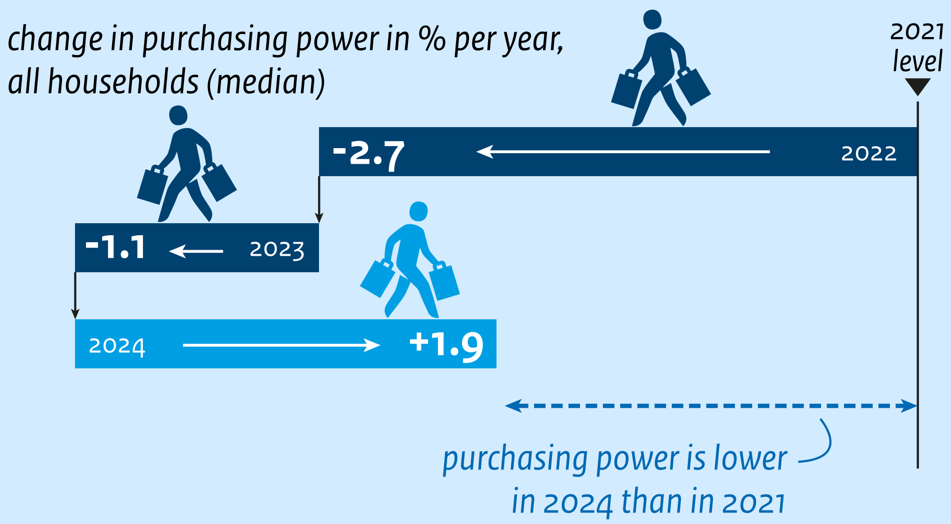
CPB Netherlands Bureau for
Economic Policy Analysis

Draft Macro Economic Outlook 2024

The outlook for 2025-2028 in these projections forms the basis for the calculations of the various election programmes.

The Dutch economy has withstood major shocks surprisingly well and is set to grow by 0.7% in 2023 and 1.4% in 2024. Poverty and the government deficit require attention.



Median **purchasing power** will rebound somewhat next year, aided by a tight labour market and higher wages. The proportion of **people living in poverty** will rise to 5.7% in 2024 due to the expiry of temporary measures.

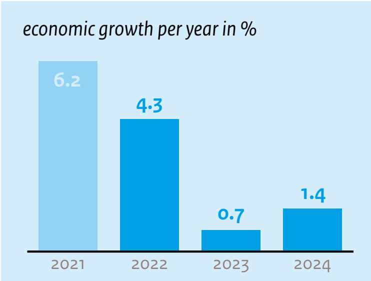
The **government deficit** deteriorates sharply over the medium term due to rising expenditure on interest, climate policy and health care. **Government debt** also increases.

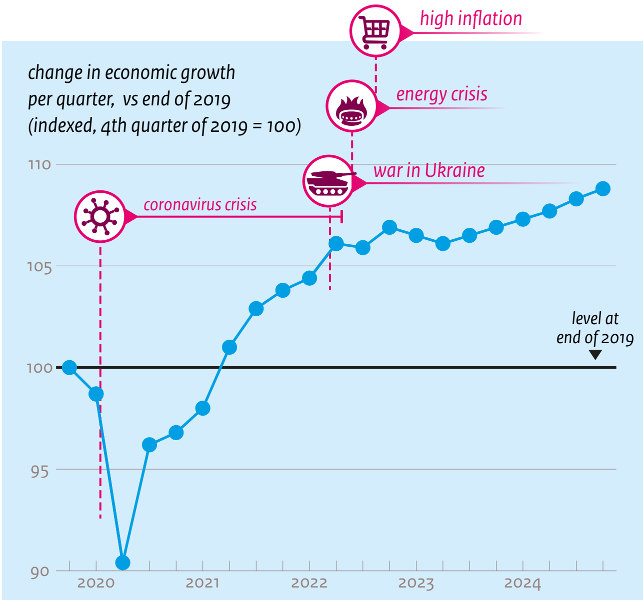
CPB Projections

August 2023

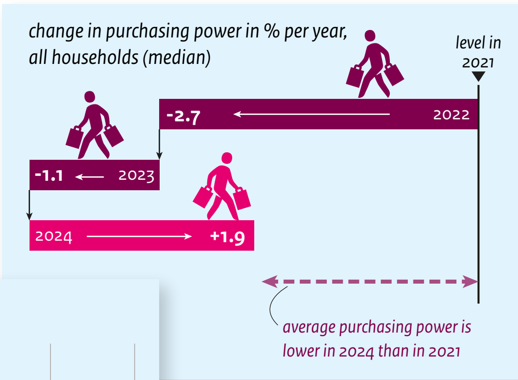
Increases in poverty and deficit

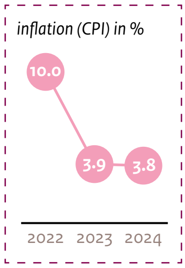
Economic growth is now declining, but the Netherlands has proved resilient to a series of major shocks in recent years. Purchasing power is also expected to recover in 2024. By contrast, the government deficit threatens to rise rapidly

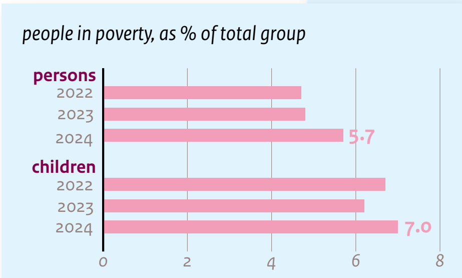


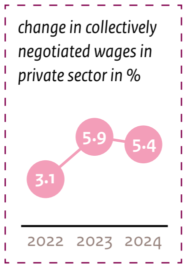


Inflation is and will remain high, , but a tight labour market, higher wages and government support limit the impact on purchasing power. In 2024, more people will fall into poverty when temporary measures expire



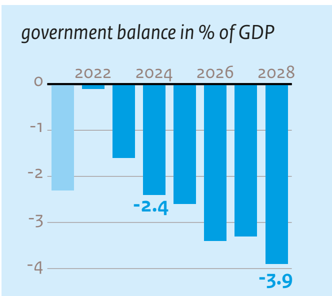


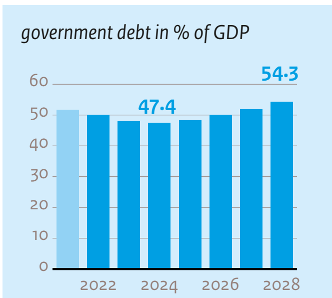




Our purchasing power figures show the average effect of government policy on households. Personal changes such as separation, a new job or having a child have a greater effect on the purchasing power of individuals

After 2024 the government deficit increases due to additional expenditure and higher interest rates. Government debt also rises





These projections also consider the medium term and form the basis on which CPB calculates the economic consequences of election programmes. See: cpb.nl/en/elections-2023

Main points of Concept Macro Economic Outlook 2024

The economy has withstood a number of major shocks surprisingly well in recent years. Coronavirus, the war in Ukraine (and the ensuing energy crisis), galloping inflation and rapid central bank interest rate hikes had major impacts on households and businesses. Purchasing power is set to fall by a total of -1.6% over the period 2022, 2023 and 2024. That is better than might have been expected given the size of the shocks. The economy has proved resilient, aided by the government's support policy. The labour market has remained tight and this is reflected in higher wages and a record number of people in employment.

