CPB Netherlands Bureau for Economic Policy Analysis

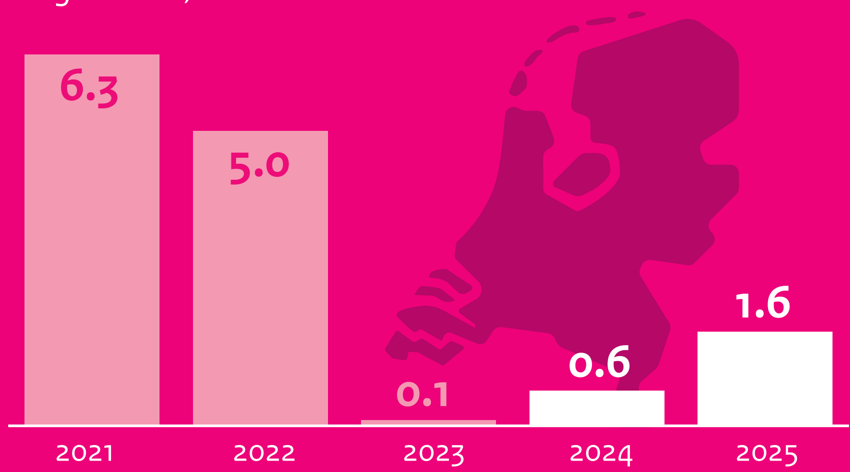
Concept Macro Economic Outlook 2025

Wages rise faster than inflation. The economy grows as people spend more.

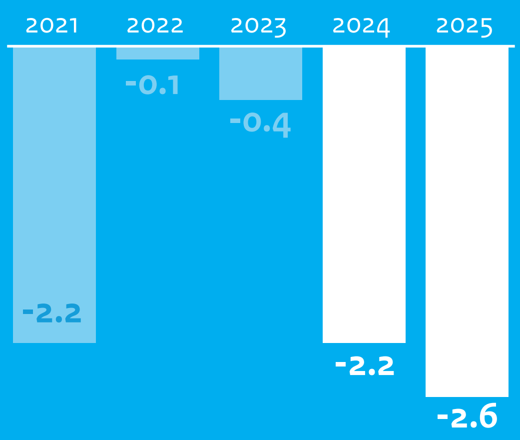
The economy is growing again after the shocks of recent years.

Purchasing power also improves, by an average of 2.5% in 2024 and 1.1% in 2025.

change in GDP, in %



government balance in % of GDP



The **budget deficit** is set to increase in the coming years as expenditure rises faster than revenue. Government debt will also deteriorate.

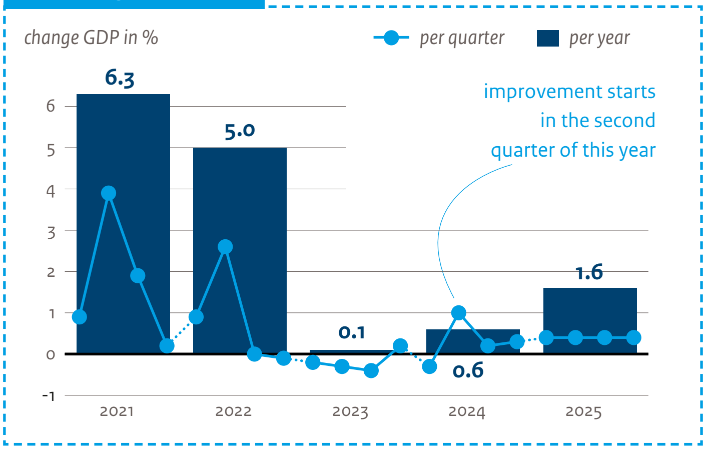
CPB Projections

August 2024

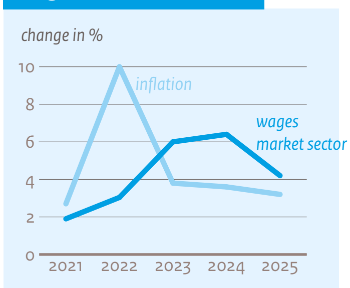
Economic projections August 2024

The Dutch economy is gaining momentum, aided by an increase in world trade, higher wages and a reduction in the financial burden. Public finances deteriorate

Economic growth



Wages and inflation

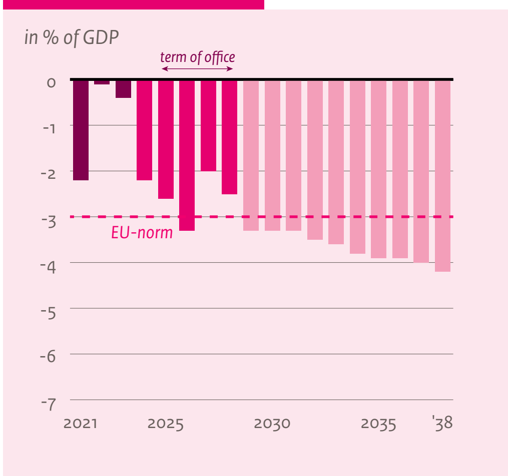


Wages are still catching up after inflation peaked in 2022

Purchasing power

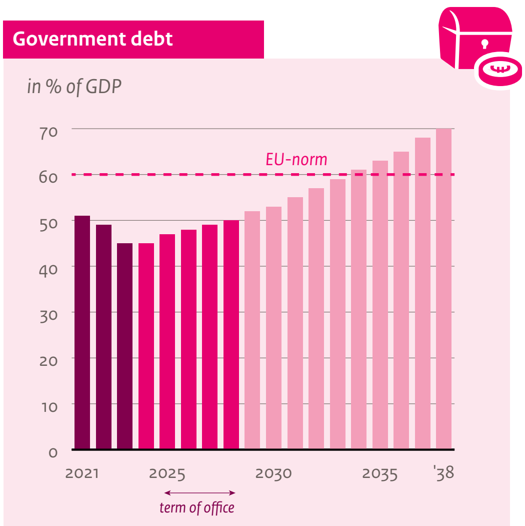
Households will have more left to spend in the years ahead. In 2025, the average household's purchasing power will again be above the level of 2021, when inflation began to surge

Government balance



Government expenditure rises faster than revenue, causing the budget deficit to increase. There is little room to absorb any setbacks

Government debt



Higher growth and spending cuts will not prevent a rise in debt. The bill for government policy will be passed on to future generations

Under new EU agreements, the projection horizon for government debt is 14 years

Main points of draft Macro Economic Outlook 2025

After a number of lean quarters for the Dutch economy, higher wages and an increase in world trade will allow a return to moderate growth in the period ahead. The labour market has remained tight and wages are still catching up, leaving households with more to spend. In the business sector, energy-intensive industries in particular have gone through a difficult period, but exports will now grow again. Although this year's GDP growth of 0.6% still shows the impact of the meagre results in recent quarters, the signs of economic recovery will become more evident in 2025, when GDP growth is expected to reach 1.6%.

