DNB Spring Projections

June 2025

DeNederlandscheBank

EUROSYSTEEM

Contents

A full overview of the projections for the 2025-2027 period and the international assumptions used can be found in the Key Data Table.

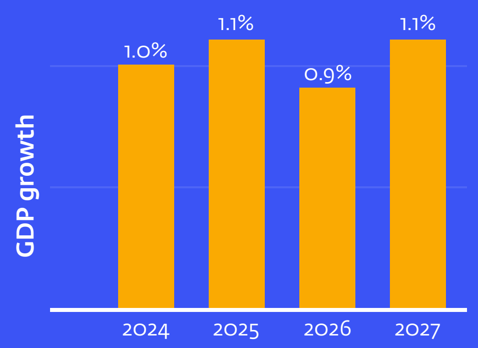
These projections are part of the euro area projections made by the European Central Bank (ECB) and the national central banks, making up the Eurosystem.

We carry out our projections in part using the DELFI macroeconomic model. These projections are based on information available on 14 May 2025. 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 The state of the Dutch economy | De Nederlandsche Bank.

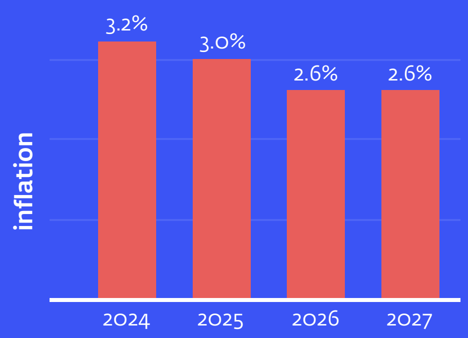
Uncertainty and trade tensions weigh on economic growth

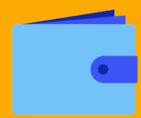
Growth in business investment and exports in particular is held back by uncertainty and trade tensions. GDP growth is supported by private consumption and government spending. The growth and inflation trajectories depend on the duration of global uncertainty and US trade policies.

Economic growth is muted



Inflation falls, but remains relatively high





+4%

Adjusted for inflation, net disposable income in 2027 is more than 4% higher than in 2024

Recommendations


Strengthen EU market and diversify trade partners


Strengthen growth potential and avoid delaying key decisions


Build fiscal buffers to absorb shocks


Promote free trade and multilateral cooperation

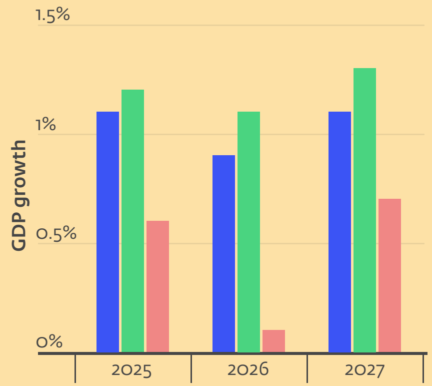
Outcomes of mild and severe scenario

Assumptions for US tariffs

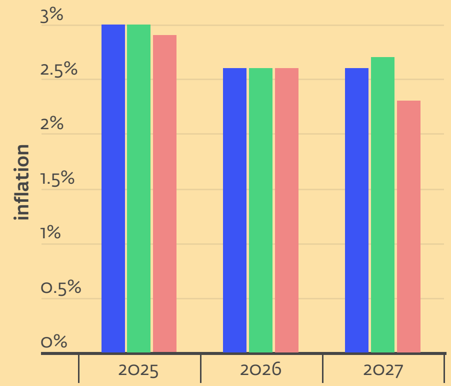
	Baseline projection	Mild scenario	Severe scenario
EU	10%	0%	20%*
China	45%*	25%	145%*
Rest of the world	10%	10%	25%

* The affected country or bloc retaliates by additional imposing tariffs

Sharp slowdown of growth in severe scenario



Lower growth in severe scenario dampens inflation



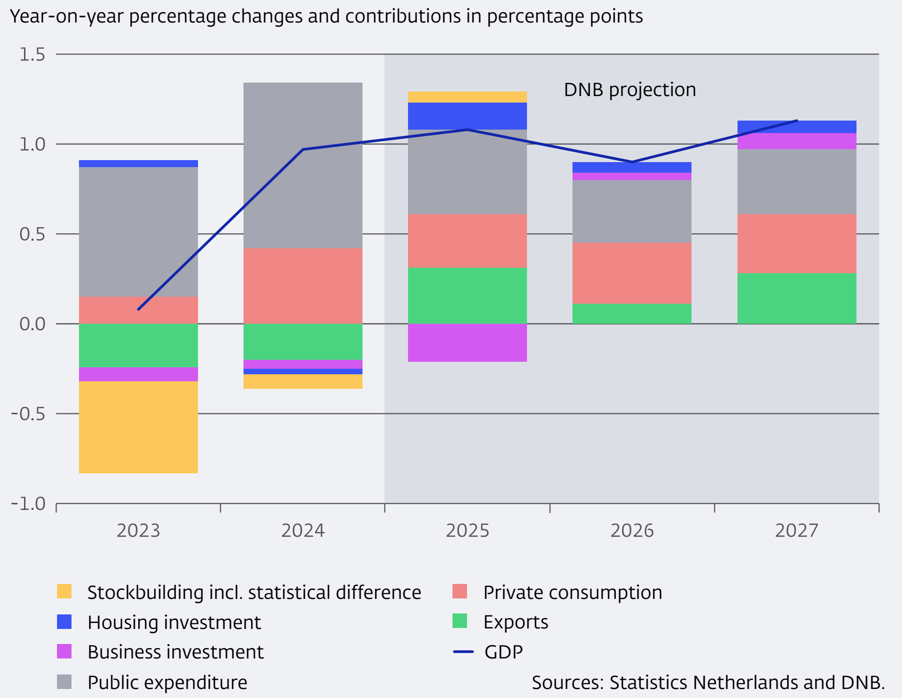
Baseline Mild scenario Severe scenario

Summary

Economic growth in the Netherlands is being slowed by geopolitical and international trade tensions. These tensions are causing increased economic uncertainty and slower growth of world trade. In particular, business investment and exports fall as a result. This depresses economic growth, which accelerated last year. Following gross domestic product (GDP) growth of 1.1% this year, it is expected to remain at around the 1% level in both 2026 and 2027. GDP growth is supported by private consumption and government spending (Figure 1). As the economy cools, an equilibrium will be struck between demand for products and services and production capacity next year. The current excess demand will thus dissipate from the economy.

Using two scenarios, we take into account the high uncertainty surrounding the projections. The projections have been prepared based on United States trade tariffs as announced on 9 April 2025. The assumption is that the 10% US import tariffs on most foreign goods announced at the time will remain, with higher tariffs on imports from China. Our projections assume no retaliation by the European Union (EU), which is in line with the European Central Bank (ECB) and the other central banks in the Eurosystem. The same applies to the two alternative scenarios, one mild and one severe, in which we take into account the high uncertainty surrounding trade tariffs. In the mild scenario, import tariffs and uncertainty are lower, resulting is slightly higher GDP growth in the Netherlands. In the severe scenario, we assume that the high US tariffs as announced on 2 April take effect and that affected countries respond with the same tariffs on imports of US goods. GDP growth in the Netherlands then falls sharply (see the alternative scenarios later in these Spring Projections). The last time we presented two alternative scenarios in our projections was during the COVID-19 pandemic. The decision to do so now underscores the high level of uncertainty we are once again facing.

