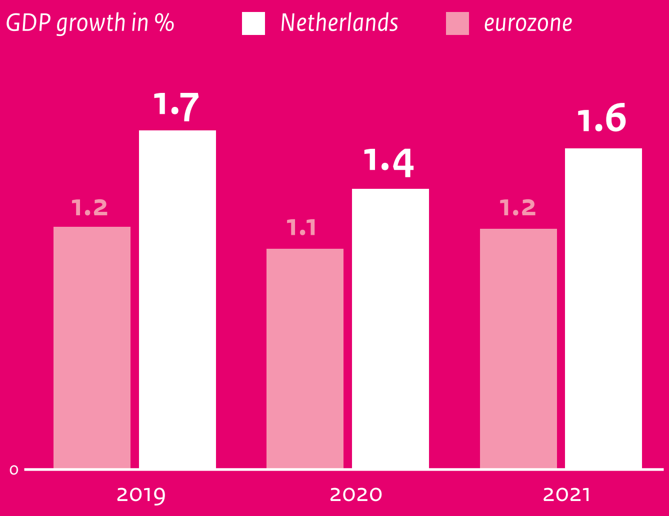
CPB Netherlands Bureau for
Economic Policy Analysis

Central Economic Plan 2020

Scenario

Should containment of the **corona virus** take longer or should the virus spread further, this would negatively affect growth.

The economic impact of the corona virus is highly uncertain. Assuming the outbreak is contained rather rapidly, economic growth is steady



Unemployment is historically low and will remain so, for the time being.

A tight labour market leads to **higher wage increases** of 2.9% in 2020 and 2.8% in 2021.

Together with reductions in the tax burden this leads to an increase in **static purchasing power** of 2.1% in 2020 and 1.3% in 2021.

Analysis

Unequal opportunities are missed opportunities for children and for the economy.

page 16

Update medium-term outlook

In 2022–2025, economic growth will remain at 1.5%. This is higher than previously estimated, due to CBS's new population forecast.

CPB Forecast

March 2020

Summary

The economic impact of the coronavirus is highly uncertain. The central projection assumes the outbreak of the coronavirus to be contained rather rapidly, but in an alternative scenario the containment takes longer and the virus is spreading further. This alternative scenario may already have become partly reality at the time of publication of this report. If the virus is not contained quickly, this will have negative consequences on economic growth.

Assuming limited effects of the coronavirus, the Dutch economy will grow steady by 1.4% in 2020 and 1.6% in 2021. Given the exceptionally low growth in world trade and the slight growth in the countries surrounding the Netherlands, the Dutch economy is doing relatively well.

The nitrogen and PFAS problems will lead to approximately 0.2% lower growth in 2020; in 2021, the effect will still be about 0.1%. Housing investments will decrease in both 2020 and 2021. The housing market remains tense as a result of lower construction output and the continuing increase in the number of households.

Unemployment is at a historically low level and is projected to remain low for the time being. The tight labour market is leading to an accelerating wage increase of 2.9% in 2020 and 2.8% in 2021; combined with decreases in the financial burden, this will lead to a 2.1% increase in purchasing power in 2020 and 1.3% in 2021.

The budget surplus is projected to drop to 0.1% of GDP in 2021. In 2020, in particular, the government will continue to struggle to spend the budgeted funds, partly due to the tight labour market and the problems in the construction sector.

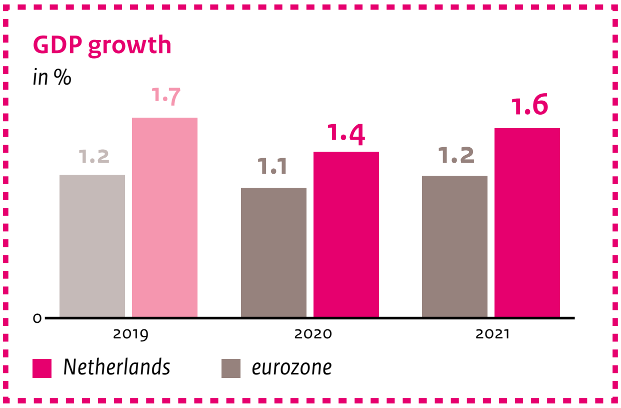
The coronavirus is not the only risk to the projection. US trade policy also remains unpredictable, import tariffs on European cars are uncertain and a resurgence of the trade dispute between the United States and China cannot be excluded. Although a disorderly Brexit has also been averted, there is new uncertainty as to whether a trade relationship between the European Union and the United Kingdom will be created in timely fashion. In the Netherlands, the impact of the nitrogen and PFAS problems remains uncertain. Growth, on the other hand, could also be greater, as wages rise faster than currently projected.

In the medium term, growth will also remain around 1.5% per annum. This percentage is considerably higher than reported in CPB's medium-term outlook last November. The corrections are almost entirely due to the higher population forecast by Statistics Netherlands. The projections of government finances, for the coming cabinet period, will improve as a result of higher growth levels, which in turn will lead to a smaller sustainability gap of 0.8%.

In its analysis in the Central Economic Plan (CEP), CPB calls attention to the issue of inequality of opportunity. Children of low-income parents have a considerably lower chance of earning a high income themselves than the children of parents who are better off. This is partly due to the fact that rich parents are able to support their children financially, but at least as important is a good network, learning the 'rules of the game' and the presence of role models. Policies aimed at offering similar opportunities to children of less fortunate parents can help those children reach their full potential. This is not only good for those children, but also for the economy. Unequal opportunities are missed opportunities.

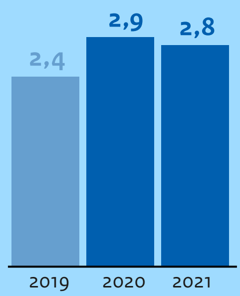
Impact corona virus uncertain

The economic impact of the corona virus is at the moment hard to predict. In case of rather rapid containment, the Netherlands will continue to see steady economic growth in 2020 and 2021



Tight labour market translates into higher wage increases

contractual wage increase in %

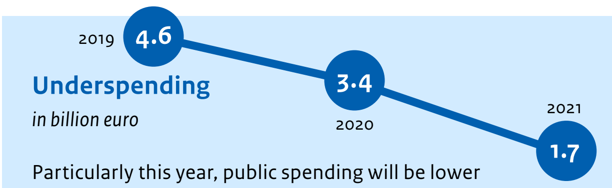


Unemployment is historically low and will remain so; at 3.2% of labour population this year and in 2021

3.4%

Purchasing power develops positively due to wage increases and a lower tax burden; on average 2.1% in 2020 and next year

1.3%



Particularly this year, public spending will be lower than anticipated, but is expected to improve next year

Analysis

Unequal opportunities are missed opportunities, for children and for the economy as a whole → page 16

Uncertainty

This forecast contains an alternative scenario in which containment of the corona virus takes longer and the virus spreads further

Risks

Wages ↑ Nitrogen issue ↓

Brexit ↓ US trade policy ↓

2022-2025

UPDATE MEDIUM-TERM OUTLOOK

In 2022–2025, GDP growth will remain around 1.5%. This is higher than estimated last year, due to a new CBS population forecast. The EMU balance will improve to 0.1% of GDP in 2025 and the sustainability gap to 0.8%

Central Economic Plan (CEP) 2020

In 2020, CPB is celebrating its 75th anniversary, the Central Economic Plan (CEP) has been one of its main products since the very beginning. The first CEP was published as early as in 1946.[1] Much has changed since then; at the time, the CEP was entirely devoted to reconstruction and still had the character of a plan for the distribution of scarce post-war resources. Nevertheless, many things have remained the same, this observation from the first CEP has eternal value: 'It goes without saying that, especially in chaotic times such as these, it is quite possible and even probable that these expectations will not come to pass, in a number of areas'. The CEP soon evolved from a plan to a forecast. And although the only certainty of any forecast is that it will not come true, the CEP has become a fixed value which, given that uncertain future, provides a focal point for citizens, social partners and policymakers. Indeed, as stated in the first CEP: 'This uncertainty about the basis does not, however, mean that drawing up a plan is pointless. On the contrary, it makes the availability of a well thought-out plan all the more necessary in order to be able to quickly determine the repercussions of major disruptive influences and to adapt policy to the related changes in circumstances'.

