CPB Netherlands Bureau for
Economic Policy Analysis

Central Economic Plan 2025

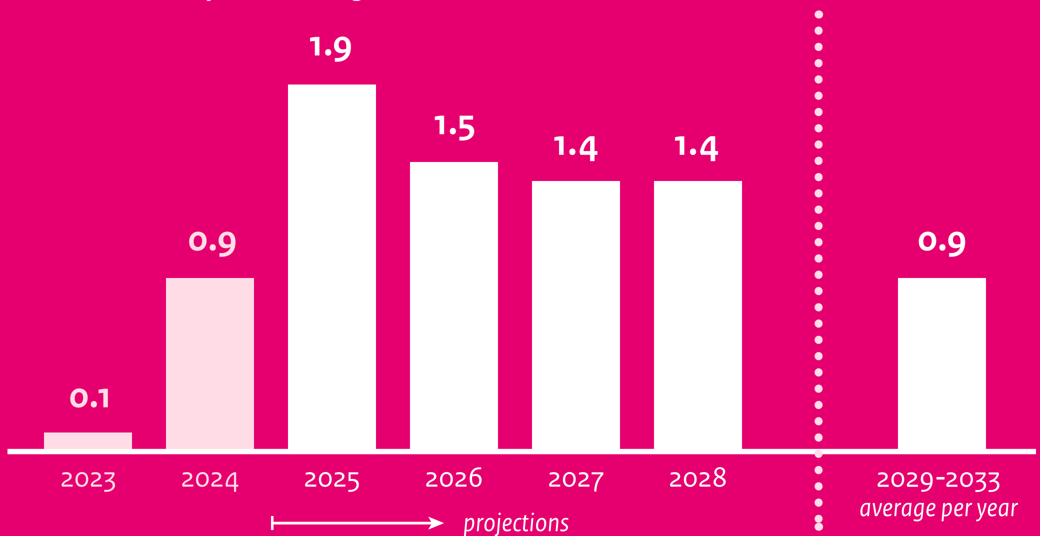
The **government deficit** is set to widen. This is because government expenditure is rising faster than revenues.

The current **geopolitical** situation is erratic and unpredictable.

Sudden shocks are a risk that we can only gauge to a limited extent in our projections.

The Dutch economy is set for moderate growth. Households and central government in particular are spending more.

***economic development**, change in GDP in %*



Wages are rising faster than inflation, increasing average **purchasing power**. Fewer people are living in **poverty**.

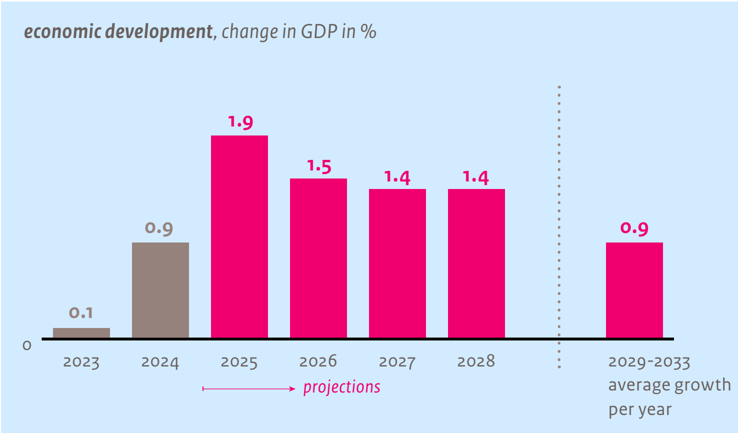
CPB Projections

February 2025

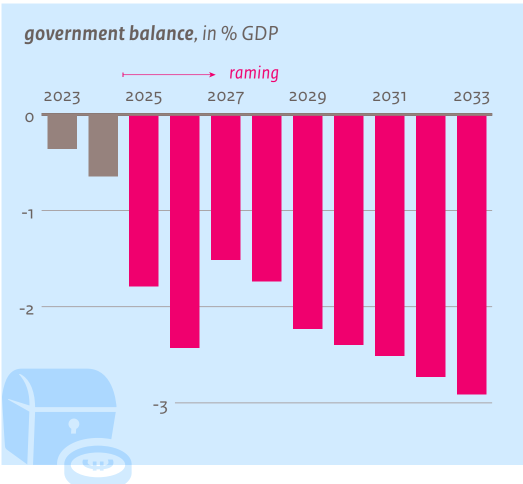
Moderate growth in an uncertain world

The unpredictability of geopolitical decisions is once again making the global economic situation uncertain. Sudden shocks could impact the Netherlands through trade and unrest in financial markets. The current projections can only take limited account of this unpredictability

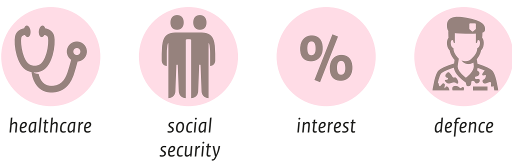
In the current circumstances, the Dutch economy is set for moderate growth, mainly because households and central government are spending more

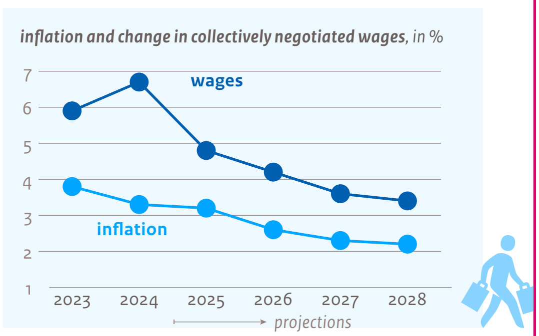


The government deficit is set to widen. Expenditure is rising faster than revenues, partly because the government manages to realise a bigger share of planned expenditures



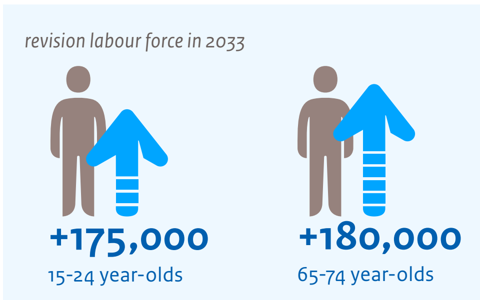
Public expenditure is rising due to trends such as population ageing, rising interest rates and policy effects. The biggest increases are in:





Wages are rising faster than inflation, so on average people have more to spend and purchasing power rises

The government deficit is deteriorating less than previously expected. More people are entering and staying in work, resulting in higher tax revenues



Main points of CEP 2025

The unpredictability of geopolitical developments is generating more uncertainty in the global economic situation. The world has been confronted with several shocks in recent years, such as Russia's invasion of Ukraine and the crisis in the Middle East. The new US administration's arrival in office has made political decisions less predictable and opened the possibility of disruptive changes in the areas of trade and international cooperation. Such shocks can hit the global economy hard, for example by causing panic in financial markets. The projections for the Netherlands could also turn out (very) different in such a scenario. The current projections take only limited account of the effect of heightened uncertainty.

The Dutch economy will show moderate growth in the years ahead. GDP volume will increase by 1.9% in 2025 and 1.5% in 2026. Households and the central government in particular are stimulating economic growth through increased consumer spending. Purchasing power is set to recover as wage growth outstrips inflation in the coming years. The alleviation of the financial burden under the outline coalition agreement also contributes to the increase in purchasing power. This will accordingly reduce poverty, from 3.5% in 2024 to 2.9% in 2026. Inflation will remain above 2% for a number of years as wage growth remains high and policies such as the VAT increase take effect.

In the medium term, the economy is set to grow more strongly than previously projected. The labour supply in particular is projected to be higher, due to greater participation by young people and seniors around the retirement age. Unemployment also remains lower. At the same time, we expect productivity growth to be somewhat lower over this period. As a result, the public finances appear more favourable than in previous projections. This is because higher economic growth leads to higher tax revenues while having less effect on expenditure. The balance will be -1.7% of GDP in 2028 and -2.9% of GDP in 2033.

Trends and policies will continue to widen the government deficit over time. In recent years, the deficit has been limited by temporary tax windfalls and underinvestment. Health care and social security expenditure is now increasing, and this trend is set to continue, partly due to population ageing. Interest expenditure is also rising, and more money is going to defence, climate policies and nitrogen. Overall, expenditure is set to rise much faster than GDP, even with GDP now projected to be higher. The government balance deteriorates as expenditure growth outpaces revenues, which stay more or less in line with GDP growth.

In an uncertain world, the need for European cooperation is even greater. Curbing and coping with climate change, the emergence of new technologies and the expansion of defence capabilities are examples of urgent international issues. Geopolitical developments may also lead to new shocks. The Netherlands is too small to meet challenges of this magnitude effectively. At the same time, internal political tensions and early elections in Germany and France make it harder to agree on a common European agenda. The government debt amassed in many European countries is also limiting governments' spending power and is in itself a potential source of uncertainty in financial markets. Choices will need to be made at European Union and national government level to direct scarce resources to tackling urgent social issues.

