The Netherlands: Cherishing the restrained shock

We think the Dutch economy will shrink by -6% to -8% in 2020 despite a sizeable public support package. As lockdowns ease, economic activity is resuming again, but a full recovery might not happen until 2022

Dutch Prime Minister Mark Rutte (L) visits a barbershop in The Hague, The Netherlands

Source: Shutterstock

Why the Netherlands stands out favourably

Dutch GDP fell by -1.7% quarter on quarter in 1Q20.

Although still large in absolute terms, this decline is mild compared to the eurozone average of -3.6%. This is because the lockdown in the Netherlands was milder and the wage subsidy scheme generous. As for almost any economy, figures for 2Q20 will be significantly worse. April figures on industrial production (from -1% MoM to -8%, adjusted for working days and seasons) and retail sales (from -2% MoM to -6%) were much worse than the March figures since the lockdown only started two weeks into March.

The very large drop in employment of 160 thousand people (-1.7% of the labour force) in April illustrates that the corona crisis had an unusually quick and large effect, but compared to peer economies the Netherlands stands out favourably.

Outlook for May better due to gradual lifting of lockdown

Industrial production and retail data of May will most likely look only a bit better than April. Sentiment figures were at similar levels in May as they were in April, but the underlying data shows that especially expectations improved, in line with the gradual reopening.

Since 15 May, contact-intensive occupations such as hairdressers and masseurs, are allowed to do business again. At 1 June, also bar, restaurants, cinemas and theatres were allowed to open again, although with capacity restrictions. School re-opened in the first weeks of June. Major restrictions for tourist from most EU countries were lifted 16 June. Fitness clubs and saunas will open on 1 July. Events with large crowds, including soccer matches and night clubs, will have to wait until at least 1 September.

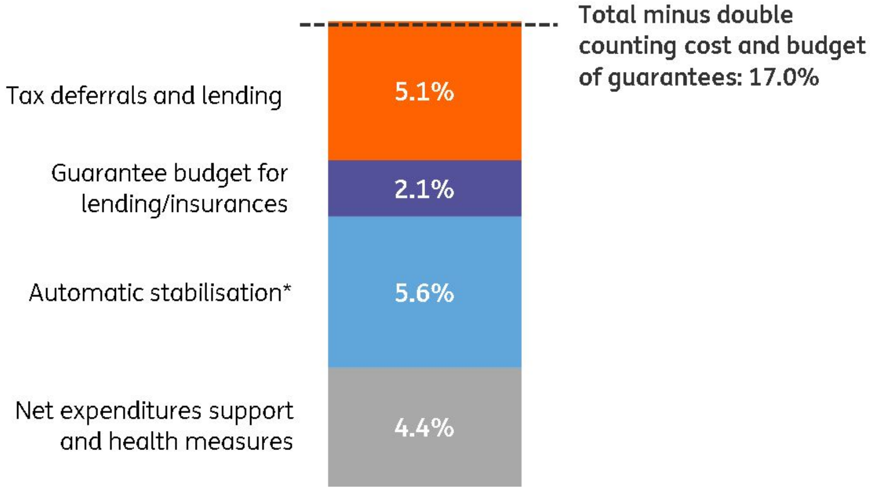
Direct public support large, but tax deferral tops

After the initial support for three months, the Dutch government decided at the end of May to extend the majority of economic support measures by four months until 1 October.

The extension, which initially was intended for three months, was expanded after deliberations with unions and employer associations. The decision meant extension of the main measures such as the wage subsidies, benefits for self-employed and deferral of taxes. Another major intervention, re-insurance of supplier credit, was already valid for the entire year 2020.

Support for 2020 is large in historical perspective, but there are countries which do more, most notably Germany. While the bulk (5.1% of GDP of 2019) of discretionary measures concerns tax deferrals, also the total direct net expenditures are sizeable amounting to about 4.4% GDP in 2020.

Largest discretionary public support in tax deferrals and lending



Source: Government estimates, calculations ING, *Lower tax revenues and higher regular social security expenditures due to lower economic activity

Some tweaks to earlier package

Some of the conditions for support have changed.

