

DNB Autumn Projections

December 2023

DeNederlandscheBank

EUROSYSTEM

Economic growth

Inflation

Labour market and wages

Households and housing market

Exports and business

Public finances

An alternative scenario

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Outlook for the Dutch economy

The Dutch economy has been hit by exceptionally high inflation in recent years amid strong growth in gross domestic product (GDP). Inflation is set to decline markedly in the coming years, as the economy stagnates in 2023, followed by gradual recovery in 2024 and 2025.

The paltry 0.1% growth of GDP in 2023 is mainly due to high inflation and sharply higher interest rates. In addition, monetary policy has tightened globally and world trade is contracting, causing Dutch exports to fall. The economy should recover in 2024, mainly on the back of higher government spending. In addition, households will see some increase in real disposable income on average as wage growth outstrips the steadily declining inflation rate. Household consumption should also be underpinned by purchasing power measures. Economic growth will gain further momentum in 2025, largely fuelled by domestic expenditure. However, world trade growth will remain subdued, causing export growth to show only marginal growth. In an alternative scenario accompanying our projections, we have simulated the impact on the Dutch economy of a further downturn in the global economy due to rising uncertainties worldwide and geopolitical tensions (see Section 7).

Following the exceptionally high inflation seen in 2022 (11.6%), HICP inflation is expected to be significantly lower in 2023 (4.1%). This is not only due to the decline in economic activity, but also to the sharp fall in energy prices. In 2024 projected inflation will decrease further to 2.9%, and by the end of 2025 inflation is expected to return to below 2% (producing an average of 2.2%). Core inflation, which excludes energy and food, will also fall significantly.

The fact that projected inflation is set to be above 2% for some time is related to the tightness in the economy and labour market. Labour costs are rising sharply, which slows down the decline in inflation. Unemployment will rise only slowly (to just over 4% in 2025), while real wages will grow and the share of workers in national income (the labour income share, LIS) will rise again. The government budget deficit will not exceed 1% of GDP in 2023 but will increase to almost 3% in 2024 and 2025, partly due to higher interest payments. The debt-to-GDP ratio will fall at first but is set to rise again from 2025 onwards.

Policy recommendations related to the projections

The Dutch economy has shown resilience during the recent shocks caused by the COVID-19 pandemic and the energy crisis. Economic shocks are bound to reoccur in the future, and given increasing international tension and uncertainties, these projections are also subject to risks from abroad. Domestically, society faces a number of key challenges, such as the energy transition and increasing healthcare demand due to population ageing. To cope with such challenges, a strong economy is essential to better absorb shocks, thereby increasing economic security for citizens and businesses. Economic resilience can be strengthened in at least two ways:

1. Ensure fiscal discipline to increase the shock-absorbing capacity of public finances.

Sufficient financial buffers have allowed the government to cope with the shocks caused by the pandemic and the energy crisis. The debt-to-GDP ratio has been contained in recent years due to the sharp rise in nominal GDP that was caused in part by high inflation. However, with inflation receding and budget deficits widening, the debt-to-GDP ratio could rise rapidly. Moreover, in the medium term, this ratio is set to rise further due to rising costs of population ageing, healthcare and climate change.

Without additional policy measures, the budget deficit will reach 2.9% of GDP in 2025. The Working Group on Fiscal Space has calculated that it might reach 3.6% of GDP by the end of the next government term. In line with the Working Group on Fiscal Space's recommendations, we consider it desirable to limit the deficit to 2% of GDP by the end of the new government term.¹ This allows trend-based fiscal policy to do its work to absorb shocks, and the government will have to change course less rapidly in the event of setbacks. This creates consistency in decision-making and more stable policies.

Limiting the deficit means the government will need to make budget choices – not everything can be done at once. In addition to restraining spending, the government can also look at ways to increase revenues. Phasing out inefficient tax advantages would seem an obvious choice.² Increasing the tax burden on labour is undesirable given the labour market shortages, as this harms labour supply.

2. Explicitly take the benefits of international trade and cooperation into account when making policy choices.

As a small, open economy, the Netherlands is heavily dependent on international trade and economic developments abroad.³ To illustrate this, an alternative scenario in these projections (Section 7) shows that if world trade declines, while risk premia increase and oil prices go up, economic growth and prosperity in the Netherlands will suffer. In addition, a recent DNB Analysis on geo-economic fragmentation shows that the Dutch economy is more sensitive than the EU economy as a whole to disruptions in value chains and increasing trade restrictions, and that the European single market can mitigate these adverse effects.⁴

At a minimum, national and European industrial policies aimed at reducing cross-border dependencies by increasing strategic autonomy should not undermine this European internal market, and should ideally strengthen it. This helps businesses gain more opportunities to be internationally competitive, while reducing strategic dependencies on other world regions.

1 [17th Report of the Working Group on Fiscal Space \(Dutch\)](#)

2 [Report on wealth distribution and letter to the House of Representatives on report on approach to tax regulations](#) (both in Dutch)

3 [The heterogenous effects of the economic and monetary union on trade \(dnb.nl\)](#)The heterogenous effects of the Economic and Monetary Union on trade (dnb.nl)

4 [Geo-economic fragmentation: economic and financial stability implications \(dnb.nl\)](#)

Our 2023 Autumn Projections in pictures

Economic growth

The overheated economy **cools down**.

Growth in 2023 is only just positive. Recovery in 2024 and 2025.



Labour market

Still many **staff wanted**, but unemployment edges up. From 3.6% of the labour force in 2023 to 4% in 2024.

Wages rise sharply, by 5.9% in 2023 and 5.7 in 2024.



Inflation

Inflation falls towards the 2% **target level** in the coming years.

Still 4.1% inflation in 2023. Further decline in 2024 and 2025.

Inflation declines faster than expected.



Public finance

Budget deficit remains limited to 0.9% of GDP in 2023, but increases thereafter.

Government debt is 46.8% of GDP in 2023 and will fall to 46.2% in 2024.

House prices

In 2023 house prices were 3.3% lower than in 2022.

Prices will rise by 0.4% in 2024 and 2% in 2025.



Firms

Domestically produced exports shrink due to **lower world trade**.

Yet **corporate investment** still grows by 4.5% in 2023. However, that changes in 2024, as investments decline by 1.1%.



