# Economic Developments and Outlook

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# Contents

# Summary and policy recommendations

## Outlook for the Dutch economy

The year 2022 that is now drawing to a close has been a year of two halves. In the first half, the economy was still running at full steam, with the result that full-year growth amounts to 4.2%. The second half saw GDP growth turn into a slight contraction due to high inflation and lower world trade growth. The economy is set to stabilise in 2023, with GDP growth of 0.8%. Growth will then pick up again, buoyed by temporary government policies to provide income compensation for high energy prices. In 2024, the economy is expected to grow at the potential rate of 1.6%.

Inflation is expected to have peaked in 2022. Price increases are likely to be less dramatic in the years ahead, given the anticipated energy prices and government measures. Inflation is projected to average 11.5% this year, mainly due to the exceptionally high rise in energy prices over the past year. It will then fall to 4.9% in 2023 and 5.0% in 2024, the year in which the government-imposed energy price cap ends. Core inflation will also remain high as a result of high energy inflation feeding through to the prices of other goods and services, the tight labour market and the economy's high capacity utilisation rate.

The labour market will remain extremely tight throughout the projection period. Employment growth will fall below labour supply growth next year, causing projected unemployment to rise from 3.6% this year to 4.2% in 2023, before edging lower to 4.0% in 2024. This tightness and high inflation are driving wage rises higher. The increase in negotiated wages in the corporate sector is expected to accelerate from 2.9% this year to 5.0% in 2023 and 4.2% in 2024. The labour income share (LIS) declines throughout the projection period, from 78.4% in 2021 to 74.8% in 2024 (corporate sector).

The housing market is cooling down. As a result of rising interest rates and lower confidence, the hitherto very strong rise in prices (14% this year) will level off rapidly with a fall of over 3% in the next two years. Rising mortgage rates are an important transmission channel for monetary policy tightening for the Netherlands. This means that house prices will fall, along with spending and inflation.

The COVID-19 crisis did not derail the public finances. The government's measures to support purchasing power amid high energy prices will push the budget deficit to 3.0% of GDP in 2023. The debt-to-GDP ratio will fall to just below 50% of GDP next year and decline further to 47.7% of GDP in 2024. This is mainly due to the denominator effect of high inflation.

These projections are subject to a high level of uncertainty, involving financial stability risks, for example.[1] Energy and food prices may also remain high for an extended period. In such a scenario, with world trade growth also slowing, GDP growth in 2023 and 2024 would be on average 0.8 percentage points lower than projected. In addition, inflation would rise above 9% in 2024, around 4.5 percentage points higher than in our projections. In a variant including a one-year extension to the energy price cap, household purchasing power is supported for longer, but the budget deficit worsens.

1 Financial Stability Report - autumn 2022 (dnb.nl)

## Policy recommendations related to the projections

The Dutch economy will cool, but continue to run above potential. Although growth will stabilise, the state of the economy will be perceived to be much worse due to the impact of high inflation on lower- and middle-income groups, and on firms that are highly dependent on fossil fuels. High energy prices will cut households' purchasing power and weigh on the earnings growth of energy-intensive firms.[2] Mitigating this loss of income will require a concerted and forward-looking strategy including at least the following elements:

1. **A more sustainable economy makes households and businesses less vulnerable to high energy costs.** In the short term, energy conservation can provide some relief, and it is important to invest heavily in making energy-inefficient homes and businesses more sustainable.[3] The government could take the lead and play a larger, more central role here. Over the longer term, the government needs to accelerate the transition to more fossil-free energy with improved energy infrastructure, emissions pricing, accelerated development of green technologies and reduced policy uncertainty. This requires coordinated efforts on the part of the government, the trade unions and the corporate sector to tackle the issue of labour market shortages. If they fail to do so, the transition will be hampered by a current and future scarcity of qualified staff.[4]

2. **In the shorter term, purchasing power losses can be cushioned by income growth.** Since the labour income share is falling, there may be scope for additional wage increases in some sectors. At the same time, automatic price compensation is not the right way forward, as it could fuel a wage-price spiral.[5] For vulnerable households, however, wage growth alone may be insufficient.[6]

3. **Paying long-term compensation for energy costs to large groups of households and firms would be unwise.** With energy prices set to remain high, the government will have to target its policies more effectively:
   a. compensation should be focused only on those households that would face financial difficulties without income support. Broad, untargeted support would make it more difficult to slow the pace of inflation. Tightening monetary policy is more effective if fiscal policy is not expansionary at the same time.[7]
   b. Support for energy-intensive firms must also be limited. Such support will become increasingly costly if energy prices remain high. It also has wider economic downsides, as it supports non-viable businesses in a tight labour market. Decisions on any further support and on the definition of essential businesses are best coordinated at European level.

4. **Compensation must have permanent funding.** A return to fiscal discipline is important. Continuing to pay generous, unfunded compensation could eventually increase the debt-to-GDP ratio. Given the tight labour market, any tax increases should not affect the supply of labour. This means wealth tax increases would be a more obvious way forward.

2 Higher energy costs have limited impact on corporate profits (dnb.nl)
3 Encourage homeowners to make their homes more sustainable (dnb.nl)
4 The SER opinion on labour market problems in social sectors can provide some guidance in this regard.
5 Interaction between wages and prices: a negative spiral?
6 Wages are rising in line with inflation to a limited extent (dnb.nl)
7 Inflation reduced faster if central bank and governments apply brakes simultaneously (dnb.nl)

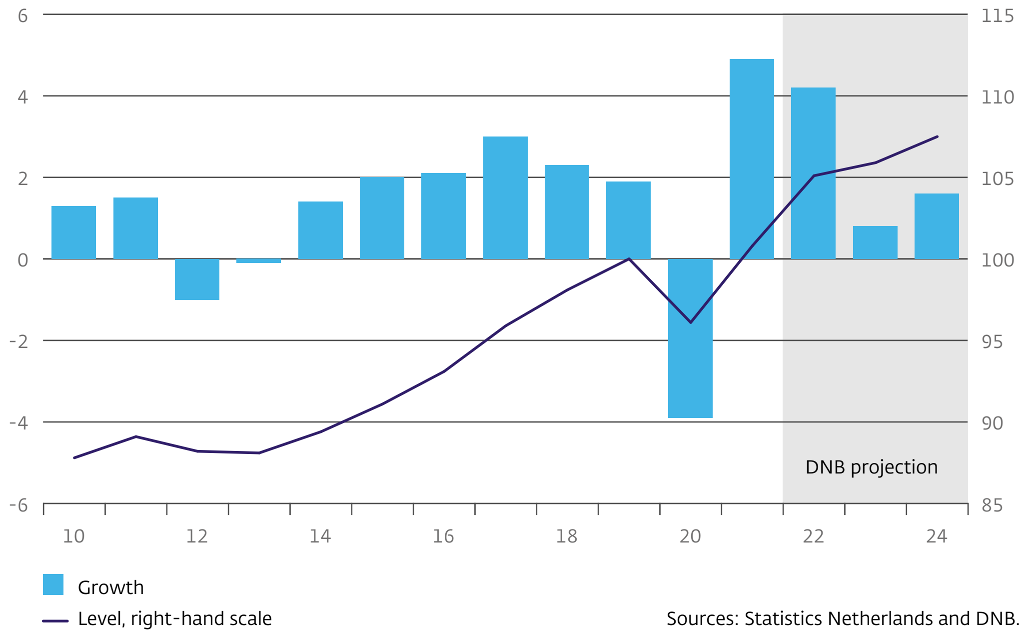
# Economic growth falls

**As it draws to a close, 2022 has been a year of two halves for the Dutch economy.** The positive impact of the reopening of the economy after the final COVID-19 measures were lifted gave way to persistent uncertainty and sharply higher energy prices during the year. Household confidence, and later business confidence, had already fallen, particularly following Russia's invasion of Ukraine. Whereas the economy was still running at full steam in the first half of 2022, unemployment had been rising slowly since the summer and economic growth turned to a contraction in the second half of the year. Gross domestic product (GDP) nevertheless grew by an average of 4.2% in full-year 2022, mainly due to the strong recovery in late 2021 (carry-over effect) and growth in the first two quarters. With the exception of 2021 (4.9%), this is the highest growth rate recorded since 2000. A full overview of the projections for the 2022-2024 period can be found in the Key Data Table.[8] The international assumptions used for the projections are described in Box 1.

