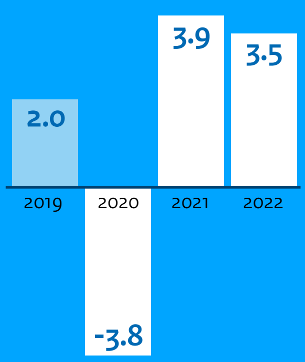
CPB Netherlands Bureau for
Economic Policy Analysis

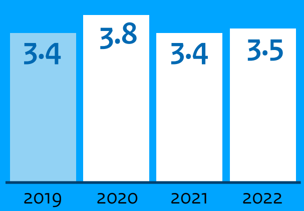
Macro Economic Outlook 2022

Economic recovery is gaining momentum, assuming no new lockdown will be required.

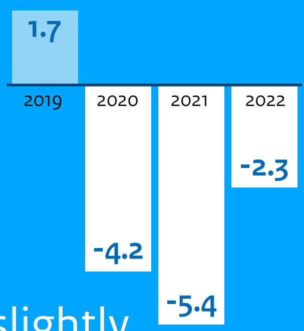
GDP development
in %



Unemployment
in % of the labour force



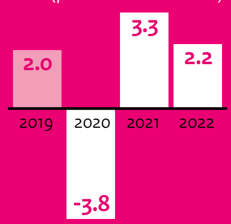
Budget balance
in % of GDP



Unemployment will increase only slightly after discontinuation of financial support, and **public finances** will recover in line with the economy.

Under the scenario in which a new lockdown will become necessary, **recovery will slow down** while the economy remains resilient. In 2022 unemployment increases to 3.6%.

GDP development
in % (pessimistic scenario)



Inflation: who benefits?

Inflation has increased, recently, in both Europe and the US, but this is likely only temporary. The ongoing price increases on the housing market and stock exchange do carry certain risks.

→ page 8

CPB Projections

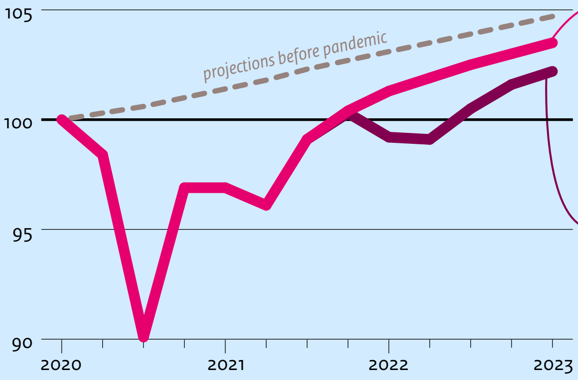
September 2021

CPB figures Prinsjesdag 2021

Economic recovery is gaining momentum, uncertainty about the development of the pandemic remains

Resilience

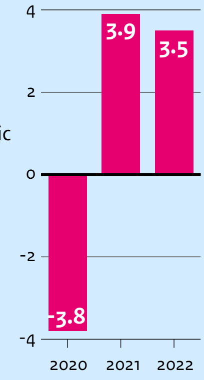
GDP development *per quarter (indexed, end of 4th quarter 2019 = 100)*



In the **baseline projections**, we assume new large-scale contact restrictions will not be necessary; thus, economic recovery will continue

The **scenario** shows that another lockdown would slow down the recovery, but the economy would remain resilient

GDP change *per year in %*

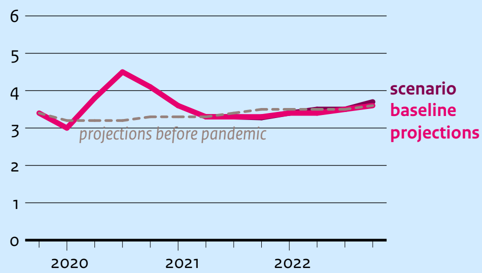


A few sectors will continue to be affected by the pandemic, possibly permanently, while others will face staff shortages

Staff wanted

Discontinuation of the support measures will not lead to serious unemployment levels — even in the scenario, the increase will be limited

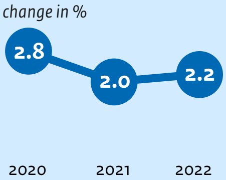
unemployment *per quarter, in % of labour force*



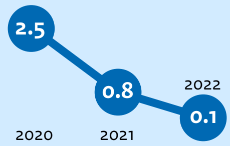
Currently there are 6 vacancies for every 5 job seekers

Static purchasing power is stagnating because of delayed wage response to the coronavirus crisis

CAO wages business sector, change in %

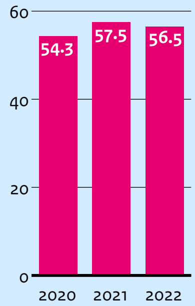


purchasing power, change in %, median all households



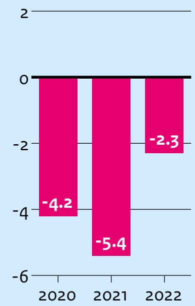
Public finances

government debt
in % of GDP



Government debt increased due to financial support policy, but is now stabilising

budget balance
in % of GDP



The budget deficit will decrease rapidly after discontinuation of the financial support measures

Analysis

Inflation: who benefits?