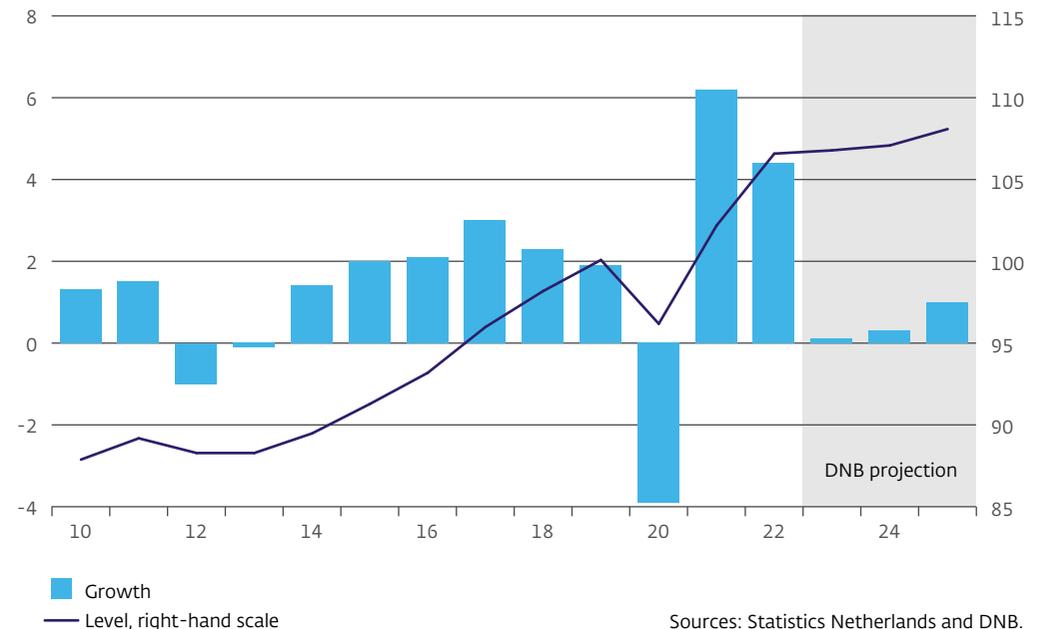
Economy recovers after stagnating in 2023

Economic activity stagnates in 2023, due to the slump in world trade, the sharp rise in interest rates and high inflation. Year-on-year growth in gross domestic product (GDP) will slow to 0.1% in 2023, following the rapid growth of 4.4% in 2022 (see Figure 1). In quarter-on-quarter terms, GDP even contracted in the first three quarters of 2023. This technical recession can be largely explained by Dutch exports, which will shrink (by 0.9%) in 2023, as will world trade growth. Global trade is being hit by the slowdown in the world economy, reflecting tightened monetary policies in many countries. In this international environment, domestic spending is also under pressure. Investment growth turned negative in the second half of 2023. Fixed capital formation is sensitive to the rise in interest rates, which is reflected in declining demand for bank loans. In the household sector, spending is under pressure from high inflation, which has significantly affected real incomes. As a result, private consumption contracted in the first two quarters of 2023. Higher interest rates are also making themselves felt in the Dutch housing market, as average house prices fall by 3.3% in 2023.

In 2024 the economy will recover and GDP growth will edge up to 0.3%. Public spending will then make the largest contribution to growth, including higher spending on, among other things, healthcare and defence, and increased investment in infrastructure and other areas. Household consumption will increase by a mere 0.4% in 2024, as real disposable incomes will not recover to any significant extent after the drop in 2023. In 2024 the government will support purchasing power, including by raising the minimum wage, child-related schemes and the rent allowance. In addition, households will see some rebound in real incomes on average as a result of higher nominal wage growth and falling inflation. The high wage growth in 2023 and 2024 is driven not only by the preceding inflation shock, but is also related to the tight labour market. The unemployment rate is projected to increase only marginally from 3.6% in 2023 to 4.0% in 2024.

Figure 1 Gross domestic product

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



Economic growth to remain subdued beyond 2024. GDP growth is set to pick up to 1.0% in 2025, mainly supported by domestic spending. The subdued growth outlook for 2025 reflects the expectation that world trade growth will remain limited and interest rates will remain close to the higher levels reached in 2023. Less buoyant spending growth means that the economy will become more balanced, as evidenced by the output gap between actual and potential GDP. This gap will gradually narrow from 2.6% in 2023 to 1.0% in 2025. This means the economy will still be performing above capacity in the years ahead, albeit to a decreasing extent. This will reduce the upward pressure on wages and inflation.

A full overview of the projections for the 2023-2025 period can be found in the [Key Data Table](#). The international assumptions used for the projections appear in Box 1.⁵ In an alternative economic scenario, we have simulated the effects on the Netherlands of a further downturn in the global economy due to increasing global uncertainties (see Section 7).

Box 1 International assumptions

These projections are part of the 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 projects global GDP growth (excluding the euro area) to reach 3.3% in 2023. Partly due to the tightening monetary policies adopted by most central banks and tight labour markets around the world, there is little international capacity for more economic activity. Global GDP growth is projected to remain stable in the coming years, at 3.1% in 2024 and 3.2% in 2025.

Despite the heightened tensions in the Middle East and the continuation of the war in Ukraine, unaffordable prices and volatility in the European energy market are expected to be a thing of the past. This is mainly because Europe has become less dependent on Russia for its energy supply. For 2023, a gas price of €41.5 per MWh is estimated. The gas price assumption is based on market expectations and is one of the principal uncertainties in our projections. The ECB estimates the oil price at €77.8 per barrel in 2023, and, based on market expectations, prices are projected to gradually decline to €70.6 per barrel by 2025. Monetary policy is aimed at bringing inflation back to 2% over the medium term. The short-term and long-term interest rates used in the projections are slightly higher in both 2024 and 2025 than in our previous projections of June 2023. As usual, these assumptions are also based on market expectations.

⁵ We carry out our projections in part using the DELFI macroeconomic model. These projections are based on information available on 30 November 2023. The assumptions for relevant world trade, exchange rates, international commodity prices and interest rates were adopted by ECB and euro area NCB experts as part of the Eurosystem projections. These international assumptions feed into our own projections for the Dutch economy. More background information can be found at www.dnb.nl/the-state-of-the-dutch-economy.

Inflation is easing markedly

Inflation has clearly peaked; in the projections it gradually falls further towards 2%.

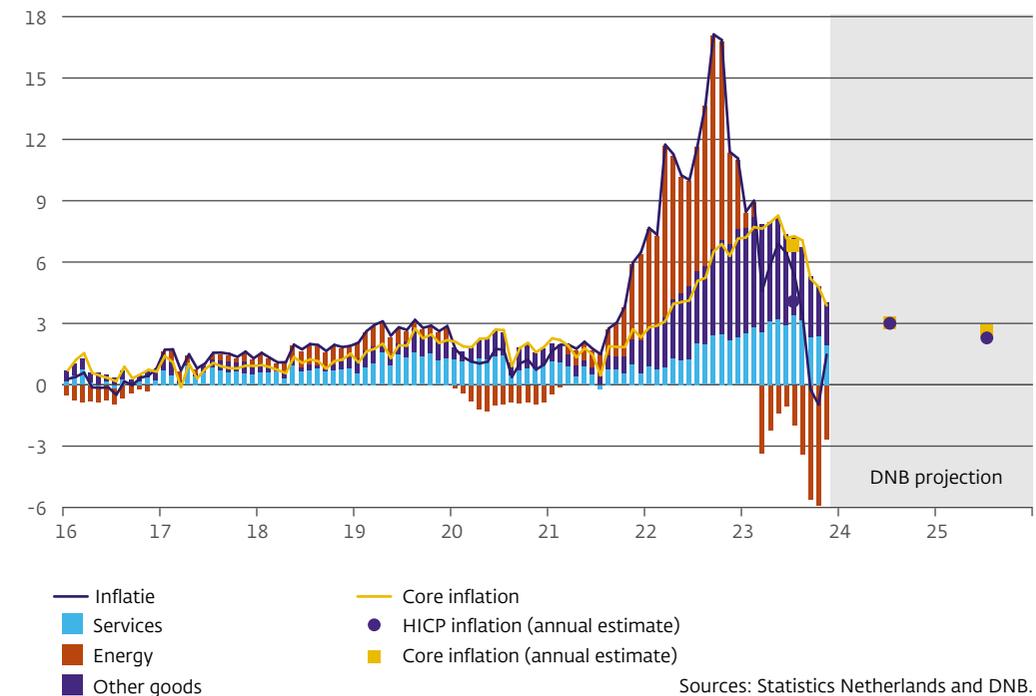
Having peaked at 11.6% in 2022, HICP inflation is expected to be significantly lower in 2023, at 4.1%. This is not only due to the decline in economic activity, but also to the sharp fall in energy prices. In 2023 energy prices are more than 23% lower than in 2022. By contrast, food prices (including alcohol and tobacco) are more than 11% higher in 2023 than in 2022 and are still making an exceptionally large contribution to headline inflation at over 2 percentage points in 2023. In 2024 projected inflation decreases to 2.9%, while energy prices are almost stable. By the end of 2025 inflation should drop just below 2%, while inflation will average 2.2% for 2025 (see Figure 2).

