14. THE NETHERLANDS

The Dutch economy rebounded strongly in the second quarter of 2021. Economic activity surged on the back of the gradual opening up of the economy, a robust recovery in consumer demand and a favourable external environment. With the lifting of most containment measures, the recovery is expected to continue in the second half of the year. Economic activity is forecast to surpass pre-pandemic levels in the third quarter. The government deficit is projected to increase further in 2021, due to an increase in COVID-19 related expenditure, and to gradually decrease in 2022 and 2023.

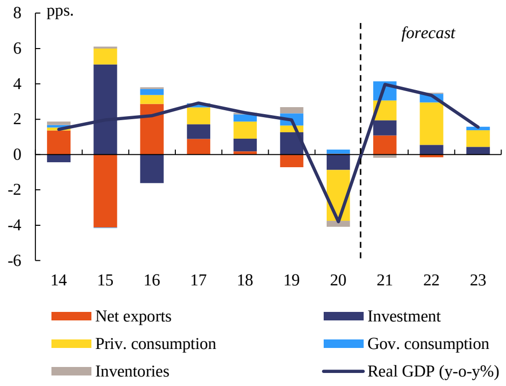
A swift recovery

Containment measures dampened economic activity at the start of 2021, with real GDP contracting by 0.8% in the first quarter. The gradual reopening of the economy, in the wake of an improving health situation and increasing vaccination rates, resulted in a strong rebound in the second quarter with growth of 3.8% q-o-q. This puts real GDP on track to reach the pre-pandemic level in the third quarter. Growth is expected to continue in the second half of the year, albeit at a more moderate pace, leading to an annual real GDP growth forecast of 4.0% in 2021. The phasing out of government support measures as of 1 October is not expected to have a major effect on the overall outlook.

The economic recovery in 2021 is forecast to be broad-based, with private consumption, investment, government consumption and net exports all contributing to growth. Following a strong second quarter, private consumption is expected to converge to pre-pandemic levels in the second half of the year, also thanks to the lifting of the remaining containment measures. Investment activity recovered strongly in late 2020 and early 2021 on the back of a vibrant housing market and strong manufacturing sector. Though supply bottlenecks are expected to slow down investment over the course of 2021, the annual investment growth rate is forecast to be high due to strong carry-over effects. Finally, net trade is also forecast to contribute substantially to GDP growth in 2021, with especially strong exports of goods while imports (especially of services) lag behind.

Economic growth is projected to remain robust in 2022 with a strong contribution from private consumption. Government consumption growth is expected to moderate following a decrease in COVID-19-related expenditure on medical equipment and testing, while the contribution from external demand is set to turn broadly neutral. In 2023, growth is forecast to moderate to 1.6%, reflecting the absence of further catch-up effects.

Graph II.14.1: **The Netherlands - Real GDP growth and contributions**



A tight labour market

With support measures still in place for a large part of the year and economic activity rebounding, the unemployment rate is expected to decrease to 3.5% in 2021. Evidence of a tight labour market has started to emerge, with the number of vacancies surpassing the number of unemployed and several sectors experiencing labour shortages. The phasing out of support measures is set to increase unemployment through a projected uptick in bankruptcies (which are currently at historically low levels). In addition, labour supply is projected to increase in 2022 as those who temporarily left the labour force due to the pandemic are set to return to it. Given the tight labour market and the strong economic recovery however, the increase in the unemployment rate is expected to remain limited at 3.6% in 2022. The unemployment rate is forecast to remain stable in 2023.

Inflationary pressures from increasing gas prices

HICP inflation is forecast to increase from 1.1% in 2020 to around 2.1% in 2021 and to 2.2% in 2022, before decreasing again to 1.5% in 2023. The increase in inflation in 2021 and 2022 is mainly driven by oil and gas price increases while the temporary surge in demand due to the economic rebound and, to a limited degree, higher intermediate input prices also play a role. Given the strong dependency on natural gas in the Netherlands, the gas price increase is expected to have a large impact on households, though this is partly offset by mitigating measures taken by the government. The impact on inflation is forecast to be strongest in 2022, as the next update of flexible energy contracts is expected in January 2022.