1 Economic developments 2025-2026

Macroeconomic picture

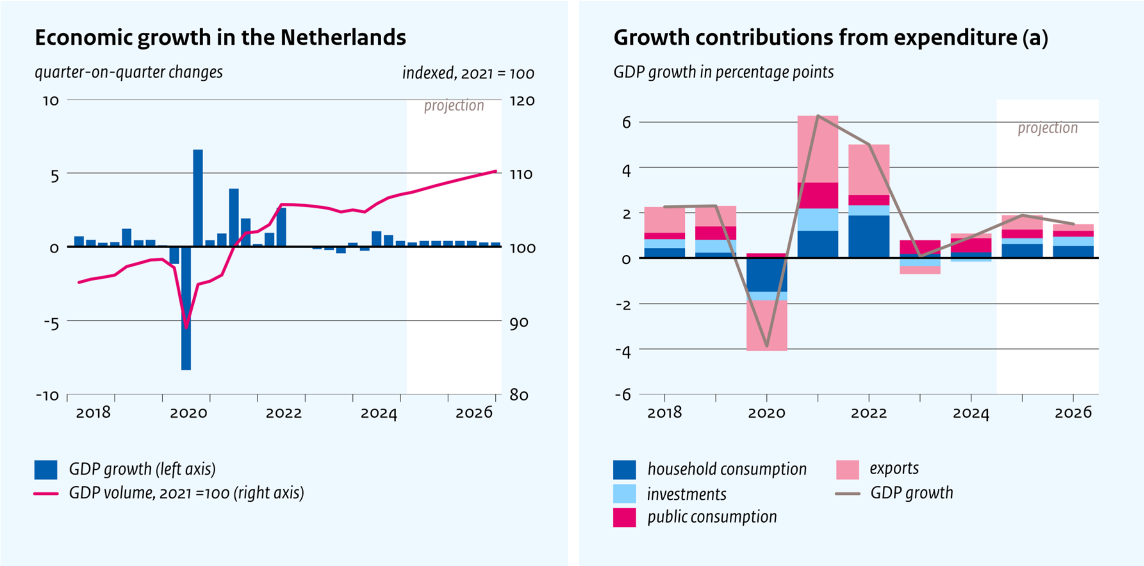
The Dutch economy is growing again. After stagnant GDP growth due to the decrease in purchasing power and declining international trade in 2023, growth resumed again in 2024 and totalled 0.9% for the full year. This was due particularly to central government and household consumption. Households saw their spending power rise due to high wage growth, which easily outpaced annual inflation. Consumption growth nevertheless lagged behind income growth, leading to an increase in the savings rate. Investments and exports also grew again quarter on quarter, although business sentiment in most sectors remained negative.

Economic growth will continue to gather pace in the years ahead due to higher domestic spending. Real incomes continue to grow positively: wage growth remains high, while inflation continues to fall. As a result, household consumption will continue to increase over the next two years. Public consumption is also rising, partly due to higher spending on health care and defence. With regard to investment, we are moderately positive: an improving economy is encouraging business investment, but great uncertainty remains, for example around trade policy. Following the introduction of a vehicle registration tax on commercial vehicles, investments will fall back in early 2025 after rising in 2024 as buyers took advantage of tax-free purchases. Housing investment is also continuing to grow. The recent nitrogen ruling by the Council of State, with its consequences for building permits, nevertheless has a negative impact and leads to increased uncertainty.

The unpredictability of international developments makes the outlook for exports particularly uncertain. These projections do not take account of trade-disruptive measures, the likelihood of which has recently increased. For example, we have so far not assumed any broad imposition of import tariffs by the United States on Europe. The possible consequences of such tariffs are described in the box 'Effect of trade tariffs'. The levy announced on steel and aluminium will have a limited impact on the Netherlands, since iron and steel account for a small part of Dutch manufacturing and exports of these products to the United States make up only around 9%[1]. The unpredictability of any further measures from the Trump administration is in any case already causing greater economic uncertainty and having a dampening effect on global economic activity and investment. Based on current assumptions, we see the volume of international trade increasing, albeit at a somewhat slower pace than in the pre-coronavirus period, especially in Europe. Dutch exports are consequently set to grow by around 2% per year. The weak outlook for Germany is among the factors weighing on eurozone growth down. Dutch imports are actually growing relatively strongly due to increasing domestic spending.

[1] See Statistics Netherlands (link).

Figure 1.1 Continued moderate GDP growth, mainly driven by domestic spending



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

Wages continue to rise sharply, but the pace of wage growth is slowing. Last year, collectively negotiated wage growth in the private sector stood at 6.5%, the highest rate in forty years. The inflation catch-up and the tight labour market are generating positive momentum. Collectively negotiated wage growth will remain high this year at 4.8%. Real wages in 2025 are back at the 2021 level, having shown no rise over that period (see Figure 1.2, left). For 2026, we therefore expect continued positive real wage growth, although the rise in collectively negotiated wages will slow further to 4.1%.

Core inflation will remain higher than normal for some years; food and energy make only a limited contribution to inflation. Wage growth will continue to have an upward impact on core inflation, particularly this year. Rent increases also remain high, because they are linked to wages. The increase in duties on alcohol and tobacco in April 2024 will continue to show through in inflation numbers for several months and thus cause product-related taxes to contribute positively to inflation in 2025 as well (see Figure 1.2, right). Food inflation has returned to normal and will make a minor contribution over the projections period. Energy prices have recently risen again, so we will see energy making a slightly positive contribution to inflation in 2025. Overall, CPI inflation will amount to 3.2% this year. In 2026, core inflation will decline further, but headline inflation will amount to 2.6%, partly due to the planned VAT increases, with the HICP at 2.4%. The projection for the Netherlands is therefore slightly higher than forecast inflation for the eurozone.

Slight easing of labour market tightness. The working population declined slightly in the second half of 2024 for the first time since 2020; employment in hours also stopped growing and the vacancy rate decreased somewhat. This has not yet resulted in higher unemployment, because the participation also rate decreased somewhat, but these are the first signs of a slight easing of the tightness in the labour market. We do not expect much employment growth in the years ahead, despite GDP growth. Higher wage costs are weighing on corporate profitability, increasing the momentum in the labour market. Unemployment will rise slightly to 4.0% in 2026.

Effects of trade tariffs

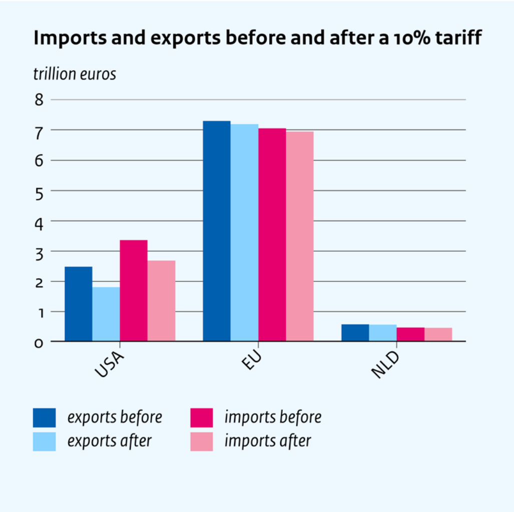
Various import tariffs were announced when the Trump administration took office in the United States. CPB has previously calculated (link) a scenario based on the United States introducing a wide array of tariffs: 10% on all exports to the United States, 100% on vehicles and 60% on Chinese exports to the United States. This scenario is consistent with previous statements made by President Trump.

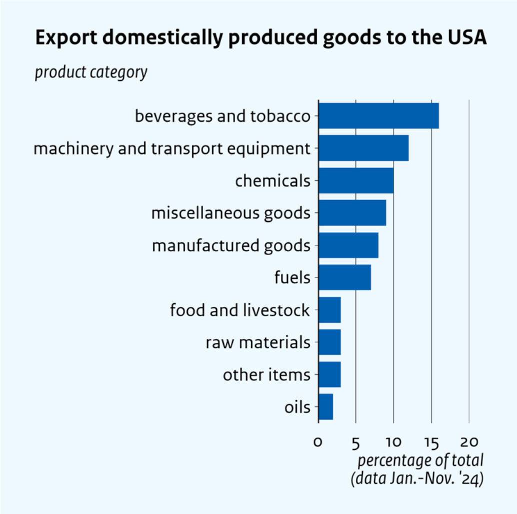
The consequences for the Netherlands and the EU will remain relatively limited in the medium term (figure on left). The US share of Dutch goods exports was relatively modest at 5% in 2022; the EU is the Netherlands' most important trading partner. Furthermore, businesses would be able to tap into alternative markets. A trade war will hit the US economy harder if the United States imposes tariffs on multiple trading partners. The impact on the US economy will be even more negative if those countries then take retaliatory measures.

The medium-term effects will differ from those seen in the short term. In the short term, businesses often fail to find alternative markets, and uncertainty surrounding trade policy may cause investments to be postponed. Some businesses will also incur additional costs in order to avoid tariffs, for example by relocating production to the United States. But since the United States cannot produce everything itself in the short term, it will remain dependent on imports despite the higher prices. Both supply and demand elasticity are higher over the long term.

