



CPB Netherlands Bureau for  
Economic Policy Analysis

# Concept- Macro-Economic Outlook 2023

- Explanation preliminary economic projections 2022-2023
- Main economic indicators 2020-2023
- Purchasing power development 2022-2023



CPB Projections

August 2022

# Inflation is affecting more and more people, economic growth is decreasing

*The draft version of the Macro Economic Outlook (cMEV) is the basis for the final Dutch Cabinet decisions on the 2023 budget. The definitive version of the Macro Economic Outlook will be published on Prinsjesdag (the day of the King's Speech which includes the main elements of government budget for the coming parliamentary year), which will also incorporate these latest decisions.*

**After a strong economic recovery from the coronavirus crisis, growth is now slowing down as inflation exerts pressure on household spending.** The Dutch economy has recovered strongly following the coronavirus crisis. The high growth of the past quarter and the end of last year results in a high growth rate of 4.6% for 2022, but below the surface, the situation is now starting to swing the other way. The war in Ukraine and the disruptions caused by the coronavirus crisis have led to a sharp rise in inflation. In particular, the very rapid rise in energy prices is having a negative financial impact on a growing number of households, as more and more energy contracts are up for renewal. As a result, consumption growth will come to a standstill in the coming quarters. Inflation and the related uncertainty — as well as central banks increasing interest rates to curb this inflation — are slowing down economic growth around the world. The deteriorating economic outlook, both on national and international levels, is also making companies reluctant to invest.

**For the coming year, GDP growth is expected to be modest, driven by expansionary government policies and sustainable export levels.** Although CPB projects that a substantial part of the planned increase in spending cannot be realised due to supply-related problems and a tight labour market, there is still a considerable increase in demand from the government. Exports will also continue to grow. For 2023, GDP growth is expected to drop to 1.1% due to the above factors.

**If the energy crisis does not become more severe, inflation (CPI) will decrease from 9.9% this year to 4.3% next year.** Although inflation is broadening somewhat to other components, such as food products, it will first and foremost remain driven by energy prices, especially that of natural gas. These projections are based on the expected natural gas market prices, which may decrease slightly next year, but will still remain well above the levels of recent years. These developments are obviously surrounded by uncertainty.

**Despite the tight labour market, wage increases are remarkably low.** The labour market remains tight: the moderating effect of the cooling economy is contrasted by the continuing labour demand in the public sector. Unemployment is projected to rise slightly to 3.9% in 2023. The collective labour agreements (CAOs) reached, so far, do not show any substantially accelerated wage growth, despite the tight labour market and the favourable position of the export-oriented sectors, in particular. Relatively favourable corporate earnings and a declining labour income share in 2023 suggest there is room for wage growth, although this is likely to vary widely between sectors and types of businesses.

**Purchasing power is dwindling, but, for the lowest incomes, the real blow will not come until next year, thanks to temporary policy measures.** The combination of high inflation and moderate wage growth leads to a substantial decrease in purchasing power — on average, by 6.8% in 2022. This does not apply to households with an income of up to 120% of the social minimum, who will benefit this year from an energy allowance of 1300 euros. However, this allowance will not reach all vulnerable households; CPB's earlier stress test showed that even above the 120% level, there is still a significant group at risk of not being able to make ends meet.<sup>1</sup> Because the energy allowance is a one-off payment, households in this group will see a substantial decrease in income in 2023. For next year, the average purchasing power of most other groups will be slightly

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<sup>1</sup> Schulenberg and Vlekke (2022), Stresstest kosten van levensonderhoud (Stress test cost of living ([link](#)))

positive, mainly as a result of the decrease in financial burden as agreed in the coalition agreement and the increase in the minimum wage, including the related impact on welfare and other benefits.

**Purchasing power development varies greatly between households and over time.** Because of the specific role of energy prices in inflation, the standard purchasing power picture justifies making two additional comments. Differences in the share of energy consumption in the budget have a huge impact on the extent to which households are affected. There is inflation inequality: the lower the income, the greater the average impact of the high inflation — something that is not incorporated into the purchasing power picture. There is also a difference in the point in time at which households are confronted with inflation. The purchasing power figures reflect price developments with respect to new energy contracts, which means that households will only feel the greater impact of inflation at the time of energy contract renewal — for some, this will not be until next year.

