**RECESSION SEEMS OVER**

The short Dutch recession seems to be over, thanks to dynamic private and public consumption. Inflation continues to cool down, even though it remains stickier than thought in some sectors. A new government has still not been formed yet, but there is a consensus about the fact that once it is the case, public spending is set to increase further, giving the economy an extra boost. The Dutch economy is therefore likely to navigate a different, more positive, path from its neighbors’.

The Dutch economy expanded in the fourth quarter of 2023, ending the mild recession that hit the country in 2023 and led to a GDP fall of 1.1% from Q1 to Q3 2023. GDP grew by 0.4% on a quarter-on-quarter basis in the last three months of the year, bringing therefore growth for the whole year at a tiny +0.1%, one of the worst performances in the Euro Area.

Growth was made possible thanks to private consumption, as well as public consumption. Investments, on the other hand, suffered from the persisting negative business climate as the additional deterioration in business confidence index shows. All in all, a 2.1% quarter on quarter contraction of investment was observed in Q4. The main factors explaining this poor figure are most likely the elevated level of interest rates, as well as the gloomy geopolitical context, in which firms have a hard time making projections.

Inventories continue to be qualified as “too high” by many, so reduction was once again the key word in the last 3 months of the year. This also included a reduction in the storage of gas.

Looking forward, we expect investment to contract further during 2024, as higher financing costs will have a delayed negative effect on the cost of capacity expansion. On the other hand, we are quite confident that private consumption will continue to support growth, essentially because purchasing power is expected to improve further on the back of higher wages and lower inflation. The labour market is expected to remain tight, though a slight increase in the unemployment rate is expected. Dutch households, known to live on credit, seem to have moderated this bad habit over time. Expressed in percentage of GDP, the households’ debt ratio fell from 120% in 2010 to less than 90% at the end of last year. Compared to neighboring countries, this ratio remains quite high (less than 60% in Belgium), but its decline over time is good news for economic stability. For 2024, the European Commission expects real GDP to grow by a modest 0.4%, before gaining some momentum in 2025, when growth is expected to reach 1.6% (winter forecasts).

**INFLATION IS DOWN**

The Dutch inflation rate came down sharply from its peak level, at more than 17% y/y in September 2022, to 2.6% y/y in February 2024 (HCPI measure). Core inflation remains slightly above that level, at 3%. As is the case in many countries, inflation proves stickier than anticipated in services, as well as for food. This is why expected ECB rate cuts have been somewhat delayed as weeks go by in 2024. Some patience will probably be necessary, even though there is no doubt interest rates will be cut this year. For 2024 as a whole, the European Commission expects Dutch inflation to be around 2.6%, and 2% a year later.

**REAL ESTATE PRICES RECOVER**

The Dutch housing sector has been particularly hit by the tighter monetary policy in Europe. Prices fell by as much as 5.8% y/y in May 2023, but they are already recovering, on hopes that interest rates have peaked and because mortgage rates already eased a bit. In February 2024, residential real estate prices were up by more than 4% on a year-on-year basis. The main causes of the recent rise in prices are the large wage increases and the limited supply. This fast recovery in the housing market is definitely another argument to explain the nice improvement seen on consumer confidence.

**NO GOVERNMENT YET BUT THINGS ARE MOVING**

When Geert Wilders secured the most votes in Dutch elections last year, his victory was seen as a clear illustration of how the far right could seize power in Europe. But four months on, he remains shut out, with mainstream parties in the Netherlands closing ranks to force his Freedom party to give up on the premiership as the price for joining a coalition government. A few months away from the June 9th European elections, the Dutch experiment underlines one of the enduring features of Europe’s fragmented democratic system: winning votes is not winning power.

In the longer run, once a government is formed, there is a large consensus around the fact that public spending will increase, granting more purchasing power to Dutch households and further supporting the economy through stronger government investment. This is also the reason why the budget is expected to turn in the red, at -2% of GDP this year and the year after, versus a small 0.6% deficit in 2023. The low level of the public debt (below 50% of GDP in 2023) is however an important feature, allowing more spending without any problems. This is not the case in most other European countries, though.

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![Chart 1: Growth & Inflation](chart.png)