Inflation has increased, recently, in both Europe and the United States, but this is likely only temporary. The ongoing price increases on the housing market and stock exchange do carry certain risks → **page 8**

1 Main points and analysis

1.1 Main points

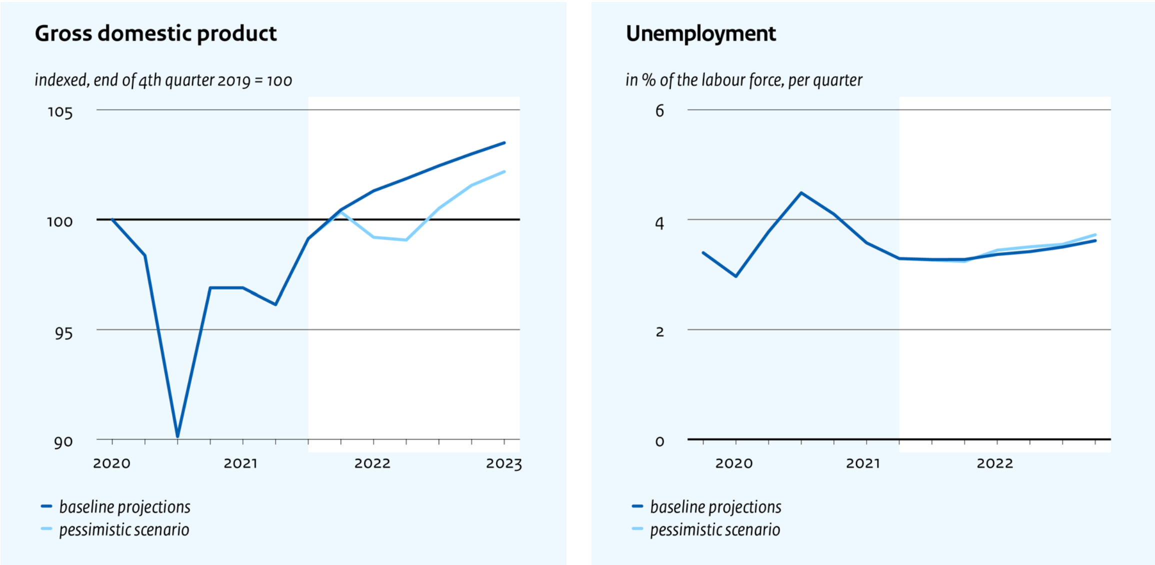
The economy is weathering the coronavirus crisis surprisingly well. A year and a half after the pandemic began, it is now clear that the worst-case economic scenarios did not become reality. The Dutch economy bounced back strongly after the first coronavirus wave and proved to have a large adaptive capacity. During the second lockdown, from October 2020 onwards, the economic impact remained limited to the sectors directly affected, and even there the impact was smaller, this time around. This resilience has also meant that the labour market weathered the crisis remarkably well. In many sectors, the labour shortages of before the coronavirus crisis have already returned. The financial support policy has played an important role, in this respect — although there was also the downside of normal business dynamics having come to a halt for a long time, and government debt clearly having increased.

The spread of the coronavirus remains a source of uncertainty. This will determine the pace of recovery. Good progress in vaccination coverage offers the prospect of life without restrictive measures in most industrialised countries, which is in sharp contrast with the situation in emerging economies and developing countries, where achieving large-scale vaccination coverage will still take a considerable amount of time. As long as the coronavirus is not under control around the globe, it is certainly conceivable that new variants will emerge that are more infectious and/or lead to a higher burden of disease because the current vaccines offer less protection against them.

In the baseline projections, economic recovery is gaining momentum. The baseline projections show solid economic growth, both this year (3.9%) and the next (3.5%), supported by increasing demand from abroad and by households and government consumption. This, under the assumption of large-scale physical contact restrictions no longer being needed. A limited number of sectors will still be affected by coronavirus-related uncertainty, targeted physical contact restrictions and a shift in demand. In contrast, many other sectors are already experiencing labour shortages, which facilitates the necessary reallocation. In 2022, unemployment will therefore increase only slightly to 3.5%, after termination of the support measures.

