19. THE NETHERLANDS
Steady expansion set to continue

The Netherlands is forecast to see solid demand-driven growth of around 1¾% per year between 2016 and 2018. Labour market conditions should continue to improve, leading to a steady decrease in the unemployment rate. HICP inflation is expected to recover from its low levels over 2017 and 2018 with rising energy prices and the waning of base effects. The fiscal position is projected to continue improving towards a nearly balanced budget and a debt ratio slightly below 60% by 2018.

Steady expansion in first half of 2016

The rather strong performance of the Dutch economy in 2015 continued in the first two quarters of 2016, with quarterly GDP growth of 0.6% in both the first and second quarter. Most notably, the recovery of domestic demand was sustained, with the most important contributions coming from investment, and in particular housing. Supportive monetary policy has driven interest rates down, leading to relatively favourable mortgage lending conditions and an improved affordability of housing. Private household consumption also contributed positively to economic growth in the first six months of this year, supported by solid wage growth and significant tax relief.

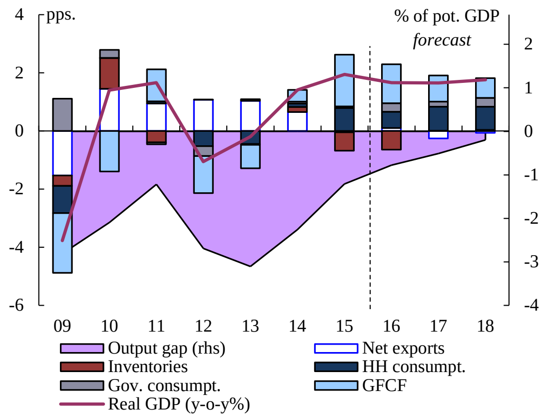
Private consumption expected to pick up

Looking ahead, domestic demand is set to continue expanding, driven by private consumption. In particular, increased labour income, reflecting strong wage and employment growth, is expected to fuel household consumption. The saving rate of households is forecast to decline gradually over the forecast horizon, as increased household incomes translate more into expenditures. However, increased uncertainties, mainly related to the situation of pension funds, could dampen consumption growth through higher premiums or the prospect of lower pension payments.

Investment growth to normalise

Investment growth reached almost 10% in 2015 and is expected to slow down to more sustainable levels, reflecting the maturing of the economic cycle. In particular investment in housing has boomed on the back of the market's sharp recovery. This growth has only slightly slowed down in recent quarters. Investment in transport equipment also increased sharply in the final quarter of 2015, as many commercial leasing companies invested in their car fleet in anticipation of a less favourable tax treatment from 2016. Forward-looking indicators like business confidence, industrial production and capacity utilisation rates indicate further growth of equipment investment.

Graph II.19.1: **The Netherlands - Real GDP growth and contributions**



A declining current account surplus

Imports are expected to grow faster than exports, as domestic demand improves more strongly than foreign demand. The unusually weak trade numbers in the first half of 2016, the UK 'leave' vote and the related depreciation of sterling are expected to result in slower export growth in 2016. Nevertheless, the continued strength of the German economy and demand growth in other important trading partners should provide a still solid basis for the growth of exports. The current account surplus, which peaked above 10% of GDP in 2012 and 2013, declined to 8.5% of GDP in 2015. The trade surplus is forecast to fall gradually in line with the increase in domestic demand. For 2016, the associated lowering of the current account balance is partly offset by incidental transactions on the income account, leading to a current account surplus of 8.5%. For 2017 and 2018, the decline is projected to continue at a moderate pace to 8% and 7.7% of GDP, respectively.

Robust labour market performance

Employment grew relatively quickly in the first half of 2016, accompanied by a fall in the unemployment rate from 6.5% in January to 5.7% in September. This trend is expected to continue as soft indicators such as vacancy rates continue to signal strong demand for labour. The decline of the unemployment rate is expected to slow down slightly as the improved cyclical conditions encourage more people to enter the labour force leading to a slightly stronger labour supply growth in 2017.

HICP inflation to increase

Since 2014, HICP inflation has been hovering around zero. This trend has continued in 2016 with inflation expected to average 0.1% for the year. Based on the oil prices projections, energy prices are expected to start contributing to inflation in the near future. The pick-up of wage growth is expected to lead to price increases for services. These forces, in combination with relatively stable core-inflation, the closing of the output gap and positive base-effects are expected to lead to an HICP inflation rate of around 1% in 2017 and 2018.

