as the tight housing market, tight labour market, nitrogen emissions, and the energy transition need to be tackled.

In the short term, the lack of an agenda in these areas is hindering economic growth because it obstructs investment. That's why it's important for the next cabinet to tackle these matters sooner rather than later. That process will now face further delays, although it was already uncertain whether the now fallen cabinet would have found workable policy responses to the most pressing issues.

Government finances are healthy but with longer-term challenges

Government finances are in a healthy state as the budget balance has outperformed expectations in recent years. With a relatively low current government debt-to-GDP ratio of 43.3% in 2024 and a budget deficit well below 3%, the Netherlands is one of the more financially sound countries in the eurozone. The Spring budget round was one of the many heated encounters between coalition partners, with the government, on balance, making modest spending increases. As the Spring budget process has not yet been finalised, the question is whether these adjustments will all still see the light of day. The Minister of Housing and Spatial Planning today already announced her withdrawal of the proposal to freeze social housing rents for two years. This proposal had dampened inflation expectations, which means that the withdrawal of the proposal will keep Dutch inflation elevated for longer.

A future cabinet will face challenges regarding long-term public finances. While the structural deficit is not expected to exceed 3% before the end of the decade, social security and health care spending and interest payments are expected to increase. Meanwhile, there are additional spending challenges, for example, a likely higher defence spending target at the Nato meeting in The Hague later this month. Then again, given the solid shape of the deficit and debt ratios at the moment, this is unlikely to rattle financial markets.

A complex political landscape as new elections await after summer

The next elections can be expected in the autumn, which means that the political landscape could change a lot from the current situation. At this point though, polling reveals a complex political environment. The largest party at the moment is the right-wing PVV. It is expected to enter a three-way contest with the liberal-conservative party (VVD) and the Green Left / Social Democrats (GL-PvdA) to become the largest party based on polls held prior to the withdrawal of support for the Schoof government. All three were polling at close to 20% of the vote.

The Christian Democrats (CDA) have been steadily regaining voter share and are now polling at around 12% of the vote. The centrist liberal democrats (D66) come in at around 8%, with 10 parties at less than 5%. The current coalition members, farmers' and citizens' BBB and New Social Contract (NSC), poll between 1 and 3%, indicating sizable losses compared to their current 5 and 13% of the seats in Parliament.

The Dutch electoral system operates on proportional representation and has a longstanding

tradition of coalition cabinets. In the current fragmented political landscape, it could well be that another tough period of government formation would result after the election with a central left, liberal conservatives and right-wing populist conservative party all vying for the top spot. But with elections not expected until after summer, a lot can still change.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

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