CPB Netherlands Bureau for
Economic Policy Analysis

Central Economic Plan 2019

The Dutch economy returns to a standard growth rate. International uncertainties that were looming over the market are going to have an impact. For both 2019 and 2020, a **GDP growth** is projected of

1.5%

Uncertainties about the Chinese economy, US trade policy and Brexit are causing the growth in relevant world trade to decrease from 5.0% in 2017 to 1.8% in 2019 and 2.5% in 2020.

5.0% → 1.8%

Government spending will grow, substantially, by a respective 2.4% and 2.3% in the projected years, **but less abundantly than envisaged**. This and higher tax revenues, together, are causing a budget surplus of 1.2% of GDP in 2019 and 0.8% in 2020.

Mostly because of higher tax credits and the two-bracket system, the working population and pensioners will see a higher increase in their purchasing power than social benefit recipients.

CPB Policy Brief

March 2019

Summary

The Dutch economy is returning to a standard growth rate. The rather high growth of the past years is over. International influences are cooling down the economy. Uncertainties for the global economy, which already were looming for some time—such as US trade policy, Brexit and the state of China's economy—are impacting the real economy. This cooling can be seen particularly in Dutch exports, which will grow considerably less rapidly in 2019 and 2020 than has been the case over the past years. This is also true for investments and private consumption. Total domestic spending, however, remains steady, as the expansive budget policy will largely compensate for the lower growth in private spending. After years of growth percentages of over 2%, the projections for 2019 and 2020 show a GDP growth of 1.5%.

International trade is growing at a slower rate. The slowdown in global trade, following the financial crisis, is now being exacerbated by higher import tariffs. Here, US policy is causing uncertainties, with ongoing negotiations with China and possibly higher import tariffs on European motorised vehicles. This would particularly affect the German economy. China's growth and trade are both declining, which is related to its government policy on reducing deficits and debts.

The labour market remains tight, but no further decrease in unemployment will take place. Employment will continue to grow, but less rapidly than before. The tight labour market, with a high vacancy rate, continues to encourage people to seek paid employment. Unemployment, on balance, will see a slight increase to 4.0% by 2020, which is still relatively low. In this tight labour market, higher educated people increasingly often are being offered a permanent contract, whereas for those with a low or secondary education, this is far less often the case.

Contractual wage increases will accelerate, benefiting purchasing power under a moderate inflation in 2020. In 2019, the increase in indirect taxes will cause inflation to be relatively high, at 2.3%, but this will go down again to 1.4% in 2020. The tight labour market and higher inflation in 2019 will cause Contractual wages to increase more rapidly than in previous years. This increase from a historical perspective, however, is only limited, which is partly related to the less strong increase in labour productivity. Nevertheless, this is projected to result in real wage increases that will benefit household purchasing power. In the coming years, because of the two-bracket tax system and the higher labour tax credits, the working population and pensioners will be better off than social benefit recipients.

Substantial growth in public spending, but less than envisaged. Growth in government consumption, in the projected years, will be twice that of recents years, at 2.4% and 2.3%, respectively. Yet, this growth is lower than envisaged; because of the tight labour market, among other things, spending increases cannot be realised, particularly with respect to those related to defence and infrastructure. This, together with the higher tax revenues from the state of the economy, will result in budget surpluses of 1.2% of GDP in 2019 and 0.8% in 2020.

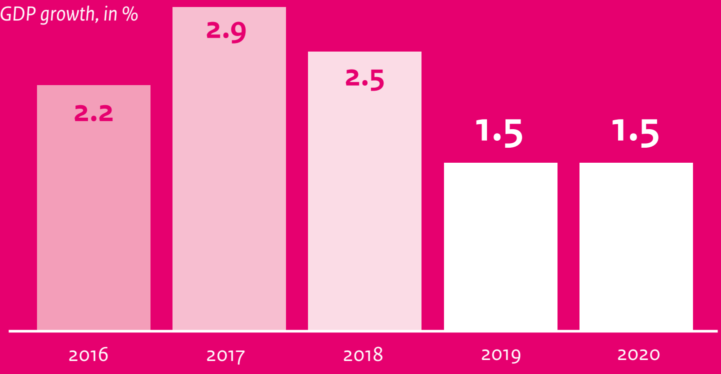
In addition to US trade policy and a further decline in the Chinese economy, a no deal Brexit also poses a risk for economic growth. In the short term, this will lead to chaos and cause economic damage—particularly if the 'no deal' scenario is not taken off the table soon. Furthermore, the Italian economy is in recession, which, in combination with weakened banks, poses downward risks for the eurozone economy. Economic growth will be higher, if government spending is realised to a larger degree than currently projected.

Government to offer stability in case of further economic decline. The lower educated and people with a flexible employment relationship are affected relatively more than others by an economic downturn. Structural reforms may limit uncertainties for these more vulnerable groups in society.

Economic growth back to normal

International risks affect the Dutch economy

GDP growth, in %



1.2%

The government is spending less than envisaged in the budget. Together with higher tax revenues, this leads to a budget surplus of 1.2% of GDP in 2019 and 0.8% in 2020

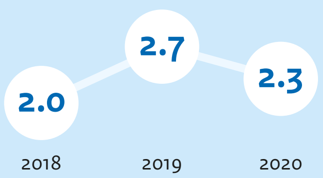
Tight labour market with higher wages

Unemployment

in % of labout force

Contractual wage increase

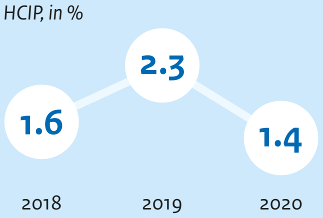
change in %



Inflation

In 2019, temporarily higher due to VAT increase and higher energy costs

HCIP, in %



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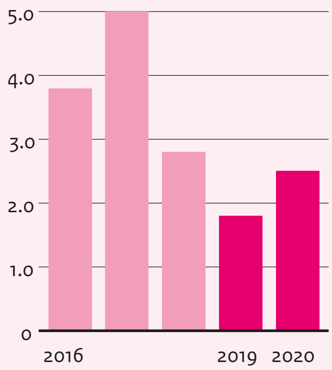
Uncertainties undermine trade

Lower growth in world trade, due to uncertainties around China, US trade policy and Brexit. Dutch growth now predominately domestic; government spending compensates for lower growth private spending

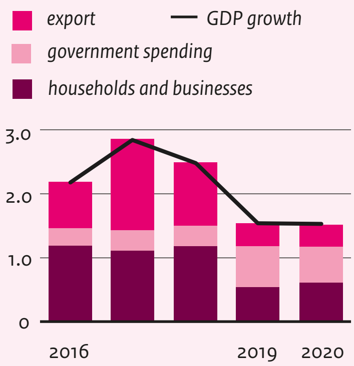
Relevant world trade

growth, in %



Netherlands

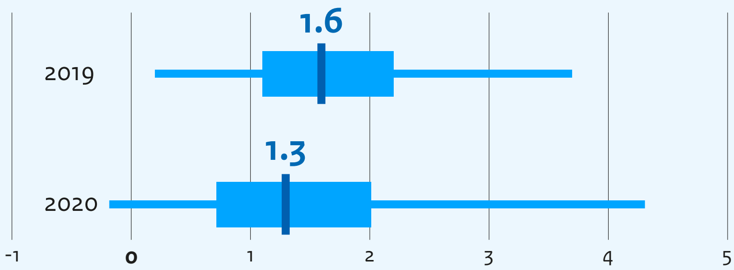
contribution to GDP growth, in %-points



Purchasing power higher for most

Lower incomes particularly benefit from higher tax credits, medium and higher incomes from the two-bracket tax system

