The Netherlands: Additional fiscal stimulus

The Dutch government announced additional fiscal spending worth approximately €3.7 billion, or 0.4% of GDP, as rising Covid cases preclude a further loosening of social distancing policies. This slightly increases the upside risk to our GDP projections for 2021

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Number of Covid cases on the rise again

The number of new Covid-19 cases had fallen significantly when more restrictive social distancing policies were in place, but they are currently on the rise again. While the temporary closure of museums, theatres, cinemas, casinos, amusement parks, zoos, swimming pools and libraries automatically expired after two weeks on 19 November as intended, the Dutch government responded to the latest health data this week by saying it would refrain from loosening social distancing policies. For the holidays, it does not exclude tightening restrictions further. This, combined with positive vaccine news, led the government to conclude that more temporary fiscal stimulus was warranted.

Downscaling of support postponed to second quarter of 2021

The Covid economic support package that was in place will expire in mid-2021. This has remained unchanged. The package was intended to diminish over time with a decrease each quarter in the applicability and generosity of the main support instruments. This downscaling has now been postponed until the second quarter of next year.

Of the additional spending for 2021, €2.1 billion (0.3% GDP) is earmarked for discretionary expenditures. The other €1.6 billion results from higher estimates on existing support measures due to more pessimistic turnover projections. While €3.7 billion of additional expenditures (0.4% GDP) is a significant boost for the economy, it is not huge either. It comes on top of discretionary expenditure measures of €36 billion (4% GDP), a €13 billion tax deferral (1.5% GDP) and €65 billion (7.8% GDP) of additional guarantees.

Primarily additional spending in 2021 on wage subsidies

When we break down the additional expenditures for 2021 by instrument, it turns out that the bulk of the additional spending (€2.3 billion) is reserved for the temporary wage subsidy (NOW), the main policy instrument. Second is the increase in the fixed cost compensation scheme (TVL), with €0.5 billion extra (described in further detail below). To help new firms, credit instruments (COL and Qredits) are enlarged by €70 million. A new policy instrument is the TONK, €130 million for municipalities for discretionary income support for households who are ineligible for existing support. This is meant to be tailored to individual circumstances.

On the revenue side, there were only limited policy changes, apart from an extension of tax deferral to the end of the first quarter of 2021. The latter is mainly a shift over time, estimated at €2.5 billion (0.3% GDP). Concerning another symbolically important but economically minor revenue measure: the VAT-rate on Covid vaccines and test kits and masks will be 0%.

Fixed cost compensation scheme more generous for fourth quarter

For the fourth quarter of 2020 not much changed. Only the fixed cost compensation scheme (TVL) was made more generous. The changes mainly intend to better compensate firms with large turnover losses. Initially, the scheme was only applicable to directly hit sectors, such as hospitality that had to close their doors. In August however, it was decided to broaden the scheme temporarily - for only the fourth quarter of 2020 - to the sectors that took an indirect Covid hit. This broadening has been extended to the first quarter of 2021. Changes also aim to help the events business with fixed costs during the down season.

Increase in upside risk

The previous tweak to the economic support packages of mid-October was small. This time, the changes are more significant. But since most support policies are still in place, much larger tweaks weren't expected either. The increased spending gives the economy a head start ahead of an expected rebound during the course of 2021 when vaccines, testing-and-quarantining and social distancing policies allow more room for economic activity. This slightly increases the upside risk to our projections for 2021 and beyond.

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