

# A look ahead

DeNederlandscheBank

EUROSYSTEM

## A strong Dutch economy requires a strong Europe

Anyone thinking about the future of the economy today cannot ignore the fact that the world has fundamentally and permanently changed in a comparatively short period of time. It began in 2020 with the pandemic, followed two years later by Russia's war of aggression against Ukraine, last year's announcement of substantial and widespread import tariffs by the United States, and now the military and geopolitical escalation in the Middle East.

During the first three crises, the Dutch economy proved to be more resilient than initially expected. Anyone peering at the Netherlands through a telescope from the moon would, at first glance, see an economy humming quietly along like an electric car on a sunny day. At 1.9%, economic growth in 2025 was higher than expected (see Table 1). This is even higher than the structural growth rate, i.e. the growth rate at which production capacity is fully utilised, which is around 1.5%. Unemployment is near historically low levels. And although inflation remained high at 3% in 2025, the trend was still downward until the recent exchanges of attacks between the United States, Israel and Iran. Public debt is relatively low at 45% of the size of the economy (GDP). The financial sector is solid by any accepted standards. There is little to worry about, it would seem.

### Code amber

Yet many in the Netherlands do not experience it that way at all, and that is quite understandable. Because under the bonnet, the Dutch economy has been suffering from major problems for years: a stalled housing market, pressure on earning power, a tight labour market while employable people remain on the sidelines, bottlenecks in the field of liveability and sustainability, and especially concerns about international security and geopolitics. The latter aspect in particular has increasingly emerged as dark clouds on the horizon over the past year. It is code amber.

**Table 1 Dutch economy at a glance**

	2024	2025
GDP growth (Year-on-year change, %)	1.1	1.9
Inflation (HICP) (Year-on-year change, %)	3.2	3.0
Unemployment (Share of labour force, %)	3.7	3.9
Public debt (Share of GDP, %)	43.7	45.2*
Budget balance (Share of GDP, %)	-0.9	-1.9*

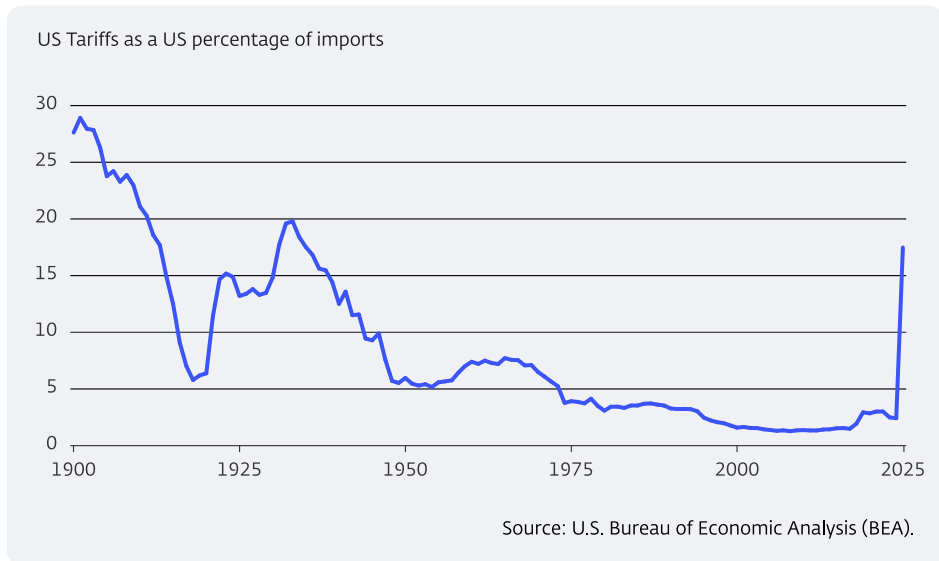
\* Estimate from DNB Autumn Projections 2025, final figure not yet available.

Sources: Statistics Netherlands and DNB

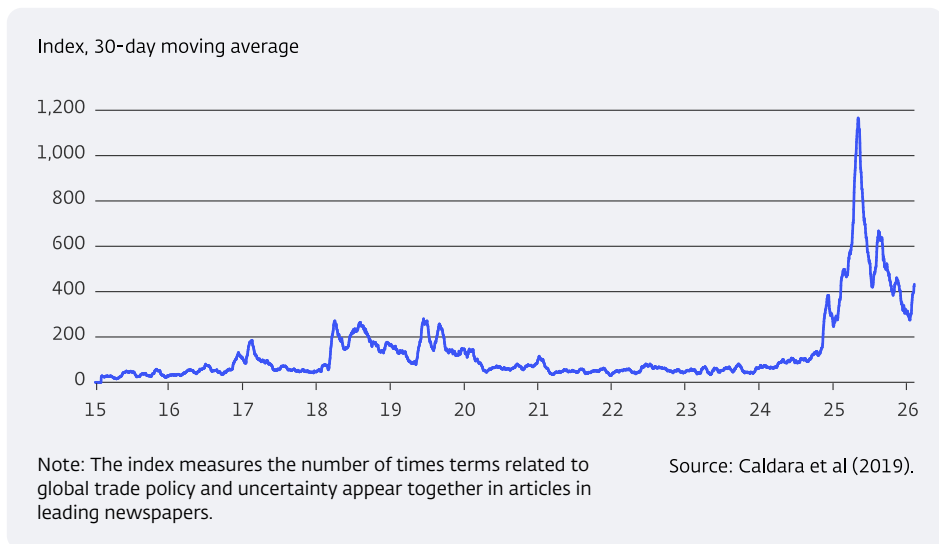
The post-war world order, based on rules, law and free trade, is rapidly crumbling. The economic integration achieved in recent decades is now being weaponised. Trade tariffs are being imposed and access to critical infrastructure, services and raw materials is being threatened. This leads to fragmentation of the global economy, increased uncertainty and an elevated risk of shocks (see Figures 1 and 2).

