DNB Autumn Projections

December 2024

DeNederlandscheBank

EUROSYSTEEM

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Dutch economy in a nutshell

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These projections are part of the projections made by the European Central Bank (ECB) and the national central banks (making up the Eurosystem) for the euro area.

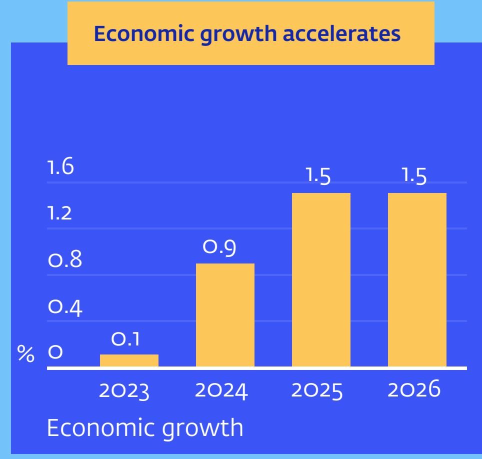
A full overview of the projections for the 2024-2026 period and the international assumptions used can be found in the Key data Table.

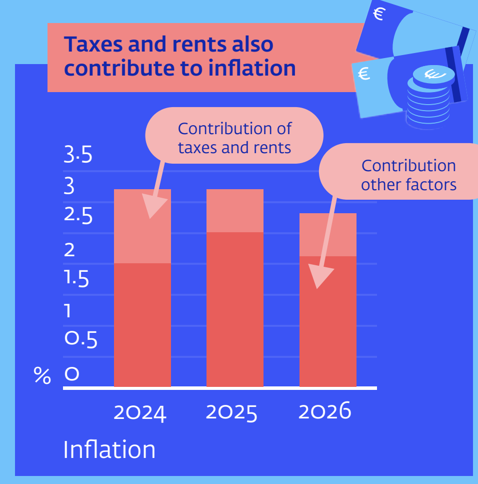
We carry out our projections in part using the DELFI macroeconomic model. These projections are based on information available on 27 November 2024. The assumptions for relevant world trade, exchange rates, international commodity prices and interest rates were adopted by ECB and euro area NCB experts as part of the Eurosystem projections. These international assumptions are also used for our own projections for the Dutch economy. All central banks use the same international assumptions for their national projections. More background can be found at www.dnb.nl/the-state-of-the-dutch-economy.

Accelerating growth in an uncertain environment

The Dutch economy is growing faster. This is driven by household consumption and government expenditures. From next year onward, exports will also expand.

Percentage annual growth	2023	2024	2025	2026
Gross domestic product	0.1	0.9	1.5	1.5
Household consumption	0.8	0.8	2.1	1.8
Exports goods and services	-0.4	0.1	2.3	2.2





-3.1%

End of projection horizon the government deficit is 3.1%. Therefore little room to absorb budget setbacks.

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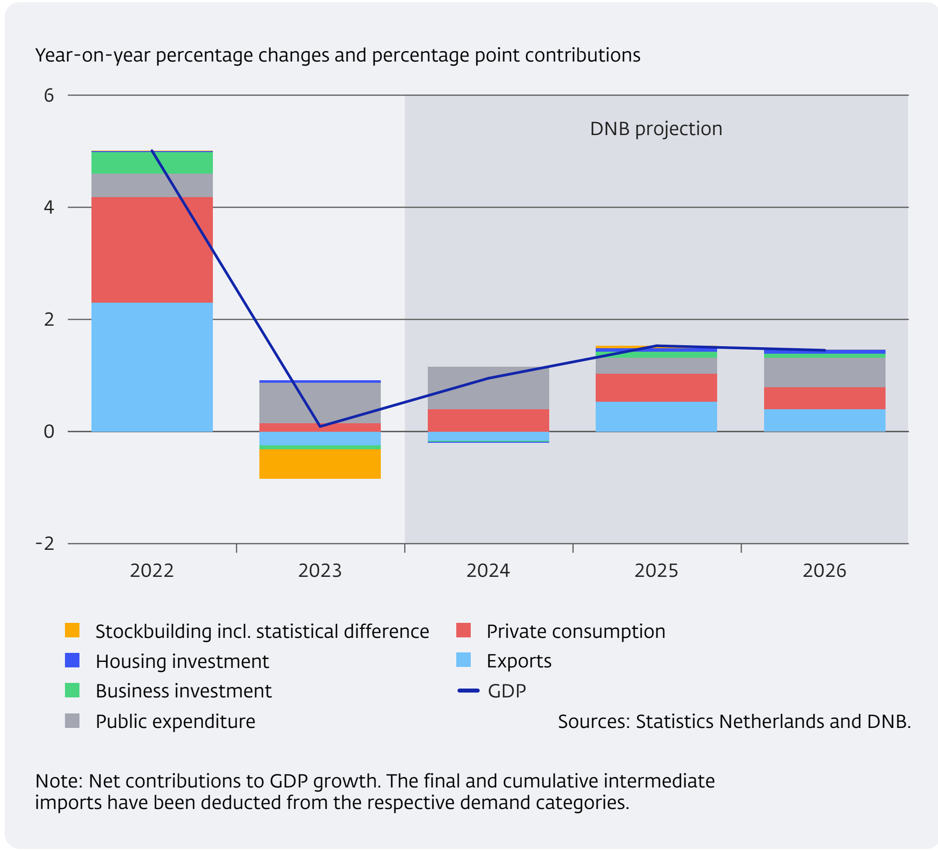
Summary

Accelerating growth in an uncertain environment

The growth recovery is taking firmer shape. The Dutch economy rebounded in the second half of this year and is set to grow faster than previously expected in 2025 and 2026. Gross domestic product (GDP) will grow by 0.9% this year and by 1.5% in 2025 and 2026.[1] Growth is mainly driven by private consumption and government spending (Figure 1). Dutch exports will also start contributing more to economic growth on the back of recovering world trade.

Geopolitical uncertainty may slow the recovery, however. Geopolitical tensions, such as developments in the Middle East and Russia's war in Ukraine, continue to cloud the economic outlook. Dependence on other countries, through trade and investment, makes the Dutch economy vulnerable to global shocks. Negative impacts on confidence due to geopolitical uncertainty may also weigh on domestic spending. Added to this is the threat of a trade war with higher import tariffs on international trade. Uncertainty surrounding this threat has increased sharply since Trump was elected the new president of the United States in November this year (Figure 2). New trade restrictions could hit the Dutch economy hard, just as the pandemic and the energy crisis did before. A trade war therefore poses a downside risk to the growth outlook, as the alternative scenario in these Autumn Projections shows.

Figure 1 Economic growth driven by domestic demand

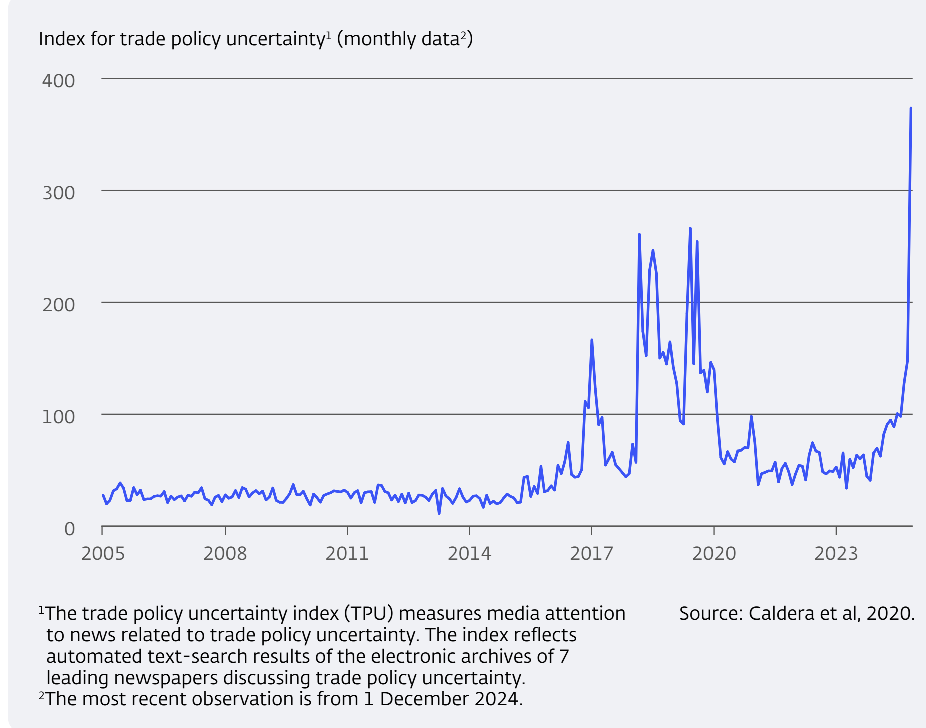


Sources: Statistics Netherlands and DNB.

