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Forming new government in an impasse

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- **No reason to worry about the economy or the public finances**
- **The old government stays on as care-taker government, no time limit**
- **A minority cabinet might come in sight**
- **For a majority government a coalition of at least four parties is required**
- **Edith Schippers proposes PvdA celebrity Herman Tjeenk Willink as new 'informateur' (to mediate between the parties)**

A new Dutch government still not in sight, but don't worry about it

Almost two and a half months after the general elections, the Netherlands still does not have a new government, nor is it clear what government will ultimately be formed and when it might be installed. In this brief note we look at what is going on, why it is taking so long and what it all means for economic policy.

It remains very hard to say what government will be ultimately formed and when. This process is unlikely to have much impact on financial markets as there are no urgent economic or financial challenges that a new government must address. Nor is it likely that a government will ultimately be formed that would pursue radically different economic and financial policies from the ones followed by the current government and its predecessors. Any policy changes are not going to endanger the country's sovereign AAA-rating.

Why is there still no government although the election result was met with relief in financial markets?

The election result was met with relief as the xenophobic, populist Freedom party of Geert Wilders did worse than feared and the party of the current Prime Minister, Mark Rutte, did a little better than expected and maintained its position as the largest party in parliament by a significant margin.

There are essentially two reasons why there still isn't a government. First, parliament is very fragmented. 13 Parties are represented in parliament.¹ The largest party, Mark Rutte's VVD, has 33 of the 150 seats (22%). The second largest party, Geert Wilders' PVV has only 20 seats, or 13%. The implication is that in

¹ The Netherlands has a proportional representation system. This means that the percentage of seats allotted to each party is equal to the percentage of votes won; no election threshold exists.

order to form a majority government, a coalition is required of at least four parties. While Dutch politicians are used to compromising to form a government, some parties have ruled out going into coalition with others. Most obvious: the majority of parties have vowed not to form a government including Wilders' PVV, which complicates things further.

The second reason why we still do not have a government is the tradition of a very detailed programme for government being negotiated before the government is actually installed. In many other countries where coalition governments are common, they often agree on basic guidelines or principles and then deal with differences of opinion among coalition members as they occur. In Holland, a detailed programme for government is written which dictates policy direction during the life of the government. This lengthens the time it takes to form a government but limits the risk of constant disagreements between coalition members.

Smaller parties are vulnerable in a coalition. As they will get fewer of their election promises into the programme for government than larger parties, their supporters may feel disappointed. Experience shows that smaller parties entering a coalition government often suffer big losses at the next general election. (Holland is not unique here. See for example what happened to Nick Clegg's Liberal Democrats in the UK after they had been in coalition with the Conservatives.) So the smaller parties are often very tough negotiators during the coalition talks in order to get as many of their campaign promises included in the programme for government.

Is there a time limit for this process of forming a new government?

No. Some countries have rules for how long it may take to appoint a new prime minister. That is not the case in Holland. Since World War 2 the Netherlands has seen 33 governments. Coalition talks have taken 65 days on average. The shortest period of coalition talks was 8 days, the longest 208 days. The current formation process is already past the average, but still significantly short of a record. (As far as I am aware, the world record is held by Belgium. The Di Rupo government was formed in Belgium in December 2011, 541 days after the general election!!)

What happens to economic policy before a government is formed?

Nothing, really. The old government stays on as care-taker government. They cannot take major policy initiatives anymore, although it is not always clear what constitutes 'major policy initiatives'. But the (new) House of Representatives can pass legislative proposals and debate issues. Generally speaking, this process does not lead to controversy. Current economic conditions are favourable. Economic growth is above trend, unemployment is falling and there are no significant problems with the public finances. That means the government does not need to take major policy initiatives to address acute financial or economic challenges. Automatic stabilisers will work towards a strengthening of the financial position of the government. As a new government will embark on new policy (spending) initiatives, not having a government in place thus implies stronger public finances in the short term.

Is the Netherlands' AAA credit rating now in danger because of the political uncertainty?

No, the credit rating is based on the strong economic fundamentals (structure of the economy, strong public finances, strong external position, strong international competitiveness, etc.). The fact that there is no new government yet does not disturb that. In addition, the formation process will not lead to a government that will follow completely different financial and economic policies.

