DNB Spring Projections

June 2024, issue 27

DeNederlandscheBank

EUROSYSTEEM

Content

Summary and policy recommendations

Outlook for the Dutch economy

After stagnating in 2023, the Dutch economy achieves a soft landing and enters a moderate growth trajectory. These projections show increases in the growth of gross domestic product (GDP), from 0.2% in 2023 to 0.5% in 2024, followed by 1.3% in both 2025 and 2026. GDP growth in 2024 is domestically driven, with government spending being a major growth contributor. Household spending is also a key driver of growth, underpinned by higher employment, consumer confidence and real wage growth. Consumption is also being boosted by the resumption of house price growth from mid-2023. Corporate investment continues to contract in 2024, but increases again in 2025 and 2026. The same applies to exports, which also pick up in 2025 and 2026. GDP growth is therefore more broadly based, as government and consumer spending also grow steadily in the years ahead.

Unemployment is projected to rise slightly, from 3.6% in 2023 to 4.0% in 2026. Inflation (the European harmonised HICP figure) falls to 2.8% in 2024 and continues to decline steadily to just below 2% in 2026. Core inflation, which excludes energy and food, also falls. From 6.4% in 2023, it drops to 2.9% in 2024, 2.4% in 2025 and 2.0% in 2026. With the projected declines in both HICP and core inflation, price stability is in prospect at the end of the projection horizon. Negotiated wage growth in the private sector is expected to reach 6.0% in 2024 after 5.9% in 2023. In 2025, negotiated wage growth is set to decline gradually to an average of 3.7% and to fall further to 2.9% in 2026. Both inflation and wage growth decline more slowly than previously projected, which in itself is not surprising, but it does illustrate that the risks are mainly to the upside.

Average house prices are now above the previous peak of July 2022. The decline witnessed in 2022 and 2023 has therefore been reversed earlier than expected. House prices are projected to continue rising, partly due to improved borrowing capacity among first-time buyers. Onbalance, therefore, there is little change in affordability for first-time home buyers.

The government's budget deficit is set to grow in the years ahead, putting it at risk of exceeding the European deficit ceiling. These projections do not take into account the outline agreement reached between the prospective coalition parties. The agreement was only announced a day before the deadline for completion of our final projections, which are part of the overall Eurosystem projections. Our additional analysis based on the outline agreement shows increases in the budget deficit in 2025 and 2026, followed by decreases in 2027 and 2028. Over the 2025-2028 period as a whole, the policies in the outline agreement have a limited upward impact on GDP growth (average of +0.1 percentage points per year). Our analysis of the economic impact of the agreement also shows little change in inflation (average of +0.2 percentage points per year) and unemployment (-0.2 percentage points in 2028).

We have also produced an alternative economic scenario modelling the impact of higher US economic growth on the Netherlands. This shows that the positive impact on Dutch exports is largely offset by higher interest rates and inflation curbing domestic spending.

Policy recommendations

Against the backdrop of two major shocks in four years – the pandemic and Russia's invasion of Ukraine – followed by historically high inflation, theDutch economy has recovered faster than expected, and a soft landing appears to be materialising. The policies pursued by the government and the ECB have certainly contributed to this. But the Dutch economy also appears to be more resilient than was previously thought. It is important to nurture and preferably strengthen this resilience, because the risks unfortunately remain high.

In the short term, the risks to the Dutch economy stem mainly from uncertainty in the international environment. The geopolitical turmoil could lead to volatile energy prices and negatively impact world trade[1], which is already recovering more slowly than expected after the 2023 downturn. The turmoil is also leading to growing geo-economic fragmentation at a time when the Dutch economy is vulnerable to disruptions to the global trade system and value chains.[2] These disruptions are liable to affect not only Dutch firms but also, indirectly, financial institutions.[3] Resilience does not mean immunity to setbacks, but it does mean we can absorb them better when they arise. This applies to both unexpected shocks and structural challenges, because in addition to the short-term risks there are longer-term challenges when it comes to improving the growth capacity of the Dutch economy. This growth capacity is structurally constrained by shortages, for example of labour and physical space, and by the burden placed on our environment and climate.

We can strengthen this economic resilience in at least three ways.

1. Strengthening the European single market and capital markets union
International trade has been a driver of prosperity in recent decades. Trade and economic growth in the Netherlands have increased in recent decades thanks to the European single market,[4] which gives Dutch firms access to 450 million European consumers. This provides a large and stable market and helps firms build international competitiveness. A well-functioning European single market thus contributes to the resilience of the Dutch economy and reduces its dependence on other regions of the world. Completion of the capital markets union is essential to improve the functioning of the European single market.[5] The European banking union is similarly incomplete.

2. Labour market tightness requires higher productivity growth
A productive business sector with strong international competitiveness is an important source of economic resilience. The Dutch economy is currently running into capacity limits, however, not only in terms of physical space, for example in the areas of construction and climate, but also in the labour market. These projections show only a limited easing of labour market tightness, which is reflected in the limited rise in unemployment in the coming years. Furthermore, in the longer term, the growth of the labour force will come to a virtual standstill.[6]

1 IMF (2024) World Economic Outlook (link).
2 DNB (2023) Analysis of geo-economic fragmentation (link); IMF (2023) Geoeconomic fragmentation and the future of multilateralism (link).
3 See analysis in the Financial Stability Report, Spring 2024 (published on 11 June 2024).
4 CPB (2022) Trade benefits of the EU and the Internal Market (link); DNB (2023) The effects of the Economic and Monetary Union on export.(link).
5 See the position paper by DNB and the AFM with recommendations on strengthening the capital markets union (2024) (link) and the Financial Stability Report, Spring 2024 (published on 11 June 2024).
6 DNB (2024) Analysis of labour market tightness (link).

Amid declining labour supply growth, robust productivity growth is crucial if prosperity is to increase. In recent decades, however, there has been a decline in productivity growth, driven in part by increasing misallocation of capital and labour[7] and declining business dynamism. In order to boost business dynamism and achieve a more efficient allocation of increasingly scarce production factors, it is important that firms and consumers pay the true cost for all forms of economic activity.[8] This can be achieved, for example, by better pricing of energy consumption and a phase-out of fossil subsidies, but also by enforcing labour laws and regulations, such as the minimum wage and the Working Hours Act. If firms are able to compete (including internationally) on the basis of the true cost of their goods and services, they will have more headroom, further reinforcing the productivity and resilience of the Dutch economy. The responsibility for this does not rest solely with the government. The Social and Economic Council of the Netherlands (SER) also has an important role to play in addressing labour market challenges.

3. Ensuring resilient public finances

The outline agreement[9] reached by the prospective coalition partners (16 May 2024) aims for a deficit that exceeds the level recommended by the Working Group on Fiscal Space.[10] This leaves hardly any buffer under European budget rules. A resilient economy benefits from a government budget that can absorb shocks for its citizens and firms. The importance of this has been demonstrated by events such the COVID-19 pandemic. Buffers are also important to meet medium-term challenges such as population ageing. Sailing close to the wind means there is limited room for trend-based fiscal policy, raising the likelihood of fiscal policy turning procyclical and exacerbating economic shocks.

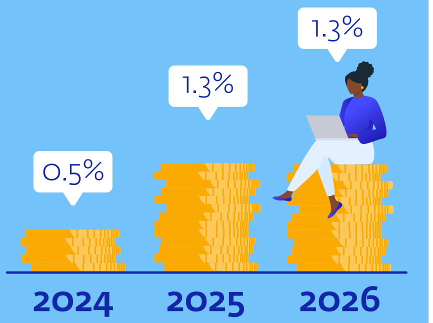
7 See Bun and De Winter (2022) Misallocatie kapitaal en arbeid tijdens de coronacrisis verder toegenomen (ESB; link).
8 See DNB (2024) Annual Report 2023 (link) and DNB (2024) Position paper for roundtable discussion on demographics. (link).
9 See Box 2 for a calculation of the impact of the outline agreement.
10 17th report of the Working Group on Fiscal Space (link).

