

The NewsLine

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EUROZONE: NETHERLANDS

Economic outlook rosy despite political uncertainty

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The elections in the Netherlands served up no fundamental surprises: Forming a government will not be easy and will be followed by a degree of political instability. But, with pro-European parties gaining more support than expected, the economy is likely to take only a minor hit. We don't expect any negative impact on the eurozone.

The good news is that the right-wing populists performed less well than feared and that the center-right party of the incumbent PM Rutte (VVD) emerged as the strongest party and not the PVV – especially with regard to the future government's European policy and the risks of a "Nexit". As four parties will be needed to form a majority, coalition talks are likely to be protracted and the new government will ultimately be fragile.

In the event of a prolonged phase of political uncertainty, we believe that this could knock 0.2 percentage points off economic growth – due mainly to a drag on private investment. On the other hand, however, companies are benefiting from greater pricing flexibility and rising demand. Overall, the Dutch economy is in fact doing pretty well: as in the past two years, gross domestic product is likely to grow by around 2% in 2017. Unique to the Netherlands is the fact that the rebound in the construction sector is making a considerable contribution. In addition, compared with other eurozone countries, private consumption is also playing a pivotal role, buoyed by Dutch inflation rates close to zero in 2015 and 2016. Inflation will be appreciably higher this year (+1.6%), but private consumption will continue to be bolstered by the improvement on the labor market (unemployment rate: 6.8%). However, the above-average high level of household debt is a drag and a cloud on the horizon.

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The relatively close economic ties with the UK also pose a risk to the Netherlands in the medium term. On the other hand, in terms of public finances, the future government will inherit a fairly comfortable situation: the public-sector deficit and debt ratios are both heading south. In the case of the latter, there is a good chance that this will drop below the 60% mark this year. This will give the coalition talks a certain “room for maneuver” without coming into conflict with the European level.

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