The right-hand figure shows the sectors that are most vulnerable to tariffs because they have relatively high exports to the United States. In the case of beverages and tobacco, 16% are exported to the United States. The figure for machinery and transport is 12% and for chemicals including pharmaceuticals 10%. These figures fluctuate every year. At the same time, Dutch services may benefit: higher wages and prices in the United States make American services more expensive, giving Dutch providers a potential competitive edge, depending on exchange rate movements.

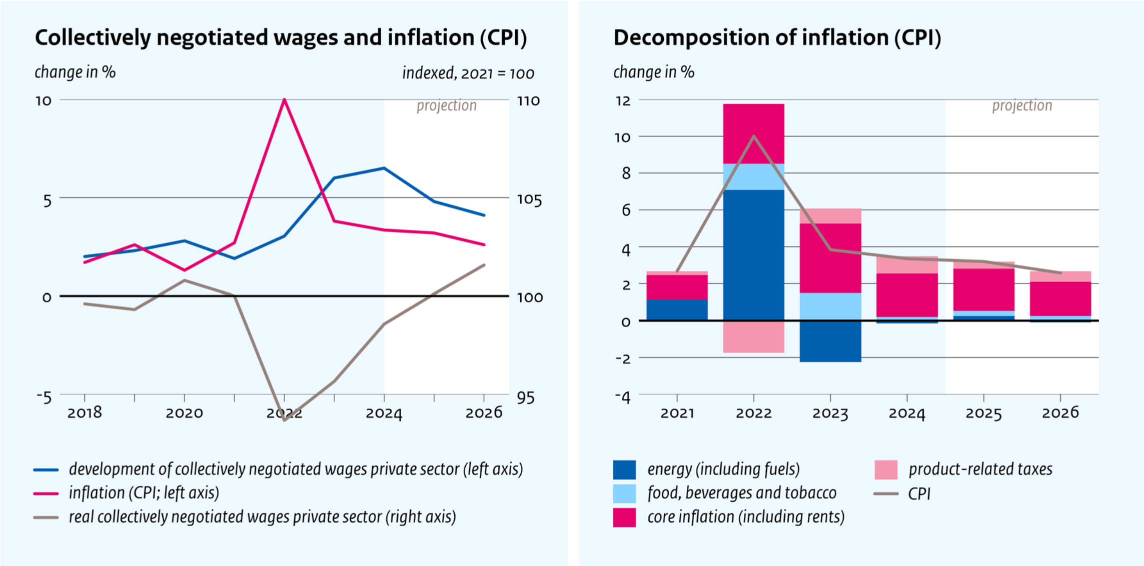
The United States would be particularly hit by trade tariffs; a relatively large proportion of beverages and tobacco are exported to the United States.





Source: Statistics Netherlands and CPB (link)

Figure 1.2 Wages are still catching up; inflation is dominated by core inflation and policy effects



Source: Statistics Netherlands and CPB (link)

Public finances

The government deficit is projected to reach -1.8% of GDP in 2025, due to a decrease in the burden share and increasing public expenditure. A small government deficit of 0.6% of GDP was recorded for 2024.[2] Last year, the government spent an estimated EUR 18 billion less than initially budgeted in the 2024 Budget Memorandum. In 2024, there was almost EUR 6 billion of additional income tax revenues due to higher dividend distribution in 2023 as a result of the rate change in box 2 of the Dutch tax return. In 2025, the deficit is set to increase due to the absence of these one-off revenues and the alleviation of the financial burden in box 1. Expenditure is also increasing, particularly on social security, health care, defence and transfer payments to companies (particularly climate subsidies). The projections assume that EUR 12 billion of the expenditure budgeted in the 2025 Budget Memorandum will not be spent in 2025.

The government deficit will be higher in 2026 due to one-off additional contributions to defence pensions. The government has not funded these pensions in the past. In 2026, these pensions will move to ABP, with the government being required to pay an additional contribution of EUR 8.5 billion.[3] Regular expenditure will also continue to rise in 2026. The government deficit will be 2.4% of GDP in 2026.

Purchasing power and poverty

Purchasing power will increase across the board in 2025 and 2026 due to real wage rises and policy effects. Wage rises will continue to outpace inflation in the next two years. This will have a positive effect on purchasing power. Purchasing power will be further boosted by the alleviation of the financial burden in box 1 of the income tax. The simplification and reduction of the personal contribution in the rent allowance will also have a positive impact.

Welfare benefit recipients will see a slightly bigger improvement in their purchasing power than other groups in 2025. This is because welfare benefits rise not only due to fixed indexation against wage growth but also as a result of the alleviation of the financial burden in box 1. Pensioners will lag behind slightly in 2025 as

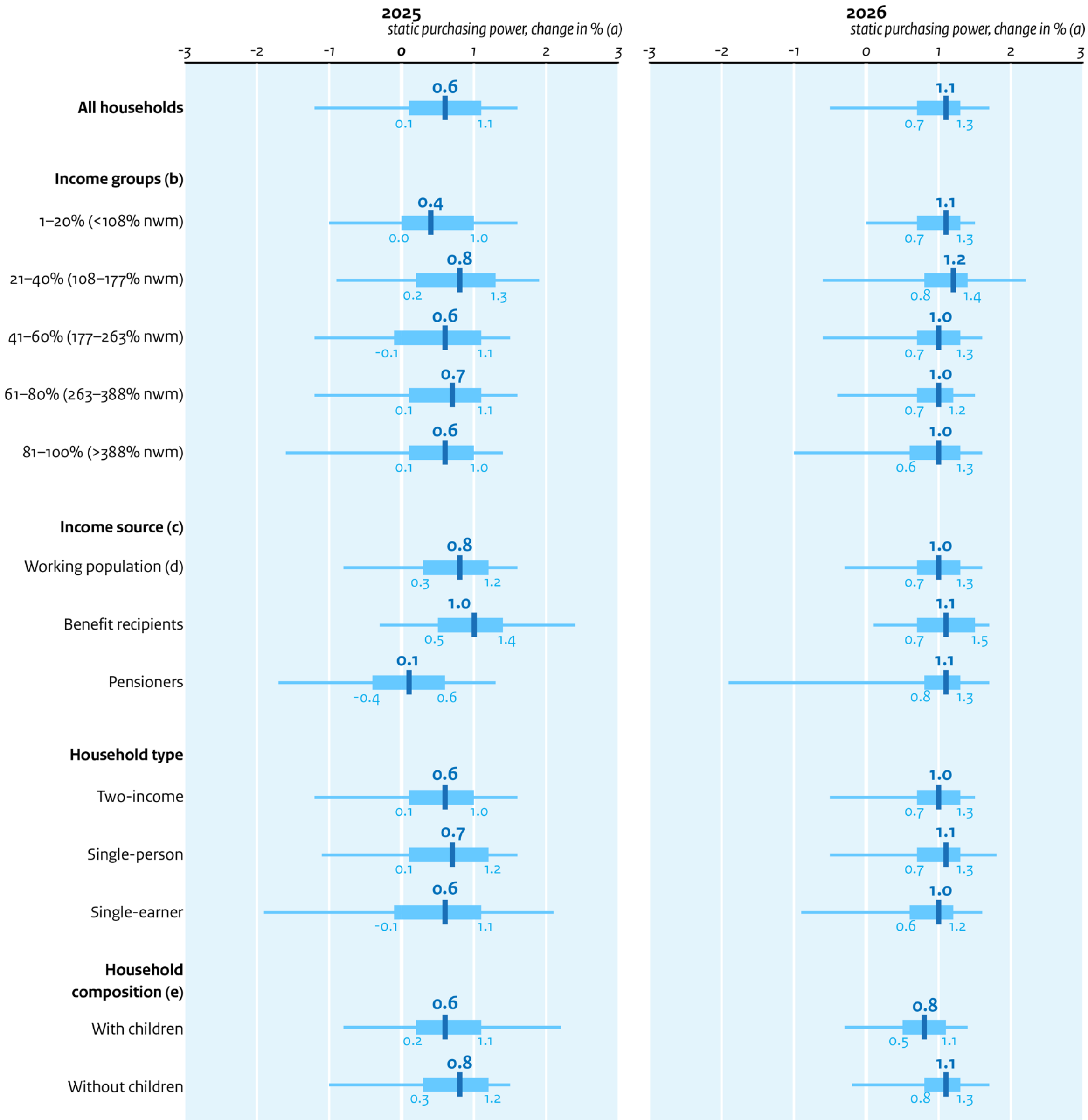
[2] See box entitled ‘Government balance 2024: CEP vs MEV’ in the accountability document (link) for the differences in 2024 compared to the MEV.
[3] We now assume that this expenditure will increase the government deficit, but it is not yet certain how Statistics Netherlands and Eurostat will assess this.

pension indexation falls short of inflation. In 2026, their growth of purchasing power will no longer lag behind that of the other groups, because pension funds will grant additional indexation when switching to the new pension system (see also the box entitled 'Pension increase on transfer to new system' in MEV2025, link).