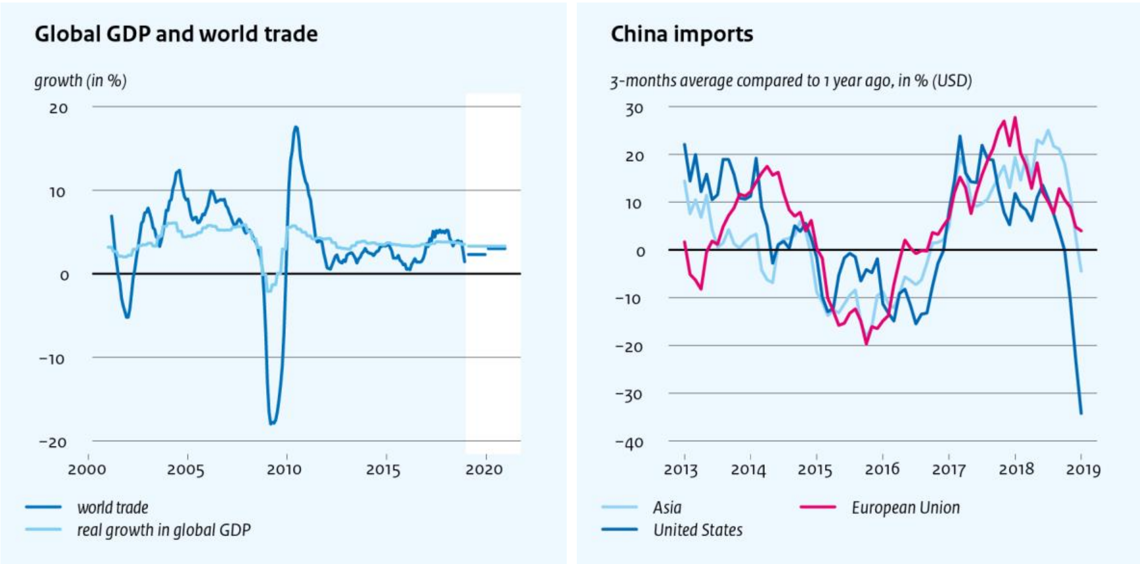
alle households, change compared to previous year, in %



The economy in 2019 and 2020

Global economy and international trade growing less rapidly. After a peak in 2017, global trade is growing at a more moderate rate (Figure 1). The global trade slowdown after the financial crisis is continuing and is further exacerbated by recently raised import tariffs. Uncertainties about new tariff increases, the state of the Chinese economy, Brexit, and the either temporary or permanent decline of a number of European economies are having a negative impact on confidence levels, particularly in the corporate sector. This makes companies less eager to invest. In the United States, there is also the cessation of the fiscal incentive measures that, over the past year, led to additional growth. Therefore, the global economy is projected to grow less rapidly in 2019 and 2020 than in previous years. On a positive note, for a few emerging economies, such as Brazil and Turkey, growth will increase over the projection period. Moreover, China, Japan and France are stimulating their economy, and the US Federal Reserve is reconsidering previously foreseen tightening measures. These policy responses will alleviate the slowdown in growth.

Figure 1 Global economy and trade are growing at a lower rate; Chinese trade decreases



Source: CPB and Haver (link).

Note: The graph on the left shows the historical developments in quarterly average trade volumes in goods (based on the World Trade Monitor), compared with the previous year. For the projected period, it shows annual growth in global trade volumes in goods and services. The historical development in global GDP concerns historical quarterly growth, compared to that of the previous year. The graph on the right shows the value of China's imports from the United States, the European Union and Asia.

Uncertaincies are undermining the real economy. The course that the United States is following with respect to trade tariffs is creating major uncertainty for the global economy. Results from the negotiations with China as well as possibly higher import tariffs on European vehicles are both still up in the air. At the time of publication of this report, the tariff increases for China are postponed and being further negotiated. The German economy, which currently is hardly growing, is particularly vulnerable, in this respect. The Italian economy is in recession and may decline even further. These uncertainties, including those about a *no deal* Brexit, are making companies particularly cautious. The recent shutdown of the US Government did not have a large impact on economic growth, but did create some additional uncertainty. Uncertainties about economic developments are reflected in strongly fluctuating prices on the share markets.

The magnitude of China's economic decline is uncertain. The trade war with the United States is leaving its mark. In addition, the Chinese Goverment has been pursuing deleveraging policy, which hampers growth in the short term. China's imports (Figure 1) and exports are declining, as are car sales. Vehicle sales have been declining since early 2018 and are now at the 2016 level. China's purchasing managers' index (PMI) for the industry has also been declining since early 2018. The seriousness of the Chinese growth slowdown is uncertain, due to the lack of undisputed data. Under a further decline, Dutch exports will become affected via the supply of intermediate products to countries such as Germany who are subsequently exporting the finished products (mostly capital goods) to China. A stronger economic decline in China may also, in addition to trade, put further pressure on share prices and producer and consumer confidence—which certainly would have a negative impact on Dutch economic growth (see the text box 'Uncertain global economy and government spending').

The European economy growing less abundantly than in previous years. Although domestic spending will remain steady because of employment growth and higher wages, the growth in external demand is less rapid than in previous years. Policy uncertainty is undermining business confidence, which causes businesses to be more cautious about new investments. Both producer and consumer confidence has decreased, the Italian economy is in recession, but in Spain high growth levels are continuing. The German economy is showing reduced growth, whereas the Dutch economy is growing more rapidly than the eurozone average.

Inflation in the eurozone remaining well below the ECB objective. Core inflation will go up, slightly, due to increased wage costs. The upward effect of the increasing oil price in 2017 and 2018 will come to a halt in 2019 and 2020, as the oil price is projected to decrease in 2019.[1]

Dutch economy returning to a standard growth rate, particularly due to less growth in exports. Influences from abroad are cooling the Dutch economy. Exports will be growing less rapidly than in previous years (Figure 2).[2] In addition, international uncertainties are also having a negative impact on Dutch producer and consumer confidence. Investments and consumption will continue to grow in 2019 and 2020, but less strongly than before. Therefore, the Dutch economy is now growing in line with its potential growth. Following earlier growth percentages of well over 2%, projections for both 2019 and 2020 show a 1.5% growth in GDP.

Potential growth is currently lower than in previous decades. Labour supply is increasing less rapidly than before. The cohort-related increase in the labour participation of women is mostly finished. And the education level—an important determinant of labour participation—is increasing less rapidly that in the past. Moreover, productivity growth is also less strong. This is in line with the international trend, for which the causes, as yet, remain unclear.

Growth in domestic spending will remain steady. The government's expansive budget policy will largely compensate for the reduced growth in private spending. Goverment spending is increasing strongly, at over 2% per year, although this is lower than envisaged in the budget. Contributions to growth by business investments and the housing market will remain positive, although less strong than in previous years (Figure 2). Businesses are becoming more reluctant to invest due to the larger international uncertainties. Investments in housing will normalise over 2019, after years of abundant growth. The declining number of transactions in existing privately owned homes is also reducing the demand for renovation, restauration and repair work. This capacity can be utilised in new housing construction. Furthermore, household consumption is also projected to grow less strongly in 2019 and 2020, compared to previous years.

