The Netherlands: targeted economic policy response to coronavirus

Today, the Dutch government sent a letter to parliament with policies aimed at mitigating the economic effects of the coronavirus. The Dutch have chosen a targeted approach, mainly aimed at eliminating temporary liquidity issues of solvent firms

No additional fiscal expansion

While the current fiscal stance is already expansionary, the Dutch government did not announce additional fiscal expansion in relation to Covid-19. It will, however, allow automatic stabilisation, in line with existing fiscal rules. Obviously there is a need for additional health care spending. These expenditures will be allowed, although this seems to be financed with unspecified cuts to other expenditure categories.

New measures aimed at providing short-term liquidity

Two new policies have been announced. First, firms with lower profits due to the virus can request a revision to their provisional tax bill. Second, the existing guarantee scheme for SME-credit will temporarily be extended starting by the end of March. The coverage share of a credit (with a maximum duration of 1 year) will be increased from 50% to 75%, of which the government guarantees 90%. This applies to bridging loans or overdraft credit.

Existing measures brought to the attention

The Dutch policy framework already allowed for temporary assistance for firms in unforeseen unfortunate circumstances. The government chose to increase awareness for these policies.

First, an existing working time reduction scheme (werktijdverkorting) is available for businesses that lost 20% of work in 2 weeks' time due to unforeseen circumstances. Covid-19 has been deemed as a relevant unforeseen circumstance. Businesses can use the scheme for a maximum of 4 periods of 6 weeks. Employees will get unemployment benefits for the hours not worked. Roughly 2,000 firms have already applied for the working time reduction scheme.

Second, the solo self-employed can apply for the existing benefit assistance scheme for the self-employed as provided by municipalities, which delivers financial assistance for viable businesses with temporary financial difficulties, start-ups and elderly self-employed.

Third, firms can request postponement for (provisional) tax payments concerning corporate income tax, value added tax and labour income tax. Also, this is existing policy and existing conditions apply, but the tax authority will treat such cases leniently in the current Covid-19 environment. As such, for specific firms, this measure has the potential to have the largest effect on short-term liquidity positions.

Policies fit the diagnosis

The policy package is well targeted at the main economic problem, which is a reduction in liquidity of firms. These measures can help to prevent solvent firms from going bankrupt. Furthermore, it makes sense that measures are either temporary or can be used for a limited period of time, since most viruses are temporary by nature. This first package does not mean an additional discretionary boost to aggregate demand. For the current stage of the pandemic, which might still be short-lived, this seems sound, given that automatic stabilisers can function freely.

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