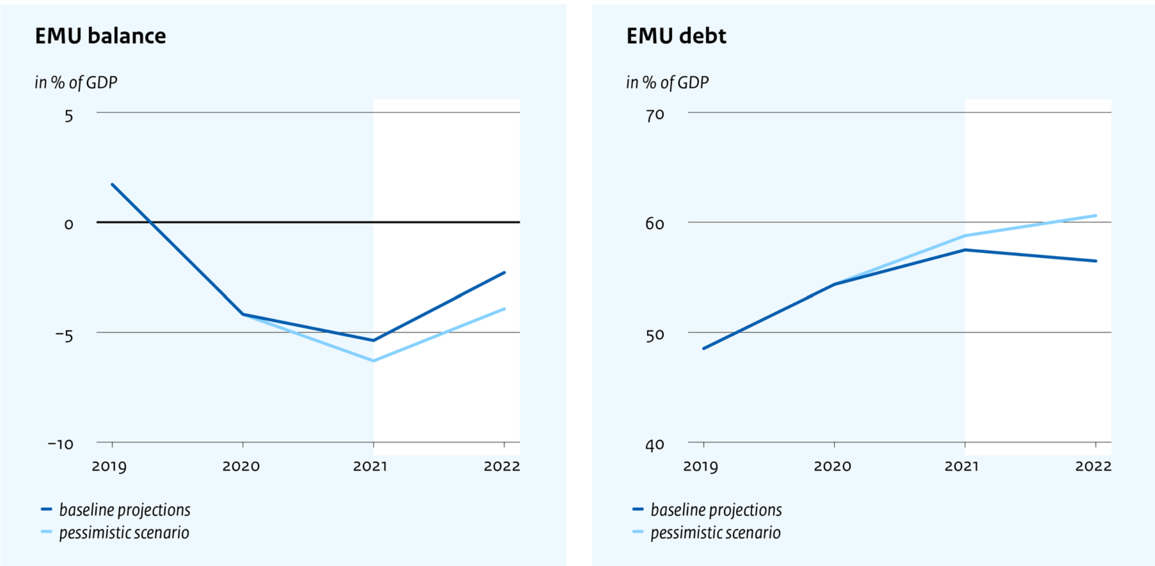
Uncertainty with respect to new virus variants and the effectiveness of vaccines remains high; under a pessimistic scenario, this will also affect the economy. To do justice to this uncertainty, we developed a pessimistic 'new lockdown scenario'. Infections caused by new variants of the virus and/or reduced efficacy of vaccines may put renewed pressure on the healthcare system, thus necessitating reimplementation of physical contact restrictions. Under such a scenario (see Section 2.3), economic development is less favourable, although the scenario still assumes the same adaptive capacity and resilience of the economy. GDP growth under this scenario would be 3.3% in 2021 and 2.2% in 2022, and unemployment would rise to 3.6% in 2022.

Figure 1.1 Strong recovery in baseline projections, pessimistic scenario shows third dip in GDP



Despite the impact of the coronavirus crisis, government finances are not at risk and spending cuts will not be necessary, but it is important for budget discipline to be restored. In the baseline projections, the budget deficit will fall to -2.3% of GDP next year. The government debt has increased rapidly due to the financial support policy, but is stabilising well below the European standard of 60%. Under a 'new lockdown scenario', reimplementation of government support measures is assumed, causing the government deficit to increase to -6.3% in 2021 and -3.9% in 2022. This would cause a slight increase in debt in 2022, but even under such a scenario, there would be no need for spending cuts. This does not alter the fact that it would be wise to return to the budgetary rules that were abandoned during the crisis. Budgetary rules ensure integral consideration of policy targets and efficient spending of tax revenues.

