

Dutch budget deal to impose more austerity despite resistance

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Tax Increases and Spending Cuts Total \$8 Billion as Economy Continues to Struggle. The Dutch government reached a deal on an austerity package for 2014 in a bid to meet European Union budget requirements despite fierce resistance to more belt-tightening at home and concerns that it could further harm the already struggling economy.

The coalition government struck a deal on €6 billion (\$8 billion) in tax increases and spending cuts, Finance Minister Jeroen Dijsselbloem said Tuesday. "I'm satisfied that we have already reached a deal now," he said.

Details will be given Sept. 17, when the government presents the 2014 budget, but it will likely include cuts in health care and a salary freeze for public-sector workers.

The government is also looking to raise the limit on tax-free gifts, according to local media. Parents would be able to donate €100,000 to their child without paying taxes—twice the current amount—to help the child buy a home or repay a mortgage. The measure is aimed at boosting the housing market.

The Dutch government, one of the main allies in Germany's call for austerity, entered negotiations on new budget cuts in June against a backdrop of growing public resistance to more belt-tightening.

The Netherlands is stuck in a severe economic crisis and was among the few euro-zone economies to contract in the second quarter. Economists blame the slump on the troubled housing market, which, in combination with high mortgage-debt levels, has led to a sharp drop in domestic consumption.

Some observers say additional austerity will deal another blow to household finances.

"The slump will continue for some time yet," said James Howat, an analyst at Capital Economics, in a report on the Netherlands. "With employment now falling quite sharply and more fiscal austerity on the cards, household income will remain under pressure."

"The prolonged strain on Dutch households is likely to harden their attitudes to the euro-zone periphery," further undermining support for any additional bailouts, he added.

The prospect of more budget cuts has eroded the popularity of Prime Minister Mark Rutte's coalition government, comprised of his center-right Liberal Party and the leftist Labor Party of Mr. Dijsselbloem.

The coalition would lose its majority in the 150-member Parliament if elections were held now, according to a survey released Sunday by pollster Peil.nl. At the same time, populist parties on the left and right have gained momentum.

As a result, Messrs. Rutte and Dijsselbloem will face a delicate balancing act. While they are committed to meet the EU's requirements, their government could have trouble pushing the package through as it lacks a majority in the upper house of Parliament. Meanwhile, they are under pressure to stimulate the economy and give a boost to the housing market.

The €6 billion in cuts were ordered by the European Commission, the EU's executive arm. The measures should bring the budget deficit down to 3% of gross domestic product next year, based on the EU's spring estimates.

But the commission, which has already relaxed the budget targets for this year, has hinted the Netherlands might get more breathing room if the economy continues to deteriorate.

Fonte: The Wall Street Journal, Nova York, 27 Aug. 2013, International.