The Netherlands: More generous steps to support growth

The Dutch government has announced a second policy package aimed at cushioning the economic effects of Covid-19. It is substantial in size, probably more than 2% of GDP. Additionally, the central bank lowered capital requirements for banks, conditional on lending

Source: Shutterstock

Second package more elaborate and substantial in size

The first policy package by the Dutch government was aimed at providing small-medium enterprises with liquidity and raising awareness for existing instruments.

The new package by the government "Energy, economy and jobs" takes (in some cases much) more generous steps in the same direction while adding substantial income support. The government suggests that the package could cost €10 billion to €20 billion (1.2-2.5% GDP) in the next three months.

In an interview last week, the minister of finance, Wopke Hoekstra made a significant commitment, of "whatever it takes" signalling that public debt could be allowed to increase to 60% of GDP at least (meaning an 11% GDP/€87bn increase from 3Q19), if necessary.

The Netherlands: targeted economic policy response to coronavirus

Major additional expenditures in second economic policy package

	In billions of €	As ratio to GDP
Temporary arrangement for compensation of labour costs*	10.0	1.2%
(Benefit) assistance scheme for the self-employed*	4.0	0.5%
Guarantee Corporate Finance scheme**	1.4	0.2%
Compensation of €4K per firm in heavily affected industry**	0.5	0.1%
Child day-care compensation**	0.3	0.0%
Total of selected measures**	16.2	2.0%

*Estimations by government

**ING estimates (in line with government estimates assuming duration of 3 months)

Source: Dutch government and ING estimates

Tax payment made easier and cheaper

Major tax payments by firms can be postponed or adjusted, including energy taxes. It's now been specified that taxes can be paid three months later.

Tax payments have been made cheaper since the interest penalty is reduced to 0.01% (from the initial 4% or 8%). Application for postponement will be smoothed, giving businesses more time to provide the required documents. Depending on the take-up, we estimate this may amount to €5-10bn monthly, so a liquidity injection of 0.6-1.2% of annual GDP almost free of interest.

Guarantee scheme also expanded for larger corporations

The government had already expanded its credit guarantee schemed for SMEs last week and it is now expanding its Guarantee Corporate Finance scheme for larger loans and bigger firms. The government increased its budget from €0.4-1.5bn (0.2%GDP), while the maximum of €50mn per business has been increased to €150mn - the same amount as during the financial crisis.

Other, but smaller liquidity measures included more generous instruments concerning microcredits and the credit guarantee scheme for agriculture and a possible postponement of provisional taxation on tourism.

Conditionally lower capital buffers for banks

Besides the government, the central bank also announced support measures, as it lowered capital requirements for banks.

Specifically, it lowered the systemic buffer for the three major banks ABN Amro, ING and Rabobank and it placed the implementation of the floor for mortgage portfolio risk weights scheduled for autumn 2020 on hold. These temporary measures could free up €8bn (% GDP) of capital, which may translate into €200 bn of credit. The changes to capital requirements are conditional on providing credit rather than paying out dividend or purchase of own shares.

Labour costs largely compensated

The working time reduction scheme, which around eighty thousand firms already applied for, will temporarily be transformed into the "temporary arrangement for compensation of labour costs". This allows for a maximum of two periods of three months compensation of labour costs for a maximum of 90%, conditional on a 20% fall in turnover and the continuation of employment.

It now also includes employees on flexible contracts. In contrast to the earlier scheme, employees do not go at the expense of cumulated unemployment benefits rights. The government estimates all of this expenditure can amount to €10bn (1.2% GDP) in three months' time, assuming a quarter of firms claim 45% of labour costs.

Solo self-employed get three months of income support

The existing benefit assistance scheme for the self-employed as provided by municipalities will be broadened to be more generous.

The requirement for viability of the firm has been dropped and the income and wealth of partners will no longer be considered. The scheme will deliver income support to subsistence level (€1,500 a month at maximum) for up to three months. This is highly relevant as almost 12% of the Dutch active labour force is solo self-employed. The scheme also allows for providing working capital to the self-employed. The government estimates the cost of the entire scheme to be €3.5-4bn (0.4-0.5%GDP).

On the family level, daycare is also relevant in the context of compensation. Regular child day-care has been closed and is only made available for parents working in crucial occupations. Parents who have foregone child day-care will be compensated for the payments that they will nevertheless have to make to day-care suppliers.

We estimate this may cost the government €0.3bn for a three month period.

Targeted loss compensation in discussion

Businesses in severely hit industries (bars, restaurants, beauty salons and travel) might be compensated for losses with a one-off gift. An amount of €4,000 per firm has been mentioned. No further details are available, and terms are still being discussed with the European Commission.

We estimate that the measure may cost the government €0.5bn (0.1%GDP) if hairdressers, gyms, museums and theme parks are also included.

Sizeable in international comparison

It has become clear that the Dutch government is strongly committed to preventing the temporary economic problems of Covid-19 from becoming structural.

Income support on top of expanded liquidity measures should help. In comparison to other governments in the EU, the expenditures of the Dutch policy package look sizeable. This comes on top of the fact that automatic stabilizers tend to be already quite significant in the Netherlands.

But whether all this will be enough very much depends on the duration of the slump, which is highly uncertain at the moment.

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