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THE NETHERLANDS

Three calls for the Dutch economy in 2025: consumption, inflation and productivity growth

After two years of shallow recession, here are our three calls for the Dutch economy in 2025



1 Consumption will be the main driver of economic growth

The bulk of GDP growth is expected to stem from domestic consumption, particularly from consumers. But the government is also expected to be a significant driver of GDP growth in 2025 due to its expansionary plans. While wage growth is set to decelerate next year, it remains high and considerably higher than inflation. Together with government measures, such as the introduction of a new tax bracket in labour income tax, this should help to fuel household purchasing power.

The extent to which consumers convert this into additional purchases or extra savings is uncertain, as the household savings rate has already risen during 2024. Consumer confidence, while no longer as low as during the energy crisis, is still on the soft side. We therefore forecast

consumption growth that is slightly below the long-term average. This, however, is enough for consumers to be the main growth engine in 2025, as the outlook for exports and investment is even flatter as a result of sluggish external demand. GDP is projected to accelerate from a modest 0.8% in 2024, a year when the Netherlands emerged from a shallow recession related to the energy crisis, to a moderate 1.3%. For growth to exceed potential, world trade would need to accelerate more than currently envisioned and/or consumers need to reduce their savings ratios compared to our baseline.

For Dutch readers, please see [our more elaborate Outlook Nederland 2025](#) (published 5 December 2024).

2 Inflation remains high(er) for longer

Inflation in the Netherlands looks set to remain around 3%, well above the European Central Bank's 2% target level in 2025 and eurozone averages. This is partly because the Dutch economy is pushing the boundaries of its production capacity more than the euro area average and is expected to do so again next year.

In part, this is facilitated by expansionary fiscal policy, with rising spending contributing to strain in the labour market. With persistently high labour cost increases we expect (services) inflation to remain high for a bit longer, even though these costs are unlikely to be passed on to consumer prices in full.

Another important explanation for relatively high (service) inflation is the price of housing, which has risen more sharply in the Netherlands than in many other countries and is also expected to remain high. Rent regulation introduced and/or adjusted during Covid, for both social renting and the liberalised rental market, temporarily limited inflation in previous years. Now, this regulation allows for much high(er) increases. This is due to the linking of statutory maximum rent increases to (high) inflation and collective wage growth of the recent period combined with ongoing tightness in the housing market.

Inflation has been relatively high in 2024, also compared to the euro area, due to the increase in taxes, duties, and excise duties, too. This most notably includes excise duties on tobacco, alcohol, and non-alcoholic beverages. While the upward effect on consumer prices drops out of the inflation figures eventually, it still boosts inflation at the start of 2025. All in all, it is clear that a 2% inflation level is nowhere in sight.

3 Economic growth will rely more on productivity growth

In 2025, we expect economic growth in the Netherlands to rely more on productivity growth compared to recent years. The number of people employed rose by a considerable 7.5% compared to the last quarter before the start of the Covid pandemic. In this period, from the fourth quarter of 2019 until the third quarter of 2024, GDP went up 8.5%. These two facts

combined mean that recent growth was labour-rich. This also means that productivity growth was low: in these 19 quarters, total cumulative hourly productivity growth was only 2.7%. In our view, this trend of high (GDP-growth contributions of) employment growth and low (contributions of) productivity growth is not likely to continue in 2025.

First, employment growth (and therefore its contribution to GDP growth) will be more moderate than in the past few years, as the increase in labour supply will be much more muted. This is due to demographic (ageing and migration) developments as well as the fact that the increasing trend in the participation rates of women and elderly of the previous decade is no longer a given anymore, as the level of participation has already reached record highs.

Second, productivity growth is likely to improve, even without a growth miracle. One reason is the fact that the economic drag from the reduction (and eventual termination in 2023) of gas production in the Groningen gas field is no longer present. Also, company dynamics are increasing. As the number of business exits and bankruptcies is increasing from the artificially low numbers during the pandemic, productive resources such as capital and labour will more often be used by other (more viable) firms and other sectors. The resulting improvement in allocative efficiency should also improve productivity development. This should be possible in 2025, as demand keeps on growing domestically. In addition, we expect the degree of labour hoarding to come down, as higher labour costs leave less room for it.

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