Note: Net contributions to GDP growth. The final and cumulative intermediate imports have been deducted from the respective demand categories.

1 The economic recovery is slightly stronger in the Netherlands than in the euro area.

Figure 2 Uncertainty about international trade policy rises



[1]The trade policy uncertainty index (TPU) measures media attention to news related to trade policy uncertainty. The index reflects automated text-search results of the electronic archives of 7 leading newspapers discussing trade policy uncertainty.
[2]The most recent observation is from 1 December 2024.

Source: Caldera et al, 2020.

Economic growth in the Netherlands is driven mainly by domestic demand. A key driver for this is the recovery in consumption growth that we have seen in the second half of 2024. This is in line with the rise in household incomes. Consumption growth is set to continue in 2025 and 2026. Business investment growth is also recovering. Investment in housing is being stimulated by government measures, such as subsidies to municipalities for housebuilding. Government spending will also contribute significantly to growth in the years ahead, in an already strained economy. Over the projection period, demand for products and services will remain more than 1% higher than the production capacity (the output gap). The excess demand in the Dutch economy is higher than in the euro area.

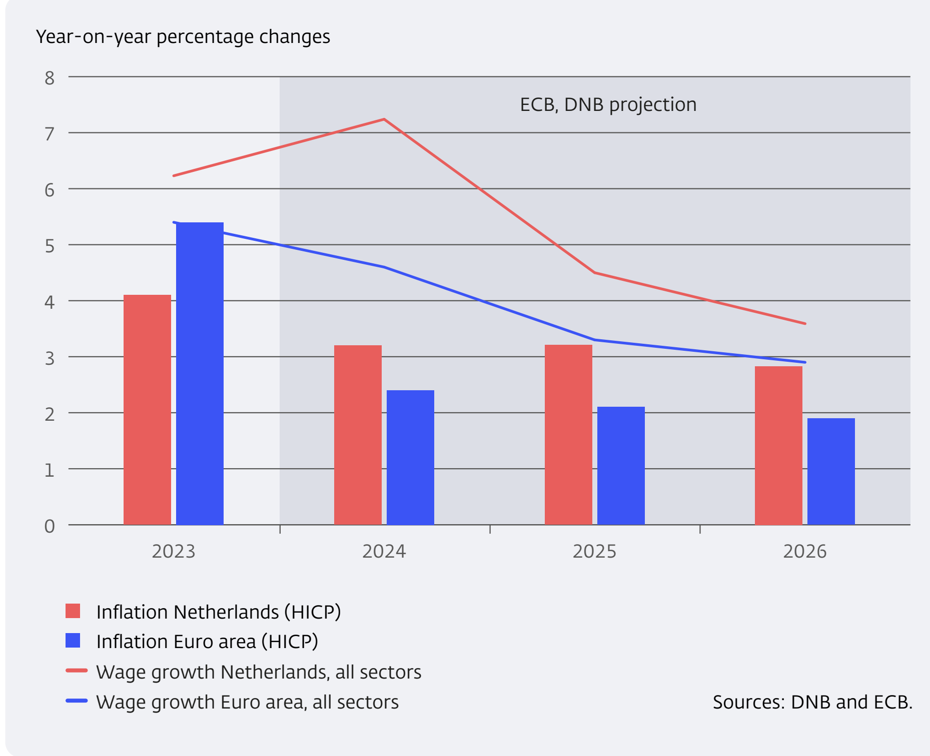
A declining trade balance contributes negatively to GDP growth in 2025 and 2026. This is because the recovery in domestic demand is accompanied by strong growth in imports. Export growth lags behind, reducing the trade balance. Dutch exporters also loose market share, partly due to their declining price competitiveness. This is impacted by relatively high production costs and could come under further pressure in the event of a trade war, as import tariffs in a foreign market would put Dutch exporters at a competitive disadvantage.

High wage growth and inflation in the Netherlands

Wage growth is higher in the Netherlands than in the euro area (Figure 3)**.** The high wage growth in 2024 and 2025 is due to recently concluded collective labour agreements. The tight labour market means workers have a stronger bargaining position. This is reflected in wage growth that is higher than that of the euro area. Wages also rise more than inflation over the projection period. This is part of a rebalancing of the tight Dutch labour market. The labour market eases slightly over the projection period and wage growth declines slowly. Unemployment is set to remain low. The tight labour supply means higher productivity growth is required to sustain GDP growth over the long term.

Inflation remains around 3% over the projection period, partly due to wage growth. This means inflation in the Netherlands is significantly higher than in the euro area as a whole. Unlike in the 2022 energy crisis, this high inflation has mainly domestic causes: excess demand in the economy, high wage growth, higher indirect taxes and the pass-through of inflation to regulated prices such as rents. Import inflation remains subdued, partly because of lower prices of products imported by the Netherlands from China.

Figure 3 Inflation and wage growth in the Netherlands high



Sources: DNB and ECB.

This higher inflation must not become the new normal. If inflation stays above the ECB's 2% target for a prolonged period, people may get used to higher inflation, causing inflation expectations to rise. This would make it harder to achieve price stability, as higher inflation expectations could trigger higher wage demands and selling prices. A structural inflation differential relative to the euro area could also harm Dutch competitiveness. It would lead to relatively high production costs for businesses, making them less competitive in export markets. The Netherlands can only rely on the ECB's monetary policy to a limited extent, as it focuses on inflation in the euro area as a whole. Trade unions, employers and domestic policymakers have a shared responsibility to curb higher inflation expectations.

Sharp increase in household income. With wage growth outpacing inflation, households' real disposable income is rising. Income is set to rise by 4.5% in 2024 and somewhat less in subsequent years. Households are using part of the increase for additional savings, so the savings ratio excluding pension contributions increases and remains high. Dutch households save among other things to pay off their mortgage loan or to buy a house.

House prices are also set to continue rising in 2025 and 2026. This rise is driven by income growth and somewhat lower mortgage interest rates, coupled with positive sentiment and tightness in the housing market. The recovery in housing investment is helping to ease the tightness, but more building permits are needed. Housing affordability has declined over the past decade, as households' borrowing capacity has risen less than house prices. This must be addressed not only through increased housebuilding but also by reducing the upward pressure on house prices. This can be done by limiting the demand stimulus and letting the rental market act as a pressure valve for the housing market.

Public finances are in better shape than anticipated, but there is little room for manoeuvre. The budget deficit is lower than we anticipated in the Spring Projections. In 2024, this is due to increased revenues on the back of higher GDP growth, and the fact that some planned expenditures have not been incurred (underspending). The capacity to absorb shocks nevertheless remains limited, with the budget deficit set to rise to 3.1% of GDP in 2026, above the European deficit ceiling. This is undesirable, because unexpected economic shocks could also put pressure on public finances.

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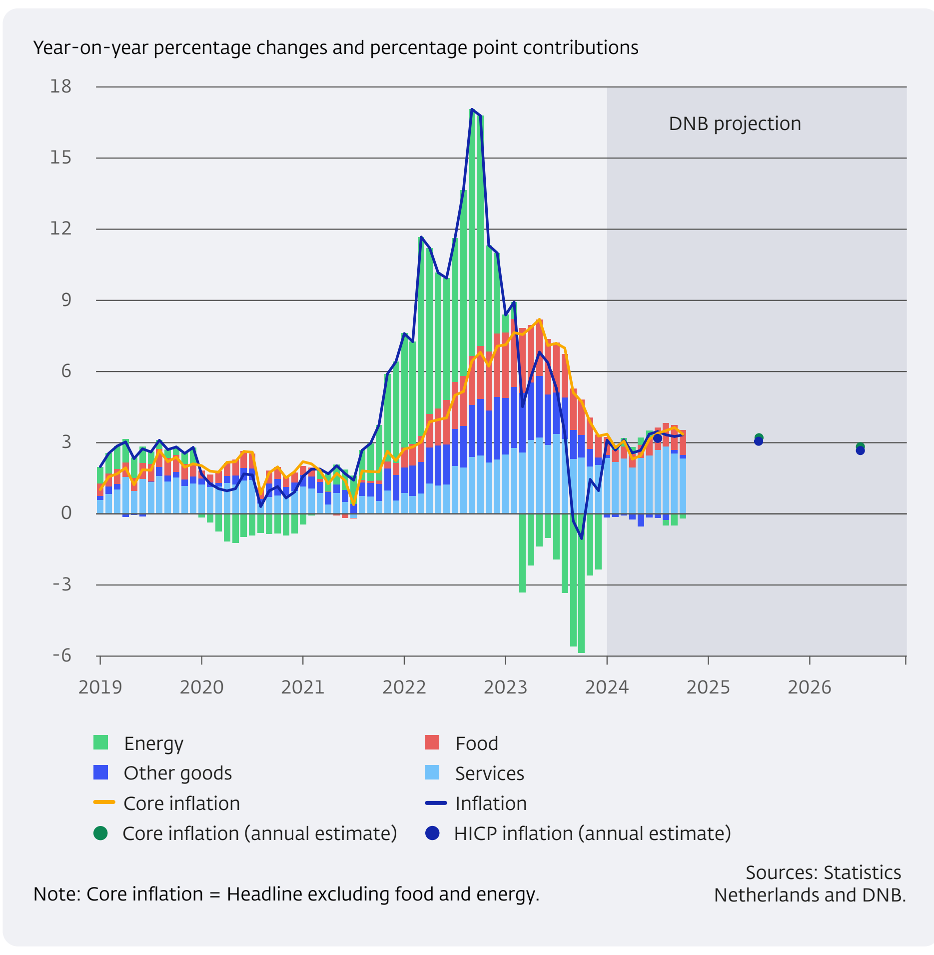
Inflation stays high for a prolonged period

