Appendix: Finances

Thanks to prudent budgetary policy, the government has sufficient financial buffers to weather the coronavirus crisis well, as far as finances are concerned. The major challenges facing us in the next few years will again be very demanding financially. However, robust action must not come at the expense of a sound budget in the longer term. With this in mind, this government will apply a trend-based budgetary policy with clear ground rules.

- We will strike a balance between solving major societal problems and exercising fiscal prudence. Our aim is for the budget deficit to be restored to a downward trajectory as soon as possible. We will accept a higher debt temporarily in order to solve problems facing society, and we will then seek to reduce the debt. Taking into account external circumstances, the associated underlying EMU balance is -1.75% of GDP.
- This means a structural budget margin of approximately €13 billion and a larger incidental margin for the next 10-15 years. This incidental margin will enable us to solve the major societal challenges we face, such as climate change, nitrogen deposition and maintenance backlogs. The reasoning is that if these problems are not solved now, the costs will increase further in the long term. Funds amounting to €60 billion will be formed for tackling climate change and nitrogen deposition. These funds require a robust decision-making mechanism and governance, along the lines of the Multiyear Infrastructure, Spatial Planning and Transport Programme (MIRT) and the Delta Fund. Their governance will be based on a number of goals and principles: providing planning certainty for the longer term, extended powers for the ministers responsible, monitoring of efficiency and effectiveness by the Minister of Finance, and strong parliamentary scrutiny.
- The effects of this coalition agreement on public finances are set out in the budget appendix. Spending will be increased substantially to solve societal challenges. When it comes to the long-term sustainability of public finances, the rising cost of healthcare is a cause for concern. The government has therefore decided to increase spending on, for example, pandemic preparedness during its term of office. In the long run, the increase in healthcare costs will be curtailed and this will contribute to a healthy long-term budget.
- The budget rules already in force will continue to be applied. This means that setbacks will be absorbed within the relevant ceiling, while windfalls from underspending will be credited to the balance. The adjustments recommended by the 16th Budget Margin Study Group will be adopted. They include creating an investment ceiling, decoupling revenue from expenditure as much as possible and communicating about the year-on-year trend in expenditure and revenue.
- Windfalls will be dealt with according to the following formula. If the estimated actual long-term EMU balance is better than -1% of GDP, 50% of that margin will be earmarked for tax cuts and 50% for debt repayment. This means that, initially, windfalls arising from the actual balance being better than the long-term target will be used entirely to pay off the national debt. This will be decided at the main decision-making point in the spring. At that time decisions will also be made about the consequences of changes in healthcare spending and how they will affect healthcare contributions; the policy of automatically increasing taxes to offset falling healthcare contributions will be abandoned. From now on, decision-making will need to be explicit.
- After the government has taken office there will be one main decision-making point in the spring, when decisions will be made on general revenue policy. The government will apply real, fixed expenditure ceilings. Total government revenue reflects the changing economic climate, while policy-related changes in the tax burden are governed by the revenue framework.
  This means that the government budget acts as an economic stabiliser.

- Higher inflation than expected in this coalition agreement will lead to higher nominal expenditure than expected, but also to higher nominal revenue than expected. Higher inflation therefore does not pose a direct threat to the health of public finances. If higher inflation were accompanied by a higher real interest rate, this would lead to setbacks. The national debt has an average maturity of around eight years, which helps to guard against this. Finally, higher inflation can result in loss of purchasing power, unless salaries rise sufficiently to offset it. Each year, the coalition will take this into account when making decisions on purchasing power at the main decision-making point.

Financial overview

This government has chosen to tackle major societal challenges relating to nitrogen deposition, climate change, maintenance backlogs and housing construction. In addition, it will invest in a promising start in life for children (education and childcare), socioeconomic security and middle-income groups. It will also allocate extra money for a strong, service-minded government sector that puts people first. The coalition will spend extra money on pandemic preparedness. At the same time, it will take measures to flatten the steep rise in healthcare expenditure, with a view to the long-term health of our public finances.

