

# The Netherlands

Country note, January 2019

## Key messages

- The Dutch economy continues to flourish with growth figures of 2.8% in 2018 and 2.6% in 2019.
- The general government's budget balance doesn't show a deficit for the fourth year running. The gross public debt falls to 49.1% of GDP in 2019.
- Dutch public finances are expected to remain within the limits of the European fiscal rules. However, it's not obvious that the structural budget balance is worsening in sound economic times.

## Macroeconomic outlook

The Dutch economy continues to flourish, but seems beyond the peak of the business cycle. The national economy is benefiting from the growing global economy, increasing household consumption, expansive budgetary policy, expanding business investments and growing housing investments (Chart 1). Due to the catch-up of housing investments and the expansive budgetary policy, the economic growth outperforms the growth in the Eurozone by 0.7%-points in 2018 and 2019.

Unemployment will drop to 3.5%, and most households will experience an increase in purchasing power. Vacancies have reached a record high. One in five companies is currently suffering from staff shortages, which is a doubling of the situation of one year ago. Compared to the Eurozone's average Dutch unemployment has steadily been around 4%-points below the Eurozone's average (Chart 2). The tight labour market creates an upward pressure on wages. Higher wage costs – but also higher energy taxes and an increase in the low VAT tariff – will push up inflation to 2.5% in 2019.

## Short-term fiscal outlook

Since 2016, the general government's budget balance doesn't show a deficit. However, despite the Dutch economy flourishing, the general government budget balance is not improving. In 2017, the budget surplus amounted to 1.2% of GDP. In 2018 and 2019 the budget surpluses will amount to 0.9% and 1.0% respectively. The structural budget balance shows a deficit in 2019 of -0.4% of GDP.

The government expenditures in 2018 and 2019 are expected to rise to 2.1% of GDP and 2.7% of GDP respectively, due to among other things higher health care expenditures and increases in spending on education and defense (Charts 3). The gross public debt continues to fall from 57.1% of GDP in 2017 to 53.0% of GDP in 2018 and 49.1% of GDP in 2019.

## Fiscal framework and national fiscal rules

The Advisory Division of the Council of States concludes that – based on the forecast of the CPB - Dutch public finances are expected to remain within the limits of the European fiscal rules. Although the gross public debt falls to a level beneath 50% of GDP in 2019, the structural budget balance turns to a deficit of 0.4% of GDP due to the expansionary budgetary policy. This deterioration in the structural budget balance does not seem logical from an economic perspective during these current, cyclically favourable years.

Chart 1: GDP growth and spending categories

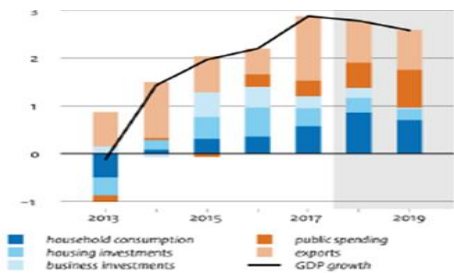


Chart 2: Unemployment in the Netherlands and the Eurozone

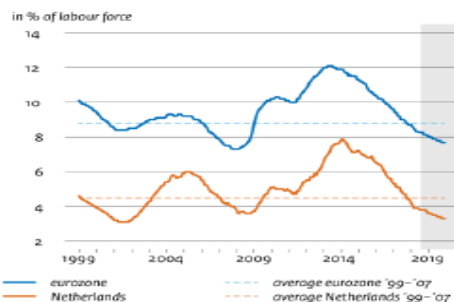
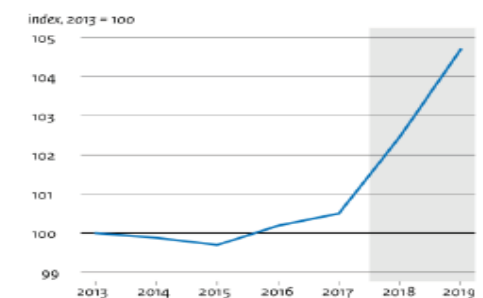


Chart 3: The growth of real government expenditures



### Sources

CPB, Macro Economic Outlook, CPB Policy Brief 2018/9 ([link](#))

Advisory Division of the Council of State, The 2018 September Report on Fiscal Monitoring, 2018/9 ([link](#))

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## Key indicator forecast

		2015	2016	2017	2018 f	2019 f
<b>Gross Domestic Product (economic growth)</b>	[% per year]	2.0	2.2	2.9	2.8	2.6
<b>Long term interest rate in the Netherlands (end of period)</b>	[level in %]	0.7	0.3	0.5	0.6	0.7
<b>Relevant world trade volume goods and services</b>	[% per year]	4.0	3.6	4.9	3.4	4.0
<b>GG consumption</b>	[% of GDP]	-0.1	1.3	1.1	2.1	2.7
<b>GG budget balance (end of period)</b>	[% of GDP]	-2.0	0.0	1.2	0.9	1.0
<b>Gross public debt (end of period)</b>	[% of GDP]	64.8	62.0	57.1	53.0	49.1
<b>Inflation (HICP)</b>	[% of GDP]	0.2	0.1	1.3	1.6	2.5
<b>Unemployed labour force (end of period)</b>	[% of labour force]	6.9	6.0	4.9	3.9	3.5