

# Spring Budget raises deficits but sticks to fiscal rules

- Discussions on the Spring Budget are completed and the coalition published their plans
- The new plans include various measures to boost household purchasing power on the short term, while structural investments appear to lack
- The coalition lost their majority according to the latest polls
- Despite pressure from other coalition parties for larger deficits, the VVD upheld budgetary rules
- Next year, the funding need for the Dutch state will increase because of the higher deficit, higher redemptions and a one-off payment for the pensions of the defence personnel



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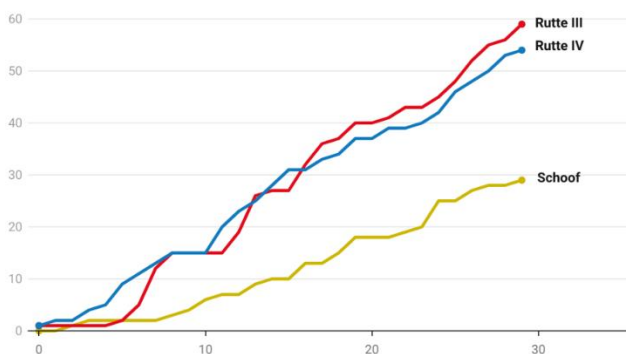
## Negotiations for the Spring Budget were complex and lengthy

The Schoof Government survived another hurdle. Discussions on the 'Voorjaarsnota', or Spring Budget, were completed on the 18<sup>th</sup> of April when the coalition presented their plans. After an extended coalition formation process, and several political crises, the cabinet has taken tentative steps towards rolling out their policy agenda. Though this remains difficult as each coalition party has their own diverse policy ambitions: one reason why it has been less proactive than its predecessors and often delayed key decisions.

The coalition faced a range of 'musts' that had to be addressed in the budget, for example on defence, and in financing the rolling back of a planned tax increase on sports and culture, for instance. On top of these, there were various 'wishes' by the four coalition parties. The negotiations were lengthy and intensive and moreover took place against falling polling numbers for the coalition. Currently, [polls](#) indicate the coalition has lost 27 seats from their 88 seats obtained in the election (75 needed for a majority).

### Legislative preparations since taking office

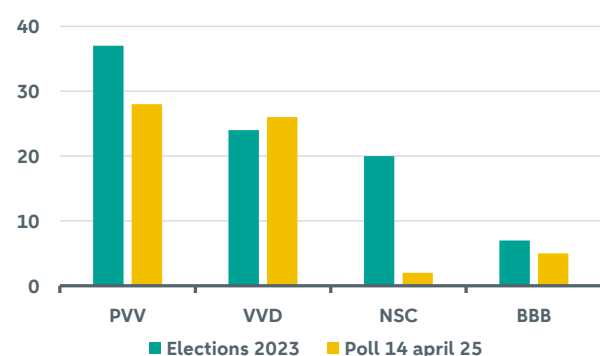
Cumulative numbers over the number of weeks in office



Source: De Groene Amsterdammer

### Coalition parties lost some ground in polls

Number of seats for the coalition parties



Source: Ipsos, ABN AMRO Group Economics

## The Dutch economy has proven resilient, but external environment is uncertain

In the past years, the Dutch economy has shown resilience, and is operating close to its capacity limits with a tight labour market, full electricity grid, and heated housing market. Unlike many eurozone countries (Germany as an exception with loosening the debt brake) the Dutch government maintains an expansionary fiscal approach, boosting economic growth through consumption and investments, and purchasing power support. These factors contributed to higher inflation in the

Netherlands. Though inflation remains elevated, wage growth has largely caught up, aiding household purchasing power. However, while the tight labour market supports households, it is a risk to the government. As in the past years, the risk of underspending in the government budget remains high.

On the longer term, the growth potential of the Dutch economy is under pressure, amongst others due to the greying labour force. Also, the external environment becomes increasingly uncertain, with international developments moving fast. As a trade-oriented country, the Netherlands is heavily affected by what happens abroad. This context is important for the type of choices that the government makes in where to spend their funds.

### **Decisions mostly focus on the short term, structural perspective lacks**

The focus in the Spring Budget is primarily on short-term relief for purchasing power. Examples of the measures that support households are a lower energy tax, freezing social rents in 2025 and 2026, increasing rental allowances, and not increasing taxes on alcoholic beverages. The supporting measures will likely mostly impact the purchasing power of lower income households. To fund these measures and other financial hurdles, the coalition has decided on a combination of spending cuts and revenue-enhancing measures. For instance, shifting funds between various ministries, cuts on the duration of unemployment benefits, and less tax cuts than laid out earlier for middle income households.

