

19. THE NETHERLANDS

Positive economic conditions to continue

The Dutch economy is set to show robust growth in 2017, building on the good performance of 2016. A mild slowdown is expected for 2018. Labour market conditions are expected to continue improving, driving unemployment down to 4.4% in 2018. HICP inflation is expected to pick up due to base effects in energy prices and tightness in the economy. Public finances improved markedly in 2016, swinging to a surplus that is set to widen over the forecast horizon. The debt-to-GDP ratio is projected to drop below 60% this year.

Robust economic expansion to continue

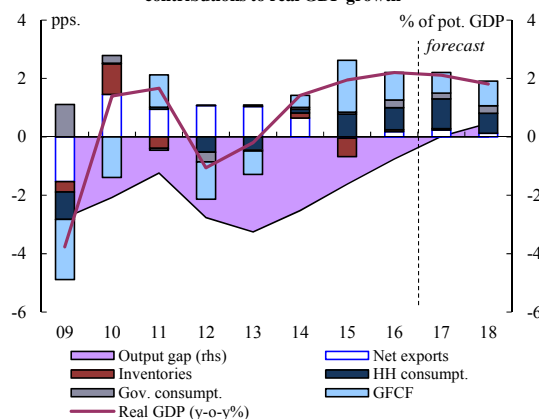
The Dutch economy showed robust economic performance in 2016 with annual growth reaching 2.2%. In 2017, the expansion is set to continue at an almost similar speed, after which economic growth is expected to slow down to 1.8% in 2018. Over the forecast horizon, private consumption is expected to be the main contributor to GDP growth, supported by household real disposable income growth driven by steady increases in wages and employment. Higher pension contributions and inflation should only have a mild dampening effect. Rising housing prices provide a further boost to consumption via wealth effects. Private consumption growth is also temporarily supported by a substantial tax stimulus, which improves the income position of households. In 2018, consumption growth is expected to slow down, as the impact of these tax measures fades out. Nonetheless, the outlook for private consumption remains bright given the above mentioned increase in labour income.

As residential investment slows, equipment investment picks-up

Investment growth was particularly high in the first phase of the economic expansion, as the housing market recovered from its trough in 2013. The volume of residential investment, roughly one fifth of total investment, increased by double digits in 2016 but is currently slowing down to more sustainable levels, limiting overall investment growth. Equipment investment growth has been more erratic, having been heavily influenced by incidental factors such as a reduction in the tax incentives for investment in environment friendly cars in 2016, which spurred investment in 2015 in anticipation of these changes and drove down investment growth in 2016. Equipment investment is expected to gradually increase as capacity utilisation rates are rising and the demand for replacement investment is likely to recover in line with the economy's performance and outlook.

However, as the import content of capital goods is relatively high, the short-term growth contribution will be relatively weak. Public investment is likely to grow by roughly 1% on average in 2017 and 2018, after seven years of decline.

Graph II.19.1: The Netherlands - Output gap and contributions to real GDP growth



Net exports firm, but projected to slow

Net exports were relatively strong in the fourth quarter of 2016. Export performance in the first months of 2017 was also relatively high, with export growth at a six-year peak in February. However, the growth contribution of net exports is set to decline, as the relatively strong growth of domestic demand fuels imports. Price indicators also point to a decline in export performance, as unit labour costs are set to increase due to the combination of increasing wage growth (including non-wage labour costs, such as pension and health care contributions) and relatively weak productivity growth. All in all, the contribution of net exports to GDP growth is expected to be only marginally positive in 2017 and 2018.

A tightening labour market

Total employment passed its pre-crisis peak level in 2016, although the participation rate remains below pre-crisis levels due to a larger working age

population. Job creation accelerated towards the end of 2016 and the outlook remains positive as labour market indicators such as vacancies or employer hiring expectations do not show any signs of slowing down. The strong overall performance of the labour market means that unemployment is expected to continue to fall to 4.4% of the labour force in 2018.