Figure 1 Economic growth slows down



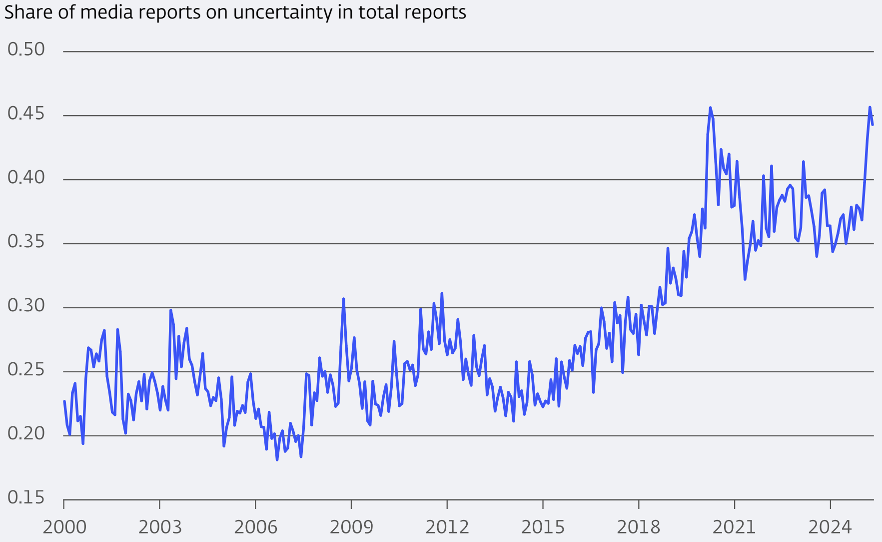
Sources: Statistics Netherlands and DNB.

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

The high level of uncertainty in the international context is having an impact on the Dutch economy. Import tariffs and the high uncertainty surrounding them are distorting international trade flows. Lower world trade growth is hitting Dutch exports due to reduced market access abroad.

In addition, relatively robust wage growth and the appreciation of the euro are affecting the competitiveness of exporters. The euro has appreciated against other currencies (including the US dollar) since March this year due to uncertainty over US economic policy. One measure of uncertainty indicates that uncertainty in the Netherlands is also historically high (Figure 2). In an uncertain economic environment, firms are more reluctant to invest, as they find it more difficult to estimate their costs and future returns. Accordingly, business investment is falling in 2025.

Figure 2 Uncertainty has risen sharply



Note: The figure shows the proportion of uncertainty-related newspaper articles in Het Financieele Dagblad as a percentage of the total number of articles, based on extensive text analysis. For more information see page 11 of *Uncertainty and climate policy in the Netherlands*.

Sources: Het Financieele Dagblad and DNB.

Households continue to save substantially. Private consumption growth continues thanks to ongoing growth in real income. Concurrently, households are saving a higher portion of their income, including for home purchases. Private savings are often necessary as only one in three Dutch households has enough income to finance a home with a mortgage alone (taking into account own money needed for purchase costs). Higher savings are also associated with elevated uncertainty and lower consumer confidence.

Nominal wage growth gradually declines. This is partly because labour market supply and demand are becoming more balanced. While the supply of labour continues to rise, so does demand, albeit slightly less so. As a result, unemployment is expected to rise to 4.4% by 2027. Wage growth continues to decline gradually but remains higher than inflation over the projection horizon, resulting in an increase in real wages.

Inflation in the Netherlands is projected to fall below 3% in 2025. This is linked to the global growth slowdown, which leads to lower energy demand and hence lower energy prices, among other effects. Over time, the appreciation of the euro also depresses inflation, as imports of goods and services become cheaper. Lower inflation is also caused by domestic factors, such as the cooling economy and slowing wage growth. The projections still assume a freeze on rents in the social housing sector. Now that this legislative proposal has been withdrawn (after finalisation of the projections), inflation is expected to be slightly higher in 2025 and 2026.

The budget deficit is set to widen faster than anticipated in the Autumn Projections. This is because economic growth is slowing down, which depresses tax revenues, while spending on social security and healthcare continues to rise. As a result, the deficit is expected come perilously close to the 3% limit in 2025, exceeding it in 2026. The government is thus sailing close to the fiscal wind. It is essential that the government complies with the European fiscal rules.

Business investment and exports under pressure

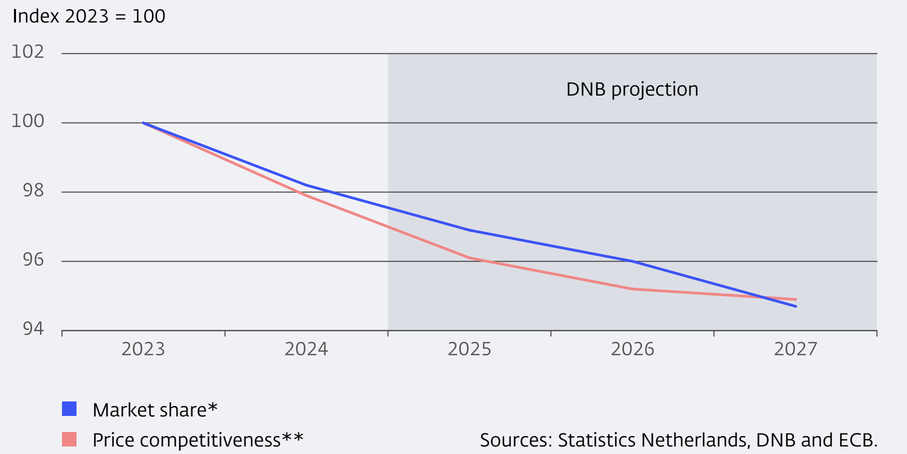
Business investment in particular declines in 2025 due to elevated uncertainty. The current uncertainty makes future profits more difficult to estimate. Demand for products and services also declines as consumers become more cautious with their spending in uncertain times. The negative impact of uncertainty on investment is revealed by DNB research. Investment growth this year is also negatively affected for a specific reason: the downturn in vehicle purchases by firms. They frontloaded their transport investments in 2024, in advance of a new tax measure in 2025. From 2026, business investment growth is expected to recover as uncertainty recedes.

Corporate loan growth declines, but remains positive. At over 2% in 2025 and 2026, this growth is projected to be slightly lower than in 2024 (see the Key Data Table). On the one hand, lower investment demand slows credit growth. On the other hand, corporate lending is boosted by declining short-term interest rates, reflecting market expectations that the ECB will cut policy rates further. Lending is expected to pick up in 2027, reflecting recovering investment demand.

Trade tensions also slow down Dutch export growth. Lower world trade growth is set to reverberate in Dutch exports. Re-exports – where goods are first imported into the Netherlands and then exported with no domestic processing – are expected to contract by 2.4% in 2025. Domestically produced exports, which depend more on the products' availability and quality, are still expected to grow this year, but at a much slower pace in 2026. Export growth is set to recover gradually in 2026 and into 2027, as global uncertainty subsides and world trade picks up. In deviation from the 2024 Autumn Projections, however, export growth is projected to be lower each year due to higher US import tariffs and pronounced uncertainty surrounding global trade policy.

Moreover, Dutch price competitiveness and market share in world trade are falling. Dutch exports are projected to grow less strongly than the trade volumes of countries to which the Netherlands exports goods. This correlates with a decline in Dutch price competitiveness (Figure 3) resulting from the increase in labour costs, which is higher at Dutch firms than at their competitors abroad. Productivity growth is insufficiently able to offset these higher costs, meaning that labour costs increase the cost of products on balance. Furthermore, the appreciation of the euro affects price competitiveness by making products of competitors from non-euro countries comparatively cheaper. It should be noted that a less favourable competitive position is in keeping with the rebalancing due to higher inflation in the Netherlands compared to the rest of the euro area.

Figure 3 Deterioration of market share and price competitiveness



Sources: Statistics Netherlands, DNB and ECB.