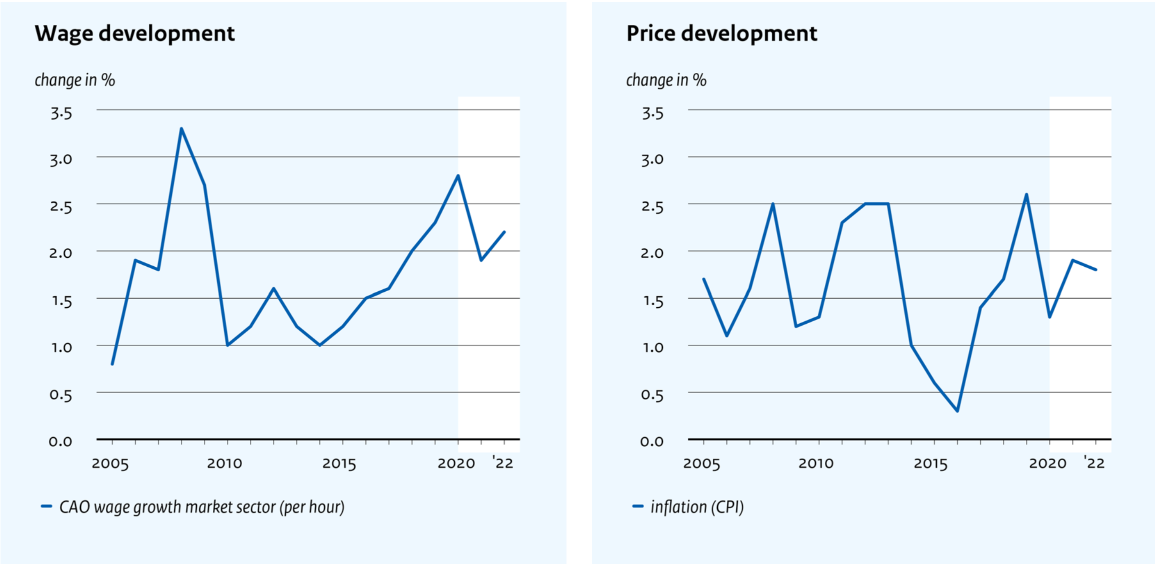
Figure 1.2 Government finances recover in the baseline projections; pessimistic scenario shows increase in debt due to additional support



The coronavirus crisis has slowed down wage development, while inflation increased slightly. In 2020, CAO wage development was still mainly determined by agreements made before the coronavirus crisis. Since then, social partners have clearly become more cautious and wage growth levels are now considerably lower than before the crisis. Energy and raw material prices are slightly increasing, this year, due to strong recovery of global demand — although, in the Netherlands, the rise in inflation is being curbed by the rent freeze on social housing.

As a result of these developments, purchasing power development is more moderate this year than the last, and is close to zero next year. This year's real wage development is close to zero, and static purchasing power in 2021, on average, will be slightly positive, thanks to a reduction in the fiscal burden. In 2022, average purchasing power will be almost zero, taking into account that, under most schemes, supplementary pensions once again will be indexed only to a limited extent, while reductions are expected to be avoided almost entirely. Pension fund premiums, however, will continue to increase.

Figure 1.3 Delay in CAO-wage response to the coronavirus crisis, inflation levelling off



The recent increase in consumer prices is likely to be temporary; A prolonged sharp rise in the prices of houses and other assets is cause for concern. Section 1.2 ("Inflation: who benefits?") puts the recent rise in inflation in Europe and the US into perspective. The conclusion is that this increase is probably temporary as the underlying causes appear to be receding and there is no indication of the start of a wage-price spiral. The somewhat longer trend of higher prices for houses, shares and other assets is a cause for concern, because it leads to growing wealth inequality and poses risks to financial stability. This increase in asset prices is partly the result of the monetary policy pursued, which was aimed at boosting inflation. This monetary policy was understandable in view of the disadvantages of too low inflation, but the disadvantages in the form of pushed up house and stock prices have become increasingly significant. The somewhat higher inflation in the euro area may therefore be a reason to shift the balance. Incidentally, domestic policy in the field of spatial planning and taxation also plays a role in the sharp rise in house prices. Policymakers who find the rise in house prices problematic, therefore, do not have to look exclusively at Frankfurt.

The prices of privately owned houses and other capital assets rose sharply during the coronavirus crisis; a possible price correction could slow down recovery. Housing and share prices have increased strongly, due to the low interest rates, generous monetary conditions and the amount in savings that has been accumulating over the course of the pandemic. On the housing market, prices were boosted further by a temporary reduction in residential transfer tax for first-time buyers. Corrections on the housing market or stock market could cause the recovery to slow down. Another risk lies in the very flexible monetary policy. At some point, monetary authorities will need to phase out debt purchases; if such a phase-out comes sooner than expected — for example, when the US inflation rate turns out to be more resilient than currently thought — this could shock financial markets, which in turn could affect the real economy.

Ending the financial support policy is sensible and will not lead to serious unemployment levels. Termination of the currently provided support after the third quarter of 2021 may lead to a catch-up in bankruptcies and restructuring, but shortages on the labour market will remain. In sectors that will continue to suffer because of coronavirus-related effects for longer periods of time, restructuring is inevitable and healthy, from an economic perspective — people and resources in those cases can be deployed in other, more productive areas.

