NETHERLANDS

GROWTH CATCH-UP

Following a period of economic stagnation in 2023, Dutch growth gathered momentum in 2024 on the back of solid consumer confidence and more favourable financial conditions thanks to the ECB interest rate cuts. At the same time, the Dutch labour market remains tight, with plenty of unfilled jobs; this should lead to stronger real-wage gains, thereby further supporting private consumption. While business investment has been declining since the start of 2023, there is hope that it will gradually recover in 2025 in line with additional monetary policy easing, which is expected in Europe. Public investment growth is also set to remain quite supportive implying a larger government deficit. However, this is not a cause for concern given the comfortable situation the Netherlands finds itself in compared to its major neighbours. The main downside risk to growth going into 2025 relates to the impact of weaker global growth due to higher US tariffs and less EU demand.

GROWTH SET TO IMPROVE WITH THE SUPPORT OF PRIVATE CONSUMPTION AND INVESTMENTS

The Dutch economy was one of the lowest performers in terms of growth in 2023 and early 2024. However, the situation has since changed and, as of the second quarter, GDP has been growing above the euro area average; this is despite the fact that some headway was lost in the third quarter as a result of persistent weak business investments and softer public spending.

Private consumption – already rather strong in 2023 – continued to support growth in the Netherlands. It is expected to benefit further from stronger real-wage growth linked to the still-tight labour market. The unemployment rate remains very low, yet there are still plenty of unfilled jobs on the market. While business confidence indicators show a modest recovery from the low levels recorded at the end of 2023, industrial production remains weak. Investment activity decreased for three consecutive quarters in 2023, with construction particularly affected by tighter financial conditions and labour shortages. Investment growth is set to experience a modest upswing in 2024 as financial conditions improve and public investment expands. Meanwhile, the technology, life sciences, sustainable energy and logistics sectors continue to play a major role in the Dutch economy. The Netherlands is also a key player in international trade, with ports like Rotterdam continuing to serve as global logistics hubs. Efforts to boost innovation in the tech sector and investments in the green economy (i.e. renewable energy, the energy transition, etc.) are expected to fuel a significant share of long-term growth. For the year as a whole, GDP is projected to grow by +0.8% (European Commission autumn forecasts).

In 2025, private consumption should remain well oriented, since the tight labour market will likely allow additional wage growth alongside falling inflation. Dutch households are also expected to benefit from tax cuts agreed on by the government. Contractual wages are set to increase by 6.4% in 2024, while current negotiations suggest slightly slower year-on-year growth estimated at 4.2% in 2025. Together with an increase in welfare benefits, real purchasing power is expected to increase by 2.5% in 2024 and by 0.7% in 2025, according to estimates published by the Netherlands Bureau for Economic Policy Analysis. A tax cut for very low-income households has been included in this estimate. The loss of purchasing power caused by the inflation shock of 2022-2023 should be reversed in 2025. This explains why consumer confidence has been holding up and continues to improve. House prices – hard hit in 2023 when interest rates went up – have been recovering at a very high speed in the interim due to an ongoing massive housing shortage (especially in large urban areas). In September 2024, the year-on-year increase in residential real estate prices exceeded 11%, which is most likely giving consumer confidence an extra boost.

GROWTH AND INFLATION

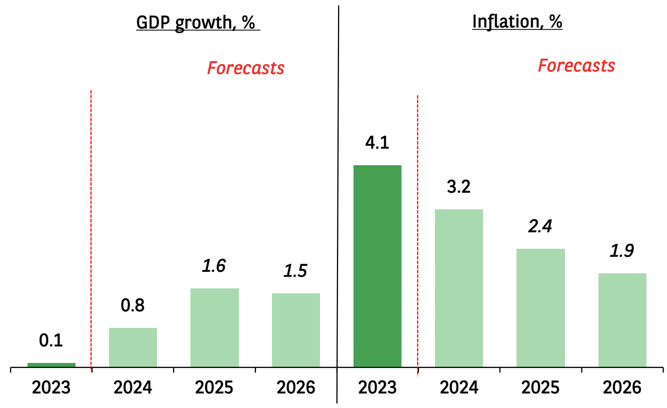

CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

The combination of all these factors should lead to stronger GDP growth next year. According to the latest EC forecasts, GDP growth should be close to 1.6%, which amounts to twice the growth rate recorded for 2024. The main downside risk to this scenario involves weaker global (and EU) demand resulting from US tariffs.