The economy in 2020 and 2021

A major uncertainty is that of the coronavirus and how fast and wide this may spread. The projections assume the outbreak of the coronavirus to be contained rather rapidly.[2] If containment were to take longer and/or the virus would spread further, this will negatively affect economic growth. Textbox 1 explores such a scenario. This risk has already partly become reality, at the time of publication of this report.

Global growth will remain low, in the coming years. The global economy is projected to grow by 3% in both 2020 and 2021. There is practically no recession, anywhere, but the overall slower pace of 2019 is expected to continue. In nearly all regions, industry is struggling, while the services sector appears to be holding its own. This can mainly be explained by the continuing uncertainty surrounding global trade policy, which is holding back investments, sustainable consumption and trade, worldwide. Although the darkest scenarios have been dismissed, thanks to the Stage 1 trade agreement between the United States and China and the avoidance of a no-deal-Brexit, the shadow of trade insecurity lingers on; the US-China agreement has the hallmarks of a truce rather than a peace deal, and the future trade relationship between the United Kingdom and the European Union is uncertain. Growth in the United States is slowing down somewhat, as a result of the trade dispute and the phasing out of the budgetary stimulus provided by tax cuts. Chinese growth has been slowing down for some time due to the transition to domestically driven growth and government policies to curb debt accumulation. This cooling is exacerbated by the trade dispute and the impact of the outbreak of the coronavirus.

Growth in world trade is at a historically low level. In an atmosphere of trade tensions, world trade grew by only 1.3% in 2019. Apart from the financial crisis, these low growth rates have not been seen since the early 1980s. In the coming years, growth is expected to pick up, slightly, to 1.8% in 2020 and 2.3% in 2021 — percentages that are still well below the 20-year average of 5.0%. This development fits in with a longer trend. Around the turn of the century, world trade increased on average twice as fast as global growth. This ratio has declined as a result of structural factors — in particular, the slowing pace with which China and Central and

[1] All publications from 1946 onwards are available from the *CPB Historische Collectie* (link).
[22] The cut-off data for the technical assumptions on exchange rates, oil price and interest rates is week 3 (13-17 January). Concerning the coronavirus, the projections assumes a limited impact in China in the first quarter, with a recovery in the second quarter.

Uncertain impact of coronavirus

The projections assume the outbreak of the coronavirus to be contained rather rapidly. The economic effects are assumed to be temporary and limited to China. It is assumed Chinese industry will return quickly to full capacity and a major part of the lost production early in the year will be made up for later in the year.

If containment were to take longer and/or the virus would spread further, this will negatively affect economic growth. This risk has already partly become reality, at the time of publication of this report. By now, China is not the only focus of infection, while the number of infections in Europe is increasing. If the coronavirus is not under control quickly and governments have to react with restrictions on trade and traffic, the economic consequences will be bigger. To give an impression of the possible effects, a scenario has been simulated with the virus hitting Asia and Europe in the first and second quarter, with the pandemic contained in the third quarter of 2020. (a) The simulation consists of broadly halving private consumption, investment and foreign trade (including tourism). Moreover, the oil price drops 15 dollar per barrel vis-a-vis the baseline and stock prices fall 15%. In this simulation, there are no direct effects on the Dutch economy. In this scenario the relevant world trade drops by 1.7%-points in level terms. As a consequence, Dutch GDP will be 0.8%-points lower in level terms than in the baseline.

Effects of a corona pandemic

	Impact per year, differences in percentage changes vis-a- vis the baseline	
	2020	2021
Relevant world trade, volume	-1.4	-0.3
Exports goods and services, volume	-1.1	-0.3
Household consumption, volume	-0.4	-0.2
Bruto binnenlands product, volume	-0.5	-0.3
Werkgelegenheid (gewerkte uren)	-0.2	-0.4

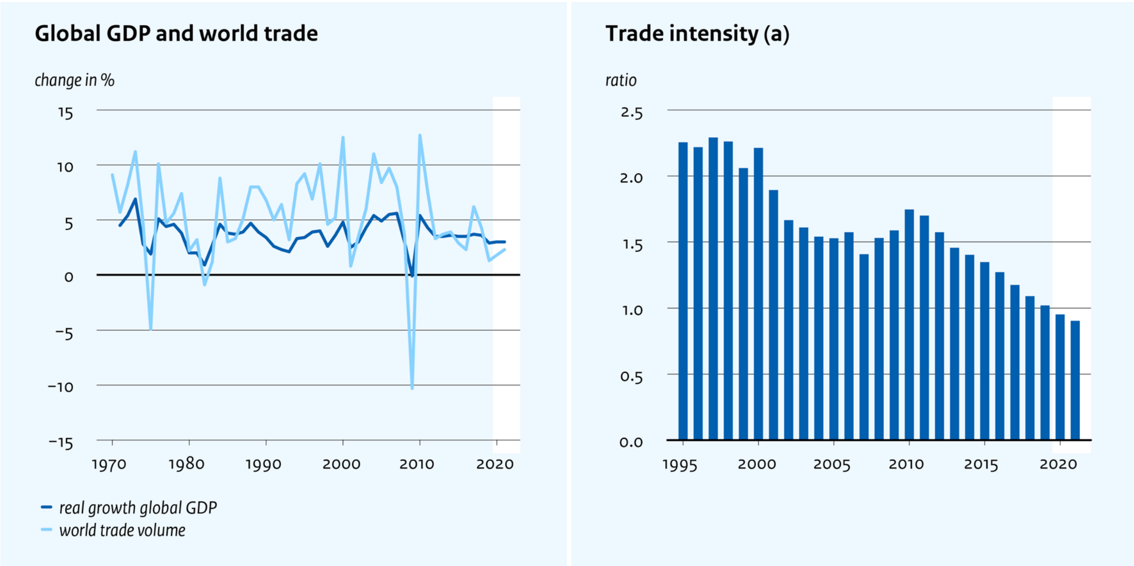
(a) This scenario is partly based on the SARS epidemic in 2003. The quantification in the simulated scenario is in line with other estimates and analyses. (link) (link) (link).

The impact on production chains is a major uncertainty. China has obtained a central role in production chains For example, Apple has manufacturing facilities in 43 countries, all relying on components from Apple's contract manufacturers in China. Product chain disruptions will also hurt Dutch producers, with the impact dependent of the level of stock building. Due to product chains disruptions the consequences could be bigger and longer than in the illustrative scenario presented above.

More severe consequences cannot be excluded. The virus could hit more strongly the United States and Africa. If the Netherlands are hit strongly by the virus, the consequences could be substantially bigger.

Eastern European countries have integrated into the world economy. Incidental factors, such as the aggressive US trade policy and the Brexit, further enhance this trend. At 1.9% in 2020 and 2.2% in 2021, growth in the world trade that is relevant to the Netherlands is still somewhat lower than total world trade growth, due to the weak growth rate of key trading partners Germany and the United Kingdom.

Figure 1.1 Global trade growth is low, pace of growth has decelerated below that of GDP



(a) Ratio of world trade growth and world GDP growth, moving average (excluding 2009)
Source: CPB (link)

The eurozone is not unaffected by low global development. Weak external demand is also holding back the European economy. Partly as a result of this, the European manufacturing industry is faltering. In Germany, this is exacerbated by the problems surrounding the energy transition in the automotive industry. A recession in Germany has been avoided, for now, because growth in the services sector is continuing, helped by a strong labour market. On balance, growth in the eurozone will remain stable at 1.1% in 2020 and 1.2% in 2021. Inflation remains steady over the projected period, at 1.4%. This is still below target, below but close to 2%, despite the ECB's facilitating policy and exceptionally low interest rates. Although the underlying core inflation is rising slightly due to higher wage growth, its impact is counterbalanced by a falling oil price.

