Focus

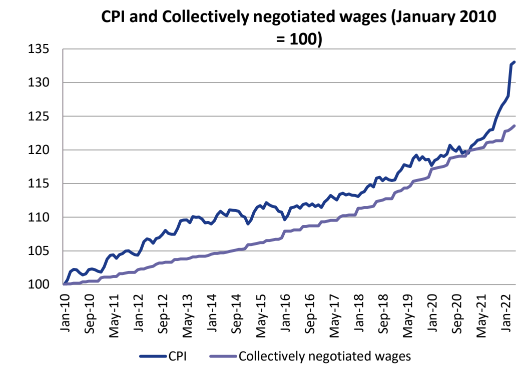
With the high inflation rate of the past few months, it is becoming a challenge for more and more households to be able to pay the bills at the end of the month. To accommodate the Dutch citizen, the Dutch government is trying to reduce costs through excise tax reductions and tax rebates, but for many Dutch people, expenses are still rising faster than their incomes. As a result, purchasing power is declining. What is "purchasing power" and by what factors is it affected?

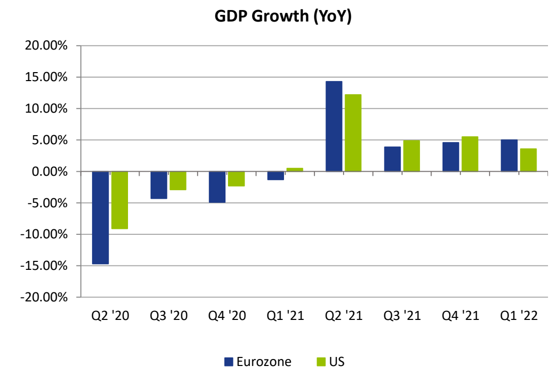
Purchasing power is what households can purchase with their income. Purchasing power is mainly influenced by three components: income, inflation and the tax regime.If gross income increases, the resources to be spent increase (ceteris paribus) and therefore the purchasing power of a household. Inflation, in turn, has a dampening effect. After all, more has to be paid for the same product or service. With a constant income, this therefore means that purchasing power decreases. Finally, there is the tax regime, which affects purchasing power in two ways. On the one hand, an increase in taxes means that a household has less disposable income; on the other hand, increasing subsidies can actually cause purchasing power to increase as well.

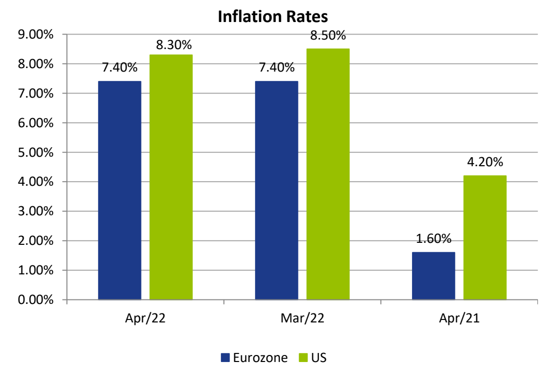
Purchasing power in the Netherlands has been declining in recent months. The main reason for this is increased inflation. Annual inflation reached a high of 9.6% in April this year and although a slight decline was observed in May, inflation was still historically high at 8.8%. Inflation is mainly driven by sharply increased energy prices, but, partly due to the war in Ukraine, food prices and industrial products have also increased very sharply in price. It is therefore expected that inflation for the remainder of 2022 will remain high and also for 2023 an above-average inflation of 4.5% is expected. Unfortunately for the average Dutch person, nominal wage growth in April was about 3.1% on an annual basis. This means that real wages fell by some 8.1% in April this year. Researchers at Rabobank expect that over the whole of 2022, average wage growth will be around 3.2%. This is offset by an average inflation rate of 7.8%. This therefore means a decrease in purchasing power, but as mentioned in the introduction, there is a third factor with a substantial impact on purchasing power: the tax regime.