A striking example of this is the new war in the Middle East. The conflict is disrupting trade flows and the supply of oil and gas, which is likely to have negative consequences for the economy and inflation. Due to the high degree of uncertainty, it is still difficult to predict the exact effects, but they could be significant. Everything depends greatly on the duration and scale of the war. And the wider the region that is drawn into the conflict, the greater the economic impact will be. Persistently high oil prices will ultimately feed through into the prices of other goods, and consequently may also affect wage levels, which could drive up inflation in the Netherlands and the euro area.

**Figure 1 US tariffs**



**Figure 2 Trade uncertainty**



### Challenges do not wait

Geopolitical developments pose a significant risk to the open Dutch economy, as they hinder trade and make investment less attractive. Moreover, the deteriorating security situation is forcing European countries, including the Netherlands, to sharply increase their defence spending.

The lack of effective international coordination also hinders a joint approach to global problems, allowing risks to build up faster and solutions to emerge more slowly. We see this in a number of areas of interest to DNB.

For instance, in the area of financial laws and regulations, there is less and less willingness to seek alignment internationally. The United States, for example, gives free rein to the issuance and trade of crypto-assets, whereas we have agreed to regulate cryptos in Europe. We see the same when it comes to strengthening global regulation of non-bank financial institutions, such as investment funds and money market funds, whose share in financial transactions and lending continues to grow.

After the 2008 financial crisis, major economies joined forces to strengthen the financial system, which has served to protect the global economy in recent years. It remains to be seen whether we would be able to do the same again now.

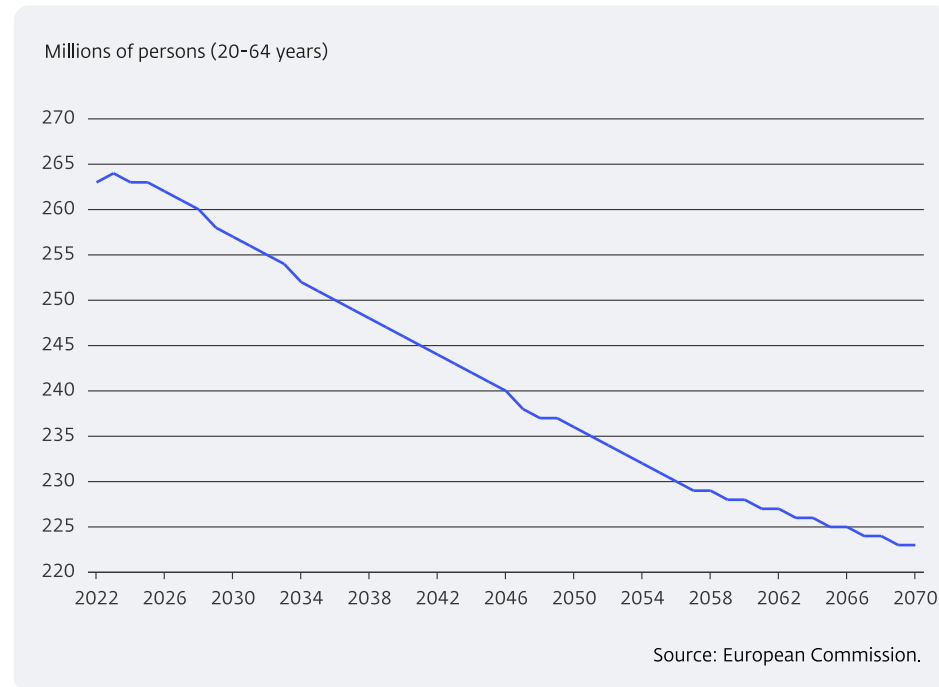
The lack of cooperation is also evident in the approach to the climate crisis, a problem that has gradually become less of a priority for many governments in recent years. This does not mean climate change is going away – quite the contrary. The more the energy transition slows down, and the more we lose sight of our climate goals, the higher the economic costs will eventually be, and the greater the risks to financial stability and to our prosperity.

Besides geopolitics, technology and the ageing population also have a major impact on the economic outlook.

Technological developments, especially artificial intelligence, are moving fast, with uncertain and potentially substantial implications for our society, economy and financial markets. Where the United States has taken a clear lead in the development of advanced technologies, especially artificial intelligence, Europe has fallen behind.