Purchasing power will increase due to higher wages and a reduction in the financial burden. An increase in median purchasing power of 2.5% this year and 1.1% in 2025 means that the loss of purchasing power inflicted by the inflation shock has been reversed. Purchasing power in 2025 is significantly higher than in the previous projections due to the reduction in the financial burden outlined in the new government's coalition agreement. The number of people living below the poverty line will fall to 4.1% of the population in 2025 before rising again slightly in subsequent years.

The budget deficit in the coming years will be significantly higher than last year, close to the agreed safety margin of -3% of GDP. The balance will deteriorate in 2025, partly due to the reduction in the financial burden. The structural deficit will increase due to the previous shift to expansionary policy, population ageing, decreasing underinvestment and higher interest charges. The budget balance will remain close to the European limit of -3% of GDP in the years ahead. Hence there is a risk that any future setbacks will require sudden spending cuts, which, moreover, could have a pro-cyclical effect.

Although government debt is low, it is entering an upward trajectory that will have to be reversed at some point. The budget deficit will continue to increase in the absence of supplementary policies after the government term. A debt projection for the Dutch Fiscal Structural Plan, based on constant arrangements, shows that debt in 2038 may reach 70% of GDP, exceeding the 60% limit that continues to apply under the new EU budgetary rules. This does not take account of additional care costs due, for example, to historical quality improvements and changing preferences or the costs of supplementary climate policies after the expiry of the current climate fund in 2030. Although national debt is unlikely to reach worrying levels in the near term, this does show that the current policy shifts financial burdens to future generations.

1 Economic developments 2024-2025

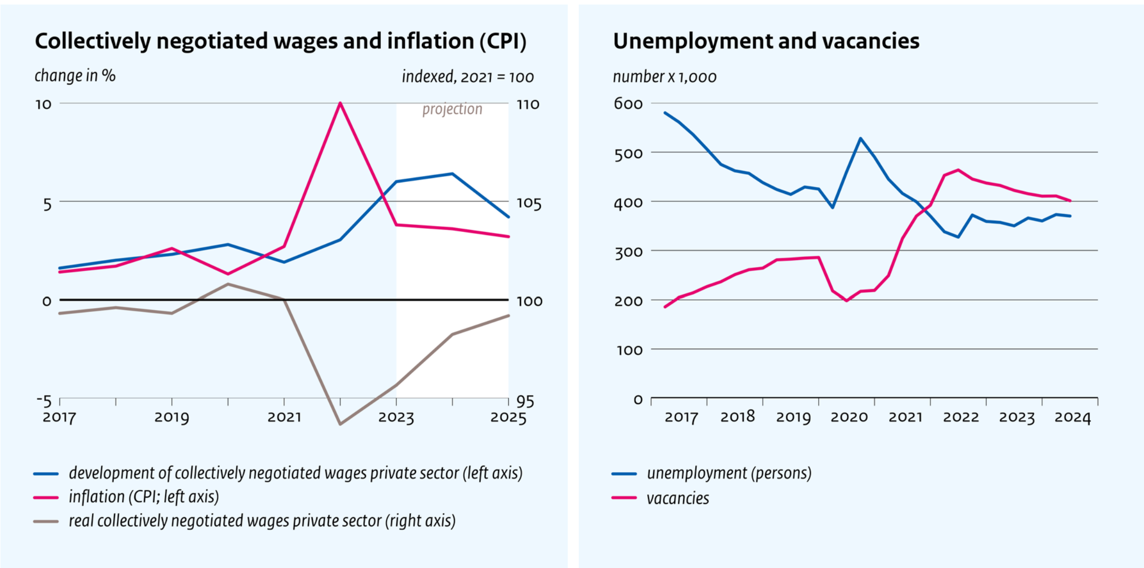
Macroeconomic picture

The Dutch economy has been through some lean quarters. The slowdown in growth is a reaction to the strong recovery from the coronavirus crisis and the subsequent inflation shock after the outbreak of the war in Ukraine, which put pressure on households' disposable income. Exports encountered headwinds from 2022 due to stagnating growth in international trade and high energy prices (see box). Although economic output fell slightly from the end of 2022, unemployment barely rose.

Inflation falls slowly, partly due to persistent high wage rises. Goods inflation has now come to a halt, but inflation in labour-intensive services will remain high for longer due to the continued impact of higher wages. Rents also contribute significantly to inflation because maximum rent rises are linked to wage growth. High food prices and increased tobacco duties also have an upward impact on inflation this year. In 2025, the pressure from wages and food prices will ease and inflation (CPI) will amount to 3.2%.

The process of wage adjustment following the 2022 inflation shock has not yet run its course. Real wages remain somewhat below the 2021 level. New collective labour agreements still include compensation for previous price rises. Growth in contract wages in the private sector will consequently amount to 6.4% in 2024 before easing to 4.2% next year. Wages will therefore remain markedly above inflation in both years. The favourable negotiating position of employees in a tight labour market means that incidental wage growth is also positive.

Figure 1.1 Wages react to inflation; labour market remains tight

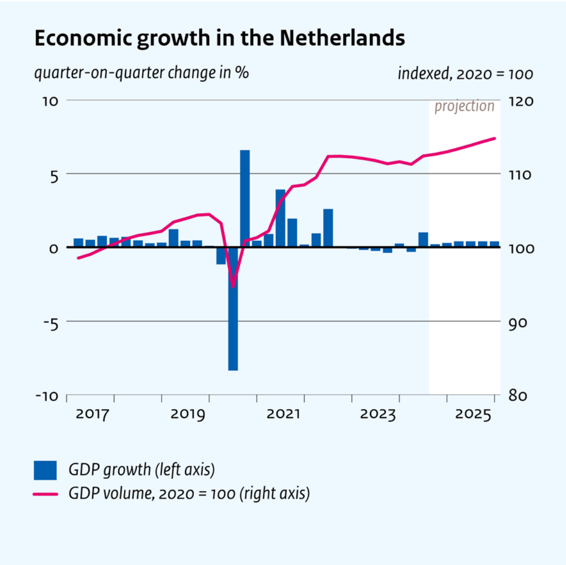


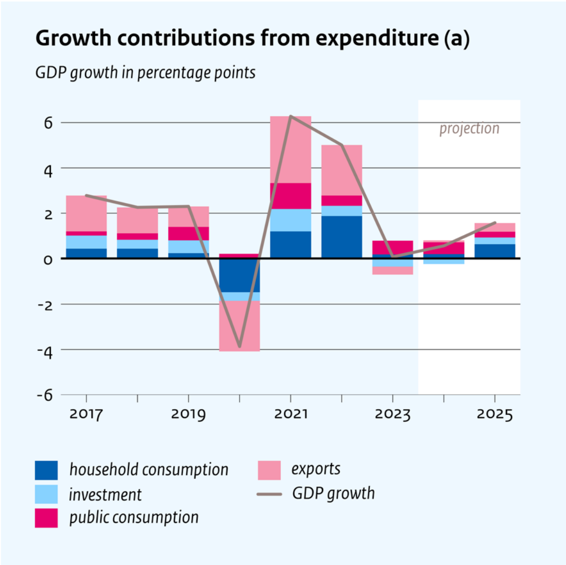
Source: Statistics Netherlands and CPB Netherlands Bureau for Economic Policy Analysis (link)

Higher wages and an increase in world trade allow a return to moderate growth in 2024. The delayed reaction of wages to the inflation peak means that households will have more to spend this year and next year. The higher consumption allow a return to moderate growth in economic activity, although savings also increase. The international picture remains unpredictable, with a slight pick-up in growth in the eurozone and a slowdown in growth in the US. Overall, relevant world trade increases, leading to a resumption of export growth. Although this year's GDP growth of 0.6% still shows the impact of the meagre results in recent quarters, the signs of economic recovery will become more evident in 2025, when GDP growth is expected to reach 1.6%.