The coalition will continue to invest in both national and international security. Defence spending will be further increased to bring it into line with the EU-NATO average. The coalition will also use money from the EU Recovery and Resilience Facility to finance its plans, including those set out in this coalition agreement. The coalition will increase taxes aimed at promoting a healthy lifestyle, greening and combating tax avoidance, and will introduce targeted tax cuts, especially for low- and middle-income groups, people in work, and families.

in millions of euros positive amounts worsen the balance		**2022**	**2023**	**2024**	**2025**	**Struc- tural**
I. Democratic legal order		**1,803**	**5,014**	**6,071**	**6,138**	**2,011**
a.	Government in order	722	1,224	1,294	1,294	681
b.	Subnational authorities	1,050	3,749	4,731	4,814	1,300
c.	Caribbean Netherlands	31	41	46	30	30
II. A sustainable country		**405**	**4,167**	**7,258**	**9,724**	**3,265**
d.	Nitrogen Fund (25bn until end of 2035, of which 20bn until end of 2030)		700	1,300	1,500	0
e1.	Climate and Transition Fund (35bn until end of 2030)		800	1,980	3,310	0
e2.	Other climate expenditure		12	78	94	55
f.	Abolition of landlord levy		470	900	1,420	1,710
g.	Infrastructure (incl. water)	405	2,185	3,000	3,400	1,500
III. Security and a strong society		**220**	**640**	**960**	**1,100**	**1,000**
h.	Security	220	640	960	1,100	1,000
IV. Socioeconomic security and equal opportunities		**2,450**	**7,069**	**9,970**	**11,713**	**12,237**
i.	Education, Culture and Science	2,250	2,770	4,300	4,200	3,700
j.	Introduction of student grant (abolition of loan system)	5	590	610	180	1,000
k.	Childcare for people in work (abolition of childcare benefit)	19	59	224	1,716	2,249
l.	Increase in minimum wage (and simplification of housing benefit)			900	1,400	1,400
m.	Tax cut for middle-income groups		3,000	3,000	3,000	3,000

n.	Labour market (incl. poverty and debt)	176	650	936	1,217	888
V. A prosperous country		**50**	**250**	**300**	**300**	**0**
o.	Region Deals	50	250	300	300	0
VI. Health		**785**	**1,495**	**1,226**	**42**	**-4,519**
p1.	Care	545	1,195	866	-268	-4,819
p2.	Spending increase for pandemic preparedness	240	300	360	310	300
VII. International affairs		**821**	**2,233**	**4,444**	**4,756**	**3,556**
q.	Defence	500	1,900	4,100	4,200	3,000
r.	Development cooperation and international affairs	321	333	344	556	556
Other		**8**	**-3,595**	**-3,970**	**-4,241**	**-4,240**
s.	Recovery and Resilience Facility (RRF)		-1,500	-1,500	-1,500	0
t.	Taxes	8	-2,095	-2,470	-2,741	-4,240
Total		**6,541**	**17,273**	**26,259**	**29,532**	**13,310**
EMU balance[1]		-3.2%	-2.3%	-2.4%	-2.5%	
EMU debt		58.6%	59.0%	59.6%	60.4%	
Underlying balance (coalition target)[2]						-1.75%

[1] The calculations assume an earning effect of 42% for the government's term of office.
[2] With a balance of -1.75%, the debt will stabilise at 60% of GDP, assuming an interest rate of 0% and nominal GDP growth of 3%.

Explanatory notes

To clarify the coalition's efforts on climate change, the table below sets out the climate measures in the coalition agreement. It provides an initial estimate of the possible CO_2 effect; the Netherlands Environmental Assessment Agency (PBL) needs to make a more detailed calculation.
The values in the table indicate the bandwidth of the possible effect. The measures need to be fleshed out. The PBL will have to perform calculations for the climate package as a whole in order to obtain a good estimate of the overall CO_2 effect. The expenditures for and costs of the new government's other priorities, such as nitrogen deposition, infrastructure, education, security and defence, are detailed in the budget appendix.

The distribution across sectors is also indicative. It is up to the government to adopt a comprehensive package that leads to sufficient reductions and takes account of leakage effects, feasibility, cost-effectiveness and the Netherlands' earning power.

Measure		**Bandwidth in Mtonnes (lower – upper) (indicative, 2030)[3]**		**2022**	**2023**	**2024**	**2025**	**Struc-tural**	**Cumu-lative (2030)**
Electricity sector		**0.5**	**2.0**		**100**	**300**	**400**	**0**	**6,000**
Expenditure									
1.	Grant scheme for zero-carbon gas-fired power plants **(Fund)**	0.5	2.0		50	100	150	0	1,000
2.	Construction of nuclear power plants (cumulative 5bn) **(Fund)**				50	200	250	0	5,000
Industry		**5**	**6**		**-26**	**-61**	**-138**	**-128**	**-864**
Expenditure									
3.	Monitoring and enforcement of energy-saving obligation	0.1	0.5		0	0	0	14	56
4.	Incentive programme for developing and scaling up recycling	0.1	0.1		7	8	9	7	70
5a.	Mandatory percentage of recyclate in building materials	0.15	0.3		3	4	4	3	30
5b.	Circular supply chain projects	0.01	0.01		2	2	2	2	16
6.	Carbon capture and storage (CCS)	0	0		0	0	0	0	0
Revenue									
7.	Tightening of industry CO_2 tax regime	4.0	4.0		0	0	0	0	0
7a.	Increasing minimum price of CO_2 (not a flat tax)	0.0	0.0		0	0	0	0	0
8a.	Energy tax rate structure ('Fit for 55') (gas and electricity)	0.5	0.5		-250	-500	-500	-500	-3,750
8b.	Reduction of renewable energy surcharge (ODE) rate in 2nd and 3rd brackets (electricity)	0.0	0.0		288	500	500	500	3,788
8c	Use of Hermans motion budgetary envelope (75m)	0.0	0.0		-75	-75	-75	-75	-600
9.	Abolition of energy tax exemptions – mineralogical and metallurgical processes	0.1	0.5				-78	-79	-473