Our 2024 Spring Projections in pictures

Economic growth

The economy is heading for a soft landing.

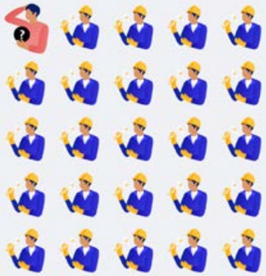
Modest growth in 2024, more substantial growth in 2025 and 2026.



Labour market

Staff shortages persist in many sectors, but unemployment is edging up. It is expected to rise from 3.8% of the working population in 2024 to 4% in 2025.

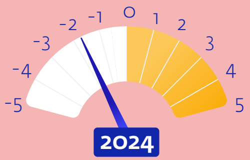
Wage growth will remain strong in 2024 at 6%, before slowing to 3.7% in 2025.



Inflation

Inflation is expected to fall towards the 2% **target level** in the coming years.

It will be 2.8% in 2024 and 2025, before dropping below 2% in 2026.



Firms

Domestically produced exports will shrink by 0.9% in 2024 due to **lower world trade**. This will be followed by 2.3% growth in 2025.

Business investment is projected to fall by 1.7% in 2024, after which it is expected to increase again by 1.4% in 2025.

Public finance

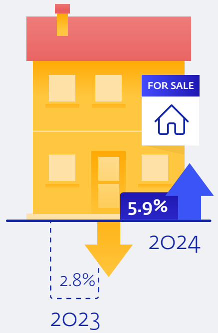
The **budget deficit** will increase significantly in 2024, to 2.4%. This growth trajectory is set to continue in 2025.

Public debt is 47.1% of GDP in 2024 and will rise to 48.7% in 2025.

House prices

After a brief slump in 2023, house prices are showing strong growth again in 2024, rising by 5.9%.

Prices will **rise** by 4.1% in 2025 and 3.8% in 2026.

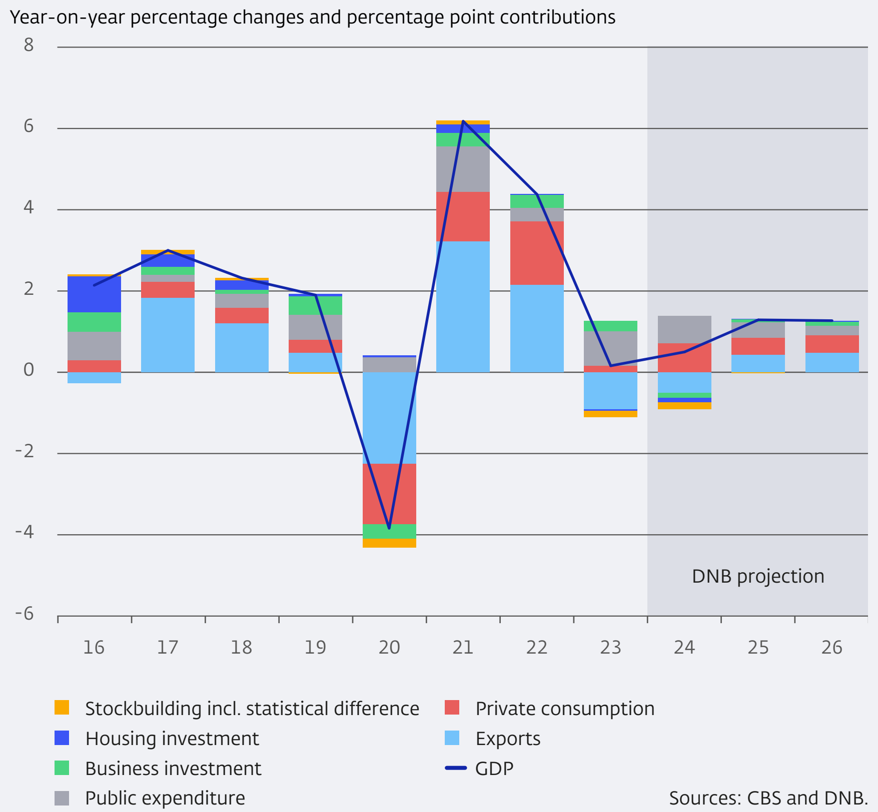


Dutch economy enters a moderate growth trajectory

The economy is poised for a soft landing and a cautious recovery. The year-on-year growth of gross domestic product (GDP) is set to rise from 0.2% in 2023 to 0.5% in 2024. This will return the economy to a moderate growth trajectory after stagnation in 2023 (Figure 1). Inflation, meanwhile, is set to fall to 2.8% in 2024 and 1.8% in 2026, under the influence of the ECB's monetary policy tightening. The combination of easing inflation, moderate GDP growth and persistently low unemployment means a soft landing for the economy.

GDP growth in 2024 is domestically driven. Government spending is a major contributor to growth, as it was in 2023. The expansionary fiscal policy includes more spending on healthcare, social security and defence, as well as more investment, for example on infrastructure. Household spending is also a key driver of the economic recovery. It is set to increase by 2.4% in 2024, buoyed by employment growth, rising consumer confidence and higher real wage growth. Wage and employment growth, coupled with falling inflation, will boost household disposable income by over 3% in 2024 (in real inflation-adjusted terms). Consumption is also being boosted by the resumption of house price growth from mid-2023.

Figure 1 Sources of GDP growth



Sources: CBS and DNB.

Notes: Net contributions to GDP growth. The final and cumulative intermediate imports have been deducted from the respective sales categories.

Investment and exports are a drag on growth in 2024. Corporate investment is set to shrink by 1.7% year-on-year, mainly due to a sharp contraction in the last two quarters of 2023. Net trade will again make a negative contribution to GDP growth in 2024, largely due to lower energy exports, while the competitiveness of other Dutch products deteriorates further. World trade relevant to the Netherlands is growing only slowly amid geopolitical turmoil and the associated uncertainty for firms doing business internationally.

The export engine will pick up in 2025 and 2026. This will make an important contribution to the further acceleration of GDP growth. As a result, GDP growth will be more broadly based, with government and consumer spending also continuing to grow steadily in the years ahead. Overall, GDP growth is expected to reach 1.3% in 2025 and 2026. This moderate growth will allow a further easing of overheating in the economy. This can be seen in the output gap, the difference between actual and potential GDP. This gradually narrows from 1% in 2024 to 0.3% in 2026. This means the economy will still be performing above capacity in the years ahead, albeit to a decreasing extent. This will ease the upward pressure on wages and prices.

A full overview of the projections for the 2024-2026 period can be found in the Key Data Table. The international assumptions used in these projections appear in Box 1. We have also produced an alternative economic scenario, modelling the impact of higher US GDP growth on the Netherlands.

Box 1 International assumptions

These projections are part of the projections for the euro area prepared by the European Central Bank (ECB) and the national central banks, which together make up the Eurosystem.[11] All central banks use the same international assumptions for their national projections. The ECB expects global GDP growth (excluding the euro area) of 3.3% in 2024, somewhat lower than in 2023 (3.5%). There is little room internationally for further growth in economic activity. Many economies are hitting capacity constraints due to labour shortages while still having to deal with the impact of the monetary policy tightening undertaken in recent years. The ECB expects global GDP growth to remain stable in the coming years, projecting levels of 3.3% in 2025 and 3.2% in 2026.

Higher oil prices are now expected compared to the 2023 Autumn Projections. This is partly due to tensions in the Middle East and the war in Ukraine. Prices are nevertheless much lower than in 2022 ($99 per barrel). The ECB is projecting an oil price of $83 in 2024, followed by a further decline to $74 in 2026 based on market expectations. In contrast to oil prices, gas prices are now expected to be much lower than in the previous projections and are likely to continue falling. This is mainly because Europe has become less dependent on Russia for its gas supplies. A gas price of €31 per MWh is now projected for 2024 based on market expectations. The ECB's monetary policy is aimed at bringing inflation back to a euro area average of 2% over the medium term. The level of short-term interest rates used in these projections is comparable to that of the previous projections, whereas long-term rates are lower. As usual, these assumptions are based on the expectations of financial market participants.

