# Netherlands

*Country note, March 2017*

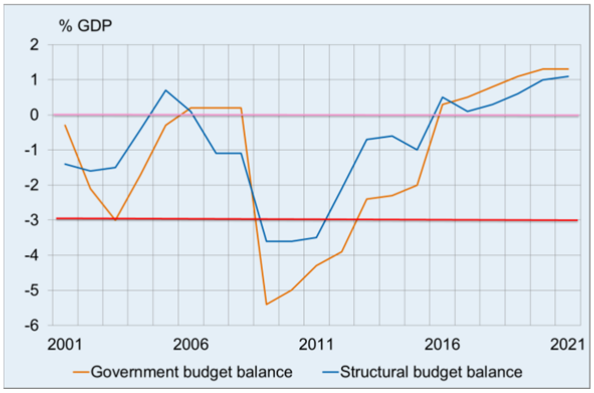
CPB Netherlands Bureau for Economic Policy Analysis

## Key messages:

- **The growth of the Dutch economy is robust with 2.1% this year and 1.8% in 2018.**
- **Last year's budget surplus is projected to increase further, to 0.8% of GDP by 2018.**
- **The Dutch Government debt will decrease to 55.5% of GDP in 2018.**
- **Conclusion of the Advisory Division of the Council of State based on the CPB projections: public finances are expected to comply with European fiscal rules in 2017 and 2018.**

## Macroeconomic outlook

Dutch economic growth is robust with 2.1% this year and 1.8% in 2018. This growth is mainly driven by consumption and exports. Economic growth is coupled with increases in employment in the market sector as well as in health care. For this year, unemployment is projected to be 4.9% of the labour force, and for next year this will be 4.7%. Influenced by higher energy prices, inflation will increase to 1.6% this year, and 1.4% the following year. The decrease in unemployment and increase in inflation will cause contract wages to rise.




## Short-term fiscal outlook

The general government budget surplus in 2016 is estimated at 0.3% GDP. Based on unchanged policy, this surplus is projected to increase this year to 0.5% and next year to 0.8%.This is due to the continued economic growth, which reduces unemployment benefit payments. It is also due to higher tax revenues and government spending that increases less rapidly than GDP. The budget surplus also increases because of declining interest rate expenditures, and the temporarily higher tax revenues, due to fiscal adjustments related to personal pension fund management.

## Medium-term outlook

The Dutch economy will grow with 1.7% on average in the period 2018-2021. The growth of labour supply and employment will be roughly equal, and hence unemployment will stabilise at 4,7%. Interest rates and inflation increase slightly, but remain low. Based on unchanged policy, the government budget balance will show a surplus of 1,3% in 2021 and government debt will decrease to 47% of GDP. The sustainability balance is in surplus, 0,5% GDP

### Short-term outlook

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Relevant world trade volume goods and services (%) | 2.8 | 4.5 | 3.9 | 2.7 | 3.0 | 3.6 |
| Long-term interest rate the Netherlands (level in %) | 2.0 | 1.5 | 0.7 | 0.3 | 0.7 | 0.7 |
| Gross Domestic Product (GDP, economic growth) | -0.2 | 1.4 | 2.0 | 2.1 | 2.1 | 1.8 |
| Government consumption (%) | -0.1 | 0.3 | 0.2 | 0.7 | 0.8 | 1.0 |
| Inflation, Harmonised Index of Consumer Prices (HICP) | 2.6 | 0.3 | 0.2 | 0.1 | 1.6 | 1.4 |
| Unemployed labour force (in % of labour force) | 7.3 | 7.4 | 6.9 | 6.0 | 4.9 | 4.7 |
| General government budget balance (% GDP) | -2.4 | -2.3 | -2.0 | 0.3 | 0.5 | 0.8 |
| Gross public debt (ultimo year; %GDP) | 67.7 | 67.9 | 65.1 | 61.8 | 58.5 | 55.5 |

## Conclusion of the Advisory Division of the Council of State

Based on projections by the CPB, the Advisory Division concludes that public finances are expected to comply with European fiscal rules in 2017 and 2018.

When choosing a medium-term target for the budget balance, the volatile nature of Dutch public finances as well as the limited and uncertain sustainability surplus of 0.5% of GDP in the long-term, argue for keeping sufficient distance in respect of the medium-term objective ensuing from the European fiscal rules.

### Medium-term outlook

| | 1998-2005 | 2006-2013 | 2014-2017 | 2018-2021 |
|---|---|---|---|---|
| Relevant world trade volume goods and services (% per year) | 5.8 | 3.3 | 3.6 | 4.4 |
| Long-term interest rate the Netherlands (level in %; end-of-period) | 3.4 | 2.0 | 0.7 | 1.7 |
| Gross Domestic Product (GDP, economic growth) | 2.5 | 0.8 | 1.9 | 1.7 |
| Government consumption (%) | 2.8 | 2.4 | 0.5 | 1.4 |
| Inflation, Harmonised Index of Consumer Prices (HICP) | 2.5 | 1.9 | 0.6 | 1.5 |
| Unemployed labour force (in % of labour force; end-of-period) | 5.9 | 7.3 | 4.9 | 4.7 |
| General government budget balance (% GDP; end-of-period) | -0.3 | -2.4 | 0.5 | 1.3 |
| Gross public debt ( %GDP; end-of-period) | 49.3 | 67.7 | 58.5 | 46.6 |

*Sources:*

*CPB, Central Economic Plan 2017, March 24,* [(link)]

*Advisory Division of the Council of State, The 2017 Spring Report on Fiscal Monitoring, April 14.* [(link)]

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