Temporary income support measures will be discontinued in 2024, which means that without supplementary policy the purchasing power of the lowest-income households will fall and poverty will rise. Poverty is expected to rise to 5.7% of the population, an increase of 0.9 percentage points compared to 2023. This is because temporary measures to mitigate the impact of higher energy prices, such as the energy allowance and a higher healthcare benefit, will cease in 2023. Poverty will also continue to rise slightly over the medium term. This can only be countered by means of structural policies.

The public finances are set to deteriorate in the short and medium term; prudent budget policy is therefore required. In the short term, additional expenditure and lower tax revenue will lead to a higher government deficit. This trend will continue in the medium term, with rising expenditure on interest, climate policy and health care, as well as other items. The projections assume that the government will increasingly succeed in making planned expenditure, leading to a further rise to 3.9% in the government deficit in 2028 and an increase in government debt. It would therefore be wise not to place any further burden on the balance. This means that any supplementary policy, for example to counter the rise in poverty, should be funded by spending cuts or increases in taxes.

Inflation will remain higher than previously expected this year, mainly due to higher core inflation. Inflation rose strongly in 2022 due to substantial rises in energy prices. It will fall sharply this year to 3.9%, but the delayed impact of higher energy and wage costs will still push prices higher. Inflation will consequently also remain higher than normal at 3.8% in 2024.

Economic growth is set to slow, primarily due to slower growth in goods exports and consumption. To some extent this is a logical consequence of vigorous post-coronavirus growth: a large part of the consumption boom was catch-up consumption and hence of a temporary nature. Dutch exports also benefited from strong surge in international trade, but that is now declining again. Higher prices are putting additional pressure on consumption. Investments are also being hit, partly due to the higher interest rates.

These projections describe the economic developments in 2023 and 2024. They also include the outlook for the 2025-2028 period that is used as the baseline for calculating the economic consequences of the election programmes. The MEV to be published on Budget Day will comprise only an update of the main economic indicators and the additional economic indicators incorporating the policies adopted in the August decision-making.

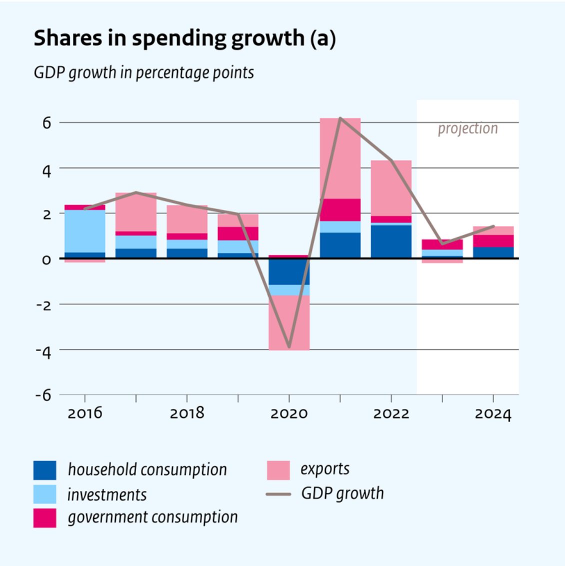
For the government budget, this cMEV uses the multi-year figures from the 2023 Spring Memorandum and the communicated policy positions. The projections differ from these multi-year figures on a number of points; these are explained, together with the policy positions, in the appendix to the 'Startnotitie KiK'.[1] At the time of publication it remains unclear which measures in the coalition agreement will be declared controversial.

1 Economic developments 2023-2024

Macroeconomic picture

The economic cycle has followed the trend in the recent Dutch summer weather: after an exuberant 2021 and 2022, the economy has cooled down in 2023. The first half of the year saw a slight economic contraction. A downturn has been evident particularly in the industrial sector, with production falling sharply from the peak of April 2022. High inflation is persisting, causing purchasing power to decline again this year, with household spending under pressure. This pressure is nevertheless being eased by persistent labour shortages, a pick-up in wage growth and government support. Government consumption and investment is providing additional economic stimulus. After GDP growth of 4.3% in 2022, the economy is set to grow by 0.7% in 2023 and 1.4% in 2024 (see Figure 1.1, left). This cooling down of the economy should reduce the labour shortages and high inflation somewhat.

Figure 1.1 Decline in growth, particularly due to lower growth of consumption and exports; the industrial sector encounters headwinds



[1] See CPB, August 2023, 'Startnotitie Keuzes-in-Kaart' 2025-2028 (link).

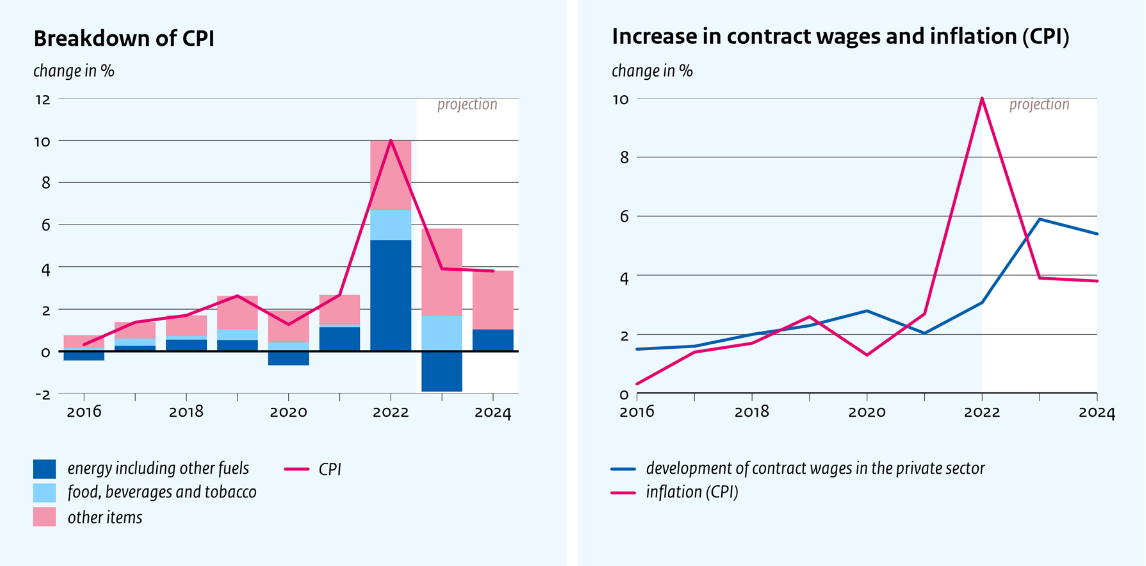
(a) Final and accumulated intermediate imports have been deducted from the expenditure categories.
Source: Statistics Netherlands and CPB (link)

Inflation is falling, but will remain high for now. The inflation shock originally came from rising energy and food prices, caused in part by the war in Ukraine. Inflation was previously expected to fall rapidly, but is now proving more persistent. Core inflation will indeed fall in 2024, but will remain high (3.5% in 2024 vs 5.7% in 2023). In 2024, there will also be no repeat of the negative contribution that falling energy prices were still making to CPI (consumer price index) in 2023. CPI inflation in 2024 is therefore expected to be 3.8% (see Figure 1.2, left). Dutch inflation is thus expected to remain somewhat higher than the European average.