Table 1.1 Main data for the Netherlands, 2017–2022

	2017	2018	2019	2020	2021	2022
	mutations per year, in %					
International economy						
Relevant world trade volume goods and services	5.4	3.7	3.1	-9.3	6.6	6.6
Competitor prices (a)	1.2	-0.4	3.9	0.3	3.6	1.5
Oil price (in USD per barrel)	54.3	70.9	64.3	41.8	69.5	69.4
Euro exchange rate (USD per euro)	1.13	1.18	1.12	1.14	1.19	1.18
Long-term interest rate, the Netherlands (level in %)	0.5	0.6	-0.1	-0.4	-0.3	-0.3
Volume GDP and spending						
Gross Domestic Product (GDP, economic growth)	2.9	2.4	2.0	-3.8	3.9	3.5
Household consumption	2.1	2.2	0.9	-6.6	2.4	5.8
Public consumption	0.9	1.7	2.8	1.0	6.0	1.5
Investments (including stocks)	4.2	3.9	7.7	-5.4	1.7	3.6
Export of goods and services	6.5	4.3	2.0	-4.8	6.8	5.4
Import of goods and services	6.2	4.7	3.2	-5.5	6.5	6.4
Prices, wages and purchasing power						
Price level Gross Domestic Product	1.3	2.4	3.0	2.3	2.3	1.8
Export prices goods and services, excluding energy	1.3	0.9	1.0	-0.4	4.2	1.3
Price levels imported goods	3.6	2.2	-1.1	-5.1	8.3	1.2
Inflation, Harmonised Index of Consumer Prices (HICP)	1.3	1.6	2.7	1.1	1.9	1.8
Wage rate business sector (per hour) (d)	0.9	1.9	2.6	7.6	-0.4	1.1
Collective labour agreement (CAO) wages (c)	1.5	2.0	2.4	2.8	2.0	2.2
Purchasing power, static, median all households	0.3	0.0	1.1	2.5	0.8	0.1
Labour market						
Labour force	0.8	1.2	1.6	0.4	0.3	1.2
Working population	2.1	2.3	2.0	0.0	0.8	1.1
Unemployed labour force (x thousand persons)	438	350	314	357	315	330
Unemployed labour force (in %)	4.9	3.8	3.4	3.8	3.4	3.5
Employment (in hours)	2.4	2.7	2.1	-2.7	2.3	1.8
Other						
labour income share (in %)	73.3	73.6	73.9	74.9	73.3	73.9
Labour productivity business sector (per hour)	0.6	-0.2	0.0	-1.2	1.5	1.6
Individual saving share (in % disposable income) (b)	3.5	4.0	4.5	11.6	11.4	6.8
Balance current accounts (in % of GDP)	10.8	10.8	9.4	7.0	8.2	8.9
	GDP level, in %					
Public sector						
EMU balance	1.3	1.4	1.7	-4.2	-5.4	-2.3
EMU debt (ultimo year)	56.9	52.4	48.5	54.3	57.5	56.5
Public financial burden	38.7	38.8	39.3	39.7	38.8	38.3
Gross public spending	42.9	42.8	42.4	48.4	48.1	44.5

(a) Goods and services, excluding natural resources and fuels.
(b) Level; disposable family income includes public savings.
(c) Previously, contract wages in the business sector.
(d) The NOW wage cost subsidy and the continuity contribution in health care have a 3.3 percentage points upward effect on businesses' wage rate mutations in 2020, and a downward effect of 1.6 percentage points in 2021 and 1.5 percentage points in 2022.

The government may stimulate recovery by being clear about its approach to long-term issues; this will not necessarily always involve large-scale public investments. Additional government support, over the coming years, could entail offering certainty to businesses and households by making strategic choices on major long-term issues (e.g. climate change, nitrogen, housing shortages, labour market, taxation). This need not involve large-scale investments by the government itself; in many cases, standardisation and appropriate pricing are more effective policy instruments. In view of the already tight labour market, the obvious choice for the coming years would not be to boost the economy through additional government spending, as there is a risk that this will increase wages and prices rather than economic activity. Moreover, it should be borne in mind that, in the past, short-term effective spending of such additional financial resources proved difficult. Moreover, the government budget already allocates considerable resources to the Growth Fund and the national educational programme.

Government could furthermore also facilitate restructuring, where necessary. Viable businesses with problematic debts may benefit from rapid restructuring; the government (as a creditor of tax deferrals and excess in financial support received) can encourage private parties to do so. This can be done by automatically writing off the same amount, or even slightly more, of the outstanding public debt when private creditors write off part of a company's debt.