11 We carry out our projections in part using the DELFI macroeconomic model. These projections are based on information available on 15 May 2024. The outline agreement setting out the intended policies of the Dutch coalition parties (16 May 2024) has not been taken into account in the projections. The assumptions for relevant world trade, exchange rates, international commodity prices and interest rates were adopted by ECB and euro area NCB experts as part of the Eurosystem projections. These international assumptions feed into our own projections for the Dutch economy. More background can be found at www.dnb.nl/the-state-of-the-dutch-economy.

Inflation falls back towards 2%

Inflation continues to decline gradually, falling to just below 2% in 2026. After peaking at 11.6% in 2022, HICP inflation fell to 4.1% in 2023, partly due to lower energy inflation (Figure 2). These projections show the decline continuing to 2.8% in 2024. Inflation then remains stable at 2.8% in 2025 before falling to 1.8% in 2026. The decline is mainly driven by sharp falls in food inflation (including alcohol and tobacco) to 3.1% in 2024, 2.7% in 2025 and 2.3% in 2026. Energy inflation will show a mixed pattern in the years ahead. Energy prices are expected to rise moderately by 1.1% in 2024 before posting larger rises in 2025 due to previous decisions by the caretaker government, such as the reversal of the cut in excise duty on vehicle fuels and the increase in tax on natural gas. Energy prices, which make up almost 10% of the overall HICP price index, are strongly influenced by the geopolitical situation and hence liable to change fast and frequently, posing a risk to the inflation projections.

Core inflation, which excludes energy and food, is also set to fall. This stood at 6.4% in 2023 and is projected to fall to 2.9% in 2024, 2.4% in 2025 and 2.0% in 2026. Core inflation gives a more accurate picture of trend-based price movements because it excludes volatile energy and food prices. A key component of core inflation is service prices, which are largely determined by labour costs. Labour costs are set to rise by almost 6% per unit in 2024, but the rise is projected to slow gradually in the years ahead. The contribution to inflation of unit profits also decreases gradually over the projection horizon.

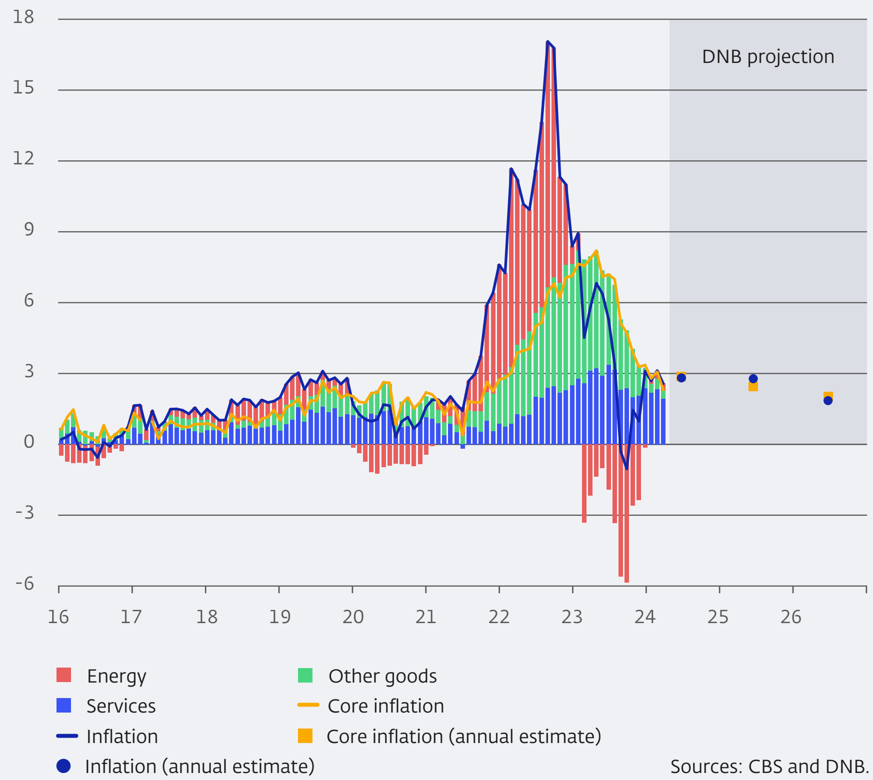
With the decline in both HICP inflation and core inflation, we return to price stability at the end of the projection horizon. This situation is reached slightly later than anticipated in the 2023 Autumn Projections, which showed inflation falling to 2.2% in 2025. The difference as compared to the previous projections is mainly due to the somewhat higher expected rise in energy prices in 2025.

The geopolitical situation, wage growth and the transmission of monetary policy all pose risks to inflation. International political tensions represent an upside inflation risk.[12] If those tensions rise further or if new conflicts arise, energy prices or the cost of international trade may rise again, causing more inflation. Wage growth also poses an inflation risk. If wage growth is more vigorous than expected, labour costs may result in higher service prices and domestic price pressures. Moreover, the projected lower earnings growth and increasing productivity growth are yet to materialise. An opposite risk is of a delayed transmission of monetary policy tightening, leading to lower credit growth due to higher interest rates and potentially dampening spending and inflation more than is currently projected. Geopolitical risks could also lead to a slowdown in the global economy, putting downward pressure on inflation.

12 See the analysis in the Financial Stability Report, Spring 2024 (published on 11 June 2024) on the impact which disruptions to international value chains have on financial institutions.

Figure 2 Inflation (HICP) and core inflation

Year-on-year percentage changes and percentage point contributions



Sources: CBS and DNB.

Note: Core inflation = headline excluding food and energy.

Households are expected to see improved energy affordability. The 2022 energy crisis showed that households can run into financial difficulty when energy prices rise sharply.13 To provide a picture of households' energy affordability, we use the average percentage of disposable income spent on energy. The projection for this new indicator points to an improvement in energy affordability in 2024.[14] Households are expected to spend 3.8% of their disposable income on energy in 2024, and 4.0% and 3.6% in 2025 and 2026, respectively. In 2022, the figure was 6.8% and in 2023 4.7%. Energy affordability returns to the levels seen before the energy crisis (4.0% in 2021) and improves in 2024 mainly due to rising average incomes. Whereas household electricity bills are rising, largely due to higher electricity prices and grid operating costs, natural gas bills are falling. This is mainly due to expected gas prices.

A decrease is expected in the number of households that are financially vulnerable to higher energy prices. These are households whose energy bill amounts to more than 10% of their disposable income. Around 560,000 households are expected to fall within this definition in 2024. This represents a decline of as much as 30% compared to 2023. Due to the expected fall in energy prices, this decline will continue at the end of the projection horizon.[15]

