14. THE NETHERLANDS

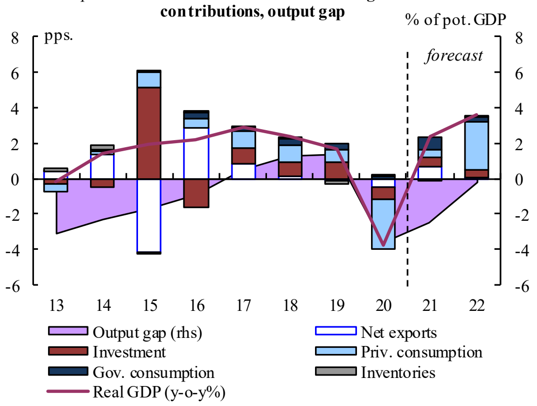
Real GDP in the Netherlands contracted considerably in 2020, although the decline was partly offset by targeted government support. Despite a weak start to 2021 due to the second wave of the pandemic and the reintroduction of containment measures, the economy is projected to rebound swiftly to its pre-pandemic level on the back of a robust recovery in consumer demand and more favourable external factors. Automatic stabilisers and increased expenditure will further widen the budget deficit in 2021, while in 2022, the deficit should decrease due to the recovery and the assumed end of support measures.

A resilient economy

The Dutch economy contracted by 3.7% in 2020 as the COVID-19 pandemic and related restrictions constrained domestic demand. The structure of the economy, the high degree of digitalisation of economic activities as well as the timely introduction of government support measures all cushioned the economic impact of the confinement measures. Nevertheless, due to the lockdown in place since mid-December, the economy is expected to have entered into another technical recession at the start of 2021.

Overall, the Dutch economy is expected to reach its pre-pandemic level by the end of this year, growing by 2.3% and 3.6%, in 2021 and 2022, respectively, the latter also driven by strong carry-over effects. A broad-based economic recovery is forecast to gain steam in the second half of this year. The implementation of the vaccination strategy and the assumed easing of confinement measures should lead to a rebound in private consumption, also to the benefit of the recovery in contact-intensive service sectors. In 2021, economic growth is projected to be supported by robust investment dynamics on the back of a vibrant housing market and strong manufacturing sector, where previously postponed investment plans are being revived. Net exports are also expected to contribute substantially to the near-term recovery. The improved economic outlook for key trading partners within the EU but also outside the EU, particularly the United States, are expected to offset initial adjustment costs in the trading relationship with the United Kingdom. In 2022, the pace of the recovery in domestic demand is forecast to slow down in view of the expected withdrawal of emergency support measures and subdued wage growth. At the same time, the contribution from external demand is set to turn broadly neutral. Public investment is forecast to support the recovery over the forecast horizon reflecting construction and infrastructure investments, the national growth fund and the assumed allocation of RRF funding for 2021 and 2022.

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



A limited increase in unemployment

Unemployment has so far been only moderately affected, remaining at a rate below 4% due to effective government support measures preventing lay-offs, labour hoarding and a continuous recovery in the business services and the government sectors where employment has been increasing. As the emergency support package is assumed to fade out together with the easing of containment measures, from the second half of this year bankruptcies are expected to gradually increase in combination with necessary restructurings, especially concentrated in the labour intensive, long-affected sectors (e.g. hospitality, retail trade and transport). This is expected to result in lay-offs mainly concentrated in the younger cohort of the labour force, which is also the most dynamic and has the potential to quickly adjust to structural changes in the economy. On the other hand, robust growth in the manufacturing sector and a strong recovery in ICT and business services is expected to partly offset employment losses in other industries over the forecast horizon, while the government sector is set to hold onto the additional personnel hired during the crisis. At the same time, the labour force participation rate is forecast to remain high.

Overall, despite the projected economic recovery, the unemployment rate is forecast to gradually increase in the second half of 2021, peaking in the beginning of 2022. In annual terms the unemployment rate is expected to increase from 3.8% in 2020 to 4.3% in 2021 and 4.4% in 2022.

Soft underlying inflationary pressures

HICP inflation is forecast to increase from 1.1% in 2020 to around 1.6% in 2021 before slightly softening to 1.4% 2022. The inflation rate increased in the beginning of 2021, driven mainly by base effects in energy prices and firming inflationary pressures in the goods sector. In the remainder of the year, consumer prices are expected to be sustained by an uptick in services inflation in view of expected temporary surge in demand for services once containment measures are lifted. In 2022, base effects in the services sector and muted wage growth are expected to limit any sustained increase in prices.