Table 1.1 Main data on the Netherlands, 2016-2021

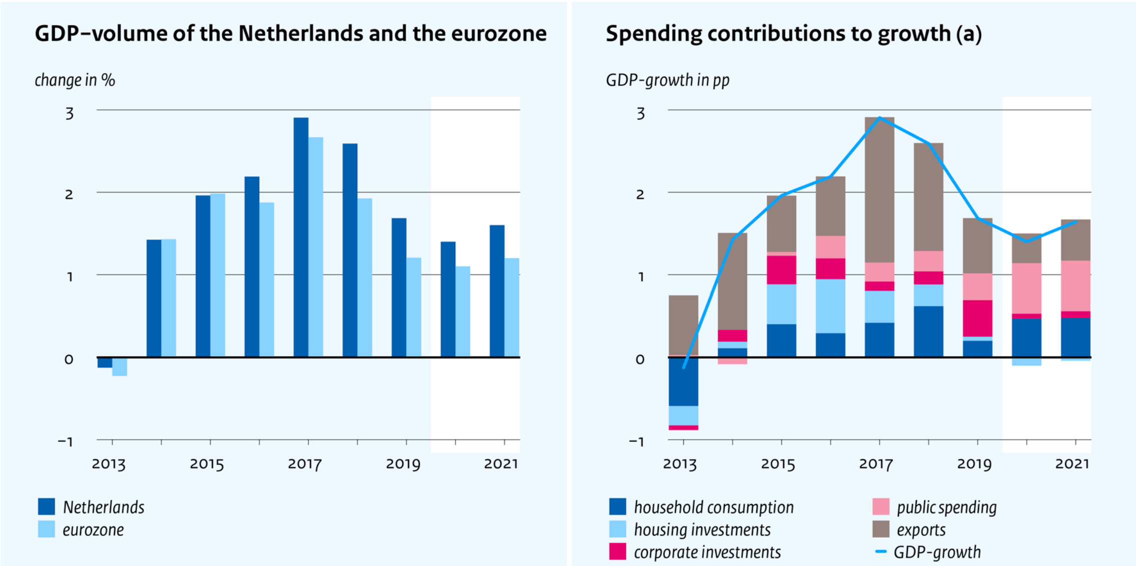
	2016	2017	2018	2019	2020	2021
	Percentage change per year %					
International economy						
Relevant world trade volume goods and services	3.7	5.5	3.4	2.4	1.9	2.2
Competitor prices (a)	-2.6	1.3	-0.6	2.1	1.2	1.2
Oil price (in USD per barrel)	43.8	54.3	70.9	64.3	62.4	58.4
Euro exchange rate (USD per euro)	1.11	1.13	1.18	1.12	1.11	1.11
Long-term interest rate, the Netherlands (level in %)	0.3	0.5	0.6	-0.1	0.0	0.1
Volume GDP and spending						
Gross Domestic Product (GDP, economic growth)	2.2	2.9	2.6	1.7	1.4	1.6
Household consumption	1.1	2.1	2.3	1.4	1.9	1.9
Public consumption	1.3	0.9	1.6	1.2	2.5	2.6
Investments (including stocks)	-6.7	4.2	2.2	4.6	0.4	1.5
Export of goods and services	1.7	6.5	3.7	2.6	2.7	2.8
Import of goods and services	-2.0	6.2	3.3	3.2	3.3	3.4
Prices, wages and purchasing power						
Price level Gross Domestic Product	0.5	1.3	2.2	3.0	1.8	1.8
Export prices goods and services, excluding energy	-1.3	1.3	1.0	0.8	1.0	1.2
Price levels imported goods	-4.5	3.6	2.7	-1.2	0.3	0.3
Inflation, Harmonised Index of Consumer Prices (HICP)	0.1	1.3	1.6	2.7	1.6	1.6
Wage rate business sector (per hour)	0.7	0.9	1.8	3.0	3.2	3.4
Contract wages business sector	1.5	1.5	2.0	2.4	2.9	2.8
Purchasing power, static, median all households	2.5	0.2	0.1	1.0	2.1	1.3
Labour market						
Labour force	0.4	0.8	1.2	1.6	1.1	0.9
Working population	1.3	2.1	2.3	2.0	1.3	0.8
Unemployed labour force (x thousand persons)	538	438	350	314	305	320
Unemployed labour force (in %)	6.0	4.9	3.8	3.4	3.2	3.4
Employment (in hours)	2.4	2.0	2.2	1.7	1.1	0.9
Other						
labour income share (in %)	73.9	73.3	73.1	73.9	75.1	75.9
Labour productivity business sector (per hour)	-0.2	0.9	0.6	0.1	0.4	0.9
Individual saving share (in % disposable income) (b)	3.9	3.0	2.8	2.8	3.6	4.0
Balance current accounts (in % of GDP)	8.1	10.8	11.2	9.6	9.7	9.1
	Level in % of GDP					
Public sector						
EMU balance	0.0	1.3	1.5	1.7	1.1	0.1
EMU debt (ultimo year)	61.9	56.9	52.4	48.8	46.3	45.2
Tax burden	38.4	38.6	38.7	39.4	39.0	38.6
Gross public spending	44.0	42.9	42.5	42.1	42.4	42.9

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

The Dutch economy is growing steadily, which is relatively good, given the international picture. Household and public spending are particular contributors to this. GDP is projected to grow by 1.4% in 2020 and by 1.6% in 2021. Pessimists might call that a moderate growth rate, slightly below potential growth. Optimists may point out that growth has been well above 1% for eight consecutive years since 2014, which has not happened since the 1990s. If the projections are correct, the Dutch economy will also grow faster than that of the eurozone, for the sixth consecutive year.

Growth is reasonably broad-based, but the contribution of investments is falling. In the 2019–2021 period, export's contribution to growth is still positive, but somewhat more modest compared to previous years, in line with the low growth rate of relevant world trade. In the coming years, consumption growth will increase slightly compared to 2019, benefiting from a significant increase in disposable income. Government spending will also contribute substantially more than it has in recent years. The contribution from investments will decrease, partly because housing investments will fall in the coming years as a result of the problems with nitrogen and PFAS.

Figure 1.2 Growth in the Netherlands more rapid than in the eurozone, with low contribution from investments

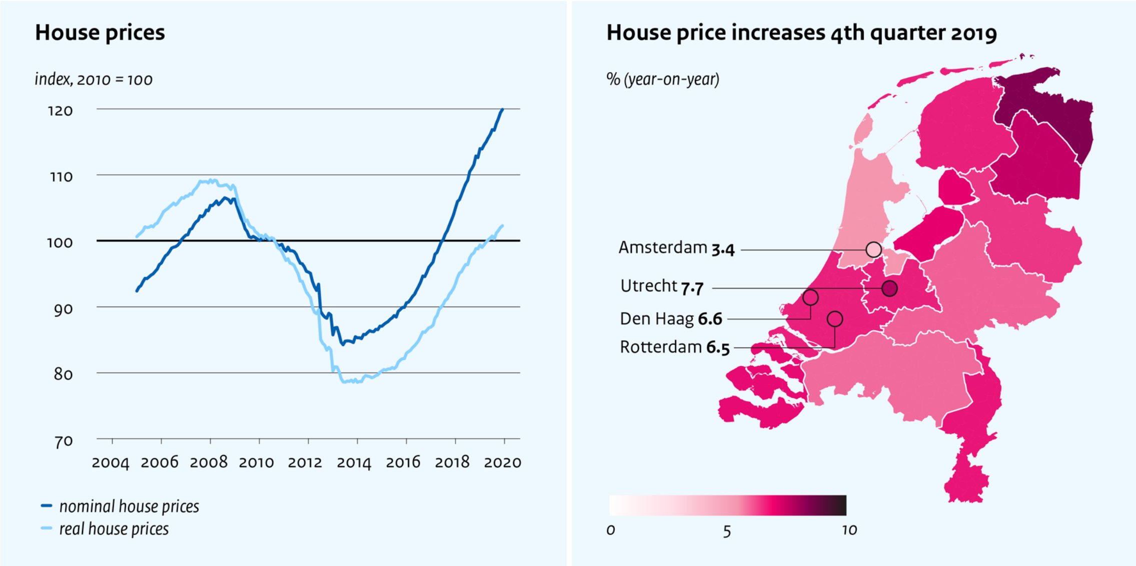


(a) Imports of final and cumulated intermediate inputs have been subtracted from the spending categories
Source: CBS and CPB (link)

The construction sector is hampered by the nitrogen and PFAS problems, while the housing market remains tight. Since mid-2019, the construction sector is contending with problems resulting from the nitrogen decision and the PFAS standard. The exact impact of these problems is still difficult to estimate, but the latest figures on expectations and order turnover in the construction industry seem to indicate a somewhat greater effect than previously thought.[3] These projections take into account a negative GDP effect of 0.2% in 2020 and 0.1% in 2021. As a result of these problems and labour shortages, construction production is not growing fast enough to relieve shortages on the housing market. This market will therefore remain tight in the coming years. House prices have risen sharply in recent years, and despite a slight levelling-off of growth in 2019, there is no real cooling off. The increase is no longer a Randstad phenomenon; nominal house prices in all regions are now above pre-crisis levels. This against the background of robust increases in the number of households under a limited increase in the housing supply. Historically low interest rates have also pushed up prices, and the affordability of housing for first-time buyers has become problematic, in some regions.