The adjusted measurement method for energy prices distorts the 2023 HICP inflation rate.

Energy price hikes had a strong upward effect on inflation in 2022, as energy prices were measured on the basis of new energy contracts. As of June 2023, Statistics Netherlands will take greater account of longer-term contracts with fixed rates for energy.⁶ For HICP inflation, however, prices under the new method are compared with the much higher prices under the former method, suggesting a steeper fall in prices than consumers actually experienced. Alternative HICP inflation, with the new method applied as early as 2022, is around 9% in 2023, while inflation in 2022 is much lower, at around 8%. We have taken this into account in our projections. For example, we have calculated the impact of prices on spending using the private consumption deflator, which does not depend on the method chosen to measure energy prices.⁷

Figure 2 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.

⁶ Statistics Netherlands switches to new method for calculating energy prices in the CPI

⁷ The (estimated) increases in this deflator in 2022-2025 are 6.9%, 9.0%, 3.8% and 2.4%, respectively.

Underlying inflation should also fall significantly. Core inflation is set to fall from 6.4% in 2023 to 3.0% in 2024, and to 2.7% in 2025. This measure of inflation also reflects price developments more accurately than HICP inflation, as it does not include volatile and method-sensitive energy (and food) prices. Within core inflation, price trends for industrial goods such as cars, furniture and clothing have almost returned to their pre-pandemic pace. There is hardly any pandemic-related impact on inflation left, such as disrupted supply chains, extremely high commodity prices or strong pent-up demand. However, inflation is still high in price trends for services, which account for the lion's share of core inflation and depend heavily on wage cost developments.

The fact that projected HICP and core inflation are set to be above 2% for some time is related to the overheated economy and tightness in the labour market. Despite subdued GDP growth, the economy will continue to operate above capacity in the coming years. Unemployment should rise only slowly, while negotiated wage growth will outstrip inflation in 2023, 2024 and 2025. Unit labour costs will increase by 7.6%, 5.8% and 3.6% in these years, contributing strongly to inflation.

Monetary policy transmission, wage growth and the geopolitical situation are risks for inflation developments. To reduce inflation, the ECB has increased interest rates substantially, and the consequences for the economy are evident. One of these consequences is the mortgage interest rate, which has been rising for some time. The effects of the interest rate hikes may have a stronger impact than expected, potentially causing core inflation to start falling faster than currently projected. Wage growth poses an upward risk. If it slows down more gradually than projected, there is a risk that inflation will remain high for longer. The geopolitical situation poses a further upward risk to inflation. If geopolitical tensions escalate, energy prices may rise again, causing inflation to end up higher than projected.

More on inflation can be found at <https://www.dnb.nl/en/the-euro-and-europe/inflation/>

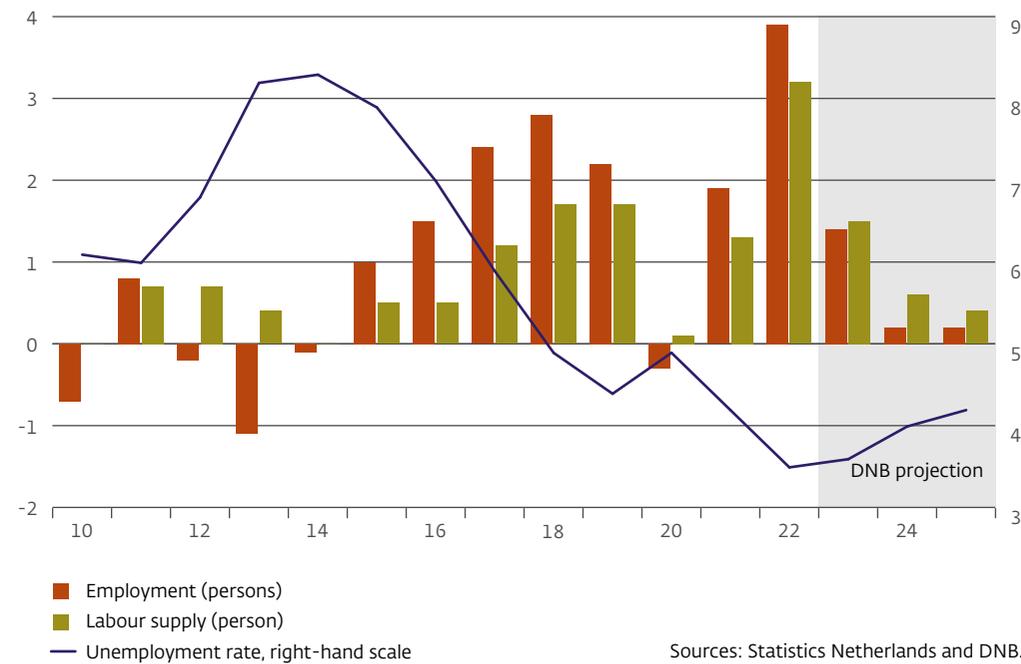
Unemployment should edge up amid sustained wage growth

Employment growth will stagnate. In 2023, we expect the number of persons employed to still grow by 1.4%, partly driven by high carry-over from 2022. However, employment growth will almost come to a halt in 2024 (0.2%) and 2025 (0.2%) (see Figure 3). This projection is less favourable than six months ago, in line with the deteriorating macroeconomic outlook.

Hours worked move in line with economic growth. According to Statistics Netherlands, hours worked fell in the second and third quarters of 2023 compared to the first quarter. This means hours worked responded more quickly to the GDP contraction than employment, which is still increasing. This may reflect a phenomenon known as the labour hoarding effect. In tight labour markets, firms are initially reluctant to lay off workers despite a less buoyant economy, opting instead to have employees initially work fewer hours and to insource fewer self-employed and temporary workers. We therefore expect growth in hours worked to be 1.1 percentage point lower than employment growth in terms of persons employed in 2023. Employment growth is similar in 2024 in terms of employed persons and hours worked. In 2025, the number of hours worked is expected to grow by 0.5%, outstripping growth in employed persons, in line with the projected acceleration in GDP growth in 2025.