With the global economy growing relatively slowly, Dutch exports will also show less spectacular growth than in recent years. Global GDP growth will fall in 2023 and 2024 to 2.5% and 2.8% respectively, partly due to pressure from high inflation worldwide. Demand for goods is also declining worldwide after rising sharply during the coronavirus years. This has been evident in global trade for some time, although services trade has continued to grow substantially. Since goods trade is growing less than in previous years, the growth of Dutch exports, also of re-exports, will decline. Re-exports have provided the biggest stimulus to Dutch exports in recent years.[2]

The cooling of Dutch exports is also evident in production by industrial businesses. Production in the industrial sector in the Netherlands fell by 7.7% between June 2022 and June 2023 (see Figure 1.1, right), returning to the early-2021 level. Aside from the lower demand for goods, the fall is due in part to higher energy prices, which have led to full or partial closures of a number of businesses. Another factor is that businesses have accelerated their destocking in response to lower demand for goods.

Figure 1.2 Inflation persists, mainly due to high core inflation; contract wages continue to rise



Source: Statistics Netherlands and CPB (link)

Rising interest rates add to the cooling of the economy. Monetary authorities are trying to curb demand for goods and services to bring inflation down. For example, the ECB announced on 27 July 2023 that it would raise its policy interest rate by a further 25 basis points to 3.75%. As a result, banks are now also charging higher interest on loans to businesses. This is weighing on business investment, which is expected to grow by 0.4% in 2024. The decline in demand for goods and services is also a factor. Mortgage interest rates have also

[2] A CPB publication on 29 August will interpret the export growth over the past few years in more detail.

risen sharply. This is one of the drivers of falling house prices (cumulative fall of -10.4% during the projection years). This in turn contributes to a contraction in housing investments.

Growth in employment is slowing, but the tight labour market is likely to persist. The number of bankruptcies is now rising slightly and private sector employment will cease growing during the projection period. Unemployment will nevertheless remain low next year. The number of job vacancies remains high, so people who lose their job (in one sector) should find another job fairly easily (possibly in another sector). Since this kind of job move usually takes time, unemployment will rise slightly (4.0% in 2024).

The combination of a tight labour market and high inflation leads to higher wage rises. Not only are contract wages in the private sector rising (5.9% in 2023 and 5.4% in 2024; see Figure 1.2, right), but incidental pay is also increasing. This points to an improvement in the negotiating position of workers. Higher wage rises can lead to reallocations in the labour market: businesses with lower productivity may have to let more staff go and some businesses will also have to cease trading. This would reinvigorate business momentum, which largely came to a halt during the coronavirus years.[3] Wage rises could thus contribute to a reallocation that increases productivity growth.

Wage growth bolsters purchasing power, but at the same time may contribute to further price rises. The labour income share (LIS; the share of domestic income earned by workers) fell in 2022 and is set to fall further in 2023 before increasing again somewhat in 2024. This trend and the sharp rise in corporate tax receipts suggest that there is still some margin for wage increases at the macroeconomic level. Profitability has not increased everywhere, however, with substantial differences between sectors. Partly as a result of this, wage rises will feed through to core inflation to some extent. This effect will differ depending on the sector. Moreover, a 1% wage rise does not immediately lead to a 1% rise in prices, as wages represent only a part of total business costs.

Purchasing power and poverty

A partial recovery of purchasing power is expected in 2024 after the losses in 2022 and 2023. Median purchasing power is expected to fall this year as inflation remains high. The alternative CPI, based on the new energy price measurement method used by Statistics Netherlands since 2021,[4] is 7.8% in 2023. Despite wage rises and supplementary purchasing power measures, this means that purchasing power falls by 1.1%, before increasing again in 2024. Despite the ending of the energy price cap, inflation (based on the alternative measurement method) turns out much lower than in 2023, at 3.6%. This means wages will rise in real terms.

Over the 2022, 2023 and 2024 period as a whole, median purchasing power is set to fall by 1.6%, although this figure masks differences between households. Viewed over this period, the purchasing power figures still look best in relative terms for households in the first deciles, because part of the income support policy (increases in the national minimum wage and welfare benefits, increase in rent allowance) is structural (figure 1.4). However, the use of a single figure for inflation and wage rises for all households may lead to a larger-than-normal distortion. First, the main cost rises were for energy, which makes up a larger part of consumption by lower-income households. More recently, there have been increases in service prices, to which the opposite applies. Employees are also being compensated for the rising cost of living in various ways, such as one-off welfare benefits that are not visible in collectively negotiated wages.

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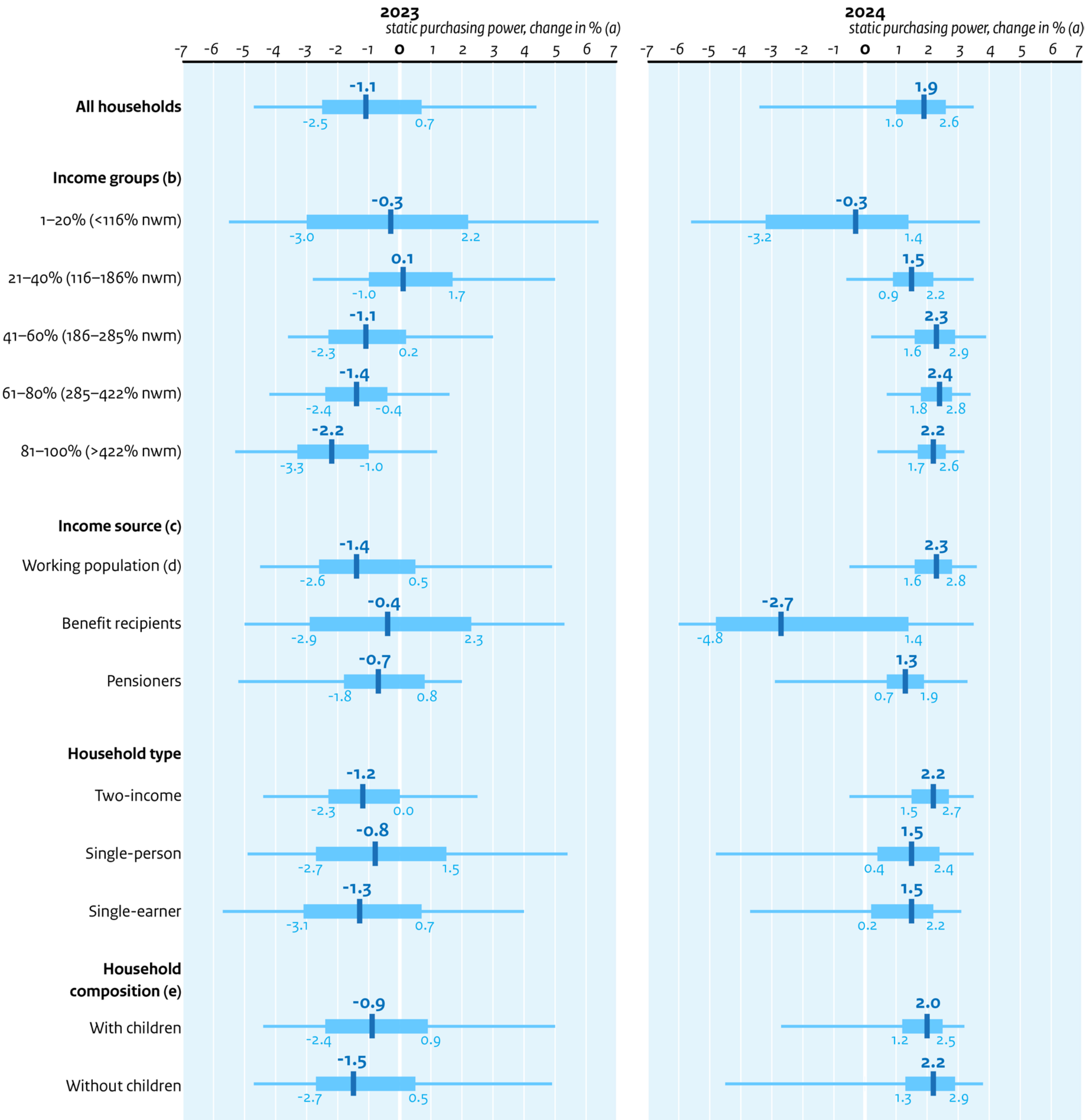
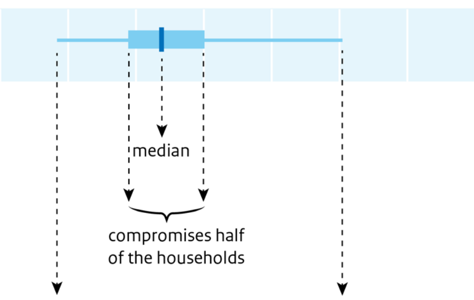
[3] See Lily Davies, Mark Kattenberg and Benedikt Vogt, March 2023, Predicting Firm Exits with Machine Learning: Implications for Selection into COVID-19 Support and Productivity Growth, CPB Discussion Paper (link).
[4] See the box entitled 'New CPI research series for purchasing power figures' in CPB, December 2022, Energy price scenarios (link).