Investment also picks up this year. The improved business outlook means that investments will also contribute to growth again in 2025 after several quarters of sharp declines in 2023. Housing investment is also rising again. The number of new building permits has recently risen and sentiment in the construction sector has improved now that the biggest cost hikes are apparently behind it and house prices are rising again. Public investment will also continue to grow in the years ahead.

Figure 1.2 Growth returns to a moderate trend in 2024, driven mainly by exports and household consumption





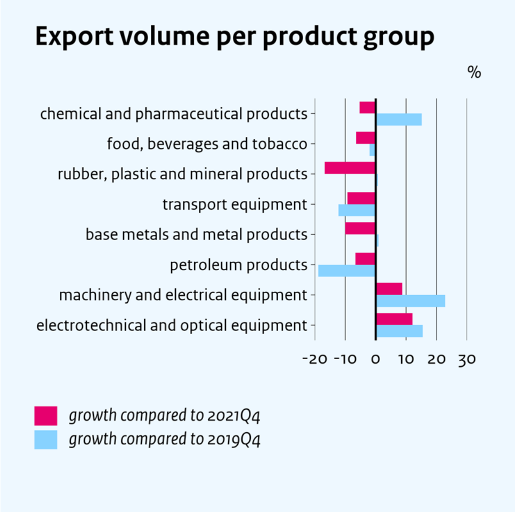
(a) Final and accumulated intermediate imports have been deducted from the expenditure categories.
Source: Statistics Netherlands and CPB (link)

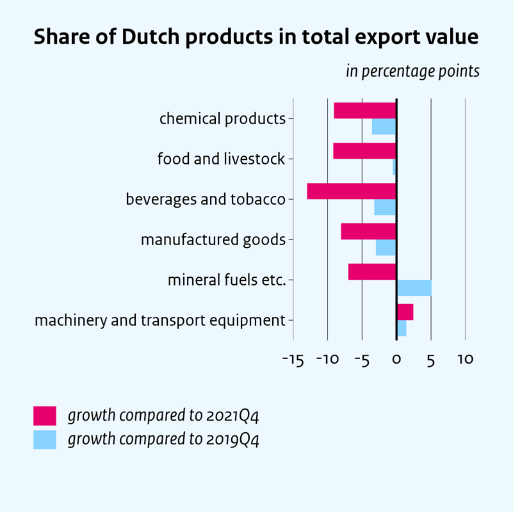
The labour market remains tight despite slowing employment growth. Employers retained staff in recent years even as output fell slightly. Labour productivity consequently declined. This picture is now reversing: production looks set to grow this year and next year with hardly any rise in employment. The supply of labour will nevertheless increase, causing unemployment to rise slightly to 3.9% in 2025. The labour market will thus remain tight.

Energy-intensive exports in particular decline

Dutch goods exports have recently fallen, particularly in the case of domestically produced goods. Exports of domestically produced goods have fallen since the fourth quarter of 2021 (-12.3% since that time) and in recent quarters have fallen below pre-pandemic levels. Re-exports continued to grow substantially in 2022 but have also fallen since the end of that year (-9.6% since that time). They nevertheless remain well above the pre-pandemic level. Re-exports generate far lower earnings per euro exported (12 cents in 2021, Statistics Netherlands, link) than exports of Dutch products (55 cents). The decline in domestic exports has therefore contributed to the slowdown in GDP growth in the last 18 months.

Energy-intensive industries have seen the biggest decline in domestic exports. The figures below show, on the one hand, the trend in export *volumes* per product category for the categories contributing most to the decline in exports and, on the other hand, the share of Dutch products in export *values* per product group. The declines are particularly evident in product groups characterised by relatively high fossil fuel consumption; furthermore, the share of Dutch products in the total export value of these product groups is also down. In the case of most product groups, the decline follows a strong rise in 2021, so the decline relative to 2019 is limited. The only categories seeing substantially lower exports than before the coronavirus crisis are petroleum products and transport equipment, both of which are down more than 10%. The decline in exports coincides with a slowdown in Dutch industry: production in almost all sectors has fallen since the end of 2021. The only exceptions are electrical and mechanical engineering and the electrical and electronics industry. Since these are particularly capital-intensive industries, the decline in output in this sector only results in a limited fall in employment.





Source: Statistics Netherlands (link).

[1] The value-based data take account of developments in both volumes and prices over time. A cautious statement can nevertheless be made about underlying volume trends in re-exports versus domestic exports by taking relatively similar price developments within product groups and examining the relative developments of the two types of exports.

Public finances

The budget deficit in 2024 is higher than last year, mainly due to higher expenditure. The EMU balance in 2023 was -0.4% of GDP. This year, the deficit increases to -2.2% of GDP. In addition to the rise in expenditure on social security and health care, which is partly due to compensation payments following the Supreme Court ruling on Box 3 of the Dutch tax return, compensation for the child benefits scandal and expenditure for Ukraine. There is still substantial underinvestment: if the government were to succeed in spending all budgeted resources, the deficit this year would increase by 0.8% of GDP. In 2024, the underinvestment relates particularly to expenditure on defence (-0.4% of GDP) and infrastructure (-0.2% of GDP)[1]. The remainder has been included in the figures on a generic basis (-0.2% of GDP). The underinvestment in defence and infrastructure will decrease gradually from 2025 and will be made up fully from 2028, with the result that expenditure will rise over the projection period. From 2028, all of the projected underinvestment is included generically in the baseline (-0.5% of GDP), because CPB cannot produce a more detailed analysis.

In 2025, the deficit will deteriorate further, partly due to the reduction in the financial burden outlined in the new coalition agreement. Although the outline agreement leads to a limited improvement in the EMU balance at the end of the government term, that is not the case in the first year ('first the sweet and then the sour').[2] Furthermore, the burden share decreases because there is no further one-off income tax revenue after 2024. The cuts to the rates in Box 1 of the Dutch tax return cause a loss of revenue amounting to €4.5 billion. The EMU balance in 2025 will amount to -2.6% of GDP.