Inflation has fallen sharply, but remains high. Inflation (European harmonised, HICP) has fallen sharply since its peak in 2022 but will remain around 3% in 2025 and 2026 (Figure 4). Price stability (2% HICP annual inflation) will therefore be achieved later than we anticipated in the Spring Projections. This is due to higher headline inflation in 2024, stronger than expected wage growth, rent increases and tax measures. Hence, unlike in the 2022 energy crisis, this high inflation is mainly due to domestic factors. Increases in indirect taxes, for example, such as VAT and tobacco duty, lead to higher prices of services, food and energy.

Services inflation remains stubbornly high. The inflation rate excluding energy and food prices (core inflation) shows the underlying trend in inflation. Within core inflation, services inflation in particular remains stubbornly high (Figure 4). This is mainly due to high wage growth, which is a major determinant of the trend in service prices. Increases in rents and VAT on hotel stays also contribute to services inflation.

Increased indirect taxes and higher rents keep inflation higher than in the euro area. In October 2024, inflation stood at 3.3% in the Netherlands and 2.0% in the euro area. About 0.5 percentage points of the 1.3 percentage point difference is due to indirect taxes.[2] This mainly concerns tax increases on tobacco, alcohol and natural gas. If this impact is excluded, inflation in the Netherlands averages 2.3% in 2024 (Figure 5). The 5.4% increase in rents contributes around 0.3 percentage points to HICP inflation in 2024. We also expect rent increases to contribute significantly to inflation in 2025. Rents in the Netherlands rise in line with average wage growth. Therefore, as long as wage growth in the Netherlands remains high, rent growth may also be high.

Figure 4 Inflation remains high, especially in services

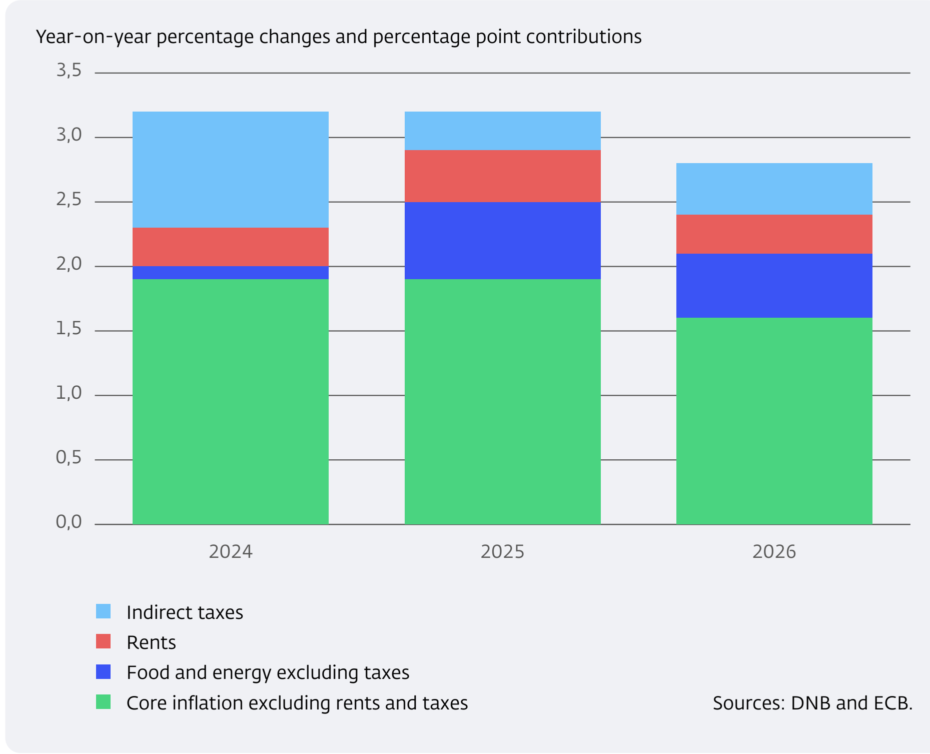


Note: Core inflation = Headline excluding food and energy.

Sources: Statistics Netherlands and DNB.

2 Indirect taxes contributed 0.5 percentage points to inflation in the euro area and 1 percentage point in the Netherlands in October 2024.

Figure 5 Contribution to HICP-inflation of rents, indirect taxes and food and energy



Sources: DNB and ECB.

Economic tightness is also keeping inflation high for a prolonged period. The output gap in the Netherlands stays positive over the projection period, which means demand for products and services remains higher relative to the production capacity. The labour market shortages also continue. This also puts upward pressure on wages and prices from the demand side of the economy.

Profits and wages contribute in turn to inflation. Wages contributed more than half of domestically generated inflation on average in 2023 and the first half of 2024. Corporate net profits contributed less than 10% during that period. In 2021 and 2022, the ratio was reversed. This shows that both wage growth and profit growth have contributed their share of inflation.[3]

More affordable energy bills. In 2025, households will spend on average almost 4% of their disposable income on energy. Continued income growth causes this rate to fall slightly in 2026. An estimated 20-25% of the lowest-income households remain vulnerable to high energy costs.[4]

Geopolitical tensions and prolonged high wage growth pose upside risks to inflation. New supply shocks, for example due to geopolitical tensions, could push inflation higher than we currently anticipate. Such a shock could raise the cost of international trade or energy prices (see also the alternative scenario later in these Autumn Projections). As well as shocks outside the Netherlands, inflation may also rise due to unexpected domestic developments, such as wage increases remaining high for longer than projected.

More on inflation can be found at our inflation-themed web page

3 See also: How higher wage costs and corporate profits contributed to inflation in 2023 (DNB, 2023).
4 The results are based on DNB's own calculations using non-public microdata from Statistics Netherlands.

Labour market remains tight, wage growth falls slowly

The number of employed people continues to rise, but its growth is slowing. This is due to stagnating GDP growth in 2023, which is reflected in the labour market after the usual time lag. In addition, government policies have the effect of weakening public employment. The growth in labour supply is also levelling off. This is linked to decreasing net migration and structural developments, such as the ageing labour force and the already high labour market participation (from a historical and international perspective).

Labour supply constraints mean there is a need for higher labour productivity growth. Labour productivity growth over the projection period is roughly equal to the long-term average of the past 15 years (0.5% per year). Between 1996 and 2010, average labour productivity growth was more than double that, at over 1%. In a previous analysis we show that in a scenario with no further increase in the labour supply a sharp acceleration in labour productivity growth is needed to maintain potential GDP growth at the current level.[5] This will require a reversal of the downward trend in productivity growth seen in recent decades.