What has happened so far since the elections?

The election result, and taking into account that most parties are unwilling to form a government with the PVV, suggested that a four-party coalition of Mark Rutte's VVD (33, right-wing liberals), CDA (19, Christian Democrats), D66 (19, social liberals) and GroenLinks (14, Green, left) was the most obvious combination as it would be based on 85 seats, providing a comfortable majority. Also, CDA, D66 and GroenLinks made significant gains at the elections while the VVD is the largest party, by a considerable margin, even though they lost seats at the elections.

After almost two months of talks behind closed doors, these talks broke down two weeks ago. Allegedly, the reason for the talks breaking down were irreconcilable differences of view regarding immigration policy. It would appear the parties divided into VVD, CDA and D66 on one side and GroenLinks on the other.

After these talks had broken down, talks started between VVD, CDA, D66 (the three parties seen as the natural core of a new government) and the ChristenUnie (5, leftish Christians). Such a coalition would only have a majority of 1 and thus not very secure. It would likely have to do deals with other smaller parties to provide a more stable basis for government. However, the talks of these four parties never really took off. D66 leader Alexander Pechtold and ChristenUnie leader Gert-Jan Segers met before serious talks started and they concluded that there was no point in trying to get both parties into a government. D66 has very liberal views on things like euthanasia. They have, for example, proposed euthanasia as an option for anybody over 75 who feels their life is 'completed'. This is unacceptable for the ChristenUnie.

Edith Schippers presented her final report: new informateur proposed

Health minister Edith Schippers was appointed by parliament² to explore ways to form a stable majority government. On 29 May, she presented her final report on the recent talks. In her report, she proposed Mr. Herman Tjeenk Willink to become the new 'informateur'. Mr. Tjeenk Willink is a PvdA celebrity, who has already been informateur several times. Probably more importantly, Tjeenk Willink used to be Vice-President of the Dutch Council of State³ and is seen as an above party mediator.

² Since 2012, the monarch does not play a role anymore in the formation process: 'explorers', mediators and 'informateurs' are appointed by the House of Representatives.

³ The Council of State is an Advisory body on legislation and administrative court. The King is the formal President of the Council.

What's next?

The task of a new informateur would be to find out whether a majority cabinet still can be formed. A minority cabinet could be an option as well. According to Edith Schippers, new explorations are not necessary.

There are several options.

- Still a possibility is to bring GroenLinks back to the negotiating table and try to work out the differences on immigration and possible differences on climate policies. Opinion polls show that GroenLinks supporters attach more importance to climate policies than immigration, suggesting that they would support their party leader to compromise on immigration if he can achieve more in the area of climate change. Party leaders are ruling this possibility out, but we consider it still a realistic possibility, though it may take time and other options may need to be tried (and to fail) before these parties are willing to talk again.
- Another option would be to bring the PvdA (9, Social Democrats) on board with VVD, CDA and D66, for a parliamentary majority of 80. The PvdA suffered devastating losses at the last elections in which they went from 38 seats to just 9. Such a beating by the electorate does it not make obvious they should be in government again so soon. As this terrible result for this party was seen as the consequence of having been in a coalition government with the VVD, it is not obvious that there should be much appetite within the PvdA to enter a new coalition. But then, stranger things have happened...
- To bring the SP (14, hard-left socialists) on board (making a majority of 85) could also be an option. However, the SP has ruled out going into government with the VVD.
- Another possibility is for the VVD, CDA and D66 to reconsider their reluctance to enter government with the PVV (which would give a majority of 91). While this is theoretically possible, it simply does not seem realistic.
- It is also possible for D66 leader Pechtold and ChristenUnie leader Segers to talk again and come to some agreement, though the atmosphere between them would appear to be very sour.
- A last option is to bring more parties into the talks. There is a variety of possibilities for a five-party coalition. The problem, however, is that such a coalition is even more complicated.

Composition of government	estimated chance %
VVD, CDA, D66, GroenLinks	30
VVD, CDA, D66 Minority Government	20
5-party coalition with VVD, CDA and D66	15-20
VVD, CDA, D66, PvdA	15
VVD, CDA, D66, ChristenUnie	10
VVD, CDA, D66, SP	5
New elections	0-5
Any coalition with PVV	0

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