1.2 Inflation: who benefits?

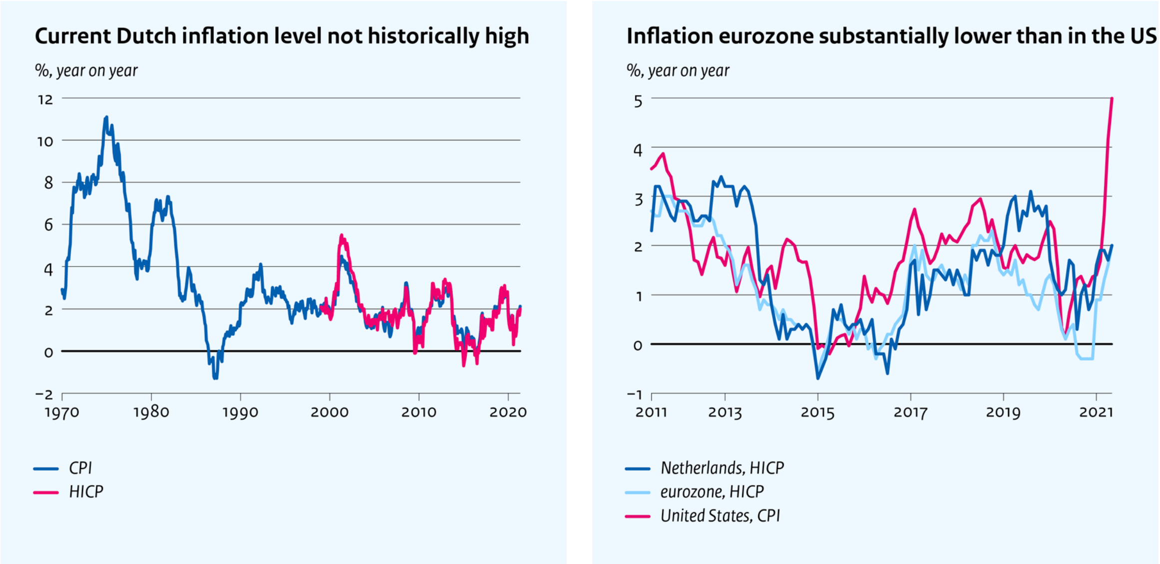
Inflation, in recent years, has not been as high as it is today; is that a worrisome situation? Inflation is making a comeback. For years, the prices of goods and services barely increased. At times, there was even deflation (i.e. falling price levels). Recently, however, inflation is sharply on the rise in Europe and especially in the United States. In addition to the increase in consumer prices, there has also been a steady increase in asset prices (e.g. shares) and house prices. Over the past years, the European Central Bank and other central banks have tried everything in their power to raise consumer price inflation, such as by lowering interest rates. After all, an economy benefits from a certain level of inflation. However, low interest rates also stimulate a longer trend in price increases for shares and on housing markets. How concerned should we be about these trends?

Inflation occurs when the general price level in the economy increases. It means that consumers can buy less with the same amount of money than before. In practice, this has resulted in many goods and services having become more expensive. One and a half years after the start of the coronavirus pandemic, we now see that the economy is recovering. This goes hand in hand with a strongly increasing demand for various goods and services, while important raw materials (including oil) and semi-finished products (e.g. semiconductors) are becoming scarcer. In addition to this, there are logistical bottlenecks, such as in container transport, which, in turn, drive up costs and therefore also the prices of many goods.

Economies benefit most from moderate and stable inflation. Sharply rising and sharply falling prices can both disrupt an economy. Economic transactions and investment decisions are more difficult to make, if households and businesses are uncertain about price levels at any given time, with hyperinflation and deflation as extreme situations. The policy of the ECB and other central banks is therefore aimed at preventing both hyperinflation and too low inflation in consumer prices. The ECB aims for a stable inflation rate of around 2%. Because downward adjustments to prices of individual products and wages often are difficult to achieve, the adaptive capacity of the economy benefits from a moderate level of inflation. Moderate inflation also provides central banks with the opportunity to lower real interest rates (interest minus inflation, actually the price of borrowing money), if this is necessary to absorb negative shocks to the economy.

The recent increase in consumer prices is not exceptional and is likely to be temporary. Consumer price inflation in the Netherlands has been around 2%, in recent months. In the rest of Europe, too, inflation has fluctuated around that level. This is higher than it has been in the recent past, but compared to the United States and during other periods of high inflation, it is not that unusual, see Figure 1.1. This price increase also appears to be temporary. Logistical problems seem to be abating and the price increases of important raw materials, such as oil, are levelling off.