[3] See the text box 'Consequences of the PAS decision for the construction sector' in the December Projections 2019 (link)

Figure 1.3 Rapid rise in house prices, also outside the Randstad area

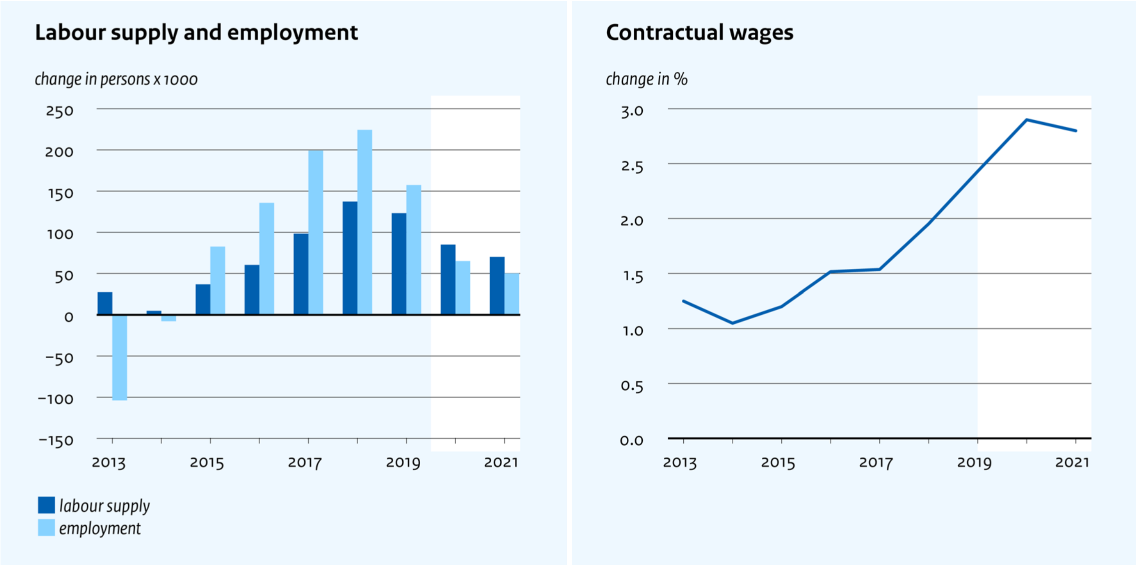


Source: CBS and CPB [(link)](link)

The labour market also remains tight, with unemployment rising slightly from historically low levels. Unemployment reached a record low of 3.0%, in January 2020, since the start of the monthly figures in 2003. The unemployment rate will barely increase in the years to come, to 3.2% in 2020 and 3.4% in 2021. The fact that the Dutch economy has moved to a significantly lower projected growth rate for 2019–2021, therefore, translates into higher unemployment only to a very limited extent. The fact that the Dutch economy moves to a much slower rate of growth in 2019-2021 translates only marginally into higher unemployment. Although growth in business employment will decline to 1.1% in 2020 and 0.9% in 2021, the increase in the labour supply will also decline, due to the ageing population and the fact that less growth means fewer people will want to join the labour market. Labour productivity growth was very low in 2019, and will rise to 0.4% in 2020 and 0.9% in 2021, after years of very limited growth.

The tight labour market translates into higher wages, while inflation is decreasing. The increase in CAO (collective labour agreement) wage growth that started in 2019 is projected to continue by 2.9% in 2020 and 2.8% in 2021. After years of limited wage increases, wages are catching up. The labour income share will increase from 73.9% in 2019 to 75.9% in 2021, which is about 2 percentage points above the average of the past 20 years. Inflation (HICP) accelerated to 2.7% in 2019 due to higher indirect taxes. In 2020 and 2021, this effect will be absent, and inflation will decline to 1.6%. The underlying core inflation will increase slightly due to rising rents and higher import prices, but this will be counterbalanced by a lower energy price.

Figure 1.4 Labour market remains tight, leading to higher wages



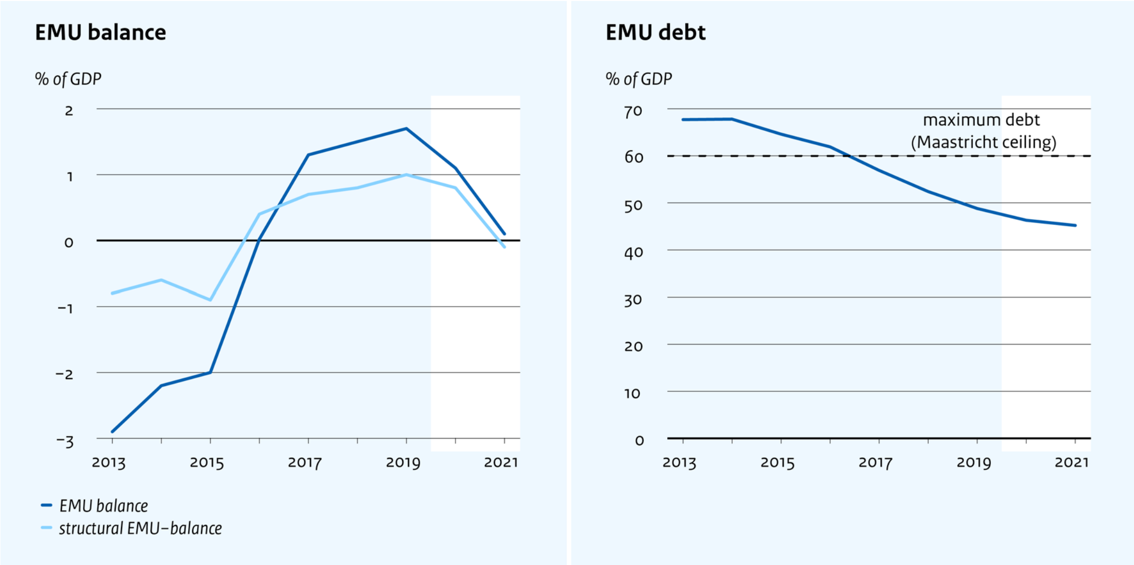
Source: CBS and CPB [(link)]

The increase in real wages, together with a reduction in the tax burden, will lead to a substantial increase in purchasing power. The combination of higher wages and lower inflation means a real wage increase of 1.2% in 2020 and 1.0% in 2021. Government policy also makes a substantial contribution to purchasing power. Static purchasing power will increase, on average, by 2.1% in 2020 and 1.3% in 2021. The increase in purchasing power applies to all population groups, but is strongest for those in the middle and higher income brackets. Working people are better off than pensioners and benefit recipients.

Pension cuts in 2020 will be virtually avoided, but are foreseen for a number of pension funds in 2021. Due to a slight rise in interest rates and the favourable trend in share prices, no cuts would ultimately need to be implemented early 2020 for most funds — even without the exemption scheme. However, indexation is also out of reach for most funds, as a result of which there is no value retention of pension benefit payments. In accordance with the pension agreement, the pension funds must meet the Minimum Required Own Capital limit of 100% by 2021. According to these projections, the pension funds of the health care and government sectors will meet this limit, but a quarter of the funds in the market sector will have to cuts pensions by approximately 0.8%. It is assumed that they will implement these cuts in one swoop, in 2021.