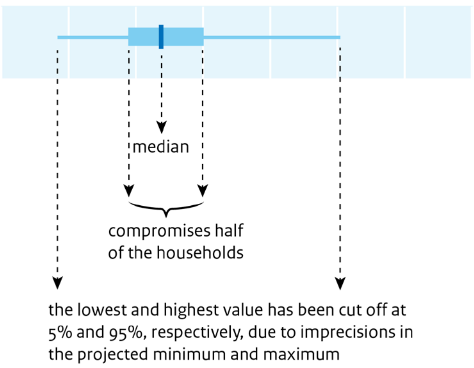
Poverty falls in 2025 and 2026. In 2025 and 2026, poverty among children and the population as a whole will decrease slightly as a result of positive real wage growth, the alleviation of the financial burden and increases in the child-related budget and the rent allowance. The poverty level is lower than in earlier projections. This is due to the switch to the new poverty definition used by Statistics Netherlands, SCP and Nibud.[4] Next month CPB will also release a publication on the gap between people in poverty and the poverty line (poverty intensity).

[4] In contrast to the previous poverty definition (modest-but-adequate criterion), the new definition takes account of capital and actual expenditure on rent, privately owned homes and energy. Explanatory notes on the new definition and the associated projection methodology can be found in the accountability document (link) and in Griffioen, 2025 (link).

Figure 1.3 Purchasing power rises for all income groups in 2025 and 2026



How to read the table?

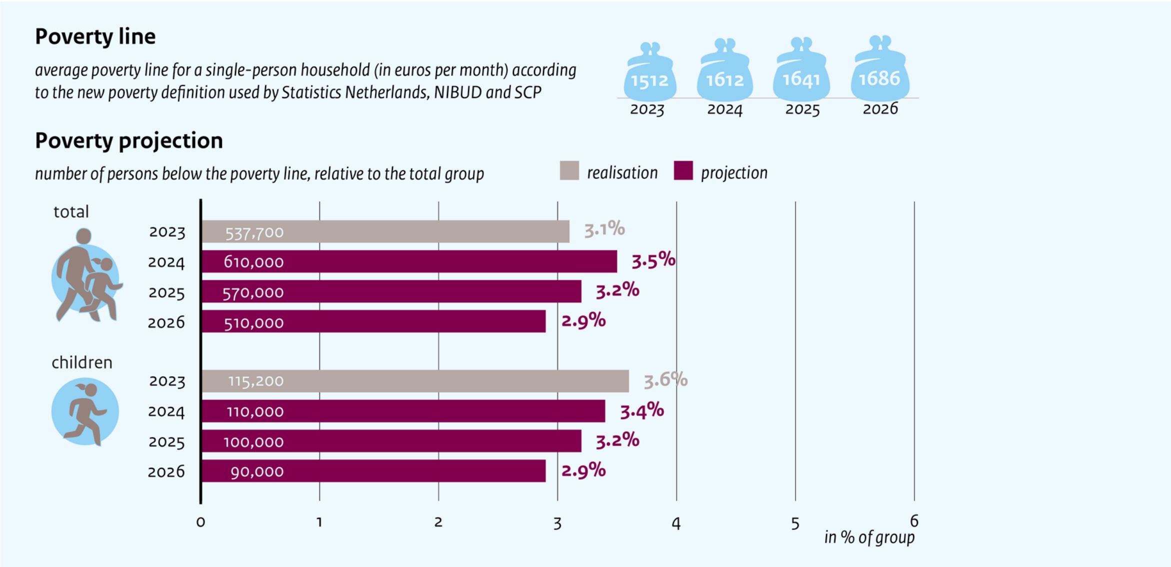


The 'median' is the middle value of a series of figures, ordered from low to high. A median purchasing power development of 1.3% for all households means that, for half of them, purchasing power development will be 1.3% or less, while, for the other half, it will be 1.3% or more. For half of the households, 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 28,756 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, based on Statistics Netherlands microdata (link)

Figure 1.4 Poverty falls, both among children and the population as a whole in the next two years



Source: CPB, based on Statistics Netherlands microdata (link)

Table 1.1 Main data for the Netherlands, 2021-2026

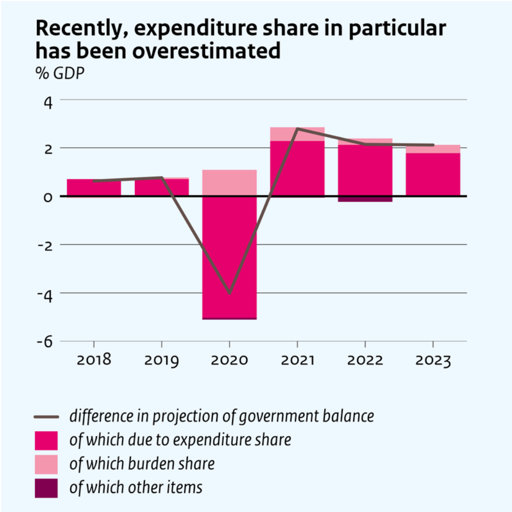
	2021	2022	2023	2024	2025	2026
	changes per year in %					
International economy						
Relevant world trade volume, goods and services	8.6	8.0	-0.6	0.6	2.4	2.4
Competitor prices (a)	2.3	13.6	-1.1	0.8	2.2	2.0
Oil price (in USD per barrel)	69.9	97.2	80.5	78.6	73.6	69.9
Euro exchange rate (in USD per euro)	1.18	1.05	1.08	1.08	1.03	1.03
Long-term interest rate, the Netherlands (level in %)	-0.3	1.4	2.8	2.6	2.7	2.7
Volume of GDP and spending						
Gross domestic product (GDP, economic growth)	6.3	5.0	0.1	0.9	1.9	1.5
Household consumption	4.5	6.9	0.8	1.0	2.6	2.4
Public consumption	4.7	1.3	2.9	3.1	1.9	1.3
Investments (including inventories)	10.5	5.6	-9.1	-2.5	3.2	4.8
Exports of goods and services	6.9	4.4	-0.5	0.1	2.0	1.8
Imports of goods and services	6.5	4.4	-1.8	-0.2	2.8	3.2
Prices, wages, purchasing power and poverty						
Price level, gross domestic product	2.7	6.2	7.3	5.1	3.6	2.7
Export prices of goods and services	8.7	19.1	-0.9	0.4	2.3	1.2
Import prices of goods and services	10.7	22.1	-3.4	-1.4	1.7	0.8
Inflation, national consumer price index (CPI)	2.7	10.0	3.8	3.3	3.2	2.6
Alternative CPI (purchasing power and poverty data) (b)	2.1	6.8	7.8	3.1	3.2	2.6
Inflation, harmonised index of consumer prices (HICP)	2.8	11.6	4.1	3.2	3.0	2.4
Wage rate, business sector (per hour) (c)	0.2	3.2	6.6	6.6	5.2	4.3
Collectively negotiated wages, business sector	2.1	3.1	5.9	6.7	4.8	4.2
Purchasing power, static, median all households (d)	0.8	-2.5	-0.7	2.9	0.6	1.1
People in poverty (in %) (d, e)	4.9	3.4	3.1	3.5	3.2	2.9
Labour market						
Labour force	0.9	2.4	2.0	0.9	0.5	0.8
Working population	1.5	3.2	2.0	0.8	0.3	0.6
Unemployed labour force (x thousand persons)	408	350	359	373	390	415
Unemployed labour force (in % of labour force)	4.2	3.5	3.6	3.7	3.8	4.0
Employment (in hours)	4.7	3.9	1.4	0.6	0.3	0.3
Other items						
Labour income share, business sector (in %)	70.7	67.8	67.6	68.2	67.9	68.6
Labour productivity, business sector (per hour)	2.7	1.8	-1.2	0.3	1.6	1.2
Individual saving share (in % of disposable household income)	7.3	1.4	2.0	3.9	5.4	5.2
Current account balance (in % of GDP)	10.0	6.6	9.9	10.6	10.4	9.5
	in % of GDP					
Public sector						
EMU balance	-2.2	0.0	-0.4	-0.6	-1.8	-2.4
EMU debt (year-end)	50.5	48.4	45.2	43.6	44.5	47.2
Public financial burden	39.2	38.1	38.6	38.5	37.9	38.4
Gross public expenditure	46.2	43.6	43.4	43.5	44.0	45.2

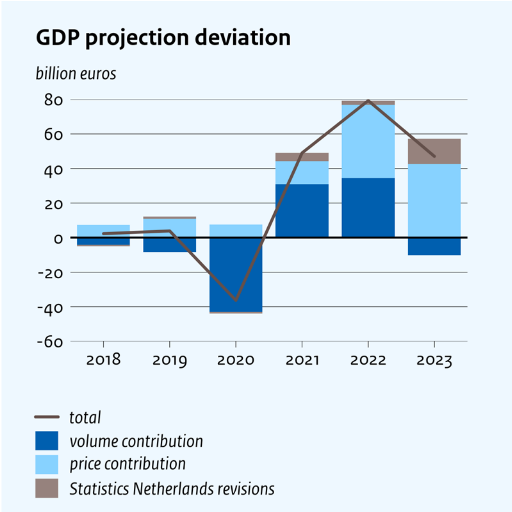
(a) Goods and services, excluding natural resources and fuels.
(b) See subsection 1.4 of *CEP-2023-Verdieping* (link) for further details of the alternative CPI series and see Statistics Netherlands (link).
(c) The NOW wage cost subsidy and the continuity contribution in health care have an upward impact 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 poverty line is based on the new poverty definition used by Statistics Netherlands, SCP and Nibud.