Government debt is historically low, but is set to rise again. The low budget deficits of recent years and the effect of inflation on the nominal trend in GDP have caused government debt to fall to around 45% of GDP, the lowest level since 2007. The rise in the primary deficit and rising interest charges will cause debt to start rising again in the years ahead. See Chapter 2 for the medium-term trend and the consequences of the outline agreement and Chapter 3 for the projected debt in subsequent years.

Purchasing power and poverty

High real wage growth has laid a solid foundation for purchasing power to grow in 2024 and 2025. Purchasing power rises by 2.5% for the median household in 2024. This improvement encompasses all groups, with the working population benefiting more than those who receive a pension or welfare benefits. In 2025, purchasing power is set to rise by 1.1%, with welfare benefit recipients seeing a relatively bigger improvement. The projected rise in purchasing power for 2025 is significantly higher than in the previous projections, due to the reduction in the financial burden outlined in the coalition agreement. The previous loss of purchasing power inflicted by the inflation shock will thus be reversed in 2025.

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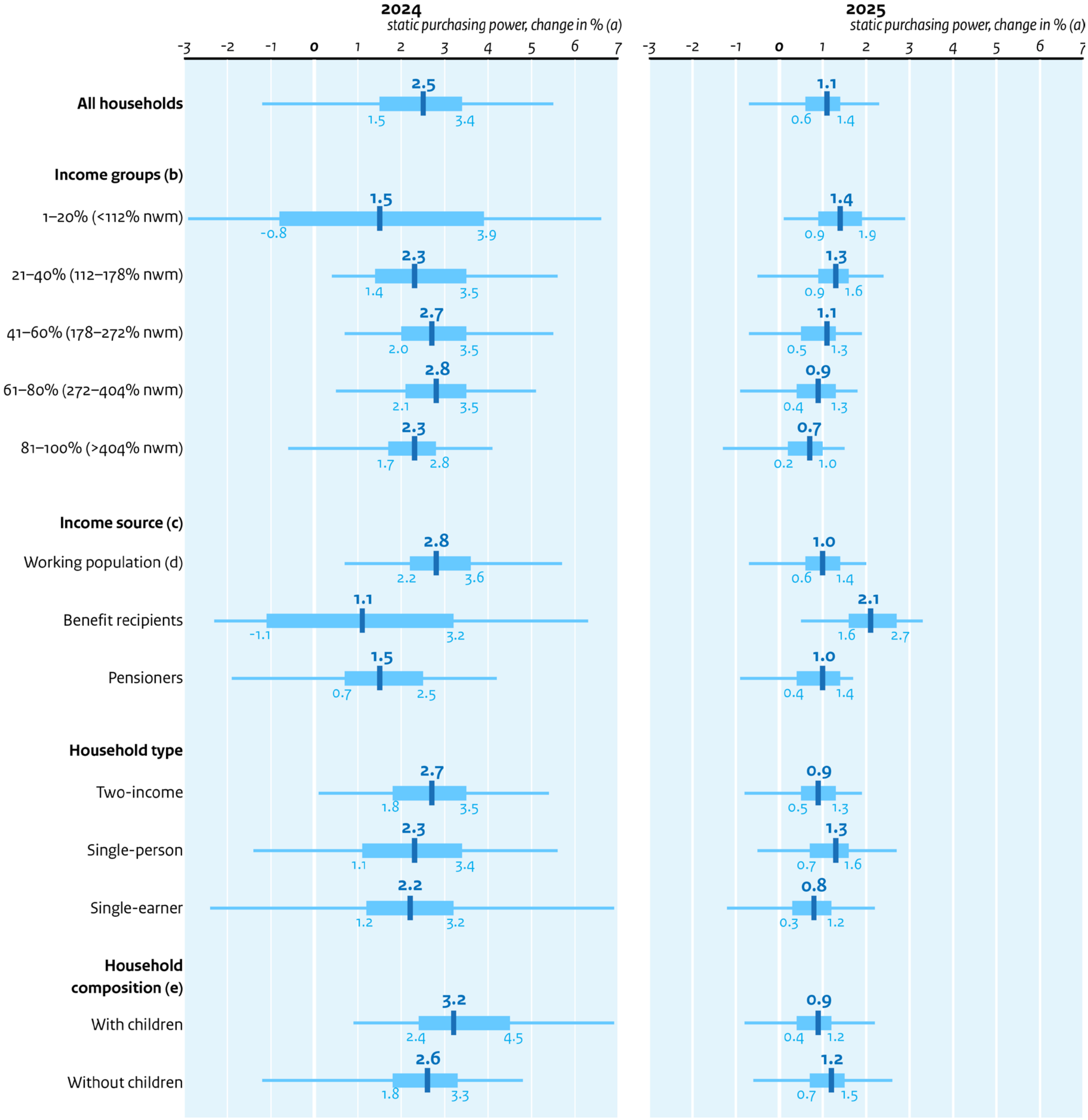
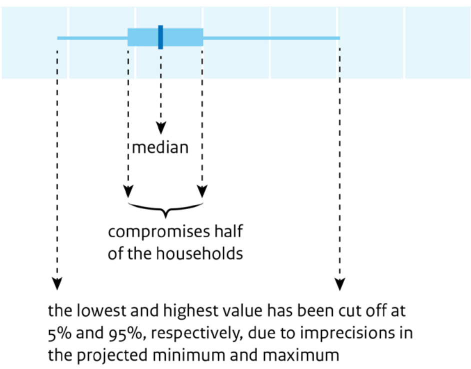
[1] The projection of the underinvestment and the analysis by expenditure categories is uncertain. The actual underinvestment in defence and infrastructure expenditure may differ from the assumption made here.

[2] See *Analyse budgettaire en economische effecten van het hoofdlijnenakkoord 2025-2028* (Analysis of budgetary and economic effects of the outline coalition agreement for 2025-2028), CPB, 2024 (link) for a detailed analysis of the effects of the outline coalition agreement. A caveat should be entered with regard to this analysis in that the implementation of some intended measures may produce effects other than those assumed. Such precise information was unavailable at the time of completion of these projections.

Figure 1.3 Purchasing power rises on average for all groups in 2024 and 2025



How to read the table?