For example, firms using the wage subsidy - the main instruments of the support package shielding almost a quarter of workers - will temporarily (in 2020) be forbidden to pay out any dividends or executive bonuses or execute share buy-backs. Some new instruments were added, such as compensation for firms for fixed cost and support for public transportation.

Corona policy measures by the Dutch government substantial in size

Amount per COVID-19 measure in billion € in 2020

	Direct net expenditure	Guarantee budget	Loan /deferral	Total***
Temporary arrangement for compensation of labour costs (NOW)	22.8			
Benefit assistance scheme for the self-employed (TOZO)	3.0			
Damage compensation firms in affected sectors (TOGS €4.000)	1.7			
Public transport compensation	1.5			
Fixed cost compensation (TVL)	1.4			
Lowering of imputed wage for entrepreneurs	1.0			
Floriculture and chip potatoes industry support	0.7			
Child day-care compensation	0.3			
Cultural industry support	0.2		0.2	
Temporary income support for low income flexible labour (TOFA)	0.2			
Sport club support	0.1			
Support for continuing construction	0.1			
Expansion labour cost scheme	0.1			
Other projected extra expenditures (mostly health care and education)	1.4			
Re-insurance supplier credit	1.0	12.0		
Guarantee Corporate Finance scheme, budget expansion (GO)	0.1	1.4		
Small credit Corona guarantee scheme (KKC)	0.2	0.7		
Corona bridging loans (COL)	?	0.3		
Expansion SME credit guarantee scheme (BMKB)	0.0	0.2		
Credit guaranteefund travel (SGR)	?	0.1		
Expansion Qredits microcredit scheme	0.0	0.0		
Expansion guarantee scheme SME credit agriculture	0.0	0.0		
Air France-KLM support package	?	2.0	2.0	
Tax deferral	0.2		33.5	
Coronareserve corporate tax	?		3.4	
Capital assistance scheme for the self-employed (TOZO)	?		2.5	
Expansion SEED Capital-lending scheme	?		0.0	
Fiscal facilitation mortgage payment break	?		-0.1	
Total of selected measures	35.7			
Total of selected measures in % GDP*	4.4%			
Automatic stabiliser	45.0			
Automatic stabiliser in % GDP*	5.6%			
Total of selected measures incl. autom. stabi.***	**80.7**	**16.8**	**41.5**	**137.6**
Total of selected measures incl. autom. stabi. in % GDP***	**10.0%**	**2.1%**	**5.1%**	**17.0%**

*Due to uncertainty about gdp-developments gdp of 2019 has been used as denominator
**Total may contain some double counting if new measures limit the use of existing policy
***Total minus direct double counting of guarantee cost and guarantee budget

Source: : Government estimates, calculations ING Research, in case of ranges upperbounds used, 50/50% division in case of missing disaggregated figures and constant amounts assumed in case of extension

Better set up for recovery, but it may still take a while

The packages of interventions help maintaining employment and income and keep firms afloat. Nevertheless, a substantial fall in consumption and investment will not be avoided for 2020. The Dutch economy is forecast to shrink by -6% to -8% in 2020 in our base case scenario, keeping the Dutch on the favourable side of the eurozone average. Based on an index measuring vulnerability to a prolonged corona slump, the Dutch economy also seems better set up for a recovery than peripherical eurozone countries.

Nevertheless recovery to the pre-corona level of GDP may not be complete by the end of 2022.

The Dutch economy in a nutshell (%YoY)

	2019	2020F	2021F	2022F
GDP	1.8	-6.8	4.1	2.0
Private consumption	1.4	-5.8	4.4	1.9
Investment	5.3	-13.0	9.2	4.9
Government consumption	1.6	-2.1	0.6	1.3
Net trade contribution (%-point)	-0.3	-0.9	0.2	0.0
Headline CPI	2.6	1.2	1.4	1.5
Unemployment rate (%)	3.4	5.1	6.9	5.6
Budget balance (% of GDP)*	1.7	-9.2	-1.9	-1.7
Government debt (% of GDP)	48.6	65.4	58.2	57.6

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

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