The slump in the second half of 2022 is expected to be short-lived. The economy should slowly recover throughout 2023, supported by government policies to cushion the impact of rising energy prices. GDP is expected to contract further in Q1 2023. A stabilisation is expected for 2023 as a whole, with GDP growth of 0.8%. In 2024, GDP growth is projected to return to its potential rate (Figure 1). Tensions between supply and demand in the economy are therefore unlikely to ease in the years ahead, which means a persistently tight labour market and inflation declining only slowly.[9] The output gap, the difference between projected and potential GDP, is 2.6% in 2022. Despite a projected decline to 1.7% in 2023 and 2024, this positive output gap indicates continued high capacity utilisation, i.e. an economy running above capacity throughout the projection period.

## Figure 1 Gross domestic product

Volume; year-on-year percentage changes; 2019 = 100




Sources: Statistics Netherlands and DNB.

8 We carry out our projections in part using the DELFI macroeconomic model.
9 These projections are based on information available on 28 November 2022.The assumptions for relevant world trade, exchange rates, international commodity prices and interest rates were adopted by ECB and euro area NCB experts as part of the Eurosystem projections. These international assumptions feed into our own projections, and we discuss them in Box 1. More background to the DNB projections can be found at https://www.dnb.nl/en/current-economic-issues/the-state-of-the-dutch-economy/.

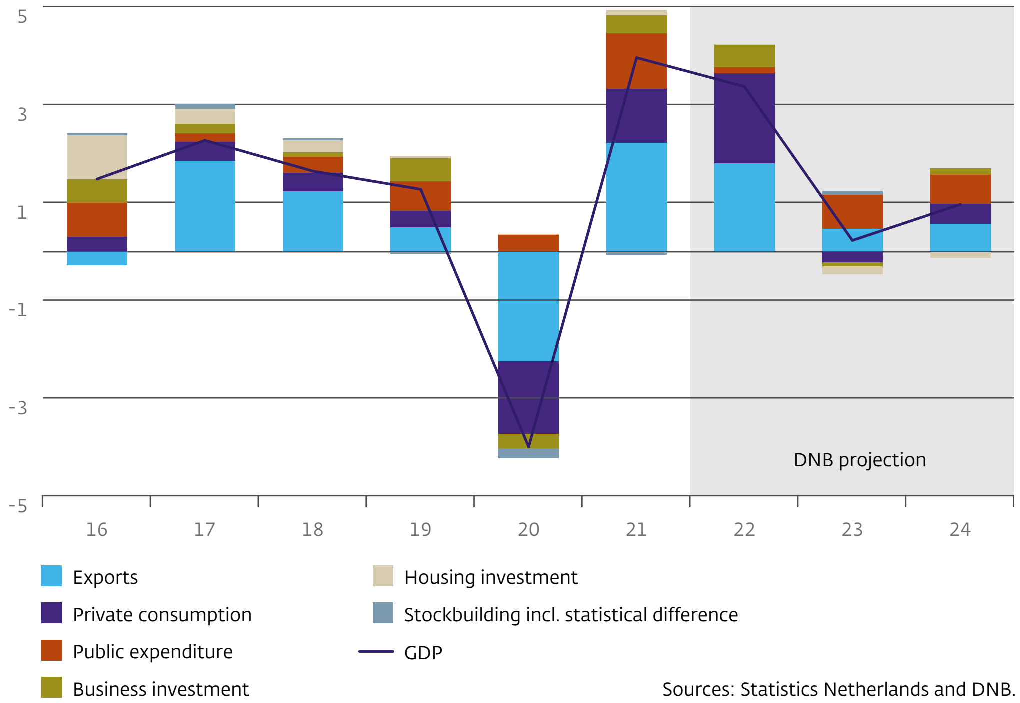
**Rising energy prices contribute strongly to inflation.** Measured by the HICP, inflation rose to an unprecedented 11.5% in 2022. This is financially impacting all households, but particularly the lower- and middle-income groups. On the other hand, spending is being supported by government compensation aimed partly at lowering inflation while providing direct income support. An additional measure in 2023 will be the energy price cap, which is projected to substantially lower inflation during that year (4.9%). From a macroeconomic perspective, the cooling of the economy will also contribute to downward pressure on prices (see Inflation).

**Over the projection period as a whole, government spending in particular contributes positively to GDP growth.** Figure 2 shows the extent to which the expenditure categories contribute to economic growth. In 2022, the growth contribution from private consumption remains positive, mainly as a result of the carry-over from 2021. In 2023, the contribution from consumption is negative. Household consumption is already under pressure from the end of 2022, due to plummeting confidence, high prices and the cooling housing market (see Households and housing market). From 2024, consumer confidence slowly recovers, inflation declines and all expenditure components contribute to GDP growth again, except the slightly negative housing investment in 2024.

**Headcount employment sees continued very strong growth of 3.6% in 2022, due to the recovery following the relaxation of COVID-19 measures.** In subsequent years, employment growth falls back to an average of 0.5% in 2023-2024. Unemployment edges higher in 2023, but then eases back to 3.5% of the labour force. This again indicates that the economy's capacity utilisation rate remains high throughout the projection period. The tight labour market contributes to upward pressure on wages (see Labour market and wages).

## Figure 2 Sources of GDP growth

Year-on-year percentage changes and contributions in percentage points




Sources: Statistics Netherlands and DNB.

Note: Net contributions to GDP growth, after deduction of the final and cumulative intermediate imports from the respective sales categories.

## Box 1 International assumptions

**These projections are part of the half-yearly projections by the European Central Bank (ECB) for the euro area.** All central banks use the same international assumptions for their national projections. The ECB expects global GDP growth (excluding euro area) of 2.5% in 2023, a decrease of 0.6 percentage points compared to 2022. Despite the easing of supply-side constraints in global supply chains, international activity is projected to fall on lower demand due to high prices of energy and other products and persistent geopolitical uncertainty. It is assumed that the downward pressure on GDP growth due to these factors will gradually diminish from 2023.
For 2024, the ECB projects global GDP growth (excluding euro area) of 3.1%.

**The projection assumes that the war in Ukraine will continue and that trade with Russia will be permanently reduced. I**t has also been assumed that the EU's gas reserves will be sufficient to get through the winter of 2022/23, putting downward pressure on prices. Natural gas prices are based on gas futures prices prevailing at the time of the projection: an average of USD 123.5 per MWh for 2023 and USD 98.4 for 2024. This is one of the main uncertainties in our projections.
The ECB projects an oil price of USD 86.4 per barrel in 2023, substantially less than the USD 100.4 per barrel in 2022, mainly due to lower economic activity. The ECB will of course maintain its monetary policy aimed at curbing inflation and returning it to 2% over the medium term.
The short- and long-term interest rates used in the projections are between 0.8 and 1.6 percentage points higher in 2023 and 2024 than in the June projections. As usual, these assumptions are based on the latest market expectations.

# Inflation

**Inflation has reached an unprecedented high of 11.5% in 2022.** This has largely been driven by the energy component. Consumer energy prices have risen by over 80% in 2022, contributing around 6.5 percentage points to headline inflation. These figures are biased upwards by the method Statistics Netherlands (CBS) uses to measure energy prices. In this method, fluctuations in market prices of gas and electricity feed through to inflation faster than is actually the case for consumers in practice, since Statistics Netherlands assumes that consumers take out a new (fixed or variable) energy contract every month.[10] For the inflation rate, this bias mainly leads to a shift over time: with persistently higher energy prices, all consumers will eventually face higher energy prices, including those currently on fixed contracts at lower prices. Statistics Netherlands expects to switch to a new method of measuring energy prices in mid-2023, to better reflect consumers' actual energy contracts. Since not all the details are yet known, the existing method has been used in these projections for the entire projection horizon.