**This is the first year that CPB's projections include poverty levels.** This is in line with the government's ambition to include more indicators of broad prosperity in the budget cycle. The poverty indicator shows how many people have an income below the poverty line (defined here as the amount needed to meet basic needs). In addition, it also makes the distinction of how many children live in poverty. CPB applies the definition of poverty as formulated by the Netherlands Institute for Social Research (SCP)<sup>2</sup>, which the Dutch Government also uses in setting its objectives.

**The projections shows that poverty will increase both this year and the next — the increase is even greater when corrected for the fact that energy costs make up a relatively large proportion of the basic budget.** Due to high inflation, the percentage of people living in poverty will rise to 7.6% in 2023, and for children this is even 9.5%. As is the case with purchasing power, these figures are an underestimation of the actual problems, because of the relatively large share of energy in the basic budget, and because price increases have an even greater impact on those living at or below the poverty line. When also correcting for these factors, the share of people suffering from poverty increases to 8.1%, and, for children, to 9.8%.

**Public finances show a remarkable recovery due to temporary factors; in addition, inflation reduces the debt ratio.** Government revenues are benefiting from robust tax revenues following the economic recovery from the coronavirus crisis. In addition, the high natural gas price is also leading to substantially higher natural gas revenues. Due to the tight labour market it will not be possible to implement all the planned spending increases, which means that government expenditure will increase less than previously budgeted. The EMU balance will improve under the influence of these developments and amount to -1.1% of GDP in 2023. The debt ratio falls, partly due to inflation (the 'denominator effect'), to 47.1% of GDP.

**Uncertainty about economic development is still very high.** It is greatly affected by the future development of the war in Ukraine. There are also other risks, such as the threat of a new coronavirus wave and of the central banks failing to rein in inflation or having to intervene even more heavily to prevent inflation from rising too much. Increasing interest rate differences within the eurozone could also create tensions. In view of these risks and given the very moderate growth, the possibility of some quarters showing negative growth (i.e. a technical recession) cannot be ruled out. The significance of this should not be overestimated either, as the tight labour market makes a rapid rise in unemployment unlikely. An uncertainty on the positive side in the projections, in addition to an end to the war in Ukraine and a decrease in energy prices, is that consumption levels could also be higher if households spend more of the money they saved during the coronavirus crisis.

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<sup>2</sup> For discussion, see SCP and CPB (2020), *Kansrijk Armoedebeleid (Promising poverty policy)* ([link](#)).