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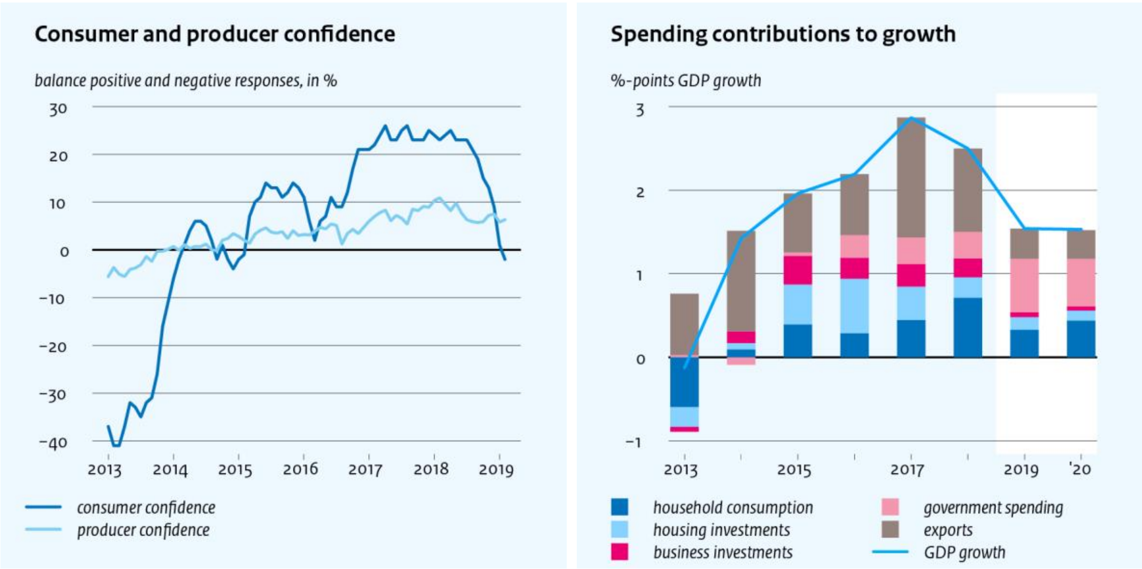
[1] The technical projections for the exchange rates, oil prices and interest rates are based on data on Week 3 of 2019 (14–20 January).
[2] Growth in exports is being dampened, because a company is moving certain activities to other countries.

Figure 2 Decline in consumer and producer confidence; less growth particularly due to decreased exports

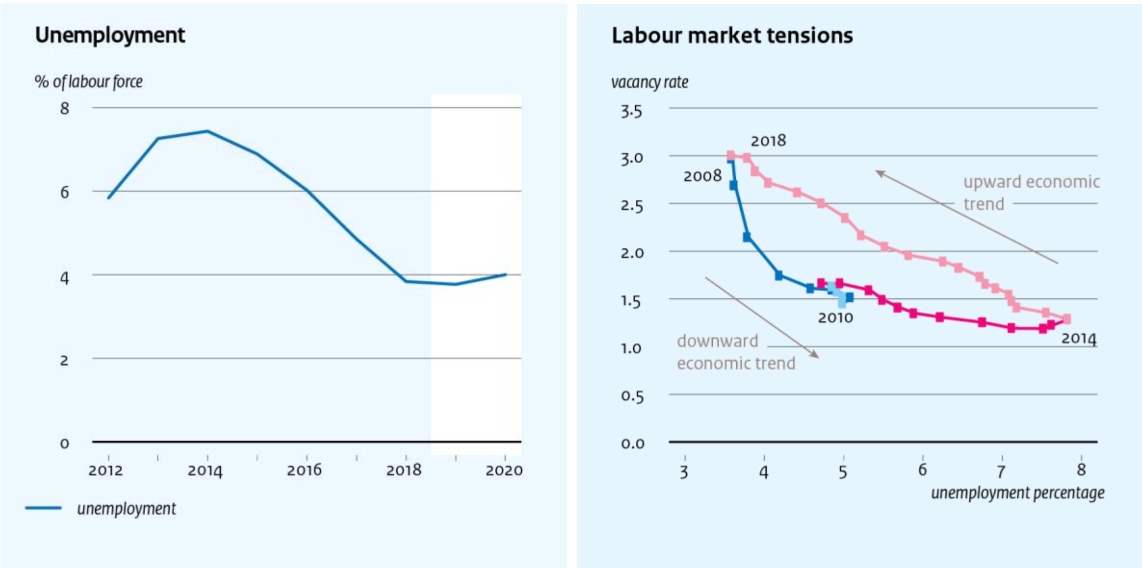


Source: CBS and CPB (link).

Growth in consumption less strong than in previous years. Disposable income will increase less rapidly, in 2019 and 2020, compared to 2018 levels. This is due to a less strong increase in income from labour, together with a reduction in the growth in employment. Because of the strong decrease in the number of housing transactions, housing-related consumption will grow substantially less rapidly than in previous years.

Unemployment will remain low. The current labour market is tight, with an historically high vacancy rate (Figure 3). This has encouraged people to seek paid employment. Howerver, the increase in the number of such 'encouraged workers' in 2019 and 2020 is expected to be lower than in 2018. The lower growth rate of the Dutch economy is also causing lower growth in employment. On balance, there will be a slight increase in unemployment, towards 4.0% in 2020, although this is still lower than the equilibrium unemployment.

Figure 3 Low unemployment and high vacancy rate



Source: CBS and CPB (link).

Labour market shortages and higher inflation will accelerate Contractual wage increases. From a historical perspective, Contractual wage increases remain limited, due to the lower growth in labour productivity. The relatively high inflation in 2019, resulting from increases in indirect taxes, will have a temporary upward effect on wages, and also a—delayed—impact in 2020 (Figure 4).

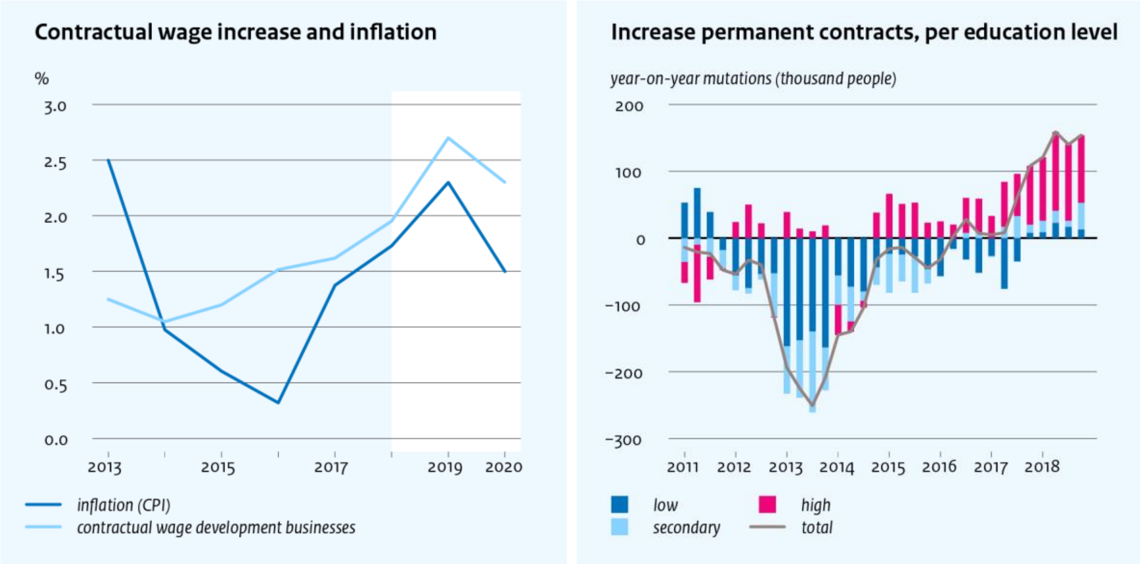
Higher educated workers receive a permanent contract sooner than others. In the tight labour market, employers increasingly often 'reward' personnel by offering them a permanent contract (Figure 4). This type of reward, however, is mainly provided to the higher skilled labour force; those with a low or intermediate vocational education are rewarded far less often, in this way.