**Food prices have also risen sharply by 8.9% over the past year.** Higher food prices are largely associated with the increased cost of energy required to produce, store and transport food. The Russian invasion of Ukraine has also pushed up prices of grain and food oils. There are also indications that commodity prices are slow to feed through into consumer prices of food in particular, but that the effect can be long-lasting.[11] Food prices are therefore expected to continue rising sharply in the months ahead.

**Inflation has spread to other goods and services in 2022.** Core inflation, excluding energy and food, is expected to amount to 4.7% in 2022 (Figure 3). This increase is partly due to higher energy costs passed on in production and supply chains. Domestic inflationary pressures are also high due to the strong rebound in demand following the reopening of the economy, as shown by the GDP deflator, which stands at 4.9% in 2022. Unit labour costs, a key determinant in this regard, are expected to rise by 2.1% (in the corporate sector) in 2022.

**Looking ahead, HICP inflation is set to fall to 4.9% in 2023.** This decline is almost entirely due to energy inflation, which will be cut sharply by the gas and electricity price cap. Without this price cap, projected HICP inflation would have been 6.1% in 2023. An estimated 85% of consumer gas and electricity consumption is covered by the price cap. The much higher market price applies to the remaining 15%. In the projections, the price cap is lifted in 2024, in line with government policy, causing consumer energy prices to rise again in that year. Partly for that reason, inflation should come to 5.0% for 2024, making it the fourth year in succession with HICP inflation above 2%, the ECB's medium-term inflation target for the euro area.

**Core inflation is projected to amount to 4.8% in 2023, slightly higher than in 2022, and will remain at 2.8% in 2024.** This outlook for core inflation (HICP excluding energy and food) is considerably higher than in previous projections. This reflects higher prices for energy and other commodities, which feed through into consumer prices after a time lag. The expected wage growth is also higher than previously projected. Unit labour costs are projected to rise by 4.6% in 2023. Both factors will contribute to more stubborn core inflation.

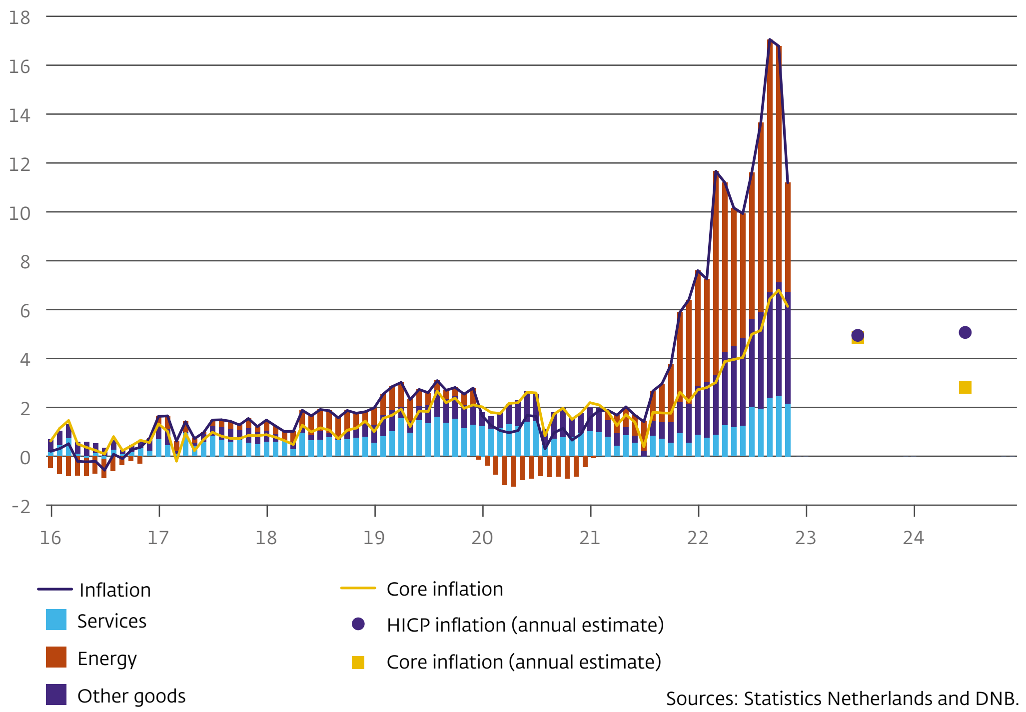
10 [Towards a new method of calculating energy prices (cbs.nl)]
11 DNB internal analysis.

**The government's inflation-compensation measures have the effect of reducing HICP inflation, but they put upward pressure on core inflation over time.** The projected impact of the measures targeting energy inflation is dominated by the effect of the energy price cap. This will dampen energy inflation, and hence HICP inflation, in 2023. In 2024 – when the price cap expires – an opposite, upward impact on HICP inflation is projected. The measures also affect core inflation, with an upward effect over time. Box 2 analyses the effects of compensation policies on inflation (including core inflation) in more detail.

**Although energy prices remain high in the projections, no account has been taken of any full or partial extension of the support measures beyond 2023.** This could take the form of income transfers specifically for lower income groups, for example. The impact of this on inflation is likely to be somewhat more direct, since a proportionally larger share of this type of support will be used for spending. The longer the support lasts, the greater and more prolonged its effect on inflation will be. The inflation effect may also be somewhat stronger due to the persistently high output gap.

## Figure 3 HICP inflation and core inflation

Year-on-year percentage changes and contributions in percentage points




Sources: Statistics Netherlands and DNB.

Note: Core inflation excludes food and energy.

## Box 2 Impact of support measures on projected inflation

In 2022 and 2023, the support measures dampen energy inflation for consumers, but in 2024 – when the gas and electricity price cap expires – energy inflation (and hence inflation as a whole) is actually pushed higher, since market prices for gas are likely to remain higher than the price cap. The measures also increase core inflation over time, as the increase in demand (due to the increase in real disposable income) leads to a wider output gap. On the other hand, the lower HICP inflation in the projections puts downward pressure on wages, lowering core inflation through the labour cost channel in the model. Eventually, however, the upside effect of the wider output gap becomes dominant.

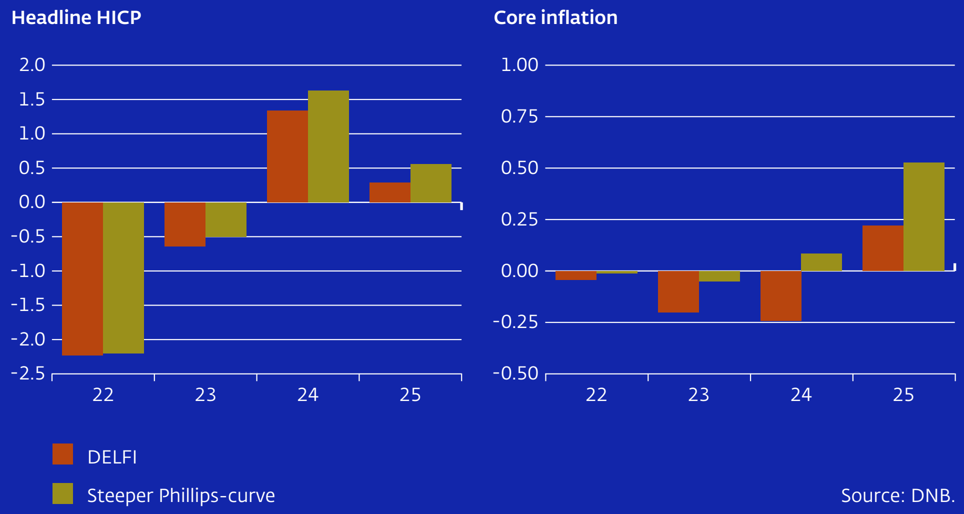
The projections take all support measures into account. Besides the price cap in 2023, these include direct income support and temporary cuts to energy tax in January 2022, fuel excise duty in April 2022 and VAT on energy in July 2022. The estimated impact of the energy cap alone on HICP inflation in 2023 is -1.2 percentage points. The impact of all support measures on HICP inflation is projected to be -0.6 percentage points in 2023, 1.3 in 2024 and 0.3 in 2025. A significant part of the projected inflation in 2024 (5.0%) therefore comes from the support measures. The impact on core inflation is around -0.2 percentage points in 2023 and 2024 and turns positive in 2025, with a rise of around 0.2 percentage points.