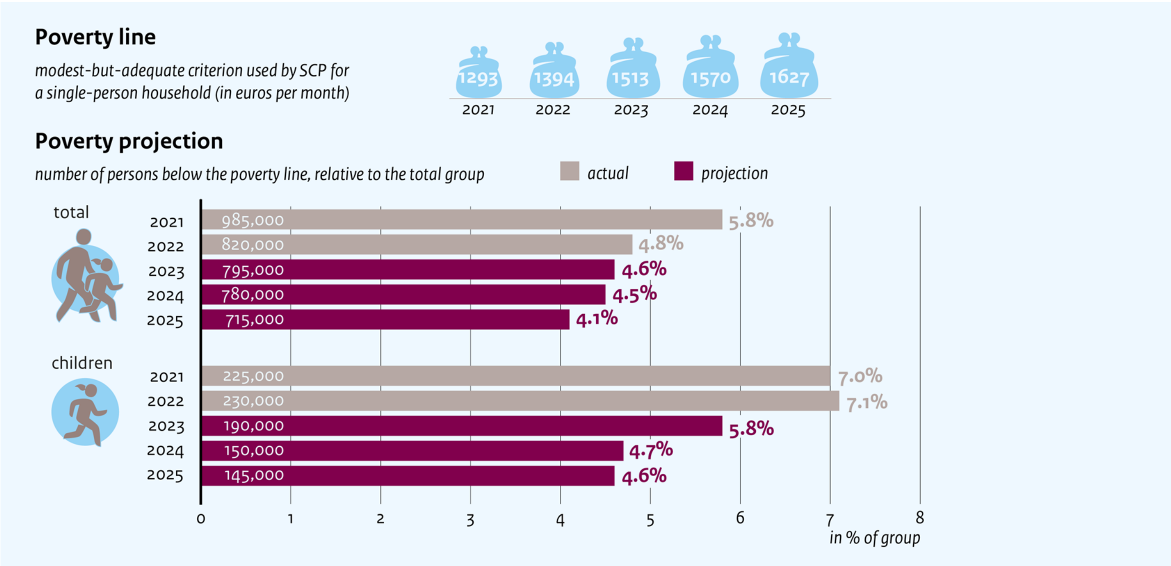
The 'median' is the middle value of a series of figures, ordered from low to high. A median purchasing power development of 1.3% for all households means that, for half of them, purchasing power development will be 1.3% or less, while, for the other half, it will be 1.3% or more. For half of the households, 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 2024 is around 27.235 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)

Poverty falls due to the rise in purchasing power and targeted policy, with poverty amongst children falling particularly sharply. In 2025, 4.1% of the population will have an income below the poverty line, the lowest level since records began (2011).[3] The poverty figure falls as a result of wage rises, but also as a result of the broad reduction in the financial burden and more targeted measures, such as the rent allowance. The percentage of children living in poverty in 2025 will be 4.6%. Poverty amongst children has fallen faster than general poverty in recent years. This is due to targeted policy, such as the increase in the child-related budget. The effect of the funding earmarked in the 'vulnerable groups envelope' in the new coalition agreement has not yet been included in the poverty figures, because the expenditure has not yet been specified.

Figure 1.4 Poverty decreases, with the steepest fall seen amongst children



Source: SCP and CPB (link)

Risks and uncertainties in the projections

Geopolitical developments remain a key source of uncertainty for these projections. The return to a moderate pace of growth in this projection is based partly on an increase in international trade and the stabilisation of energy prices. The potential impacts of geopolitical developments, such as a widening of the Middle East conflict or a deterioration of relations between Europe, the United States and China, pose a downside risk to the central projection. In Europe, EU budgetary rules require substantial spending cuts in France, Spain and Italy. If these cuts materialise, there may be macroeconomic knock-on effects on the Dutch economy. If there are no cuts, the risks to these countries' debt sustainability will grow over time.

Another uncertainty concerns the reduction of the relatively high inventories built up in recent times. The aftermath of the coronavirus crisis followed by the slowdown in growth over the past 18 months have led to relatively high inventories. The inventory build-up in 2021 and 2022 amounted to €13.4bn and €23.8bn respectively, whereas in 2023 it fell to around zero. Firms will draw on their existing inventories for a few years before their inventory building returns to a more regular annual level of €2bn to €4bn. Since the inventories appear largely to comprise imports, it has been assumed that this drawdown will also mainly involve a reduction in imports. If the drawdown is greater than expected, or involves a greater than expected cut in domestic production, growth may turn out to be lower.

[3] Statistics Netherlands, the Netherlands Institute for Social Research (SCP) and Nibud recently announced a switch to a new harmonised definition of poverty (link). CPB intends to switch to a projection based on this new definition in 2025. The current projection is still based on the modest-but-adequate criterion used by SCP.

More generally, it is notable that economic variables have become more difficult to measure and project in recent years. The high level of inventories came to light in the recent publication of the National Accounts. This is part of a pattern of relatively large revisions and volatile movements in statistical data. These are presumably related to the major economic shocks in recent years, and possibly also to developments such as the increasing digitalisation of the economy and the relatively greater importance of variables that are more difficult to observe, such as intangible assets. CPB faces growing challenges in interpreting economic developments, because economic relationships seem to have become less predictable than in the past. This is true of the relationship between tax revenues and the development of the economy, for example, and of the development of employment in relation to production.

Table 1.1 Main data for the Netherlands, 2020 – 2025

	2020	2021	2022	2023	2024	2025
	changes per year in %					
International economy						
Relevant world trade volume, goods and services	-8.8	9.0	7.8	-0.4	1.1	2.8
Competitor prices (a)	-1.2	6.8	15.2	-1.9	1.1	1.6
Oil price (in USD per barrel)	41.8	70.7	100.8	82.5	83.0	77.2
Euro exchange rate (in USD per euro)	1.14	1.18	1.05	1.08	1.08	1.10
Long-term interest rate, the Netherlands (level in %)	-0.3	-0.2	1.5	2.8	2.7	2.7
Volume of GDP and spending						
Gross domestic product (GDP, economic growth)	-3.9	6.3	5.0	0.1	0.6	1.6
Household consumption	-6.1	4.5	6.9	0.8	0.7	2.8
Public consumption	1.6	4.7	1.3	2.9	2.6	1.3
Investments (including inventories)	-6.5	10.5	5.6	-9.1	-3.2	3.9
Exports of goods and services	-3.8	6.9	4.4	-0.5	-0.4	2.4
Imports of goods and services	-4.1	6.5	4.4	-1.8	-0.7	3.7
Prices, wages, purchasing power and poverty						
Price level gross domestic product	2.4	2.7	6.2	7.3	5.1	2.7
Export prices of goods and services	-2.6	8.7	19.1	-0.9	1.0	1.7
Import prices of goods and services	-3.3	10.7	22.1	-3.4	-0.7	1.4
Inflation, national consumer price index (CPI)	1.3	2.7	10.0	3.8	3.6	3.2
Alternative CPI (purchasing power and poverty data) (b)	1.3	2.1	6.8	7.8	3.4	3.2
Inflation, harmonised index of consumer prices (HICP)	1.1	2.8	11.6	4.1	3.5	2.8
Wage rate, business sector (per hour) (c)	7.7	0.2	3.2	6.6	7.1	5.2
Collectively negotiated wages, business sector	2.8	2.1	3.1	5.9	6.6	4.3
Purchasing power, static, median all households (d)	2.6	0.8	-2.5	-0.6	2.5	1.1
People in poverty (in %) (d, e)	5.6	5.8	4.8	4.6	4.5	4.1
Labour market						
Labour force	0.4	0.9	2.4	2.0	1.0	0.6
Working population	0.0	1.5	3.2	2.0	0.9	0.4
Unemployed labour force (x thousand persons)	465	408	350	359	375	395
Unemployed labour force (in % of labour force)	4.9	4.2	3.5	3.6	3.7	3.9
Employment (in hours)	-4.2	4.7	3.9	1.4	0.7	0.2
Other items						
Labour income share, business sector (in %)	73.6	70.7	67.8	67.6	68.6	68.9
Labour productivity, business sector (per hour)	0.1	2.7	1.8	-1.2	-0.3	1.3
Private savings (in % of disposable income) (f)	9.3	6.9	1.3	1.9	5.6	6.4
Current account balance (in % of GDP)	5.6	10.0	6.6	9.9	10.8	10.0
	in % of GDP					
Public sector						
EMU balance	-3.6	-2.2	-0.1	-0.4	-2.2	-2.6
EMU debt (year-end)	53.3	50.4	48.3	45.1	45.3	46.9
Public financial burden	39.7	39.2	38.1	38.6	38.1	37.8
Gross public expenditure	48.1	46.2	43.6	43.4	44.5	44.8

