Our 3 calls for the Netherlands

The Netherlands has probably seen inflation peak; growth next year will be driven by large increases in government spending

Government spending will be the guiding light for growth in the Netherlands next year. Pictured: an art installation in Amsterdam

1 Government spending main driver of economic growth in 2023

While investment is expected to decline, household consumption is barely growing and exports are expanding less than usual, additional government expenditure will be the main driver of Dutch GDP growth in 2023. The ambitious coalition agreement should give an estimated net expenditure boost of 2.2% growth for next year. A weakening of the business cycle, therefore, coincides with a shift in activity to the public sector.

On top of the many government plans comes a sizeable package of support measures to help people with the energy crisis. The energy price cap is potentially the largest piece of expenditure in this package. Its size remains highly uncertain given that we don't know where energy prices will sit. Recent government estimates are assuming somewhat lower energy prices than we're seeing now but the extra spending could still account for 1% of GDP. So government spending will be the driving force for GDP growth next year and other similar support packages throughout Europe will also help lift the Dutch economy.

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2 Unemployment increases are set to remain small

The Dutch economy is forecast to grow by 0.4% in 2022 in our base case, after an expansion of 4.2% in 2021. We forecast negative growth for the last quarter of 2022 and the first of 2023, and moderate growth thereafter. This implies a short and shallow recession that does not translate into high unemployment. Despite the meagre growth outlook, we expect the unemployment rate to rise to just above 4% in 2023. We expect that a lot of firms will try to hang onto their personnel, given the short duration and mildness of the recession and the fact that all sectors recently faced a great deal of strain in the labour market.

3 Consumer price inflation falls significantly, but remains high

HICP headline inflation seems to have reached its peak in September 2022, but at a forecast of 4.8%, it's set to remain quite high throughout next year. The pipeline still contains cost price increases due to earlier peaks in purchasing prices of things like raw materials, transportation and energy. Higher labour costs will also continue to drive inflation up. Rents and the tobacco tax also contribute considerably to the prices consumers will pay in 2023.

At the start of the year, a number of government support measures expire, such as the temporary reduction of the energy tax, which will have an upward effect on the inflation rate. The new energy price cap will, however, lower the inflation coming from both electricity and gas. This cap is temporary and its expiration at the start of 2024 will result in higher inflation then. And while much of the pipeline inflation should have worked through in 2024, the rate will still remain relatively higher than usual.

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