THE NETHERLANDS

INFLATION, BUT NOT JUST CONSUMER PRICE INFLATION

With an energy mix comprised of nearly 90% fossil fuels, the Netherlands have been hit by the full brunt of the sharp rise in oil and gas prices since the outbreak of the Russia-Ukraine war. As a result, the Netherlands has one of the highest inflation rates in Europe. Even so, household consumption is resilient, and the majority of companies esteem that business will remain vigorous in the months ahead. Thanks to this strong performance, the government has been able to focus on a limited series of support measures while continuing to reduce the debt of public administrations. Yet the Netherlands also faces another type of inflation that is just as alarming: house price inflation. With too few houses to cover all of the country's needs, residential housing prices have soared 29% since year-end 2019.

Despite limited dependence on Russia (which supplies only 23% of the energy used by the Netherlands), the country faces a veritable challenge since nearly 90% of its energy mix is comprised of fossil fuels. To diversify suppliers, the Dutch government is relying on its port infrastructure (Rotterdam is Europe's biggest port) by increasing the use of liquefied natural gas (LNG). This should help offset fewer imports from Russia as well as the October 2022 closing of the Groningen natural gas field, the biggest in Western Europe, which once covered 40% of the country's natural gas needs. The Netherland's very high exposure to fossil fuels at a time when energy prices are soaring explains why the energy component of the price index was still up nearly 70% y/y in May (after peaking at 103% y/y in March), driving headline inflation to unusually high levels (+10.2% y/y in May). According to OECD forecasts, 2022 inflation is expected to average 9.2%. In the second half of the year, energy inflation will gradually give way to that of manufactured goods, as industrial companies pass on part of the increase in producer prices (+27.4% y/y in April) to their sales prices.

These bouts of inflation have gotten the better of household confidence, which almost fell to an all-time low in May (-47). Even so, consumption has not faltered: April retail sales were nearly 7% higher than at year-end 2019. This strong momentum is reflected in the confidence of business leaders, whose growth forecasts look upbeat, buoyed by sectors in full expansion, such as electronics components. All in all, the business cycle tracker calculated by the Netherland's central statistics office (CBS) held at a high level in June. With acquired growth of 2.8% in Q1 2022, GDP growth will remain high in 2022, at an average annual rate of 2.9%. So far, economic activity remains resilient, which means public support measures can be limited to monetary aid for low-income households, such as energy checks, and energy price reductions (the VAT rate on petrol and diesel was reduced from 21% to 9%). As a result, the government has been able to contain the public deficit while continuing to reduce the public debt ratio, which it first began in 2021.

The Netherlands is also suffering from another type of inflation that is just as alarming if not more so: house price inflation, which has soared since 2014. This inflation can be blamed more on structural problems than on a cyclical shock. In the most densely populated country in Europe, where the need for new housing is estimated at about 1 million units by 2030, the prices of existing homes surged by 19.7% y/y in April. This trend can be attributed to the growing housing shortage as well as tax incentives that encourage real estate ownership. The recent upturn in home loans (+2.3% y/y at the end of Q1) also supports demand, at a time when household debt is already very high (close to 200% of disposable income in 2021).

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GROWTH & INFLATION

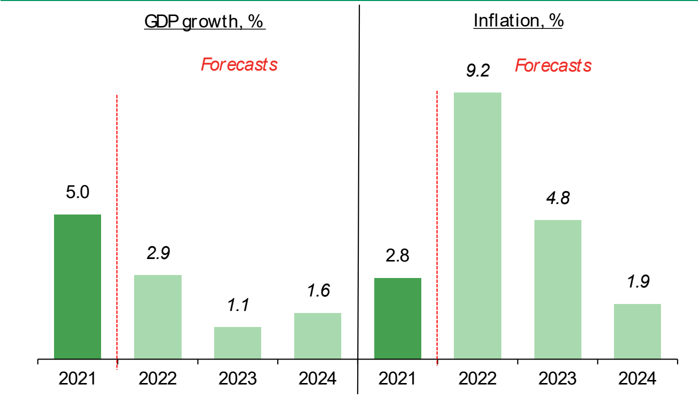

CHART 1 SOURCE: OECD, BNP PARIBAS

NETHERLANDS: REAL ESTATE PRICES

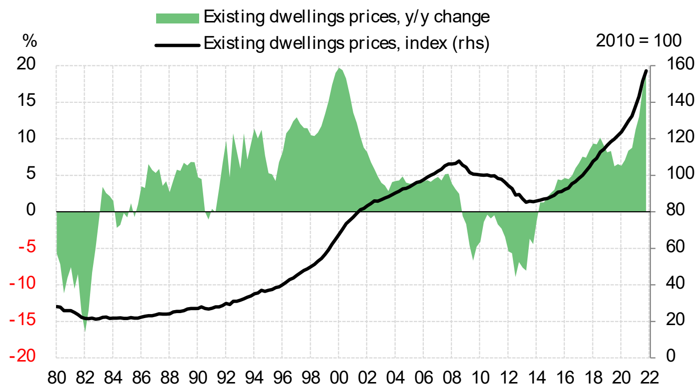

CHART 2 SOURCE: MACROBOND, BIS, BNP PARIBAS