More on inflation can be found on our inflation-themed web page

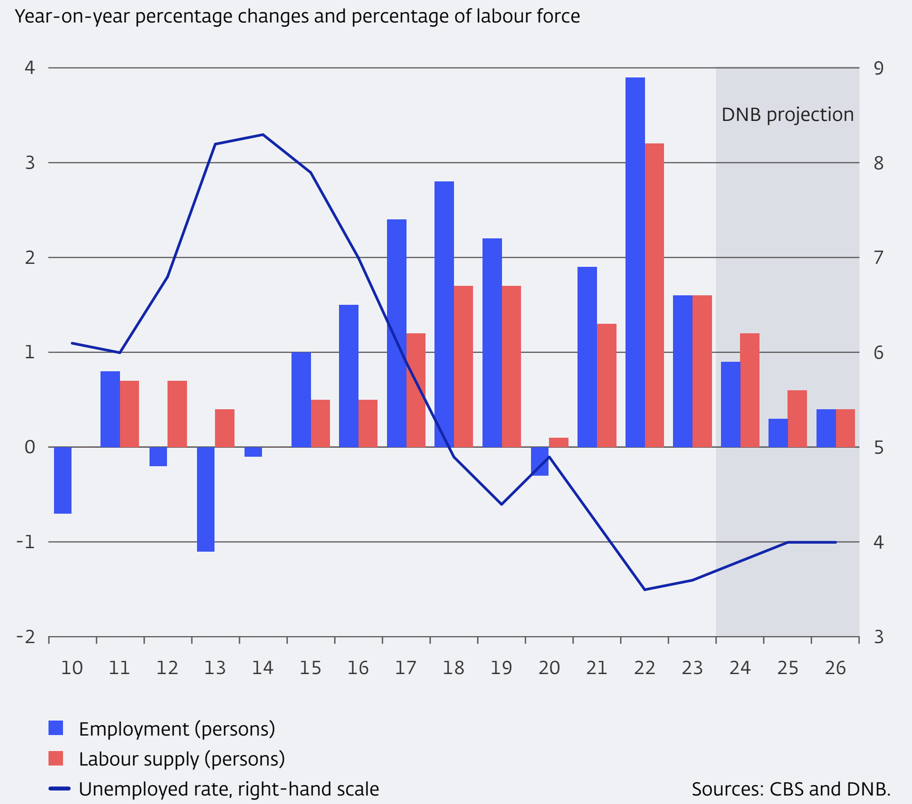
13 DNB (2023) Kwetsbaarheid en veerkracht van Nederlandse huishoudens (link).
14 For a closer look at the energy affordability indicator, see 'Energy affordability back to pre-crisis levels' (forthcoming at DNB.nl). Results based on DNB's own calculations using non-public microdata from Statistics Netherlands.
15 Results based on DNB's own calculations using non-public microdata from Statistics Netherlands. We link Statistics Netherlands microdata on energy consumption per home and household income (for 2022). Energy poverty in 2024-2026 was calculated on the basis of the projected growth of income and energy prices. The assumptions were an annual increase of 0.75% in electricity consumption (CE Delft, 2020) and a decrease of 35 m³ in gas consumption (required to meet the 2050 gas consumption target). Any other behavioural effects are not included.

Labour market remains tight, with high wage growth

Employment growth is set to fall. The number of employed persons is projected to grow by 0.9% in 2024 (Figure 3). This is sharply lower than in the previous two years (3.9% and 1.6%), but higher than anticipated in the 2023 Autumn Projections (0.3%). Employment growth is mainly in the public sector, but also in some service sectors. Growth continues to decline in 2025 and 2026, to 0.3% and 0.4%. Growth in labour supply also slows, albeit with a time lag. This is because there are fewer people who are not yet participating in the labour market. On balance, therefore, unemployment rises, but only to a limited extent (from 3.6% in 2023 to 4.0% in 2026). In 2023, the number of hours worked grew only marginally less (1.4%) than the number of employed persons (1.6%). The projections for the years ahead also show little difference between employment growth in hours and in persons. Labour hoarding, which was seen during and after the pandemic, thus no longer seems to be an issue: faced with lower economic growth, firms are not delaying workforce adjustments any longer than necessary.

High wage growth continues in 2024. At 6.0%, negotiated wage growth in the private sector is even expected to be slightly higher in 2024 than the 5.9% recorded in 2023 (Figure 4). The continued high level of wage growth in 2024 is due to wage settlements that are still likely to include compensation for loss of real wages. In more recent agreements, which reflect situations in which workers have already received partial compensation for earlier losses of real wages, we expect wage growth to decline, in line with projected inflation. Accordingly, in the 2025 projection, negotiated wage growth declines substantially to an average of 3.7%, before falling to 2.9% in 2026. As in the case of the inflation projection, there is an upside risk to wage growth, mainly because it will be strongly impacted by any additional price rises. The persistently tight labour market also poses an upside risk.[16]

Figure 3 Labour market supply and demand



Sources: CBS and DNB.

During the projection horizon, wage growth exceeds HICP inflation (by an average of two percentage points between 2024 and 2026). That does not mean the real wage gap since the 2022 inflation peak will close completely

16 DNB (2024), Drivers of Dutch inflation during the pandemic era (link).

over the projection horizon: at the end of 2024, the difference between private sector compensation and prices (HICP) averages 3.0%. In the projection, that gap narrows to 0.3% by 2026.

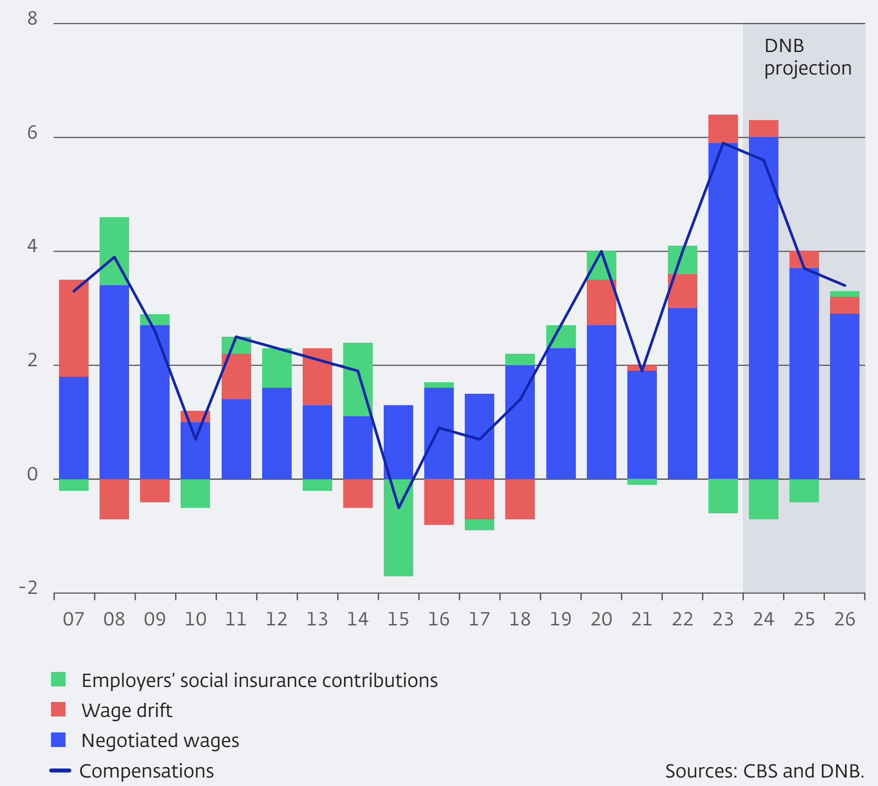
Collective labour agreements show different levels of wage settlements. Average wage growth in new collective labour agreements levelled off in the first months of 2024, and the latest figures (April 2024) show even lower wage growth. Detailed data at collective agreement level supplied by the employers' organisation AWVN nevertheless show a wide dispersion in the latest wage settlements. Some recent collective agreements still show relatively high wage growth, such as the agreement for central government personnel (10% in the first 12 months of the term) and the agreement for the motor vehicles sector (9.2%). New agreements show more moderate wage growth, an example being the agreement for the technical wholesale sector in April 2024 (4% in the first 12 months of the term). Collective labour agreements in 2022 or 2023 that did not include significant compensation are doing so in 2024. Conversely, recent wage agreements turn out lower on average if a higher settlement was previously agreed.

The labour income share (LIS) is set to rise. This measures the distribution of income between employed people (wages) and capital providers (e.g. profit). After reaching a low of 70.9 in 2023, the LIS (for the private sector) is projected to rise to 73.3 in 2026, close to the level seen just before the pandemic (73.7 in 2019). The recovery in the LIS follows the relatively high macroeconomic growth in corporate profits in 2022 and 2023. The rise in the LIS implies that projected average wage growth in the years ahead will outpace growth in labour productivity plus GDP price growth.