A closer look at the projections

The government balance has proved particularly difficult to project in recent years, and since 2021 the final actual figure has turned out (much) better than expected. The projected balances calculated by the Ministry of Finance, which are based partly on CPB macroeconomic projections, are being examined by an expert group, which will present its analysis in March. The CPB budgetary projection is not used as a basis for drafting the budget, but it is an important element in assessing those plans in the context of EU budgetary rules. CPB naturally strives to produce the best possible projections, which is why we regularly analyse their accuracy (as in the box entitled 'Accuracy in uncertain times' in MEV2025 (link)).

A larger-than-projected size of the economy is mainly reflected in the deviation of the expenditure share





Source: CPB (link)

The left-hand figure shows that the burden share (tax revenues as a percentage of GDP) has been projected relatively accurately in recent years, but that this is much less true for the expenditure share. A major reason for this difference is the underestimation of the size of the economy, measured in euros, in the period after the coronavirus crisis. The right-hand figure shows that we have substantially underestimated GDP from 2021 onwards. First, the rapid recovery of economic activity (volume contribution) after the coronavirus crisis came as a surprise, followed by the inflation shock (price contribution) after the invasion of Ukraine. If economic activity is greater than projected, tax revenues usually increase proportionately. Expenditures grow less automatically, partly because budgets are already fixed and partly because any additional expenditure cannot be realised due to labour market and other shortages. Not all actual data are available yet for 2024. The picture was the same as in 2021-2023, however, with a relatively accurate projection of the burden share and a large degree of underinvestment.

This analysis provides some confidence that accuracy will improve again as the economy enters calmer waters. There are still some underlying puzzles, however; for example, the better-than-expected development of the corporation tax in recent years has come as surprise. The underinvestment was also even greater than projected. By analysing such items in more detail, we aim to improve the accuracy of the projections.

2 Medium-term outlook

Macroeconomic picture

In the medium term, the projection of economic growth is determined by the supply side of the economy. The structural labour supply (all people who offer themselves for work) and their labour productivity determine how much can be produced in the Netherlands. In the medium term, we assume that this determines the size of the economy, i.e. that there is no over- or underutilisation of production factors (an 'equilibrium situation'). A more detailed explanation of the medium-term GDP projection can be found in the accountability document accompanying this CEP (link).

Due to a thorough review of the factors that determine growth in the medium term, the growth rate is now higher than previously projected. CPB conducts a thorough review of medium-term outlook projection every four to five years. This involves looking ahead over an eight-year period, which in principle corresponds to two government terms of office. After reassessing the model and using newly available microdata, the structural labour supply turns out higher than in previous projections. This is due to new estimates of the development of the participation rate. In particular, the participation rate of people around the retirement age is increasing more than previously expected, but the same is also true of the participation rate of young people (15-24 years).[5] Growth is also slightly higher due to a lower estimate of structural unemployment (4.5%). At the same time, persistently lower productivity growth warrants a downward adjustment of structural productivity growth to 0.7% per year, 0.2 percentage points lower than in CEP2024.

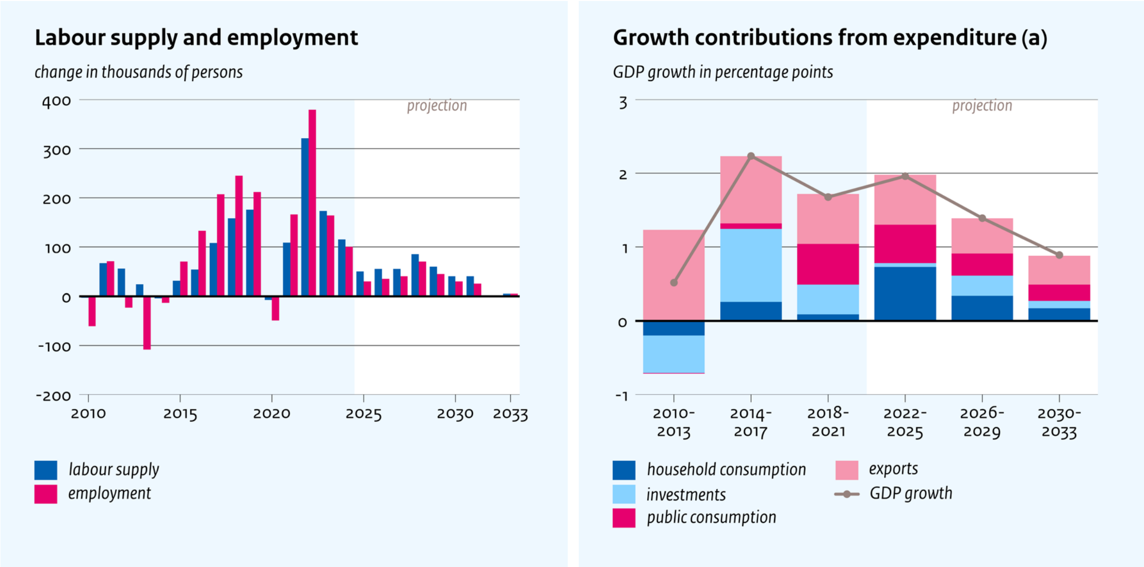
Even this new projection sees economic growth slowing down in the next eight years. Average growth falls from 1.4% in the 2026-2029 period to 0.9% in the 2030-2033 period. The pace of growth slows particularly because the labour supply grows more slowly (see Figure 2.1, left). Whereas the participation rate among the seniors, women and young people previously increased, this increase will be smaller in the next eight years.. The growth of the working population also decreases, partly due to population ageing. Employment in hours grows even less rapidly, because of a fall in hours worked per person.

In the medium term, inflation will be in line with the European average. Although inflation in the Netherlands remains higher than in other European countries in the short term, it will converge again to around 2.0% in the medium term.[6] Wage growth gradually decreases to 3.1%, which means real wage growth nevertheless remains positive. Businesses can absorb this partly through improved productivity. In addition, we expect the profit share to fall after rising sharply in recent years (see also the box entitled 'More detail on the fall in LIS').

Over the next eight years, investments will grow faster than consumption on average. Due to the real wage growth, incomes and consumption continue to grow, but the savings rate also increases. A growing number of homeowners repay their mortgages, which is reflected in higher savings.[7] Investments will account for a larger share of GDP. This is fuelled by the energy transition; for example, investments are being made in the electricity grid, renewable energy, electric transport vehicles and sustainability in manufacturing.[8]

[5] For a further explanation of the revision of the labour supply model, see Ebregt et al. (link).
[6] This concerns the HICP projection. The CPI is slightly higher because rents weigh more heavily in this index.
[7] See Van der Wal, Ciurila and Luginbuhl, 2024, (link).
[8] For a detailed analysis of the effect of the energy transition on investments, see Soederhuizen et al. (link).

Figure 2.1 Growth in labour supply and employment falls sharply; all expenditure categories grow



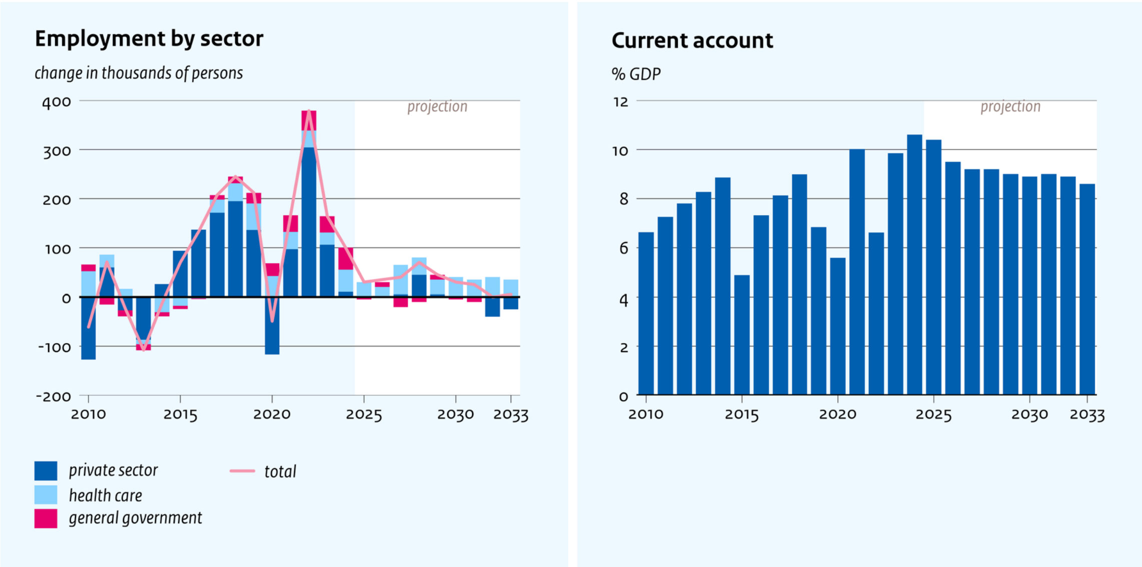
Note: (a) Final and accumulated intermediate imports have been deducted from the expenditure categories.
Source: Statistics Netherlands and CPB (link)

Health care expenditure continues to rise and more and more people are entering jobs in the health care sector. Demand for care will continue to rise in the medium term. Demographic developments are an important driver of this rise, but inflation, income growth and the abolition of the deductible also lead to higher health care expenditure.[9] Health care consequently accounts for a larger share of GDP and employment. If the health care sector fails to attract sufficient personnel to meet increasing demand, this could result in waiting lists. This would have a dampening effect on the growth of health care expenditure. In the past, however, employment growth has often been higher in health care than in the rest of the economy (see Figure 2.2, left).