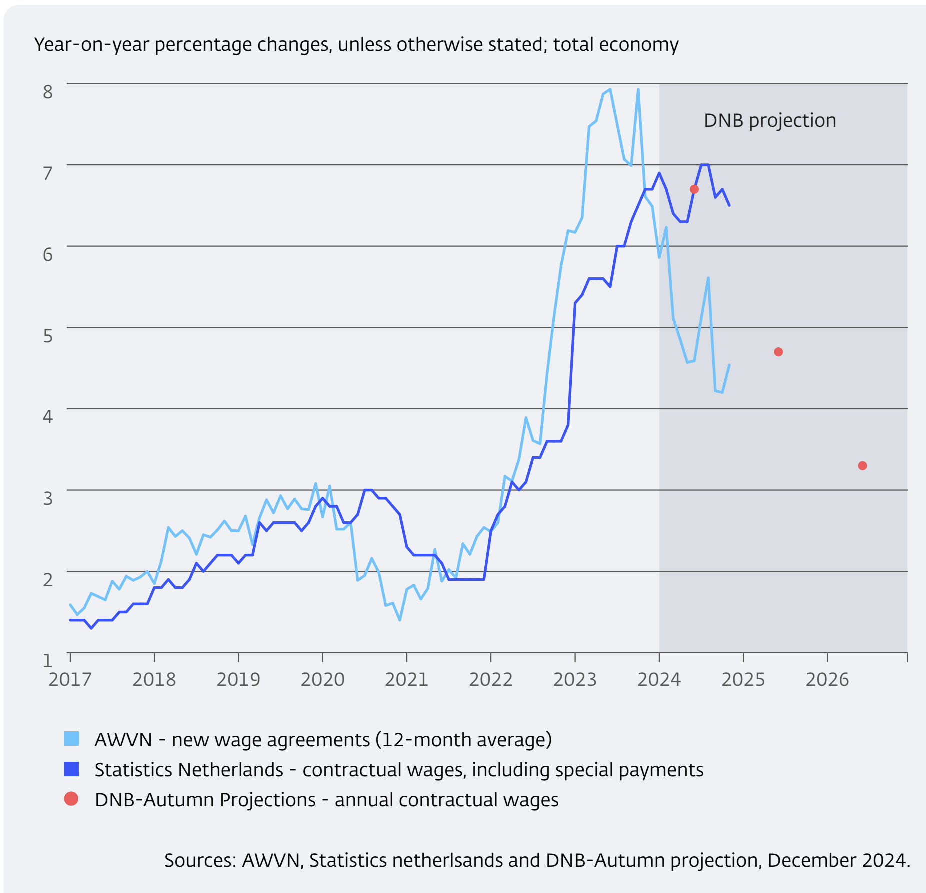
With low unemployment, the labour market remains tight. As labour supply growth levels off less than employment, the labour market eases slightly. Unemployment is set to rise slowly to 4.0% in 2026. Employers may consequently find it somewhat easier to recruit staff, but labour remains scarce. In the third quarter of 2024, there were still more vacancies than job seekers. Businesses therefore see staff shortages as the biggest obstacle to production.[6] The Netherlands is not unique in this. Other European countries also have tight labour markets, but tightness is more severe in the Netherlands.

Wages in the Netherlands have risen faster and more strongly than in other countries. This has mainly been to compensate workers for higher inflation since 2021. Annual collectively agreed wage growth peaked at 7% in mid-2024.[7] In other euro area countries, wage growth was around 3 percentage points lower than in the Netherlands this summer. Besides labour market tightness, institutional differences are also a factor. Compared to Italy and Spain, for example, Dutch collective labour agreements are relatively short, so wage adjustments are more frequent in the Netherlands. In Germany, structural wage adjustments have only got under way this year, because high inflation there was initially compensated for by one-off payments.

After peaking in 2024, wage growth declines slowly. The average wage rise in new agreements, a forward-looking indicator, was around 4.25% this autumn (Figure 6).[8] This suggests that wage growth has now peaked. The growth of collectively agreed wages and compensation per employee is set to fall further from 2025.

5 For a closer look, see: DNB (2024) Analysis of labour market tightness.
6 This is evident from the Business Survey Netherlands (COEN) among others.
7 This refers to the total of all sectors having collective labour agreements and includes exceptional remuneration.
8 This is apparent from data collected by the Dutch General Employers' Association AWVN.

Figure 6 Contractual wages existing contracts, new contracts and DNB Projection



Sources: AWVN, Statistics netherlsands and DNB-Autumn projection, December 2024.

The real wage loss has been partially made up. Wage growth has failed to keep pace with the sharp rise in inflation since 2021, causing a loss of real wages. It is difficult to gauge the loss precisely, as it depends on the wage definition and price trend used and the point in time from which the calculation is made. For example, it is possible to examine the collectively agreed wages that employees receive or the wage bill that employers pay. There are also large differences between sectors and businesses: since 2021, collectively agreed wage growth has been higher on average in education, government and trade, but lower in financial services, business services and manufacturing. High collectively agreed pay rises in recent years have offset part of the real wage loss.

The rise in real wages is part of a rebalancing of the tight labour market. In our projections, collectively agreed wage growth is insufficient to make up all the ground lost to inflation at the macro level. Looking at the wage bill, we see that the gap between wage growth and inflation closes towards the end of the projection horizon. The wage bill paid by employers includes not only wages but also social security contributions and similar payments. According to this definition, wages are rising faster than collectively agreed wages. The wage gap is wider if, alongside inflation, account is also taken of labour productivity growth – which is usually reflected in part in the pay of employees.

More on the labour market can be found on our labour market-themed web page

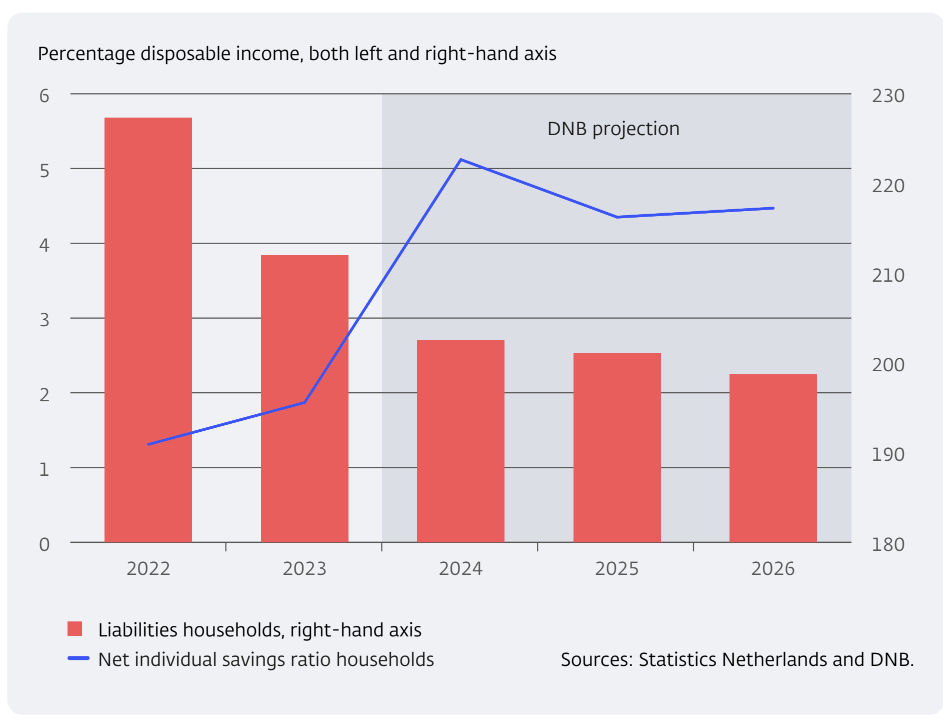
Consumption picks up and house prices continue to rise

Household consumption picked up in the second half of 2024. This means the long-awaited consumption recovery is taking shape. Consumption growth is set to continue in 2025 and 2026, helped by wage growth outpacing inflation and by continued employment growth. Partly for these reasons, Dutch households see their real disposable income increase by 4.5% in 2024 and by 1% to 2% per year in 2025 and 2026.

Part of the increased income is put into savings. The individual savings rate (savings rate excluding pension contributions) rises sharply and remains high (Figure 7). The savings rate remains higher than before the pandemic. Saving is stimulated in part by higher interest rates. The propensity to save may also be related to inflation. If expectations of higher inflation make households more pessimistic about their future real income, they may start saving more as a precaution.[9] There are also structural explanations for the increase in savings. For example, homeowners save more to repay their mortgages, with the decrease in interest-only mortgages playing a role.[10] First-time buyers may also save to finance a house purchase. The savings rate is also rising due to the continued increase in the number of self-employed people, who have to save individually for their retirement. Households see a continued improvement in their debt position over the projection period (Figure 7), which in itself is a positive development.

House prices continue to rise in 2025 and 2026. Average house prices have risen sharply since the dip in the spring of 2023. House prices in the Netherlands are rising much faster than in the euro area as a whole.[11] In 2025 and 2026, we expect further house price growth of 7.5% and over 4%, respectively. This is partly due to robust wage growth in the Netherlands and a slight fall in mortgage interest rates, combined with positive sentiment and continued tightness in the housing market.