More on the labour market can be found on our labour market-themed web page

Figure 4 Compensation per employee (private sector)

Year-on-year percentage changes and percentage point contributions based on working years



Sources: CBS and DNB.

Household consumption grows; house prices recover

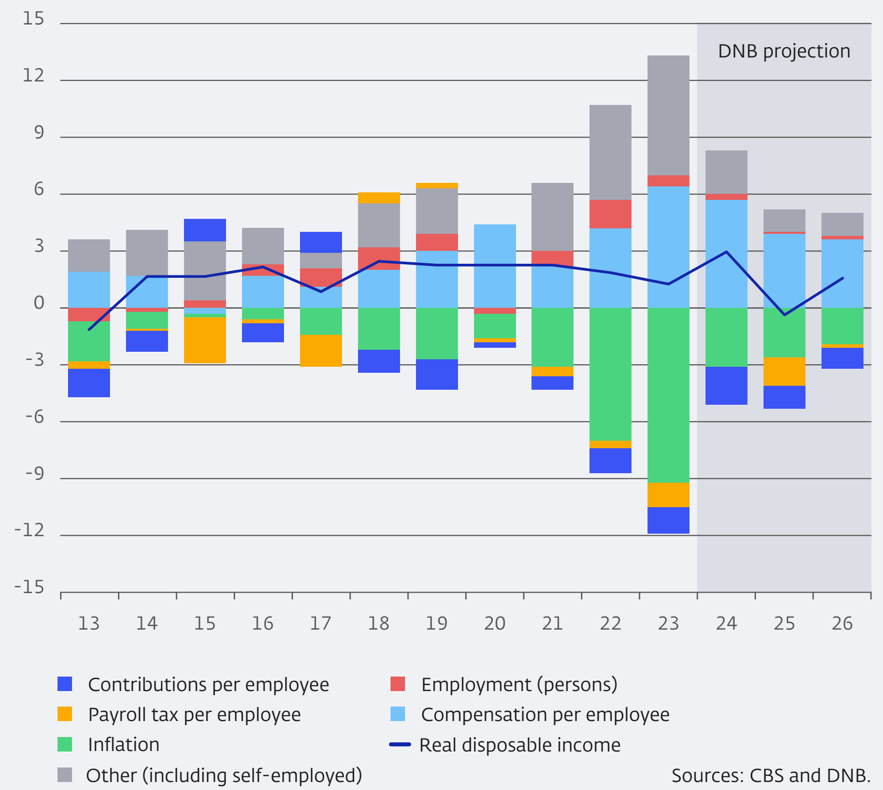
After barely growing at all in 2023, private consumption picks up in 2024. Household consumption continued to contract in the first three quarters of 2023 (q-o-q), mainly due to surging inflation. A robust recovery in consumption followed at the end of that year, driven by rising consumer confidence and a gradual rise in real wages. Over 2023 as a whole, consumption growth (0.4%) was driven entirely by services, while goods consumption contracted. In 2024, consumption growth is projected to reach a hefty 2.4%, a figure that is also substantially higher than that expected in the 2023 Autumn Projections. This is largely due to high (q-o-q) growth rates in the final quarter of 2023 and the first quarter of 2024. The growth in real disposable income is also an important factor. This is expected to grow by 3.1% in 2024, largely due to substantially lower inflation and lower payroll taxes (Figure 5). Coupled with the continued improvement in consumer confidence and rising house prices, this has a positive effect on household spending.

Growth in private consumption is set to slow after 2024. Projected consumption growth is 1.9% in 2025 and 1.8% in 2026, which is still above the long-term average of 1.5% (in 1979-2019). Real disposable income may grow at a slower pace in 2025-26, but consumption growth in those years is still buoyed by confidence and rising house prices.

Average house prices are now (April 2024) above the previous peak. This means the 6.1% decline between July 2022 and May 2023 has been reversed earlier than expected. This relatively fast recovery is partly due to mortgage rates, which have fallen from an average of 4.3% in December 2023 to 4.0% in March 2024. Combined with growth in nominal incomes, this means homebuyers have greater borrowing capacity. For first-time buyers with an average household income, borrowing capacity is projected to increase by 3.2%, 2.9% and 5.6% in 2024, 2025 and 2026, respectively.

Figure 5 Households' real disposable income

Year-on-year percentage changes and percentage point contributions



Sources: CBS and DNB.

Notes: Inflation refers to the price level of private consumption

In the persistently tight housing market, greater borrowing capacity puts upward pressure on house prices.[17] The average house price is projected to rise by 5.9% in 2024, 4.1% in 2025 and 3.8% in 2026, a stronger rise than in the 2023 Autumn Projections. The combination of greater borrowing capacity and higher prices means that, on balance, first-time buyers will see little change in housing affordability (the difference between the increase in house prices and borrowing capacity, Figure 6) in the years ahead. First-time buyers were already in an unfavourable position, however. As an illustration, the ability to buy a mid-priced house (€452,000) at the end of 2023 required a gross household income of about €95,000.[18] Around 39% of households have a gross income above that level in 2024.[19]

Housing investment contracts again in 2024. Housing investment has not increased since 2022, and that is a key cause of the continued tightness in the housing market. After a 1.4% contraction in 2023, a contraction of 3.5% is expected in 2024. This is associated with the decline in the number of new building permits, which by January 2024 had fallen to 54,000 in the previous 12 months, even fewer than the previous low in 2016. Housebuilding is under pressure from higher interest rates and higher construction costs, including building materials, and wages. Housing investment is expected to recover slightly with growth of 0.9% and 1.1% in 2025 and 2026, respectively. This is due to slightly lower interest rates and an expected increase in building permits.

More on the housing market can be found on our housing market-themed web page

Figure 6 Trends in borrowing capacity, house prices and affordability

Sources: Statistics Netherlands and DNB.

17 DNB (2023) Borrowing capacity and house prices (link).
18 Calcasa (2023) Quarterly Report 2023Q4 (link).
19 Result based on DNB's own calculations using non-public microdata from Statistics Netherlands.

No growth in exports and corporate investment until after 2024

Internationally, the short-term outlook has deteriorated, but a recovery is expected from 2025. Economic uncertainty remains high, partly due to the war in Ukraine and the ongoing risk of further escalation in the Middle East. The process of geo-economic fragmentation is also starting to have a negative impact on international trade.20 World trade relevant to the Netherlands contracted by no less than 1% in 2023, a deeper contraction than we assumed in the 2023 Autumn Projections. The expected recovery in world trade in 2024 (0.9%) is also slower than previously projected. In 2025 and 2026, world trade grows somewhat faster, due to the further decline in inflation, the eventual reduction in uncertainty and the expected easing of monetary policy. This picture may change, however, if geopolitical shocks forestall a recovery in world trade. This is a significant downside risk.[21]

Exports of goods and services fall again in 2024, although the contraction is much smaller than in 2023. Domestically produced exports shrink by a further 0.9% in 2024, almost entirely due to energy exports. Exports across the board are expected to recover strongly from 2025 due to growing international demand. Compared to the previous projections, the growth of domestically produced exports (excluding energy) is higher in every year of the projection horizon. The Netherlands' market share is nevertheless expected to shrink by around 1% each year as relevant world trade – as in the previous projection – grows faster than domestic exports. Finally, the Netherlands' external price competitiveness deteriorates in 2024 and 2025, as it did in 2023. This is mainly due to sharply higher labour costs feeding through to prices of Dutch exports. Every cloud has a silver lining, however, as the deterioration in Dutch competitiveness from a European perspective leads to greater convergence with other European economies, which see relatively larger increases in their exports. Price competitiveness is expected to improve slightly in 2026 (Table 1).