Imports grow faster than exports and the current account balance falls. Exports remain a key driver of growth of the Dutch economy, but the growth is less strong than in the past. This is because international trade growth is set to slow in the medium term. One reason is decelerating growth in China, but in Europe too economic growth is expected to fall gradually after 2026. With domestic demand (for example investments) nevertheless growing strongly, imports increase. This reduces the current account surplus after a sharp, albeit erratic, increase over the past fifteen years (see Figure 2.2, right).

[9] For a detailed description of the development of health care expenditure in the medium term, see Van Elk et al. (link).

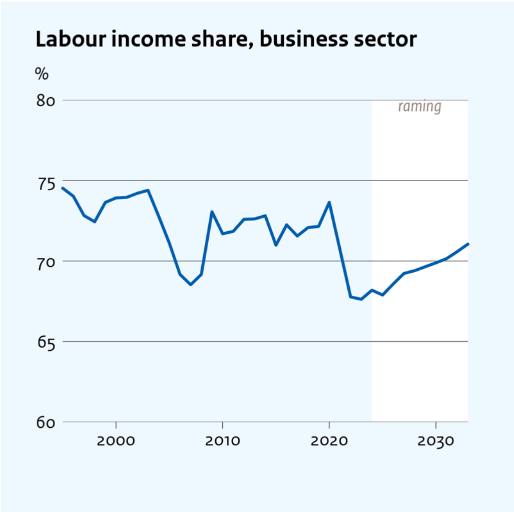
Figure 2.2 Employment grows only in health care, and the current account balance deteriorates slightly



Source: Statistics Netherlands and CPB (link)

More detail on the fall in LIS

The labour income share (LIS) has fallen sharply in recent years. The LIS of the business sector in 2023 was 4.6 percentage points lower than in 2019, whereas prior to that it had been fairly stable. The fall is due to the fact that operating surplus (the remuneration of capital, including corporate profits) has risen faster than the remuneration of labour. This is partly due to the usual lagging response of wages to an inflation shock, but accounting effects also provide an important and more statistical explanation of this fall and may be structural.



Source: Statistics Netherlands and CPB (link)

Both composition effects and decreases in the LIS within sectors have played a role in the decline in recent years (see table). The decrease in the LIS can be broken down into decreases of the LIS in sectors and composition effects. The LIS decreases in sectors if operating surplus increases relative to the remuneration of labour. The total LIS also decreases if low-LIS (capital-intensive) sectors account for an increasing share of the economy, which is often also due to an increase in operating surplus in that sector. We call this the composition effect. Over the 2019-2023 period, the decrease in the LIS within sectors has an impact of -2.6 percentage points, while composition effects reduced the LIS by around 2 percentage points (see table).

There are various reasons – including accounting factors – behind a number of sectors' contributions to the decrease in the LIS. The mineral extraction and energy supply sectors had a higher operating surplus in 2023 than in 2019, due to higher energy prices. These sectors also contribute to the negative composition effect, because they are very capital-intensive. In total, developments in these sectors explain 0.9 percentage points of the decrease. The operating surplus of the real estate rental and trade sector has increased sharply, as the difference between the interbank reference rate and the mortgage interest rate on the mortgage stock has widened substantially. The average mortgage rate is now lower than previously relative to the reference rate. This sector accounts for as much as 1.9 percentage points of the decrease. At the same time, this reduces the operating surplus in the financial sector. These two do not cancel each other out, however, because the relatively low interest on savings actually has an upward impact on the operating surplus of the financial sector (FISIM, see also link).

(continuation of box)
In agriculture (-0.6 percentage points), a shift from self-employment to legal entities may have contributed to a higher operating surplus in the statistics.

The LIS in manufacturing and business services decreased. Manufacturing contributes 1 percentage point to the decrease in total LIS. Data on the operating surplus in manufacturing show this increasing sharply, particularly in food and the machinery industry (source: Statistics Netherlands). In the specialist business services sector too, operating surplus has increased more sharply than the remuneration of labour. This sector contributes 0.7 percentage points to the total decrease in the LIS of the business sector.

2019-2023	Weighted decrease in sectors (a)	Composition effect (b)	total effect of sector (a+b)
A Agriculture, forestry and fisheries	-0.5	0.0	-0.6
B Mineral extraction	-0.1	-0.3	-0.4
C Manufacturing	-1.0	-0.1	-1.0
D Energy supply	-0.2	-0.3	-0.5
E Water companies and waste management	-0.1	0.0	-0.1
F Construction	-0.4	0.0	-0.3
G Trade	0.0	0.1	0.1
H Transport and storage	-0.1	0.0	-0.1
I Hospitality	0.1	0.0	0.1
J Information and communication	0.1	0.0	0.1
K Financial services	1.0	0.3	1.3
L Real estate rental and trade	-0.4	-1.5	-1.9
M Specialist business services	-0.8	0.0	-0.7
N Rental and other business services	-0.2	0.0	-0.2
A-U (excl. O and P) (c)	-2.6	-2.0	-4.6

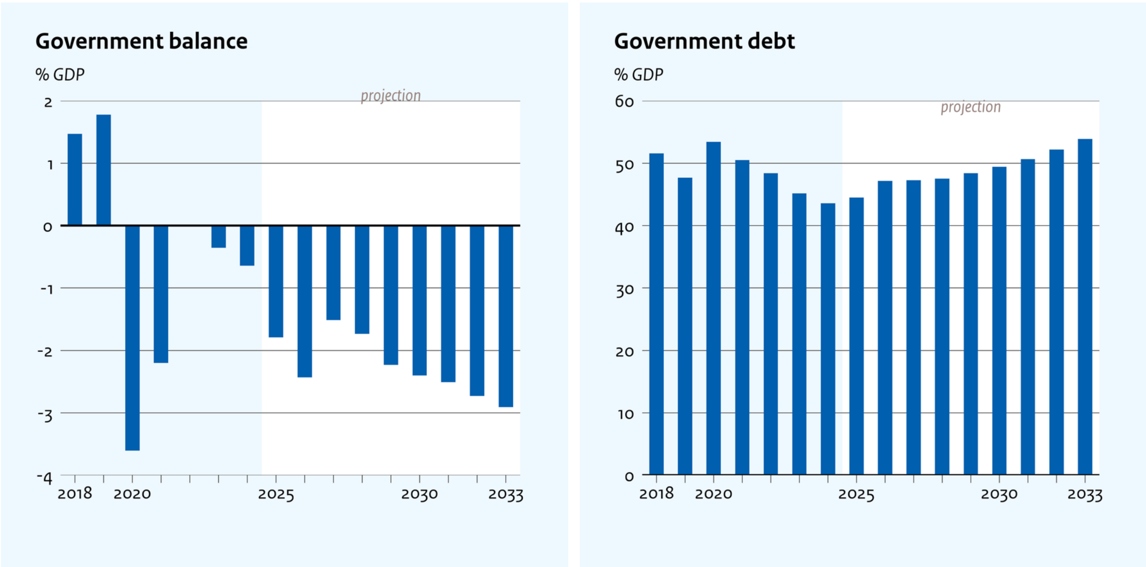
(a) change in LIS in sector (2023-2019) multiplied by share in total remuneration of labour and capital in 2019
(b) change in share in total remuneration of labour and capital (2023-2019) multiplied by deviation from average LIS in 2019
(c) the negligible effect of sectors Q-U has been omitted from the table
Source: CPB calculations based on Statistics Netherlands

We expect the LIS to recover partially during the projection period. The catch-up in real wages is expected to continue for some time, causing the LIS to increase again in the years ahead. The LIS will not return to the 2019 level. For example, there will be no return to very low – and for a certain period even negative – interest rates for the time being, so the financial sector's operating surplus will remain higher than in 2019. The shift in business forms within agriculture may also have a structurally negative impact on the LIS.

