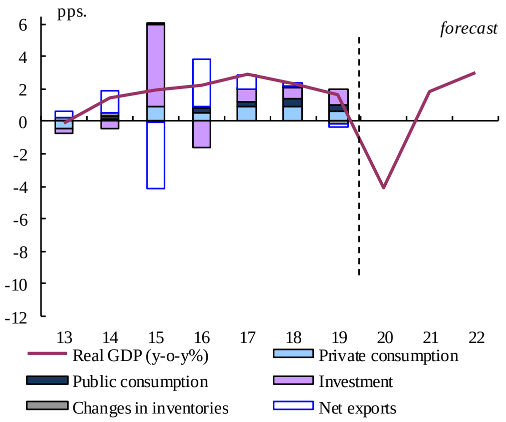
2.14. THE NETHERLANDS

The Dutch economy is expected to have contracted by 4.1% in 2020 as the COVID-19 pandemic and the related restrictions significantly affected the economy. Following a nationwide lockdown in the spring, a strong rebound started in the third quarter of 2020 but was interrupted by a second wave of COVID-19 infections in the autumn. The associated reintroduction of containment measures and their progressive tightening since October have constrained economic activity particularly in contact-dependent services in hospitality, retail trade, entertainment and transport. As a result, the Dutch economy is forecast to enter another technical recession, contracting by 1.3% q-o-q and 1.0% q-o-q in the fourth quarter of 2020 and the first quarter of 2021, respectively. On the positive side, government support measures are set to continue operating until the summer of 2021, protecting employment and disposable incomes.

Containment measures are expected to gradually ease towards the middle of 2021 as vaccinations progress, leading to a partial consumption-led rebound of economic growth on the back of pent-up demand and firmer consumer confidence. Business investment is expected to recover more slowly, dampened by turnover losses and increased debt levels in sectors long-affected by the pandemic. In 2022, labour market adjustments and subdued wage growth are expected to slow the pace of the recovery in domestic demand. Given the strong recovery in the global goods trade, net exports are set to contribute positively to GDP growth over the forecast horizon.

Overall, real GDP is expected to grow by 1.8% in 2021 and 3.0% in 2022, the latter also driven by base effects. At the end of the forecast horizon, the level of economic activity is projected to increase to just above 2019 levels. This forecast does not include any measures funded under the Recovery and Resilience Facility, constituting an upside risk to the growth projections.

Graph 2.14: **The Netherlands - Real GDP growth and contributions**



Consumer price inflation declined to 1.1% in 2020 and is forecast to increase slightly to 1.4% and 1.5% in 2021 and 2022, respectively. Subdued domestic demand and lower wage growth are set to place downward pressure on prices, partly counterbalancing higher oil prices and firming inflationary pressures in the manufacturing sector in 2021 and 2022.