There is a risk that the impact on core inflation will be greater. The impact calculated in the projections is based on an estimated slope of the Phillips curve using data up to and including 2019.This slope quantifies the impact of the output gap on inflation, determining how strongly inflation responds to a change in economic demand (relative to supply). If the recent high-inflation years (up to and including Q2 2022) are also included when estimating this slope, it is quite possible that the impact of extra demand on inflation could be three times greater. In that case, the projected impact of the measures on core inflation would turn positive as soon as 2024 and amount to more than 0.5 percentage points in 2025 (Figure 4). This would mean a steep rise in core inflation in that year.

Moreover, recent DNB research (footnote 7) shows that inflation-compensation measures by European governments make it difficult to reduce inflation if they lead to a protracted period of loose fiscal policy. The government steps on the economy's accelerator pedal, so to speak, just at the time when the ECB is trying to slow it down with interest rate hikes. High inflation can therefore be curbed more quickly if European governments' support measures have little or no easing effect on the economy as a whole.

### Figure 4 Impact of inflation-compensation measures on inflation

Year-on-year percentage changes




Source: DNB.

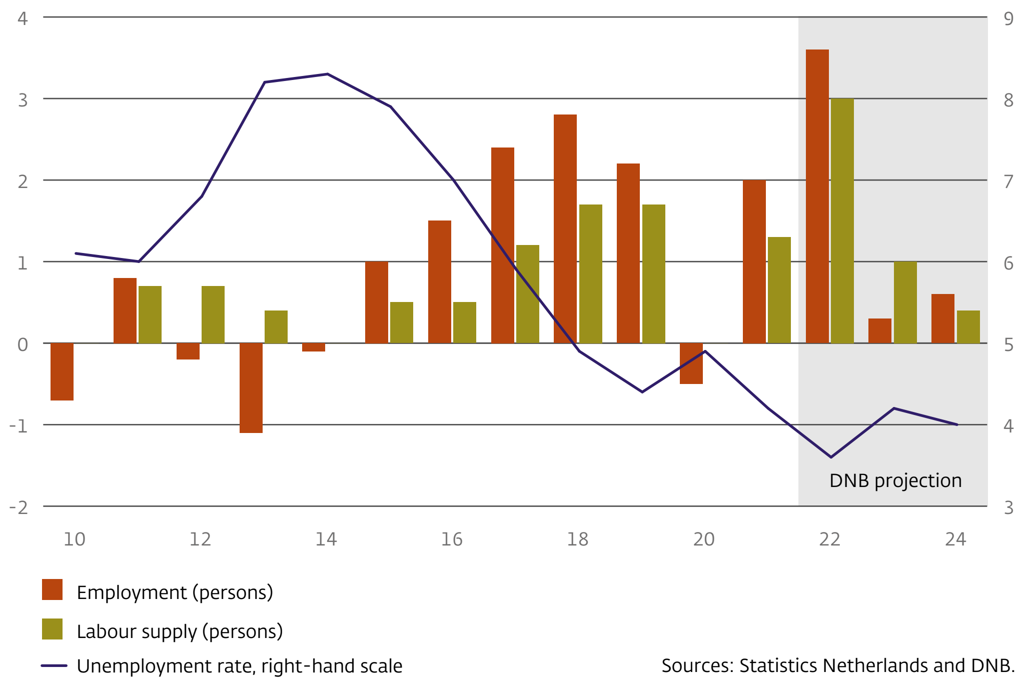
# Labour market and wages

**Employment growth falls sharply.** This growth peaks at 3.6% this year, mainly due to the strong economic recovery through to the first half of 2022. Demand for staff increased rapidly, partly due to the reopening of the economy. This increase has slowed since mid-2022. In Q3 2022, the growth in the number of persons employed in business services and hospitality, transport & trade was already lower than in the previous quarter. The number of people employed through temporary employment agencies actually fell. In the projections, the number of employed persons declines in late 2022 and early 2023, bringing employment growth to a near standstill in 2023 (0.3%). Employment also increases only slightly by 0.6% in 2024 (Figure 5).

**The labour market remains tight despite the slowdown in growth.** Employment continues to grow slightly, so the rise in unemployment also remains limited. The unemployment rate has edged higher since May 2022, from 3.2% of the labour force in April to 3.7% in October. This rise in unemployment is mainly due to sustained growth in labour supply. More and more people who were previously inactive have started looking for jobs, which is not surprising, given the persistently high number of vacancies. There were 449,000 vacancies in September 2022, well above the average of 181,000 since measurements began in 1997. High inflation can also lead to a so-called added worker effect: in some households, a loss of purchasing power prompts the non-working partner to seek work. This sustained labour supply growth, combined with low employment growth, means that unemployment will continue to rise in the forthcoming quarters and will average 4.2% in 2023. In 2024, unemployment decreases gradually again to 4.0%. The lack of any sharp rise in unemployment is due not only to the limited nature of the employment contraction, but also to the fact that labour supply growth slows from 3.0% in 2022 to 0.4% in 2024.

## Figure 5 Labour market

Year-on-year percentage changes and percentage of labour force



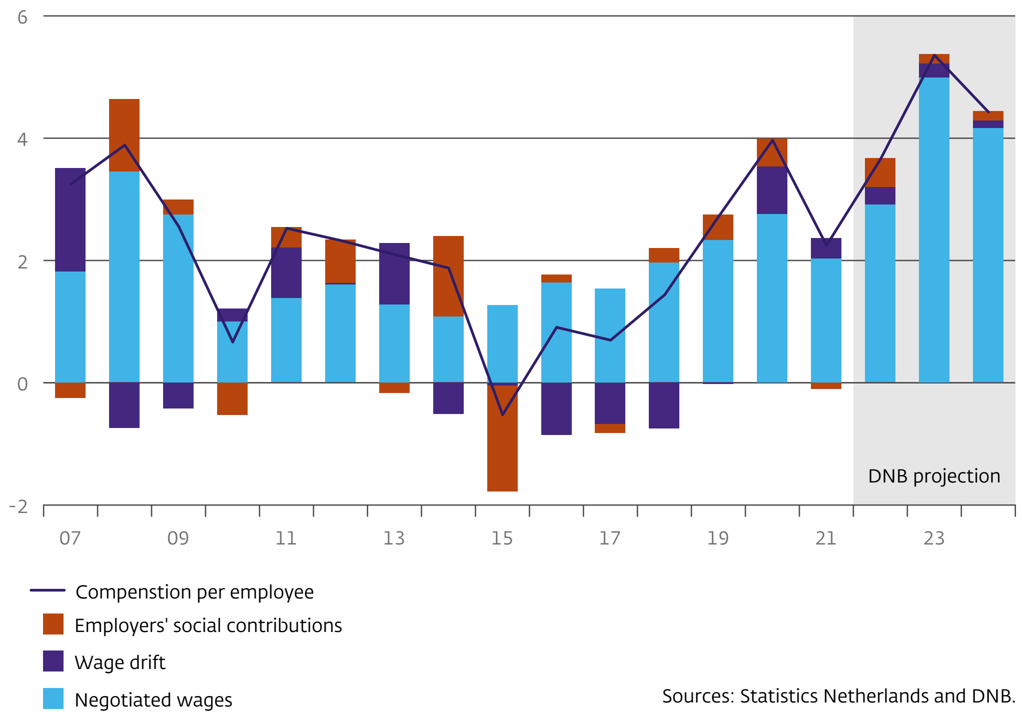

Sources: Statistics Netherlands and DNB.