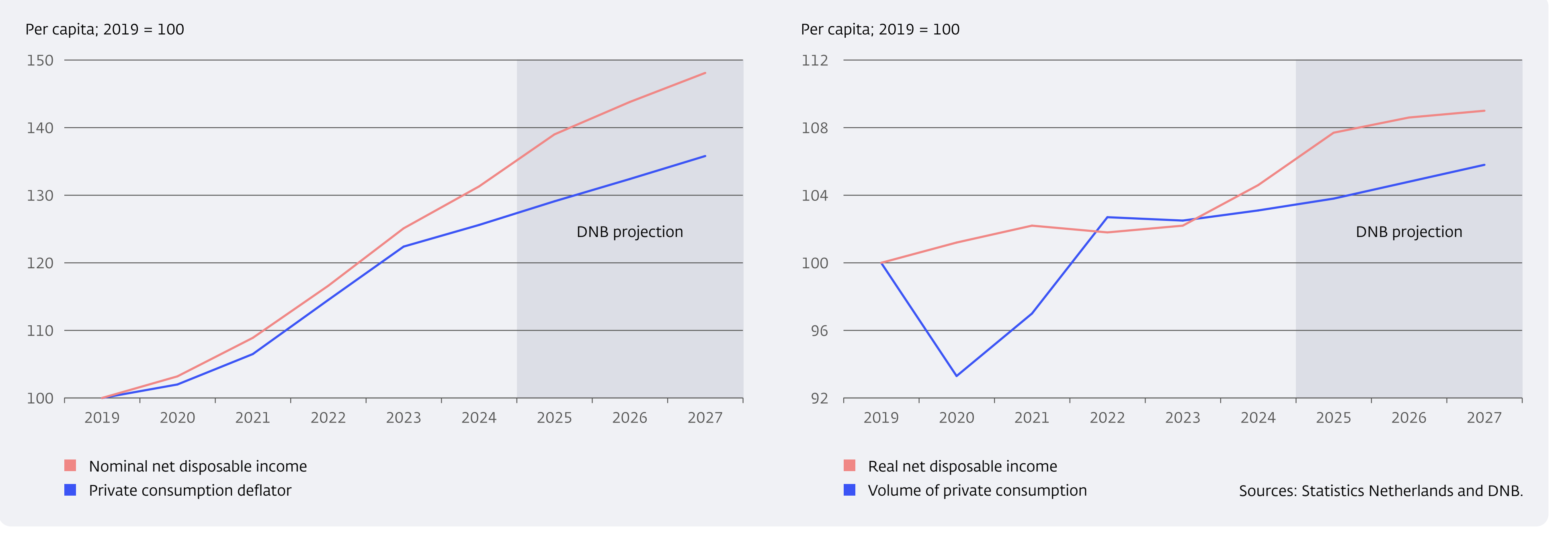
Note: *Domestically produced exports, excluding energy / relevant world trade.
**Competitor prices / price of domestically produced exports, excluding energy.

Consumption and house prices continue to rise

Income and consumption are increasing. Net disposable per capita income has outpaced inflation over the past five years (Figure 4, left panel). This is an average; the relationship between income growth and price increases can obviously differ for individuals. Income growth is set to continue over the projection horizon. It is thus a key pillar of consumer spending growth (Figure 4, right panel), which is expected to increase by 1% - 1.5% per year over the projection horizon (see Key Data Table).

Households continue to save substantially. About 5% of income is allocated to discretionary savings annually. Households build their rainy day fund against the backdrop of waning consumer confidence and elevated uncertainty. Geopolitical tensions and heightened macroeconomic risks also play a role. Households tend to save more if they are worried about potential financial setbacks down the road.[1] In addition, households with owner-occupied houses continue to save to repay their mortgage loans, and first-time buyers save for home purchases.

Figure 4 Disposable income, prices and consumption



1 See, among others, Christelis, Georgarakos, Jappelli and Van Rooij (2020), Consumption uncertainty and precautionary saving, *The Review of Economics and Statistics*, 102(1), 148-161.

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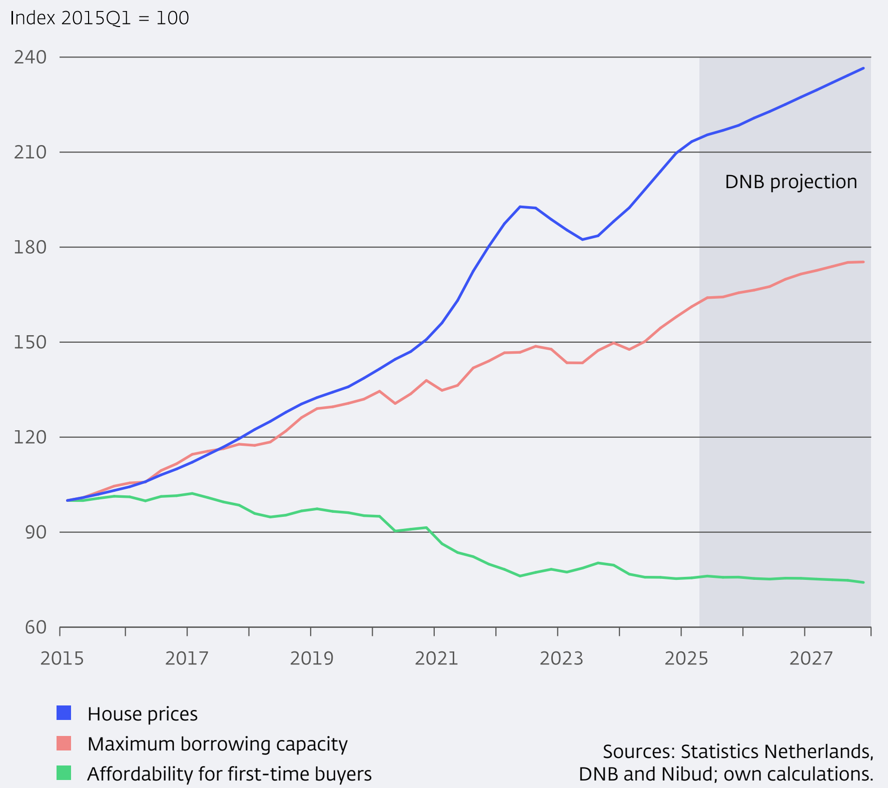
House prices continue to rise. House prices are expected to rise by more than 7% in 2025, with the primary driver being wage growth, which enables people to borrow more. Continued tightness in the housing market and homebuyers' expectation that their homes will increase in value also contribute to price increases. Borrowing capacity does get constrained by slightly rising mortgage interest rates over the projection horizon. As a result, house price growth flattens somewhat after 2025 (see Key Data Table).

Housing investment continues to rise due to more new construction. In 2024, the number of newbuild permits increased by over 20%, leading to more housing investment. The number of permits issued in early 2025 was substantially lower, making it uncertain whether and to what extent this growth will continue. Housing investment is set to increase by 5% in 2025 and slightly less in subsequent years (see Key Data Table).

Affordability of owner-occupied houses remains stable. This is because house price growth is strongly correlated with the increase in borrowing capacity[2] (Figure 5) which is rising due to ongoing wage growth. Affordability is the difference between borrowing capacity and house prices.

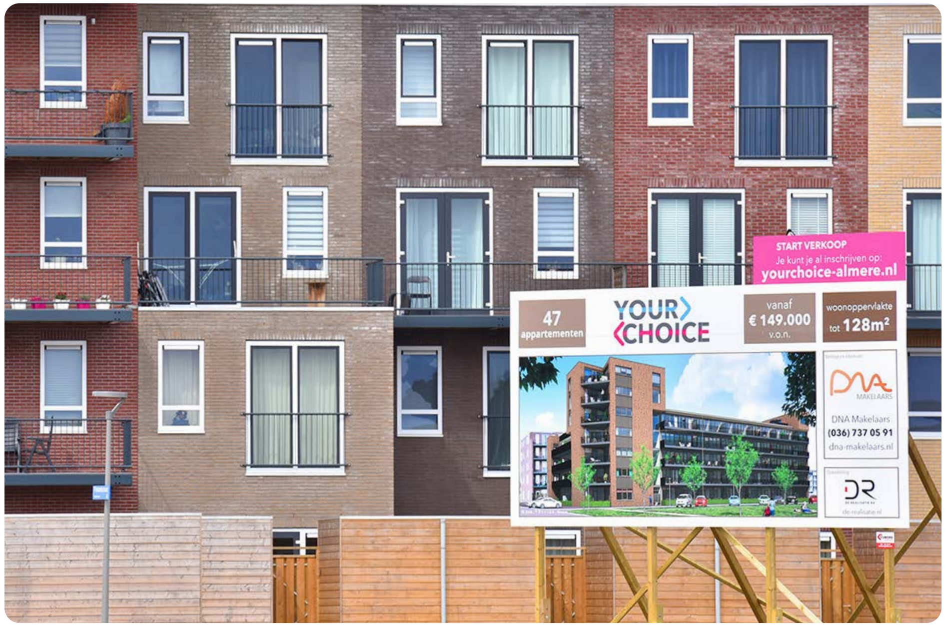
Figure 5 Affordability of owner-occupied houses remains stable



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

2 Borrowing capacity is defined here as the maximum mortgage loan for a household with a median income and with no own money paid up front, based on Nibud (National Institute for Family Finance Information) standards. We use the 2025 Nibud standards for the 2026 and 2027 projections.