Figure 1.3 Purchasing power recovers in 2024, but not for people on lower incomes and welfare benefit recipients



How to read the table?



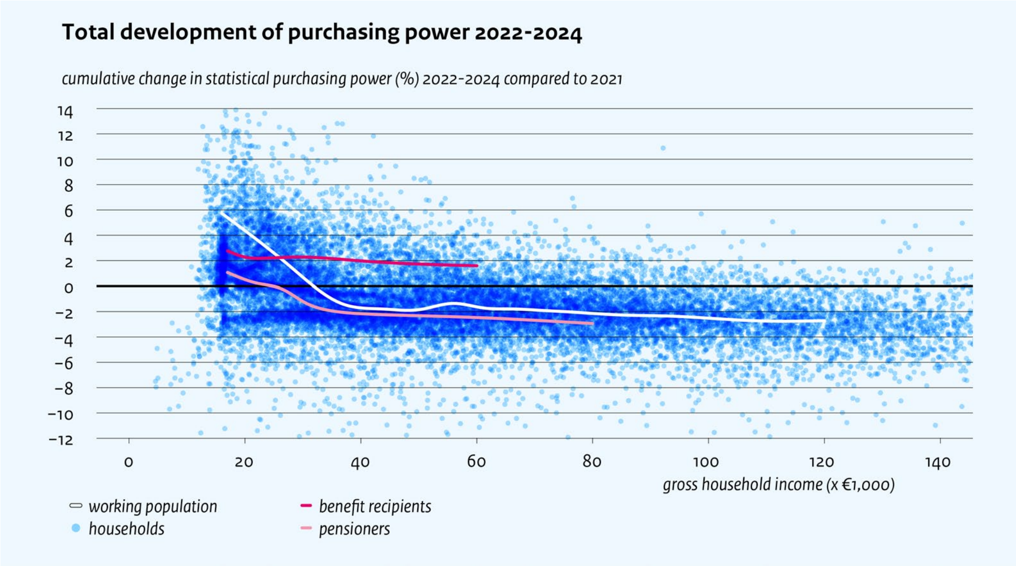
the lowest and highest value has been cut off at 5% and 95%, respectively, due to imprecisions in the projected minimum and maximum

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 2021 is around 25, 463 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.

Source: CPB (link)

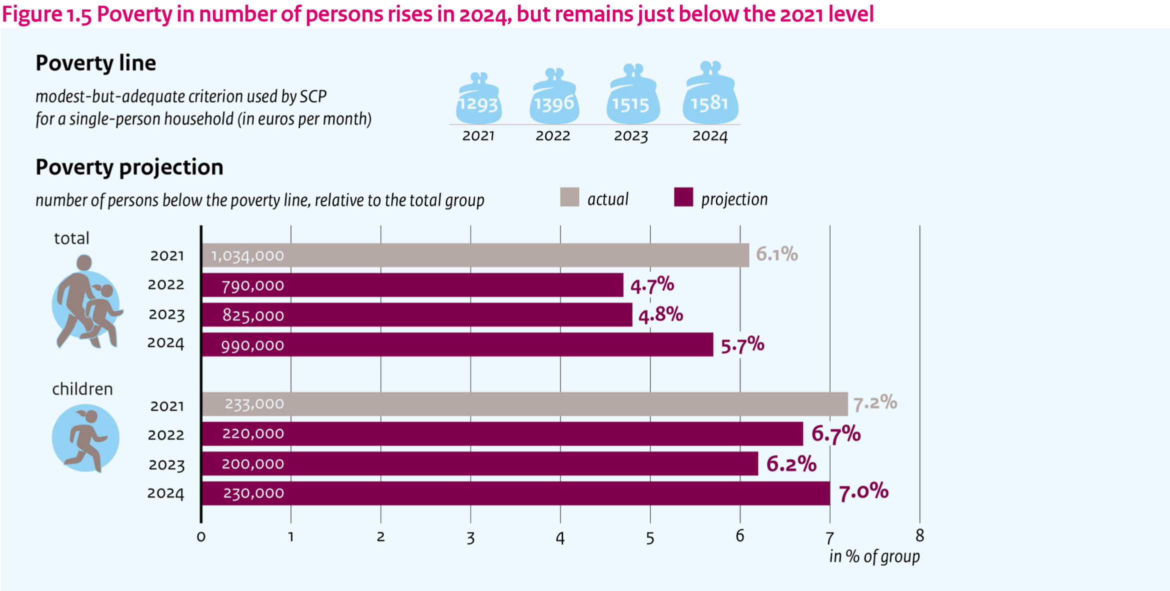
Figure 1.4 Purchasing power in 2024 is still around 1.6% below the 2021 level, with large differences between groups



Source: CPB (link)

Due to the cessation of the temporary income support policy, poverty will rise again in 2024. In 2023 the percentage of people in poverty remains fairly stable (4.8%), while the percentage of children in poverty falls to 6.2%. High inflation causes the poverty line to rise by 8.6% to €1,515 per month for a single-person household. The income support policy, such as the energy allowance and the increase in the care and rent allowance, prevents an increase in poverty this year. The proportion of children below the poverty line even falls due to the increase in child benefits in the child-related budget. Part of this policy will be discontinued in 2024, causing poverty to rise again to 5.7% of people as a whole and 7.0% of children.

Figure 1.5 Poverty in number of persons rises in 2024, but remains just below the 2021 level



Source: SCP and CPB (link)

Public finances

Public expenditure increases in 2023 and 2024 due to various increases in spending. Expenditure in areas such as asylum, defence, education and infrastructure increases in both 2023 and 2024. This takes account of underinvestment, i.e. the government being unable to make all planned expenditure, particularly due to labour shortages and other implementation issues. In 2024, the underinvestment is assumed to be somewhat higher than in 2023; budgeted funds increase even further, but partly due to the fall of the Dutch cabinet these funds are unlikely to be spent in full. This assumption nevertheless remains highly uncertain. Moreover, the underinvestment is expected to decrease in the years after 2024 (see Chapter 2). The budget windfalls due to underinvestment are offset by expenditure on temporary energy measures that continue to put pressure on the government deficit in 2023 but will be withdrawn in 2024. Estimated revenues from natural gas sales are lower in 2023 and 2024 than in 2022 due to a decrease in gas prices and the closure of the Groningen field.