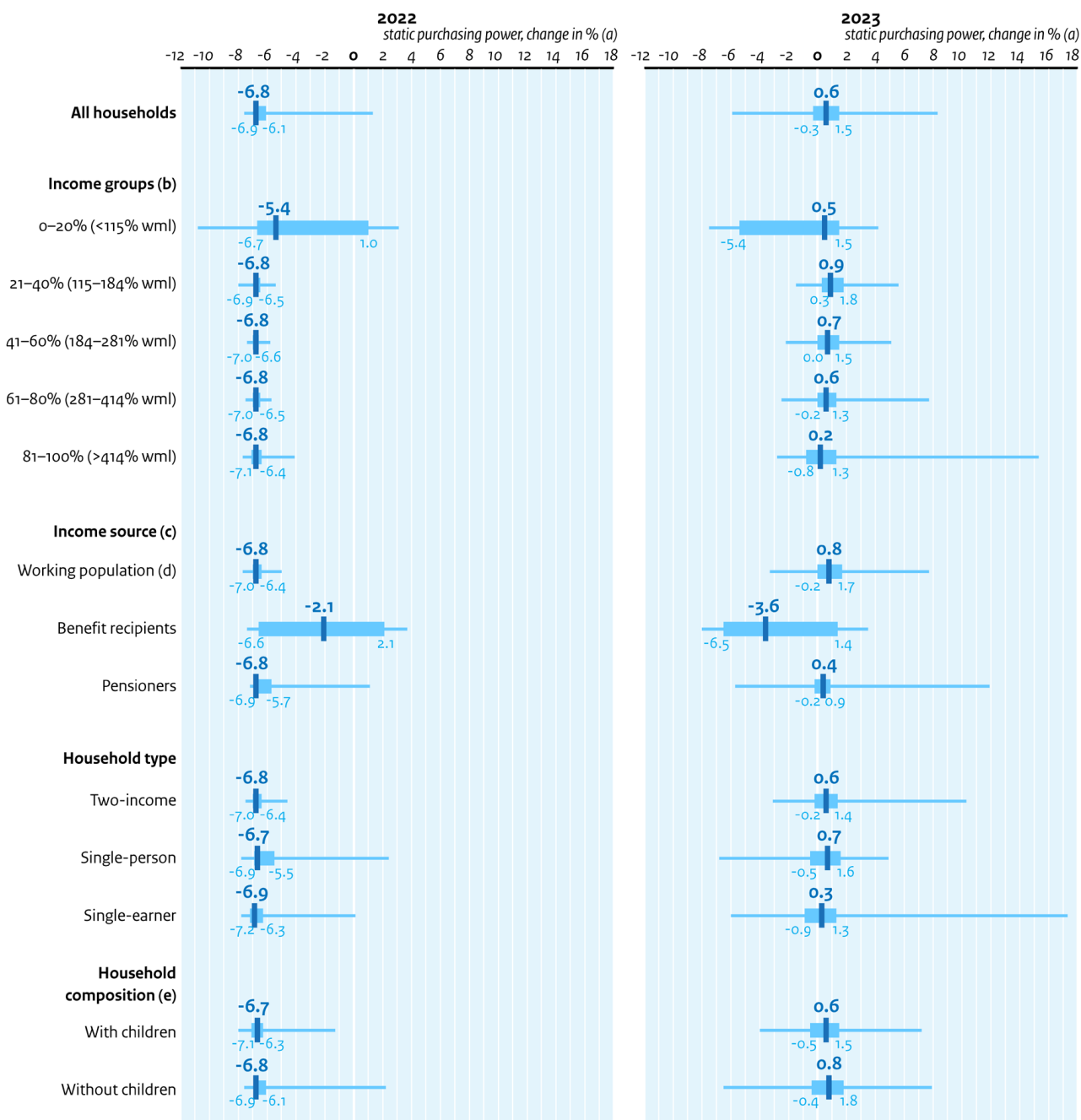
**Main economic indicators cMEV 2023 (August 2022)**