Only one in three households can afford an average owner-occupied house. As recently as 2015, the gross household income of more than half of households was sufficient to fully finance an average home with a mortgage loan. Despite affordability remaining stable, an average owner-occupied house is out of reach for many. An average house is projected to cost around €544,000 in 2026. To fully finance this amount with a mortgage loan, a gross household income of around €111,000 would be needed (taking into account own money needed for purchase costs). It is estimated that about one in three (37%) households will have such an income or higher in 2026.[3] This means that an average house will remain unaffordable for many households that do not have their own money for a down payment or cannot rely on financial assistance from family. This is especially problematic for first-time buyers because they typically have less money of their own than existing homeowners. Figures show that first-time buyers are increasingly using savings and loans or gifts from friends and family.[4] The alternative – the rental housing market – is also subject to tightness and rents are comparatively high. It should be noted that increasing the borrowing capacity will not solve this problem, as doing so would only drive up house prices further. Comprehensive housing market reform is needed, with measures being taken on both the supply side and the demand side.[5]



More on the housing market can be found on our theme page on the housing market (https://www.dnb.nl/en/current-economic-issues/housing-market/)

3 Estimate based on projection-indexed figures from Calcasa (house price) and CBS Microdata (household income).
4 Figures from Mortgage Data Network show that first-time homebuyers need more and more of their own money to buy a home. The proportion of first-time buyers benefiting from a gift from parents or in-laws increased from 22% to 34% between 2021 and 2024 (WoOn 2024 core publication).
5 See this DNB position paper for the round-table meeting of the Dutch House of Representatives on 5 June 2025.

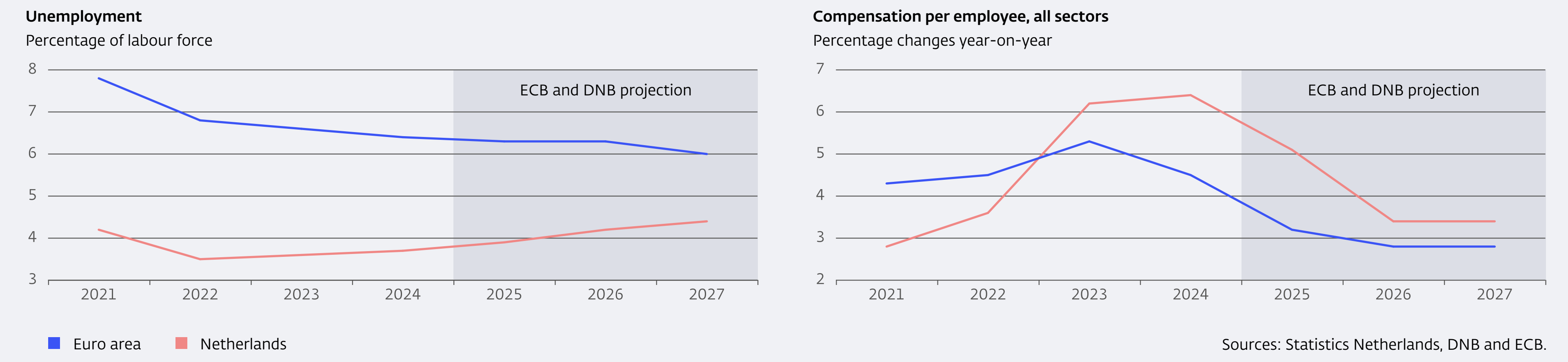
Labour market tension and wage growth to gradually decline

Unemployment is set to rise, mainly because more people are entering the labour market. The unemployment rate, which was 3.7% in 2024, is projected to rise to 4.4% in 2027. This is not due to large-scale job losses, but to an increase in the number of people who are active in the labour market (in line with the labour supply forecast of the CPB Netherlands Bureau for Economic Policy Analysis). Labour supply growth is projected to average 0.8% per year in the 2025-2027 period. At 0.5% per annum on average, employment growth is set to be significantly lower than in recent years, reflecting the cooling of the economy. The labour market has been very tight in recent years, and this tension now seems to be easing slightly.

Self-employed persons face declining demand for their services. This fell in the first quarter of 2025 for the first time in four years, while the number of people in paid employment actually increased. One possible explanation is the anticipation of legislation on false self-employment and stricter enforcement. It should be noted that these projections do not assume a significant decrease in the number of self-employed persons in the coming years. We do anticipate a contraction this year (-1.5%), but the number of self-employed persons is expected grow again by about 0.6% per year in 2026 and 2027.

Labour remains scarcer in the Netherlands than in other countries. Although tension in the labour market is easing, tightness remains. For instance, the number of vacancies in the first quarter of 2025 was almost equal to the number of unemployed persons. This is lower than the peak in 2022 (142 vacancies per 100 unemployed persons), but still considerably higher than the 2003-2024 average of 47. Staff shortages remain a major constraint to economic activity. Unemployment also remains low in many other euro area countries and staff shortages are just as prevalent there. Nevertheless, the Dutch labour market is even tighter, as evidenced by the relatively low unemployment rate (Figure 6, left panel). Partly for this reason, growth in the compensation per employee (including incidental remuneration and social security contributions) remains above the euro area average over the projection horizon (Figure 6, right panel).

Figure 6 Unemployment and wage growth

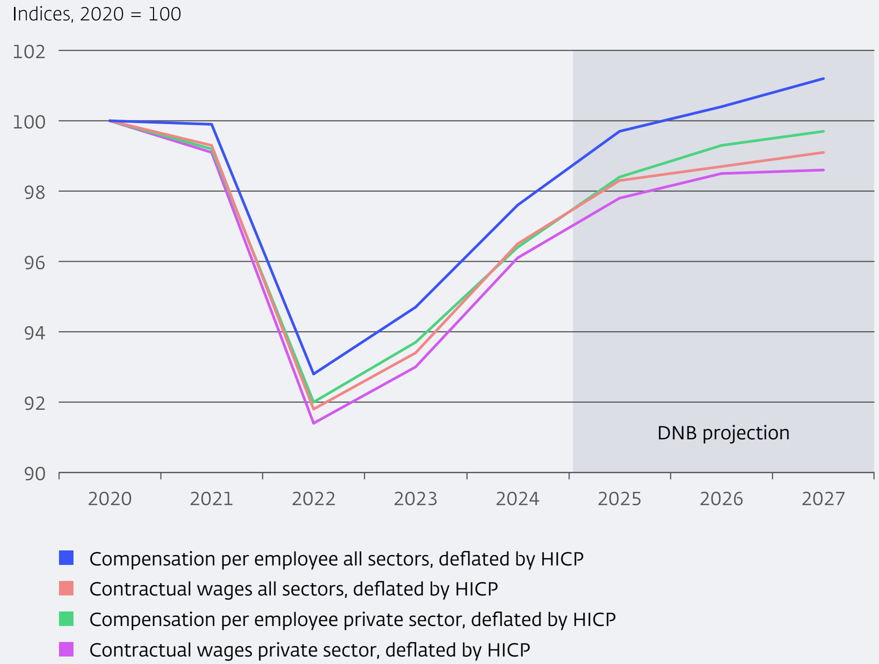


Sources: Statistics Netherlands, DNB and ECB.