Figure 3 Labour market supply and demand

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

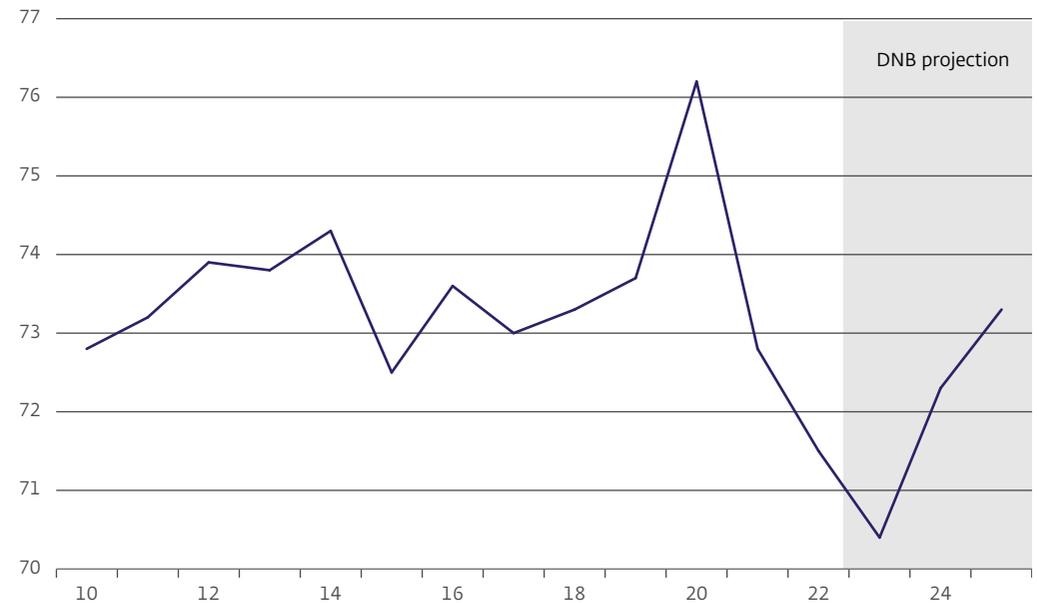


The labour market will remain tight as unemployment shows an uptick. With labour demand levelling off, labour supply growth is also expected to slow. In 2023, labour supply (1.5%) and employment (1.4% in terms of persons) will grow more or less to the same extent, bringing the unemployment rate in the projections to 3.6%, only marginally higher than in 2022 (3.5%). Growth in labour supply will decelerate further in 2024 (0.6%) and 2025 (0.4%), although still outpacing employment growth in both years. As a result, unemployment will rise to 4.2% by 2025. The unemployment rate should therefore remain well below its long-term average (2003-2022: 6.0%).

From 2023 to 2025, wage growth will outstrip HICP inflation. In our projections, wage growth will accelerate from an average of 3.0% in 2022 to 5.9% in 2023 (corporate-sector negotiated wages). Wage growth should again reach all-time highs in 2024 and 2025 due to the tight labour market and expected wage demands in compensation for the sharp real wage losses of 2022. We assume that high wage increases will only be agreed in collective bargaining agreements that have not yet provided compensation for the high inflation in 2022. Agreements that have already done so should reflect markedly slower wage growth. Negotiated wage growth will exceed the average of 1.9% seen between 2010 and 2019, at an estimated 5.7% in 2024 and 3.7% in 2025. This will not be sufficient to recoup everyone's real wage losses of 2021 and 2022, however. Over the full 2021-2025 period, nominal negotiated wage growth in the corporate sector lags almost one percentage point behind HICP inflation. However, alongside real wage developments, other components also affect household purchasing power, including the compensation measures taken by the caretaker government in September 2023 (see also Section 4).

Figure 4 Labour income share, business sector

Percentage



Sources: Statistics Netherlands and DNB.

After declining in 2022 and 2023, the labour income share (LIS) should pick up in the coming years. This measures the distribution of income between employed people (wages) and capital providers (e.g. through profit). After a trough in 2023 (70.4), the LIS (for businesses) is projected to rebound to 73.3 by 2025 (see Figure 4), close to pre-pandemic levels (2019: 73.7).⁸ This implies that projected average wage growth in the years ahead will outpace growth in labour productivity plus GDP price growth. In the light of high wage growth and labour market tightness, it is not surprising that the share of workers in national income is set to rise again slightly following the sharp decline in 2023. Moreover, the LIS rebound illustrates the fact that, following relatively high macroeconomic corporate earnings, profits in the coming projection years will act as a buffer against higher wage costs. After all, firms' profitability can be measured from the profit ratio, whose development runs counter to the LIS.⁹

⁸ This assumes a broad definition of the LIS that is appropriate for the macroeconomic model. For a clearer assessment of wage trends, the LIS must be examined at sector level.

⁹ The profit ratio can be defined as 100-LIS.

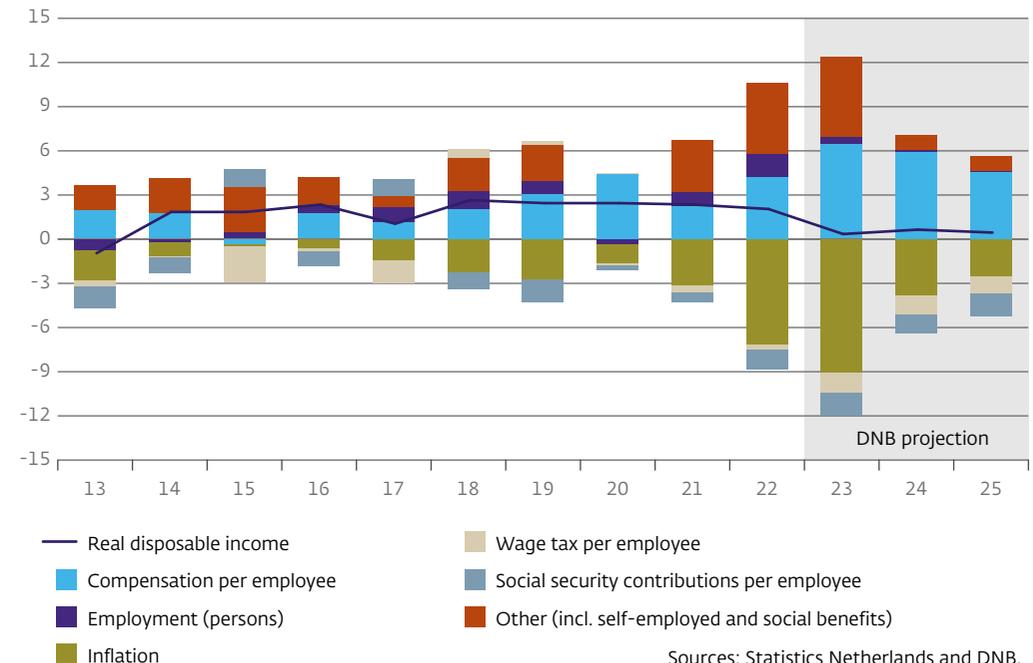
Household consumption grows less; housing market subject to temporary cooling

Following very strong growth in 2022, private consumption contracted in the first two quarters of 2023. While demand for services increased slightly, households spent less on goods, such as food and durables. Consumption has been under pressure since 2022 due to high inflation, which is holding back real income growth. Real disposable income of households grew by only 0.3% in 2023 (see Figure 5). The fact that real income growth is still positive in 2023 despite high inflation is mainly due to the contribution of other income, including social benefits and investment income.¹⁰ In the course of 2023, consumer confidence and propensity to purchase showed a slight uptick, while house prices also rebounded somewhat. Projected consumption growth for full 2023 amounts to a mere 0.2%.

