2.14. THE NETHERLANDS

After a solid first half, economic growth in the Netherlands remained robust in the third quarter at 0.4% q-o-q. For 2019 as a whole, the economy is estimated to have expanded by 1.7%. In 2019, all economic sentiment indicators from the Commission's surveys came in lower than the year before, but most remained in expansionary territory, pointing to a continued expansion in the coming quarters. GDP is projected to grow at a more moderate pace of 1.3% in both 2020 and 2021 with public and private consumption expected to be the main growth drivers as investment slows and net exports continue to detract from growth.

The government sector is projected to support economic activity in 2020 through an increase in public expenditure as well as some tax relief for households. The labour market is expected to remain tight, translating into a further acceleration of nominal wage growth. While real wages have remained flat in recent years, higher nominal wages, dissipating inflation, and a lower tax burden on labour income, should boost disposable incomes and support private consumption. On the other hand, exports should continue to grow at a slower pace than in recent years due to the relatively weak external environment. Moreover, recent indicators for the manufacturing sector, such as the Manufacturing PMI, point to a somewhat subdued outlook and declining orders. On the back of solid domestic demand, imports should continue to outpace exports. As a result, the Netherlands' high current account surplus is set to decline gradually. Corporate investment growth is expected to decline, in line with weaker business confidence and the slower economic expansion. Construction investment is set to slow as building permit issuance has declined substantially, in part due to stricter regulatory requirements and uncertainty.

Headline inflation increased from 1.6% in 2018 to 2.7% in 2019, largely as a result of higher indirect taxes. This year, inflation is projected to moderate to 1.4%, as the impact of these indirect tax increases dissipates and due to substantially lower energy-related taxes for households. Stronger wage growth should exert upward pressure on prices, especially for services. Headline inflation is forecast at 1.5% for 2021.

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