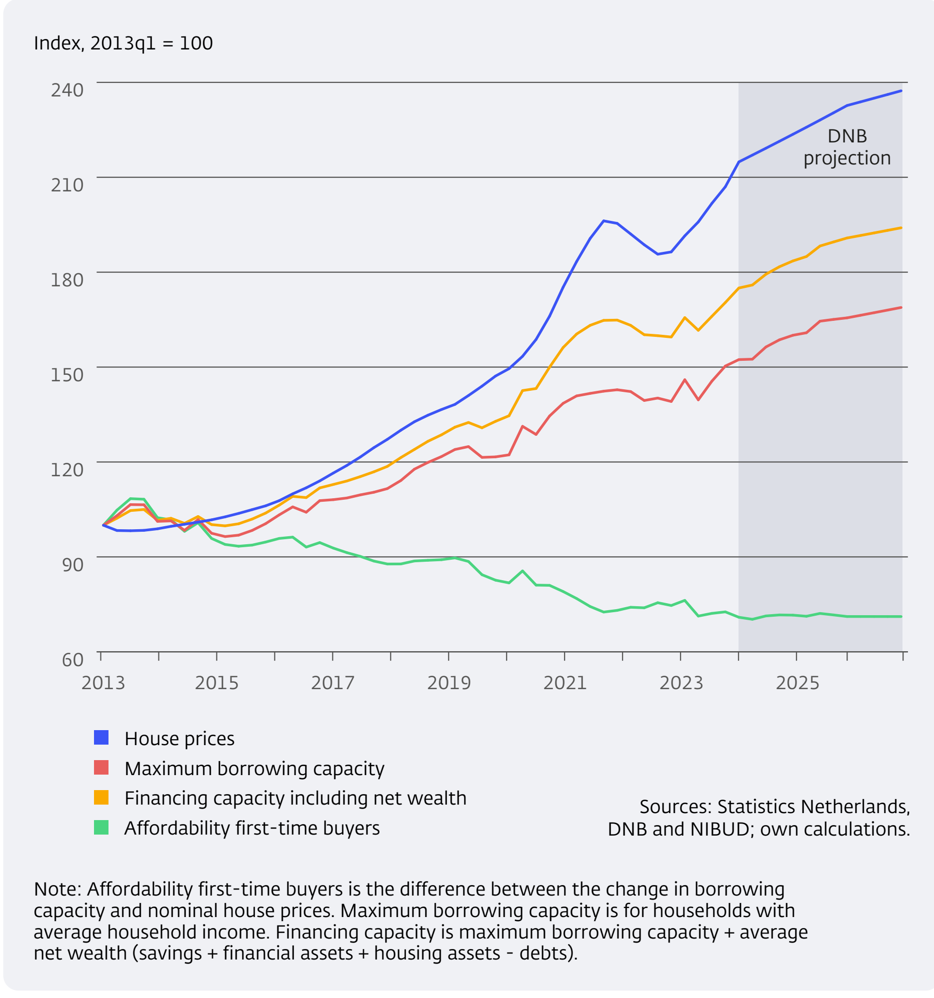
Figure 7 Households save more and redeem



Sources: Statistics Netherlands and DNB.

9 D'Acunto et al. (2024), ECB Discussion paper, No 24. (link)
10 CPB Netherlands Bureau for Economic Policy Analysis (2024), Besparingen van Nederlandse huishoudens.
11 Figures for the euro area are from the Residential Property Price Dashboard of the Bank for International Settlements.

Figure 8 Affordability for first-time home buyers stabilizes



Sources: Statistics Netherlands, DNB and NIBUD; own calculations.

Note: Affordability first-time buyers is the difference between the change in borrowing capacity and nominal house prices. Maximum borrowing capacity is for households with average household income. Financing capacity is maximum borrowing capacity + average net wealth (savings + financial assets + housing assets - debts).

Housing investment is increasing. House price growth and supportive government policies are boosting housing investment. Partly because more building permits have been issued recently, housing investment growth is set to continue accelerating in 2025 and 2026, thereby helping to ease the tightness in the housing market. The government's ambition of building 100,000 homes a year nevertheless requires even more permits, which does not appear feasible in the short term.[12]

House prices have risen faster than borrowing capacity. This is because home purchases are financed not only with mortgages but also with savings, endowments and wealth from housing equity, for example. Households' financing capacity (borrowing capacity plus the above forms of financing) has risen faster than maximum borrowing capacity since 2013. However, even the growth in financing capacity has not kept pace with the rise in house prices (Figure 8). This reflects among other things the inadequate supply of houses for sale. This must be addressed not only through increased housebuilding but also by reducing the upward pressure on house prices. This can be done by limiting the demand stimulus and letting the rental market act as a pressure valve for the housing market.[13]

Affordability for first-time buyers will not deteriorate any further in the years ahead. After falling sharply over the past decade, the affordability of owner-occupied homes will remain stable in 2025 and 2026 (Figure 8).[14] This is because, by and large, borrowing capacity keeps pace with rising house prices. Affordability remains historically low, however. In 2025, to be able to buy a home worth €520,000 (the average price of a home in that year according to our projections), the purchaser will need a gross household income of around €106,000.[15] It is estimated that around 36% of households have incomes of that level or higher. Most households therefore need savings or other assets to buy a house, in addition to a mortgage loan.

12 Around 62,000 residential permits were issued between 1 October 2023 and 30 September 2024.
13 See DNB (2024), The housing market.
14 Affordability for first-time buyers defined on the basis of expected borrowing capacity without assets.
15 The average expected house price in 2025 (€520,000) is the average price of 2024Q2 (€477,000, see Calcasa WOX 2024Q2) indexed in accordance with the projection data. The result for the percentage of households with a certain income is based on DNB's own calculations using non-public microdata from Statistics Netherlands.

The total amount of new mortgage loans granted has increased substantially this year. Households' total outstanding debt relative to income has actually decreased, as shown in Figure 7. In other words, while first-time buyers in the housing market are using their borrowing capacity as fully as possible, the average homeowner is repaying more debt. The financial risks in the event of price corrections in the housing market are therefore decreasing for the average homeowner but increasing for first-time buyers.

More on the housing market can be found at our housing market-themed web page

Recovery in business investment, exports less competitive

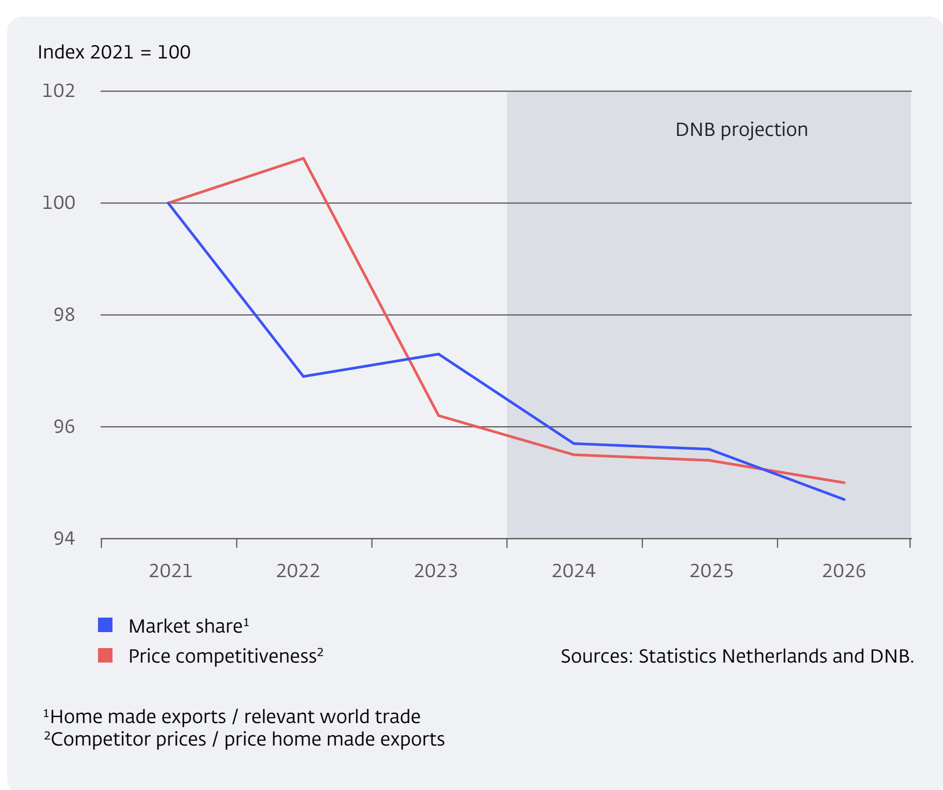
Business investment rises again in 2025 and 2026. After contracting in 2024, investment demand rises again as businesses see their domestic sales potential increase due to the economic recovery. Nevertheless, we do not expect exuberant investment growth, partly due to rising production costs squeezing businesses' profit margins and hence investment capacity.