Wage growth is gradually declining. In 2024, negotiated wage growth peaked at 6.7% – the highest in more than four decades. As some collective agreements with high wage settlements continue into 2025, the average negotiated wage growth this year is estimated at nearly 5%. At the same time, the average wage settlement in new collective agreements has been falling for quite some time – to less than 4% in April this year. Negotiated wage growth is expected to decline further in the years ahead as tightness on the labour market eases, the economy cools and the real wage loss recovers.

The real wage loss has been largely caught up. High inflation in 2021 and 2022 resulted in a substantial real wage loss. This loss has been largely caught up in recent years thanks to high negotiated wage rises, wage drift (e.g. bonuses), and higher employer contributions to social insurance. Exactly how much has been caught up depends on the specific wage and price developments examined. By most measures, real wages are expected to be back around 2020 levels by the end of the projection horizon (Figure 7). However, there are large differences between sectors: since early 2020, for instance, wages rose most sharply on average in the media & ICT, education and trade sectors. Wage growth was more muted in financial services, agriculture and construction. Partly due to government income support, real incomes have caught up faster than real wages. In addition to wages, household income includes business income, dividends and other income from assets, allowances and benefits. Higher employment also leads to higher average income per household.

Figure 7 Catch up of real wages



Sources: Statistics Netherlands and DNB.

More on the labour market can be found on our theme page on the labour market (https://www.dnb.nl/en/current-economic-issues/labour-market/)

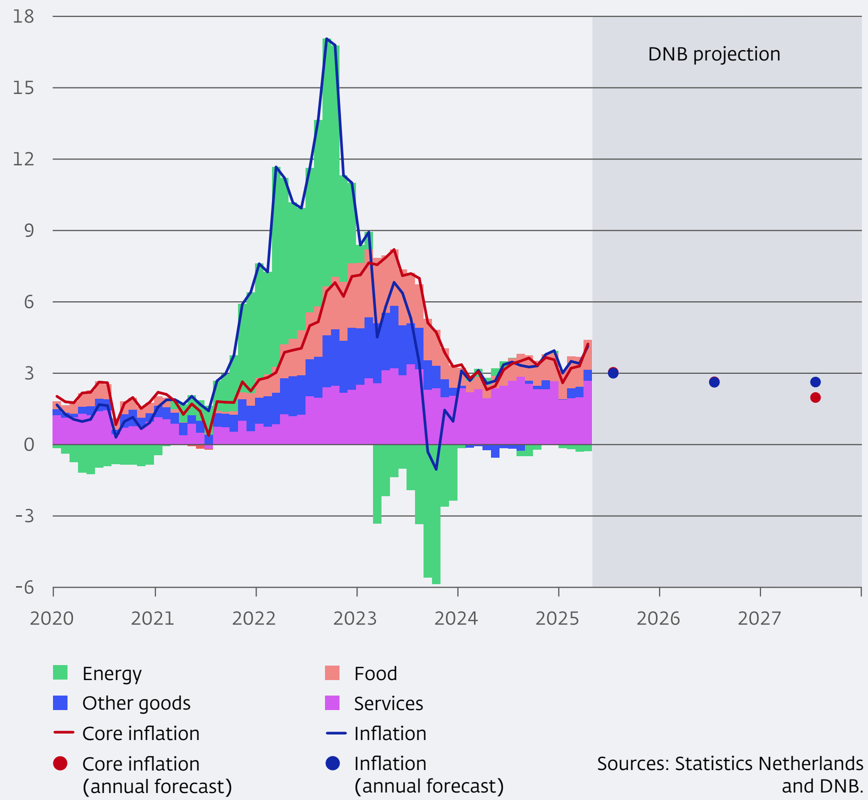
Inflation falls but remains comparatively high

Inflation in the Netherlands is expected to fall below 3% in 2025. Inflation (European harmonised, HICP) is falling faster than we projected in our 2024 Autumn Projections. Inflation is expected to fall below 3% in the second half of this year, reaching 2.6% in 2026 and 2027 (Figure 8). This is partly due to developments in the international context. The global economic growth slowdown is driving down energy prices, contributing to the fall in consumer price inflation. Over time, the appreciation of the euro also depresses inflation as imports of goods and services become cheaper.

There are also fewer domestic causes for higher inflation. First, the economic slowdown is accompanied by lower wage growth, leading mainly to lower services inflation, for which labour costs are the main driver (Figure 8). Second, government policies affect inflation. The projections still assume a freeze on rents in the social housing sector, which reduces inflation in 2025 and 2026. Now that this legislative proposal has been withdrawn (after finalisation of the projections), inflation is expected to be a few tenths of a percentage point higher in 2025 and 2026. Third, food inflation is falling. Food inflation had been relatively high due to higher taxes on tobacco, but that effect is no longer present in the figures as of this year. Core inflation (excluding energy and food) shows the underlying trend: it is expected to fall from 3% this year to 2% in 2027.

Figure 8 Inflation is decreasing

Year-on-year percentage changes and contributions in percentage points



Sources: Statistics Netherlands and DNB.

Note: Core inflation excludes food and energy.

Inflation in the Netherlands is nevertheless projected to remain higher than in the euro area as a whole. This is partly due to wage movements in the Netherlands. Wage growth is set to decline but remain higher than the euro area average over the projection horizon. In addition, Dutch inflation is to remain relatively high due to an increase in indirect taxes, such as the higher VAT on lodging from 2026 and the further rollback of the 2022 reduction of fuel excise duties. Energy inflation is also seen rising in 2027 due to the Emissions Trading Scheme (ETS2), which will price in a greater share of greenhouse gas emissions. Overall, higher indirect taxes are projected to contribute 0.4 percentage points to inflation in 2026 and 0.7 percentage points in 2027.

Energy affordability is set to improve. In 2025, households will spend on average almost 3% of their disposable income on energy (natural gas and electricity).[6] Further income growth and lower taxes on energy are expected to cause this figure to fall slightly in 2026. In 2027, the figure will likely increase slightly due to the introduction of ETS2 gas pricing.

Uncertainty around inflation goes both ways and inflation can rise or fall. Trade tariffs can disrupt firms' supply chains, which increases their production costs and poses an upside risk to inflation. On the other hand, trade tariffs may lead to diversion of trade flows between countries. This could result in more cheap products from, say, China entering the Dutch market, thus lowering inflation. Inflation could also fall if spending is curbed, as described in the severe scenario later in these Spring Projections.

Foto Olaf Kraak / ANP

More on inflation can be found at our theme page on inflation (https://www.dnb.nl/en/the-euro-and-europe/inflation/)

6 Source: DNB calculation based on Statistics Netherlands microdata (energy consumption, household income) and CBS StatLine (historical energy prices).

Public finance outlook worsens

Dutch public finances are still in a good starting position. In 2024, the EMU balance stood at -0.9% of GDP. This is slightly more negative than anticipated in the latest Autumn Projections, but significantly more favourable than expected in earlier projections. This is partly due to unexpectedly higher dividend tax revenues (0.4% of GDP). Many additional dividend payments were made prior to the Box 2 income tax rate increase. This temporary effect is no longer present in 2025. Public debt stood at over 43% of GDP last year, which was the lowest level in 45 years (the debt to GDP ratio was only lower in 2007).