Inflation in 2019 will be relatively high due to indirect tax increases. Increases, particularly in indirect taxes, such as the low VAT tariff, energy tax and sustainable energy storage tax (ODE), are contributing to the relatively high inflation. The lower oil price will have a dampening impact on inflation in 2019. Both in 2019 and 2020, higher labour costs are having an impact on the inflation level. The 2.3% inflation in 2019 will be higher than in the surrounding years, with 1.6% in 2018 and 1.4% projected for 2020.

Positive purchasing power increases thanks to policy and real wage increases. In 2019 and 2020, most households are projected to increase their purchasing power (Figure 6). In both years, the increases in tax credits will have a positive impact on household purchasing power, particularly for those on a lower income. The impact of the two-bracket tax system is positive for the purchasing power of middle and high incomes, but negative for low incomes. Moreover, in 2019, pensioner credits will be raised and, in 2020, labour tax credits will be adjusted, with a respective positive impact on the purchasing power of pensioners and the working population. The increase in nominal heath care premiums is unfavourable for households that do not receive any health care subsidies.[3] The two-bracket tax system and higher labour tax credits mean that the working population will benefit more than pensioners and social benefit recipients. The energy tax and the sustainable energy storage tax (ODE) will lower purchasing power as part of the uniform inflation level, but may have a levelling-off impact, in practice.[4] Real Contractual wage increases will have a positive impact on purchasing power, in both years (Figure 4).

[3] The nominal healthcare premium per insured will go up, from an annual EUR 1308 in 2018 to EUR 1385 in 2019 and EUR 1458 in 2020.
[4] See earlier CPB publications on this subject: *CEP 2018* (link (in Dutch)) and P. Koot, R. Schulenberg and J. Bollen, 2018, *Verkenning inkomenseffecten van energie- en klimaatbeleid [outlook for the income effects of energy and climate policy (in Dutch)]*, CPB Background document (link).

Figure 4 Tight labour market leads to real Contractual wage increases and more permanent contracts for the higher educated.



Source: CBS and CPB [(link).]

A number of pension funds is not doing well, which affects the purchasing power of certain groups of pensioners. There are large differences in financial situation between pension funds. Most pensions will not or only hardly be indexed in 2019 and 2020. On the basis of implemented policy, certain pensions will even decrease in 2020, as a number of pension funds are experiencing long-term cover ratios that are too low. For those pensioners, purchasing power development will be less positive. For them, the decreases in pension in 2020 will come to a few tenths of per cents of the supplementary pensions. This, because decreases resulting from long-term cover ratios that are too low may be implemented over a period of ten years.[5] In addition to direct decreases, there will also be decreases in future pension entitlements of younger generations. This is not evident from current purchasing power data, but will only become visible in later years.

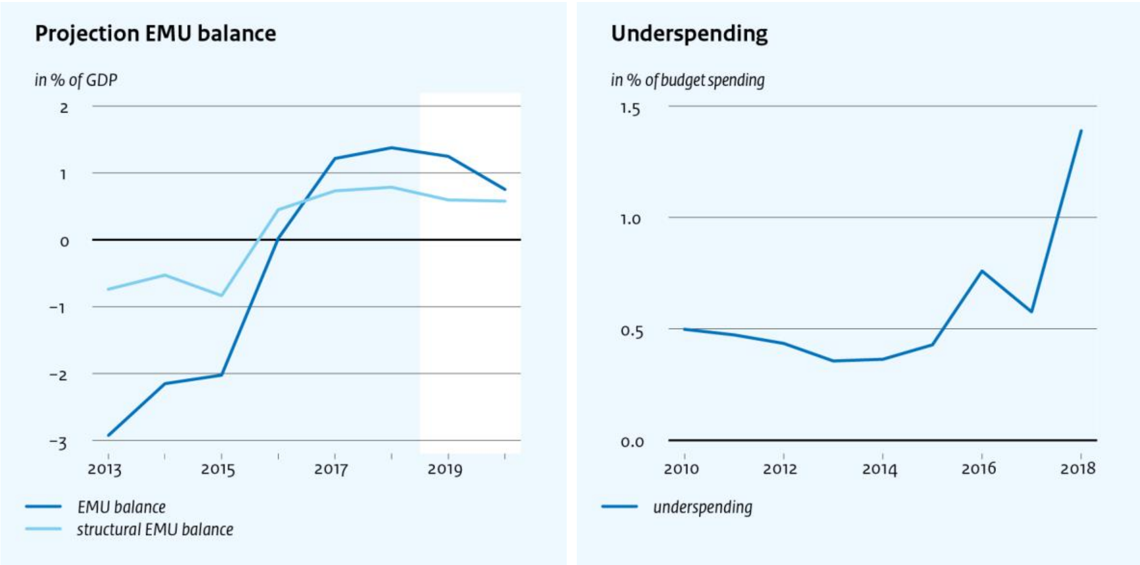
The government will still have a sizeable budget surplus. The favourable economy and not being able to realise large budgeted public expenditures are two of the main causes for the surpluses in 2018 and 2019. High tax revenues are continuing, as a result of the positive economic situation. The budget balance, nevertheless, will decrease from 1.4% of GDP in 2018 to 1.2% in 2019, due to declining tax revenues (Figure 5).[6] For 2020, the budget suplus is projected to decrease further to 0.8% of GDP, under the assumption of less underspending. The structural budget balance, which is at the centre of the agreed EU budget regulations, will decrease in both 2019 and 2020 to 0.6%, well above the medium-term objective (MTO) of -0.5% of GDP. Whether the Dutch Cabinet will make additional efforts to achieve its Urgenda targets—and whether this would require additional resources on top of the provisioning of EUR 500 million via the budgetary Reserve for CO_2 reductions—is as yet uncertain.

The government budget less expansive than envisaged. The Coalition Agreement includes substantial increases in the spending related to defence and infrastructure. Because of the exceptionally large underspending in 2018, a tight labour market and indications of spending levels also being lower in 2019 and

[5] The purchasing power presentation includes pension cuts and indexations averaged over all pensioners. For this reason, the distribution of the purchasing power development among pensioners is slightly underestimated. However, because the cuts are spread over ten years, the effects will be limited.
[6] Share purchases in Air France-KLM were too recent to be included in these projections. They will have an upward effect on the gross government debt of 0.1% of GDP, but will not directly impact the EMU balance.

2020, these projections assume that the budgeted increases in spending will not all be realised (Figure 5). A certain part of the planned increases in spending will be realised in later years, if this is still in line with the cap on spending as agreed under the Coalition Agreement. This causes the budget policy to be less stimulating for the economy than was previously envisaged in the Coalition Agreement. The government debt will thus be lower, which in turn creates budgetary scope for future, leaner years (also see the Analysis section).

Figure 5 EMU balance and underinvestments (a)



(a) Underspending is the amount of budgeted government spending that has not been spent.
Source: CBS, CPB, CPB calculations based on the Ministry of Finance (link)

In addition to US trade policy and possible further decline in the Chinese economy, there are also other downward risks. In the short term, a *no deal Brexit* will lead to chaos. The consequences will depend on the duration of such a *no deal scenario*. Our projections are consistent with the scenario in which the United Kingdom leaves the EU by 30 March with an EU deal, as well as a situation in which this is delayed beyond this date. The Dutch economy will be adversely affected in all other cases, particularly under a long-term *no deal*.[7] A further decline in the Italian economy—which is already in recession—and the weakening of Italian banks, also pose risks to the various European economies. In case of a decline in the economy of the eurozone as a whole, the ECB has only limited scope to stimulate this economy. After all, the policy interest rate in the eurozone is already negative and the effectivity of unconventional monetary policy is unclear.[8] The uncertain Dutch government spending implies both a positive and negative risk for economic growth in 2019 and 2020. Should the budgeted government spending be in fact realised according to the budget, then this will lead to more economic growth in 2019 (see the text box *Uncertain global economy and government spending*).

