The Netherlands: relying on domestic demand amid supply challenges

The Dutch economy is projected to grow by a modest 1.3% in 2025, primarily fuelled by consumption. Weak external demand is unlikely to spur a significant increase in exports and investment, while domestic shortages are also slowing the pace of expansion despite rising consumption

Dutch Prime Minister Dick Schoof

Although the effects of the pandemic and high energy inflation haven't completely faded, Dutch GDP is showing a solid recovery and is moving towards a more typical growth rate. By the third quarter of 2024, it had exceeded the pre-energy crisis peak by nearly 1%, marking the second consecutive quarter of robust growth. Mid-2024 saw a strong rebound from earlier weakness, driven by an expansion in spending.

The main driver was private consumption, which benefited from rising real income and suffered less from the many rainy days that suppressed consumption in the second quarter. Inventories finally expanded again in the third quarter, after six quarters of contraction. This suggests that Dutch firms have largely adjusted to the shift from the global goods boom triggered by the pandemic, towards the current scenario brought about by post-pandemic normalisation and high inflation. This new scenario combines spare capacity with weaker global demand growth, influenced by domestic weakness in China and a slowdown in the US economy.

Moderate growth expected as businesses grapple with supply-side issues

Supply factors, including a slower increase in the number of skilled workers, and shortages in electricity, drinking water (grid connections), building permits, and pollution emission allowances, are constraining the economy's capacity to grow.

Dutch businesses are increasingly citing supply-side issues, such as shortages of personnel, equipment, materials, and space, as their primary constraints, more so than demand, compared to their counterparts in other European economies.

Productivity growth is improving, however, and investment has so far surprised on the upside. But the latter is likely to be a one-off since investment in transport equipment probably boomed temporarily in anticipation of increased taxation on the purchase of non-electric vehicles (BPM). This is expected to weigh on investment growth in 2025, which is likely to be positive but slow.

Gradual improvement in uncertain external demand and decent consumer spending growth

We expect a moderate GDP growth rate that is slightly below the structural growth rates of the previous decade. As the US is threatening to impose more trade protectionism, the outlook for the open Dutch economy remains uncertain.

While international trade is likely to improve from stagnation in 2024, we expect private consumption to be the main driver of economic growth in 2025 and public consumption to contribute significantly too.

While consumer willingness to buy still has room for improvement and poses both upward and downward risks, real income growth will likely drive increased consumption in 2025. ING transaction data indicates growing spending for the fourth quarter of 2024, also adjusting for inflation. Looking ahead, this will be supported by significant contractual wage increases and government measures to boost purchasing power.

The expansion of the semi-public sector, driven by increased ambitions in areas like defence and ageing-related expenditures (such as social security and elderly care), will continue to boost overall demand. This could either lead to inflation, given the current labour market pressures or provide support, considering external risks.

While underlying inflation slowly approaches target, headline rates remain high

While the average profitability of Dutch businesses remains high historically, it is expected to erode because of higher wage costs. This is also due to a fall in businesses' ability to raise prices, even though selling price expectations of businesses are still somewhat elevated historically.

Based on month-on-month core inflation rates adjusted for seasons and tax changes, underlying consumer inflation rates have been on a downward trend since August 2024 towards slightly above 2% annualised. Still, headline consumer price inflation remains above 3% YoY, and will remain so during most of 2025.

These figures are still influenced by earlier policy measures (e.g. excise taxes on alcohol, beverages, and tobacco, charges for infrastructure, and expansionary fiscal policy). Home rent inflation is also high, and will most likely stay this way in 2025.

Service inflation in general continues to be elevated due to rising wage costs. All in all, we forecast the HICP consumer price inflation to remain quite constant year-on-year, going from 3.2% in 2024 to 3.1% in 2025, and falling to 2.4% in 2026.

The Dutch economy in a nutshell

	2023F	2024F	2025F	2026F
GDP	0.1	0.8	1.3	1.2
Private consumption	0.8	0.8	1.4	1.6
Investment	1.3	-0.6	0.2	2.8
Government consumption	2.9	2.9	1.7	1.9
Net trade contribution (%-point)	1.0	-0.1	-0.4	-0.7
Headline HICP	4.1	3.2	3.1	2.4
Unemployment rate (%)	3.6	3.7	4.0	4.1
Budget balance (% of GDP)	-0.4	-2.2	-2.6	-3.0
Government debt (% of GDP)	45.1	45.3	47.4	49.4

Source: Macrobond, all forecasts ING Research estimates

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