Public finances

In the medium term, the government deficit will rise to almost 3% of GDP, with expenditure increasing more than revenues. In 2026, the deficit is unusually high due to the transfer of defence pensions to ABP. Thereafter the deficit increases from 1.5% of GDP in 2027 to 2.9% of GDP in 2033. This is mainly due to expenditure, which increases by 2.7 percentage points of GDP compared to 2024. The public financial burden increases by 0.6 percentage points of GDP over the same period, markedly less than the net expenditure share. The government deficit therefore rises to -2.9% of GDP in 2033.

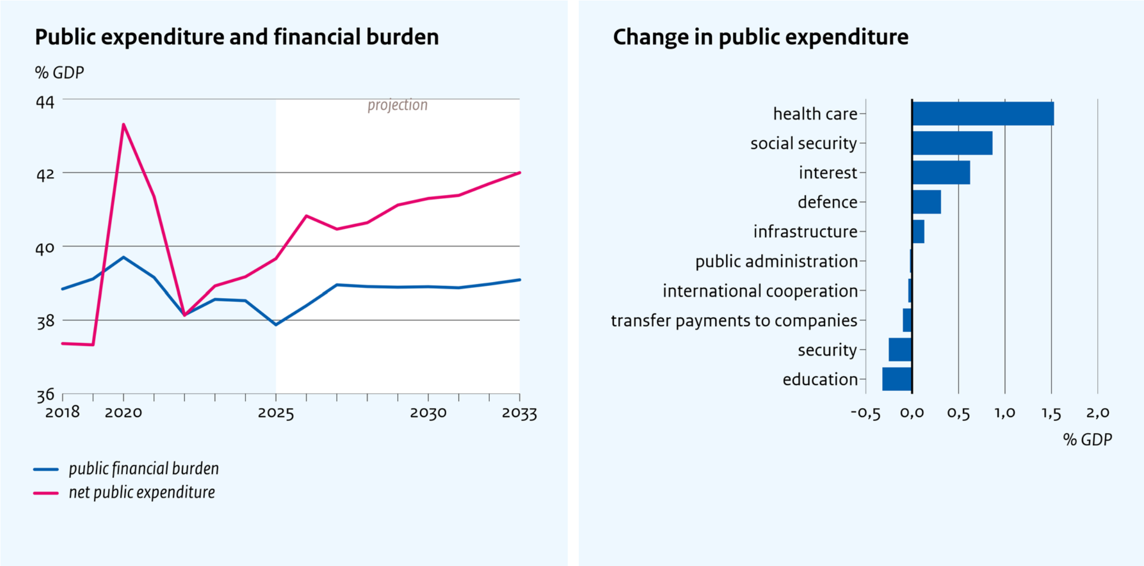
Figure 2.3 Government deficit rises steadily to 3% of GDP; the debt ratio is relatively low



Source: Statistics Netherlands and CPB (link)

In particular, expenditure on health care, state pensions and interest is set to rise in the medium term. Public spending on health care will increase by 1.5% of GDP up to 2033 compared to 2024, mainly due to demographic developments, relative inflation in health care, income growth and the abolition of the deductible. Social security expenditure is increasing mainly due to more state pension benefits as a result of population ageing. Interest expenditure also continues to rise as past low-interest loans mature; future interest rates are expected to be higher. There are also increases in spending in defence and infrastructure (see Figure 2.4, right). Part of this increased spending was already initiated by previous governments.

Figure 2.4 Expenditure increases more than revenue, with health care expenditure in particular rising between 2024 and 2033



Source: Statistics Netherlands and CPB (link)

Public financial burden increases by 0.6% of GDP. In particular, there is an increase in health insurance premiums to finance the rising health care expenditure and the reduction of the deductible. In addition, there are policy-induced increases in the financial burden in VAT, excise duties and emission allowances. The fiscal burden on labour increases more than GDP, as the wage share rises over the projection period. Taxes on production and imports decrease slightly, because consumption growth lags behind GDP (the savings rate increases). Corporate tax revenues have increased over the past decade, but are projected to decline slightly (as a % of GDP) as projected corporate profits rise less than wages.

The government deficit will be lower in the medium term than in previous projections, mainly as a result of higher projected employment. This leads to additional revenue for the government, while unemployment expenditure falls and other expenditure only grows to a limited extent as employment rises. After all, the other expenditure is set in the budget and most items are not directly linked to GDP or employment. The projected government deficit is now 1.7% of GDP in 2028, 0.8 percentage points lower than in the MEV 2025 projection (with 2028 as the final year).

The net expenditure path[10] imposed on the Netherlands by the European Council will not change as a result of the new projection. The European Commission has made its own projection of Dutch public finances, carrying the 2026 structural balance forward constantly into the future and increasing it by the amount of public ageing costs. According to this projection, the Dutch government deficit will ultimately exceed 3% of GDP and the debt ratio will exceed 60% of GDP. The European Commission has prepared technical information on the basis of this projection. This has been the net expenditure path since the European Council rejected the medium-term budgetary-structural plan. The probability of the Netherlands ending up in an excessive deficit procedure appears to be somewhat lower than previously estimated.

[10] The European Council has imposed a ceiling on the growth of adjusted net expenditure. Adjusted net expenditure is expenditure excluding cyclical unemployment expenditure, one-off items and expenditure financed by the European Union, adjusted for discretionary changes in charges.

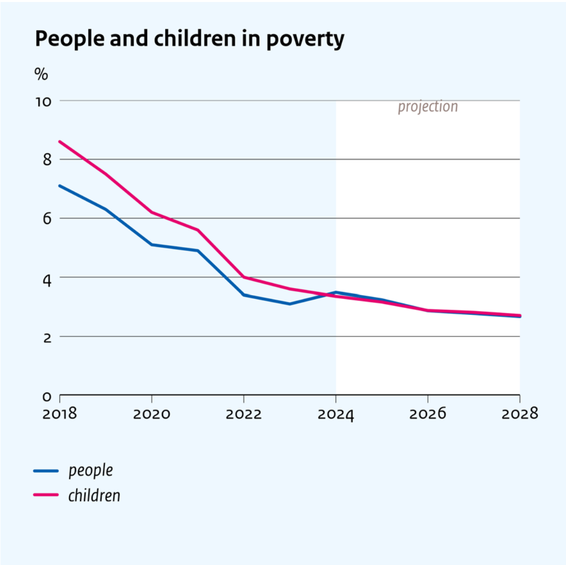
Projected government debt also turns out lower than previously expected. Government debt will reach 54% of GDP in 2033, whereas in 2024 it was still 44% of GDP. The CEP 2024 projections showed a debt ratio exceeding 60% of GDP in 2031. The lower deficits mean a less rapid rise in the debt ratio. The higher GDP creates a denominator effect; if the same debt is divided by a higher GDP, the debt ratio is lower. Nominal GDP is around 7% higher than in CEP24.[11]

Purchasing power and poverty

Purchasing power increases by an average of 0.8% per year during the government's term in office (2024-2028). Real wage growth is positive throughout the period. There is little variation, with pensioners being the only group to see purchasing power rise somewhat less due to limited pension indexation in 2025.

Poverty among children and the Dutch population as a whole continues to fall slightly. At the end of the government's term in office, the number of people and children in poverty is now projected to be 2.7% in both cases. In 2024, the figures were 3.5% and 3.4%, the level the government does not wish to see exceeded. The alleviation of the financial burden in box 1, the increases in the rent allowance and the child-related budget and the reduction in the deductible contribute to the decrease.

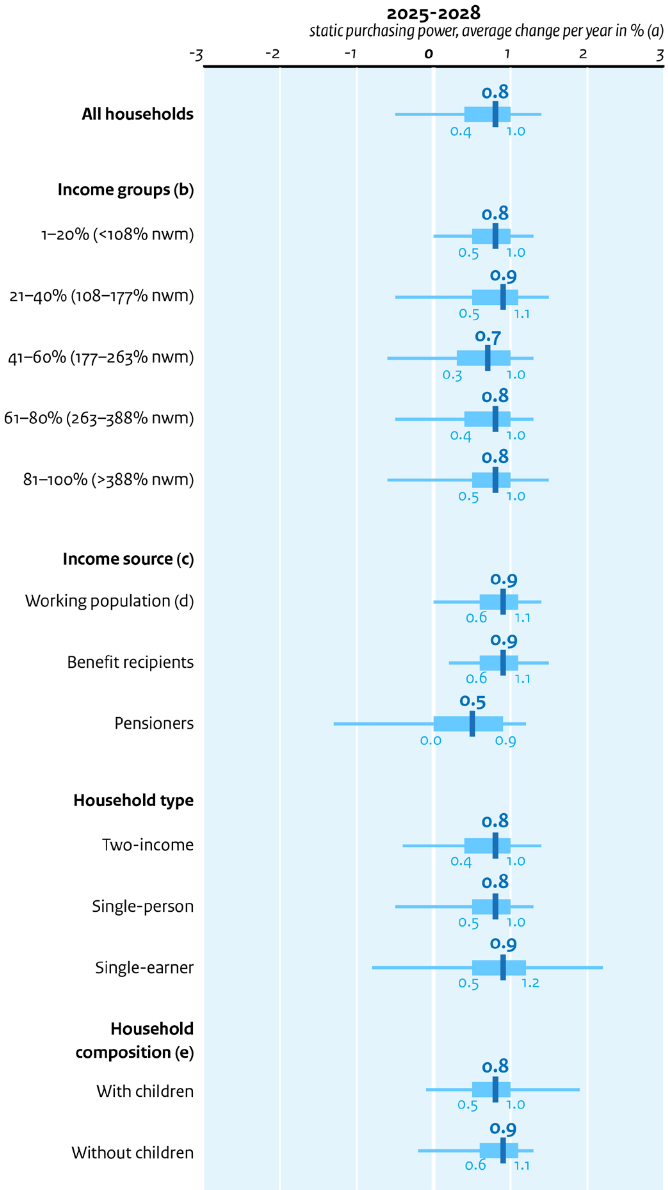
Figure 2.5 The percentage of people and children in poverty falls to 2.7% in 2028



