Netherlands

Pension and climate challenges

Economic activity may have substantially weakened in Q4, due to the slowdown in world trade and the nitrogen and PFAS problems. Fiscal policy should become very accommodative, although it remains doubtful if the government will succeed in implementing all the spending plans. Growth is likely to slow this year, before picking up in 2021 on the back of a stronger global economy. However, climate challenges and labour shortages continue to weigh on activity in particular in construction. Moreover, pensioners may face severe cuts because of the deteriorated financial situation of the pension funds.

Sharp decline in activity in Q4

Since July 2018, the Statistics Netherlands business cycle indicator has been weakening. Until recently, this was not evident in the hard data. Economic growth held up reasonably well. In Q3, GDP growth amounted to 0.4%, virtually unchanged since the mid-2018.

However, early data indicate that activity came to a sharp halt in Q4. In November, industrial production declined by 1.1% from the previous month. This is partly attributable to the slowdown in world trade. Moreover, activity in the construction industry was severely impacted by the nitrogen crisis, following the High Court decision that the government's rules for granting permits for construction and farming activities that emit large amounts of nitrogen breached EU law. In addition, the construction sector was affected by the sharpening of the PFAS norms. The main effects of these problems on activity are expected in 2020 and 2021.

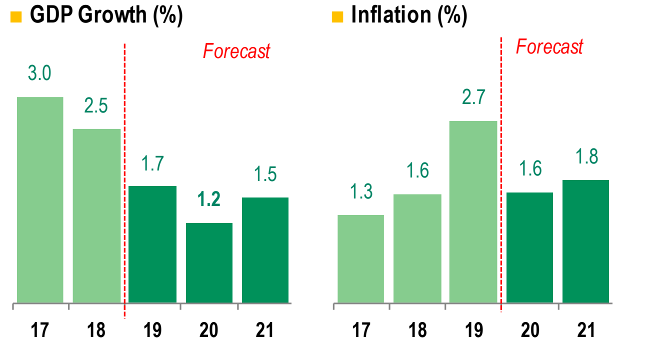
Also the labour market data indicate that activity is slowing. In August, the decline in the unemployment rate came to a halt at 3.5%. Nevertheless, labour market remains exceptionally tight. As a result, negotiated wages rose by 2.9% in 2019, a highest for a decade. The effect on consumer prices was limited. In 2019, inflation increased to 2.7% from 1.6 % a year earlier, but this was due to an increase in the reduced VAT rate by 3 points.

Important delays in investment projects

Fiscal policy is set to become more accommodative in 2020. According to the budget, government expenditure will rise by 0.6% of GDP, mainly due to the implementation of agreements on climate and pensions. In addition, the taxes will be lowered, in particular for households. Government finances will remain in surplus, but the structural balance is set to deteriorate by 0.7% of GDP. However, it remains questionable if the government succeeds in stepping up infrastructure spending. Investment projects have suffered delays because of the tightness of the labour market and long preparation procedures, which have been further complicated by the recent High Court decision.

At the presentation of the budget, the government also announced the setting up of an investment fund in order to benefit from the negative interest rates. It is generally assumed that the Fund could generate EUR 50 billion in investment projects, most of it financed by institutional investors.

1- Growth and Inflation



Source: National Accounts, BNP Paribas

Uncertain times ahead

GDP growth is set to slow to 1.2% this year, due to slowing world trade growth and important delays in construction projects because of the nitrogen and PFAS problems. Assuming a smooth Brexit process and a calming of international trade tensions, economic growth could accelerate to 1.5% next year. Inflation is set to fall to 1.6% in 2020 and could rise moderately in 2021, as higher labour costs spill over in consumer prices. A major domestic risk is the extremely low interest rate environment, which has weakened the financial position of pension funds. Some of them may be forced to cut their payments. Moreover, it will also affect pension claims of future generations.

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