Private consumption growth is recovering gradually, but remains subdued in 2024 and 2025. Projected consumption growth is 0.4% in 2024 and 0.9% in 2025, still well below the pre-pandemic average (1.7% in 2015-2019). The cautious improvement in consumer confidence continues in the projections. House prices have also risen again since mid-2023, which is having a favourable effect on spending in the projections. By contrast, real disposable income growth will not improve to any significant extent after the substantial slowdown seen in 2023. In 2024 and 2025, income growth is projected at only 0.6% and 0.4%. Although gross wage growth is set to remain strong, employment growth will be negligible, while employees' contributions to social insurance as well as inflation will hold back real income growth.

Figure 5 Real disposable household income

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



Note: inflation is the price level of private consumption

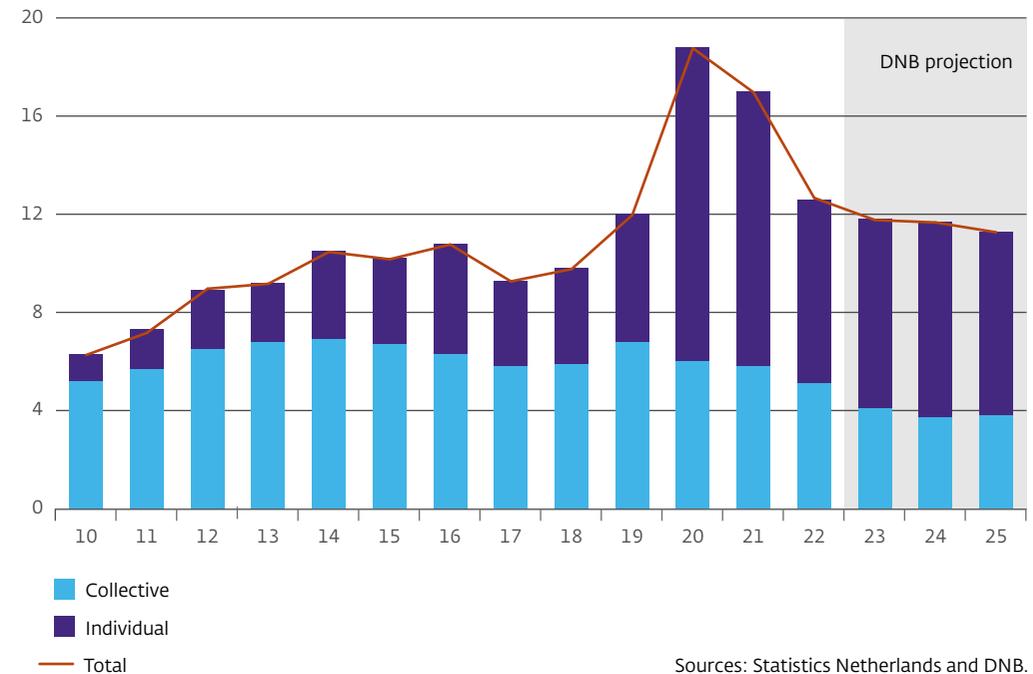
¹⁰ In addition to social benefits, some of the income-support measures are also reflected in inflation, for example through lower fuel taxes, which benefits real disposable income.

Compared to the pre-pandemic period, consumers have recently set aside a larger share of their income in the form of savings. In the years 2014–2019, individual savings averaged 4.0% of income.¹¹ This was followed by a temporary peak of 12% in 2020–2021 caused by the “forced” savings due to containment measures during the pandemic. Thereafter, the saving rate remained at an average of 7.6% in 2022 and 2023. As yet, there is no indication that these additional savings will still be spent in the near term. In the projections for 2024–2025, the saving rate therefore remains almost unchanged at 7.7% on average (see Figure 6).

A short period of falling house prices seems over. In May 2023, house prices were on average 6.1% below the peak reached in July 2022. This decline was mainly due to the rapid rise in mortgage interest rates, which depressed home-buyers’ borrowing capacity, thereby weighing on prices. Prices have rebounded since June 2023, however. They are expected to continue rising by 0.4% in 2024 and 2.0% in 2025 (year-on-year). Prices are recovering faster than expected in our previous, June 2023, projections. The main causes are persistent market tightness and a faster-than-expected recovery in sentiment. Unemployment also remains low. In addition, incomes are rising, which translates into greater borrowing capacity and, consequently, higher house prices.

Figure 6 Individual and collective household savings

Percentage of disposable income (including adjustment for net equity in pension funds reserves)



¹¹ In addition, there are collective savings in the form of pensions.

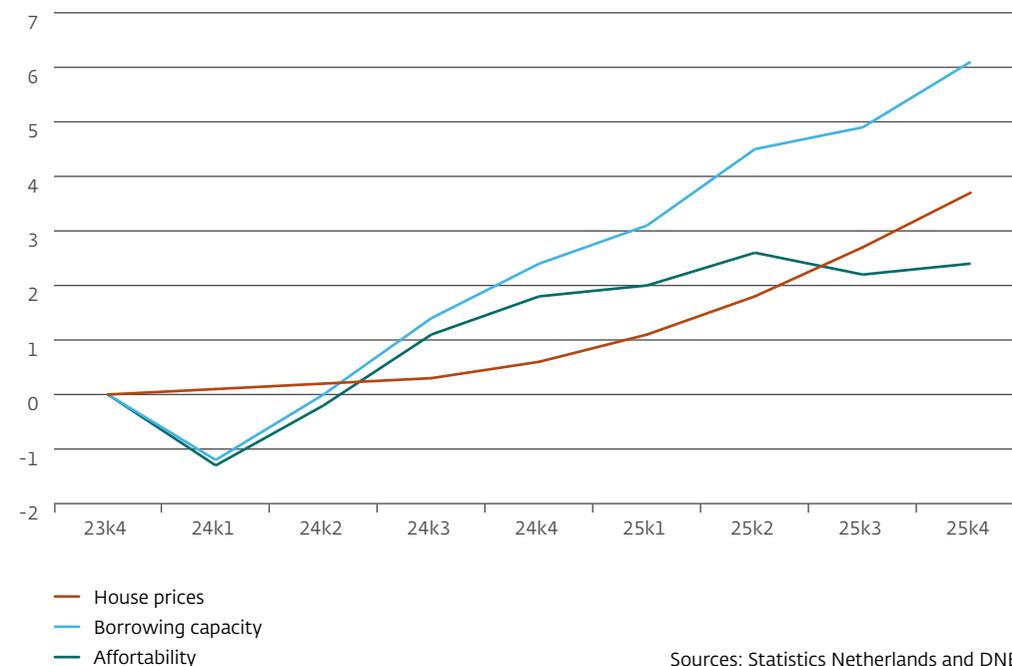
The affordability of homes for first-time buyers is improving. Figure 7 shows the projected development of borrowing capacity (maximum mortgage loan) for first-time buyers on average household income (when purchasing a house with energy label C). Borrowing capacity is determined by income development, mortgage interest rates and the borrowing standards issued by the National Institute for Family Finance Information (Nibud). The maximum mortgage loan is expected to fall slightly in early 2024 due to higher mortgage interest rates and inflation, but should then rise sharply due to the rise in income. In 2024 and 2025, borrowing capacity will rise by 2.4% and 6.1%, respectively. The Nibud standards for 2024 boost mortgage capacity more strongly for homes with energy labels A or B, and to a lesser extent for homes below energy label E. With the increase in borrowing capacity outstripping house price growth, affordability for first-time buyers – defined here as the difference in borrowing capacity and house prices – is set to improve in the near term. However, a previous study shows that a higher maximum mortgage loan translates into higher house prices in the long term.¹² This leads to renewed worsening of affordability.