Wages and prices set to increase

While wage growth remained subdued in the two latest years, a tightening of the labour market is expected to be accompanied by some albeit moderate pick-up of real wage growth. Strong base effects from energy prices are projected to drive up headline inflation from just 0.1% in 2016 to 1.6% in 2017, limiting real wage growth in this year. In 2018, HICP inflation is projected to decline to 1.3%, as energy base effects fade away. Positive pressure on prices comes from the closure of the output gap. Services prices in particular are projected to pick up as the economy strengthens and wage growth accelerates. Non-energy industrial goods, which after services are the second largest category in the HICP, are projected to provide only a relatively small contribution to

overall HICP inflation, as these price developments depend to a larger extent on global factors.

Structural budget surpluses ahead

The budgetary situation has improved markedly. After a headline deficit of 2.1% of GDP in 2015, the Netherlands achieved a surplus of 0.4% of GDP in 2016, mainly driven by strong growth in tax revenues and social security contributions, which more than made up for significantly lower gas revenues. In line with the overall positive growth outlook, the budget surplus is projected to improve further to 0.5% and 0.8% of GDP in 2017 and 2018 respectively. In structural terms, the budgetary position is expected to remain positive over the forecast horizon. The general government debt is forecast to fall below the 60% of GDP threshold in 2017, with 59.8% of GDP, and to continue to decline to 57.2% of GDP in 2018. The current outlook for 2018 is based on a no-policy-change scenario. Policy uncertainty stems from the ongoing coalition negotiations, following the general elections in March, and the end of the current multi-annual expenditure ceilings in 2017.

Table II.19.1:

Main features of country forecast - NETHERLANDS

	2015			Annual percentage change						
	bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	676.5	100.0		2.0	-0.2	1.4	2.0	2.2	2.1	1.8
Private Consumption	301.8	44.6		1.4	-1.0	0.3	1.8	1.7	2.3	1.5
Public Consumption	171.4	25.3		2.8	-0.1	0.3	0.2	1.0	0.8	1.0
Gross fixed capital formation	131.4	19.4		1.4	-4.3	2.3	9.9	4.8	3.5	4.2
of which: equipment	38.0	5.6		2.5	-6.1	-0.2	13.4	1.1	3.3	4.5
Exports (goods and services)	557.9	82.5		4.9	2.1	4.5	5.0	3.4	3.6	3.8
Imports (goods and services)	485.0	71.7		4.9	1.0	4.2	5.8	3.7	3.8	4.2
GNI (GDP deflator)	674.1	99.6		2.0	-0.8	-0.2	1.8	1.1	2.5	1.8
Contribution to GDP growth:										
Domestic demand				1.7	-1.3	0.6	2.6	2.0	1.9	1.8
Inventories				0.0	0.1	0.2	-0.6	0.1	0.0	0.0
Net exports				0.3	1.0	0.6	0.0	0.2	0.2	0.1
Employment				0.9	-1.2	-0.3	1.0	1.7	1.7	1.3
Unemployment rate (a)				4.7	7.3	7.4	6.9	6.0	4.9	4.4
Compensation of employees / f.t.e.				3.1	2.2	1.6	0.4	1.3	2.8	2.8
Unit labour costs whole economy				2.0	1.2	-0.1	-0.6	0.8	2.4	2.3
Real unit labour cost				0.0	-0.2	-0.2	-0.7	0.0	1.5	1.0
Saving rate of households (b)				13.1	14.1	13.1	12.7	12.3	12.2	12.1
GDP deflator				2.1	1.4	0.1	0.1	0.8	0.9	1.2
Harmonised index of consumer prices				2.2	2.6	0.3	0.2	0.1	1.6	1.3
Terms of trade goods				0.2	0.5	0.1	1.3	1.3	-1.6	-0.5
Trade balance (goods) (c)				8.7	11.5	11.5	11.3	11.3	10.7	10.4
Current-account balance (c)				6.8	10.2	8.5	8.5	7.9	7.4	7.1
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.6	10.0	8.4	3.5	7.6	6.7	6.6
General government balance (c)				-1.6	-2.4	-2.3	-2.1	0.4	0.5	0.8
Cyclically-adjusted budget balance (d)				-1.3	-0.3	-0.6	-1.0	0.9	0.5	0.5
Structural budget balance (d)				-	-0.9	-0.5	-1.0	0.7	0.2	0.4
General government gross debt (c)				54.5	67.7	67.9	65.2	62.3	59.8	57.2

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.