Budgetary policy is expansionary despite underspending, with a declining surplus. The budget surplus is projected to fall from 1.7% of GDP in 2019 to 1.1% in 2020 and 0.1% in 2021.The deterioration in the budget balance is primarily the result of expansionary budgetary policy — in particular, the climate agreement, the pension agreement and the additional reduction in taxes decided on in 2019. Incidentally, the balance could have been somewhat lower. As in previous years, not all planned government expenditures will be realised this year and the next. In 2020 and 2021, 3.4 billion euro and 1.7 billion euro of respective underspending are expected to occur. The debt will fall to 45.2% of GDP in 2021. The tax burden will decrease from 39.4% of GDP in 2019 to 38.6% in 2021, mainly due to policy measures.

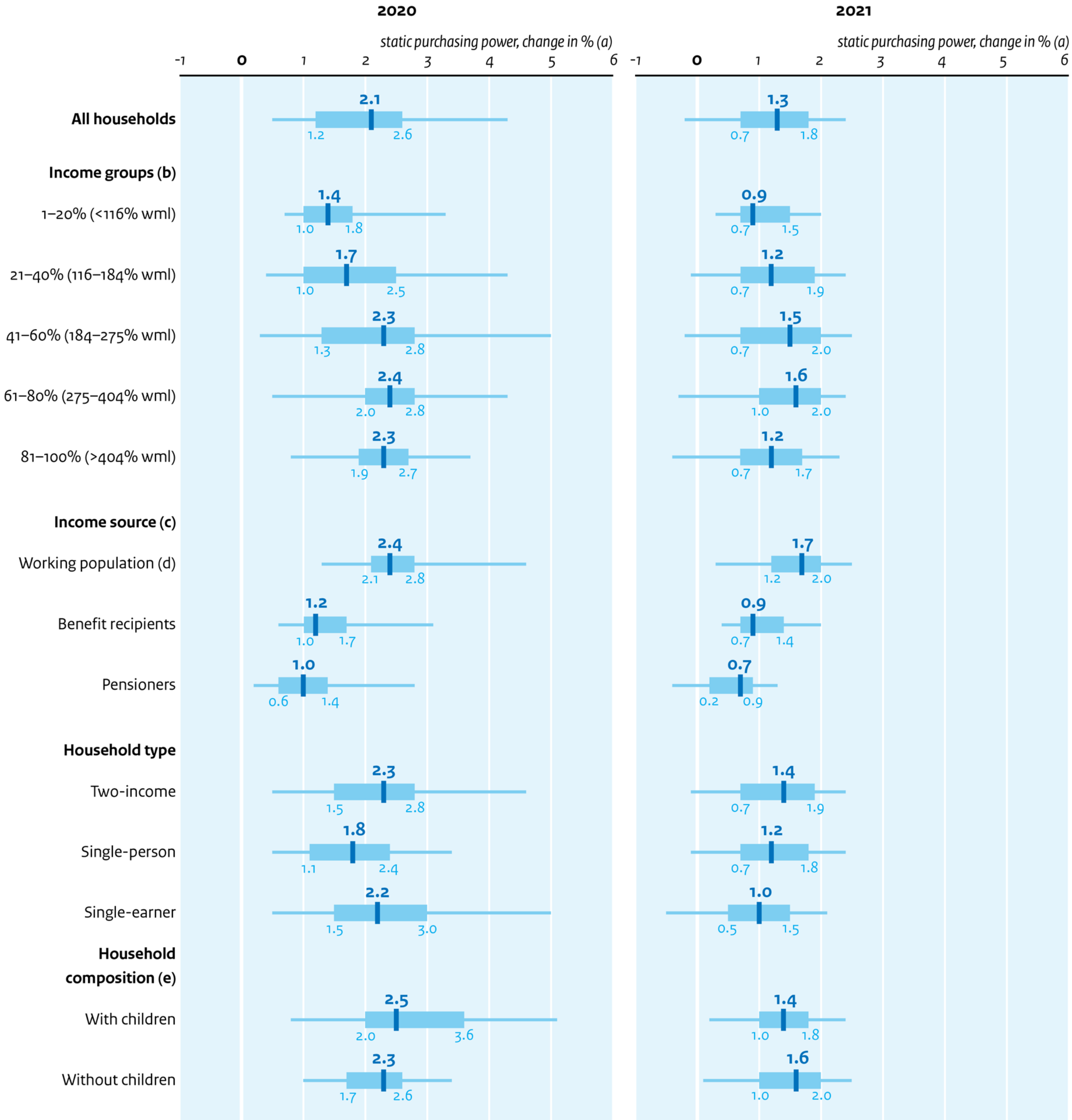
Figure 1.5 Budget surplus remains barely in the green, debt continues to decline



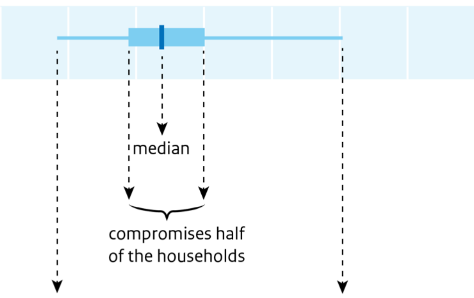
Source: CBS and CPB (link)

Apart from the coronavirus, there are several other downward risks to the projections. US trade policy remains unpredictable, import tariffs on European cars are uncertain and a resurgence of the trade dispute between the US and China cannot be excluded. Although a disorderly Brexit has been averted, there is new uncertainty as to whether the trade relationship between the European Union and the United Kingdom will take shape in time. In the Netherlands, the impact of the nitrogen and PFAS issues remains uncertain, and additional climate measures as a result of the Urgenda ruling are possible. Wages are an upside risk. In view of the recent further decrease in unemployment, wage growth in the Netherlands may also be higher than assumed in these projections.

Figure 1.6: Purchasing power 2020 and 2021



How to read the table?



the lowest and highest value has been cut off at 5% and 95%, respectively, due to imprecisions in the projected minimum and maximum

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 en highest development in purchasing power.

(a) Not including indicental changes in income.
(b) Gross labour income or welfare benefits on household level; the national minimum wage (nwm) in 2020 is around 21,600 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.

Update of the medium-term outlook and sustainability of public finances

In preparation for the general elections, in November 2019, CPB published an outlook study on growth for the coming government term (2022–2025).[4] A study on the long-term sustainability of public finances was published in December 2019.[5] These new projections present an update of the figures for both studies. The main changes are due to CBS's new population forecast.

CBS's higher population forecast projects a substantial adjustment of the labour supply and potential growth. The higher population growth is significant; in the previous projections, total population in 2025 was estimated at 17.7 million, whereas the new projections estimate it at 18.0 million. This leads to a large adjustment of the labour supply growth, by about 0.4% annually]. Text box 2 explains under which assumptions the labour supply growth has been adjusted. A greater labour supply also means higher potential growth. Annual actual growth (under the usual assumption that the output gap closes by the end of the period) is now projected at 1.5% for 2022–2025.

More population growth causes the housing market to be even tighter, but will help the labour market. The number of households is growing faster than previously thought, which means that housing market tensions will continue for longer. The tension on the labour market is eased somewhat by the arrival of a larger group of labour migrants. Although the previous medium-term outlook assumed that employment growth in the market sector could hardly take place because the growth in labour supply would be almost entirely absorbed by the care sector, this update nuances that picture. Employment in the market sector is now projected to grow by 0.3% per year over the 2022–2025 period.

Increased growth and more windfalls in health care are favourable for public finances. The higher growth level leads to higher tax revenues. Expenditures are also rising as a result of greater population growth, but this is somewhat attenuated by structural windfalls in health care. Overall, the budget balance is projected to improve by 0.4% of GDP, compared to in the medium-term outlook of November. As a result, the balance remains slightly positive at 0.1% of GDP over the entire 2022–2025 period. As a result, the debt will decrease more rapidly than previously anticipated, to 40.8% of GDP by 2025.

The sustainability gap will halve, compared to the projections of December 2019 and will amount to 0.8% of GDP. This will first and foremost be the result of improved public finances in the coming cabinet period up to 2025. Secondly, sustainability is also improving as a result of the higher population and labour supply forecast. In the new CBS forecast, the population is younger, and the participation of this younger population on the labour market will be relatively greater. The increase in labour supply is somewhat mitigated by the increase in the share of people with a migration background.

On average, there will hardly be any increase in purchasing power, over the 2022–2025 period. On average, static purchasing power will increases by 0.2% over the 2022–2025 period. For half of all households, the development in static purchasing power lies between 0.1% and 0.4%, annually, on average.