[7] See, CPB, 2018, December projections: Economic Outlook 2019, CPB Policy Brief. (link)
[8] See Elbourne, A. and K. Ji, 2019, Do SVARs identify unconventional monetary policy shocks?, CPB Discussion Paper. (link)

Table 1 Main data on the Netherlands, 2015–2020

	2015	2016	2017	2018	2019	2020
	mutations per year, in %					
International economy						
Relevant world trade volume goods and services	4.1	3.8	5.0	2.8	1.8	2.5
Competitor prices (a)	5.0	-3.0	2.1	0.9	1.2	1.2
Oil price (in USD per barrel)	52.4	43.8	54.3	70.9	61.0	61.0
Euro exchange rate (USD per euro)	1.11	1.11	1.13	1.18	1.14	1.14
Long-term interest rate, the Netherlands (level in %)	0.7	0.3	0.5	0.6	0.4	0.6
Volume GDP and spending						
Gross Domestic Product (GDP, economic growth)	2.0	2.2	2.9	2.5	1.5	1.5
Household consumption	2.0	1.1	1.9	2.5	1.3	1.5
Public consumption	-0.1	1.3	1.1	1.1	2.4	2.3
Investments (including stocks)	29.1	-6.7	4.4	4.2	2.6	2.5
Exportation of goods and services	7.4	1.7	5.3	2.7	1.1	2.3
Importation of goods and services	14.5	-2.0	4.9	2.7	1.5	3.0
Prices, wages and purchasing power						
Price level Gross Domestic Product	0.8	0.5	1.2	2.1	2.2	1.4
Export prices goods and services, excluding energy	1.6	-1.4	1.9	0.8	1.1	1.1
Price levels imported goods	-5.0	-4.5	4.2	2.5	-0.4	1.0
Inflation, Harmonised Index of Consumer Prices (HICP)	0.2	0.1	1.3	1.6	2.3	1.4
Wage rate business sector (per hour)	-0.2	0.7	1.2	2.3	3.4	2.6
Contractual wages business sector	1.2	1.5	1.6	2.0	2.7	2.3
Purchasing power, static, median all households	1.0	2.6	0.3	0.3	1.6	1.3
Labour market						
Labour force	0.4	0.4	0.8	1.2	1.3	0.7
Working population	1.0	1.3	2.1	2.3	1.4	0.5
Unemployed labour force (x thousand persons)	614	538	438	350	345	370
Unemployed labour force (in % of labour force)	6.9	6.0	4.9	3.8	3.8	4.0
Employment (in hours)	1.0	2.0	1.9	2.3	1.0	0.5
Other						
labour income share (in %)	72.8	73.6	73.4	74.0	75.1	75.6
Labour productivity business sector (per hour)	0.8	0.2	0.9	0.3	0.6	1.2
Individual saving share (in % disposable income) (b)	2.8	3.6	2.9	2.3	2.6	2.9
Balance current accounts (in % of GDP)	6.3	8.1	10.5	10.1	9.7	9.0
	in % of GDP					
Public sector						
EMU balance	-2.0	0.0	1.2	1.4	1.2	0.8
EMU debt (ultimo year)	64.6	61.9	57.0	52.4	49.1	47.1
Tax burden	36.9	38.4	38.7	39.1	39.6	39.3
Gross government spending	45.0	44.0	43.0	42.4	42.5	43.0

(a) Goods and services, excluding natural resources and fuels.
(b) Level; disposable family income includes public savings.

Uncertain global economy and government spending

Uncertainty around the projections is related to the international risks and underspending of Dutch government spending. There are a number of large, international downward risks, including a stronger economic decline in China, new US import tariffs on vehicles, and a *no deal Brexit*. On the other hand, the baseline scenario on 2019 and 2020 assumes underspending regarding Dutch government spending. The spending level could be higher, particularly in 2019, if the Cabinet's planned impulse could be realised in full, after all.

Reductions in world trade and declining share prices will affect the economy. A slowdown in growth of 0.5% to 0.6%, annually, would be conceivable if international risks materialise—such as a strong economic decline in China, new US import tariffs on vehicles, and a *no deal Brexit*. Such risks have their impact on trade growth, share markets and confidence.[a] For example, a 1 percentage point lower growth in relevant world trade and 10% lower share prices in both years would reduce export levels, investments and consumption. In such cases, GDP as well as employment would be lower.

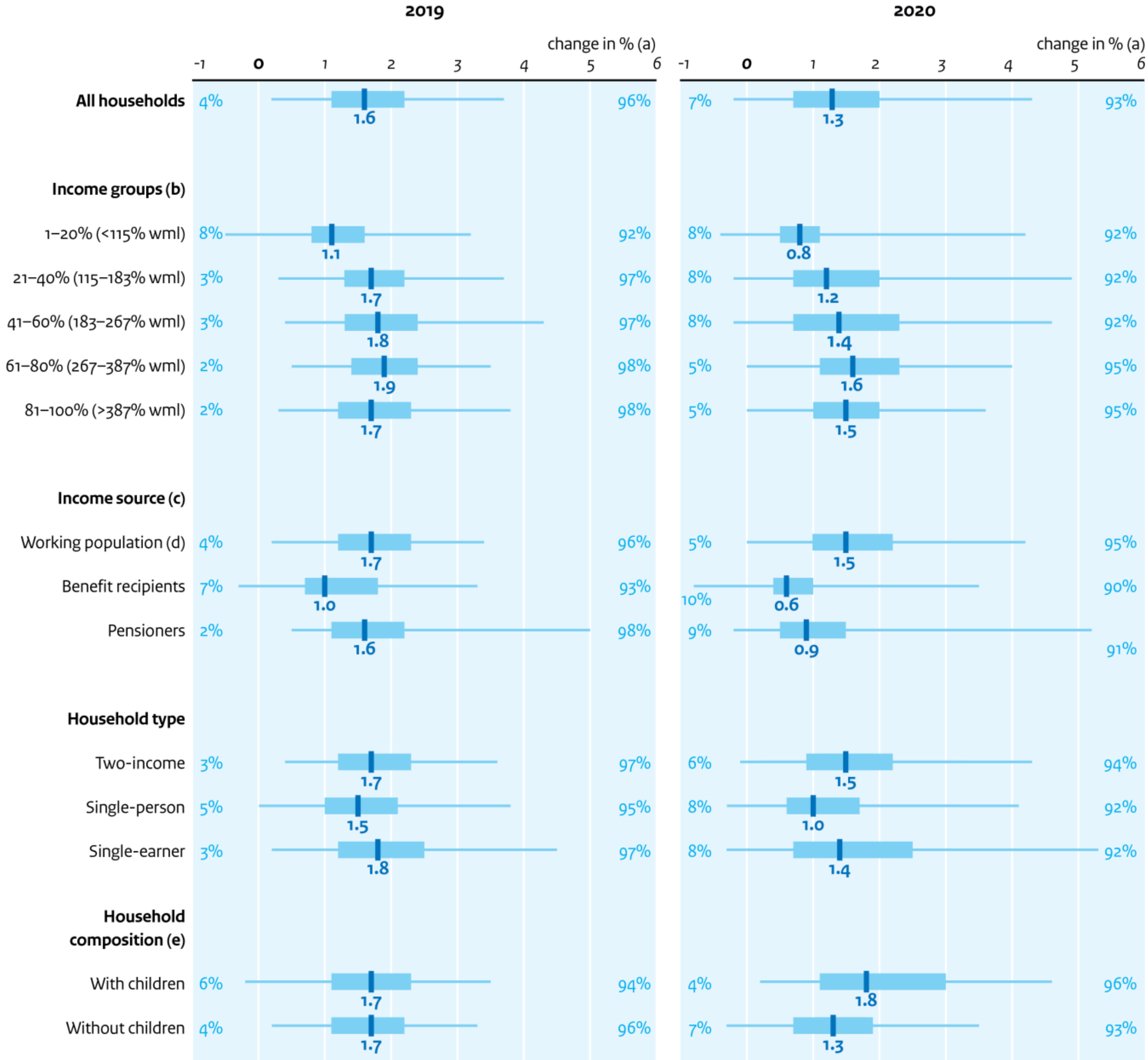
Government spending in accordance with the budget will lead to more eocnomic growth in 2019. The main projections assume that not all government spending will be realised as planned in the Coalition Agreement. However, should this succeed nevertheless, than government spending would be higher by EUR 2.5 billion in 2019 and EUR 1.0 billion in 2020. In 2019, this would lead to additional GDP growth of 0.3 percentage points, but in 2020 it would result in lower growth, due to the impulse being smaller in that year.