Figure 1.4 Inflation in the Netherlands and the eurozone better than expected, compared to that of the United States and during other periods of high inflation[1]



There are also no indications of a wage-price spiral. Temporary inflation caused by a supply shock may translate into structurally higher inflation through the so-called wage-price spiral, as occurred in the 1970s. Labour costs are by far the largest cost category for producers, especially in the services sector. An increase in wages will therefore quickly translate into higher prices. However, there is no evidence of the start of a spiral in which wages and prices impact each other for long periods of time. Wage trends in the eurozone are still lagging behind inflation. In the Netherlands, the two hardly differ. The market's inflation expectations for the eurozone are also moderate, at just under 2%, which also seems to limit the pressure on future wages.

Consumer price inflation and wage development, together, determine purchasing power and may affect different groups in different ways. How inflation affects individual real incomes depends, amongst other things, on how wages and benefits develop. Employees are not automatically compensated for inflation; this depends on how contract wage negotiations proceed. In recent years, the average contract wage development and inflation were not far apart in the Netherlands. The purchasing power effects of inflation, for the average household, were therefore usually limited (although there have also been years when this was not the case). However, household spending patterns do of course differ. For example, low-income households spend relatively much on rent, electricity and natural gas. Over the past five years, however, this difference in consumption patterns has not led to major differences in inflation between income groups. However, this is not automatically so. Between 2010 and 2015, for example, the lowest incomes suffered a cumulative 1.2 percentage points more inflation than the highest incomes,[2] partly driven by rising rents. Policy also plays a

[1] The HICP is a relatively new index that was developed to enable comparison between inflation levels in all countries in the eurozone. For historical comparisons, we therefore also look at an older measure of inflation in the Netherlands, the CPI. CPI and HICP inflation rates may differ, but these differences are usually only small.
[2] Van Dijk, J. (2018), '*Meer inflatie voor lage inkomens'[More inflation for lower incomes]*, ESB 103 (4765): pp. 396–397

role here. The energy tax, for instance, has a more severe impact on the lower incomes than on higher incomes,[3] and the lowest incomes benefit most from the nominal freeze in regulated rents and the cap on rent increases in the private housing sector.

In addition, house prices are rising and that is not reflected in consumer price inflation. House prices in the Netherlands have been rising faster than consumer prices, for some time now.[4] This year, the increase has further accelerated, see Figure 1.2. In contrast to rent prices (which this year, due to the rent freeze, are actually pushing down inflation), house price increases are not reflected in the European HICP and to only a limited extent in the Dutch CPI.[5] Around the world, including at the ECB, there are different views on how house prices should be included in consumer price indices. A fundamental problem, here, is that houses are not only consumer goods, but are also included in the capital assets of homeowners.

Rising prices may contribute to greater wealth inequality. Increasing consumer prices accompanied by rising wages are good news for households that are in debt. In the Netherlands, these debts mainly concern mortgages and/or student loans. Rising wages mean that there is more money for paying off existing debts (which are nominally fixed). The nominal size of the debt compared to other amounts in the economy has become smaller, or from an economic perspective, has become 'worth less in real terms'.[6] On the other side are the creditors and people whose financial assets are greater than their debts. When prices rise, savings become worth less in real terms. This is where net savers lose out. The same amount of money will buy less in the future. Inflation, thus, seems to reduce wealth inequality. But for many households, financial assets are only a small part of their total assets.[7] Home ownership is by far the biggest asset (next to pensions). Rising house prices, therefore, benefit current homeowners because they increase their wealth. This has created a dichotomy; homeowner households have higher net assets than those living in rented accommodation, even in situations of comparable incomes and age levels. This makes the step from renting to buying more difficult for many households, and newcomers to the housing market are falling behind. The long-term rise in house prices is driving greater wealth inequality.

Moreover, prolonged sharp increases in house prices and the price of other capital assets, such as shares, pose a risk to financial stability. Households may feel compelled — or tempted — to take on large mortgages on their homes. On the stock exchange, too, we often see an increase in borrowed money used in investments when the economic trend is upward. This increases the volatility of the economy. For when the tide turns and prices fall again, this may give rise to an increase in debt problems among households and businesses — with, in the most serious cases, a self-enhancing effect and yet another financial crisis as a result.

Current monetary policy simultaneously contributes to consumer and house price inflation. The European Central Bank and other central banks have done everything in their power in recent years to push up consumer prices. This monetary policy contributed to the shift in interest rates down to record lows. In turn,

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[3] This was, incidentally, also assumed about the raising of the VAT (btw) tariff in 2019, which in practice hardly had an impact on the various income groups, see CBS (2019), *'Welvaart in Nederland'[Welfare in the Netherlands]*.

[4] See CPB Communication 'Beweging op de woningmarkt: prijzen en volumes' [Movement on the housing market: prices and volumes'], by Deelen et al. (2020) (link).