[4] CPB, 2019, Medium-term Outlook 2022–2025 (link)
[5] CPB, 2019, Zorgen om Morgen [*worries about the future* (in Dutch)] (link)

Table 1.2 Main data for the Netherlands, 2001-2025

	2001-2004	2005-2008	2009-2013	2014-2017	2018-2021	2022-2025
	Percentage change per year					
International economy						
Relevant world trade volume goods and services	3.8	6.0	1.7	4.7	2.5	3.0
Competitor prices (a)	-3.5	0.8	1.3	1.2	1.0	0.8
Oil price (in USD per barrel)	36.1	96.3	107.8	54.3	58.4	57.4
Euro exchange rate (USD per euro)	1.24	1.47	1.33	1.13	1.11	1.18
Long-term interest rate, the Netherlands (level in %)	4.1	4.2	2.0	0.5	0.1	0.5
Volume GDP and spending						
Gross Domestic Product (GDP, economic growth)	1.2	2.9	-0.4	2.1	1.8	1.5
Household consumption	1.0	0.9	-0.8	1.4	1.9	1.4
Public consumption	2.8	4.0	0.8	0.7	1.9	1.7
Investments (including stocks)	-1.0	5.5	-3.7	5.5	2.2	1.6
Export of goods and services	3.0	5.0	2.2	5.0	3.0	2.8
Import of goods and services	2.8	5.0	1.7	5.3	3.3	3.1
Prices, wages and purchasing power						
Price level Gross Domestic Product	2.8	2.2	0.8	0.7	2.2	1.5
Export prices goods and services, excluding energy	-0.4	1.3	0.8	0.2	1.0	0.8
Price levels imported goods	-1.9	3.3	1.4	-2.2	0.5	0.4
Inflation, Harmonised Index of Consumer Prices (HICP)	3.1	1.7	2.0	0.5	1.9	1.5
Wage rate business sector (per hour)	3.3	2.8	1.9	0.6	2.9	2.4
Contract wages business sector	3.0	2.0	1.6	1.3	2.5	2.0
Purchasing power, static, median all households		0.5	-0.7	1.3	1.1	0.2
Labour market						
Labour force	0.6	1.3	0.5	0.3	1.2	0.7
Working population	0.0	1.9	-0.2	0.9	1.6	0.5
Unemployed labour force (x thousand persons)	466	318	647	438	320	415
Unemployed labour force (in %)	5.7	3.7	7.3	4.9	3.4	4.3
Employment (in hours)	0.0	1.5	-0.6	1.5	1.5	0.6
Other						
labour income share (in %)	74.0	70.5	74.1	73.3	75.9	75.7
Labour productivity business sector (per hour)	1.4	1.5	0.4	0.6	0.5	1.0
Individual saving share (in % disposable income) (b)	-2.2	-2.0	1.7	3.0	4.0	3.3
Balance current accounts (in % of GDP)	6.6	4.3	10.1	10.8	9.1	8.9
	Level in ultimo year in % GDP					
Public sector						
EMU balance	-1.8	0.2	-2.9	1.3	0.1	0.1
EMU debt (ultimo year)	50.3	54.7	67.7	56.9	45.2	40.8
Tax burden	34.8	35.9	36.1	38.6	38.6	38.6
Gross public spending	43.4	43.2	46.6	42.9	42.9	42.5

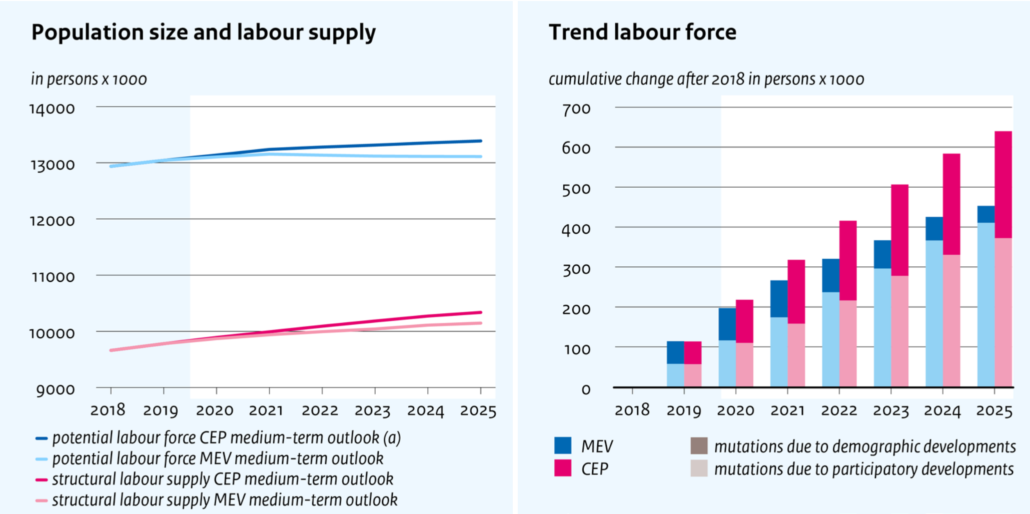
(a) Goods and services, excluding natural resources and fuels.
(b) Level; disposable family income includes public savings.

Greater labour supply

In December 2019, Statistics Netherlands made an upward revision of its population growth projections. As a result, the projections of the potential labour force are also higher (see Figure on the left and note a). The revision of the population growth is due to an upward correction of immigration. The additional number of immigrants is mainly coming from countries with a lot of work and study related immigrants in the past. The expected number of asylum seekers is more or less unchanged, compared to the previous projections. Partly because of the additional immigration numbers, current projections also show that the population, on average, is younger than in the previous projections (0.2 years younger in 2025).

As a consequence, structural labour supply will grow by 0.9% annually, over the 2022–2025 period, i.e. 0.4 percentage points more, per year, than in the medium-term outlook of last November (MEV). This revision is mainly due to a larger labour force (see the increase in the dark-coloured bars in the figure on the right). On the other hand, the average labour participation rate decreases slightly (see the decrease in the light-coloured bars in the figure). The latter is related to the increase in the share of the population with a migration background in the new population projections (b).

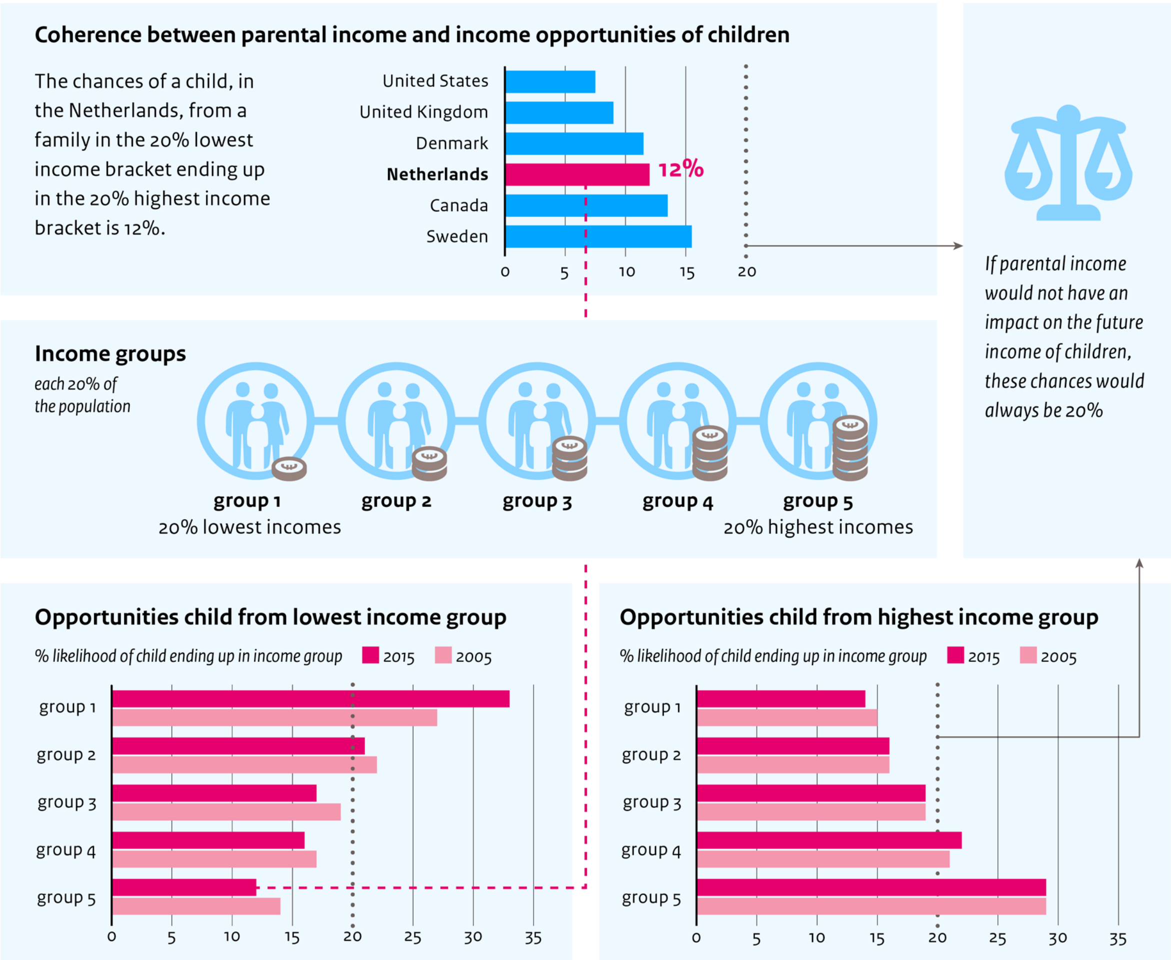
Population growth and labour supply revised upwards