And finally, Europe's population is ageing. The number of older people is increasing relative to younger generations. That means the cost of healthcare and social security will rise, while Europe's working-age population is set to decline by almost a million people a year (see Figure 3). This puts further pressure on economic growth – which is already lower in Europe than in the United States. And we need economic growth to finance all the transitions we are facing.

**Figure 3 European labour force set to decline**



## Resilience, growth capacity and stability

In a world that is rapidly changing, we cannot continue as before. We need to put our shoulder to the wheel, in the Netherlands and in Europe. This realisation is becoming increasingly widespread in all areas of society. Above all, it means becoming more resilient – and in some cases less dependent on the outside world – and increasing the growth capacity of our economy. These two aspirations can clash: measures that protect us can come at the expense of efficiency, while investments that stimulate growth depend on open competition. Prudent policies and financial stability are preconditions for dealing effectively with these tensions.

## Improving resilience

In an increasingly fragmented world where the law of the jungle is becoming more prevalent, Europe must strengthen its resilience and reduce its dependence on the outside world. The focus should primarily be on areas that are vital to us such as defence, energy, water, technology and our core financial infrastructure.

Payment systems are a prominent example of a dependency we face as a central bank. When we make electronic payments in the Netherlands, the transactions largely go through systems run by non-European companies. As a result, we are overly reliant on countries outside Europe for our daily payments. If essential parts of our payment system are in foreign hands, they can also be used as a tool to exert political pressure. That is something we must avoid. The payment system, the bloodstream of our economy, is too important to take that risk. Incidentally, this does not mean that there is no room for non-European companies in the payments sector. On the contrary: competition is ultimately a good thing. But we must not be dependent on such companies.

We therefore emphatically support European digital payment solutions. We are working on the development of a new public means of payment, the digital euro. And we welcome commercial European payment solutions,

such as Wero. Having multiple European payment solutions is essential to enhance our autonomy. And in parts, they can also reinforce each other. The offline digital euro will offer an additional fall-back option in case of power or internet outages. This will be a welcome addition to our payment infrastructure.

### Reduce dependency

In a number of critical areas, we in Europe therefore need to reduce our dependency by building our own capacity. Strategic autonomy, standing on your own two feet, whatever you want to call it. However, that does not mean we should turn inward. When the world disintegrates into a collection of economic fortresses, everyone loses.

In addition to building our own capacity, these times also call precisely for maintaining bilateral relationships and building new partnerships. The free trade agreements with India and with the Mercosur countries are good examples. These agreements also help us spread our dependencies, which is a key principle of sound risk management.

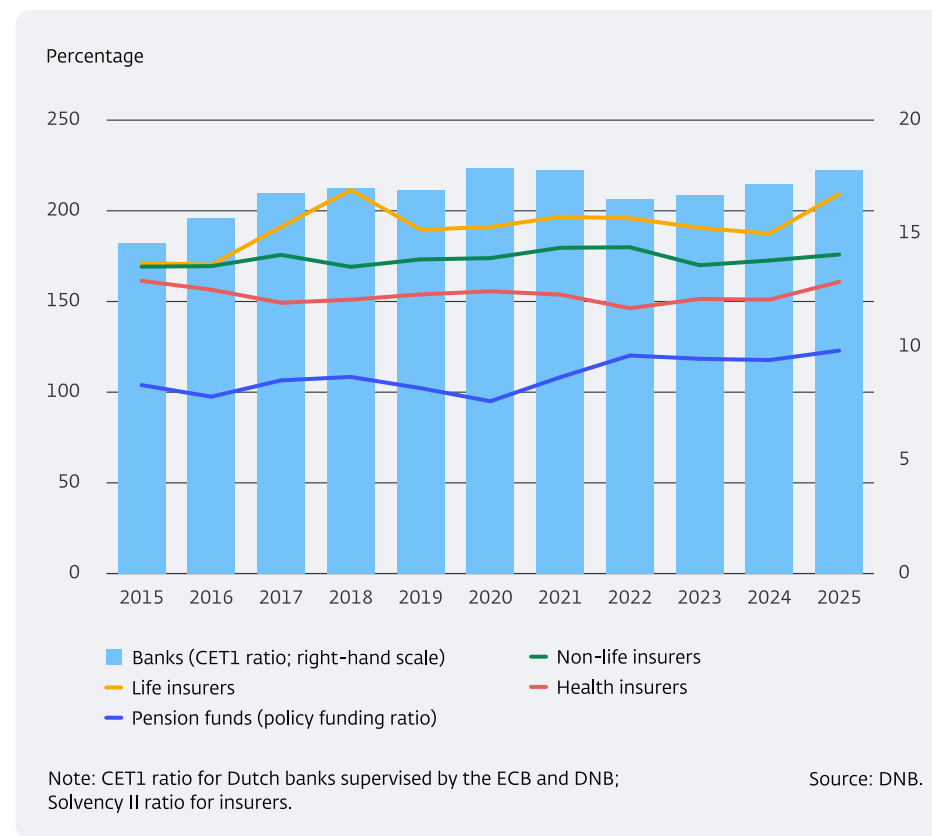
Providing large-scale, untargeted support under the umbrella of strategic autonomy must be avoided. Governments are notoriously bad at selecting 'winners of the future' and should therefore not take on that role. This would only weaken Europe's business dynamism and innovative capacity. Above all, the government should work to remove bottlenecks to growth and create conditions for more private investment. And in those areas where we want to take care of things ourselves in Europe, we obviously need to coordinate carefully among ourselves.