**Projected wage growth rises, peaking for the time being in 2023.** The projected growth in negotiated wages (in the corporate sector) rises from an average of 2.0% in 2021 to 2.9% in 2022 (Figure 6). Given the already substantial wage rises agreed in new collective labour agreements, negotiated wage growth is expected to peak at 5.0% next year. With unemployment rising slightly and inflation falling in the years ahead, growth in collective bargaining wages is projected to fall to 4.2% in 2024. This means negotiated wage growth over the projection period will be well above the average increase over the past decade (1.5%). The contribution from wage drift remains modest in 2023 and 2024, despite the tight labour market.

**There may be room for higher wage growth.** The projected labour income share (LIS) falls from 2023. The LIS is the part of gross value added that represents labour remuneration. In the corporate sector, this indicator is expected to decrease from 74.9% in 2022 to 72.2% in 2024. This implies that growth in nominal labour productivity outpaces wage growth on average. This development suggests there is room for higher wage growth at the macroeconomic level. This is particularly true for firms that are able to pass on their cost increases or absorb them in profit margins without overly impacting their financial health.[12] A caveat is required here: the macroeconomic decline in the LIS masks underlying sectoral differences. The fall in the LIS may also be due to profit growth in firms that are actually benefiting from high energy prices.

## Figure 6 Compensation per employee (private sector)

Year-on-year percentage changes and contributions in percentage points, in FTE's




Sources: Statistics Netherlands and DNB.

12 [Avoiding a wage-price spiral requires effort from governments, central banks and social partners (dnb.nl)]

# Households and housing market

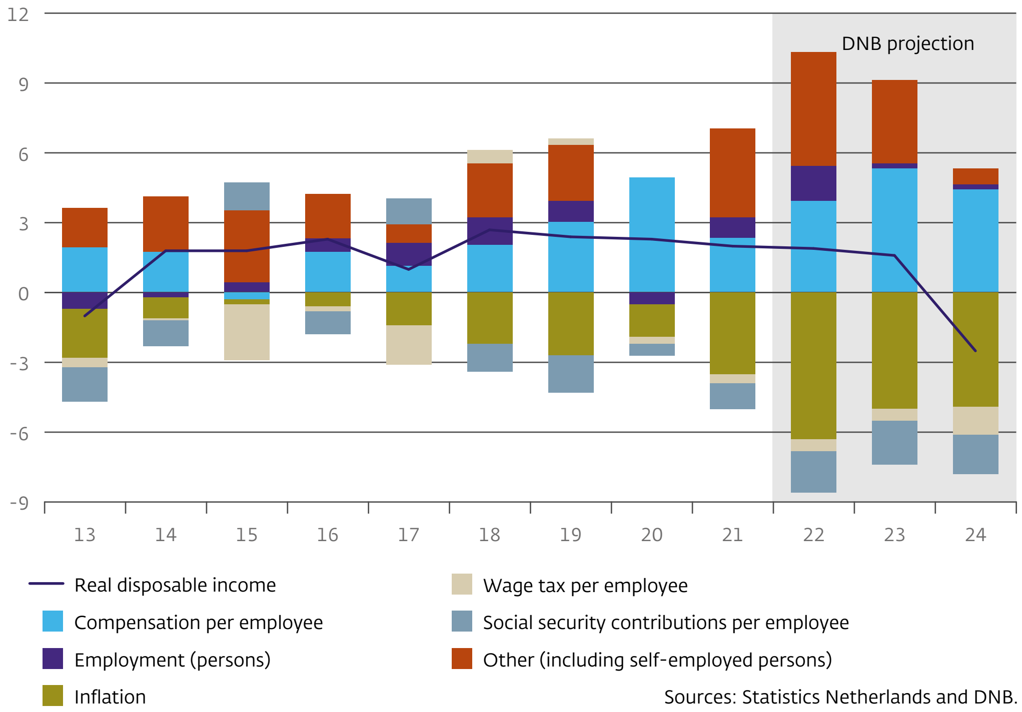
**Private consumption grew surprisingly strongly in the first half of 2022.** Despite the outbreak of a new, albeit less severe variant of COVID-19 and the Russian invasion of Ukraine – accompanied by (further) rises in energy and food prices and a slump in consumer confidence – private consumption grew strongly in the first half of 2022. This was mainly driven by services consumption, which had been under pressure from containment measures in the previous two years. Services consumption grew more than 17% year-on-year in Q2, while consumption of both durable and non-durable goods contracted. Private consumption growth weakened significantly again in Q3 2022, amounting to 0.1% (quarter-on-quarter). The projected growth of private consumption in full-year 2022 is an average of 5.8%.

**Consumption is expected to contract by 0.3% in 2023, partly due to very low consumer confidence and persistently high prices.** This is linked to uncertainty fuelled by Russia's invasion of Ukraine, rising unemployment and higher interest rates. In addition, the cooling housing market provides much less stimulus to household spending than in previous years. On the other hand, measures have been announced to provide partial compensation for the sharp rise in household energy bills. Real disposable income consequently grows by 1.6% in 2023. This cushions the contraction in private consumption compared to a scenario without support measures.

**Increased consumer confidence contributes to a rebound in consumption growth in 2024.** Real household disposable income is expected to shrink by 2.5% in 2024. This is largely due to higher (net) interest payments on mortgages and the withdrawal of government support measures (Figure 7). The slightly weaker growth in negotiated wages, compared to the previous year, and a rise in payroll tax are additional factors. Consumption growth nevertheless looks set to rebound in 2024, thanks to the expected improvement in consumer confidence. Projected consumption growth in 2024 is 1.8%. Free savings consequently decrease in 2024 and the individual savings rate falls to 6.3% of disposable income.

## Figure 7 Real disposable household income

Year-on-year percentage changes and contributions in percentage points




Sources: Statistics Netherlands and DNB.

**The housing market is cooling down, buyers have a wider choice of properties and selling times are lengthening slightly.** The scale and frequency of outbidding are also falling. From August to the end of October 2022, house prices showed a slight decline compared to the previous months. Prices in October 2022 were still nearly 8% higher than one year earlier. A major driver of price rises in recent years has been the increased financing capacity due to gross income growth and low interest rates. Prices had already been pushed higher by government policies. With mortgage rates now rising, buyers' borrowing capacity is falling again. Mortgage interest rates have risen by around 3 percentage points in 2022. As a result, households will not be able to offer as much to buy a home as at the beginning of this year. Higher energy prices are also limiting household budgets. This weighs on house price growth in the projections.

**House prices are expected to fall in the years ahead, by 3.1% in 2023 and 3.3% in 2024.** This is a downward adjustment compared to the June projections. The main reason is that mortgage interest rates have risen further than expected, reducing borrowers' financing capacity more sharply. On the basis of the current interest rate expectations, the financing capacity in the projections will not fall much further in the years ahead. This is due to strong projected wage growth. The projection for house prices is even more uncertain than usual, however, as the market appears to have reached a turning point. A shift in general sentiment may therefore have a flywheel effect, producing bigger price rises or falls than those shown in the model.

**The cooling of the housing market is also having a dampening effect on residential investment.** This is expected to fall by 5.1% in 2023 and 3.7% in 2024 (in real terms). The underlying reasons for this are lower house prices, lower transaction numbers and the decrease in the number of building permits. Uncertainty in the housing market, higher interest rates and rising construction costs make it more difficult to get projects off the ground. The recent Council of State ruling on the construction exemption for nitrogen emissions is also expected to cause a drop in the number of permits next year.