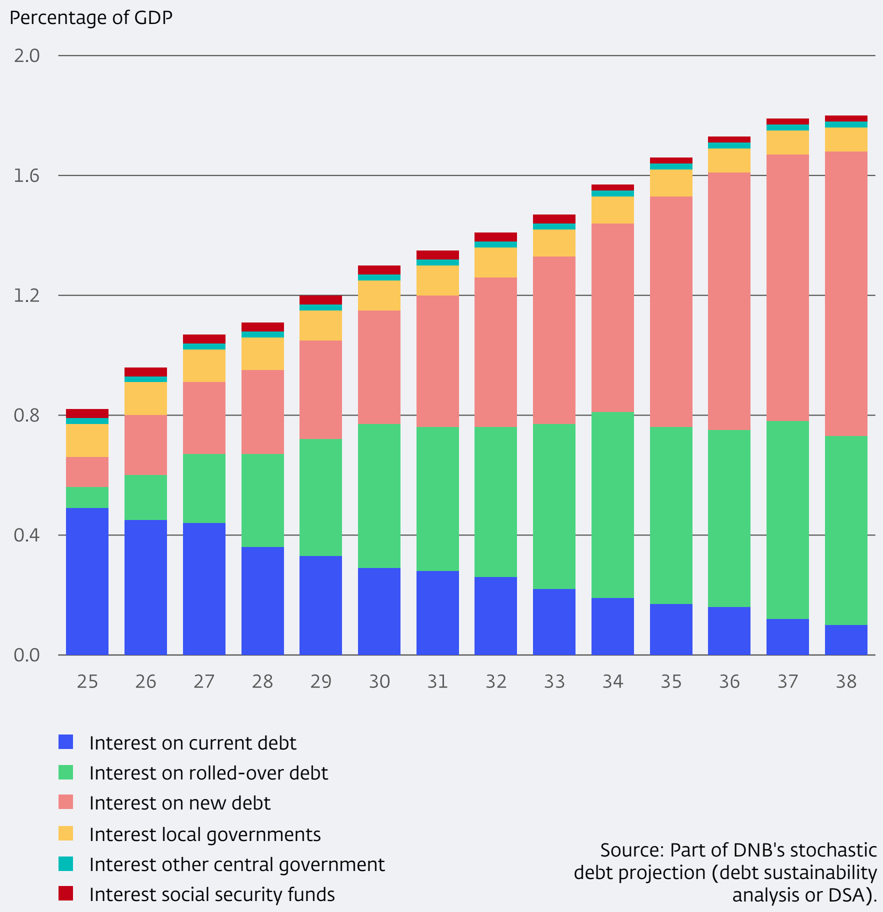
In the coming years, however, the budget deficit is expected to rise faster than previously anticipated. This is mainly due to the slowdown in economic growth, resulting in less tax revenue, and additional spending on social security. This year, the projected EMU balance worsens to -2.8% of GDP. We anticipate an EMU balance of -3.5% of GDP in 2026 and -2.7% of GDP in 2027. The 3% deficit limit will be breached in 2026 when military pensions are converted to the new system, at a one-off cost to the government of €8.5 billion (0.7% of GDP). In 2027, the EMU balance is projected to improve slightly due to planned spending cuts in areas such as development cooperation, the civil service and spending on asylum seekers.[7] Despite this improvement, the deficit is close to the 3% limit in 2025, and it is expected to exceed the limit in 2026, meaning the government will be sailing close to the fiscal wind.

The picture remains worrisome in the long term. Beyond the projection horizon (2027), spending on healthcare, social security and interest payments is expected to continue to rise faster than revenues, further worsening the balance. For instance, interest expenditure is set to double from 0.8% of GDP in 2025 to 1.8% of GDP in 2038; about two-thirds of this will be related to new debt and one-third to refinancing at higher interest rates (Figure 9). This would be exacerbated by ambitions to increase defence spending above the current 2% of GDP. These developments are expected to cause debt to rapidly increase to above the 60% of GDP ceiling in 2033. This is contrary to European fiscal rules and necessitates a course correction, in which productivity-enhancing investments should be spared, given the long-term growth potential of the Dutch economy.[8]

Efforts to improve public finance projections are welcome. An expert group convened by the Dutch House of Representatives concluded in March 2025 that the public sector deficit has been projected too pessimistically since 2021. The expert group noted that this was primarily due to uncertainty in projections caused by unforeseen shocks, such as the pandemic and Russia's invasion of Ukraine. Two specific points have been identified to improve public finance projections: more accurate estimates of underspending and of corporate income tax revenues. DNB has joined efforts to implement these improvements. We will start reporting periodically on forecast errors in our projections.

7 We assume, as does the CPB Netherlands Bureau for Economic Policy Analysis, that only part of these cuts will actually take place. For more details, see CPB (2025), *Verantwoording Centraal Economisch Plan 2025* (link).
8 See DNB position paper for the round table of the Standing Parliamentary Committee for Finance, 26 March 2024 (link).

Figure 9 Dutch government interest payments to double



Source: Part of DNB's stochastic debt projection (debt sustainability analysis or DSA).

Alternative scenarios for trade policy

International trade policy is currently shrouded in great uncertainty. To assess the consequences, we have prepared two alternative scenarios – a mild and a severe variant – in addition to the baseline projection. These scenarios differ in the level of import tariffs on goods, potential countermeasures and global confidence effects, and are based on assumptions made jointly by the ECB and national central banks in the Eurosystem (Box 1).[9]

Box 1 Trade tariff assumptions

Baseline: trade tariffs of 9 April remain in place. US import tariffs of 10% on most foreign goods. Higher tariffs for China. No retaliation by the EU.

Mild scenario: successful tariff negotiations between the US and trading partners. Zero tariffs on trade between US and EU. Tariffs between US and China lower than in baseline. For the rest of the world, import tariffs remain 10%. No additional countermeasures by affected countries. Lower uncertainty than in the baseline projection.

Severe scenario: after the 90-day pause, return of the high (reciprocal) tariffs of 2 April. Very high tariffs for China. Affected countries respond with the same tariffs on US imports. Higher uncertainty than in the baseline projection.

The mild scenario is based on the assumption that ongoing tariff negotiations between the US and its trading partners are successful. Zero tariffs will be agreed between the US and the EU from the third quarter of 2025. For the rest of the world, the relatively low tariff on their exports to the US of 10% continues to apply (as in the baseline projection). It is assumed that the affected countries waive countermeasures and refrain from imposing tariffs on imports of US products. Lower tariffs are also agreed between the US and China. Partly because of this, economic uncertainty in the mild scenario is lower than in the baseline projection.[10]

In the mild scenario, economic growth is somewhat higher due to easing trade tensions. Lower import tariffs and reduced uncertainty in this scenario give a positive boost to world trade. This can potentially benefit Dutch exports. Higher demand and improved confidence push both business investment and private consumption higher than in the baseline projection. In the end, economic growth in the Netherlands is slightly higher than in the baseline projection and the effect on inflation remains minimal (see green line in Figure 10, left and right panels).

The severe scenario paints a much bleaker picture. This scenario assumes that the trade negotiations with the US largely fail and that, after the 90-day pause, the relatively high (reciprocal) tariffs of 2 April apply from the third quarter of 2025. This entails an effective import tariff for the EU of 12.5%, an average tariff of 15% for the rest of the world and even close to 120% for China. In this scenario, the affected countries respond with the same tariffs on imports of US goods, and economic uncertainty is far higher than in the baseline projection. This leads to delayed consumer spending and business investment.[11]

9 In both scenarios, we assume that US monetary policy responds to domestic price changes, while monetary policy in the euro area is held 'constant'. We also assume that the US dollar exchange rate does not change compared to the baseline projection.
10 In the mild scenario, policy uncertainty is assumed to fall to the pre-2018 long-term average level.
11 We use effective import tariffs in the scenarios, taking into account non-tariffed goods and other specific exemptions, and adjusted for services. In the severe scenario, global trade policy uncertainty is assumed to be over 50% higher on average than in the baseline projection and oil prices more than 10% lower.

If the US allows the trade conflict to escalate, it will shoot itself in the foot. When imports of goods needed for domestic production in the US become more expensive, the cost price of US products rises. The US ends up pricing itself out of the world market, causing a sharp drop in US exports. Moreover, rising import costs will also drive up US prices, fuelling domestic inflation. This will lead the US central bank – the Federal Reserve – to raise the policy rate. In the severe scenario, US GDP growth is about 1 percentage point lower in 2025 and in 2026 than in the baseline projection.

