

NETHERLANDS

GDP growth is projected to remain broad-based and steady at around 2%. Private consumption will benefit from improving labour market conditions. The housing market will strengthen further on the back of low interest rates. Wages are set to accelerate as unemployment continues to decline, while inflation will increase gradually from its low level. The current account surplus is expected to remain high despite firm domestic demand and lower gas exports.

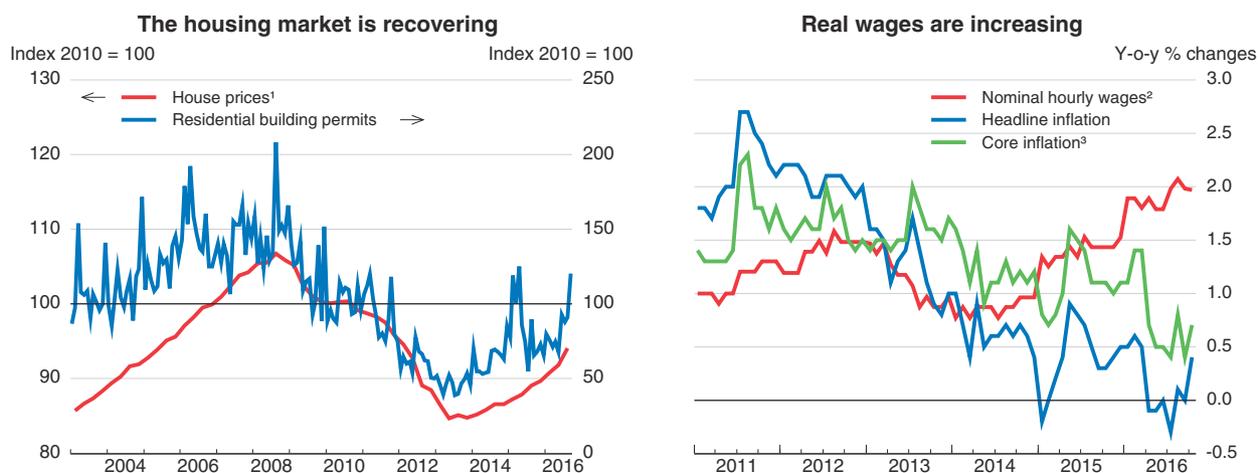
Very accommodative euro area monetary policy is supporting demand. The fiscal policy stance is projected to be broadly neutral. Continuing to improve skills, particularly of immigrants and the long-term unemployed, and better matching skills to jobs, would raise productivity and potential GDP growth while also helping to make growth more inclusive.

The public finances are healthy, which provides room that should be used to finance more growth-friendly spending, notably investment in education and R&D. The tax system can be made more efficient, equitable and environmentally friendly, and preparations for a broad tax reform should be revived. In view of the robust housing market recovery, the reduction of mortgage interest tax relief should be accelerated.

Solid growth is driven by domestic demand

The economy is growing steadily, if not spectacularly, mainly driven by domestic demand. Private consumption is supported by accelerating wages and declining unemployment. The housing market is further recovering as reflected by the strong growth in property prices and residential investment. Business investment is gathering pace as capacity utilisation increases, although the uncertainty following the UK referendum may delay certain projects. Inflation remains subdued.

Netherlands



1. Price index of existing own homes that are located on Dutch territory and sold to private individuals.

2. Including special payments, such as holiday allowance, Christmas bonus, one-time payments the compensation for public health costs and the employers' contribution for the life course savings scheme.

3. Excludes energy, food, alcohol and tobacco.

Source: Statistics Netherlands (CBS); and OECD Main Economic Indicators database.

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Netherlands: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	652.8	1.4	2.0	2.0	2.0	1.9
Private consumption	293.6	0.3	1.8	1.5	1.8	1.6
Government consumption	170.3	0.3	0.2	0.7	1.1	1.4
Gross fixed capital formation	117.1	2.3	9.9	6.2	3.7	4.2
Final domestic demand	581.0	0.7	3.0	2.3	2.0	2.1
Stockbuilding ¹	2.1	0.2	-0.6	-0.1	0.1	0.0
Total domestic demand	583.1	0.8	2.3	2.1	2.1	2.1
Exports of goods and services	535.5	4.4	5.0	3.4	3.3	3.5
Imports of goods and services	465.8	4.2	5.8	3.8	3.7	4.1
Net exports ¹	69.7	0.6	0.0	0.1	0.1	-0.1
<i>Memorandum items</i>						
GDP deflator	—	0.2	0.1	0.6	0.8	1.3
Harmonised index of consumer prices	—	0.3	0.2	0.0	1.0	1.5
Private consumption deflator	—	0.8	0.0	0.3	0.5	1.5
Unemployment rate	—	7.4	6.9	6.0	5.6	5.5
Household saving ratio, net ²	—	6.3	6.0	7.2	7.2	7.2
General government financial balance ³	—	-2.3	-1.9	-1.4	0.0	0.0
General government gross debt ³	—	81.2	77.9	76.1	74.3	72.5
General government debt, Maastricht definition ³	—	67.9	65.1	63.3	61.6	59.7
Current account balance ³	—	8.9	8.7	8.1	7.7	7.4

1. Contributions to changes in real GDP, actual amount in the first column.

2. As a percentage of disposable income, including savings in life insurance and pension schemes.

3. As a percentage of GDP.

Source: OECD Economic Outlook 100 database.

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The labour market is improving. After a prolonged post-crisis weakness, employment is accelerating. The share of flexible contracts and the number of the self-employed keeps rising, which risks intensifying labour market dualism. To mitigate this risk, employment protection of those on permanent contracts should be eased by reducing the cap on severance payments, and generous tax incentives that encourage self-employment should be reviewed.

The fiscal stance is broadly neutral

Very low interest rates are stimulating the housing market and business investment, but are also reducing returns on investment by pension funds, leading to increased contribution rates and lower pension indexation.

The public finances are healthy, as the public debt ratio is well below the euro area average and on a firmly declining path and the deficit is low and heading to zero in the next two years. The 2017 budget is broadly neutral. The fiscal room should be used to raise growth and inclusivity by investing in higher quality of childcare facilities, more support to on-the-job learning and enhanced training programmes for new immigrants and the long-term unemployed. Supporting investment in research and development would also enhance long-term growth, while stronger investment in renewable energy and energy

efficiency is needed to meet environmental targets. Priority spending could be financed, and the tax system made more effective, by accelerating the reduction in mortgage interest tax relief and phasing out lower VAT rates.

Growth will remain steady

Economic activity is projected to continue growing at a pace close to 2% per year. It will be driven by strong private consumption and investment growth. Inflation will gradually increase as economic slack diminishes and wages accelerate, but it will remain below 2% in 2017 and 2018. As the economy expands, the budget is expected to be in balance in both 2017 and 2018. The current account surplus will decline further because of strong domestic demand and shrinking gas exports, but it will remain large.

The main downside risk is that uncertainties following the UK referendum weigh more than expected on business investment and international trade. The Netherlands is more exposed to Brexit than other European countries due to its strong trade and financial links with the United Kingdom and its position as a commercial hub. Still, it has ample policy space to cushion the impact of a shock. On the upside, private consumption could be stronger than projected if households fully translate their rapid gains in real income into higher spending.