

The Netherlands



CPB Netherlands Bureau for Economic Policy Analysis

Country note, July 2019

Key messages:

- The Dutch economy returns to a standard growth rate with projected GDP growth figures of 1.5% for both 2019 and 2020.
- The general government's budget balance remains positive (1.2% of GDP in 2019 and 0.8% in 2020), while the gross public debt falls to 47.1% of GDP in 2020.
- Dutch public finance in the period 2018-2020 complies with European and national fiscal rules.

Macroeconomic outlook

The Dutch economy returns to a standard growth rate. For both 2019 and 2020, a GDP growth figure of 1.5% is projected, which is 0.3%-points above the average growth in the Eurozone in 2019. The rather high economic growth of 2% and above of the past years is over. Uncertainties in the global economy – such as US trade policy, Brexit and the state of China's economy – have an impact on the domestic real economy via lower growth of exports, investment and private consumption in 2019 and 2020. Total domestic spending, however, remains steady, as the expansive budgetary policy will largely compensate for the lower growth in private spending (Chart 1).

The labour market remains tight, but no further decrease in unemployment will take place. Unemployment, overall, will see a slight increase to 4.0% in 2020, which is still low compared to the Eurozone average of 7.3% in 2020. In this tight labour market, characterized by a historically high vacancy rate, higher educated people are offered a permanent employment contract increasingly often, whereas for workers with a low or secondary education, this is considerably less often the case. Contractual wages will accelerate, benefiting purchasing power under a moderate inflation in 2020. Inflation in 2019 will be relatively high at 2.3% due to indirect taxes, in particular the increase in the low VAT tariff, energy tax and levy for sustainable energy storage.

Short-term fiscal outlook

The general government's budget balance remains positive for the next years, although there has been a slight decrease in the surplus from 1.4% of GDP in 2018 to 1.2% in 2019 and 0.8% in 2020, due to declining tax revenues and increasing government consumption.

The growth of government consumption, in the projected years, will be double that of recent years, at 2.4% and 2.3% of GDP respectively. However, the budgetary policy is not as expansive as envisaged, as not all budgeted government spending will materialize due to the tight labour market (Chart 2). This so-called 'underspending' of government expenditure applies in particular to the spending on defense and infrastructure.

The structural budget balance will decrease in both 2019 and 2020 to 0.6%, well above the medium-term objective of -0.5% of GDP.

Gross public debt is expected to further decrease from 57.0% GDP in 2017 to 52.4% in 2018 and 47.1% in 2020 due to the positive government's budget.

Fiscal framework and national fiscal rules

- Dutch public finance complied with European fiscal rules in 2018.
- Based on the projections by the CPB public finances of the Netherlands are expected to remain within the boundaries of the European and national fiscal rules in 2019 and 2020.
- The healthy state of Dutch public finances makes it relatively easy to maintain the trend-based fiscal policy, even in the event of cyclical adversity.

Key indicator forecast

		2015	2016	2017	2018	2019 f	2020 f
GDP growth	[% per year]	2.0	2.2	2.9	2.5	1.5	1.5
Long term interest rate in the Netherlands (end of period)	[level in %]	0.7	0.3	0.5	0.6	0.4	0.6
Relevant world trade volume goods and services	[% per year]	4.1	3.8	5.0	2.8	1.8	2.5
GG consumption	[% of GDP]	-0.1	1.3	1.1	1.1	2.4	2.3
GG budget balance (end of period)	[% of GDP]	-2.0	0.0	1.2	1.4	1.2	0.8
Gross public debt (ultimo year)	[% of GDP]	64.6	61.9	57.0	52.4	49.1	47.1
Inflation (HICP)	[% of GDP]	0.2	0.1	1.3	1.6	2.3	1.4
Unemployed labour force (end of period)	[% of labour force]	6.9	6.0	4.9	3.8	3.8	4.0

Chart 1: GDP growth and spending categories

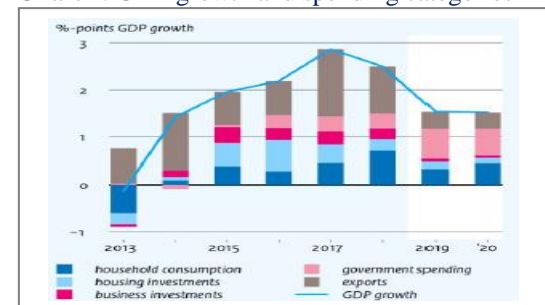
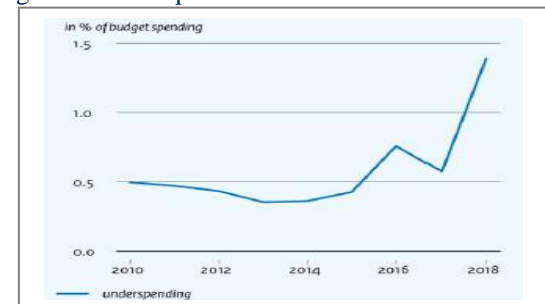


Chart 2: Underspending: the amount of budgeted government expenditure that has not been realized



Sources:

CPB, Central Economic Plan 2019, CPB Policy Brief March 2019 ([link](#))

Raad van State, 2019 Spring Report on Fiscal Monitoring, <https://www.raadvanstate.nl/fiscal-monitoring/reports>