Effects of A: less growth in world trade, and B: more government spending NL

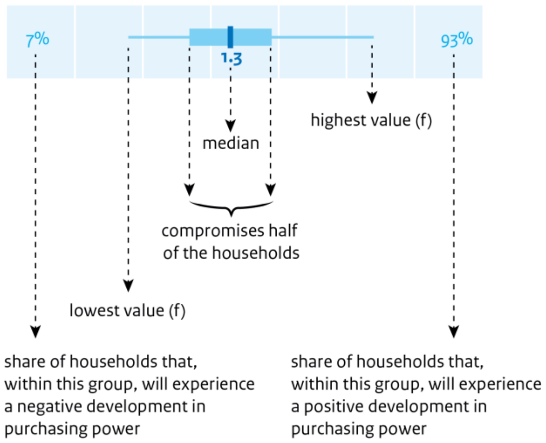
	A		B	
	Effects per year; mutations in pp			
	2019	2020	2019	2020
Relevant world trade, volume	-1.0	-1.0	0.0	0.0
Household consumption, volume	-0.5	-0.8	0.0	0.2
Public consumption, volume	0.0	0.0	0.6	-0.3
Exports goods and services, volume	-0.8	-0.8	0.0	0.0
Gross domestic product, volume	-0.5	-0.6	0.3	-0.1
Employment (hours worked)	-0.2	-0.4	0.1	0.1

(a) At 4 percentage points lower Chinese domestic spending, the world trade relevant for the Netherlands will decrease by 0.9% (MEV 2016 (link)) , and Kireyev, A.and A. Leonidov, 2016, China's Imports Slow down: Spillovers, Spillins, and Spillbacks, IMF Working Paper 16/51 (link). US import tariffs on motorised vehicles will impact the European economy by 0.2 percentage points; see Bollen, J. and H. Rojas-Romagosa, 2018, Trade Wars: Economic impacts of US tariff increases and retaliations, An international perspective, CPB Background document. (link)

Figure 6 Purchasing power



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 withh be outside this range. The box plot's whiskers show the lowest en highest development in purchasing power.

(a) Changes in static purchasing power, not including indicental changes in income.
(b) Gross labour income or welfare benefits on household level; the national minimum wage (nwm) in 2019 is around 21,100 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.
(f) The lowest and highest value has been cut off at 5% and 95%, respectively, due to imprecisions in the projected minimum and maximum.

Main differences with the previous projections for 2019 (December Projections 2018)

The main differences with the projections published last December are:

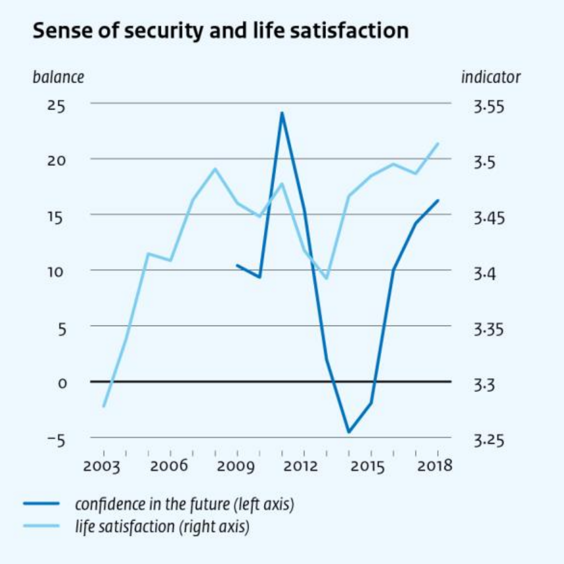
- Downward adjustment to global growth and growth in the eurozone. On the basis of realisations and confidence indicators, global GDP growth in 2019 is projected to be 0.3 percentage points lower than previously estimated, and that of the eurozone will be 0.5 percentage points lower.
- Downward adjustment to relevant world trade. Growth will be 0.4 percentage points lower than previously projected for 2018 and 1.7 percentage points lower for 2019. These adjustments are connected to those for global growth and reflect the decreasing export levels.
- Downward adjustment to the oil price, based on recent oil futures. For 2019, the price per barrel has been lowered by USD 3 to USD 61 per barrel.
- Downward adjustment to the Dutch capital market interest rate, on the basis of market expectations. For 2019, the interest rate has been adjusted downwards by 0.2 percentage points to 0.4%.
- Downward adjustment to Dutch economic growth. Based on realisations, GDP growth in 2018 has been adjusted downwards by 0.1 percentage point to 2.5%. Particularly due to the downward adjustment to relevant world trade and government spending, GDP growth for 2019 has been adjusted downwards by 0.7 percentage points, from 2.2% to 1.5%.
- Downward adjustment to government spending. In contrast to the December Projections, the current projections assume that, also in 2019, government spending will lag behind the budgeted amount. Government consumption has been lowered by 1.0 percentage point to 2.4%.
- Based on realisations and the downward adjustment to growth, Contractual wage increases for businesses has been adjusted downwards by 0.1 percentage point to 2.7%
- Based on realisations and lower rent prices that result from the recently agreed on social housing rent agreement (*socialehuurakkoord*), inflation (HICP) has been adjusted downwards by 0.1 percentage point to 2.3%.
- The projected median purchasing power increase of 1.6% for 2019 has not been adjusted. The effects of the downward adjustments to inflation and wage increases will cancel each other out, under hardly any policy mutations.
- Upward adjustment to unemployment in 2019, based on the downward adjustment to GDP growth. The unemployment percentage has been raised by 0.2 percentage points to 3.8%. Based on realisations, unemployment in 2018 has been adjusted upwards by 0.1 percentage point to 3.8%.
- Upward adjustment to the budget surplus, based on lower government spending and despite the downward adjustment to tax revenues due to the downward adjustment to economic growth. Government spending is lower because, in contrast to the December Projections, current projections assume that this spending will also in 2019 lag behind the budgeted amount. This applies to the government budget as well as the expenditure on health care. Because of underinvestments in earlier years, the spending related to the Dutch Health Insurance Act since the Macro Economic Outlook 2019 has been adjusted downwards by EUR 0.8 billion for 2019. The EMU balance has been adjusted upwards by 0.2 percentage points to 1.2% of GDP.