# Businesses and exports

**High energy prices pose a challenge for businesses, but most seem to be coping well for now.** Most businesses plan to absorb higher production costs by raising prices, according to the Statistics Netherlands Business Survey. Many are also relying on cost savings. For example, the manufacturing sector cut its natural gas consumption by almost 30% in the first nine months of 2022 compared to the same months in 2019-2021, even with significant production growth. Differences can nevertheless be seen between different types of industry, with some energy-intensive sectors (e.g. metals and chemicals) actually experiencing a drop in production. On average, however, businesses seem to be coping well with the higher energy costs. Although the number of declared bankruptcies has steadily increased since mid-2021 (to 224 in November 2022), it remains low, for example compared to the peak of 911 bankruptcies in May 2013. A persistent issue faced by many businesses is tightness on the supply side of the economy: the proportion of businesses experiencing a shortage of staff (36.4%) or materials (16%) remains high.

**In 2022 as a whole, business investment still grew by 5.5%, but that growth will turn into a slight contraction next year.** Growth in business investment (non-residential) this year was buoyed by an exceptionally strong second quarter, which saw heavy investment in transport equipment and buildings. An uncertain outlook, rising financing costs and falling confidence among producers led to a contraction in business investment in the second half of the year. This contraction carries over into the 2023 full-year figure, which amounts to -0.8% despite four quarters of slight growth. In line with accelerating economic growth, business investment is projected to recover slightly in 2024, reaching a growth rate of 2%.

**Projected growth in bank lending is considerably lower in the years ahead than in 2022.** This is due to lower demand for credit and tighter lending conditions. Due to the increased uncertainty and higher perceived risk, banks responding to the Bank Lending Survey (BLS) report that they plan to tighten their lending conditions further for both small and medium-sized enterprises (SMEs) and large companies. At the same time, they expect demand for business lending to fall in Q4 2022 compared to the previous quarter. In the Survey on the Access to Finance of Enterprises (SAFE), SMEs indicate that they are having more difficulty obtaining credit this year than last. Growth in bank credit to non-financial corporations is expected to amount to 2.6% in 2022. In the projections bank credit growth turns into a contraction of 0.3% in 2023 followed by slight growth of 0.2% in 2024.

**Catch-up growth in services exports contributes to strong growth in Dutch exports in 2022.** Dutch exports of goods and services (excluding energy) are expected to grow by 6.2% in 2022. This marks a sharp upward revision from the June 2022 projections, mainly due to stronger-than-expected growth in the first half of 2022. This growth – especially in Q2 – was mainly due to the relaxation of pandemic-related containment measures in various countries. Exports of services grew in particular, including spending by non-residents in the Netherlands (e.g. tourism). Growth in domestically produced exports nevertheless continues to lag behind relevant world trade growth, causing the market share of exporters of these goods and services to decline somewhat in 2022 (Table 1).

**World trade growth to weaken from 2023.** Prospects for the international environment are very important to the open Dutch economy, and they are reflected in the projection of the volume of world trade (see Box 1). With the weaker global economic outlook depressing demand for Dutch goods and services, the growth outlook for world trade from 2023 is not as bright as was anticipated six months ago. This is despite the easing of supply constraints in global supply chains. As a result, the projected growth rate is to fall sharply in 2023, to 2%. In the following year, relevant world trade growth is projected to follow the anticipated gradual recovery in the growth of the global economy, thanks to the expected falls in exceptionally high inflation and uncertainty. This will accelerate growth to 3% in 2024.

**In line with the deterioration of the global economic outlook, the growth of Dutch exports also slows from 2023 onwards.** The picture for Dutch exports is therefore less favourable, mainly due to real exchange rate developments.[13] Growth in exports of domestic goods and services (excluding energy) is consequently expected to fall significantly to 0.6% in 2023, before recovering slightly to 1.9% in 2024. At the same time, price competitiveness is under pressure due to rising labour costs. At the end of the projection horizon, the market share of domestic exports is below the pre-pandemic level.

## Table 1 Dutch exports and competitiveness

Percentage changes

| | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| **Volume** | | | | |
| Relevant world trade (1) | 9.3 | 7.4 | 2.0 | 3.0 |
| Exports of good and services (2) | 5.3 | 4.5 | 2.5 | 2.6 |
| domestically produced | 1.5 | 5.5 | 1.3 | 1.7 |
| re-exports | 10.6 | 3.1 | 4.0 | 3.8 |
| Trade performance (2-1) | -3.7 | -2.8 | 0.5 | -0.4 |
| Exports of goods and services excl. energy | 5.6 | 5.1 | 2.0 | 2.7 |
| domestically produced (3) | 1.3 | 6.2 | 0.6 | 1.9 |
| re-exports | 11.9 | 3.6 | 4.0 | 3.8 |
| Market performance (3-1) | -7.4 | -1.1 | -1.4 | -1.1 |
| **Price** | | | | |
| Competitor price (4) | 8.2 | 17.0 | 3.2 | 1.7 |
| Exports of goods and services | 8.3 | 16.4 | 3.7 | 1.8 |
| domestically produced excl. energy (5) | 6.1 | 8.1 | 5.2 | 4.2 |
| Price competitiveness (4-5) | 1.9 | 8.3 | -1.9 | -2.4 |

Sources: DNB en ECB.

13 See also the Exports Radar (CBS).

# Public finances

**The COVID-19 crisis did not derail the public finances.** The budget deficit is expected to be significantly better in 2022, at 1.0%, compared to the previous year (2.6%). This is largely due to the expiry of COVID-19 support measures in Q1. Increased energy prices also lead to higher revenues from the sale of natural gas. Furthermore, growth in government spending was relatively limited in the first three quarters of 2022.

**Purchasing power measures are weighing on the fiscal position, however.** The 2023 Budget contains a package of measures worth around EUR 15 billion to compensate for high energy prices. In addition, the government has announced an energy price cap for households in 2023, as well as a subsidy scheme for energy-intensive SMEs.[14] The cost of the price cap will depend greatly on gas and electricity prices in the market. The projected amount is expected to be similar to that included in the Autumn Memorandum (around EUR 11 billion). The subsequently announced measures were partly covered by the cancellation of the planned energy tax cut and by a solidarity levy on excess profits of energy companies.15 In the Autumn Memorandum, the government announced that it would plug the remaining funding gap of EUR 7.5 billion in the spring of 2023. The latter amount has not yet been included in the projections.

**The government deficit peaks in 2023 and then declines somewhat.** The deficit is expected to widen to 3.0% of GDP in 2023, reflecting a highly expansionary fiscal policy (Table 2). In addition to compensation measures, the cost of hosting refugees from Ukraine is also a factor. Since most of the compensation measures are temporary, the deficit is projected to decrease again in 2024, to 1.4% of GDP. In this sense, 2024 could perhaps be seen as the first "normal" fiscal year since the outbreak of the pandemic. Although not derailed by the COVID-19 recession, the state of public finances has changed: in 2019, there was still a budget surplus of 1.8% of GDP. The increase in the budget deficit is largely due to expenditure measures included in the coalition agreement such as additional funding for education, defence and climate policy.

## Table 2 Public sector key data

Percentage of GDP

| | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| Public expenditures | 46.6 | 45.3 | 47.2 | 45.8 |
| Taxes and social security contributions | 39.7 | 39.5 | 39.6 | 39.3 |
| Other income | 4.3 | 4.8 | 4.7 | 5.1 |
| Primary balance | -2.0 | -0.5 | -2.4 | -0.9 |
| EMU balance | -2.6 | -1.0 | -3.0 | -1.4 |
| EMU debt (based on end-of-period) | 52.4 | 50.2 | 49.8 | 47.7 |

Source: DNB.

14 Energy cost contribution scheme for energy-intensive SMEs (TEK).
15 The government also announced an inframarginal levy on 30 November 2022 to cap the revenues of electricity producers. Due to the timing of the completion of the projections, the expected revenue of EUR 1.8 billion has not been included.