|   | 2020 | 2021 | 2022  | 2023 |
|---|------|------|-------|------|
| <b>International items</b>  |      |      |       |      |
| Relevant world trade volume goods and services (%)                      | -9.1 | 8.4  | 4.9   | 2.9  |
| Export price competitors (goods and services, non-commodities, %)       | 0.3  | 6.1  | 9.7   | 3.2  |
| Crude oil price (dollar per barrel)                                     | 41.8 | 70.7 | 105.3 | 89.7 |
| Exchange rate (dollar per euro)   | 1.14 | 1.18 | 1.06  | 1.02 |
| Long-term interest rate the Netherlands (level in %)                    | -0.4 | -0.3 | 1.1   | 1.6  |
| <b>GDP and demand (volume)</b>  |      |      |       |      |
| Gross domestic product (GDP, economic growth, %)                        | -3.9 | 4.9  | 4.6   | 1.1  |
| Household consumption (%)   | -6.4 | 3.6  | 5.7   | -0.3 |
| Government consumption (%)  | 1.6  | 5.2  | 1.6   | 3.2  |
| Capital formation (including changes in stock, %)                       | -6.3 | 2.9  | 2.6   | 0.8  |
| Exports of goods and services (%)                                       | -4.3 | 5.2  | 4.0   | 3.2  |
| Imports of goods and services (%)                                       | -4.8 | 4.0  | 2.8   | 3.2  |
| <b>Prices, wages, purchasing power and poverty</b>                      |      |      |       |      |
| Price gross domestic product (%)  | 1.9  | 2.5  | 4.2   | 5.4  |
| Export price goods and services (%)                                     | -2.9 | 8.3  | 16.6  | 2.9  |
| Import price goods and services (%)                                     | -3.6 | 10.2 | 22.1  | 2.6  |
| Inflation, national consumer price index (CPI, %)                       | 1.3  | 2.7  | 9.9   | 4.3  |
| Inflation, harmonised index of consumer prices (HICP, %)                | 1.1  | 2.8  | 11.4  | 4.3  |
| Compensation per hour private sector (%) (a)                            | 7.9  | 0.1  | 2.4   | 4.3  |
| Wages as determined in collective labour agreements, private sector (%) | 2.8  | 2.2  | 2.9   | 3.4  |
| Purchasing power, static, median all households (%)                     | 2.5  | 0.3  | -6.8  | 0.6  |
| People in poverty (level in %) (b)                                      |      | 5.7  | 6.7   | 7.6  |
| <b>Labour market</b>  |      |      |       |      |
| Labour force (%)  | 0.4  | 0.9  | 1.7   | 1.4  |
| Active labour force (%)   | 0.0  | 1.5  | 2.5   | 0.9  |
| Unemployment (in thousands of persons)                                  | 465  | 408  | 340   | 390  |
| Unemployment rate (% of the labour force)                               | 4.9  | 4.2  | 3.4   | 3.9  |
| Employment (hours, %)   | -2.8 | 3.3  | 5.2   | 0.4  |
| <b>Other items</b>  |      |      |       |      |
| Labour share in enterprise income (level in %)                          | 76.3 | 74.5 | 75.0  | 73.8 |
| Labour productivity private sector (per hour, %)                        | -1.5 | 2.5  | -0.4  | 0.8  |
| Private savings (% of disposable household income)                      | 12.8 | 11.5 | 6.1   | 4.8  |
| Current-account balance (level in % GDP)                                | 7.1  | 9.0  | 7.2   | 7.4  |
| <b>Public sector</b>  |      |      |       |      |
| General government financial balance (% GDP)                            | -3.7 | -2.6 | -0.9  | -1.1 |
| Gross debt general government (% GDP)                                   | 54.7 | 52.4 | 48.8  | 47.1 |
| Taxes and social-security contributions (% GDP)                         | 39.9 | 39.7 | 39.2  | 38.4 |
| Gross government expenditure (% GDP)                                    | 48.2 | 47.0 | 45.6  | 44.4 |

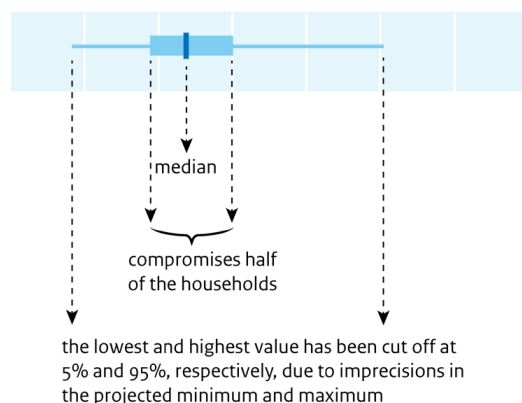
(a) The NOW wage cost subsidy, and the continuity contribution to health care, have an upward effect on the wage mutation in 2020 of 3.3%-points and a downward effect of 2.0%-points in 2021 and 1.2%-points in 2022.

(b) The ratio of the number of persons in households below the poverty line and the total number of persons.  
The modest-but-adequate budget of the Social and Cultural Planning Office has been used as the poverty line.

## Static purchasing power development 2022-2023



### How to read the table?



The 'median' is the middle value of a series of figures, ordered from low to high. A median purchasing power development of 1.3% for all households means that, for half of them, purchasing power development will be 1.3% or less, while, for the other half, it will be 1.3% or more. For half of the households, purchasing power development will be within the blue bar, with one quarter below and one quarter above the median. For the other half, purchasing power development will be outside this range. The box plot's whiskers show the lowest and highest development in purchasing power.

- (a) Not including incidental changes in income.
- (b) Gross labour income or welfare benefits on household level; the national minimum wage (nwm) in 2021 is around 22,558 euros. Income groups have been divided into five groups of equal size in ascending order of income, each containing 20% of all households.
- (c) The categorisation according to source of income is based on the highest income source per household, with households of which the main income is derived from investments or products having been categorised under the employed. Households on early retirement income or student grants as their main source of income have been excluded.
- (d) Changes in purchasing power for the employed do not include incidental wage changes, such as bonuses received or lost.
- (e) The categorisation according to household composition is based on the presence of children of up to eighteen years and excludes pensioner households.