[5] House price increases in the United States and the Netherlands are included in the consumer price index (CPI) ('T*oegerekende huur eigen woning' [Attributed rent own property]*, Statistics Netherlands (CBS) (link)). In the European price index (HICP), house-price increases are not yet included. The impact of house prices sometime causes differences between CPI and HICP, usually of tenths. For instance, see the 2016 ECB bulletin: 'Assessing the impact of housing costs on HICP inflation' (link).

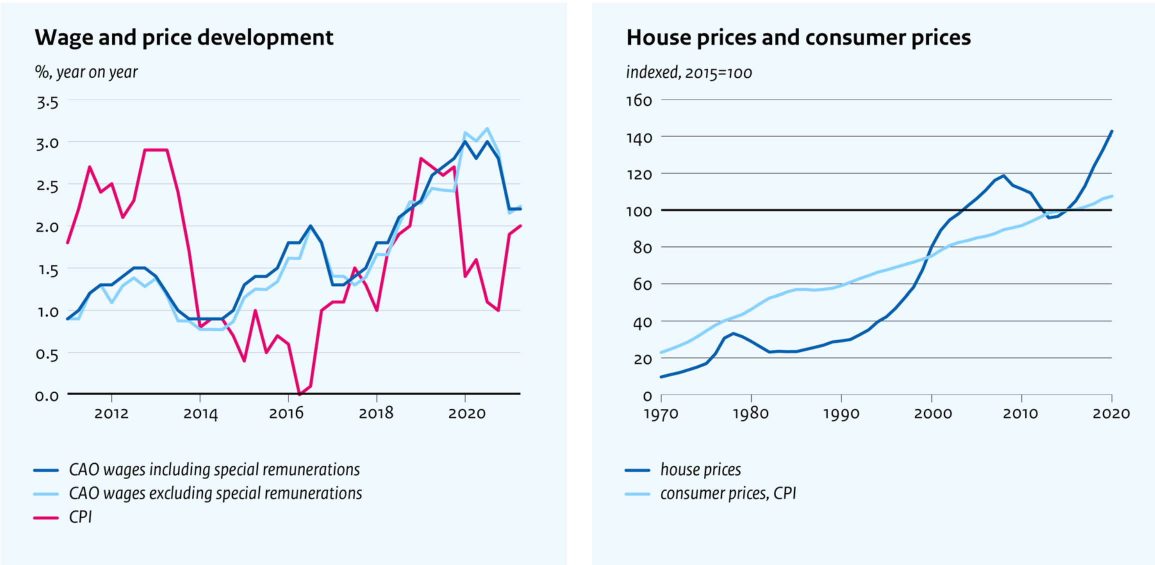
[6] If inflation is expected, and nominal interest rates adjust to this expectation, the costs of borrowing will increase. And, vice versa, returns on savings will increase.

[7] See the CPB Communication 'De verscheidenheid van vermogens van Nederlandse huishoudens: een update' [The variety in capital assets of Dutch households: an update'], by Luginbuhl and Smid (2021).

low interest rates rapidly drove up the price of assets (e.g. shares) and residential properties (especially in the Netherlands). Although the prolonged low inflation was an understandable reason for the ECB to pursue a very flexible monetary policy, the downsides in the way of inflated house and share prices are now becoming increasingly pronounced. The somewhat higher inflation in the eurozone may, therefore, be a reason to shift the balance.

Domestic policy, incidentally, also plays a role in the sharp increase in house prices, and something can be done about this. In addition to monetary policy, domestic policy also plays a role in the increase in house prices. The supply of houses in the Netherlands hardly responds to the higher prices, due to restrictive land policies and lengthy procedures. It takes a long time to do something about this, but there are policy options; CPB has written about this before.[8] In addition, house prices — certainly in the current context of a rigid supply — are driven up by fiscal incentives. Despite the implementation of restrictions, the mortgage interest deduction scheme still provides an incentive. But recent initiatives aimed at first-time buyers, such as the tax exemption for gifts of up to EUR 100,000 for the purchase of a house, and the recent reduction in transfer tax for first-time buyers, also tend to push up prices and thus largely miss their mark. Therefore, policymakers who find the rise in house prices problematic do not have to look exclusively to Frankfurt.

Figure 1.5 House prices have been rising for longer and faster than consumer prices and wages



Bron: CBS, Eurostat (link)

[8] See the CPB Communication 'Beweging op de woningmarkt: prijzen en volumes' [Movement on the housing market: prices and volumes], by Deelen et al. (2020) (link) and CPB (2020) 'Kansrijk woonbeleid: update' [Promising housing policy: update'] (link)