**The debt-to-GDP ratio continues to fall, mainly thanks to high nominal GDP growth, but it could rise over time if deficits persist.** Debt is expected to reach 50.2% of GDP in 2022, compared to more than 52% in the previous year. Besides the lower government deficit, this decline is mainly driven by high nominal growth (real GDP growth plus inflation), which reduces the debt-to-GDP ratio through the denominator effect. High inflation will also lead to a slight decline in the debt-to-GDP ratio in 2023, despite the projected low GDP growth and the expected increase in the deficit to 3% of GDP. In 2024, the debt-to-GDP ratio is expected to fall further, to 47.7%. The expected repayment of coronavirus-related tax deferrals will reduce government debt slightly in the years ahead.[16] Although the debt-to-GDP ratio has seemed immune to loose fiscal policy in recent years, it may well rise in the event of persistently large deficits. This can be illustrated by a simple calculation, assuming 2% inflation, real GDP growth of 1.3% and an interest rate on government debt of 2.3%.[17] Taking a debt level of 50% of GDP as the starting point and an annual primary deficit of -2.4% of GDP (as in the 2023 projection), debt then increases to almost 70% of GDP in 10 years.

16 This is based on the estimate in the 2022 Spring Memorandum that around EUR 13 billion of taxes will be repaid in the 2022-2027 period and 30% of debts will be classed as irrecoverable.
17 This GDP growth corresponds to the average potential growth for the next 10 years based on the DELFI model. The interest rate corresponds to the long-term interest rate for the Netherlands in the final year of the projection.

# Persistently high energy prices and uncertainty: an alternative scenario

**The Russian invasion of Ukraine is having persistent impacts on the global economy.** In line with current market expectations, the projections assume that the surge in energy and commodity prices along with heightened uncertainty will gradually return to more normal levels from 2023 onwards. A more severe economic impact with persistently high global energy prices and further rises in geopolitical tensions cannot be ruled out, however, and is a major downside risk in the projections. Furthermore, higher energy prices increase the total cost of the energy price cap, which may worsen the government balance further, even with the mitigating effect of higher gas revenues.

**In a calculated downside scenario, the war persists until the end of 2025 and is accompanied by increasing geopolitical uncertainty from 2023 onwards.**[18] This assumes that the embargo and sanctions will remain in force until the end of 2025. Due to these sanctions packages and growing uncertainty surrounding oil and gas availability, energy prices continue to rise worldwide in this scenario. In the case of natural gas, the gas price over the forecast horizon as a whole is assumed to be roughly 100% higher than projected (Table 3). Oil prices rise rapidly at first, exceeding the projection by more than USD 35 per barrel on average in 2023. Thereafter, this difference gradually narrows to around USD 10 in 2024, before returning to the same level as in the baseline in 2025. Since Ukraine and Russia are major commodity producers, it has also been assumed that other commodity prices (such as agricultural goods) will initially rise rapidly in 2023 before falling somewhat faster than projected in 2025. Moreover, additional volatility in financial markets causes interest rates on corporate loans and mortgages to rise more sharply than projected. The downside scenario is also accompanied by lower

## Table 3 Assumptions for alternative scenario

| | 2023 | difference vs baseline | 2024 | difference vs baseline | 2025 | difference vs baseline |
|---|---|---|---|---|---|---|
| **Level** | | | | | | |
| Oil price (USD per barrel) | 122 | (36) | 92 | (12) | 77 | (1) |
| Gas price (USD per MWh) | 246 | (123) | 201 | (103) | 128 | (59) |
| Mortgage interest rate (%) | 4.3 | (0.2) | 5.1 | (0.6) | 5.3 | (0.6) |
| Interest rate on corporate loans (%) | 3.9 | (0.3) | 4.3 | (0.7) | 4.2 | (0.7) |
| **Growth (%)** | | | | | | |
| Volume of relevant world trade | 0.2 | (-1.8) | 1.3 | (-1.7) | 3.3 | (0.1) |
| Competitor prices | 7.0 | (3.8) | 0.7 | (-1.0) | 0.5 | (-1.2) |
| Index of food prices | 4.4 | (16.4) | -5.1 | (-0.5) | -8.2 | (-5.1) |
| Index of share prices | -5.9 | (-4.3) | 2.5 | (-0.8) | 2.9 | (-0.4) |

Source: DNB.

18 This scenario and the underlying assumptions relating to the international outlook were drawn up jointly with the ECB and other central banks, but the outcomes for the Netherlands are not part of the ECB projection. The scenario was simulated using DNB's DELFI macroeconomic model.

share prices and declining confidence. This unfavourable combination of circumstances causes the growth of world trade to fall substantially. Global trade relevant to the Netherlands is severely dented in 2023 and 2024, partly through declining direct trade flows and disruptions to value chains. It is 3.5% lower than in the baseline in 2024, with a gradual recovery getting under way in 2025.[19]

**In the first variant of the calculated scenario, the energy price cap remains in place for a year.** The cap dampens the price effects of higher energy prices in 2023. Inflation in 2023 is still 1.5 percentage points higher than in the baseline due to the sharply higher oil and food prices as assumed in this scenario (Table 4, left).[20] Inflation peaks in 2024 as the price cap is withdrawn at the end of 2023. Combined with higher energy prices, inflation is over 4.5 percentage points higher than in the baseline. HICP inflation declines rapidly in 2025 due to the return of falling energy prices. However, core inflation remains above 3% due to delayed carry-over effects.

**GDP growth is an average of 0.8 percentage points below the baseline in the first variant of the scenario.** With reduced demand, rising interest rates and falling confidence, growth comes to a near standstill in 2023. Unemployment is ultimately more than one percentage point higher than in the baseline in 2025. Lower real disposable incomes, negative wealth effects and higher unemployment depress consumer spending particularly in 2024; consumption growth falls by over 2 percentage points during that year. Higher gas and electricity prices increase the cost to the government of the energy price cap in 2023, but the impact on public finances is mitigated by the associated increase in gas revenues, including in 2024 and 2025.[21] With hardly any rise in unemployment in 2023 and with nominal tax revenues initially holding up, the negative impact on the government balance is manageable. It is only in 2023 – the only year when the price cap applies – that the budget balance dips just below the EMU limit of -3% of GDP.

**In the second variant, the price cap is extended until the end of 2024.** On the one hand, as in the first variant, inflation rises in both 2023 and 2024 compared to the baseline, due to higher assumed energy prices. On the other hand, this is now offset by the dampening effect of the price cap over two years. Inflation is again higher overall in 2023 than in the baseline, but the difference in 2024 is minimal (Table 4, right). In 2025, however, the year after the cap ends, inflation is 2.4 percentage points higher than in the baseline. This rebound in inflation is less marked than in the first variant due to falling energy prices in 2025. Nevertheless, core inflation in 2025 rises somewhat further compared to the baseline.

**In the second variant, the public finances deteriorate particularly in 2024, due to the additional cost of the extended price cap.** As a result, the budget deficit is 1.0 percentage point more negative in 2024 than in the baseline. The impact on the debt-to-GDP ratio remains limited because of the denominator effect of higher prices. The negative impacts on economic growth during the period from 2023 to 2025 inclusive are somewhat smaller than in the first variant, partly because private consumption is supported for longer by the price compensation for households. Accordingly, unemployment also rises more slowly, but as unemployment tends to react to economic developments after a time lag, it may increase further after 2025.

19 No active monetary policy response in the euro area has been assumed for this scenario. The market expectations used here – and in the Eurosystem – do not imply assumptions about future interest rates.
20 The 2025 baseline used here is consistent with the 2023 and 2024 projections.
21 The scenario includes cuts to gas production in the years ahead, in line with the policy already announced.