Lending to businesses slowly gathers pace. The pick-up in investment growth is accompanied by higher financing needs among businesses. Banks will therefore extend more credit in 2025 and 2026 (see Key data Table) as lending rates fall. Geopolitical uncertainty nevertheless poses a downside risk to credit growth. It could lead to a drop in demand for credit or to a higher risk premium in lending rates and rejections of loan applications, although there is no sign of this at present.[16]

Exports also pick up again in 2025 and 2026. Global trade growth is set to recover next year, after two years of stagnation. The recovery will be aided by central bank interest rate cuts and lower inflation. This will also allow Dutch exports to grow again, by over 2% in both 2025 and 2026. Re-exports will grow more strongly than domestic exports (see Key data Table). These projections are based on the assumption that trade will not be disrupted by any new geopolitical or other shocks. This remains highly uncertain, however (see Figure 2 and the alternative scenario analysis in these Autumn Projections).

Despite export growth, the Netherlands' market share is falling. Growth in domestically produced exports continues to lag behind relevant world trade growth, which means Dutch exporters are losing market share (Figure 9). This is partly due to a deterioration in the price competitiveness of Dutch exporters.[17] This continues to worsen over the projection period, particularly due to higher wage costs. These rise faster in the Netherlands than in competing countries, as Figure 3 shows.

Figure 9 Decreasing market share and deterioration price competitiveness



Sources: Statistics Netherlands and DNB.

¹Home made exports / relevant world trade
²Competitor prices / price home made exports

16 Source: ECB bank lending survey.
17 The loss of price competitiveness is confirmed by Dutch businesses in the Business Survey Netherlands (COEN).

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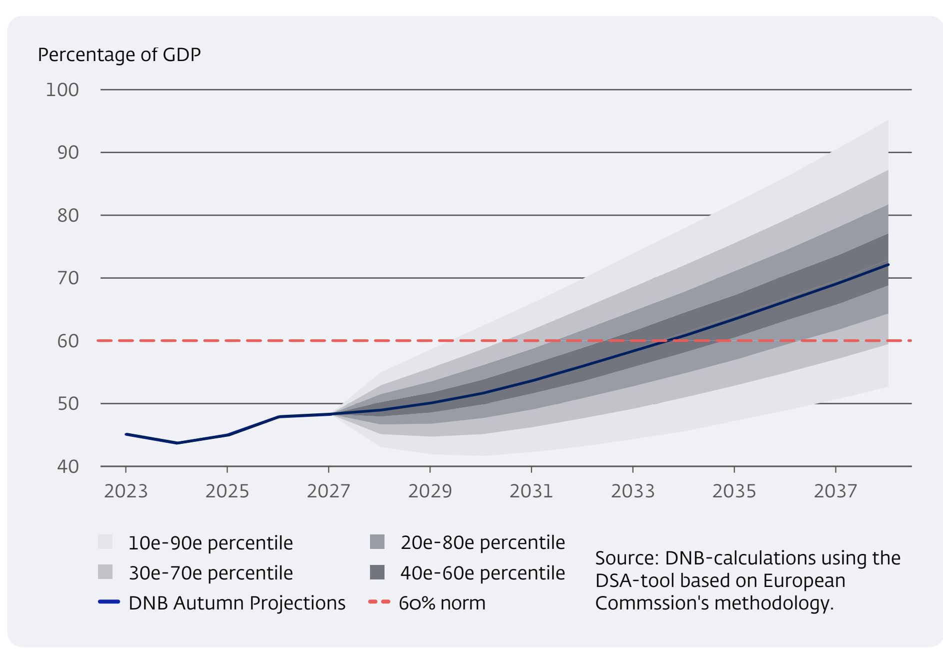
Improvement in public finances is short-lived

The budget deficit for 2024 is significantly smaller than previously anticipated. The 2024 EMU balance is projected to be -0.7% of GDP, whereas the figure in the Spring Projections was -2.4% of GDP. This is due to around €13 billion of additional tax and social security revenues thanks to higher-than-expected economic growth. Public expenditure is also lower than expected. The government is deferring expenditure to later years and some planned expenditure is unlikely to take place (underspending). The 2024 projections take account of budget setbacks, such as the Supreme Court ruling on Box 3 compensation.

The budget deficit increases in 2025 and 2026. This is mainly caused by higher spending on social security, healthcare and defence. Interest costs also increase by around €3 billion. The balance is -2.1% of GDP in 2025 and -3.1% of GDP in 2026. This sharp increase is partly due to the reform of the military pension system, which will cost the government a one-off amount of €8.5 billion (0.7% of GDP) in 2026. The terms of the coalition agreement, particularly the planned easing of the tax burden, also cause the balance to deteriorate. The increase also takes account of resolutions of parliament adopted for the 2025 Tax Plan, such as maintaining the reduced rate of VAT on culture, sports and media. Despite the increase in the budget deficit, the public finances are also in better shape in 2025 and 2026 than we anticipated in the Spring Projections. At the same time, there is little financial headroom to absorb any setbacks, as there is no longer any margin below the 3% deficit ceiling in 2026.

Although the public finances look better in the short term, the longer-term picture remains unchanged. Beyond the projection horizon, the deficit and public debt continue to rise due to higher interest and ageing costs, with economic growth expected to moderate. An additional long-term projection of public debt shows it increasing from around 43% of GDP in 2024 to 72% of GDP in 2038 (Figure 10).[18] The range in the figure reflects the uncertainty. Debt is expected to exceed the 60% of GDP ceiling in 2034, and to exceed it with a 75% probability in 2038. The current policy (including the government's planned spending cuts in 2027 and 2028) therefore does not comply with the recently revised European budget rules.[19]

Figure 10 In over 75% of cases, debt exceeds the 60% GDP threshold by 2038



Source: DNB-calculations using the DSA-tool based on European Commssion's methodology.

18 The stochastic debt projection (debt sustainability analysis or DSA) is based on the methodology used in the Debt Sustainability Monitor 2023, as is also required by the European budget rules. See DNB (2024). De effecten van de nieuwe Europese begrotingsregels for more information and an explanation of the DSA tool.
19 See European Commission (2024). Commission assessment of the Netherlands' medium-term fiscal-structural plan.

Alternative scenario: a trade war will damage the Dutch economy

New trade barriers pose a major risk to the global economy. A trade war fought with higher import tariffs would dampen world trade growth. It would accelerate the break-up of the global economy into different blocks of countries (fragmentation). Donald Trump, the newly elected US president, wants to impose 10%-20% tariffs on all imports of goods to the United States, and a tariff of as much as 60% on imports of Chinese products. There is a risk that other countries will retaliate, leading to a trade war. Moreover, such a tariff escalation would likely entail financial uncertainty and declining confidence. Although around 6% of Dutch goods exports went to the United States in 2023, the Dutch economy could be significantly damaged by US protectionist policies. Not only would exports to the United States grow less, but a trade war would also indirectly impact Dutch trade with other affected countries.

An escalating trade conflict would have broad knock-on effects on the global economy. In our scenario, the United States gradually implements a 60% import tariff on all goods from China and a 10% import tariff on goods from Europe and the rest of the world in 2025. These countries respond, one quarter later, with an equivalent tariff on imports of goods from the United States.[20] We assume that the trade conflict leads to turbulence in financial markets. Global investment and risk premiums rise by 25 to 50 basis points from early 2025.[21] This increases businesses' financing costs. Stock prices fall and producer and consumer confidence declines.

The United States prices itself out of the world market through import tariffs due to higher costs of its domestic production. Production costs rise because the imported goods that US companies need for their production in the United States become more expensive. With US products consequently becoming more expensive in the global market, US exports fall sharply. Higher import prices also push US inflation higher. This erodes the purchasing power of US citizens and weighs on their consumption. Business investment then also falls sharply, due to reduced demand for products and higher capital costs. In the alternative scenario, stock prices fall and interest rates rise, as the US central bank – the Federal Reserve – raises the federal funds rate in response to rising inflation. As a result, the dollar appreciates, making US exports even more expensive on the world market. Ultimately, US GDP growth in 2025 and 2026 is on average over 1 percentage point per year lower than in the projection with no change in trade policy (the baseline projection).[22]

World trade growth takes a big hit in the scenario. Global economic growth falls as foreign trade growth slows, with reduced US spending leading to lower growth in countries' exports to the United States and increased import tariffs around the world inhibiting all countries' imports. As a result, the volume of world trade relevant to the Netherlands is on average 3% lower than in the baseline projection in 2025 and 2026. Global GDP growth is further depressed by rising uncertainty, falling investment and higher prices.