### Resilient financial sector

Resilience also means that our financial sector has adequate buffers and is prepared to fend off cyber attacks. The European banking sector currently has solid capital buffers, thanks in part to the tightening of regulations following the 2008 financial crisis and more robust European banking supervision (see Figure 4). The solvency of insurers and pension funds is also

strong, and the long-awaited transition to the new pension system is finally in full swing. Tighter regulations have gradually led to many rules, which are complicated and sometimes disadvantageous for small parties. Regulators and supervisors are working together to see where bank regulation can be simplified. 'Risk-based' is most likely the key phrase in this context. However, it is essential not to lower the bar, for instance by relaxing capital requirements. That would be a big mistake, as it would reduce the resilience of our banks, which is something we cannot afford – especially in these uncertain times.

**Figure 4 Capitalisation of banks, pension funds and insurers**



Another thing that the financial sector as a whole needs to prepare for is the risk of a large-scale cyber attack – possibly carried out by criminals, possibly by nation-state actors. Financial institutions need to arm themselves against this threat, and they need to know how to respond if attacked so that they can quickly resume operations. Given the elevated threat level, banks and other institutions need to continuously work on their cyber resilience, both individually and in tandem. A major crisis exercise is planned for the financial sector this year. The sector's reliance on a small number of very large financial service providers also makes it vulnerable to cyber risks. If one such service provider is attacked, damage can spill over to a large number of financial institutions. This makes it essential for financial institutions to gradually reduce this reliance.

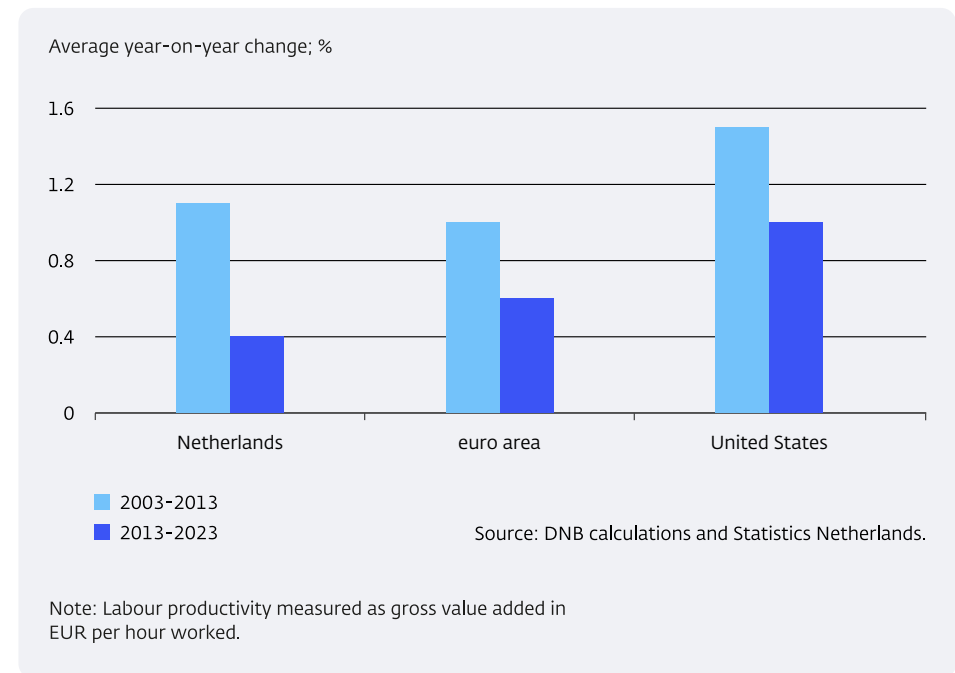
## Economic growth potential needs to rise

Resilience has many benefits, but it also costs money. To cover these costs, we need structurally higher economic growth. Population growth is stagnant, meaning we will be increasingly dependent on labour productivity growth if we are to maintain our standards of healthcare, social services and other achievements. Labour productivity growth is currently lower than it could be (see Figure 5). The reports by Mario Draghi, Enrico Letta and, in the Netherlands, Peter Wennink, contain many praiseworthy recommendations to increase the growth potential of our economy.

### Further deepening of single market

Let us look at Europe first. In a world of growing economic uncertainty and fragmentation, the European single market is our engine and airbag in one: an efficient single market boosts economic growth and provides a first line of defence against external shocks. There is much to be gained by removing unnecessary regulatory burdens and barriers. In theory, with an open market of 450 million citizens, we have one of the largest consumer markets in the world. In practice, however, this potential remains largely untapped due to differences in national regulations.