Public finances to improve further

The budgetary situation is projected to improve substantially over the forecast horizon. The headline deficit is set to fall to 0.8% of GDP in 2016 from 1.9% of GDP in 2015, as lower gas revenues are more than offset by strong increases in tax revenues, specifically corporate taxes. In 2017, the budget balance is forecast to come out at -0.3% of GDP, partly linked to incidentally high revenues stemming from a tax abatement for director/major shareholders, worth EUR 2.1 bn (0.3% of GDP), which is considered as a one-off in the calculation of the structural budget balance. By 2018, a nearly balanced budget is projected (-0.1% of GDP) in line with a positive labour market outlook and robust domestic demand growth. The structural balance is projected to increase by ¼ pps. of GDP in 2017 and ¼ pps. of GDP in 2018. As a result of the sustained improvement in the headline balance and stable GDP growth, the debt-to-GDP ratio is forecast to decrease from 63.0% of GDP in 2016 to 59.3% of GDP in 2018. The debt reduction is likely to accelerate if the government proceeds with the reprivatisation of financial institutions.

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	**1.7**	**1.7**	**1.8**
Private Consumption	301.8	44.6	1.4	-1.0	0.3	1.8	**1.3**	**1.9**	**1.8**
Public Consumption	171.4	25.3	2.8	-0.1	0.3	0.2	**1.1**	**0.7**	**1.2**
Gross fixed capital formation	131.4	19.4	1.4	-4.3	2.3	9.9	**6.9**	**4.4**	**3.2**
of which: equipment	38.0	5.6	2.5	-6.1	-0.2	13.4	**7.6**	**4.7**	**3.6**
Exports (goods and services)	557.9	82.5	4.9	2.1	4.5	5.0	**3.4**	**3.5**	**3.6**
Imports (goods and services)	485.0	71.7	4.9	1.0	4.2	5.8	**3.7**	**4.4**	**4.2**
GNI (GDP deflator)	674.1	99.6	2.0	-0.8	-0.2	1.8	**1.6**	**1.6**	**1.7**
Contribution to GDP growth: Domestic demand			1.7	-1.3	0.6	2.6	**2.2**	**1.9**	**1.8**
Inventories			0.0	0.1	0.2	-0.6	**-0.6**	**0.0**	**0.0**
Net exports			0.3	1.0	0.6	0.0	**0.1**	**-0.3**	**-0.1**
Employment			0.9	-1.2	-0.3	1.0	**1.4**	**1.3**	**1.3**
Unemployment rate (a)			4.7	7.3	7.4	6.9	**6.1**	**5.8**	**5.4**
Compensation of employees / f.t.e.			3.1	2.2	1.6	0.4	**2.4**	**2.1**	**2.2**
Unit labour costs whole economy			2.0	1.2	-0.1	-0.6	**2.1**	**1.7**	**1.8**
Real unit labour cost			0.0	-0.2	-0.2	-0.7	**1.9**	**0.5**	**0.4**
Saving rate of households (b)			13.1	14.1	13.1	12.7	**13.4**	**13.2**	**12.8**
GDP deflator			2.1	1.4	0.1	0.1	**0.3**	**1.2**	**1.3**
Harmonised index of consumer prices			2.2	2.6	0.3	0.2	**0.1**	**1.0**	**1.1**
Terms of trade goods			0.2	0.5	0.1	1.3	**0.0**	**0.0**	**0.0**
Trade balance (goods) (c)			8.7	11.5	11.5	11.3	**10.7**	**10.3**	**10.0**
Current-account balance (c)			6.8	10.2	8.5	8.5	**8.5**	**8.0**	**7.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			6.6	10.0	8.4	3.5	**8.1**	**7.8**	**7.6**
General government balance (c)			-1.6	-2.4	-2.3	-1.9	**-0.8**	**-0.3**	**-0.1**
Cyclically-adjusted budget balance (d)			-1.3	-0.4	-0.8	-1.1	**-0.3**	**0.1**	**0.1**
Structural budget balance (d)			-	-1.0	-0.7	-1.2	**-0.5**	**-0.2**	**0.0**
General government gross debt (c)			54.2	67.7	67.9	65.1	**63.0**	**61.3**	**59.3**

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