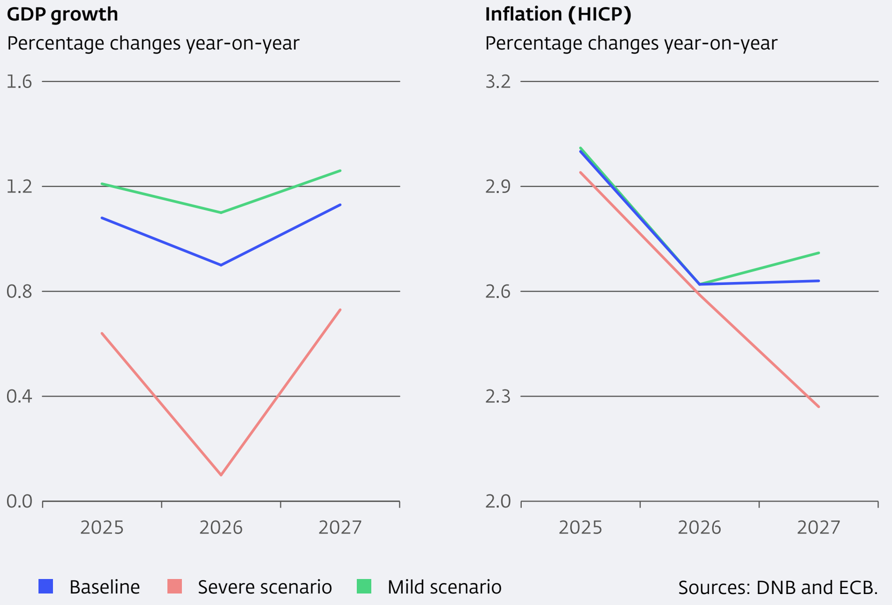
The effect on the US dollar exchange rate is uncertain. In normal economic circumstances, a higher US policy rate leads to a more expensive dollar. However, the dollar weakened in the first quarter of 2025 due to high investor uncertainty about the US economy and US economic policy. As a result, the dollar actually depreciated. Macroeconomic models usually do not include these financial market dynamics. We assume in the scenarios that the upward and downward effects on the dollar exchange rate cancel each other out, leaving the exchange rate unchanged from the baseline projection.

Dutch exports are hit hard. The direct impact of the severe scenario manifests itself in a fall in Dutch goods exports to the US. The indirect effect, through declining trade with countries also affected by lower exports to the US, is more pronounced. This is evidenced by the fall in the volume of world trade relevant to the Netherlands in the severe scenario; that volume will be around 2.5% lower in 2026 than in the baseline projection. The disruption of global value chains and greatly increased economic uncertainty also play a role. These effects substantially lower Dutch export growth.

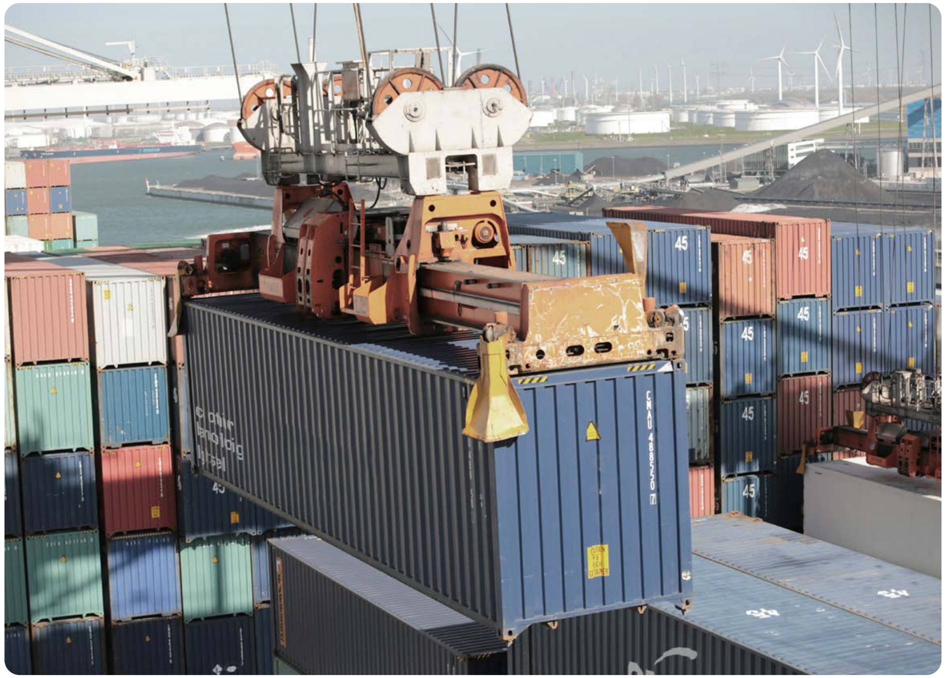
Economic growth in the Netherlands falls sharply in the severe scenario. GDP growth grinds to a virtual halt in 2026, averaging about 0.5 percentage points lower each year than in the baseline projection (see red line in Figure 10, left panel). Growth is muted by lower global demand, increased uncertainty and reduced confidence. As a result, business investment falls sharply. Reduced economic activity causes unemployment to rise (with some delay) to nearly 5.5% in 2027. Combined with falling real disposable incomes and negative wealth effects, this depresses private consumption in the Netherlands.

In the severe scenario, inflation falls to near 2% in 2027. The impact on inflation is determined by two – more or less – opposing forces: the inflationary effect of import tariffs (due to higher prices of imported goods and the disruption of global value chains) and the deflationary effect of lower spending growth. Figure 10 (right panel) shows that this negative demand effect prevails: the red line (severe scenario) remains below the blue line (the baseline projection) over the projection horizon. Inflation is still above 2% in 2027, but almost half a percentage point lower than in the baseline projection.

Figure 10 GDP growth and inflation, baseline and scenarios



Sources: DNB and ECB.



Policy recommendations

It is essential that the Netherlands and the EU uphold and support multilateral, rules-based cooperation. This will help prevent further fragmentation of world trade, which is in the interest of our prosperity. It may seem like a reasonable strategy for Europe to respond to protectionism by imposing its own trade tariffs, but trade barriers make companies less productive and competitive and impair economic growth. Bilateral agreements between countries can reduce trade barriers, but may be at odds with multilateral trade rules. For example, with the World Trade Organisation's (WTO) principle that each WTO member must charge the same trade tariffs and offer the same terms and conditions to all other members, except in the case of a free trade area or customs union.

In the bleak and uncertain international context, it is essential to preserve the Dutch economy's resilience within a strong European market. Risky dependencies must be reduced if we are to maintain resilience. A strong European single market is beneficial in this regard, as are the deepening and enlargement of European capital market.[12] This will reduce Dutch dependence on other regions of the world. The European market also provides economies of scale and vast market access that can benefit businesses, consumers and the economy as a whole. To fully realise that potential, it is essential to break down the remaining trade barriers in the EU to create a true single market. More cooperation with other trading partners outside the EU is also important, especially now. Diversifying Dutch trade relations boosts competitiveness and strengthens the Netherlands' resilience to economic setbacks.

To remain resilient, the long-term growth capacity of the Dutch economy needs to be bolstered, through innovation by firms and the resolution of structural bottlenecks by the government. The scarcity of production factors, such as labour, forms a major impediment to growth capacity. This means that factors of production must be used as efficiently as possible, for instance through the private-sector introduction of new technologies and innovations. The necessary investments are sometimes hindered by bottlenecks in public infrastructure, such as on electricity, rail and road networks, and by a lack of physical space, for instance due to nitrogen regulations. The government should not delay addressing such bottlenecks and should be mindful of their long-term impact on economic growth. Against the backdrop of already high economic uncertainty, it is essential that government policies are stable and predictable so as not to hinder private investment.

Resilience is also promoted when the government has sufficient fiscal reserves to absorb economic shocks, thereby contributing to stability. The likelihood of such shocks is higher due to elevated uncertainty in the international context. With public sector deficit close to the 3% limit and projected to exceed it in 2026, the capacity of the government budget to absorb shocks has been substantially reduced. Moreover, in the longer term, public finances are set to deteriorate due to rising spending on healthcare, social security and interest payments. Public finances must therefore be put on a structurally sound footing. Productivity-enhancing public investment and the burden on labour should be spared in the process, given the long-term growth potential of the Dutch economy and the anticipated lasting labour market tightness.