Taxes and social-security contributions decrease slightly as a share of GDP: from 38.6% in 2022 and 38.7% in 2023 to 38.3% in 2024. The so-called solidarity levy, a one-off levy payable by natural gas producers in 2022, will be discontinued in 2023. Wage and income tax revenue is also lower. This is due to the fact that total wages grow less rapidly than (nominal) GDP and due to substantial indexation of tax bands. On the other hand, there is a substantial rise of €9.6 billion in corporate tax receipts in 2023, with the Dutch Tax and Customs Administration receiving around €6 billion more than in the same period in 2022. Taxes on energy (energy tax and fuel duties) also increase again in 2023 due to the winding down of previous support measures. It is assumed that corporate tax receipts will decrease slightly towards 2024. Partly as a result of this, tax revenue as a percentage of GDP will fall slightly in 2024.

Falling taxes and social-security contributions and rising expenditure mean that the government deficit deteriorates to 1.6% of GDP in 2023 and 2.4% in 2024. If policy remains unchanged, the deficit will therefore remain below the 3% limit in the European Stability and Growth Pact (although this limit will be exceeded in subsequent years; see Chapter 2). The debt ratio (government debt as a percentage of GDP) falls slightly over the projection years: the rise in government debt due to the deficit in 2023 and 2024 is negated by the strong increase in nominal GDP (the denominator), mainly due to inflation. The debt ratio also decreases somewhat in 2024 due to the assumed sale of TenneT Germany and due to cash receipts – 2022 taxes not paid until 2024 – in respect of the solidarity levy.

Uncertainties in the projections

These projections are subject to great uncertainty, partly due to major risks abroad and the fall of the Dutch cabinet. The major macroeconomic risks lie outside the Netherlands. The war in Ukraine is dragging on and may be a source of further unexpected economic risks. Other geopolitical tensions, such as the trade conflict between the United States and China, remain unabated. Furthermore, in view of the sharp rise in interest rates, growing debt problems among other European governments are also a risk factor.[5] Closer to home, the heightened uncertainty is due in particular to the fall of the Dutch cabinet, which may delay decisions on a number of pressing policy matters. These include the nitrogen issue and climate policy, for which the Rutte IV cabinet has made budget available in principle, but where key political decisions still have to be made concerning implementation. On the other hand, there are also upside risks: matters that may cause the economy to cool less than is currently expected. The saving rate, for example, is still unusually high; a further decrease in the saving rate to the multi-annual average would provide a significant boost to the economy.

[5] See Chapter 8 'Risico's in de eurozone' (Risks in the eurozone) in CPB, May 2023, Risicorapportage Financiële Markten 2023 (Financial Markets Risk Report 2023) (link).

Table 1.1 Main data for the Netherlands, 2019-2024

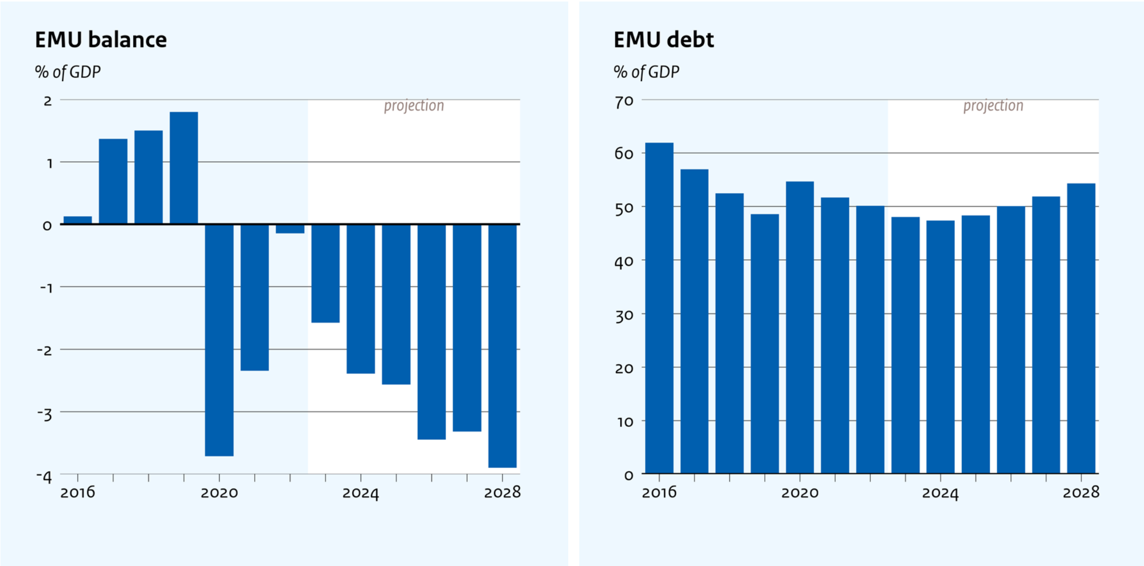
	2019	2020	2021	2022	2023	2024
	changes per year in %					
International economy						
Relevant world trade volume, goods and services	4.1	-8.7	8.5	8.4	0.2	2.9
Competitor prices (a)	3.6	-0.8	5.9	8.8	3.4	2.5
Oil price (in USD per barrel)	64.3	41.8	70.7	100.8	79.3	76.3
Euro exchange rate (USD per euro)	1.12	1.14	1.18	1.05	1.09	1.11
Long-term interest rate, the Netherlands (level in %)	-0.1	-0.4	-0.3	1.4	2.8	2.8
Volume of GDP and spending						
Gross domestic product (GDP, economic growth)	2.0	-3.9	6.2	4.3	0.7	1.4
Household consumption	0.9	-6.4	4.3	6.6	0.7	2.3
Public consumption	2.8	1.6	5.0	1.6	2.4	2.8
Investments (including stocks)	7.7	-6.3	4.7	1.0	2.6	0.1
Exports of goods and services	2.0	-4.3	8.0	4.5	0.8	1.5
Imports of goods and services	3.2	-4.8	6.2	3.8	1.9	2.0
Prices, wages, purchasing power and poverty						
Price level, gross domestic product	3.0	1.9	2.9	5.5	6.6	3.3
Export prices of goods and services	0.4	-2.9	8.8	17.4	1.0	3.4
Import prices of goods and services	-0.2	-3.6	10.0	20.7	-0.3	3.5
Inflation, national consumer price index (CPI)	2.6	1.3	2.7	10.0	3.9	3.8
Alternative CPI (purchasing power and poverty data) (b)	2.6	1.3	2.1	6.8	7.8	3.6
Inflation, harmonised index of consumer prices (HICP)	2.7	1.1	2.8	11.6	4.1	3.9
Wage rate, business sector (per hour) (c)	2.6	7.9	0.0	3.7	6.8	5.8
Contract wages, business sector	2.4	2.8	2.2	3.1	5.8	5.6
Purchasing power, static, median all households (d)	1.1	2.5	0.9	-2.7	-1.1	1.9
People in poverty (in %) (d, e)	5.9	5.6	6.1	4.7	4.8	5.7
Labour market						
Labour force	1.5	0.4	0.9	2.4	1.9	0.9
Active labour force	2.0	0.0	1.5	3.2	1.8	0.5
Unemployed labour force (x thousand persons)	423	465	408	350	360	410
Unemployment rate (% of labour force)	4.4	4.9	4.2	3.5	3.6	4.0
Employment (in hours)	2.6	-4.0	3.3	3.9	1.2	0.5
Other items						
Labour income share, business sector (in %)	73.9	76.3	72.9	71.5	70.6	71.5
Labour productivity, business sector (per hour)	-0.5	-0.1	4.0	1.0	-0.9	0.8
Private savings (in % of disposable income) (f)	5.2	12.8	11.2	7.6	8.2	8.8
Current account balance (in % of GDP)	6.9	5.1	12.1	9.2	9.1	8.6
	in % of GDP					
Public sector						
EMU balance	1.8	-3.7	-2.3	-0.1	-1.6	-2.4
EMU debt (year-end)	48.6	54.7	51.7	50.1	48.0	47.4
Taxes and social-security contributions	39.3	39.9	39.2	38.6	38.7	38.3
Gross public expenditure	42.5	48.2	46.5	43.7	44.1	44.6

