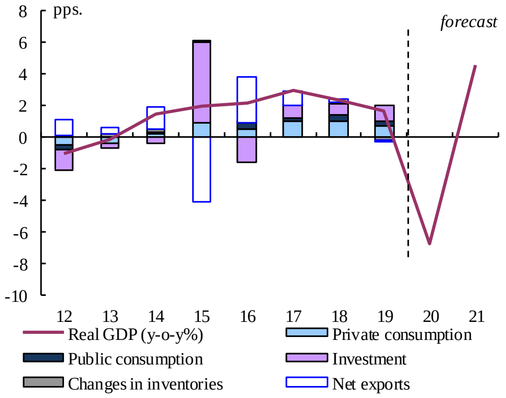
2.14. THE NETHERLANDS

The Dutch economy contracted by 1.5% q-o-q in the first quarter of 2020, reflecting the impact of the COVID-19 pandemic which has made itself felt since mid-March. The economic implications of the virus and its associated containment measures, however, are set to be concentrated in the second quarter, with a projected quarterly decline in GDP of around 11½%. In view of tentative signs of improving indicators and the easing of containment measures since mid-May, the second quarter should constitute the trough in economic activity. Subsequently, a partial (technical) recovery of production and consumption is expected, albeit from a low base. For this year, real GDP is forecast to decline by 6¾% and to see a partial recovery of 4½% in 2021. This will leave output levels substantially below 2019 levels.

The government has adopted successive packages of emergency measures with the aim of protecting employment and mitigating losses in disposable income. Nonetheless, private consumption is expected to contract sharply this year and experience only a partial recovery next year because of adverse employment expectations and subdued wage developments. Given the collapse in world trade, exports are forecast to decline strongly in 2020 and only see a muted recovery next year. However, the contribution of the external balance to GDP growth is expected to be limited by a broadly similar development of imports. A more protracted drop in demand for exports poses a downside risk for the ensuing recovery period. Investment in equipment is projected to decline sharply this year and remain subdued next year due to low capacity utilisation and lingering uncertainty. Construction investment is forecast to experience a delayed response to the unfolding economic crisis, despite persistent housing shortages.

Graph 2.14: **The Netherlands - Real GDP growth and contributions**



Consumer price inflation is projected to moderate to 0.8% y-o-y this year, after having increased by 2.7% last year. This in part reflects base effects from the 2019 increase in indirect taxes, as well as dissipating domestic price pressures. Moreover, the sharp drop in oil prices in combination with a lowering of energy-related indirect taxes explains about 1 pp. of this decrease. As base effects fade away, inflation is expected to pick up to 1.2% in 2021.