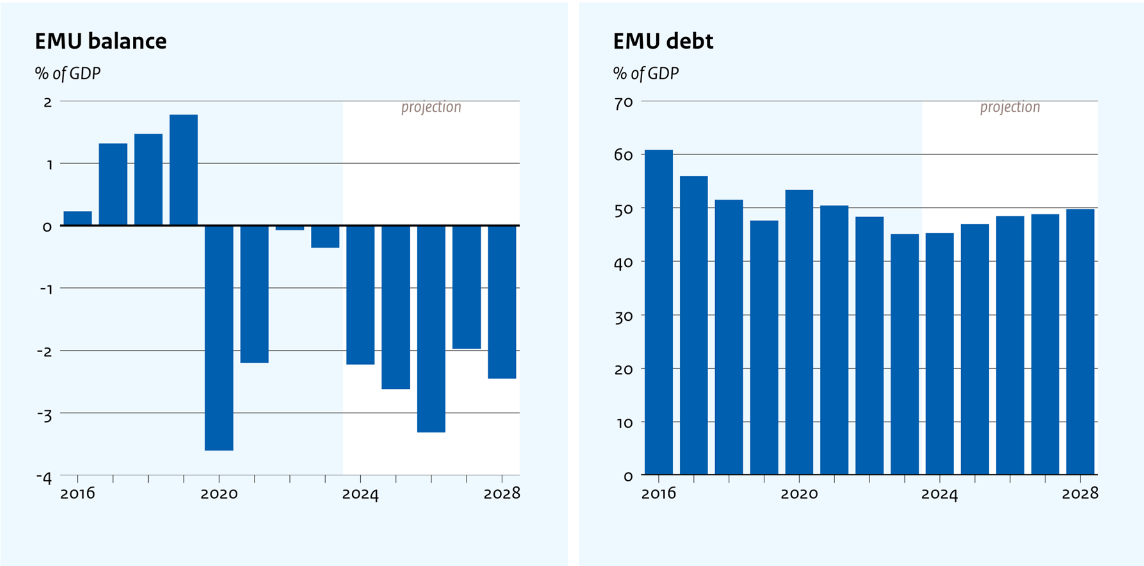
(a) Goods and services, excluding natural resources and fuels.
(b) See subsection 1.4 of *CEP-2023-Verdieping* (link) for further details of the alternative CPI series and see Statistics Netherlands (link).
(c) The NOW wage cost subsidy and the continuity contribution in health care have an upward impact on wage rate changes in the private sector of 3.4 percentage points in 2020 and a downward impact of 2 percentage points in 2021 and 1.3 percentage points in 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

Public finances are set to deteriorate over the forthcoming government term. A survey of the budgetary outlook for the government term shows the budget deficit increasing in the years ahead as expenditure rises faster than revenue. That is partly due to population ageing (health care and social security) and partly the result of policy choices (the outline coalition agreement marks only a limited departure from the previous government's expansionary policy, other factors include higher defence expenditure and the halving of the health insurance deductible). Decreasing underinvestment and rising interest charges also play a role. The policy outlined in the coalition agreement will lead to an increase in the deficit in 2025, but to a somewhat lower deficit in 2028 compared to the baseline.[4] The debt ratio remains low in the years ahead by international and historical standards, but it does enter an upward trajectory. Hence although the level of debt is no immediate cause for concern, expenditure and revenue will have to be brought more into balance in the longer term. See the debt projection in Chapter 3.

The budget deficit is close to the safety margin and accidents could happen. The government balance is set to remain close to the EU limit of -3% of GDP in the years ahead.[5] Given the economic uncertainty surrounding this survey, it is quite possible that this limit will be exceeded in the event of economic setbacks or lower-than-expected underinvestment. The uncertainty of achieving some of the intended savings may also have the same result. The coalition agreement provides for additional measures to be taken if the -3% limit risks being exceeded. There is also a risk of *ad hoc* spending cuts being necessary because there is insufficient time for structural reforms. If the limit is exceeded due to an economic downturn, additional spending cuts may also have a pro-cyclical effect.[6]

Figure 2.1 Public finances set to deteriorate over the government term



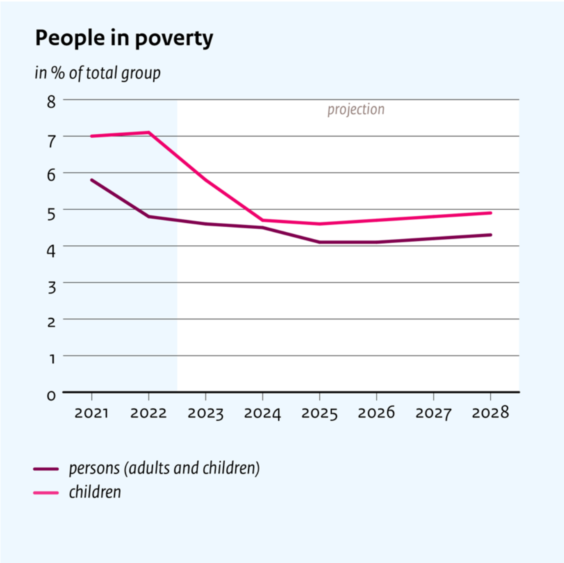
Source: Statistics Netherlands and CPB (link)

[4] See the calculation of the impacts of the outline coalition agreement 2025-2028 (link).
[5] A one-off breach of the limit is already set to occur in 2026 due to a one-off payment to the ABP pension fund to finance fiscally funded pensions on the defence budget and provide capital funding.
[6] See Metselaar et al. (2023), *Cyclisch begrotingsbeleid* (link).

Purchasing power will increase for all groups in the years ahead. Purchasing power will increase by an average of 0.8% per year over the 2025-2028 period. The picture is fairly even across the various groups. Pensioners benefit somewhat more than was anticipated in the analysis of the coalition agreement. That is because the calculations now include an upward impact from the transition to the new pension system. This impact will nevertheless depend on future developments in the pension funds' financial position and may differ greatly amongst the various funds.