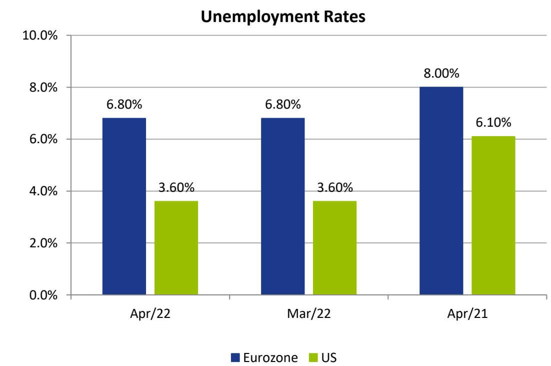
In this context, several measures have already been taken. For example, in 2022 a lower energy tax will apply in the Netherlands to gas and electricity, from July 1 the VAT rate on natural gas, electricity and district heating will be reduced from 21% to 9%, and the excise duty on gasoline and diesel will be reduced by 21%. Finally, EUR 300 million has also been made available to households to finance energy-saving measures and households at or just above the social minimum will receive a one-off contribution of EUR 800. Nevertheless, based on the most recent estimate by the Netherlands Bureau for Economic Policy Analysis (CPB), purchasing power is expected to decline by an average of 2.7% over 2022.

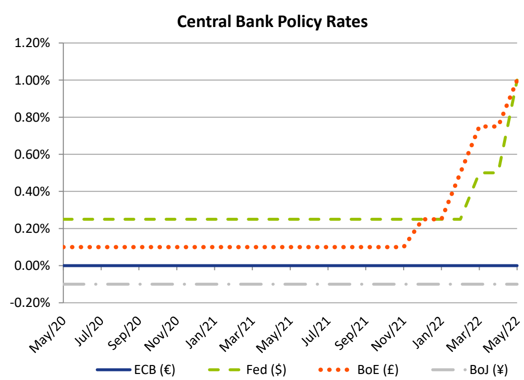
As mentioned above, wages are not expected to rise fast enough and inflation seems to be persisting for the time being, reducing purchasing power. In addition, there are currently almost no concrete plans to further curb the loss of purchasing power. The government has decided not to freeze the increase in family allowances, but there are no other plans on the table. In August, the CPB will present new figures on the development of purchasing power, so it is expected that the cabinet will then present new plans.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa3	AA-
Russia	NR	NR	NR
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

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Review & preview

European Union member states have reached an agreement to ban almost all imports of Russian oil. European Council President Charles Michel announced that the ban will halt two-thirds of all oil imports from Russia and that by the end of the year Russian oil imports will be reduced by 90%. The remaining 10% of imports are temporarily exempted from the agreement because countries such as Hungary, Slovakia and the Czech Republic are currently too dependent on supplies from Russia. In addition, the member states have reached an agreement to disconnect Russia's largest bank, Sberbank, from the SWIFT payment system and Russian broadcasters are no longer allowed to broadcast in the EU. Russian production has already fallen by 1 million barrels per day since the invasion of Ukraine and is likely to fall further as the European Union's ban on Russian oil takes effect.

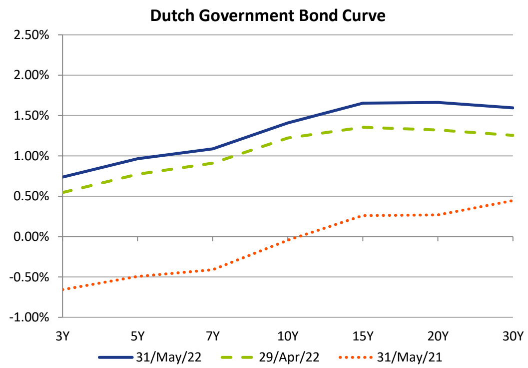
Consumer prices in the Netherlands rose substantially again in May, but less strongly than in the previous month. This was shown Thursday by figures from the Central Bureau of Statistics. Last month the price level rose by 8.8% on an annual basis, after an inflation of 9.6% in April. The decline in inflation was mainly due to the price development of energy. In May energy was 105% more expensive than a year earlier, in April this was 136%.