Lower house prices and fewer newbuild permits will depress residential investment.

Residential investment is expected to fall by 2.1% in 2024 and to return to slightly positive growth of 0.8% in 2025. The decrease in 2024 is due to the higher interest rates, the fall in newbuild permits and lower house prices. Compared to our previous projections, the 2024 decline in investment is slightly smaller in the current projections. This is mainly due to the upward revision of the house price projection.

More on the housing market can be found at <https://www.dnb.nl/en/current-economic-issues/housing-market/>

Figure 7 Development in borrowing capacity, house prices and affordability
Year-on-year percentage changes



¹² [Borrowing capacity and house prices](#), DNB Analysis, May 2023.

Exports and investment are affected by lower world trade and higher interest rates

The outlook for the international economy has worsened. Tightening interest rate policies of central banks lead to less growth in spending and international trade. In addition, the events and risks of further escalation of tensions in the Middle East have heightened economic uncertainty in the short and medium term. The resulting implications for the projections are reflected in slightly higher oil prices in the short term and in a downturn in the volume of world trade relevant to the Netherlands. Whereas this volume grew by 7.8% in 2022, it is projected to decline by 0.3% in 2023. Since the beginning of the 21st century, relevant world trade volumes have only contracted in 2009 and in 2020. Relevant world trade is expected to rebound somewhat in 2024 and 2025, growing by 2.1% and 2.9% respectively. This will be driven by falling global (energy) inflation and lower economic uncertainty, as well as by the prospect that central banks globally will not need to tighten their monetary policies any further and may ease them somewhat down the road.

Exports of goods and services contract by almost 1% in 2023. Domestically produced exports (excluding energy) will even contract by 3.2%, before receding slightly by 0.3% in 2024 and recovering somewhat to 2.2% in 2025 (see Table 1). The disappointing growth in these exports is due to the decline in world trade, as well as to the fact that Dutch products are becoming comparatively more expensive abroad. This is due in part to rising labour costs, the appreciation of the euro compared to a year ago, and the high energy prices which Dutch producers face. As a result, the price competitiveness position deteriorates over all projection years, meaning growth in domestically produced exports lags behind growth in relevant world trade, causing the market share of exporters of these goods and services to decline somewhat (see Table 1).

Table 1 Dutch exports and competitiveness

Percentage changes

	2022	2023	2024	2025
Volume				
Relevant world trade (1)	7.8	-0.3	2.1	2.9
Exports of goods and services (2)	4.6	-0.9	0.0	2.3
domestically produced	4.9	-1.4	0.1	2.1
re-exports	4.3	-0.3	-0.1	2.6
Trade performance (2-1)	-2.9	-0.7	-2.0	-0.6
Exports of goods and services excl. energy	5.1	-1.7	-0.3	2.4
domestically produced (3)	5.5	-3.2	-0.3	2.2
re-exports	4.6	0.2	-0.4	2.6
Market performance (3-1)	-2.1	-2.9	-2.3	-0.7
Price				
Competitor price (4)	16.9	-2.5	1.7	2.6
Exports of goods and services	17.5	0.1	1.2	1.8
domestically produced excl. energy (5)	11.3	1.9	2.9	2.7
Price competitiveness (4-5)	5.0	-4.3	-1.2	-0.1

Bank lending to businesses will edge down in 2023 and 2024, before recovering gradually in subsequent years. In 2023 and 2024 it is projected to fall by 1% and 0.1% (year-on-year), respectively. Corporate bank lending will recover gradually in 2025. The ECB's Bank Lending Survey shows that the decline in bank lending in 2023 was mainly driven by a decrease in credit demand from firms, and to a lesser extent by the tightening of banks' credit standards, apart from the higher interest rates.¹³ The decline in credit demand is likely due to higher interest rates, firms' relatively high liquid buffers and the sharp deceleration in economic growth in 2023.

In 2023, corporate investment (excluding residential property) should grow robustly, by 4.5%.

This is largely attributable to the first half of 2023, after which investment contracts, reflecting the sharp slowdown in economic growth in 2023. In addition, higher interest rates will have a gradually greater impact on firms' cost of capital as they need to roll over existing loans. The contraction started over the course of 2023 will carry over into next year as investment is projected to fall by 1.1% in 2024. As economic growth picks up from 2024, firms' sales expectations are also improving. Corporate investment should recover slightly as a result and is projected to grow by 1.6% in 2025. This subdued growth is depressed by the cost of capital, which remains high in the projections.

Despite rising financing costs and sluggish economic growth, the number of bankruptcies has so far remained limited. Partly due to the pandemic support measures, the number of bankruptcies fell to low levels in 2020 and 2021. Although it has been rising gradually since mid-2022, bankruptcies are still low by historical standards. This means there are no signs as yet of delayed bankruptcies materialising.

¹³ For an overview of the results of the Bank Lending Survey for the Netherlands, see [Data search](#).

General government deficit is set to increase

The budget deficit is expected to reach 0.9% of GDP in 2023. Compared with 2022, the budget balance is deteriorating, driven by increased government spending, including the temporary purchasing power and energy support measures (including the energy price cap), and additional spending on asylum seekers and support packages for Ukraine. In addition, spending is increasing gradually due to targeted investment agreed in the coalition agreement, such as on infrastructure, defence and climate action. Due to the tight labour market and other implementation problems, the government will be unable to actually expend all of its funds budgeted, which will have a favourable impact on the budget deficit in 2023. Compared to 2022, government revenue increases due to higher corporate and income tax revenues. Counterbalancing these increases are lower gas revenues and the discontinuation of the temporary solidarity levy related to surplus profits in the fossil sector.

The budget deficit increases further in 2024 and 2025 to close to 3% of GDP (EMU balance, see Table 2). The measures aimed to support households for increased energy costs, including the energy price cap, will end in 2024. At the same time, investment agreed in the coalition agreement (including for defence) and expenditure carried forward to later years will push up expenditure. In addition, interest charges on outstanding debt are gradually rising due to the rapid increase in interest rates (now almost 3%) and persistent budget deficits. As a result, interest expenditure is expected to double from around €5 billion to over €10 billion between 2022 and 2025. Given that the average maturity of Dutch sovereign bonds is almost nine years, interest expenditure will continue to rise beyond 2025.

Table 2 Public sector data

Percentage of GDP

	2022	2023	2024	2025
Public expenditure	43.5	44.3	45.2	45.9
Taxes and social security contributions	38.5	38.9	38.6	39.2
Other income	4.9	4.6	4.0	3.7
Primary balance	0.4	-0.2	-1.9	-2.0
EMU balance	-0.1	-0.9	-2.6	-2.9
EMU debt (based on end-of-period)	50.1	46.8	46.2	47.5

Sources: Statistics Netherlands and DNB.