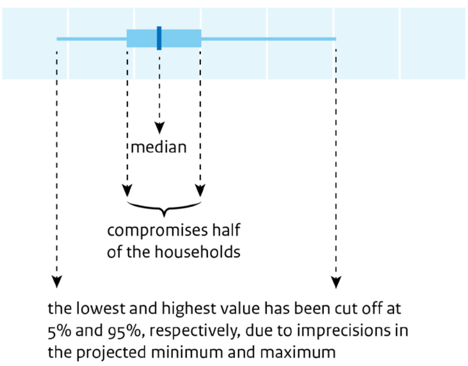
Source: CPB, based on Statistics Netherlands microdata (link)

[11] More than half of this revision was already included in MEV2025, because it resulted from the revision of the National Accounts and an adjustment to the price projection at that time. The revision relative to MEV2025 is due not only to higher employment but also to a higher price level.

Figure 2.6 Differences in purchasing power development are limited throughout the government's term in office.



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 28,756 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, based on Statistics Netherlands microdata (link)

Table 2.1 Main data for the Netherlands, 2010-2033

	2010-2013	2014-2017	2018-2021	2022-2025	2026-2029	2030-2033
	changes per year in %					
International economy						
Relevant world trade volume, goods and services	4.7	4.6	1.8	2.5	2.3	2.2
Competitor prices (a)	2.9	1.3	0.8	3.7	1.8	1.7
Oil price (in USD per barrel, level in final year)	107.8	54.0	69.9	73.6	66.6	65.8
Euro exchange rate (USD per euro, level in final year)	1.33	1.13	1.18	1.03	1.09	1.19
Long-term interest rate, the Netherlands (%, level in final year)	2.0	0.5	-0.3	2.7	2.7	2.7
Volume of GDP and spending						
Gross domestic product (GDP, economic growth)	0.5	2.2	1.7	2.0	1.4	0.9
Household consumption	-0.2	1.6	0.4	2.8	1.4	0.8
Public consumption	-0.1	0.8	2.7	2.3	1.5	1.0
Investments (including inventories)	-1.6	5.4	3.9	-0.9	3.1	1.1
Exports of goods and services	5.5	5.6	2.6	1.5	1.7	1.7
Imports of goods and services	4.7	6.0	2.9	1.3	2.4	1.9
Prices, wages, purchasing power and poverty						
Price level, gross domestic product	0.9	0.8	2.7	5.6	2.6	2.3
Export prices of goods and services	2.7	-1.0	2.1	4.9	1.2	1.6
Import prices of goods and services	3.7	-1.3	2.2	4.3	1.0	1.5
Inflation, national consumer price index (CPI)	2.1	0.8	2.1	5.0	2.3	2.1
Alternative CPI (purchasing power and poverty data) (b)				5.2	2.3	2.1
Inflation, harmonised index of consumer prices (HICP)	2.2	0.5	2.0	5.4	2.2	2.0
Wage rate, business sector (per hour) (c)	1.7	0.8	3.2	5.4	3.9	3.4
Collectively negotiated wages, business sector	1.3	1.3	2.3	5.1	3.6	3.1
Purchasing power, static, median all households (d, f)	-1.2	1.2	1.1	0.1	0.8	0.6
People in poverty (in % in final year) (d, e)			4.9	3.2	2.7	2.7
Labour market						
Labour force	0.5	0.3	1.0	1.5	0.8	0.2
Working population	-0.3	0.9	1.4	1.6	0.7	0.2
Unemployed labour force (x thousand persons, level in final year)	754	546	408	390	455	480
Unemployed labour force (% of labour force, level in final year)	8.2	5.9	4.2	3.8	4.3	4.5
Employment (in hours)	-0.4	1.5	1.4	1.5	0.4	0.0
Other items						
Labour income share, business sector (in %, level in final year)	72.6	71.6	70.7	67.9	69.6	71.1
Labour productivity, business sector (per hour)	1.2	0.7	0.6	0.6	1.0	0.9
Individual saving share (% of disposable household income, level in final year)	-2.3	-0.2	7.3	5.4	6.4	7.3
Current account balance (in % of GDP, level in final year)	8.3	8.1	10.0	10.4	9.0	8.6
	% of GDP, levels in final year					
Public sector						
EMU balance	-2.9	1.3	-2.2	-1.8	-2.2	-2.9
EMU debt	67.2	56.0	50.5	44.5	48.4	53.9
Public financial burden	36.7	38.8	39.2	37.9	38.9	39.1
Gross public expenditure	47.5	43.1	46.2	44.0	45.4	46.3

(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 poverty line is based on the new poverty definition used by Statistics Netherlands, SCP and Nibud.
(g) Up to the end of the 2018-2021 period, the arithmetic mean was used instead of the average purchasing power development per year.

3 Uncertainty

Donald Trump's arrival in office as president of the United States creates additional uncertainty for the Dutch and global economy. First, there is uncertainty surrounding trade policy. Key risks include broader import duties on European exports than the currently announced tariffs on steel and aluminium (see the box entitled 'Effect of trade tariffs'). Deregulation in the United States may also weaken the competitive position of Europe and the Netherlands. But the uncertainty surrounding economic policy does not stop there. More disruptive changes, for example in security or financial markets, could throw the global economy off balance.

Other geopolitical tensions also pose a risk to the Dutch economy. An escalation of the Middle East conflict could drive energy prices higher and disrupt trade routes, making trade slower and more expensive. A further escalation of the war in Ukraine could cause similar problems. Hybrid attacks on Western infrastructure could lead to economic failure. Tensions over Taiwan could complicate semiconductor imports or lead to export restrictions for ASML. Blockades of the South China Sea could also seriously affect international trade.

Geopolitical uncertainty increases the need for effective European cooperation in areas such as security, migration, energy transition and innovation. This requires additional investments and reforms, both among national governments and at European Union level (such as the completion of the single market and capital markets union). At the same time, internal political tensions and early elections in countries such as Germany and France complicate the agreement of a common European agenda. The sharp rises in government debt in many European countries also limit governments' investment capacity and are themselves a potential source of uncertainty in financial markets. Choices will need to be made at European Union and national government level to direct scarce resources to tackling urgent social issues.

Appendices

The appendices to the Central Economic Plan 2025 (CEP 2025) are available digitally on the CPB website (link).

The figures in the following tables correspond to the 2023 National Accounts of Statistics Netherlands. The figures take account of the 2021 revision to the National Accounts (for more information on this revision, see Statistics Netherlands (link)). The figures for the years 1995/96 to 2023 are based on Statistics Netherlands information after revision as published on Statline in June 2024, supplemented with CPB interpolations and estimates made by CPB based on developments prior to the 2021 revision. All figures from before 1995 predate the 2021 revision, so there is a revision break in the time series. This break has been made visible by including the year 1995 in the time series both before and after revision.

The following appendices are available:

1	Main economic indicators for the Netherlands, 1970-2029
2	Additional economic indicators for the Netherlands, 1970-2029
3	Key data for the world economy and external data for the Netherlands, 1970-2029
4.1 - 4.7	Means and expenditures 2023 to 2029 (€ billions, annual percentage changes)
5	Means and expenditures, changes, 1970-2029
6	Means and expenditures, in current prices, 1970-2029
7	Consumption, income and savings of households and gross fixed investment, 1970-2029
8	Dutch foreign trade, 1970-2029
9	Prices, wages and the linking of social security to the minimum wage, 1970-2029
10	Main indicators for the labour market, 1970-2029
11	Main indicators for public sector finances, by function, 1970-2029
12	Main indicators for public sector, expenditure and income, 1970-2029
13	Tax and premium receipts, 2000-2029
14	Policy-induced development of the financial burden, 2018-2029
15	Social security, 1970-2029
16	Rates of income tax and social security, 2001-2029
17	Nominal disposable incomes, 2025 and 2026
18	Purchasing power, wedge, wages and social security contributions, 1970-2029
19A	Static purchasing power growth per year, 2025 and 2026
19B	Static purchasing power growth, average per year, 2025-2028