(a) Goods and services, excluding natural resources and fuels.
(b) The alternative CPI takes account of prices of both new and existing energy contracts. See subsection 1.4 of 'Centraal-Economisch-Plan-CEP-2023-Verdieping' (link) for further details of the alternative CPI series and see Statistics Netherlands (link).
(c) The NOW wage cost subsidy and the continuity contribution in health care have a 3.3 percentage point upward impact on businesses' wage rate changes in 2020 and a downward impact of 1.6 percentage points in 2021 and 2022.
(d) The figures for median purchasing power and people in poverty are based on the alternative CPI.
(e) Ratio of the number of persons in households below the poverty line to the total number of persons. The modest-but-adequate criterion used by the Netherlands Institute for Social Research (SCP) has been adopted as the poverty line.
(f) Level; disposable household income includes public savings.

2 Outlook to 2028

In the medium term, the public finances are expected to deteriorate, according to the outlook up to the end of 2028. These projections map economic and budgetary developments up to the end of 2028. That is also the final year of the period for which the economic consequences of the election programmes are calculated in Charted Choices. The current proposed policy should be taken as the basis for the projections. If policy remains unchanged, the government deficit will rise to 3.9% of GDP in 2028 (see Figure 2.1, left), substantially exceeding the Brussels 3% limit. Government debt as a percentage of GDP also rises, to 54.3% in 2028 (see Figure 2.1, right).

Figure 2.1 Under the current policy the government deficit and government debt will both increase



Source: Statistics Netherlands and CPB (link)

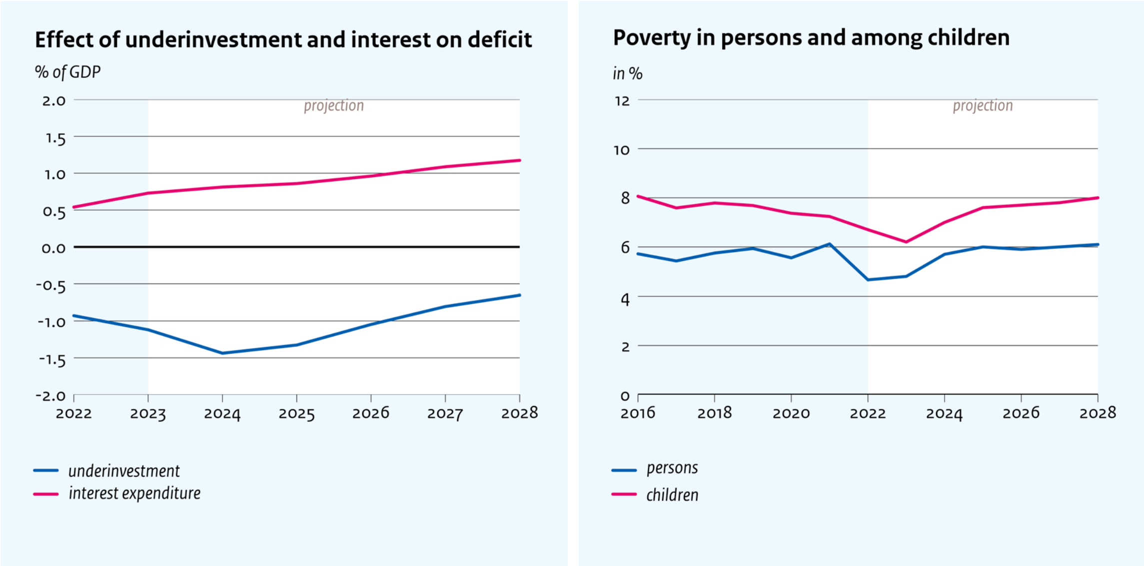
The rise in the government deficit is partly due to planned additional expenditure and higher interest rates. A number of substantial spending increases are planned in the years ahead, such as the funds for nitrogen and climate policy and additional defence expenditure. This will lead to a deterioration of the EMU balance. Furthermore, there will be a decrease in underinvestment; it is assumed that personnel shortages and other implementation bottlenecks will gradually ease, making it easier for the government to complete its planned expenditure (see Figure 2.2, left). Expenditure on state pensions also continues to rise due to the increase in the number of pension recipients. Finally, interest rates, including interest on Dutch government debt, have risen sharply. Since Dutch government bonds are generally long-dated, this interest rate rise will only gradually lead to higher interest expenditure: in 2028, interest expenditure is expected to reach €14.7 billion (€7.2 billion more than in 2023).

Health care expenditure will also rise faster than GDP in the period up to 2028. Real growth in health care expenditure is expected to average 3.0% per year over the 2025-2028 period.[6] Just under half of this growth is due to demographic trends. Health care expenditure in this period will also grow in particular because wages and prices in health care rise faster than general inflation.

[6] For an explanation of the underlying projection system and the individual growth components within it, see Annette Zijlstra, Adri den Ouden and Wouter Vermeulen, November 2019, Middellangetermijnverkenning zorg 2022-2025 (Medium-term outlook for health care 2022-2025), CPB Communication (link).

If there is no supplementary policy, poverty among Dutch households will rise slightly. Since 2022, CPB has projected the number of children and people as a whole living in households with incomes below the poverty line.[7] The number of people and children in poverty is now projected to be 6.1% and 8.0% respectively in 2028 (see Figure 2.2, right). The slight rise from 2024 is due to the fact that the poverty line rises somewhat more than income. Real incomes rise, but the poverty line also takes account of changes in consumption.[8] There is also a rise in unemployment, which had contributed to a decrease in the poverty rate since 2014. Finally, the reduction in social welfare benefits (through the phasing out of the double general tax credits in the minimum wage for social welfare benefit) and the partial cancellation of the 2023 increase in the child-related budget contribute to the rise in the poverty rate.

Figure 2.2 Less underinvestment and higher interest rates contribute to government deficit. Poverty will continue to rise after 2024.