The purchasing power package in the Budget Memorandum and its supplements (including child-related schemes, rent allowances and the public pension scheme) will drive up expenditure further in 2024, by €2.3 billion.¹⁴ In addition, various tax credits will be increased and the fuel tax

reduction has been extended by one year. These measures are largely covered by tax increases.

Finally, gas revenues will decline further and the gradual cooling of the economy will weigh on tax revenues, in particular corporate tax revenues. As a result, the projected budget deficit increases to 2.6% of GDP in 2024 and 2.9% of GDP in 2025. This means there will be hardly headroom from the 3% deficit rule of the European Stability and Growth Pact.

The debt-to-GDP ratio falls first, but will rise again from 2025 onwards. Public debt as a percentage of GDP will first fall in 2023 and 2024 as nominal GDP rises sharply due to inflation (denominator effect). In addition, repayments of COVID-related tax debts and revenues from the solidarity levy imposed on the fossil sector will slightly depress the debt-to-GDP ratio. After 2024, the ratio is set to increase due to higher budget deficits. Amid persistent deficits and weakening inflation, it could rise rapidly. This can be illustrated by a sample calculation beyond the projection horizon. We assume an average inflation rate of 2% per year over the next ten years, annual real GDP growth of 1.1% and an interest rate on government debt of 2.8%.¹⁵ Taking a debt-to-GDP ratio of 50% as the starting point and an annual primary deficit¹⁶ of 2.6% of GDP (as in the 2024 projections), the ratio then increases to almost 75% over the next ten years.

¹⁴ Following the General Financial Consultations, the House of Representatives has made further changes to the budgets and the Tax Plan. We have taken these amendments, as the Autumn Memorandum, into account in our projections.

¹⁵ 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 projections.

¹⁶ This is the budget deficit excluding interest expenditure.

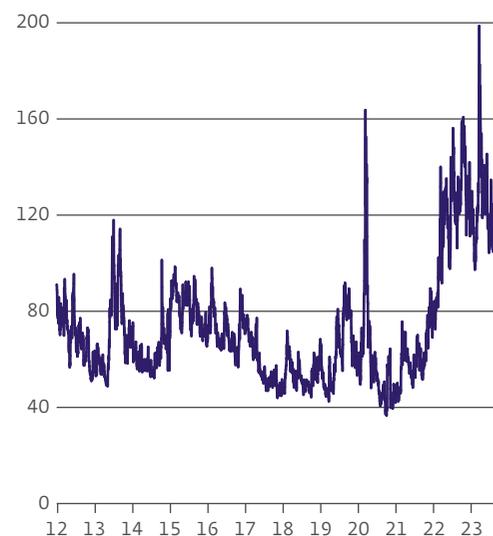
Global headwinds from increasing uncertainty: an alternative scenario

Rising geopolitical tensions and an uncertain international outlook represent downside risks to the Dutch economy. These risks are initially reflected in a significant slowdown in global economic growth. Indirect trade effects and negative confidence effects could substantially exacerbate their impact on the Netherlands. This section explores the possible consequences of such a scenario.

Economic uncertainty is increasing due to the war in Ukraine, tensions in the Middle East and increasing trade barriers. This puts pressure on international trade.¹⁷ In addition, continued market uncertainty and volatility may lead to sharp price corrections in equity markets. Figure 8 (left-hand panel) shows the increased uncertainty in the global economy as measured by the volatility of US government bonds. The right-hand panel shows the rising share of G20 imports affected by trade restrictions. Furthermore, it is not inconceivable that economic growth in China slows down more than expected, due to persistent fragility in the real estate sector and weakening domestic consumption. The picture for the US economy is also uncertain, partly because transmission of the higher interest rates to the real economy is still ongoing. The increased financing costs for US businesses and households are accompanied by lower corporate profitability, weakening employment growth and rising loan defaults.

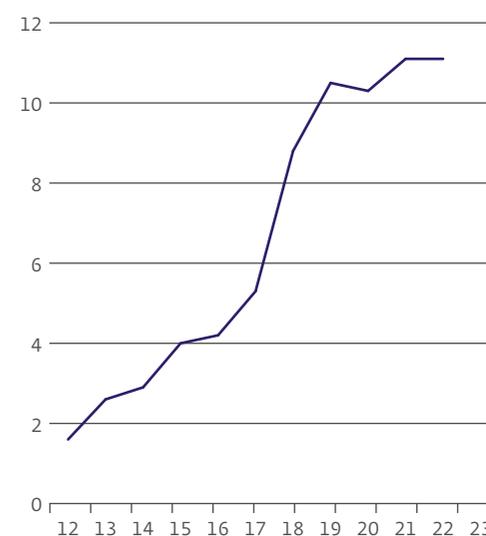
Figure 8 Global uncertainties and barriers

Volatility of US government bonds; MOVE index



Source: Bank of America Merrill Lynch.

Trade restrictions
Percentage of G20 imports affected by restrictive trade measures



Sources: Global Trade Alert, WTO and IMF.

¹⁷ Increasing trade restrictions are part of the current, broader trend of geo-economic fragmentation. A recently published [DNB Analysis](#) simulated economic fragmentation by modelling a negative productivity shock in global trade sectors. The negative impact of such a shock on GDP, inflation and trade are of a more structural nature than in the scenario simulated here.

Note: The MOVE index is calculated on the basis of implied volatility of options on US government bonds with different duration. Trade restrictions cover both tariff and non-tariff measures.

We used specific assumptions for the Chinese and US economies and for the financial markets in simulating our economic scenario. Under these assumptions, domestic demand in China and the United States declines by 2.5% and 0.8% respectively in 2024 compared with the baseline projection through private consumption and business investment (see Table 3).¹⁸ Further assumptions are that global financial risk premiums rise by 50 basis points and equity prices fall by 10%. Oil prices are assumed to be 20% higher than in the baseline projection due to rising geopolitical tensions and global uncertainty.

Table 3 Assumptions for scenario of downturn in world economy

Percentage difference from baseline projections, unless stated otherwise

	2024	2025
International impulses		
Domestic demand in China	-2.5	-1.5
Domestic demand in United States	-0.8	-0.9
Oil prices	20	20
Equity prices	-10	-10
Risk premium (bps)	50	50
International assumptions		
Volume of relevant world trade	-2.2	-2.8
Competitor price	0.8	1.0
Short-term interest rate (%)	0.5	0.1
Long-term interest rate (%)	-0.1	-0.2
Euro exchange rate (USD)	-1.7	-2.1

Note: Assumptions are simulated with NiGEM v3.23.

Source: DNB.

¹⁸ For a similar scenario for the Chinese economy see OECD Economic Outlook (September 2023), and for the medium scenario with a similar oil price increase see World Bank Commodity Markets Outlook (October 2023). The impulses for consumption and investment in China and the United States were modelled in 2024Q1.

These international developments put pressure on world trade relevant to the Netherlands.

The sharply reduced US and Chinese expenditure will have immediate negative effects on other countries' imports and exports. Higher oil prices, lower private consumption and sluggish corporate investment will weigh down economic growth around the world. We assume that, on the basis of a standard reaction function (the Taylor Rule), the ECB will adjust its policy rates in response to price changes. In this scenario, as higher oil prices initially push up inflation, policy rates end up 0.5 percentage points higher in 2024 but fall back in 2025 due to a drop in demand in the euro area. Ultimately, the volume of world trade relevant to the Netherlands ends up 2.5% below the baseline projection on average in 2024 and 2025.