Corporate investment (excluding housing) falls sharply in 2024 before recovering in 2025 and 2026. The decline is caused by a carry-over effect: corporate investment grew in the first two quarters of 2023 but then fell sharply in the second half of the year, notably as a result of lower investment in transport equipment. Although we expect moderate growth in investment in each quarter in 2024 compared to the previous quarter, investment on an annual basis is still expected to be 1.7% lower than in 2023. Due to falling interest rates on corporate loans and accelerating economic growth, corporate investment is set to recover by 1.4% in 2025 and 1.7% in 2026. The investment share (relative to GDP) thus rises slightly to a historically average level.

Bank lending to firms falls in 2024 before recovering gradually in subsequent years. The decline in outstanding bank credit that began in 2023 continues in 2024 with a 1% contraction. ECB surveys indicate that this decline is mainly demand-driven. There is less demand for bank loans among firms, partly because of higher interest rates and sufficient availability of internal financial resources. At the same time, there has been hardly any tightening of banks' lending standards since the end of 2022. Lending is projected to recover in 2025 and 2026, with growth of 0.8% and 3.1% respectively, in line with the acceleration of investment.

20 See Box 1.1 in IMF (2024) World Economic Outlook (link), which states that trade between geopolitically competing blocs has recently declined faster than trade within blocs. See the DNB Analysis simulating geo-economic fragmentation to gauge the negative impacts on GDP, inflation and trade (link).
21 For further details, see, for example, the alternative scenario in our 2023 Autumn Projections.

The number of bankruptcies has been rising since the end of 2022 and recently reached pre-pandemic levels. So far, therefore, we have mainly seen a normalisation of bankruptcy numbers. The deleveraging trend, falling interest rates on corporate loans and higher profitability have been contributing to firms' financial resilience since well before the pandemic. Between 2015 and 2022, the ratio of gross operating surplus to interest expenses (the interest coverage ratio) improved from 5.1 to 9.2. Rising interest rates nevertheless caused the average ratio to deteriorate to 7.8 in 2023. Some firms have so far been unaffected by the rise in interest rates. By early 2024, it was estimated that about half of the increase in monetary policy rates had fed through to total interest on outstanding corporate bank debt. The number of bankruptcies may therefore increase further.

Table 1 Dutch exports and competitiveness

Percentage changes

	2022	2023	2024	2025	2026
Volume					
Relevant world trade (1)	7.7	-1.0	0.9	3.2	3.2
Exports of goods and services (2)	4.6	-1.4	-0.8	2.4	2.6
of which domestically produced	4.9	-2.2	-0.9	2.3	2.3
of which re-exports	4.3	-0.3	-0.8	2.7	2.9
Trade performance (2-1)	-2.9	-0.4	-1.7	-0.7	-0.6
Exports of goods and services excluding energy	5.1	-1.7	-0.6	2.5	2.5
of which domestically produced (3)	5.5	-2.1	-0.1	2.3	2.3
of which re-exports	4.5	-1.0	-1.2	2.7	2.9
Market share (3-1)	-2.0	-1.2	-0.9	-0.8	-0.9
Price					
Competitor price (4)	17.0	-3.0	0.4	2.5	2.4
Exports of goods and services	17.5	-0.6	0.8	2.1	1.8
of which domestically produced, excluding energy (5)	11.2	2.6	1.8	2.6	2.0
Price competition (4-5)	5.2	-5.5	-1.4	-0.1	0.3

Sources: Statistics Netherlands, DNB and ECB

Public finances run up against European limits

The budget deficit in 2023 was lower than expected. The 2023 EMU balance amounted to -0.3% of GDP, which is lower than foreseen in the 2023 Autumn Projections (-0.9% of GDP). This was mainly due to temporary windfalls. Partly due to the tight labour market, for example, less planned expenditure actually took place. There was also an incidental rise in dividend tax revenue and the regional and local government balance was more favourable than expected, partly because municipalities needed less money to receive Ukrainian refugees. Overall, Dutch public finances start from a favourable position.

The budget deficit is nevertheless set to rise sharply between 2024 and 2026. These projections take into account the Spring Memorandum,[22] which decided among other things on additional military and other support for Ukraine and additional spending on asylum reception, compensation for the childcare benefits scandal and regional and local government. The outline coalition agreement[23] of 16 May 2024 was announced after the cut-off date for these projections and a separate analysis of its budgetary and macroeconomic impact was carried out later (see below). In the projections (excluding the outline agreement), the budget deficit deteriorates mainly due to rising expenditure, including unspent resources from previous budget years, and the rising trend in expenditure on social security, healthcare and interest. In 2026, the government balance also deteriorates due to the conversion of the military pension system from a pay-as-you-go system to a funded system, at a one-off cost to the government of €8.5 billion (0.7% of GDP). During the projection horizon (2024-2026), the outline agreement mainly affects the 2025 budget deficit. The balance then deteriorates by 0.8 percentage points due to the planned easing of the tax burden.

The budget deficit is projected to exceed the European deficit ceiling during the next government term. Both in our projections and in our calculation of the impact of the outline agreement, the deficit exceeds the 3% of GDP limit. The government therefore risks intervention by Brussels, especially if the structural deficit exceeds 3%. The European Commission may then open an excessive deficit procedure (EDP) with the agreement of the Council. The Commission may then impose a new spending trajectory to improve the structural balance by at least 0.5 percentage points per year (around €5 billion) until the actual deficit is brought below 3% and is projected to remain below that level in the current and following year.

Public debt rises, but remains well below the 60% of GDP limit in the short term. Growing deficits will cause the debt-to-GDP ratio to rise by an average of 2% of GDP per year from 2024. Government debt will also increase by a total of €25 billion in 2024 and 2025 due to a government loan to grid operator Tennet. This will push debt above 50% of GDP in 2026. The outline coalition agreement is expected to result in a limited increase in debt of 0.7 percentage points of GDP.

22 Ministry of Finance (2024) Spring Memorandum 2024 (link).
23 Government formation (2024) Outline coalition agreement between PVV, VVD, NSC and BBB (link).

Table 2 Public sector key data

Percentage of GDP

	2022	2023	2024	2025	2026
Public expenditure	43.5	43.4	45.2	45.7	46.4
Taxes and social security contributions	38.5	39.0	39.0	39.6	39.2
Other income	4.9	4.1	3.7	3.5	3.4
Primary balance	0.4	0.3	-1.6	-1.6	-2.6
EMU balance	-0.1	-0.3	-2.4	-2.5	-3.7
EMU debt (at end of period)	50.1	46.4	47.1	48.7	50.9

Sources: Statistics Netherlands and DNB

The envisaged fiscal policy sails very close to the wind and few financial buffers are likely to be available with which to conduct a trend-based fiscal policy (Box 2). The agreement is expected to widen the deficit by 2025 as a result of targeted reductions in income tax and indirect taxes (energy tax will be reduced and the temporary cut in fuel excise duty will be extended). Spending cuts (after the projection horizon) are expected to improve the balance in 2027 and 2028. Based on our calculations, we nevertheless expect a deficit of 3.1% GDP in 2028.[24] This is higher than the maximum deficit of 2% of GDP recommended by the Working Group on Fiscal Space.[25] By steering close to the European limits, the intended new cabinet will have virtually no headroom to pursue trend-based fiscal policies. This increases the risk of procyclical policies due to the need to intervene to keep the deficit below 3% of GDP. The fact that the outline agreement commits to this limit is nevertheless sensible under the circumstances.

24 In its analysis of the fiscal and economic effects of the 2025-2028 outline agreement (link), CPB Netherlands Bureau for Economic Policy Analysis expects an EMU deficit of 2.7% of GDP in 2028. The difference as compared to the DNB calculation reflects the fact that CPB assumes a more positive baseline for the balance, partly due to higher GDP growth and lower spending growth.

25 17th report of the Working Group on Fiscal Space (link).