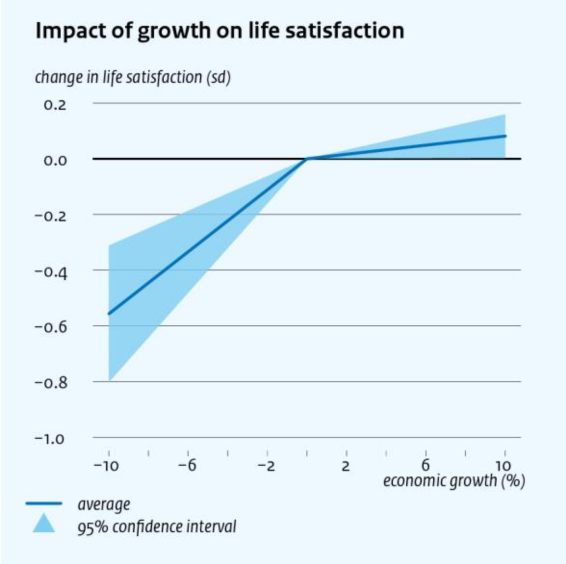
Analysis: What goes up, must come down

An economic boom does not die of old age, nor can it live forever. Economies, typically, do not run at a steady pace, but regularly suffer shocks, such as those caused by natural disasters, new technology, behavioural changes and national and international policy. A number of shocks and risks are currently coming into view. The German en Chinese economies are performing less favourably than before; the consequences of Brexit and trade wars are showing themselves more clearly. The Netherlands appears to be rather resilient again, 10 years after the Great Recession, but dynamics on the labour market have changed. What should policymakers watch out for, in times of—economic—trouble? And how should they shield the economy against negative shocks, if prevention is not or no longer an option?

The Dutch economy appears to have recovered. For the fourth consecutive year, economic growth has been over 2% and unemployment has decreased to a very low level, and purchasing power has been growing for the last five years. From an international perspective, per-capita labour productivity and consumption are high. Government finance is also reasonably in order, citizens' satisfaction with the life they lead has increased slightly, as has the confidence in the future (see Figure 7, left graph). Indications of things picking up not only concern hard economic variables such as gross domestic product and unemployment, but also softer ones related to the level of well-being of the Dutch population. However, not everything is sunshine and roses.

Figure 7 Life satisfaction is great, but this can decline rapidly during a recession (a)



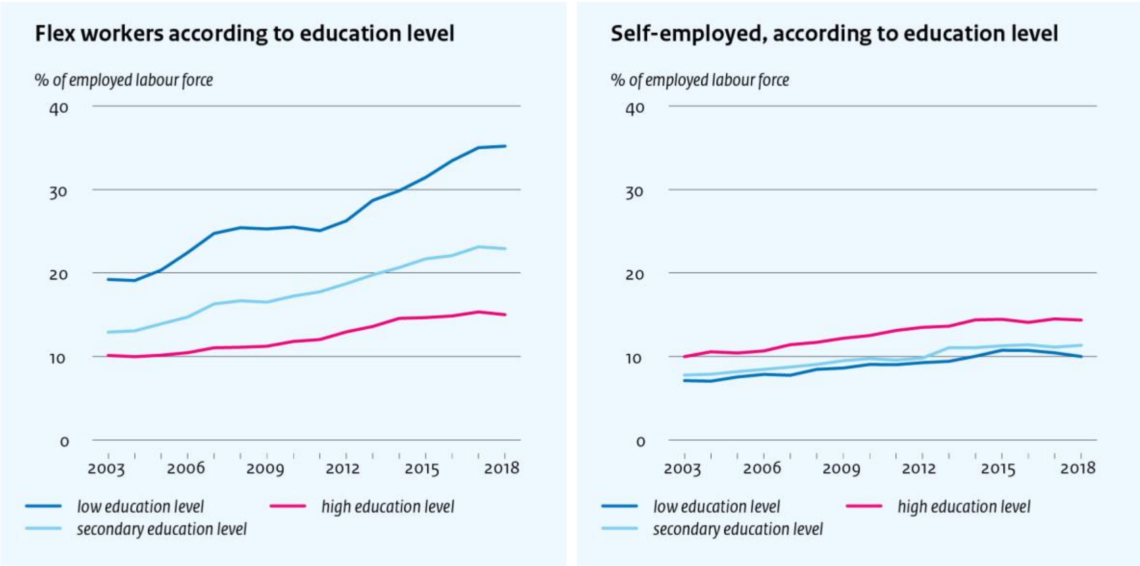


(a) Satisfaction about people's own personal lives is based on the responses to the following question in the Euro barometer survey, posed to a representative section of the Dutch population: on average, would you say you are very satisfied, rather satisfied, not very satisfied, or absolutely not satisfied about the life you are leading? Confidence in the future is based on the following question in the SCP survey 'Continu Onderzoek Burgerperspectieven': To what degree do you agree or disagree with the following statement: 'I feel like I have little control over my own future. The figure on the right is based on De Neve et al., 2018.

Source: CBS, SCP and European Commission (link).

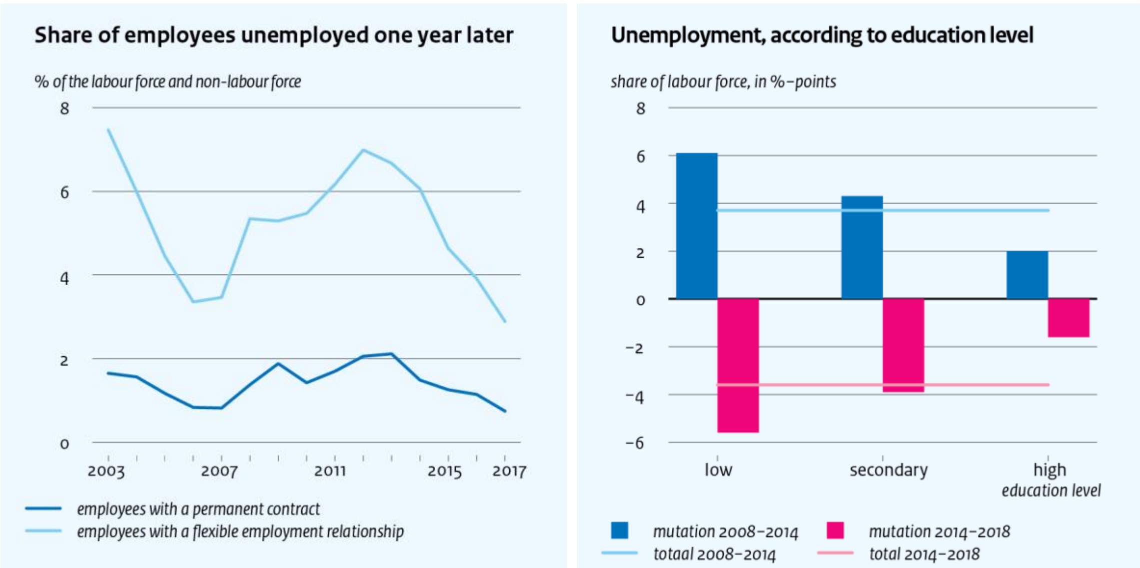
Flexibilisation of the labour market has caused an increase in the vulnerability of Dutch citizens to economic changes. The Dutch labour market has undergone permanent changes. Compared to the past, more workers have a flexible employment contract and the number of self-employed people has increased. Particularly those with a low education have flexible employment contracts; in 2003, 26% of the low-educated working population had either a flexible contract or was self-employed. Today, this is 45%, with only a small share of them having voluntarily opted for a flexible contract.[9] The increase in flexible employment was stronger in the Netherlands than in other countries in Europe.

Figure 8 Flexible employment increased particularly for the lower educated; since 2003, more self-employment among the higher educated.



Source: CBS [(link).](link)

Figure 9 Employees with a flexible employment contract and lower educated workers run a greater risk of becoming unemployed



Source: CBS (link).