20 The scenario assumes that the tariffs are phased in gradually during 2025 and takes no account of any other policy changes in the economic regions concerned. The scenario was simulated using DNB's DELFI macroeconomic model and NIESR's NiGEM global model (using the tariff variant v224).

21 These fluctuations in investment and risk premia are not unusual from a historical perspective.

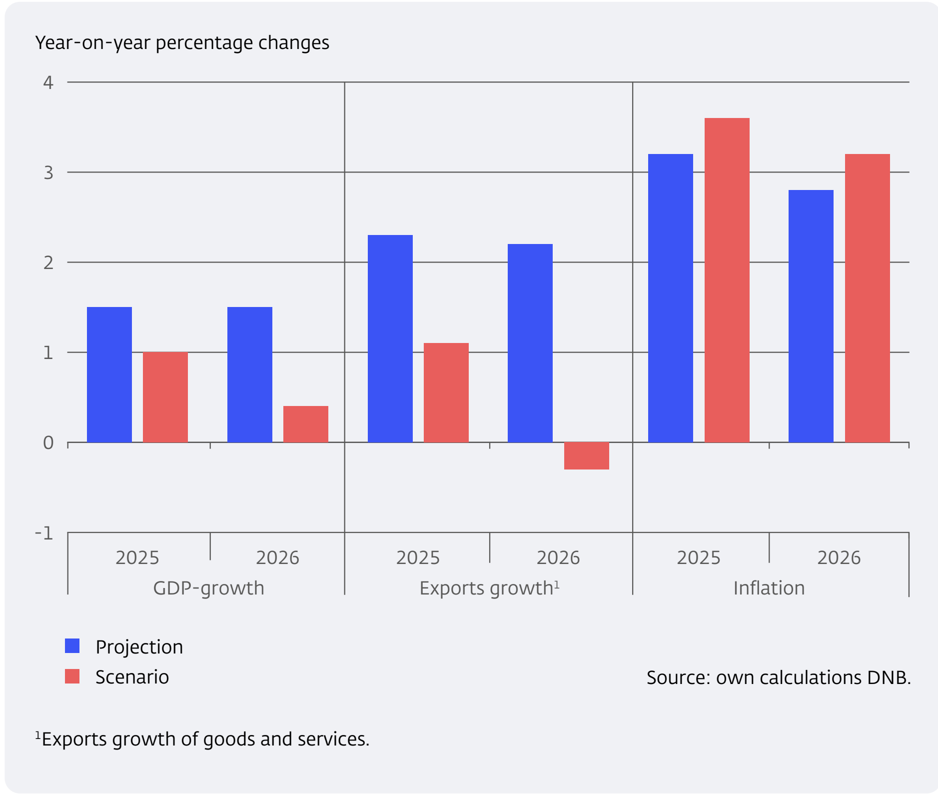
22 The baseline takes account of US import tariffs already applied to Chinese and European goods since Trump's first term (from 2018). The alternative scenario is based on the new, higher import tariffs.

Dutch economic growth falls back. The decline in world trade leads to lower growth in exports of Dutch goods and services, particularly in 2026. Declining global demand, rising capital costs and falling confidence also depress business investment. Although the Netherlands may initially benefit from the sharp rise in the value of the dollar (which makes Dutch products cheaper), economic growth falls sharply in 2025 and particularly in 2026.[23] GDP growth is 0.4% in 2026, more than 1 percentage point lower than in the baseline projection (Figure 11). Unemployment responds after a time lag, rising to 4.5% in 2026. Higher unemployment, lower real disposable incomes and negative wealth effects due to falling stock prices weigh on consumption in the Netherlands.

Although import prices rise, the pass-through to Dutch inflation remains limited. This is due to the slump in demand and higher key policy rates, as the ECB also raises interest rates in response to rising inflation.[24] In 2025 and 2026, inflation is around 0.4 percentage points higher each year than in the baseline projection (Figure 11). The impact on the Dutch government's EMU balance remains relatively limited. This is because the negative effect of lower economic growth is partly offset by additional revenue from the imposed import tariffs.[25]

The scenario outcomes are uncertain. The outcomes depend on the design of the scenario and the model used. Some model features have a strong influence on the outcomes. This is the case, for example, of the assumed pass-through of exchange rate movements to GDP growth and inflation. The main purpose of the scenario is therefore not to accurately quantify the economic effects of a trade war, but to illustrate the channels through which such a scenario could impact the Dutch economy.

Figure 11 Impact scenario of a trade war on the Dutch economy



23 The impact of our scenario on the Dutch economy is difficult to compare with the impact of the trade tariffs scenario calculated by CPB Netherlands Bureau for Economic Policy Analysis (2024). This is because CPB uses a different model in which macroeconomic interactions and dynamic price effects are not driving factors. Furthermore, the CPB scenario does not include confidence effects.

24 We assume that, according to a standard reaction function known as the Taylor rule, the ECB will adjust its key policy rate in response to price changes from mid-2025 onwards.

25 It is assumed that 25% of import duties levied by Dutch customs will benefit the EMU balance. This partly compensates for the lower tax revenues and increased expenditure on unemployment benefits associated with the deteriorating economic situation.

Policy recommendations

The risks to the Dutch economy lie in the uncertain international environment with geopolitical tensions and a looming trade war. The alternative scenario in the previous section shows that the consequences for the Netherlands could be substantial. This raises the question of what action the Netherlands could take. Our recommendations are:

1 Strengthen the competitiveness of Europe and the Netherlands

The influential reports by former ECB President Mario Draghi and former Italian prime minister Enrico Letta fittingly highlight the importance of strengthening the competitiveness of Europe and the Netherlands. Doing so is vital to remain a leading player in foreign markets. This will require a structural strengthening of the economy. Essentially, it is about promoting productivity growth. Policymakers could get to work on the recommendations of the Draghi and Letta reports that will benefit the Dutch economy. These include measures aimed at increasing labour market mobility, for example through a better match of supply and demand.

Productivity growth will also benefit from more business dynamism (business entries and exits). As an incentive, businesses could be encouraged to use costs for goods and services that better reflect the value of scarce goods. Examples include the pricing of carbon emissions and better enforcement against breaches of labour market law. Business dynamics would also be strengthened by the further completion of the European single market and capital markets union. According to the IMF, further deepening of the European single market would increase EU GDP by around 7%.[26] Hence, there are substantial welfare gains to be made by simplifying and standardising the rules governing cross-border activities and thereby reducing fragmentation.[27]

2 Exercise restraint in retaliating through import tariffs

The alternative scenario in the previous section shows that, as a relatively small, open economy, the Netherlands is vulnerable to protectionism. International trade is an important pillar of our economy. In a European context, the Netherlands should therefore advocate for the least restrictive environment for international trade. It may seem logical in the short term to act against protectionism by imposing retaliatory European tariffs, but allowing a tariff war to escalate will only lead to less economic growth. Trade barriers actually make businesses less productive and competitive.[28] The call for greater strategic autonomy, though understandable in itself, also comes at a cost. Industrial policy can impede healthy market forces by shielding certain industries from them. It is better to use targeted measures, within a clear framework and in a European context, to encourage businesses to remain competitive in foreign markets.[29] The Draghi report also makes concrete proposals for such measures.

3 Make sure 3% inflation does not become the new normal

Although inflation has fallen sharply in the Netherlands, the braking distance is longer than in the euro area. The time at which price stability is achieved is receding further into the future in the Netherlands. There is a risk that this higher inflation will become entrenched in inflation expectations if it remains high for a prolonged period and the inflation differential relative to the euro area becomes structural. This would erode the competitiveness of the Netherlands as well as real incomes and savings.

26 See IMF (2023), Geoeconomic fragmentation: what's at stake for the EU. This study is based on a 10% reduction in trade and production barriers in the EU.
27 See DNB position paper for roundtable discussion with House of Representatives, 11 December 2024.(link)
28 See, for example, Eugster et al. (2022), The Effect of Tariffs in Global Value Chains, IMF working paper, 040. (link)
29 DNB (2023) Geo-economic fragmentation: economic and financial stability implications.

The higher inflation in the Netherlands has multiple causes (positive output gap, increase in indirect taxes, higher rents and relatively high wage growth). It is important that trade unions, employers and domestic policymakers act jointly to prevent 3% inflation becoming the new normal, for example by taking explicit account of policy impacts on inflation.

4 Get public finances in order for the long run

Prudent fiscal policies and sound public finances are also important for a strong economy in an uncertain environment. In the short term, public finances are in better shape than we anticipated in the Spring Projections, but the long-term challenge remains unchanged. With the government deficit reaching the 3% ceiling in 2026, there is little or no room to absorb new shocks in the government budget. Moreover, public finances are on an unsustainable trajectory in the long run, with spending growing faster than the economy. Public finances should therefore be put structurally on a sound footing.