Box 2 Economic implications of the outline coalition agreement

This calculation concerns the policies specified in the budget annex to the outline agreement between the new coalition parties. The budget amounts and entry paths were taken from CPB's estimate in its analysis of the outline agreement.[26] For a number of measures, lower savings have therefore been assumed than in the outline agreement. These include the cuts to central government overheads, the wage freeze for civil servants, the cut in EU remittances and the general agreement on healthcare insurance. For expenditure measures on which no detailed information was available, a rough breakdown was made into wage bill, material consumption and investment. Indirect tax adjustments pass through fully and directly to inflation.

On average over the 2025-2028 government term, the outline agreement has a limited upward impact on GDP growth (+0.1 percentage points per year). This is due to higher government spending, increased household consumption and more housing investment (Table 3). Unemployment is more than 0.2 percentage points below the baseline in 2028. In 2025, HICP inflation is temporarily lower due to the extension of the temporary cut in fuel excise duty. Over the 2025-2028 period as a whole, inflation is an average of around 0.2 percentage points per year above the baseline, mainly due to tax measures such as the abolition of the reduced VAT rate on accommodation and on cultural goods and services. Real household disposable income – adjusted for inflation – increases by around 0.2 percentage points overall between 2025 and 2028 compared to the baseline. This is due to income support measures, tax rate adjustments and higher employment.

Tabel 3 DNB-doorrekening van het hoofdlijnenakkoord

Percentage changes, unless stated otherwise

	2025	Difference vs projection	2026	Difference vs projection	2027*	Difference vs projection	2028*	Difference vs projection
Gross domestic product	1.5	(0.2)	1.3	(0.0)	1.5	(0.3)	0.8	(-0.2)
Negotiated wages, private sector	3.7	(0.0)	2.9	(0.0)	2.4	(0.3)	2.3	(0.2)
Harmonised index of consumer prices	2.5	(-0.3)	2.6	(0.8)	2.0	(0.2)	2.0	(0.1)
Unemployment (% of labour force)	4.0	(0.0)	3.9	(-0.1)	3.8	(-0.3)	4.0	(-0.2)
Real disposable household income	1.3	(1.4)	1.1	(-0.6)	1.1	(-0.2)	0.8	(-0.4)
EMU balance (% of GDP)	-3.3	(-0.8)	-3.8	(-0.1)	-2.8	(0.3)	-3.1	(0.6)
EMU debt (% of GDP)	49.5	(0.8)	51.5	(0.7)	52.6	(0.1)	54.4	(-0.4)

Notes: * = extrapolations, no official estimates. Source: DNB.

Due to the measures in the outline agreement and their transmission to the economy, the EMU balance deteriorates in the first two years of the government term, after which the agreement actually improves the EMU balance in 2027 and 2028. In 2025,

26 CPB (2024) Analyse budgettaire en economische effecten van het hoofdlijnenakkoord 2025-2028 (link).

the EMU balance falls significantly (-0.8 percentage points), mainly due to the income tax cut. In 2026, the fiscal impact is limited (-0.1 percentage points), as it is virtually offset by an increase in the rate of VAT on various goods and services and net spending cuts. From 2027, the EMU balance improves due to further cuts in areas such as development cooperation, subsidies and sustainability grants and asylum inflow costs. In the final year of the government term, the budget deficit is 0.6 percentage points lower than in the projections.

The coalition parties are heading for a deficit that exceeds the 2% of GDP limit recommended by the Working Group on Fiscal Space. The new government is therefore sailing close to the wind and will have virtually no headroom to conduct trend-based fiscal policies, increasing the likelihood of undesirable procyclical policies due to the need to intervene to keep the deficit below 3% of GDP. The high deficit may also trigger the opening of an excessive deficit procedure by the European Commission. In that case, the Netherlands can expect Brussels to demand adjustments.

Higher US economic growth: an alternative scenario

GDP growth in the United States may turn out higher than assumed in these projections. Since the end of the pandemic, the euro area economy has been unable to keep pace with US economic growth. Figure 7, left, shows US and euro area GDP diverging substantially from mid-2022.[27]

This section explores the implications for the Dutch economy if US growth turns out to be higher than expected. The United States is an important trading partner for the Netherlands: roughly 6% of total Dutch exports go to the US and just under 10% of total Dutch imports come from the US.

Figure 7 Economic growth and monetary policy

Sources: ECB and Eurostat.

Notes: Market expectations (28 May 2024) based on 30-day futures contracts; Fed forecast based Fed governors' votes (dots). DNB calculations.

27 The IMF recently revised its US GDP growth forecast for 2024 upwards from 2.1% to 2.7%. See IMF (2024) World Economic Outlook (link).

Higher US growth has positive and negative economic effects. Additional domestic demand from the US boosts world trade growth and hence GDP growth in other countries. However, in addition to positive effect through world trade there are negative effects through prices. Higher US growth could lead to higher US inflation given the tightness of the labour market. In that case, the Fed – the US central bank – will have to keep the federal funds rate higher for longer, delaying the expected cuts. The gap between the expected policy rates of the Fed and the ECB will therefore widen, impacting inflation in the euro area. The wider interest rate differential relative to the United States will push the euro-dollar exchange rate lower, causing euro area inflation to rise.

To show the implications of this scenario for the Netherlands, an analysis has been made based on alternative assumptions for the US economy. Due to an assumed positive boost to US domestic demand, the volume of US GDP at the end of the projection horizon is 1.8% higher than in the baseline (Table 3).[28] This leads to upward price pressure in the United States. We assume that the Fed will respond immediately to price changes by adjusting the federal funds rate according to a standard reaction function, known as the Taylor rule, causing the federal funds rate to be more than 1.5 percentage points higher in 2026. In this scenario, the federal funds rate is not cut until late 2025, whereas both the Fed and the financial markets are currently expecting earlier rate cuts (Figure 7, right). With the federal funds rate remaining high for longer, US capital market rates also rise (by around 55 basis points in 2024Q3).

Higher US growth fuels an acceleration of world trade, but the positive impact is limited by the more expensive dollar. Higher spending in the United States drives US imports, boosting world trade growth. As the dollar appreciates, however, dollar-priced imports become more expensive for other countries. Overall, world trade relevant to the Netherlands between 2024 and 2026 is on average only 0.2% higher than in the baseline. The dollar rises in value by around 4% in 2024Q3, driving up domestic prices in the euro area. We assume that the ECB responds to this from early 2025. To curb inflation, key policy rates in the euro area are around 20 basis points higher in 2025 and 40 basis points higher in 2026 than projected. Capital market interest rates in the Netherlands are consequently around 10 basis points higher in this scenario over the projection horizon as a whole.

28 The domestic boost to demand starts in 2024Q3 (8 quarters). By the end of 2025, volume is around 2.5% higher than the baseline, after which demand returns to the long-term average. We disregard any increase in financial market uncertainty (due to widening interest rate differentials) and the possible impact of budget deficits on the term premium. We have simulated this scenario using DNB's DELFI macroeconomic model and NIESR's NiGEM global model, with the assumption that economic agents form their expectations rationally (forward-looking).

Table 4 Scenario assumptions for higher US growth

Percentage deviations from baseline, unless stated otherwise

	2024	2025	2026
US economy			
International assumptions	0.3	1.4	1.8
Short-term interest rate in the United States (%)	0.0	0.8	1.6
Long-term interest rate in the United States (%)	0.3	0.5	0.4
US inflation (%)	-0.1	0.2	0.9
International assumptions			
Volume of relevant world trade	0.1	0.3	0.1
Competitor price	0.3	0.6	0.8
Short-term interest rate in the euro area (%)	0.0	0.2	0.4
Long-term interest rate in the Netherlands (%)	0.1	0.1	0.1
Euro exchange rate (USD)	-1.9	-3.6	-2.7
Oil price	-0.6	-0.7	0.7

Note: Assumptions simulated with NiGEM v1.24. Source: DNB.