The global economic downturn has a significant impact on the Netherlands. Lower growth of relevant world trade translates into a downward effect on GDP growth through exports (Table 4). They will be 0.7 and 0.4 percentage points lower than projected in 2024 and 2025 respectively, causing the economy to enter a recession. Unemployment is 0.6 percentage points higher in 2025, standing at 4.8% of the labour force. Moreover, lower GDP growth and rising risk premia depress corporate investment, especially in 2025. Lower equity prices, declining consumer confidence and higher unemployment have a significant dampening effect on disposable household incomes and, consequently, on private consumption in 2024 and 2025. The impact on inflation is rather limited, as the effects of higher oil prices and lower output should by and large cancel each other out. In line with lower GDP growth and higher unemployment, Dutch public finances deteriorate, with the budget deficit significantly exceeding the EMU threshold of 3% of GDP in 2025.

Table 4 Results of scenario of downturn in world economy

Percentage changes, unless stated otherwise

	2024	difference from baseline projection	2025	difference from baseline projection
Gross domestic product	-0.4	(-0.7)	0.6	(-0.4)
Private consumption	0.0	(-0.4)	0.2	(-0.7)
Business investment	-2.0	(-0.9)	-0.9	(-2.5)
Exports of goods and services	-2.0	(-2.0)	1.6	(-0.7)
Imports of goods and services	-1.2	(-1.9)	2.0	(-1.2)
Consumer confidence (level)	-30.3	(-7.0)	-19.2	(-8.3)
Compensation per employee, business sector	5.8	(0.1)	4.1	(0.0)
Harmonised index of consumer prices	3.3	(0.4)	2.4	(0.2)
Unemployment (% of labour force)	4.1	(0.1)	4.8	(0.6)
EMU balance (% of GDP)	-2.9	(-0.3)	-3.4	(-0.5)

Source: DNB.

Key data in projections for the Dutch economy

Percentage changes, unless stated otherwise

	2022*	2023	2024	2025
Volume of expenditure and output				
Gross domestic product	4.4	0.1	0.3	1.0
Private consumption	6.5	0.2	0.4	0.9
Public expenditure	0.8	2.5	3.1	2.4
Business investment	4.0	4.5	-1.1	1.6
Housing investment	1.0	-0.8	-2.1	0.8
Exports of goods and services	4.6	-0.9	0.0	2.3
domestically produced	4.9	-1.4	0.1	2.1
re-exports	4.3	-0.3	-0.1	2.6
Imports of goods and services	4.0	-0.4	0.7	3.2
domestically used	3.9	-0.5	1.3	3.5
Wages and prices				
Negotiated wages, private sector	3.0	5.9	5.7	3.7
Compensation per employee, private sector	4.0	5.9	5.7	4.1
Unit labour costs, private sector	2.6	7.7	5.6	3.2
Price of domestically produced exports	16.2	3.6	1.1	1.7
Harmonised index of consumer prices	11.6	4.1	2.9	2.2
Core inflation (HICP, excl. energy and food)	4.8	6.4	3.0	2.7
House prices, existing own homes	13.6	-3.3	0.4	2.0
Labour market				
Employment (persons, growth)	3.9	1.4	0.2	0.2
labour supply (persons, growth)	3.2	1.5	0.6	0.4
Unemployment (persons, x 1.000)	349	365	415	443
Unemployment (% of labour force)	3.5	3.6	4.0	4.2

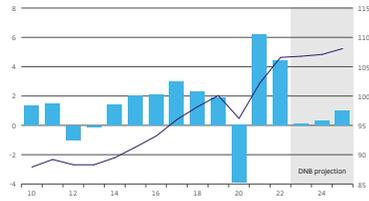
	2022*	2023	2024	2025
Public sector and financial data				
EMU balance (% GDP)	-0.1	-0.9	-2.6	-2.9
EMU debt (% of GDP, based on end-of-period)	50.1	46.8	46.2	47.5
Current account (% GDP)	9.3	11.1	10.6	10.0
Residential mortgage rate (based on end-of-period)	3.5	1.0	0.9	1.7
Bank lending to NFCs (based on end-of-period)**	5.3	-1.0	-0.1	1.2
Internationale assumptions				
Volume of relevant world trade	7.8	-0.3	2.1	2.9
Volume of GDP				
United States	1.9	2.4	1.7	1.5
euro area	3.4	0.6	0.8	1.5
emerging markets	3.7	4.0	3.8	4.0
Short-term interest rates in the euro area (%)	0.3	3.4	3.6	2.8
Long-term interest rates in the Netherlands (%)	1.4	2.8	2.9	3.0
Euro exchange rate (USD)	1.05	1.08	1.08	1.08
Competitor prices	16.9	-2.5	1.7	2.6
Oil price (UK Brent, USD per barrel)	99.1	83.4	80.1	76.5
Commodity prices, excluding energy (USD)	6.6	-13.2	-2.3	2.4

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

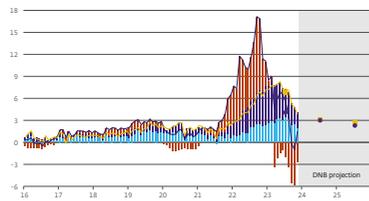
** Excluding cash pooling, adjusted for securitisations and breaks.

Figures

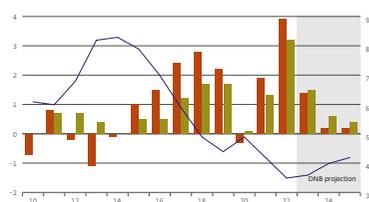
1 Gross domestic product



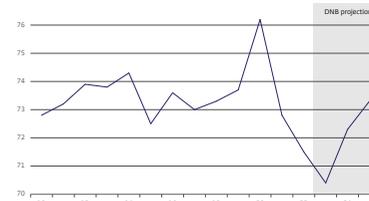
2 HICP inflation and core inflation



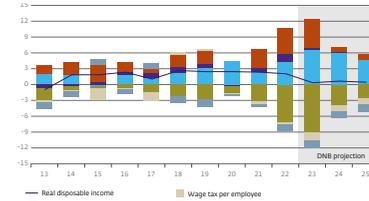
3 Labour market supply and demand



4 Labour income share, business sector



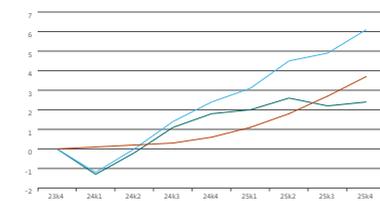
5 Real disposable household income



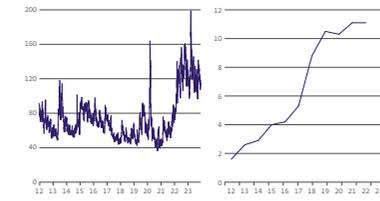
6 Individual and collective household savings



7 Development in borrowing capacity, house prices and affordability



8 Global uncertainties and barriers



De Nederlandsche Bank N.V.
PO Box 98, 1000 AB Amsterdam
020 524 91 11
dnb.nl/en

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