(a) Potential labour force: total labour force and the non-professional population aged between 15 and 75.
(b) For an analysis of the role of age and migration background in labour force participation, see J. Ebregt, E. Jongen and B. Scheer, 2019, Arbeidsparticipatie en gewerkte uren tot 2060 [*labour participation and hours worked, up to 2060*], CPB Background document (link). It is relevant to note, here, that the participation rate of labour migrants and students after entry is already more or less at its long-term level, as opposed to refugees and family reunification migrants where the initial participation is lower, e.g. see OECD (2016), *Making Integration Work: Refugees and others in need of protection.* (link)

Analysis: Unequal opportunities are missed opportunities

Virtually everyone is in favour of equal opportunities, but achieving this ideal is quite another matter. 'Your origins should not determine your future.' 'All children deserve an equally good start.' These sentences were included in the political party manifestos of the SP and VVD at the last general elections.[6] This suggests a broad consensus on the desirability of equal opportunities for all. But despite that shared ideal, success in life is still partly determined by the family you were born into. A child born to parents belonging to the lowest 20% income group is less likely to acquire an income in the highest 20% group. The figure below shows that, although the Netherlands scores reasonably well, internationally, on this aspect (the days that newspaper boys in the US could become millionaires have long since gone), children in Canada and Sweden, for example, are



Source: ter Weel et al., Jansen et al. [7,8] The graph compares the income position of a child with that of its parents 20 years previously. These children are between 30 and 40 years old (an average of 35.4 in 2005 and 35.8 in 2015). The parents were somewhat older at the time of measurement (average 44.8 in 1985 and 45.8 in 1995).

[6] SP, 2017, #PakDeMacht, election manifesto for a social Netherlands for the elections of 15 March 2017 (link); and VVD, 2016, Zeker Nederland, VVD election manifesto 2017–2021 (link)

[7] Ter Weel, B. , G. de Jong and S. Muilwijk-Vriend, 2019, Sociale ongelijkheid in Nederland [*social inequality in the Netherlands*], Amsterdam: SEO Economisch onderzoek (link).

[8] Janssen, P., R. Schulenberg, D. van Vuuren and M. Buitenhuis, 2018, Kinderen overtreffen hun ouders minder vaak in inkomen [*Children surpass their parents less often, with respect to income*), ESB 103, p. 392–395 (link).

more successful at beating the odds. And — with the caveat that relevant data is minimal — there is some cause for concern about the developments in this area, as opportunities were slightly better a decade ago.

Inequality of opportunity can be influenced: *nurture* matters next to *nature*. Talent, personal characteristics and health are partly genetically determined, but that does not determine future income as figures on differences between countries suggest. For it appears that, for children with equal intellectual abilities and health, the family they grew up in matters.[9] Studies on domestic adoptions show that the income of children is determined much more by their adoptive parents than by their biological parents.[10] A migration background also has a negative effect on the income position of children, even when corrected for the income of the parents.[11] The neighbourhood in which a child grows up also affects the income it will achieve later in life. Studies on families who move from an underprivileged neighbourhood to a better one show that their children's later income benefits from this. The younger the age of the child when it moves, the greater the effect.[12] That this neighbourhood effect is not due to an improved financial position of the parents is shown by a study in the United States in which random families were offered a move to a better neighbourhood.[13] The move had a significant positive effect on the later income of the children from these families, but not on that of the parental adults.

Parental income removes more than financial barriers. Of course, parents with a higher income have more opportunities to support their children financially; for example, by paying for tutoring, homework support and educational fees and costs. But these wealthier parents also differ from those less well-off in the non-financial support they offer their children, such as command of the language, help with choosing a course of study, using their network and teaching them 'how the game is played', the unwritten rules that play a role in, for example, the later work environment. In the case of children with a migration background, these factors can be exacerbated by language problems or a greater cultural divide. The influence of a good neighbourhood can manifest itself through its exemplary function: a healthy lifestyle, role models, norms and values.

Even before birth, there seems to be a relationship between the socio-economic position of parents and the chances of their children. Mothers who smoke during pregnancy are more likely to have a child that is too small at birth or is born prematurely, a child with a lower IQ or one with congenital disorders.[14] In the Netherlands, smoking during pregnancy is much more common among lower educated women than among those with a higher education (22% versus 1%, in 2015).[15] Incidentally, alcohol consumption during pregnancy can also lead to premature birth and developmental problems,[16] and although such alcohol consumption is

[9] Heckmann, J. and S. Mosso, 2014, The economics of human development and social mobility, NBER Working Paper 19925 (link).
[10] Black, S., P.J. Devereux, P. Lundborg and K. Majlesi, 2019, Poor little rich kids? The role of nature versus nurture in wealth and other economic outcomes and behaviors, NBER Working Paper 21409 (link).
[11] Jongen, E., J. Bolhaar, R. van Elk, P. Koot and D. van Vuuren, 2019, Income differences across migrant groups, CPB Policy Brief (link).
[12] Chetty, R. and N. Hendren, 2018, The impacts of neighborhoods on intergenerational mobility I: Childhood Exposure effects, *Quarterly Journal of Economics* 133, p. 1107–1162 (link). The study compares outcomes for children who move into a new neighbourhood with those of children who had lived there all their childhood. For the Netherlands, too, neighbourhood effects on income later in life have been demonstrated. (Muilwijk-Vriend, S., D. Webbink and B. Ter Weel, 2019, Economische kansen hangen af van de regio waarin kinderen opgroeien [*economic opportunities depend on childhood region*], *ESB* 104, p.564–567, link), although differences are a little smaller compared to those in the United States (2.7% additional income per year of residence in a 'better' neighbourhood, versus 4%).
[13] Chetty, R., N. Hendren, and L. F. Katz, 2016, The effects of exposure to better neighborhoods on children: New evidence from the Moving to Opportunity experiment, *American Economic Review* 106, p.855–902 (link). There is only one case study on the Netherlands, from which it is more difficult to generalise (Maas, D, 1986, Flodder).
[14] Currie, J. and D. Almond, 2011, Human capital development before age five, Handbook of Labor Economics vol. 4b, p. 1315–1486 (link).
[15] TNO, 2015, Factsheet Roken tijdens de zwangerschap [*fact sheet on smoking during pregnancy*] (link).
[16] Gezondheidsraad, 2005, Risico's van alcoholgebruik bij conceptie, zwangerschap en borstvoeding [*risks of alcohol use during conception, pregnancy and breastfeeding*] (link).

more common among higher educated women than among those with a lower education, the difference is much smaller (4.6% versus 2.2%, from the third month of pregnancy onwards).[17]

In primary school, the chances of children from rich parents obtaining a good education are considerably better. Despite the free choice of school,[18] schools are segregated according to educational and income level and the migration background of the parents. Most parents choose a primary school in their own neighbourhood, as a result of which pupils with a similar socio-economic background usually end up in the same classrooms. And where parents choose a school that is slightly further away, this turns out to make the school population less diverse, measured by the income and background of the parents.[19] The chances of children with a socio-economic disadvantage being able to meet more affluent classmates is therefore not great. In addition, the shortage of teachers is concentrated in schools with many children of low-income parents. Precisely the children for whom you would hope school to be the *Great Equaliser* are more likely to have classes being cancelled, teachers with less experience or without official qualifications, or larger classrooms[20] — while research shows that a good teacher is the key to quality education.[21] As a result, children from neighbourhoods with a low socio-economic status are likely to be have reached a lower level of knowledge when the leave primary school.