12 See DNB, Financial Stability Report, Spring 2025.

Key data in projections for the Dutch economy

Percentage changes, unless stated otherwise[1]

	2023[1]	2024	2025	2026	2027
Volume of expenditure and output					
Gross domestic product	0.1	1.0	1.1	0.9	1.1
Private consumption	0.8	1.0	1.3	1.5	1.4
Public expenditure	2.8	3.5	2.3	1.9	1.9
Business investment	2.3	-1.1	-2.5	1.1	1.9
Housing investment	-1.7	-1.2	5.1	2.2	2.4
Exports of goods and services	-0.4	0.1	0.3	1.3	1.8
domestically produced	-0.7	-0.7	2.1	0.8	1.5
re-exports	0.0	1.4	-2.4	2.0	2.4
Imports of goods and services	-1.7	0.0	1.0	2.3	2.6
domestically used	-2.8	-0.9	3.1	2.4	2.8
Prices and wages					
Harmonised index of consumer prices (HICP)	4.1	3.2	3.0	2.6	2.6
Harmonised index of consumer price energy	-23.7	0.1	-3.1	1.4	9.7
Core inflation (HICP, excl. energy and food)	6.4	3.2	3.0	2.6	2.0
Negotiated wages, private sector	5.9	6.7	4.8	3.3	2.7
Compensation per employee, private sector	6.0	6.2	5.1	3.6	3.0
Unit labour costs, private sector	7.9	6.1	4.4	3.5	2.4
Labour market					
Employment (persons, growth)	1.7	1.0	0.5	0.7	0.4
Labour supply (persons, growth)	1.7	1.1	0.7	1.0	0.6
Unemployment (persons, x 1000)	358	373	400	437	463
Unemployment (% of labour force)	3.6	3.7	3.9	4.2	4.4

	2023[1]	2024	2025	2026	2027
Government finances					
Public expenditure (% GDP)	43.2	43.9	45.2	46.7	46.4
Collective burden (% GDP)	38.6	38.5	38.2	39.0	39.5
Primary balance (% GDP)	0.3	-0.2	-2.0	-2.6	-1.6
EMU balance (% GDP)	-0.4	-0.9	-2.8	-3.5	-2.7
EMU debt (% GDP, based on end-of-period)	45.2	43.3	45.8	49.1	50.2
Financial					
Bank lending to NFCs (based on end-of-period)[2]	-0.9	3.5	2.5	2.1	3.6
House prices, existing own homes	-2.9	8.8	7.4	3.7	4.0
Residential mortgages (based on end-of-period)	2.2	4.2	4.6	3.3	2.4
International assumptions					
Volume of relevant world trade	-0.8	1.3	2.5	1.9	2.8
Volume of GDP world, excluding euro area	3.7	3.6	3.1	2.9	3.2
Short-term interest rate euro area (%)	3.4	3.6	2.1	1.9	2.2
Long-term interest rate Netherlands (%)	2.8	2.6	2.9	3.1	3.2
Euro exchange rate (USD)	1.08	1.08	1.11	1.13	1.13
Competitor prices	-2.9	0.6	0.6	1.6	2.2
Oil price (UK Brent, USD per barrel)	82.2	79.9	66.3	62.8	64.2
Dutch exports and competitiveness					
Price exports of goods and services, dom. prod., excl. energy	3.4	2.8	2.5	2.6	2.5
Price competitiveness[3]	-6.1	-2.1	-1.8	-1.0	-0.3
Volume exports of goods and services, dom. prod., excl. energy	-0.8	-0.5	1.2	1.0	1.5
Market performance[4]	0.0	-1.8	-1.3	-0.9	-1.3
Current account (% GDP)	9.7	9.9	9.3	8.4	8.0

[1] Annual figures have been calculated on seasonally adjusted quarterly figures ad 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, excluding energy.
[4] Market performance is Volume exports of goods and services, domestically produced, excluding energy, minus Volume of relevant world trade.

Sources: Statistics Netherlands, DNB and ECB.

Figures

Figure 1 Economic growth slows down

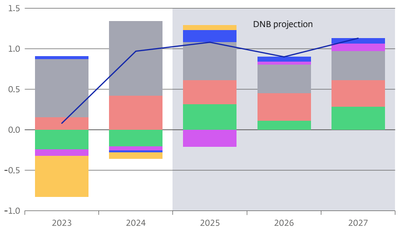


Figure 2 Uncertainty has risen sharply

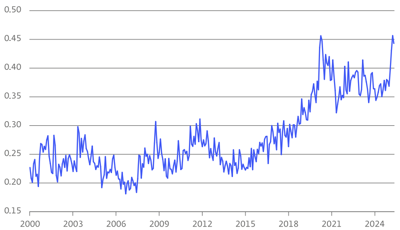


Figure 3 Deterioration of market share and price competitiveness

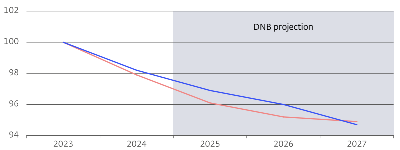


Figure 4 Disposable income, prices and consumption

Figure 5 Affordability of owner-occupied houses remains stable

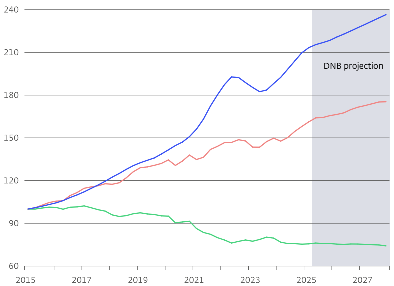


Figure 6 Unemployment and wage growth

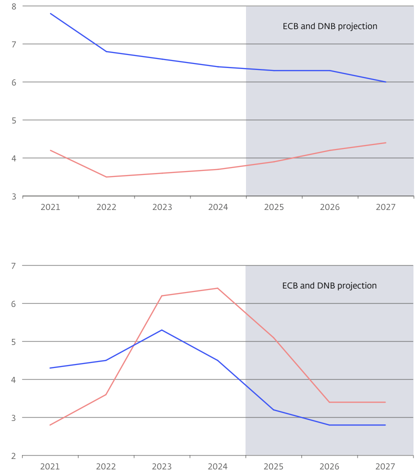


Figure 7 Catch up of real wages

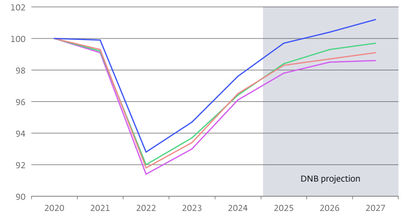


Figure 8 Inflation is decreasing

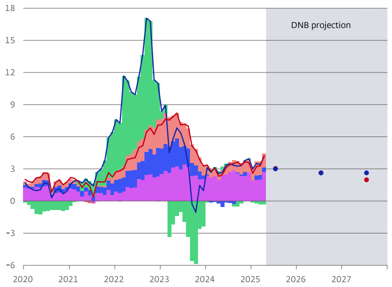


Figure 9 Dutch government interest payments to double

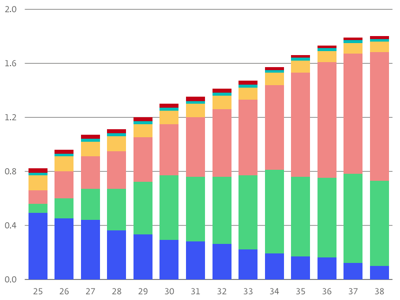
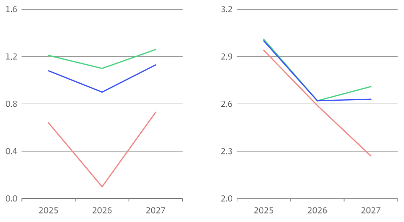


Figure 10 GDP growth and inflation, baseline and scenarios



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