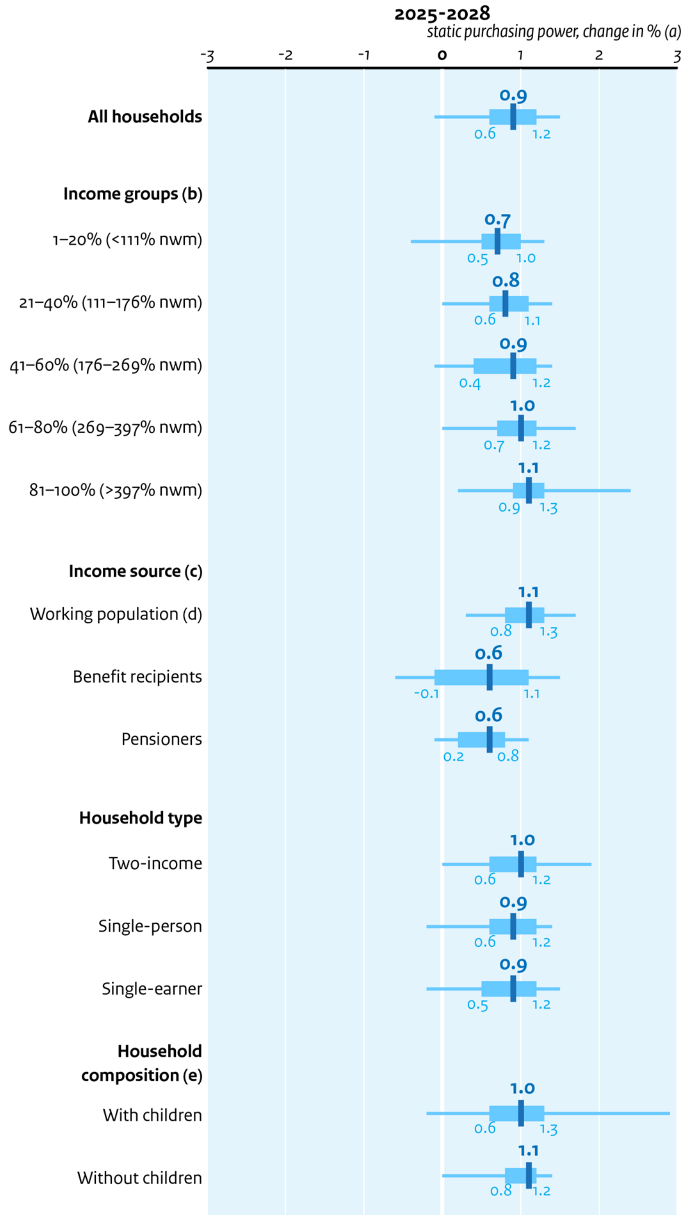


Source: Statistics Netherlands, SCP and CPB (link)

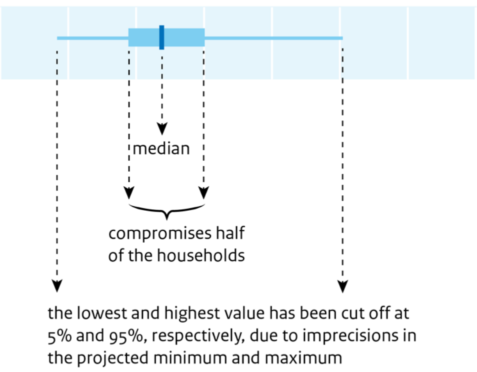
Purchasing power increases over the medium term by an average of 0.9% per year. This is because real wages continue to catch up for a number of years in these projections. Pensions and welfare benefits are increased to a lesser extent, so the rise in the purchasing power of pensioners and benefit recipients lags slightly behind the median (see Figure 2.3). Policy overall has a negative impact on purchasing power; the particular contributing factors are the phasing out of self-employment tax deductions, and of the double general tax credit in the reference minimum pay for social welfare benefit. In the case of households with children, the phasing out of the increase in the child-related budget also has a slight negative impact.

[7] See the chapter entitled ‘Poverty and energy costs’ in CPB, September 2022, Macro Economic Outlook 2023 (link).
[8] For this the poverty line is indexed by the rise in the five-year average expenditure per household on energy, water, food, clothing, living and housekeeping; the real growth in consumption is used for this in the projections (see Ika Deinum and Elian Griffoen, December 2022, Ramingsmethodiek armoederaming (Poverty Projection Methodology), CPB publication (link)).

Figure 2.3 People on higher incomes see their purchasing power rise slightly more on average than the 0.9% median



How to read the table?



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

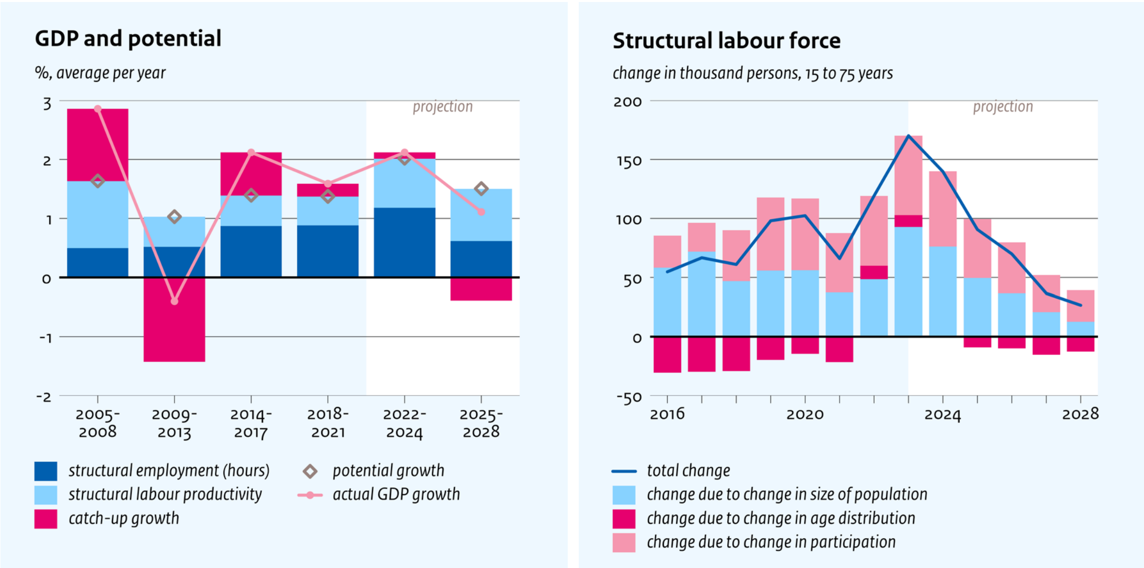
(a) Not including indicental changes in income.
(b) Gross labour income or welfare benefits on household level; the national minimum wage (nwm) in 2021 is around €28,557 on the basis of a 36-hour working week. Income groups have been divided into five groups of equal size in ascending order of income, 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.

Source: CPB (link)

These developments in public finances, purchasing power and poverty are based on assumptions about developments in the Dutch economy over the medium term. In addition to policy principles, the outlook for the period to 2028 requires assumptions on how the economy will develop. The remainder of this chapter explains these assumptions and developments in more detail.

Economic growth slows to an average of 1.1% in 2025-2028. Figure 2.4 (left) shows the growth in GDP and breaks it down into three components: growth in employment, growth in labour productivity and catch-up growth. The sum of the first two components constitutes the growth of potential GDP, a measure of the goods and services that the Dutch economy could produce in a state of equilibrium. In 2024, GDP exceeds potential GDP, which means there is an economic boom, or in more technical terms a positive output gap. This medium-term outlook assumes that the output gap will gradually narrow to zero over the 2025-2031 period. This is a technical assumption: since economic booms and downturns are difficult to predict, it is assumed that the economy will move towards a state of equilibrium. This translates into the negative catch-up growth shown below: the closing of the output gap results in actual GDP growth being 0.4% lower than the growth of potential GDP at 1.5% per year.