**Figure 5 Labour productivity growth in the Netherlands, the euro area and the United States**



Think of different national requirements for supermarket labels, waste disposal or public procurement. Evaluating foreign employees' credentials. Or complicated administrative procedures to temporarily put a company's employees to work in another EU country. Such differences in regulations can often add up to an impregnable barrier for companies wanting to operate across borders.

All these barriers put a brake on economic growth in Europe. A recent analysis by the European Central Bank (ECB) suggests that the total value of these barriers is equivalent to a trade tariff of 67% on goods and 95% on services. As indicated in the analysis, this is probably an upper limit, but it is fair to say that the remaining barriers in the single market are inhibiting the

growth potential of our economy. So it would benefit the entire European economy if governments would redouble their efforts to remove them.

### Integrating European capital markets

Besides goods and services, we also need a deeper single market for venture capital. Europe's financial markets are still highly fragmented due to major differences in regulations between Member States. In Europe, we have 27 different bankruptcy regimes, just to give one example. As a result, it is still very difficult for capital providers in one Member State to invest in a company in another. This fragmentation means that capital in the form of savings deposits cannot easily find its way to productive and innovative investments.

Two figures make this painfully clear. On the one hand, €10 trillion of European households' money is parked in savings accounts at low interest rates. On the other hand, since 2008, almost 30% of all unicorns – young companies with a market value of more than €1 billion – have left Europe to re-establish abroad – overwhelmingly in the United States – partly due to lack of available venture capital in the EU alongside the concealed trade barriers that still exist in the 27-nation bloc. The deep and liquid market for venture capital that these companies desire does exist on American shores.

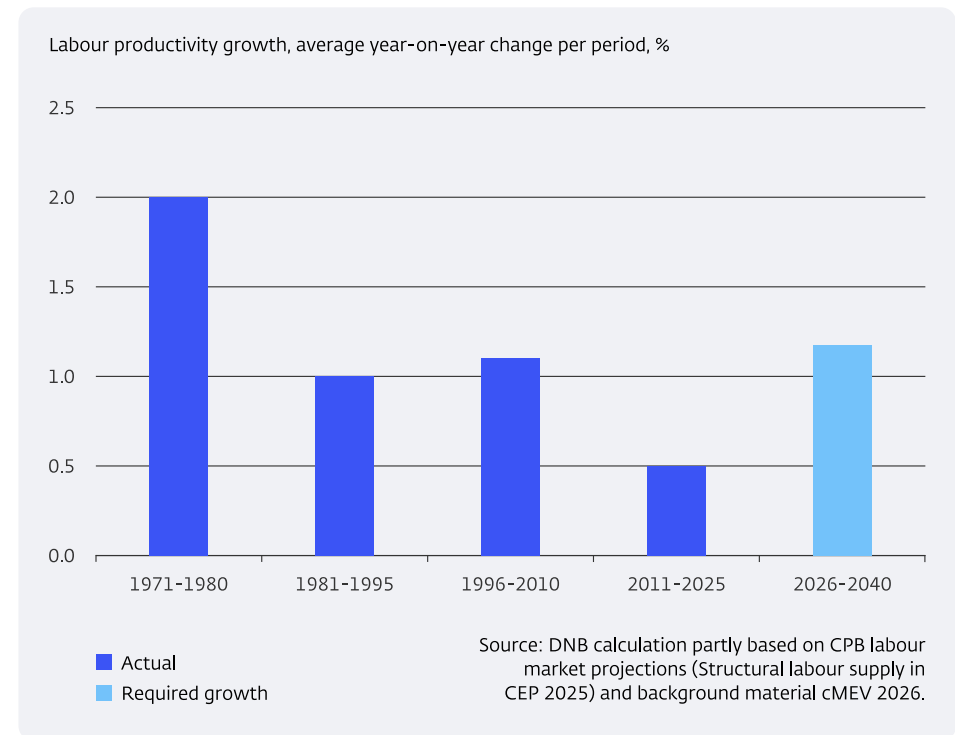
Dutch entrepreneurs are no exception. As noted in the Interdepartmental Policy Study *Kies voor baten* ('Opt for benefits'), there are many startups in the Netherlands that struggle to raise financing. These companies would benefit from integrated European capital markets.

DNB supports the European Commission's Savings and Investment Union strategy, which should now be vigorously laid down in workable legislation. For example, for the introduction of a so-called 28th regime, a uniform set of rules that can be applied by companies across all 27 EU Member States as an alternative to national rules. National governments also have an important responsibility in this regard, as taxation and bankruptcy laws are a national competence. The new government's commitment to greater harmonisation and deeper markets is therefore very welcome.

### Tackling bottlenecks in the Dutch economy

So much for Europe. In the Netherlands, too, we need to work on boosting the growth potential of our economy. Labour productivity is currently growing at only about 0.5% per year. Our calculations show that this growth needs to more than double in order to maintain the same level of prosperity in the long term (1.5% growth per year) (see Figure 6).

**Figure 6 Labour productivity required in the Netherlands to maintain growth at 1.5% per year**



That means we urgently need to address the bottlenecks that threaten long-term economic growth. Not everything can be done at once, and more money is not always the solution. The government should start by removing bottlenecks to growth and creating the right conditions for more

private investment. These are goals in the new government's coalition agreement, and the ambition underpinning the agreement is commendable.