INFLATION ON THE RISE BUT EXPECTED TO COOL DOWN

Inflation has been accelerating almost every month since the start of 2024, reaching 3.3% year on year in October. This upward trajectory can be explained by stubborn high inflation in services as well as high inflation for processed foods, both of which have been affected by an increase in excise duties on tobacco. Rental prices have also been adapted to match the higher inflation and are therefore also contributing to this higher rate of inflation. Going forward, services inflation, which is proving stickier than envisaged, is projected to reach its highest level in the last three months of 2024, before cooling down somewhat after this. According to the European Commission, harmonised inflation is expected to be 2.4% in 2025 and 1.9% in 2026 in annual average terms. This is significantly lower than the 2024 figure, which is expected to be close to 3.2%.

LARGER – BUT STILL SMALL – BUDGET DEFICIT AHEAD

The 2024 budget deficit is expected to end up at a much lower level than the one previously anticipated, essentially because government fiscal revenues (taxes on income and wealth) turned out to be higher than expected for the first half of the year. The European Commission expects the deficit to be very low overall: -0.2% of GDP by the end of 2024.

In 2025, Dutch public finances are expected to deteriorate somewhat for several reasons, among which higher social spending, higher public investment and the consequences of a court ruling that requires the government to return unduly paid taxes on asset returns to taxpayers. The government has also announced that it would be lowering the taxation rate on lower-income brackets, with the result that the deficit is expected to widen to 1.9% by the end of 2025 and 2.4% by the end of 2026. Decisions regarding a VAT increase on some products and services (motor fuel, cultural activities, etc.) are likely to soften the expected deterioration on the budget deficit, but it will not be enough to compensate for the increase in spending altogether.

Looking at Dutch public finances, it is important to keep in mind that the country's debt ratio is much lower than any other European country. The debt ratio is expected to increase modestly in 2025 and 2026, but it will not exceed 45% of GDP. This is of course a huge difference compared to other Euro-Area countries, where deteriorated public finances are indeed a cause for concern. The Netherlands is in a very different situation.

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COMPARISON OF ANNUAL GROWTH IN THE NETHERLANDS AND THE EURO AREA

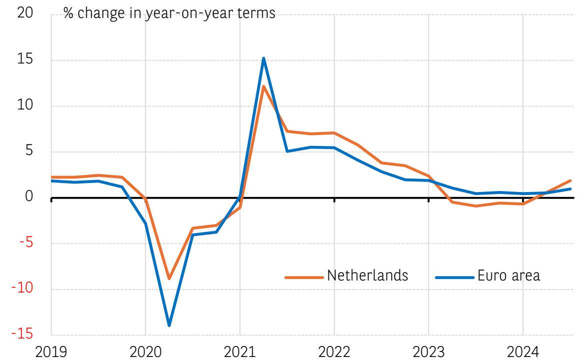

CHART 2 SOURCE: EUROSTAT, STATISTICS NETHERLANDS, MACROBOND, BNP PARIBAS

CHANGE IN THE RESIDENTIAL PRICE INDEX

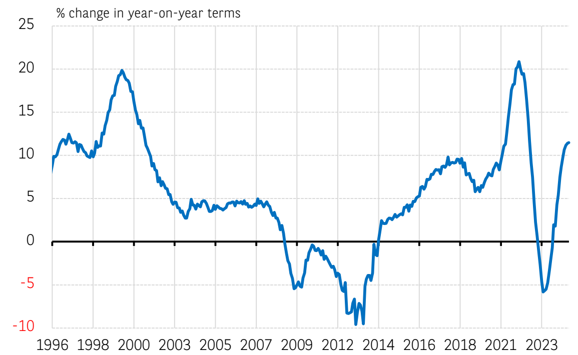

CHART 3 SOURCE: STATISTICS NETHERLANDS, MACROBOND, BNP PARIBAS

IMPACT FROM US TARIFFS ON THE DUTCH ECONOMY

Only 5% of all Dutch exports end up in the USA (putting it fifth on the list of export destinations). As a result, the US market is less important than the country's four major trading partners, namely Germany, Belgium, France and the UK. However, as the Netherlands operates as a primary trade hub for Europe as a whole, the effects of US tariffs on the Dutch economy could be markedly negative. The outcome would also depend on the price elasticity of demand in the US and on the capacity of the US economy to produce substitutes.

Top products exported from the Netherlands to the USA include office hardware, beverages, chemical products and transport materials. The Netherlands imports crude oil and gas, as well as medical instruments and vaccines from the USA. Since the start of the war in Ukraine, US exports of oil and gas to Europe have surged, a large volume of which passes through the Port of Rotterdam. As such, US exports to the Netherlands have increased sharply in recent times.

The Netherlands occupies a special position for the US economy because the US exports far more to the Netherlands than it imports. In other words, the Netherlands is the trading partner with which the USA has the highest trade surplus. For 2023, the trade balance between the US and the Netherlands reached a surplus of USD 44bn in favour of the US, while similar data with France and Germany showed bilateral deficits of USD14 bn and USD 83bn, respectively.