Government deficit narrows on the back of economic recovery

The general government balance is forecast to reach a deficit of 5.3% of GDP in 2021 due to elevated expenditures on healthcare, related to COVID-19 and a catch up in normal healthcare, and large expenditure on support measures to protect employment and maintain household purchasing power in the first half of 2021. At the end of 2021, with the exception of support for highly affected sectors, most emergency measures expired. Revenues are expected to increase due to the strong economic recovery, but it is unlikely to fully offset the increase in expenditures.

The government deficit is forecast to narrow to 2.1% in 2022 and 1.0% in 2023, as revenues increase in line with the projected recovery. For 2022, the Dutch caretaker government is planning to increase expenditure on climate measures, the fight against crime and the supply of houses. In addition, the government has decided to lower employers' contributions, to increase the tax-free income share for minimum-income households, single earners and families and to reduce the property owner tax. Government debt is projected to decrease from 57.5% of GDP in 2021 to 56.8% in 2022 and 56.1% in 2023. In the absence of sufficiently detailed information about the national Recovery and Resilience Plan at the time of the cut-off date, this forecast assumes a linear integration of Recovery and Resilience Facility-financed expenditure as from 2022.

Table II.14.1:

Main features of country forecast - NETHERLANDS

		2020			Annual percentage change					
		bn EUR Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		800.1	100.0	1.3	2.4	2.0	-3.8	**4.0**	**3.3**	**1.6**
Private Consumption		335.2	41.9	0.4	2.2	0.9	-6.6	**2.7**	**5.8**	**2.2**
Public Consumption		207.6	26.0	1.8	1.7	2.8	1.0	**4.2**	**1.9**	**0.8**
Gross fixed capital formation		170.4	21.3	1.0	3.6	6.2	-4.1	**4.0**	**2.6**	**2.0**
of which: equipment		42.8	5.4	1.6	0.7	7.9	-12.1	**4.3**	**2.9**	**1.4**
Exports (goods and services)		622.9	77.9	3.8	4.3	2.0	-4.8	**6.9**	**5.2**	**2.9**
Imports (goods and services)		539.6	67.4	3.6	4.7	3.2	-5.5	**6.4**	**6.2**	**3.3**
GNI (GDP deflator)		786.2	98.3	1.3	2.8	1.2	-5.9	**5.0**	**4.0**	**1.6**
Contribution to GDP growth:	Domestic demand			0.8	2.1	2.3	-3.5	**3.1**	**3.4**	**1.6**
	Inventories			0.0	0.1	0.3	-0.3	**-0.2**	**0.1**	**0.0**
	Net exports			0.4	0.2	-0.7	0.0	**1.1**	**-0.2**	**0.0**
Employment				0.4	2.6	2.0	-0.5	**0.9**	**1.1**	**0.3**
Unemployment rate (a)				5.2	3.8	3.4	3.8	**3.5**	**3.6**	**3.6**
Compensation of employees / head				2.2	1.8	2.9	4.7	**2.3**	**2.6**	**2.8**
Unit labour costs whole economy				1.4	2.1	2.9	8.3	**-0.8**	**0.3**	**1.5**
Real unit labour cost				0.0	-0.3	-0.1	5.9	**-3.1**	**-1.3**	**0.0**
Saving rate of households (b)				13.4	16.3	17.7	24.0	**22.4**	**18.7**	**17.7**
GDP deflator				1.4	2.4	3.0	2.3	**2.4**	**1.7**	**1.5**
Harmonised index of consumer prices				1.6	1.6	2.7	1.1	**2.1**	**2.2**	**1.5**
Terms of trade goods				0.1	-0.2	0.9	1.5	**-1.1**	**-0.2**	**0.2**
Trade balance (goods) (c)				8.6	9.3	7.4	8.1	**8.6**	**7.9**	**7.7**
Current-account balance (c)				7.3	10.8	9.4	7.0	**8.4**	**9.0**	**8.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				7.1	10.8	9.3	6.9	**8.4**	**8.9**	**8.9**
General government balance (c)				-2.0	1.4	1.7	-4.2	**-5.3**	**-2.1**	**-1.0**
Cyclically-adjusted budget balance (d)				-1.3	0.7	0.9	-1.9	**-4.5**	**-2.4**	**-1.5**
Structural budget balance (d)				-0.3	0.7	0.7	-1.9	**-4.4**	**-2.4**	**-1.5**
General government gross debt (c)				56.5	52.4	48.5	54.3	**57.5**	**56.8**	**56.1**

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.