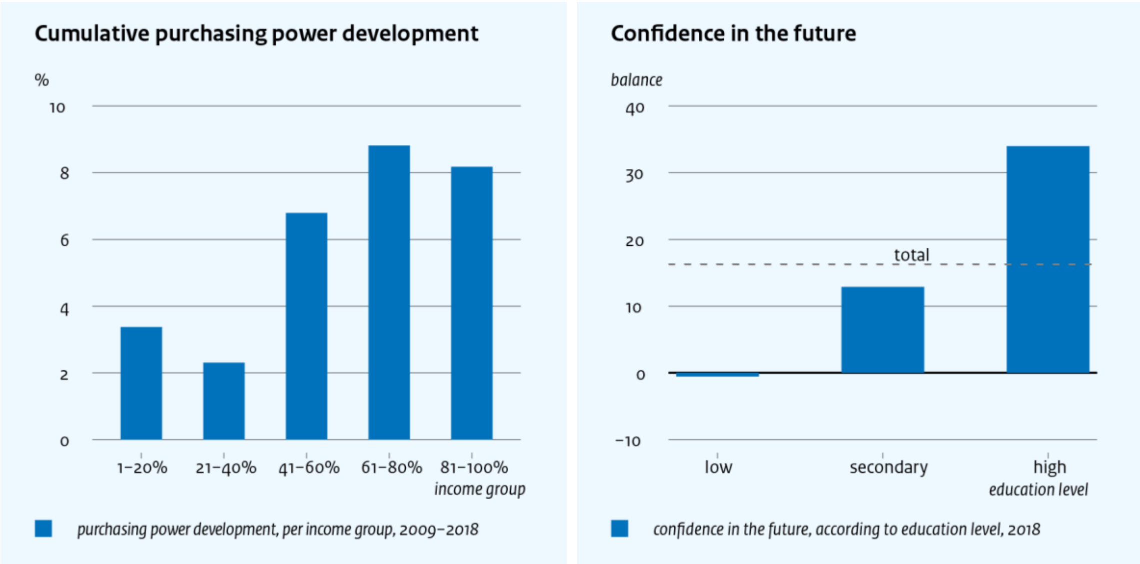
Increasing flexibilisation of the labour market means that the negative impacts of the next downturn will be divided less equally. Employees on a flexible employment contract, after all, run a larger risk of becoming unemployed (Figure 9). Their chances of poverty are three times higher than those on permanent

[9] Bolhaar, J., M. de Graaf-Zijl and B. Scheer, 2018, Three Perspectives on the Dutch Growth of Flexible Employment, The Economist (2018) 166:403–432, (link).

contracts.[10] In times of recession, self-employed people, who generally also earn a lower income, suffer substantial decreases in income, due to fewer assignments and lower tariffs.

Flexibilisation has increased the differences between lower and higher educated citizens. The largest increases in flexible employment contracts can be seen among the lower educated people. Traditionally, this group is affected more severely by a recession. During the previous recession, unemployment among the lower educated increased by 6 percentage points, against 2 percentage points for the higher educated. During the subsequent period of recovery, unemployment among the lower educated decreased the most, but large differences remain: late 2018, 5.9% of the lower educated people were unemployed, against 2.3% of people with a high education. Purchasing power for low income groups has also been lagging behind that of higher income groups (see Figure 10, left graph). The effects of flexibilisation of the labour market are particularly felt among the lower educated (see Figure 8). This is not in keeping with the well-known Dutch axiom: the strongest shoulders carry the heaviest load.

Figure 10 Large differences in purchasing power development (a) and confidence about the future (b)



(a) Based on dynamic purchasing power data, per decile, as published by CBS, per year, for the 2009–2017 period, supplemented by static purchasing power data per 20% income group of CPB, for 2018. The figure provides an indication for households that belonged to the same income group over all the years, but not for those that belonged to more than one income goup over those years.
(b) For an explanation of the figure on the rights, see the footnote below Figure 7.
Source: CBS, CPB, SCP (link).

The sense of life satisfaction of the Dutch is positive, but may decrease rapidly in case of recession. Economic growth and well-being go hand in hand, but a recession appears to have a much greater impact on well-being than does the positive impact of an economic boom. In times of economic downturn, unemployment rises, uncertainty increases and life-satisfaction goes down. There are indications that a decrease in GDP causes a decrease in life satisfaction that is greater than the positive effect of a similar percentage increase in GDP (Figure 7, right graph).[11] Loss aversion is an important explanation from behavioural economics for this phenomenon. Given the fact that lower educated people are affected more severely by a large recession, it is not surprising that confidence in the future among the lower educated is also much lower than among higher educated people (see Figure 10, right graph). The increased differences

[10] Euwals, R., M. De Graaf-Zijl and D. van Vuuren, 2016, Flexibiliteit op de arbeidsmarkt [*flexibility on the labour market* (in Dutch)], CPB Policy Brief 2016/14 (link).
[11] De Neve, J-E, , G. Ward, F. De Keulenaer, B. Van Landeghem, G. Kavetsos and M. I. Norton, 2018, The Asymmetric experience of positive and negative economic growth: Global evidence using subjective well-being data, *The Review of Economics and Statistics*, May 2018, 100(2): 362–375 (link).

between these groups in the labour market may mean that, under a new crisis, the impact on well-being will be far greater.

This time will be different? Traditionally, the Netherlands responds to the first signs of adversity by implementing spending cuts[12] and reform measures. This comes at a price, though. Uncertainty increases, spending cuts dampen the already low growth, and well-being suffers a blow.

Economists' classic answer to economic change–i.e. automatic stabilisation–gains in strength, if such policy would take life satisfaction[13] as a starting point. Trend-based budget policy ensures that the budget balance is in keeping with economic development and automatic stabilisation will dampen the impact of economic decline. Fewer people will lose their jobs, with a positive impact on income, sense of purpose and well-being. The stabilising function of the budget has recently been strengthened by leaving a number of entries that are sensitive to economic fluctuations outside the expenditure framework. The budget balance is in the green, due to the favourable economic situation, and government debt is decreasing rapidly. According to Dutch budgetary rules, there is therefore scope for continuing the trend-based budget policy in times of economic decline. We should be able to convince Brussels of this insight, even under tensions with the preventative branch of the Stability and Growth Pact.

Structural bugetary policy also prevents costly meandering policy. The recent crisis and subsequent economic recovery have seen a succession of spending cuts and spending increases. Illustrative of this type of policy are spending cuts and spending increases in long-term care and child care, respectively. This has strengthened the upturn and downturn of the economy, rather than decelerate it. The better, current starting position may help prevent meandering policy, the next time round, and thus limit the related consequences in terms of unemployment, income, inequality, well-being and inefficiency.

Reform in the Netherlands is easier during a recession, but this timing also has its drawbacks. Economic reform measures may increase quality of life in the long term and address new challenges. The pressure of an economic crisis may make it easier to implement reform. Long-term advantages, however, may also involve short-term costs. When taking decisions about reform measures, such costs are also important to consider, particularly when they, in the short term, negatively affect vulnerable group that are already hit relatively hard by a recession. In bad times, people particularly need to feel protected by their government.

The slow progress in addressing the flexibilisation of the labour market is resulting in avoidable impacts on well-being and inequality. The disadvantages related to flexible employment relationships are largely at the expense of weaker groups in the labour market. This strongly applies during times of recession and economic crisis. General measures that ensure a more equal distribution of the advantages and disadvantages of flexible employment will also have a positive impact during a next economic downturn.

Smart policy focuses on well-defined objectives, uses effective means and the right timing. The changing labour market has increased the already existing vulnerability of the groups of people who are in a weak labour market postition, with related impacts on confidence and well-being. The Netherlands is in a favourable starting position for dealing with an unavoidable economic turning point, but there is still some work to be done, in this area. For all other issues, the handbook of economic guidelines should be applied and structural policy pursued—particularly if we intend to look beyond GDP.

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[12] Suyker, W., 2016, Opties voor begrotingsbeleid [*options for budget policy* (in Dutch)], CPB Policy Brief 2016/02. (link)
[13] Stiglitz, J., J. Fitoussi and M. Durand, 2018, Beyond GDP: Measuring What Counts for Economic and Social Performance, OECD Publishing. (link)