

The Netherlands: Preparing for lift-off

The Dutch economy is forecast to grow by 2.4% in 2021, after a record decline in 2020. The year starts with a quarter of negative growth, but as social distancing measures are gradually phased out, the rebound should gain traction and be stronger than during the financial crisis



Dutch Prime Minister Mark Rutte gets his hair cut, Leidschendam, Netherlands

Source: Shutterstock

Record year for GDP despite surprisingly small end of year decline

Despite the fact that Dutch GDP hardly changed in 4Q20, shrinking only 0.1% quarter-on-quarter, 2020 will go down in history as the year with the largest post-WWII decline (-3.8%). While the Netherlands went into an arguably stricter lockdown in mid-December than in March 2020, with retail stores forced to close, the economic consequences so far have been much less profound. This can be explained by a number of factors:

1. Businesses adjusted their models (such as more restaurants switching to home deliveries) and got their distribution channels for online shopping in order. This has, for instance, boosted investment in transport equipment.
2. Consumers are more used to buying online, substituting service consumption for the purchase of goods.
3. There is less uncertainty. Vaccines have provided light at the end of the tunnel and fiscal

support instruments are already in place, automatically fluctuating with a firm's turnover. This means higher investment than during the first lockdown.

4. Manufacturing is holding up well, facing fewer input supply restrictions from e.g. China and stronger foreign demand. The Netherlands is benefiting from the recovery of world trade. While service exports are still weak, goods exports are higher than the pre-Covid peak.

First quarter will take GDP down further temporarily

Despite the relatively benign experience in 4Q20, we nevertheless expect the first-quarter figure to be worse. In particular, household consumption is expected to come in with more negative growth, as is indicated by a fall in the value of ING's debit card, IDEAL and cash withdrawal transactions (the total amount spent by consumers, based on their debit card, ATM withdrawals and online payments was 12% and 8% below normal in January and February, respectively) and in retail sales (-4% month-on-month in January).

Don't be surprised if lockdowns are extended

The lockdown will continue at least until the end of March and one should not be surprised if it is extended. In recent weeks, the extensions have often been accompanied by a piecemeal loosening of the social distancing measures. While the 9pm curfew and a maximum of one guest per day still hold, schools have reopened partially, most contact occupations (hairdressers, masseurs, driving instructors, etc.) have been allowed to operate again, shopping can be done via click-and-collect or by appointment, and sport is allowed for young people.

As of 31 March, bars and restaurants can serve guests on terraces and retail stores may get some more options to welcome back customers. Such a relaxation should translate into the beginning of a recovery in the second quarter, even though it will probably take more time for a full reopening of the economy. The government expects adults to have received their first Covid-19 vaccine injection only by 1 July, which suggests that much of the GDP rebound should happen in the second half of the year.

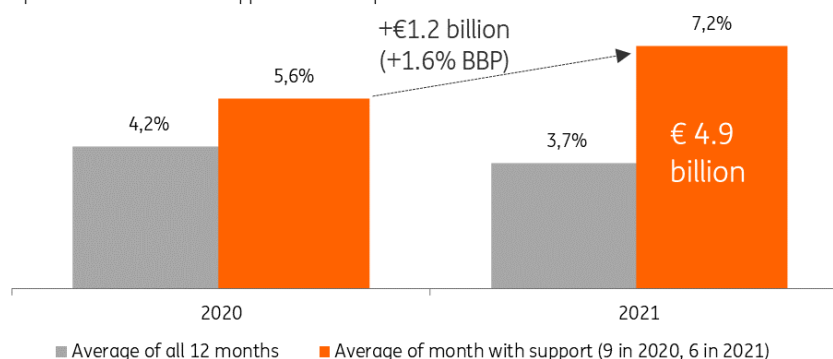
Stimulus even higher in the first half of 2021

The government maintains sizeable support for the economy in 2021. Even though projected public Covid expenditures are lower for the full year 2021 than in 2020, the average per month with support is higher. The intended phasing out of support (mainly wage subsidies and fix cost compensation) has been scratched for the first two quarters; support continues to fluctuate automatically with the turnover of firms. Furthermore, the government announced in mid-February a National Education Programme aimed at making up for the lost years of schooling during school closures, which implies a cumulative €8.5 billion (1% GDP) additional spending for the next 2.5 years.

Economic support expenditure

While public support for the economy is lower in 2021 than in 2020, the average per month with support is more generous

Net expenditure on economic support measures per month as ratio to GDP



Source: Rijksoverheid.nl, calculations ING Research

Fiscal policy of next government probably expansionary

There will be [general elections](#) for the House of Representatives on 17 March. The outcome will determine the direction of fiscal policies of the Dutch government. Our [earlier analysis of the policy proposals and their effects](#) shows that most political parties, both parties currently in the government and also parties in the opposition, are opting for further increases in public spending for the next term up to 2025.

The direction of taxation depends more on the political composition of the next coalition – a centre-left government would increase the tax burden while a centre-right government is likely to go for lower taxation – but generally, the direction of almost all parties is a loosening of the fiscal stance. So for the medium term, economic developments are expected to be supported. Although this would imply a shift of the fiscal burden to future generations, and hence a possible need for an upward revision to our public debt ratio projections, it is likely that public debt in the Netherlands will remain low by international standards.

Unemployment and insolvencies expected to rise

Despite ample support for the economy and the possibility of even more spending after elections, we currently still expect some negative repercussions of the earlier hit to the economy to play out. Most support measures will end in mid-2021, and this is when it will become more apparent which businesses are structurally viable. This should coincide with an increase of insolvencies and layoffs, but not to a level seen during the aftermath of the Global Financial, as the cause of the losses is more temporary in nature this time around. Still, policies are accommodative: a total of about €13 billion in tax deferrals need to be paid back by businesses, but they are allowed to spread the payment over no less than 36 months.

Preparing for lift-off

Given all the uncertainties that surround the Covid virus, risks to the projections remain large. But the rebound will happen, sooner or later, and since we have recently observed progress on the consumption side - the laggard among expenditures - we

maintain our view that the Dutch economy could be back to the pre-coronavirus peak around the turn of 2022.

The Dutch economy in a nutshell (%YoY)

	2020	2021F	2022F	2023F
GDP	-3.8	2.4	3.3	1.6
Private consumption	-6.6	-0.3	5.0	1.6
Investment	-3.2	3.7	2.4	1.9
Government consumption	0.2	3.5	3.0	2.0
Net trade contribution (%-point)	-0.2	0.8	0.0	0.0
Headline CPI	1.3	1.9	1.5	1.5
Unemployment rate (%)	3.8	4.2	4.0	4.0
Budget balance (% of GDP)*	-5.8	-5.2	-1.4	-0.7
Government debt (% of GDP)*	56.2	59.4	57.9	57.1

Source: Macrobond, all forecasts ING estimates. *Fiscal projection deviate from official forecasts by the Netherlands Bureau of Economic Policy Analysis (CPB) i.a. due to differing views on the output gap.

Author

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.