Dutch government announces 13 billion euros worth support measures

The Dutch government has decided to extend economic support measures by three months until September. The emergency package 2.0 means 13 billion euros of additional fiscal support

Dutch Prime Minister Mark Rutte

Source: Shutterstock

Extension comes with some stricter conditions

The existing support measures were about to expire by 1 June, but have now been extended until 1 September.

Some conditions for public support have been made stricter. For example, firms using the wage subsidy - the main instruments of the support package, will temporarily (in 2020) be forbidden to pay out any dividends or executive bonuses or execute share buy-backs.

The firm will also be obliged to encourage employees to train or retrain and prepare the workforce for future proof jobs. Income support for self-employed people will start to be conditional on the financial position of the partner.

But some generous tweaks too

Some major restriction to the wage subsidy scheme will be lifted and conditions of the "emergency packages 2.0" are more tailor-made for specific industries.

Firms will no longer have to pay a fine for firing workers due to economic reasons, although they will still have to pay back the subsidy. Furthermore, season-sensitive industries will be able to benefit from tweaks to the reference period of their wage bill.

The scheme has also been made more generous with respect to the size of the subsidy - 140% of wages instead of 130% (of which they get 90% proportional to turnover losses), in light of the fact that some firms not only have social security to pay on top of wages but also have high non-wage fixed cost.

Extended support doesn't come for free.

Apart from the effect of a falling tax base (i.e. automatic stabilisation), the direct costs of the extension of the emergency packages have been estimated by the government at 13 billion euro (1.6% of GDP in 2019) for 2020, excluding support for air carrier Air-France – KLM.

This comes on top of an existing package of about 14% of GDP (ING estimates based on government figures), of which 2.2% GDP involved direct net additional expenditures such as gifts, 4.2% GDP in loans and tax deferrals, 1.8% GDP in guarantee and insurance budgets and 5.6% GDP in automatic stabilisation for 2020.

The bulk of the cost of the extension comes from the direct cost of the wage subsidy scheme and benefits assistance scheme for the self-employed, which mostly qualify as gifts, bringing the total direct net additional expenditures for 2020 to 3.9% of 2019 GDP.

Lockdown gradually lifted

In line with the earlier announcement, the lockdown will be lifted gradually, allowing for the start of partial economic recovery from the low production levels of April and May.

Bars, restaurants, cinema's and theatres will be allowed to reopen on 1 June, generally starting with a maximum of 30 guests at 1.5 meters distance.

In the first week of June, all schools including secondary and tertiary will reopen too.

Second package won't prevent bad 2Q numbers

The Dutch government is following other European governments in choosing a path of gradual resumption of economic activity combined with continued economic support.

This should mitigate the economic consequences of the coronavirus at least to some extent. However, this won't prevent the large decline in GDP in the second quarter, after the relatively "mild" decline in the first quarter.

Most likely the decline in the second quarter will dwarf the fallout of the first quarter.

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