## Table 4 Results of alternative scenario

Percentage changes, unless stated otherwise

| | 1-year energy price cap | | | | | | 2-year energy price cap | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | difference vs projection | 2024 | difference vs projection | 2025 | difference vs projection | 2023 | difference vs projection | 2024 | difference vs projection | 2025 | difference vs projection |
| Gross domestic product | 0.1 | (-0.7) | 0.4 | (-1.2) | 1.2 | (-0.4) | 0.1 | (-0.7) | 0.9 | (-0.7) | 1.2 | (-0.4) |
| Private consumption | -1.5 | (-1.2) | -0.5 | (-2.3) | 1.0 | (-0.8) | -1.5 | (-1.2) | 0.6 | (-1.2) | 0.7 | (-1.1) |
| Consumer confidence (level) | -48.7 | (-11.2) | -39.4 | (-12.2) | -16.3 | (-5.1) | -48.7 | (-11.2) | -33.3 | (-6.1) | -17.1 | (-5.9) |
| Harmonised index of consumer prices | 8.2 | (3.3) | 9.6 | (4.6) | 0.8 | (-1.5) | 8.2 | (3.3) | 5.1 | (0.1) | 4.7 | (2.4) |
| HICP energy | 14.9 | (14.1) | 48.4 | (29.8) | -9.8 | (-10.9) | 14.9 | (14.1) | 10.1 | (-8.5) | 23.4 | (22.3) |
| HICP excluding energy and food | 5.5 | (0.7) | 4.3 | (1.5) | 3.2 | (0.6) | 5.5 | (0.7) | 4.3 | (1.5) | 2.8 | (0.2) |
| Unemployment (% of labour force) | 4.3 | (0.1) | 4.6 | (0.6) | 4.7 | (1.2) | 4.3 | (0.1) | 4.6 | (0.6) | 4.4 | (0.9) |
| EMU balance (% of GDP) | -3.1 | (-0.1) | -0.6 | (0.8) | -1.5 | (-0.2) | -3.1 | (-0.1) | -2.4 | (-1.0) | -1.3 | (0.0) |
| EMU debt (% of GDP) | 49.8 | (0.0) | 45.1 | (-2.6) | 45.5 | (-1.5) | 49.8 | (0.0) | 47.3 | (-0.4) | 47.1 | (0.1) |
| Net income from energy (% GDP) | | (-0.2) | | (0.7) | | (0.4) | | (-0.2) | | (-1.3) | | (0.4) |

Source: DNB.

Note: See footnote 20 for the interpretation of the results for 2025.

# Key data in forecast for the Dutch economy

Percentage changes, unless stated otherwise

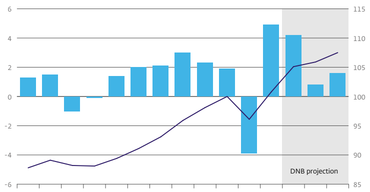
| | 2021* | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| **Volume of expenditure and output** | | | | |
| Gross domestic product | 4.9 | 4.2 | 0.8 | 1.6 |
| Private consumption | 3.6 | 5.8 | -0.3 | 1.8 |
| Public expenditure | 4.3 | 0.0 | 3.4 | 3.0 |
| Business investment | 4.7 | 5.5 | -0.8 | 2.0 |
| Housing investment | 3.2 | -0.2 | -5.1 | -3.7 |
| Exports of goods and services | 5.3 | 4.5 | 2.5 | 2.6 |
| domestically produced | 1.5 | 5.5 | 1.3 | 1.7 |
| re-exports | 10.6 | 3.1 | 4.0 | 3.8 |
| Imports of goods and services | 4.0 | 3.6 | 2.5 | 3.2 |
| domestically used | -0.2 | 4.0 | 1.5 | 2.8 |
| **Wages and prices** | | | | |
| Negotiated wages, private sector | 2.0 | 2.9 | 5.0 | 4.2 |
| Compensation per employee, private sector | 2.2 | 3.7 | 5.4 | 4.4 |
| Unit labour costs, private sector | -1.2 | 2.1 | 4.6 | 3.1 |
| Prices of domestically produced exports | 8.6 | 15.2 | 3.7 | 2.3 |
| Harmonised index of consumer prices | 2.8 | 11.5 | 4.9 | 5.0 |
| Core inflation (HICP excl. energy and food) | 1.8 | 4.7 | 4.8 | 2.8 |
| House prices, existing own homes | 15.2 | 13.9 | -3.1 | -3.3 |
| **Labour market** | | | | |
| Employment (persons, growth) | 2.0 | 3.6 | 0.3 | 0.6 |
| Labour supply (persons, growth) | 1.3 | 3.0 | 1.0 | 0.4 |
| Unemployment (persons x 1,000) | 408 | 360 | 431 | 415 |
| Unemployment (% of labour force) | 4.2 | 3.6 | 4.2 | 4.0 |

| | 2021* | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| **Public sector and financial data** | | | | |
| EMU balance (% of GDP) | -2.6 | -1.0 | -3.0 | -1.4 |
| EMU debt (% of GDP, based on end-of-period) | 52.4 | 50.2 | 49.8 | 47.7 |
| Current account (% of GDP) | 7.2 | 5.2 | 6.2 | 6.7 |
| Residential mortgage rate (based on end-of-period) | 4.4 | 2.6 | -0.2 | -0.2 |
| Bank lending to NFCs (based on end-of-period)** | 4.0 | 2.6 | -0.3 | 0.2 |
| **International assumptions** | | | | |
| Volume of relevant world trade | 9.3 | 7.4 | 2.0 | 3.0 |
| Volume of GDP United States | 5.9 | 1.9 | 0.6 | 0.9 |
| euro area | 5.2 | 3.4 | 0.5 | 1.9 |
| emerging markets | 7.0 | 3.6 | 3.5 | 4.0 |
| Short-term interest rate in the euro area (%) | -0.5 | 0.4 | 2.9 | 2.7 |
| Long-term interest rate in the Netherlands (%) | -0.3 | 1.4 | 2.3 | 2.3 |
| Euro exchange rate (USD) | 1.18 | 1.05 | 1.03 | 1.03 |
| Competitor prices | 8.2 | 17.0 | 3.2 | 1.7 |
| Oil price (UK Brent, USD per barrel) | 70.8 | 100.4 | 86.4 | 79.7 |
| Commodity prices, excluding energy (USD) | 42.1 | 6.4 | -10.8 | 0.7 |

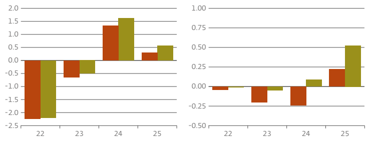
* Annual figures have been calculated based on seasonally adjusted quarterly figures and may therefore deviate marginally from the most recent National Accounts.

** Excluding cash pooling, adjusted for securitisations and breaks.

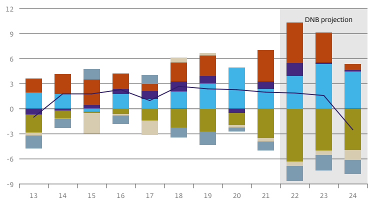
# Figures



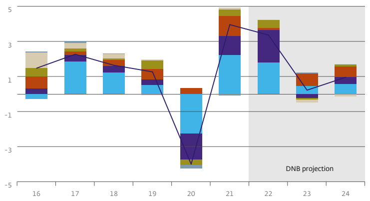

1. Gross domestic product



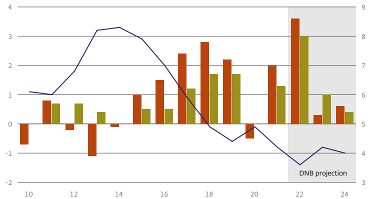
4. Impact inflation-compensating measures on inflation



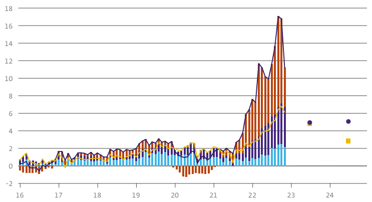

7. Real disposable household income



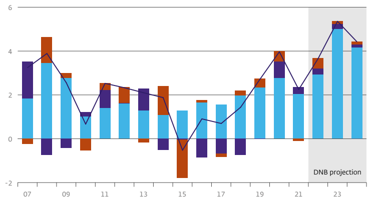

2. Sources of GDP growth




5. Labour market



3. Inflation (HICP) and core inflation




6. Compensation per employee (private sector)

Data

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