2.19. THE NETHERLANDS

After a solid first half of the year, growth fell back in the third quarter of 2018 amid a wider slowdown across the euro area. For 2018 as a whole, growth is estimated at 2.5%. The economic expansion is set to continue over the forecast horizon but at a slower pace than in previous years. GDP is projected to grow by 1.7% in both 2019 and 2020, driven mainly by domestic demand.

Solid employment growth and rising wages are set to boost disposable income and thereby support private consumption. At the same time, the relatively sharp fall in consumer sentiment in recent months is expected to be a drag on spending decisions. Corporate investment growth is expected to decline, in line with the slower economic expansion overall and increased international uncertainty. Residential investment growth is also set to moderate as new construction planning is stagnating and the number of housing transactions is declining. The fiscal stimulus is projected to be supportive to growth in 2019, with higher expenditure focused on education, defence and infrastructure. However, observed underspending in 2018 combined with supply constraints in the economy point to implementation risks. The growth contribution of net exports is expected to be close to zero as a result of the weaker external environment.

Headline inflation is projected to rise from 1.6% in 2018 to 2.4% in 2019, largely driven by an increase in the reduced VAT tariff from 6% to 9%. Gradually increasing wages are also set to exert upward pressure on the price level. Higher energy prices pushed up inflation in recent months, but their influence is expected to dissipate in line with lower oil prices compared to the second half of 2018. In 2020, inflation is forecast to fall back to 1.7%.

Graph 2.19: **The Netherlands - Real GDP growth and contributions**