The Netherlands: From stagnation to modest expansion

Encouraging household and public sector consumption was the main driver of the positive growth story for the Dutch economy in the last quarter of 2023. With below-2% inflation, high wage growth and government intervention, we expect modest growth figures this year

The outgoing Dutch Prime Minister, Mark Rutte

End of recession thanks to consumption growth in last quarter of 2023

The recent contraction of the Dutch economy, which started in the first quarter of last year, may already have come to an end. October and November showed decent Month-on-Month growth in domestic household consumption, and consumer confidence rose for the fourth month in a row in December. Contractual wage increase accelerated to 6.9% Year-on-Year while HICP consumer price inflation rate fell to 0.4% YoY in the fourth quarter (and core to 3.9%). That improvement in household consumption supports our view that the Dutch economy is looking rosier after three quarters of decline.

That, combined with expanding public consumption, is expected to bring GDP growth into positive territory again in the last quarter of 2023, albeit at a sluggish pace due to weak exports and investment. This would mean that 2023 as a whole would have had an annual GDP growth rate of

0.1%, or in other words, “stagnation”.

Households and the government are the main growth drivers for 2024

Households, especially those with lower to middle incomes, will see gains in purchasing power in 2024, profiting from below-2% inflation combined with continuing high contractual wage growth of 4 to 6% and government interventions, such as a further increase in the minimum wage and its related old age and welfare benefits. This suggests that household consumption will expand further in 2024.

Public spending is expansionary and is a main driver of growth

This year, public spending is expansionary and remains a main driver of GDP growth. This is the result of discretionary measures (such as a willingness to comply with NATO norms on military spending) as well as demographics (which, for instance, causes an expansion of publicly financed health care). While the Netherlands currently has a caretaking government and a new government is still in the early process of being formed, many spending policies planned for 2024 continue to be implemented.

3 calls for the Dutch economy in 2024

Investments contract further, while export growth resumes slow but positive growth

Investment, which started to contract in 3Q23, will increasingly become a drag on growth, as increased financing costs are still in the process of affecting the real economy, and the worldwide business outlook isn’t as buoyant as some time ago.

Exports are projected to return to positive growth again during 2024. However, given the mediocre outlook of the globally oriented manufacturing industry and an expected US recession, the Dutch trade expansion is expected to be small. Because of statistical carry-over, the annual export growth figure is even negative.

Modest growth in 2024

These developments add up to the projection of a modest 0.7% GDP expansion, which shows that the economy is still not entirely free from the spectre of stagnation. While the underlying growth momentum may normalise by the end of the year, we will have to wait until 2025 for an annual growth rate close to the Dutch economy's potential. In the meantime, the labour market should evolve from very strained to merely strained, with the unemployment rate increasing only slightly to 4.0%. Price pressures are expected to gradually normalise as businesses' selling price expectations are only slightly above long-term averages and core inflation is clearly on a downward trend.

The Dutch economy in a nutshell

	2022	2023F	2024F	2025F
GDP	4.3	0.1	0.7	1.7
Private consumption	6.5	0.1	0.9	1.3
Investment	1.8	3.2	-3.3	-0.2
Government consumption	1.6	3.3	2.1	1.8
Net trade contribution (%-point)	1.0	-0.6	-0.2	0.5
Headline HICP	11.6	4.1	1.1	2.1
Unemployment rate (%)	3.5	3.6	4.0	4.2
Budget balance (% of GDP)	-0.1	-2.5	-3.2	-3.3
Government debt (% of GDP)	50.1	49.4	51.1	53.8

Source: Macrobond, all forecasts ING Research estimates

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