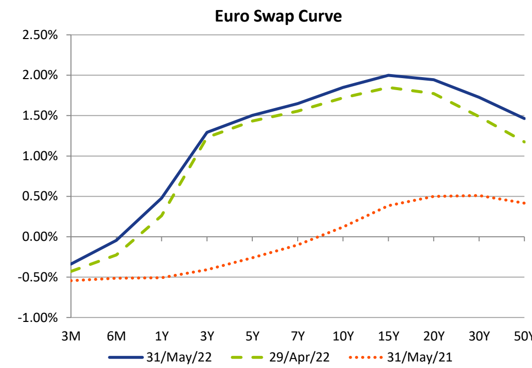
The European Central Bank (ECB) is likely to stop using negative interest rates at the end of the third quarter. ECB President Christine Lagarde wrote this in a blog on the ECB website. Lagarde reiterated that she expects bond purchases under the APP program to be stopped "very early" in the third quarter. "This would allow us to raise interest rates at our July meeting, in line with our forward guidance. Based on the current outlook, we are likely to be able to get out of negative interest rates by the end of the third quarter," Lagarde said. If it then becomes clear that inflation is stabilizing at 2 percent over the medium term, a gradual further normalization of interest rates towards neutral rates is appropriate, she believes. Lagarde warns that the extent and pace of normalization cannot be determined in advance.

The European Commission announced at the Spring 2022 Economic Forecast press conference that it was lowering its growth forecast for this year. Previously, the forecast for gross domestic product growth was 4.0%, but this has been revised downwards to 2.7%. On the other hand, the expectation for inflation was raised to 6.1%. The European Commission expects to see a peak in inflation in the second quarter of 2022, which will then slowly subside.

Agenda

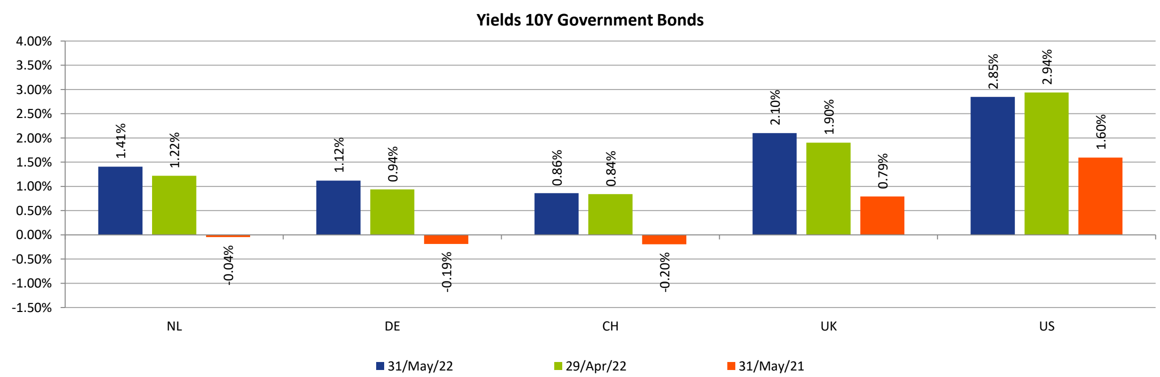
15 June	Interest rate decision Fed
16 June	Interest rate BoE
16 June	Unemployment Netherlands
22 June	Inflation United Kingdom
24 June	Economic growth Netherlands





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa2	A+
ING Bank	A+	A1	AA-
ABN AMRO	A	A1	A
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	A-	A2	BBB+
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A	A1	A-

Currencies	31/May/22	29/Apr/22	31/May/21
EUR/USD	1.073	1.055	1.223
EUR/GBP	0.852	0.839	0.860
EUR/CHF	1.030	1.026	1.099
EUR/JPY	138.110	136.950	133.970
EUR/DKK	7.440	7.440	7.437
EUR/SEK	10.480	10.360	10.145
EUR/CAD	1.358	1.354	1.475
EUR/AUD	1.496	1.493	1.581
EUR/CNY	7.161	6.969	7.790



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