[3] The CO_2 savings of each individual measure cannot simply be added together, partly because the measures interact. The PBL needs to perform calculations for the package as a whole to obtain a good estimate of the overall CO_2 effect.

Built environment		**7**	**7**		**247**	**635**	**1,254**	**637**	**11,120**
Expenditure									
10.	Encouragement of hybrid heat pumps (150,000 per year) **(Fund)**	0.9	0.9		0	0	150	0	900
11.	National Insulation Programme **(Fund)**	0	0		0	180	360	0	3,350
12.	Expediting insulation standard for rental housing (linked to abolition of landlord levy)	1.0	1.0		0	0	0	0	0
13.	Enhancing sustainability of social housing **(Fund)**	1.0	1.0		0	100	330	0	2,750
14.	Energy performance standards for new industrial buildings	0.1	0.1		0	50	50	0	500
Revenue									
15.	Shift in 1st energy tax bracket (electricity)	1.3	1.3		247	305	364	637	3,620
15a	of which 1st bracket for gas (+5.23 cents)				-227	-275	-320	-493	-3,043
15b	of which 1st bracket for electricity (-5.23 cents)				474	580	684	1,130	6,663
16a	Blending obligation for green gas (20%)	2.88	2.9		0	0	0	0	0
16b	Energy bill compensation for green gas	0	0		225	225	225	225	1,800
16c	Use of Hermans motion budgetary envelope (225m)	0	0		-225	-225	-225	-225	-1,800

Agriculture and land use		**6**	**6**		**0**	**0**	**-145**	**-133**	**-836**
Expenditure									
17	Nitrogen package (costs elsewhere move in unison)	5.0	5.0		0	0	0	0	0
Revenue									
18a	of which limitation of input exemption for combined heat and power	1.0	1.0				-100	-100	-600
18b	of which abolition of reduced rate for greenhouse horticulture						-45	-33	-236

Mobility		**3**	**4**		**-400**	**-603**	**-722**	**-512**	**-5,097**
Expenditure									
19	Greening of passenger transport and travel behaviour	0.3	0.5			14	29	29	265
Revenue									
20	of which motor vehicle tax (MRB++) for electric/fossil-fuel vehicles (based on mileage)	2.5	2.5					0	0
21	Reduction of car and motorcycle tax (BPM) exemption for vans to 0% in 2026	0.7	0.7			-217	-351	-141	-2,162
22	Increase in tax-free travel allowance (budget series moves in unison with tax table)	-0.2	-0.2						
23	Increase in flight tax (target 400m)	0	0		-400	-400	-400	-400	-3,200

Infrastructure, innovation and customised approach		**0**	**0**		**750**	**1,450**	**2,150**	**80**	**22,580**
Expenditure									
24	22bn for 1) Grant for early-phase upscaling; 2) Infrastructure investment (hydrogen, heat, charging infrastructure, etc.); 3) Binding, customised agreements for industry (green industrial policy), incl. stimulating SME innovation **(Fund)**				700	1,400	2,070	0	22,000
Revenue									
25	Increase in budget for energy investment tax credit (EIA)	0.2	0.2		50	50	50	50	400
26	Increase in budget for environmental investment tax credit (MIA) / accelerated depreciation of environmental investments for entrepreneurs (VAMIL)	0.3	0.3				30	30	180

Other		**3.0**	**6.0**		**300**	**500**	**800**	**0**	**5,600**
27	Effect of ‘Fit for 55’ (EU)	1.0	2.0						
28	Effect of National Climate Agreement + August decision-making	2.0	4.0						
29	Implementation costs of subnational authorities and research bureaus				300	500	800		5,600
30	Scrapping link between Renewable Energy Grant Scheme (SDE) and renewable energy surcharge (ODE)	0.0	0.0		0	0	0	0	0

Total		**25.4**	**31.0**		**971**	**2,221**	**3,599**	**-56**	**38,504**