If no further policy is implemented, poverty will rise again slightly in 2025 after falling sharply in previous years. Amongst other things, this is because part of the reduction in the financial burden in 2025 is only temporary. The number of people in poverty during the government term will nevertheless remain below the 2024 level, in line with the government's objective.[7] The same cannot be said of child poverty, which is set to reach 4.9% in 2028 compared to 4.7% in 2024. It should be noted that the 'vulnerable groups envelope' in the coalition agreement has not yet been included in the analysis, because the appropriation of these funds has not yet been determined.

Figure 2.2 Poverty rises slightly after 2025

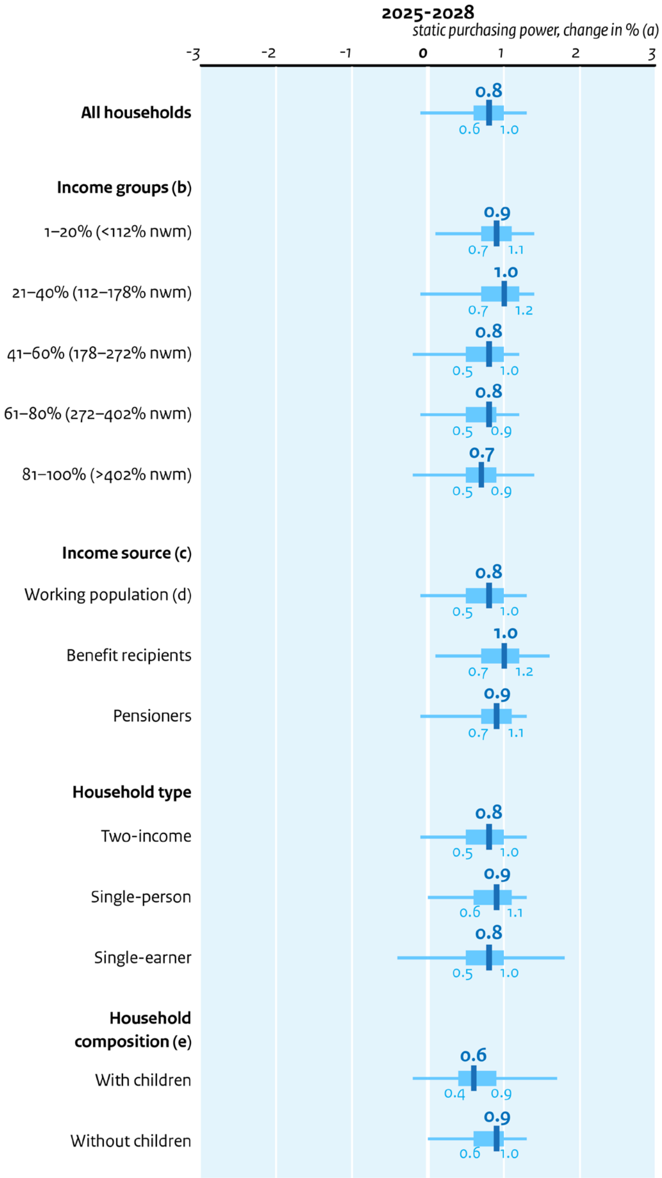


Source: SCP and CPB (link)

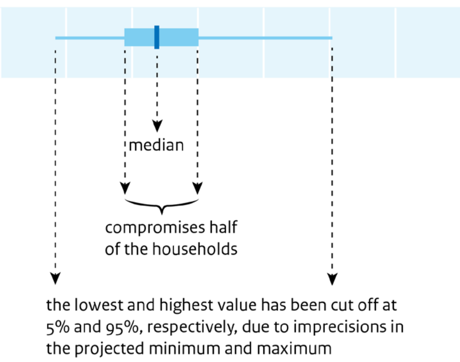
This survey is subject to a degree of uncertainty, and the actual implementation of the coalition agreement may change the picture further. The developments in public finances, purchasing power and poverty are based on technical assumptions about developments in the Dutch economy over the medium term.[8] The future development of the economy is naturally uncertain. Moreover, the implementation of the coalition agreement in a government programme and more specific policies may produce different results. For example, this survey does not yet take account of possible labour market impacts of the intended reform of unemployment benefit, because its design is not yet known.

[7] The outline agreement states that the government will strive to prevent the level of poverty (including child poverty) exceeding that of the 2024 reference year. In addition, a new definition of poverty will be introduced in the coming year, the effect of which is unknown at this stage.
[8] These assumptions are explained in the draft Macro Economic Outlook 2024 (link).

Figure 2.3 Purchasing power increases for all groups



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 2025 is around 28.713 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](#))

