

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.

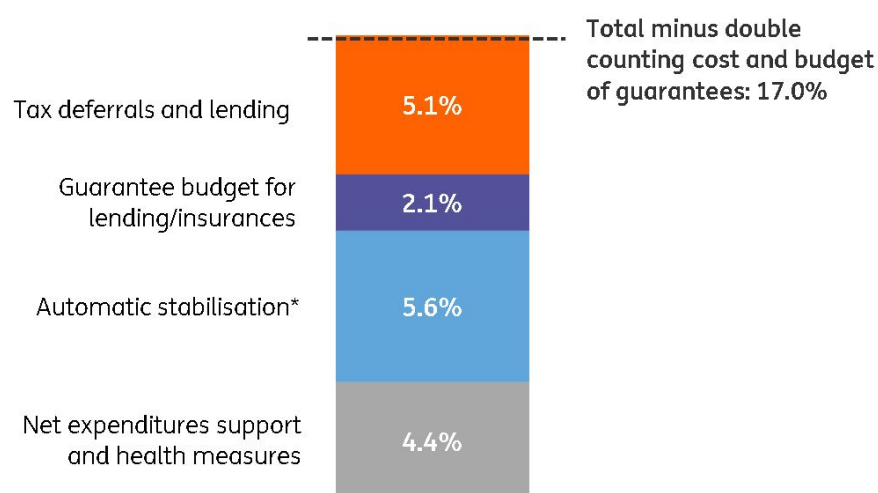
Direct public support large, but tax deferral tops

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 (NDW)	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 guarantee fund travel (SGR)	?	0.1		
Expansion Credits 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	16.9	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 peripheral 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.

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.