Fiscal policy to remain supportive in 2021

The general government balance is forecast to deteriorate from -4.3% of GDP in 2020 to -5.0% of GDP in 2021. Expenditures in 2020 and the first half of 2021 are elevated due to the extended emergency measures to protect employment and maintain household purchasing power and higher healthcare costs. A reduction in revenues added to the deficit in 2020. For 2021, revenues are expected to increase due to the economic recovery, which however is unlikely to fully offset the increase in expenditures. The government deficit is expected to narrow to 1.8% of GDP in 2022, driven by the economic recovery and the end of emergency measures. Government debt is projected to increase from 54.5% of GDP in 2020 to 58.0% of GDP in 2021 due to granted tax delays and the increased deficit, before declining to 56.8% of GDP in 2022. In the absence of sufficiently detailed information about the national RRP at the time of the cut-off date, this forecast assumes a simplified and linear integration of RRF-financed expenditure, as explained in Box I.2.3.

Table II.14.1:

Main features of country forecast - NETHERLANDS

	2019			Annual percentage change						
bn EUR		Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP		810.2	100.0	1.2	2.9	2.4	1.7	**-3.7**	**2.3**	**3.6**
Private Consumption		354.7	43.8	0.4	2.1	2.2	1.5	**-6.4**	**1.1**	**6.5**
Public Consumption		198.6	24.5	2.0	0.9	1.7	1.6	**0.6**	**2.7**	**1.3**
Gross fixed capital formation		170.1	21.0	0.8	4.2	3.6	4.6	**-3.6**	**2.7**	**2.3**
of which: equipment		47.6	5.9	1.3	3.2	0.7	6.5	**-8.9**	**12.7**	**0.7**
Exports (goods and services)		675.2	83.3	3.5	6.5	4.3	2.7	**-4.3**	**6.4**	**5.2**
Imports (goods and services)		590.7	72.9	3.4	6.2	4.7	3.2	**-4.3**	**6.5**	**6.0**
GNI (GDP deflator)		813.4	100.4	1.0	5.2	2.8	0.9	**-5.2**	**2.7**	**4.0**
Contribution to GDP growth:	Domestic demand			0.8	2.0	2.1	2.0	**-3.4**	**1.7**	**3.5**
	Inventories			0.0	0.0	0.1	-0.2	**0.1**	**0.0**	**0.1**
	Net exports			0.4	0.9	0.2	-0.1	**-0.4**	**0.6**	**0.0**
Employment				0.4	2.2	2.6	1.9	**-0.6**	**-0.2**	**0.2**
Unemployment rate (a)				5.0	4.9	3.8	3.4	**3.8**	**4.3**	**4.4**
Compensation of employees / head				2.4	1.0	1.8	2.9	**4.9**	**1.5**	**0.9**
Unit labour costs whole economy				1.6	0.3	2.1	3.1	**8.4**	**-1.0**	**-2.3**
Real unit labour cost				0.0	-1.0	-0.3	0.1	**5.8**	**-2.9**	**-4.0**
Saving rate of households (b)				12.7	15.3	15.6	16.6	**23.3**	**22.6**	**17.8**
GDP deflator				1.6	1.3	2.4	3.0	**2.4**	**1.9**	**1.7**
Harmonised index of consumer prices				1.9	1.3	1.6	2.7	**1.1**	**1.6**	**1.4**
Terms of trade goods				0.3	-0.3	-0.2	0.9	**1.7**	**-0.3**	**0.1**
Trade balance (goods) (c)				8.4	9.7	9.3	8.4	**8.7**	**9.0**	**8.7**
Current-account balance (c)				6.9	10.8	10.8	9.9	**7.8**	**8.1**	**8.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.7	10.8	10.8	9.9	**7.8**	**8.1**	**8.6**
General government balance (c)				-2.1	1.3	1.4	1.8	**-4.3**	**-5.0**	**-1.8**
Cyclically-adjusted budget balance (d)				-1.5	1.0	0.6	1.0	**-2.0**	**-3.5**	**-1.7**
Structural budget balance (d)				-0.5	0.6	0.6	0.8	**-2.0**	**-3.4**	**-1.7**
General government gross debt (c)				56.1	56.9	52.4	48.7	**54.5**	**58.0**	**56.8**

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