Key data in projections for the Dutch economy

Percentage changes, unless stated otherwise[1]

	2023[1]	2024	2025	2026
Volume of expenditure and output				
Gross domestic product	0.1	0.9	1.5	1.5
Private consumption	0.8	0.8	2.1	1.8
Public expenditure	2.8	2.5	1.7	2.8
Business investment	2.3	-0.9	2.1	1.8
Housing investment	-1.7	-1.2	2.6	2.6
Exports of goods and services	-0.4	0.1	2.3	2.2
domestically produced	-0.7	-0.8	2.1	2.0
re-exports	0.0	1.5	2.7	2.4
Imports of goods and services	-1.7	0.0	3.3	3.1
domestically used	-2.8	-0.7	3.7	3.6
Prices and wages				
Harmonised index of consumer goods (HICP)	4.1	3.2	3.2	2.8
Harmonised index of consumer goods energy	-23.7	0.1	0.6	3.1
Core inflation (HICP, excl. energy and food)	6.4	3.2	3.2	2.8
Negotiated wages, private sector	5.9	6.6	4.5	3.5
Compensation per employee, private sector	6.0	7.0	4.4	3.9
Unit labour costs, private sector	7.9	7.2	3.4	2.9
Labour market				
Employment (persons, growth)	1.7	0.9	0.4	0.5
Labour supply (persons, growth)	1.7	1.1	0.6	0.7
Unemployment (persons, x 1000)	358	378	405	420
Unemployment (% of labour force)	3.6	3.7	3.9	4.0

	2023[1]	2024	2025	2026
Government finances				
Public expenditure (% GDP)	43.2	42.9	44.4	45.5
Collective burden (% GDP)	38.6	38.3	38.5	38.5
Primary balance (% GDP)	0.3	0.1	-1.2	-2.2
EMU balance (% GDP)	-0.4	-0.7	-2.1	-3.1
EMU debt (% GDP, based on end-of-period)	45.1	43.7	45.0	47.9
Financial				
Bank lending to NFCs (based on end-of-period)[2]	-0.9	1.5	1.0	2.6
House price index, existing own homes	-2.9	8.9	7.5	4.1
Residential mortgages (based on end-of-period)	2.2	3.8	4.0	3.7
International assumptions				
Volume of relevant world trade	-1.0	0.7	2.3	3.0
Volume of GDP world, excluding euro area	3.6	3.4	3.5	3.3
Short-term interest rate euro area (%)	3.4	3.6	2.1	2.0
Long-term interest rate Netherlands (%)	2.8	2.6	2.6	2.7
Euro exchange rate (USD)	1.08	1.08	1.06	1.06
Competitor prices	-2.8	0.4	2.1	2.1
Oil price (UK Brent, USD per barrel)	82.2	80.2	71.8	70.1
Dutch exports and competitiveness				
Price exports of goods and services, domestically produced, excl. energy	3.4	0.6	3.3	2.8
Price competitiveness[3]	-6.0	-0.1	-1.1	-0.6
Volume exports of goods and services, domestically produced, excl. energy	-0.8	0.4	2.2	2.1
Market performance[4]	0.2	-0.4	-0.1	-0.9
Current account (% GDP)	9.9	9.7	9.5	9.0

1 Annual figures have been calculated on seasonally adjusted quarterly figures and may therefore deviate marginally from the most recent National Accounts.
2 Excluding cash pooling, adjusted for securitisations and breaks.
3 Price competitiveness is Competitor prices minus Price exports of goods and services, domestically produced, excl. energy.
4 Market performance is Volume exports of goods and services, domestically produced, excl. energy minus Volume of relevant world trade.

Sources: Statistics Netherlands, DNB and ECB.

Figures

Figure 1 Economic growth driven by domestic demand

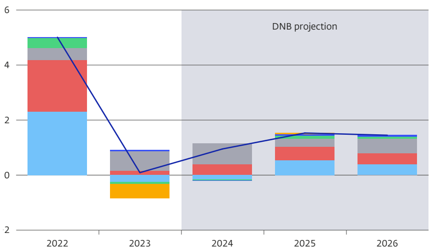


Figure 2 Uncertainty about international trade policy rises

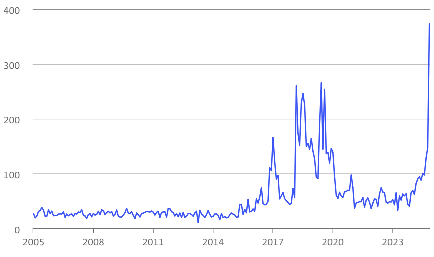


Figure 3 Inflation and wage growth in the Netherlands high

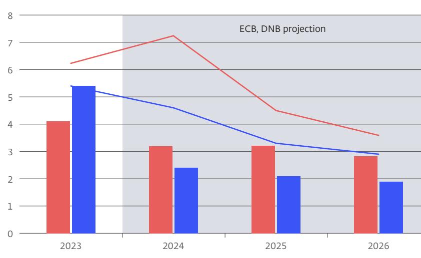


Figure 4 Inflation remains high, especially in services

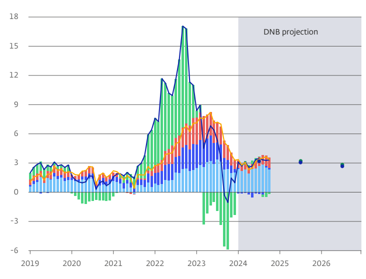


Figure 5 Contribution to HICP-inflation of rents, indirect taxes and food and energy

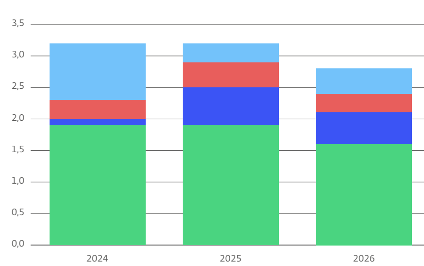


Figure 6 Contractual wages existing contracts, new contracts and DNB Projection

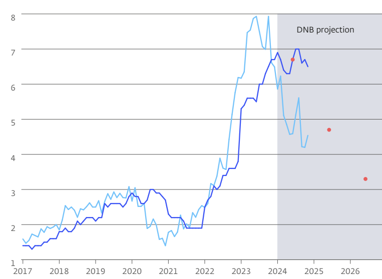


Figure 7 Households save more and redeem

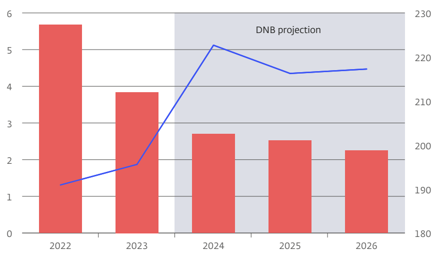


Figure 8 Affordability for first-time home buyers stabilizes

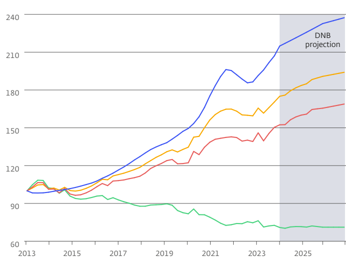


Figure 9 Decreasing market share and deterioration price competitiveness

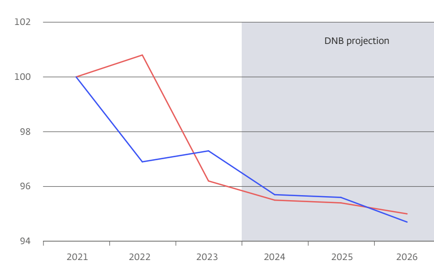


Figure 10 In over 75% of cases, debt exceeds the 60% GDP threshold by 2038

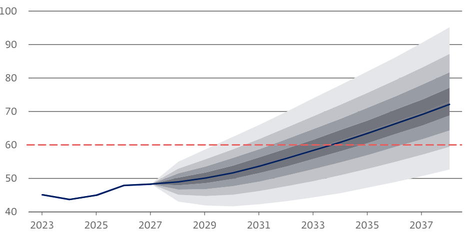
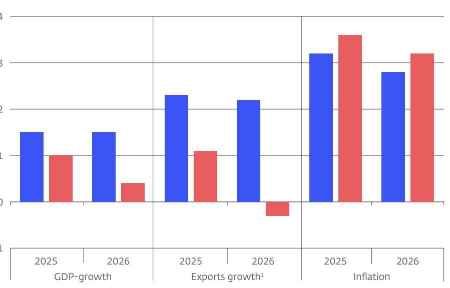


Figure 11 Impact scenario of a trade war on the Dutch economy



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