When children transfer to secondary school, the income and educational level of their parents may give them a new boost. From and international perspective, in the Netherlands, children are divided into educational levels at a relatively young age, whereby the school advice of the primary school is the deciding factor. Children of highly educated parents and those of parents who have a high income receive an initial school advice for a higher secondary educational level, even when corrected for their scores on the secondary school placement exam (i.e. Cito-toets).[22] This can be due to the fact that teachers take into account the extent to which the child can be supported (financially or non-financially) by its parents, or due to pressure from the parents, or be a matter of (conscious or unconscious) discrimination on the part of the teacher. And there is yet another effect: if the results from the placement exam indicate a higher school level than that indicated in the school's own initial advice, the child is entitled to have that school advice amended. The chances of the school advice actually being changed are higher for the children of parents whose income and/or educational level is high, simply because these parents more frequently insist on such an adjustment.

Children of highly educated parents successfully benefit from this higher school advice. Children of highly educated parents thus receive (or have amended) an advice for secondary school that is higher than other children with the same placement exam scores (i.e. Cito-toets). You might expect those privileged children to have some difficulties in actually achieving this higher level of education, but the opposite is true: children of low-educated parents are more likely to end up at a lower level.[23] The reasons for this may vary; highly educated parents may attach more importance to the education of their children, or they are more able to help their children with doing homework, possibly also because they have the financial means to pay for

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[17] TNO, 2015, Factsheet Alcoholgebruik tijdens zwangerschap en borstvoeding [*fact sheet on alcohol use during pregnancy and breastfeeding*] (link).
[18] When chosing elementary schools, financial barriers hardly exist in the Netherlands, but a rather limited number of schools does impose a rather high voluntary financial contribution on parents. Although those contribution are voluntary, they may work as a deterant.
[19] Inspectorate of Education [Inspectie van het Onderwijs], 2018, De staat van het onderwijs 2016-2017 [*the state of education 2016–2017*] (link).
[20] Inspectorate of Education [Inspectie van het onderwijs], 2019, De staat van het onderwijs [*the state of education 2016–2017*] (link).
[20] CPB, Kansrijk Onderwijsbeleid 2016 [*promissing educational policy*] (link).
[21] CPB, Kansrijk Onderwijsbeleid 2016 [*promissing educational policy*] (link).
[22] CPB, Policy Brief De waarde van eindtoetsen in het po [*the value of placement exams in primary education*]. (link).
[23] Inspectorate of Education, 2019, De staat van het onderwijs [*the state of education*] (link).

tutoring or homework support if needed.[24] For children who are intellectually very capable of achieving a certain level of education, it also turns out to be difficult to achieve a higher level by 'stacking' diplomas (i.e. passing successive exams in ascending levels of education), support by parents also plays a role here. As a result, overall, the children of highly educated parents eventually obtain a higher diploma.

Parental influence also makes itself felt on the labour market. Parents can ‘pull strings’ and use their connections when their children enter the labour market.[25] In addition, labour market participation and labour market success are positively affected by a healthy lifestyle, something that is also passed on from parent to child. And there are also indications that parental work ethics and social security dependency have an impact on the next generation. Social security dependency of children is linked to that of their parents, even when corrected for educational level and health.[26] This effect is strongest for the dependence on social security, but is also found, albeit to a lesser extent, for disability benefits.

Inheritances and gift allowance schemes provide an additional helping hand. Parents who, upon death, are able to leave a financial inheritance to their children also create additional opportunities for those children, which adds to the fact that these children will be better off. As a result, inheritances end up with those who need it least: households with large capital assets or high income are more likely to receive a considerable inheritance.[27] Parents with sufficient wealth are also increasingly applying some of this wealth to help their children buy their first home, sometimes taking advantage of so-called gift allowance schemes. Because homeowners acquire more capital than people who rent their homes, in the long run, wealthier parents help their children to build up capital for themselves. And because owner-occupied houses are usually in better neighbourhoods, the cycle of privilege continues and the third generation (i.e. grandchildren) also benefits.

What can policymakers do? The fact that children's socio-economic success is affected by all these family and neighbourhood effects means that certain economic potential is likely to remain unexploited. It also means that policies could make a difference. A few policy measures can be distinguished. Of course, the government can remove financial barriers. Much has already been done in the Netherlands, in this respect, but there is still room for improvement on a marginal level; for example, by limiting the voluntary parental contribution to primary education or by subsidising the costs of tutoring or homework support. Accessibility (lower threshold, but also closer physical proximity) of things like tutoring and homework support could also be improved. Parents who are socio-economically disadvantaged may not always know where to go for assistance, or may be unable to pay the related travel costs. In addition to removing such barriers, policymakers could also take into account the fact that some measures may actually increase inequality of opportunity. One example is changing the sequence of cito-toets and school advice. Another example the gift allowance scheme where wealthy parents donate money to their children for the purchase of a house — which particularly helps those in already higher income brackets.

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[24] De Geus, W. and P. Bisschop, 2018, Licht op schaduwonderwijs: Onderzoek naar deelname aan en uitgaven voor schaduwonderwijs [*study in participation in and expenditure on ‘shadow education’*], SEO/Oberon (link).
[25] De Geus, W. and P. Bisschop, 2018, Licht op schaduwonderwijs: Onderzoek naar deelname aan en uitgaven voor schaduwonderwijs [*study in participation in and expenditure on ‘shadow education’*], SEO/Oberon (link)..
[26] Boschman, S., I. Maas, M.H. Kristiansen and J.C. Vrooman, 2019, The reproduction of benefit receipt: Disentangling the intergenerational transmission, *Social Science Research 80*, p.51-65 (link).
[27] Groot, S., M. Lever and J. Möhlmann, 2019, Het effect van erfenissen en schenkingen op vermogensongelijkheid en de rol van belastingen [*The effect of inheritances and gifts on wealth inequality and the role of taxes*], CPB Communication (link). It is slightly counter-intuitive, but inheritances and gifts are found to in fact reduce wealth inequalities to a certain degree, because inheritances mean that wealth is redistributed to a younger and therefore usually less wealthy generation. In addition, although households with low or negative wealth mostly receive fewer financial gifts and inheritances, this money has a higher impact on those household than do the larger inheritances on recipients who are already better off.

Equal treatment is not enough to create equal opportunities. Even if the government removes financial barriers and ensures that policies do not further increase inequality of opportunity, this will not eliminate inequality — for the very reason that the non-financial mechanisms described here play such an important role. It is not easy to compensate disadvantaged children, in this regard. Probably the most promising pathway is that of increasing the quality of preschool and early childhood education, and to start early childhood education even earlier. Policies that provide access to 'stacking' diplomas are also promising, especially for children with a migrant background.[28] Another measure concerns that of making it more attractive for teachers to work in schools in underprivileged neighbourhoods by rewarding them for doing so, by creating smaller classes, and/or by giving them more time in their working day to focus on development and preparation. Of course, these are all measures that come with hefty price tags. Measures in the sphere of pressure and coercion are also conceivable, such as compulsory participation in preschool and early school education, lifestyle interventions, changing the free choice of school... such measures are even more likely to encounter political objections than the expensive options above. Anyone advocating equal opportunities — and who could be against it? — does not escape the difficult considerations this brings. It is important to keep in mind that there are real children behind the figures and mechanisms — children who will not achieve their full potential because they are not provided with the chance to do so. Unequal opportunities are missed opportunities, for children but also for society as a whole.

[28] OECD (2017), Catching Up? Intergenerational Mobility and Children of Immigrants (link).