Figure 2.4 GDP growth decreases over this decade, partly due to lower growth in the labour force



Source: Statistics Netherlands and CPB (link)

Growth in the labour supply gradually decreases over this decade. The development of the structural labour force – and hence the supply of labour – is determined by changes in the rate of participation of various population groups, the age distribution and the size of the Dutch population (see Figure 2.4, right). The effects of population growth and increasing labour force participation on the labour force are positive, but they decrease over time because the population is expected to grow less rapidly and the participation rate within cohorts rises less. Participation increased in recent years mainly because women started working more and the state pension age rose, so more people within that age cohort remained in work. Changes in the age distribution have a downward effect, because the proportion of older people (persons above the state pension age) in the labour force will increase. The change in the age distribution is primarily the result of long-term developments in birth and death rates and hence a relatively certain development. The slower rise in the participation rate is also fairly certain, in view of the levelling off of the participation of women. The growth of the population will be driven particularly by net immigration in the years ahead. The level of net immigration into the Netherlands is the biggest unknown factor in the medium term, however. This is because, unlike population ageing, migration flows are very difficult to predict.

The slowdown in structural productivity growth continues. Economies worldwide are having to contend with lower trend growth in productivity. Average productivity growth in the Netherlands declined from around 2% before the turn of the century to below 1% after 2010. Despite extensive research, the causes of this slowdown remain unclear. One factor is the continued shift in the Dutch economy towards services, where productivity growth is lower. A possible additional explanation is that it is becoming increasingly difficult to find productive innovations. The number of researchers has risen sharply, but their productivity has fallen just as sharply.[9] Developments in productivity remain very uncertain, however. If new technologies, such as artificial intelligence, break through faster than expected, a resurgence in productivity growth cannot be ruled out.

The projections assume structural productivity growth of 0.9% in the years ahead. This value is inspired by projections using the CEPII growth model.[10] In view of the major uncertainty, this is the average growth rate, both among (wealthy) countries and over years.[11] In a high scenario, the average annual growth rate is 1.5%, whereas in a low scenario the growth rate falls to 0.4%. The mean of these rates has been used.

Given the lower growth in the labour supply and public employment growth, private sector employment will decrease over the medium term. Employment in the health care sector is expected to grow faster than the labour supply in the period up to the end of 2028. Since it is assumed that this growth will take place within the health care sector, this means that in the medium term fewer people will be available to work in the private sector, and the private sector contribution to GDP will therefore decrease.

In the medium term, labour shortages and international developments give rise to great economic uncertainty. This outlook assumes that both the government and the health care sector will be able to achieve the intended expenditure growth over the medium term. In practice, a shortage of suitable personnel or other obstacles could prevent this. The development of labour productivity also remains an uncertain factor. Furthermore, an ambitious climate policy will have to be pursued worldwide to keep the Paris goals within sight in the years ahead. The impact of this policy, and of climate change itself, on global economic developments is difficult to gauge. Finally, it must be borne in mind that international tensions may disrupt trading systems. This may damage growth in the global economy and hence the Dutch economy.

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[9] See Nicholas Bloom, Charles I. Jones, John Van Reenen and Michael Webb, 2020, Are Ideas Getting Harder to Find?, American Economic Review, 110(4) (link).
[10] See CEPII, 2022, EconMap 3.1 (May 2022 version) (link).
[11] This is the (weighted) average of the Netherlands, Germany, the United Kingdom, France, Spain, Italy, the United States and Japan over the 2020-2060 period.

Table 1.1 Main data for the Netherlands, 2005-2028

	2005-2008	2009-2013	2014-2017	2018-2021	2022-2024	2025-2028
	changes per year in %					
International economy						
Relevant world trade volume, goods and services	6.1	1.6	4.8	1.8	3.8	2.6
Competitor prices (a)	-0.2	1.2	1.8	1.7	4.9	1.5
Oil price (in USD per barrel, level in final year)	96.3	107.8	54.3	70.7	76.3	66.7
Euro exchange rate (USD per euro, level in final year)	1.47	1.33	1.13	1.18	1.11	1.16
Long-term interest rate, the Netherlands (in % in final year)	4.2	2.0	0.5	-0.3	2.8	2.7
Volume of GDP and spending						
Gross domestic product (GDP, economic growth)	2.9	-0.4	2.1	1.6	2.1	1.1
Household consumption	0.9	-0.8	1.4	0.2	3.1	1.8
Public consumption	3.9	0.8	0.7	2.8	2.3	1.6
Investments (including stocks)	5.5	-3.7	5.5	2.3	1.2	1.7
Exports of goods and services	5.0	2.2	5.0	2.4	2.3	2.2
Imports of goods and services	5.0	1.7	5.3	2.2	2.6	3.0
Prices, wages, purchasing power and poverty						
Price level, gross domestic product	2.2	0.8	0.7	2.6	5.1	2.6
Export prices of goods and services	2.9	0.9	-1.0	2.0	7.0	0.8
Import prices of goods and services	2.9	1.3	-1.4	2.0	7.6	0.5
Inflation, national consumer price index (CPI)	1.7	2.0	0.8	2.1	5.9	2.4
Alternative CPI (purchasing power and poverty data) (b)	.	.	.	1.9	6.0	2.4
Inflation, harmonised index of consumer prices (HICP)	1.7	2.0	0.5	2.0	6.5	2.2
Wage rate, business sector (per hour) (c)	2.8	1.9	0.6	3.1	5.4	4.5
Contract wages, business sector	2.0	1.6	1.3	2.3	4.9	4.1
Purchasing power, static, median all households (d)	0.5	-0.7	1.3	1.1	-0.5	0.9
People in poverty (in % in final year) (d, e)	.	7.6	5.4	6.1	5.7	6.1
Labour market						
Labour force	1.3	0.5	0.3	1.0	1.7	0.2
Active labour force	1.8	-0.2	0.9	1.4	1.8	0.0
Unemployed labour force (x thousand persons, level in final year)	427	754	546	408	410	495
Unemployment rate (% of labour force in final year)	4.8	8.2	5.9	4.2	4.0	4.8
Employment (in hours)	1.5	-0.6	1.6	1.1	1.9	0.1
Other items						
Labour income share, business sector (in % in final year)	70.5	74.1	73.3	72.9	71.5	73.2
Labour productivity, business sector (per hour)	1.5	0.4	0.5	0.8	0.3	0.9
Private savings (in % of disposable income in final year) (f)	-1.4	2.4	3.5	11.2	8.8	9.8
Current account balance (in final year in % of GDP)	2.2	8.0	8.9	12.1	8.6	7.1
	in final year in % of GDP					
Public sector						
EMU balance	0.1	-3.0	1.4	-2.3	-2.4	-3.9
EMU debt	54.7	67.7	57.0	51.7	47.4	54.3
Taxes and social-security contributions	35.9	36.1	38.7	39.2	38.3	39.0
Gross public expenditure	43.5	46.9	42.9	46.5	44.6	46.7

(a) Goods and services, excluding natural resources and fuels.
(b) The alternative CPI takes account of prices of both new and existing energy contracts. See subsection 1.4 of 'Centraal-Economisch-Plan-CEP-2023-Verdieping' (link) for further details of the alternative CPI series and see Statistics Netherlands (link).
(c) The NOW wage cost subsidy and the continuity contribution in health care have a 3.3 percentage point upward impact on businesses' wage rate changes in 2020 and a downward impact of 1.6 percentage points in 2021 and 2022.
(d) The figures for median purchasing power and people in poverty are based on the alternative CPI.
(e) Ratio of the number of persons in households below the poverty line to the total number of persons. The modest-but-adequate criterion used by the Netherlands Institute for Social Research (SCP) has been adopted as the poverty line.
(f) Level; disposable household income includes public savings.

Appendices

The appendices to the draft Macro Economic Outlook 2024 (cMEV 2024) are available digitally on the CPB website (link).