One of the first priorities is the nitrogen pollution crisis, which needs a quick solution. The current impasse inhibits housing construction, infrastructure projects and the energy transition, and has the potential to cause considerable economic damage. The new government clearly wishes to resolve this crisis.

Second, we need to tackle power grid congestion. The grid is currently overloaded, which inhibits investment, hinders growth and delays the energy transition. Improving and expanding the grid also creates more scope to become less dependent on other countries, making the Netherlands less vulnerable to price shocks. The energy transition must continue, not only to reduce carbon emissions, but also because reducing our dependence on oil and gas helps to build a resilient economy. The war in the Middle East makes this painfully clear. Decision-making therefore needs to be accelerated, both at the European and national level, not only aimed at expanding the power grid, but also to implement measures to make better use of the existing grid.

Third, we need to get the housing market moving again. This will require more new construction, although this will not come easily given the tight labour market and high construction costs. Phasing out tax breaks for home ownership is another measure that would help. This can be achieved without any significant impact on purchasing power by phasing out the incentives gradually and returning some of the proceeds to taxpayers by reducing the tax burden on labour, for example.

Fourth, if we wish to maintain a high-performing and innovative economy we will have to continue to invest in education and research. The new government has commendable ambitions in this area. Productivity growth hinges on innovation, and a labour supply that moves with changing demand. An innovative economy requires people are thoroughly grounded

in theory. But we also have a tremendous need for technically skilled people who are experts in renewable energy, for instance.

Finally, it is important for the Dutch economy that the new government makes good on its intention to reform the tax and benefits system. Economic growth requires an efficient system that hinders the free decision-making of citizens and businesses as little as possible. This calls for a major simplification of the system and a shift in taxation. Indeed, mobile tax bases, such as labour and profit, distort the economy more than less mobile taxes bases, such as consumption and – in particular – land and real estate. In this regard, the new government would be wise to abolish the tax schemes that have been the subject of criticism, and ensure that different types of workers and firms are taxed more equally.

## Stability

Building a stronger European economy can only be done on stable ground: low inflation, sound public finances and predictable public policies.

### Inflation has fallen

For the central bank, low and stable inflation remains the primary goal, and the best contribution it can make to ensuring a strong economy. The ECB's interest rate hikes in 2022-2023 brought European inflation back under control without major economic damage, partly thanks to the central bank's independent position. Such independence ensures that the ECB can focus squarely on medium-term price stability without outside interference. Full commitment to an unambiguous objective also ensures high public credibility, keeping inflation expectations stable. Inflation expectations are a key factor in bringing inflation itself under control and keeping it there. Anchoring inflation expectations at the ECB's target level is especially important in times of geopolitical and geoeconomic risks and shocks. Indeed, these supply shocks, some temporary, others more structural, tend to drive up inflation, but are difficult to combat with monetary policy. From a European perspective, the war in the Middle East is a classic example of a

negative supply shock. To prevent this higher inflation from becoming entrenched, it helps when the public can be confident that the ECB will not abandon its commitment to price stability.

Unfortunately, we see that central bank independence is again under pressure, especially in the United States. While central banks must earn their independence by being transparent, constantly engaging in dialogue with society, listening and explaining policy in an understandable way, the attacks on their independence are worrying, especially when the stability of the world's largest economy is at stake.

In the Netherlands, inflation in February stood at 2.3%, which was still above the euro area average of 1.9%. Inflation here is expected to remain higher than in the euro area for the rest of the year. This has to do with the bottlenecks specific to the Dutch economy discussed earlier, and the tight labour market. The ECB's interest rate policy focuses on average inflation in the euro area. To bring Dutch inflation down further, the new government must address these national bottlenecks, as it intends to do, and avoid fuelling inflationary pressures with its fiscal policy.

In times of high uncertainty, a central bank must above all deliver what it was created to do, which is to ensure stability. For us as DNB, that is not the same as business as usual. Delivering stability in an uncertain world means that we as a central bank must also be agile and resilient. Against that backdrop, over the past year a team of experts from across the organisation conducted a thorough assessment of our preparedness for a wide range of scenarios, ranging from a disinformation campaign to all-out war. We are now putting the lessons learned from that assessment into practice. The DNB2030 change programme, which we launched late last year, is also designed to boost our agility, while also reducing costs and helping us focus more sharply on our core tasks. And we are repairing the roof while it's raining outside, which in itself calls for a fair bit of resilience and flexibility.