On balance, the assumed higher US growth has little impact on the Dutch economy. The slightly higher growth in relevant world trade and improved price competitiveness (due to the falling exchange rate) have a positive impact on export growth (Table 4). This is 0.2 and 0.3 percentage points higher than projected in 2024 and 2025, respectively. However, the lower euro exchange rate causes inflation in the Netherlands to rise to just over 3% before falling back to 2% in 2026. The higher prices weigh on households' disposable income and hence on the growth of private consumption, which falls by 0.2 percentage points in 2025 compared to the baseline. The higher capital market interest rates also result in lower share prices and a slight cooling of the housing market. Since wages react to higher inflation after a time lag, wage growth picks up somewhat at the end of the forecast horizon, contributing to a gradual recovery in spending. Overall, real GDP growth in the Netherlands accelerates only slightly.

Table 5 Scenario results for higher US growth

Percentage changes, unless stated otherwise

	2024	Difference vs projection	2025	Difference vs projection	2026	Difference vs projection
Gross domestic product	0.6	(0.1)	1.4	(0.1)	1.3	(0.0)
Private consumption	2.4	(0.0)	1.7	(-0.2)	1.7	(-0.1)
Business investment	-1.7	(0.0)	1.4	(0.0)	1.6	(-0.1)
Housing investment	-3.5	(0.0)	0.8	(-0.1)	0.9	(-0.2)
Exports of goods and services	-0.6	(0.2)	2.7	(0.3)	2.5	(-0.1)
Imports of goods and services	-0.3	(0.1)	3.6	(0.2)	3.1	(-0.2)
Share prices	12.9	(-1.8)	2.3	(-1.4)	5.0	(1.2)
Consumer confidence (level)	-20.2	(-0.1)	-10.9	(-0.4)	-3.5	(-0.8)
Compensation per employee. private sector	5.6	(0.0)	3.8	(0.1)	3.6	(0.2)
Harmonised index of consumer prices	2.9	(0.1)	3.1	(0.3)	2.0	(0.2)
Price index for existing own homes	5.9	(0.0)	3.9	(-0.2)	3.6	(-0.2)

Source: DNB.

Key data in projections for the Dutch economy

Percentage changes, unless stated otherwise

	2022*	2023	2024	2025	2026
Volume of expenditure and output					
Gross domestic product	4.4	0.2	0.5	1.3	1.3
Private consumption	6.5	0.4	2.4	1.9	1.8
Public expenditure	0.8	3.4	2.9	2.2	1.6
Business investment	4.0	3.3	-1.7	1.4	1.7
Housing investment	1.0	-1.4	-3.5	0.9	1.1
Exports of goods and services	4.6	-1.4	-0.8	2.4	2.6
domestically produced	4.9	-2.2	-0.9	2.3	2.3
re-exports	4.3	-0.3	-0.8	2.7	2.9
Imports of goods and services	4.0	-0.7	-0.4	3.4	3.3
domestically used	3.9	-1.0	-0.1	3.9	3.5
Wages and prices					
Negotiated wages, private sector	3.0	5.9	6.0	3.7	2.9
Compensation per employee, private sector	4.0	5.9	5.6	3.7	3.4
Unit labour costs, private sector	2.6	7.6	5.8	2.6	2.5
Price of domestically produced exports	16.2	2.2	2.2	2.1	1.5
Harmonised index of consumer prices (HICP)	11.6	4.1	2.8	2.8	1.8
Core inflation (HICP, excl. energy and food)	4.8	6.4	2.9	2.4	2.0
House prices, existing own homes	13.6	-2.8	5.9	4.1	3.8
Labour market					
Employment (persons, growth)	3.9	1.6	0.9	0.3	0.4
Labour supply (persons, growth)	3.2	1.6	1.2	0.6	0.4
Unemployment (persons, x 1,000)	349	358	390	418	423
Unemployment (% of labour force)	3.5	3.6	3.8	4.0	4.0

	2022*	2023	2024	2025	2026
Public sector and financial data					
EMU balance (% GDP)	-0.1	-0.3	-2.4	-2.5	-3.7
EMU debt (% GDP, based on end-of-period)	50.1	46.4	47.1	48.7	50.9
Current account (% GDP)	9.3	10.2	10.3	9.9	9.5
Residential mortgage rate (%, based on end-of-period)	3.5	1.6	2.0	2.2	2.4
Bank lending tot NFCs (based on end-of-period)**	3.6	-0.9	-1.0	0.8	3.1
International assumptions					
Volume of relevant world trade	7.7	-1.0	0.9	3.2	3.2
Volume of GDP United States	1.9	2.5	2.5	1.8	1.8
euro area	3.5	0.6	0.9	1.4	1.6
emerging markets	3.8	4.2	4.0	4.0	3.9
Short-term interest rates in the euro area (%)	0.3	3.4	3.6	2.8	2.5
Long-term interest rates in the Netherlands (%)	1.4	2.8	2.7	2.7	2.8
Euro exchange rate (USD)	1.05	1.08	1.08	1.08	1.08
Competitor prices	17.0	-3.0	0.4	2.5	2.4
Oil price (UK Brent, USD per barrel)	99.1	82.2	83.0	78.0	74.5
Commodity prices, excluding energy (USD)	6.5	-12.5	11.4	3.9	0.9

* Annual figures have been calculated based on seasonally adjusted quarterly figures and may therefore deviate marginally from the most recent National Accounts.
** Excluding cash pooling, adjusted for securitisations and breaks.

Sources: Statistics Netherlands, DNB and ECB.

Figures

Figure 1 Sources of GDP growth

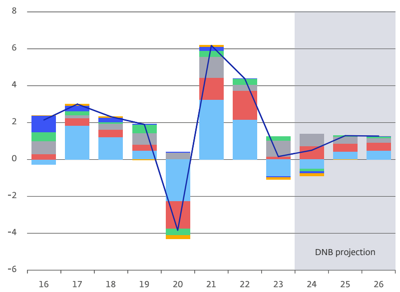


Figure 2 Inflation (HICP) and core inflation

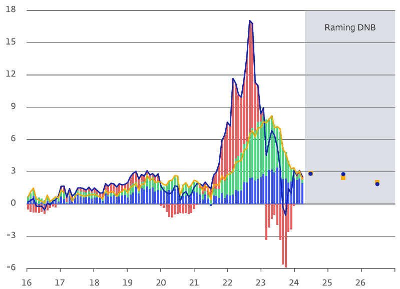


Figure 3 Labour market supply and demand

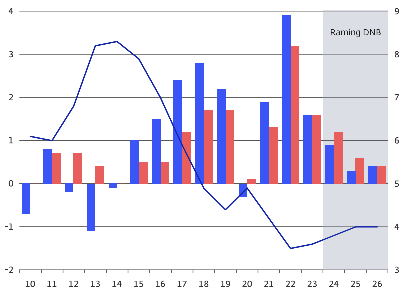


Figure 4 Compensation per employee (private sector)

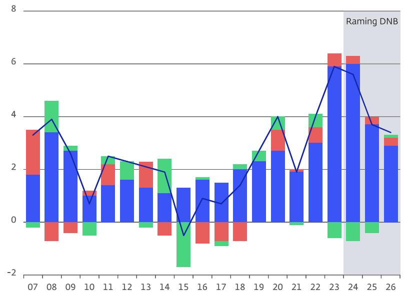


Figure 5 Households' real disposable income

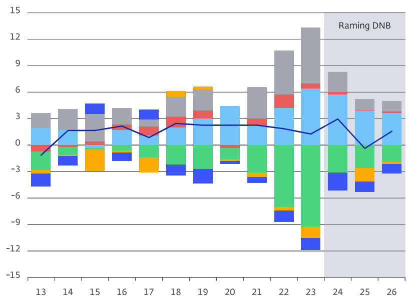


Figure 6 Trends in borrowing capacity, house prices and affordability

Figure 7 Economic growth and monetary policy

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