Table 2.1 Main data for the Netherlands, 2005-2028

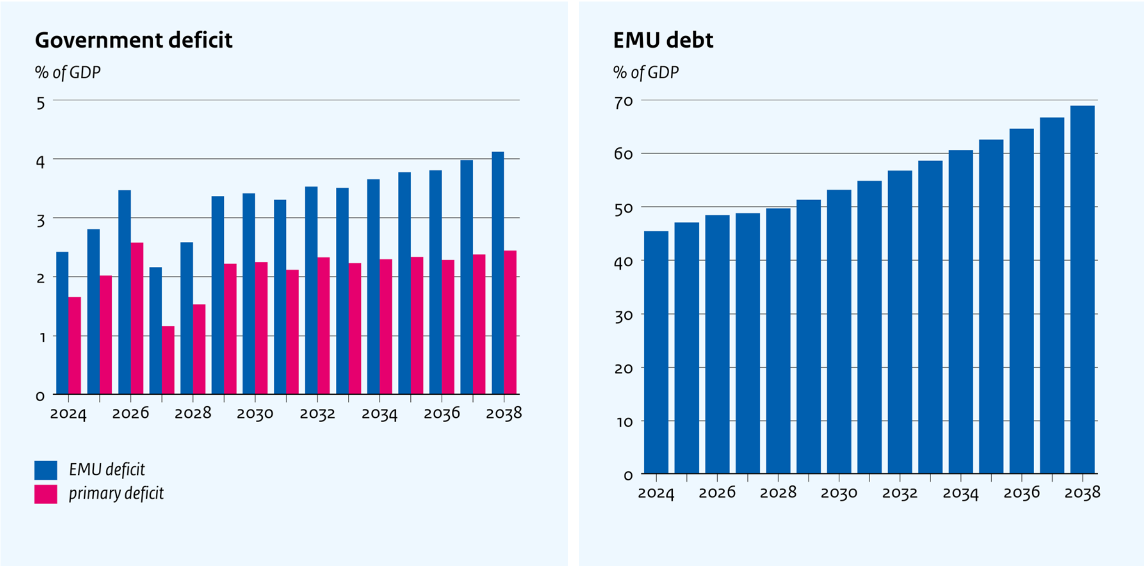
	2005-2008	2009-2012	2013 2016	2017 2020	2021 2024	2025-2028
	changes per year in %					
International economy						
Relevant world trade volume, goods and services	6.2	1.4	3.9	1.1	4.3	2.5
Competitor prices (a)	0.0	2.4	1.0	0.2	5.1	1.4
Oil price (in USD per barrel, level in final year)	96.3	111.1	43.6	41.8	83.0	70.4
Euro exchange rate (USD per euro, level in final year)	1.47	1.29	1.11	1.14	1.08	1.16
Long-term interest rate, the Netherlands (in % in final year)	4.2	1.9	0.3	-0.3	2.7	2.7
Volume of GDP and spending						
Gross domestic product (GDP, economic growth)	2.9	-0.4	1.5	0.8	2.9	1.4
Household consumption	0.8	-0.6	0.9	-0.2	3.2	1.9
Public consumption	3.9	1.1	0.5	1.9	2.9	1.4
Investments (including inventories)	5.5	-4.5	3.8	2.8	0.7	3.0
Exports of goods and services	5.0	2.4	4.6	2.6	2.5	2.2
Imports of goods and services	5.0	1.8	4.8	3.2	2.0	3.1
Prices, wages, purchasing power and poverty						
Price level gross domestic product	2.3	0.7	0.7	2.3	5.3	2.6
Export prices of goods and services	2.9	1.3	-1.8	0.7	6.7	1.0
Import prices of goods and services	3.0	2.0	-2.3	0.4	6.7	0.7
Inflation, national consumer price index (CPI)	1.7	1.8	1.1	1.7	5.0	2.7
Alternative CPI (purchasing power and poverty data) (b)	.	.	.	.	5.0	2.7
Inflation, harmonised index of consumer prices (HICP)	1.7	1.8	0.8	1.7	5.4	2.5
Wage rate, business sector (per hour) (c)	2.8	2.1	1.0	3.3	4.2	4.3
Collectively negotiated wages, business sector	2.0	1.7	1.3	2.2	4.4	3.8
Purchasing power, static, median all households (d, g)	0.5	-0.5	0.8	1.0	0.2	0.8
People in poverty (in % in final year) (d, e)	.	7.2	5.7	5.6	4.5	4.3
Labour market						
Labour force	1.3	0.5	0.3	1.0	1.6	0.4
Working population	1.8	-0.1	0.2	1.6	1.9	0.2
Unemployed labour force (x thousand persons, level in final year)	427	622	645	465	375	460
Unemployed labour force (% of labour force in final year)	4.8	6.8	7.0	4.9	3.7	4.5
Employment (in hours)	1.5	-0.6	0.7	0.8	2.7	0.1
Other items						
Labour income share, business sector (in % in final year)	69.2	72.6	72.3	73.6	68.6	70.0
Labour productivity, business sector (per hour)	1.6	0.3	0.9	0.0	0.8	1.2
Private savings (in % of disposable income in final year) (f)	-3.0	-1.2	1.4	9.3	5.6	4.6
Current account balance (in final year in % of GDP)	2.7	7.8	7.3	5.6	10.8	8.7
	in final year in % of GDP					
Public sector						
EMU balance	0.0	-3.8	0.2	-3.6	-2.2	-2.5
EMU debt	54.3	65.7	60.8	53.3	45.3	49.8
Public financial burden	36.4	36.1	38.6	39.7	38.1	38.9
Gross public expenditure	44.3	47.6	44.2	48.1	44.5	45.2

(a) Goods and services, excluding natural resources and fuels.
(b) See subsection 1.4 of *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 3.4 percentage point upward impact on businesses' wage rate changes in 2020 and a downward impact of 2 percentage points in 2021 and 1.3 percentage points in 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.
(g) Up to the end of the 2017-2020 period, the arithmetic mean was used instead of the average purchasing power development per year.

3 Debt projection to 2038

Government debt will rise to 70% of GDP in 2038. This is due to structural primary deficits (deficit excluding interest charges) of over 2% of GDP. The EMU deficit from 2029 is higher than 3% of GDP and rises to 4.2% of GDP in 2038. The primary balance deteriorates after 2029 due to rising health care expenditure and higher state old-age pension benefits. On the other hand, a number of items, such as the climate fund and the funding earmarked for housebuilding and the agricultural sector, cease to apply after 2030 and government revenue will increase due to higher taxes on employment[9] and pensions, particularly due to the reduction of mortgage interest tax relief. There will be a steady rise in interest charges.

Figure 3.1 Sustained large government deficit leads to rise in debt



Source: CPB (link)

The debt projection to 2038 is required as part of the Fiscal Structural Plan to be submitted to the European Commission. This is part of the reform of the rules of the Stability and Growth Pact in 2024. The plans are intended to ensure that government debt remains below 60% or – if it exceeds 60% – credibly decreases up to 2038. The expenditure trajectory in the plan must also ensure that the deficit remains below 3% of GDP up to 2038. The Netherlands is unlikely to meet these requirements without supplementary policy. As long as the actual debt figures remain below 60% of GDP and the deficit remains below 3% of GDP, the European Commission also appears unlikely to impose any binding measures. Currently, therefore, there are no direct consequences for the Netherlands, but an adjustment will be necessary to maintain compliance with the rules in the future.

The Netherlands will submit a Fiscal Structural Plan based on the Budget Memorandum. Countries are expected to submit a Medium-term Fiscal Structural Plan to the Commission in September. We will explain the consequences of the new rules in more detail in the MEV.

[9] The modelling of self-employment income has changed compared to that used in the *Zorgen om morgen* (Worries about tomorrow) study (2019). It was previously assumed that self-employment income per hour worked would rise to 80% of employees' hourly pay over time. In this debt projection, the net mixed income of self-employed persons per hour worked ultimately returns to the observed current level of around 60% of employees' hourly pay.

No structural budget has yet been made available for some major policy tasks. The climate fund expires in 2030[10], the housing stimulus measures run until 2028, the funds for the agricultural sector continue until 2030 and the resources for new nuclear power plants will remain on the books until 2035. Achieving existing and further policy objectives in areas such as climate will require budget to be made available even after these years, unless pricing and standardisation are used to a much greater extent than at present. In this regard the debt projection may therefore actually understate the budgetary challenges.

In the debt projection to 2038, constant arrangements are assumed for the period after 2032, taking demographic developments into account.[11] In the case of constant arrangements, the assumption is that different generations will pay the same proportion of their income to the government or receive the same proportion of their income from the government. Constant arrangements are therefore not the same as unchanged policy. In the case of unchanged policy, the effective tax rates on income could increase over time, for example. Initiated policies that continue after the government term are nevertheless included. Examples are the reduction in mortgage interest tax relief and the limited indexation of the length of the second bracket for state old-age pension recipients born after 1945. The assumption of constant arrangements has also been used for health care costs; based on the current policy, these costs would be expected to rise faster than under that assumption. In this regard as well, the debt projection may therefore understate the budgetary challenges.

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[10] The treatment of the climate fund differs from previous debt projections: previously, funds were allocated to policy objectives on a structural basis up to 2050.
[11] See Adema and Van Tilburg (2019), *Zorgen om morgen* (link). The yield on government bonds is based on the interest rate term structure including UFR at the end of July 2024, see the First Communication on Charted Choices 2022-2025 (link).