## Sound public finances

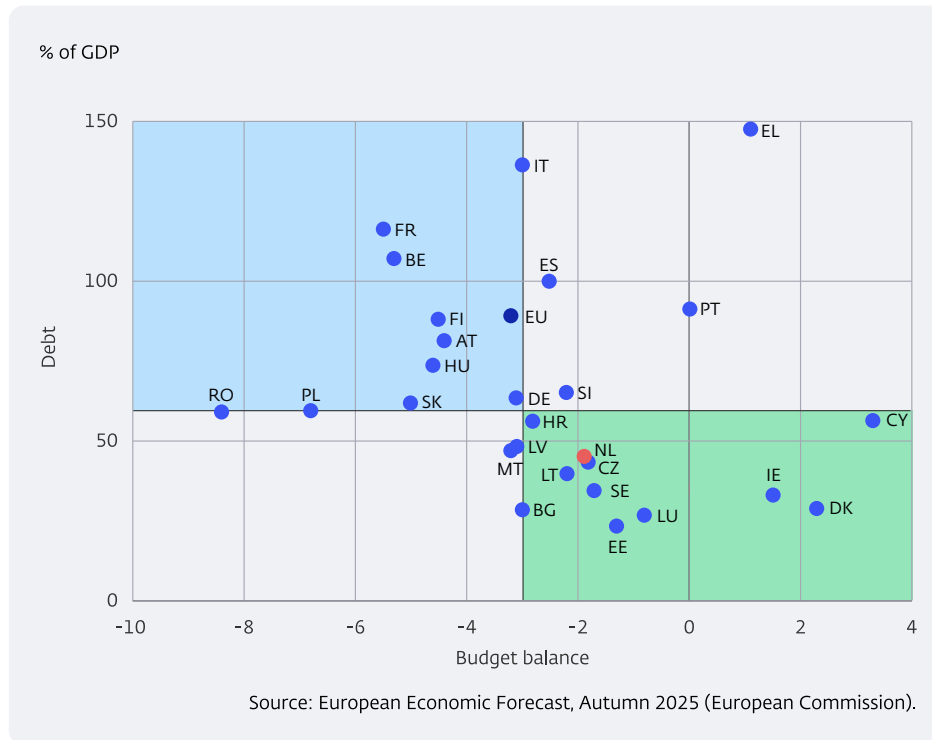
Sound public finances are indispensable at a time that demands resilience. At the same time, strengthening that resilience requires substantial investment. Where will all that money come from?

To begin with, more money is not always the answer. We also need structural reforms such as fewer, and more risk-based, regulations – ideally as uniform as possible for European consumers and businesses – and more flexible markets. These reforms would not cost anything and would give a significant boost to Europe's growth potential. Policy certainty – clarity regarding intended long-term policies – also supports economic activity, as DNB research reveals. Businesses looking to invest, and households looking to make their homes more sustainable, need to know where they stand. Reducing policy uncertainty does not cost money, but can actually generate money by making the business climate more attractive. This also applies to standardisation and pricing, for example to accelerate the energy transition. These, too, can actually generate revenue and are often more effective than subsidies.

And if more money is needed, new allocations can be made at the European level within the existing EU budget. Agricultural subsidies and cohesion funds together now make up about two-thirds of the EU budget, while spending on research, climate, defence and cross-border infrastructure remains low. A major overhaul of the European budget is not only necessary for the new economy to flourish, it will also be needed if Ukraine joins the EU.

According to the Draghi report, all the new challenges would require a doubling of the EU budget. This would ultimately be a political decision, just like the question of how to finance a higher EU budget. The main options would be to increase EU payments by Member States or EU own funds, or to issue joint debt. However, issuing joint debt is only a good idea if Member States with relatively high debt levels bring their debt down faster. After all, with an average debt-to-GDP ratio of almost 90%, national debts are already too high in many European countries (see Figure 7).

**Figure 7 Public finances in European countries, 2025**



Public finances in Europe are a major concern. Without taking action, public finances in some European countries risk becoming unsustainable. The new rules under the Stability and Growth Pact have yet to prove themselves, but, like the old rules, they are quite complicated and leave room for flexible application. Many Member States base their plans on rather optimistic assumptions.

Given the aforementioned challenges, the relatively favourable starting position of Dutch public finances is fortunate. The new government's budget plans can be described as reasonably prudent, which is remarkable in view of its ambitions. The government is heading for a budget deficit of

just over 2% of GDP in 2030, in line with last year's recommendation from the Fiscal Space Working Group. According to the CPB's analysis of the coalition agreement, the deficit will remain close to 2% of GDP in the coming years as well, with the exception of 2026. It is also wise to start curbing spending on healthcare and social security that is bound to expand due to the ageing population and that will eventually put pressure on Dutch public finances. However, these cuts are insufficient to compensate for higher spending on defence and housing, and to address climate change and nitrogen pollution. Indeed, on balance the coalition agreement will result in a further increase in public debt, especially after this government term, according to the CPB.

The room left under the 3% public deficit limit should therefore not be seen as spare change that the new government can allocate as it sees fit. If cutbacks prove unfeasible or impractical, or are not implemented for political reasons, alternative funding must be found, for example by re-evaluating certain tax schemes that have been the subject of criticism. Indeed, Dutch public finances must also be resilient. The buffer below 3% is needed to absorb potential new shocks – a key lesson from the COVID pandemic. And if we exceed the 3% limit, we will risk a red card from Brussels, which will compromise the Netherlands' position as a champion of fiscal discipline in the European Union. In addition, this would limit the scope for trend-based fiscal policy and endanger political calm and predictable fiscal policy.

