NETHERLANDS

MIXED OUTLOOK IN 2024 BUT BETTER THAN 2023?

The country fell into recession during 2023, like in Germany across the border, but 2024 is expected to be better as the future government will have the financial resources to revitalise the economy. A little bit of patience will be needed though for things to settle down. The Dutch economy remains heavily exposed to the global environment, which is very tense at the start of this year.

A new government is currently being formed against the backdrop of an economic downturn. The country has already posted three quarters of negative growth, and there is every reason to believe that the future will remain bleak for some time to come. The Netherlands is in recession, just like Germany, and, with an economy heavily exposed to the global environment, the country's growth is likely to be lacklustre in 2024. Its principal export markets are expected to slow down this year, such as its neighbours in Europe, the United States and even China.

Dutch GDP started to decline in the first quarter of 2023, bringing the country into recession in the autumn. For the year as a whole, growth will therefore be very low but we are expecting a slight improvement in 2024, with growth standing at +0.7%, thanks to the measures to support purchasing power that the new government is expected to take once it has been formed. The labour market also remains buoyant, with the unemployment rate still very low (3.6%) and wages likely to remain high. Consumer confidence, which was severely shaken by the 2020 pandemic, is currently improving somewhat, aided by the noticeable slowdown in price rises and the prospects of rate cuts.

External demand is a determinant factor influencing growth in the Netherlands as the economy is extremely open to the rest of the world. The sum of exports and imports is about double the GDP. The deteriorating international environment severely impacted exports and imports, which fell by almost 4% in volume over 2023, after their remarkable growth in 2021 and 2022, with increases close to 15%. However, the country was able to continue to record a large trade surplus, close to EUR 11 bn in 2023 compared with EUR 6 bn in previous years. The current account surplus also improved from 5% of GDP in 2020 to 10% in 2023.

A SHARP DROP IN INFLATION

Inflation has been falling sharply since October 2022, in line with the drop in energy prices on global markets. It had peaked at 17% y/y in Autumn 2022 (according to the Eurostat harmonised inflation measure), but quickly began to ease, meaning that 2023 ended with prices rising at a rate of close to 1%. Core inflation continues to be higher, as is the case in several other European countries, not least because inflation in the services sector is proving to be more stubborn than expected. However, it had fallen from its peak of 8% to 3.3% in December 2023. Disinflation should continue in 2024 and we are expecting an average inflation rate of close to 3%, compared to 4.1% on average in 2023.

REAL ESTATE IS STRUGGLING, BUT THIS WILL ONLY BE TEMPORARY

Residential real estate has experienced severe disruptions throughout the year, in response to rising interest rates. Buyers have become cautious, with banks also becoming risk-averse, leading to a slight dip in prices, after having skyrocketed in 2020 and 2021. As 2023 has ended with bond interest rates easing nicely, real estate has already seemingly recovered slightly in several countries, including the Netherlands. Depending on how events play out on financial markets in 2024, this trend could continue, and the construction sector could see its prospects improve. The entire Dutch economy could enjoy a slight upturn, especially if, as the markets anticipate, the European Central Bank ends up easing its monetary policy, thanks to improved inflation figures.

GROWTH & INFLATION

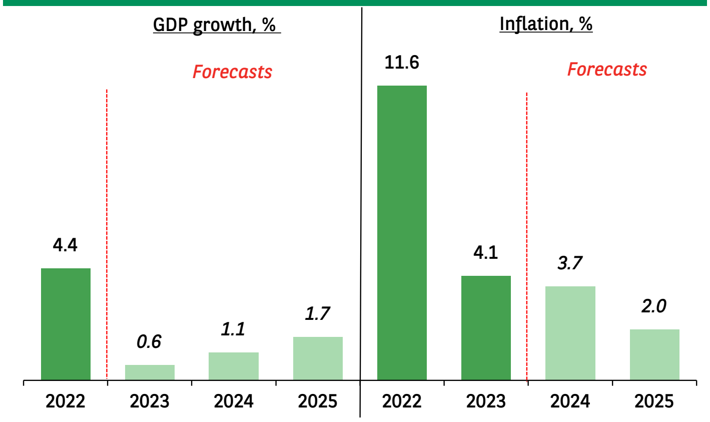

CHART 1

SOURCE: EUROPEAN COMMISSION (NOVEMBER 2023), BNP PARIBAS

On the other hand, corporate investment got off to a promising start in 2023, before things took a turn for the worse as a result of deteriorating confidence among business owners, who were daunted by the poor global economic climate and rising borrowing costs. Ultimately, investment is estimated to have increased still by around 3% over the entire year, which is significantly higher than in 2022 (1.8%). By contrast, 2024 is shaping up to be trickier, as it will take time for the effects of the interest rate hikes started in 2022 to subside and a great deal will depend on how global factors play out against a tense geopolitical backdrop.

SHIFTING TOWARDS A SLIGHT FISCAL DEFICIT

Finally, it should be noted that the country has large financial resources in order to support economic activity if needed, as public debt is close to 50% of GDP, while the budget deficit is virtually non-existent. The future coalition will undoubtedly allow a slight fiscal deficit: a figure close to -2% of GDP is often mentioned. This may seem high to Dutch citizens, but it should be put into perspective against the deficit levels seen more widely across Europe.

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