The coalition has, for the time being, postponed decisions on some structural issues until 'Prinsjesdag' or Budget Day in September. This is relevant as delaying these decisions creates policy uncertainty, which can further delay projects, for instance in construction and expanding the electricity grid. This also comes on top of the geopolitical uncertainty.

Still, some of the more short-term focused measures have structural implications. Think for instance of the effects on the labour market of the limited adjustments to the income tax, which likely leads to less labour supply, and the shortened duration of unemployment benefits, which aims to increase the labour supply though the impact might be limited as the number of long-term unemployed is particularly low. Additionally, housing corporations have sounded the alarm, as they anticipate to be able to invest less in new housing due to the social rents freeze.

One surprising feat of the spring note was the additional spending on defence. Particularly relevant as the Netherlands hosts the NATO-summit in The Hague in June this year. An additional EUR 1.2bn per year will be allocated to defence, which adds just 0.1% of GDP. With this investment the Dutch government keeps their defence spending in 2025 hovering around the 2% of GDP NATO-target.

### **Traditional Dutch budget principles upheld**

Despite pressure from other coalition parties to increase the budget deficit and potentially spend the EUR 8bn windfall due to stronger expected economic growth, the VVD upheld compliance with the Dutch budget rules and guidelines. Namely, traditional Dutch budget principles advocate for a separation between spending and revenue. The budget deficit will nevertheless increase somewhat: the [CPB](#) estimates -2.3% in 2025 and -2.8% in 2026. Additionally, growth forecasts by the CPB – based on which these budget deficits as share of GDP are estimated – currently do not consider the possible impact of the 10% US import tariff on the Dutch economy. We [estimate](#) that these will have a downward impact on the Dutch economic growth. The CPB will soon publish their impact calculations of the tariffs, which will likely lead to lower growth forecasts, and thereby could cause the deficit for 2026 to get close to the -3% limit.

The starting point of the Dutch state's public finances is strong, having experienced limited budget deficits over the past two years and maintaining a debt ratio of approximately 40%, which is well below the 60% benchmark. However, the outlook for public finances indicates potential worsening, with larger budget deficits and a rising debt ratio.

### **Higher deficit will result in higher funding need next year**

A higher expected budget deficit will also have consequences for financing requirements. In its Quarterly Report for the second quarter this year, the DSTA revised its expected financing requirements for this year downwards by EUR 17.5bn to EUR 89bn due to the more positive growth forecasts announced by the CPB in its February estimates. However, the higher-than-expected import tariffs announced by the Trump administration in early April are likely to dampen these growth expectations. As a result, there is a chance that the financing requirement for this year will have to be revised upwards again. However, we expect that, as in previous years, government spending will be lower than budgeted due to underspending, mainly because of the still tight labour market. Any higher financing requirement will not lead to increased borrowing on the capital market, as it is the DSTA's policy to absorb such shocks on the money market first.

We expect less budget underspending next year. In any case, next year's financing requirement will be higher than this year due to two factors. First, two DSLs will mature next year, compared with only one this year. As a result, the refinancing of these maturing DSLs will be EUR 10 billion higher in 2026 than this year. In addition, a one-off payment of EUR 8.5 billion will be made next year from the Treasury to the civil service pension fund for the pensions of Defence personnel.

An important component of the financing requirement is the cash deficit, the expected difference between the Dutch government's revenue and expenditure. In recent years, the estimate of this deficit at the beginning of the year has always been far too pessimistic due to the aforementioned underspending of the budgets of various ministries in combination with higher than expected tax revenues. As a result, the DSTA had to revise downwards the financing requirement announced at the beginning of the year during the course of the year. As the government expects a higher budget deficit for this year and next, the cash deficit will also increase. For next year, this will mean that the cash deficit will be roughly the same as expected at the beginning of this year, resulting in a higher total financing requirement compared to this year, at around EUR 117bn (see table below).

<b>Estimate of DSTA borrowing requirements for 2026 (EUR bn)</b>	
Capital market (DSLs) redemptions 2026	28.8
Net Money Market Ultimo 2024	35.0
Cash Deficit*	45.0
On-off expense for military pensions	8.5
<b>Total Funding Need</b>	<b>117.3</b>

Source: DSTA, ABN AMRO Group Economics. \* Including a EUR 17bn loan facility to TenneT

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