## Time for action

Europe needs to become more self-sufficient, stand on its own two feet, invest in its future and provide the stability that the continent and the rest of the world require. And we must not delay, because developments in the world around us are moving fast. The European Union has enormous potential. It is time to overcome our sense of self-doubt and build on our true strengths. A recent IMF study concludes that a combination of

structural reforms and creating a single market for goods, services and labour similar to that in the United States could boost labour productivity by about 20%.

The benefits of further European integration are clear. Support for Europe is high, as the latest Eurobarometer again shows: the majority of Europeans, and as much as 60% of people in the Netherlands, say more decisions should be made at the European level. And we know what needs to be done, at least economically and financially. What we need now is decisiveness. Action.

### Greater decisiveness needed in Europe

Europe is not renowned for its decisiveness. What can we do to ensure that we make sufficient progress? There are various options open to us.

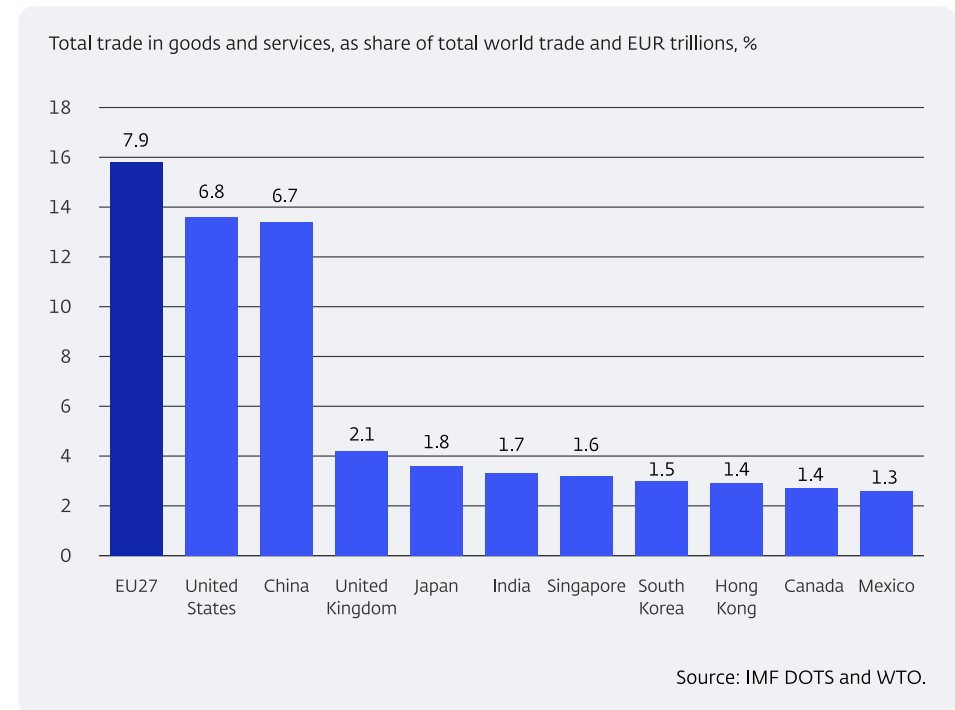
Rather than directives, which must first be transposed into national legislation and allow for additional national rules, we can make greater use of directly applicable regulations in European legislation. We can also look at ways to streamline decision-making. Qualified majority decision-making (rather than requiring a unanimous vote) has been very beneficial when it comes to financial sector regulation – one of the best integrated areas in Europe. This can serve as inspiration for our foreign and security policy.

In addition, a ‘multi-speed Europe’ could be considered in certain cases, in which a small group of countries joins forces to take the lead on a particular issue. This could be in the area of the savings and investment union, where the Netherlands has already taken the lead, or joint defence spending, for instance.

And it would mean surrendering a bit of national sovereignty, which is never easy. It takes political courage. But in return, we will have a stronger and more resilient Europe. If we work together more effectively within Europe, we can continue to determine our own future in a world that is not always favourable to us.

In doing so, we can build on our strengths. Because Europe has so much going for it. The EU is the largest trading bloc and the second largest economy in the world (see Figure 8). We have the most prosperous countries in the world. We are among the best in terms of education, social safety net, life expectancy and leisure time. The UN ranking of sustainable development goals, encompassing aspects like quality of education, health, and eradication of poverty, has an all-European top-10. We also have strong institutions and a robust legal system. This certainty and stability are not only beneficial for our citizens, but are also very appealing for businesses.

**Figure 8 Share of international trade by trading bloc or country**




We in the Netherlands we can make a major contribution to this new European future by making our own economy future-proof and resilient. In this respect, the new government is showing ambition to work together on the major tasks we face.

Additionally, we in the Netherlands should embrace more of what Europe stands for. Traditionally, we have tended to view European integration primarily as a revenue model. However, in these new times, we can no longer afford to take such a narrow view of Europe. Because in a world where the international rule of law is being upended and replaced by the law of the jungle, it is only as a united Europe that we can preserve our sovereignty. The Netherlands needs Europe, and Europe needs the Netherlands.

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