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FOREIGN AFFAIRS & TRADE
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Netherlands: Dutch Economy Update

Market Report

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Summary

- The Dutch economy continues to be battered by the tide of COVID-19, with a 4.2% drop in GDP forecast for 2020.
- The impact of COVID-19 has varied markedly between industries and between regions. Tourism-dependant North Holland has been the hardest hit region, while the hospitality and events sectors have been among the hardest hit by ongoing restrictions.
- Unemployment is expected to peak at 6.1% in 2021, taking until 2025 to return to base forecast levels.
- The Dutch Government is expected to operate deficit budgets for the foreseeable future. NZ$64.3 billion of support to struggling businesses in 2020 will lead to a massive 6.1% of GDP deficit this year. After which, COVID-19-related spending and deficits are expected to decline steadily.
- Government debt will soar to 59% of GDP by the end of 2021, and on current policy settings will remain around that level until at least 2025.
- The duration and intensity of the second wave of COVID-19 infections, which continues to ravage the Netherlands, has led to the strongest lockdown yet imposed and the extension of business support measures into 2021.
- All hopes are set on a successful vaccination programme, allowing the country to re-open gradually through 2021.

Regional updates

1 The second wave of COVID-19 in the Netherlands has led to a significant drop in economic activity, but has had far less impact than the first wave. The hard lockdown announced on 14 December however, is likely to result in further economic pain. The Government's response to the second wave has been less stringent and many businesses, which were closed in April, have continued operating throughout the second wave (for example, hairdressers and other 'contact professions'). Schools have also remained open. In addition, the level of compliance from the public has been lower during the second wave, with mobility data showing far fewer people were working full time from home than in the spring.

2 The Dutch official economic forecasting agency (CPB) is now predicting a drop in GDP of 4.2% in 2020, (compared to 5% forecast in September), largely the result of a better-than-expected recovery in the third quarter. This will be followed by a forecast 2.8% growth in 2021 (down from 3.5% forecast in September). This reduction in forecast growth is mostly attributable to the current restrictions to combat the second wave. These figures of course, are set on the basis that the current wave is brought under control and a successful rollout of vaccines in the first half of 2021 effectively prevents the emergence of a third wave, and further significant restrictions. The head of the Dutch statistics agency expects the economy to continue to yo-yo until the pandemic is fully under control. The decline in economic growth in the 3rd quarter was sharpest in the Province of North Holland, reflecting the impact of reduced travel on Schiphol Airport and the city of Amsterdam.

3 As throughout 2020, the economic impacts of COVID-19 continue to vary significantly between sectors. In October, exports were up by 4.1% on the same month in 2019. Postal and courier companies have had a bumper year, with third quarter earnings up 15% on 2019, while industrial production dropped by 3.7%. Services exports have suffered; down 11% in the third quarter, with passenger transport services leading the fall. Brexit continues to impact the Dutch economy, with trade in both goods and services falling disproportionately compared to other countries. British businesses, keen to ensure supply of fish and chips post-1 January, have been buying up Dutch-processed fish and polder potatoes. However, rather than seeing this as a sign of a growing market, Dutch exporters expect the growth in December sales to be matched by a

decline in January.

4 Unemployment in the Netherlands is forecast by the Government to reach 6.1% in 2021, dropping to 4.5% by 2025 – close to pre-COVID-19 forecasts. With somewhat more pessimism, the central bank is now predicting 6.9% unemployment in 2021. There were 7000 more people receiving the basic unemployment benefit in the third quarter, than in the same period last year. Beneficiary growth has been particularly strong for under-27s, who were less likely to have built up benefits under the compulsory social insurance scheme (WW), and were more likely to be employed on temporary contracts. The total number of WW benefits paid in 2020 is expected to increase to 520,000 (up from 320,000 in 2019), but this growth has been kept at bay by the Government's wage subsidy scheme. Despite the difficulties faced this year the Dutch are remaining positive, with an official survey out this week showing the Dutch rate their quality of life at 7.2/10 - barely a drop from the 7.3 result pre-COVID-19.

5 The billions of Euros the Government has invested in COVID-19 support packages is expected to lead to a budget deficit of 6.1% of GDP in 2021 and 4.6% in 2021. Government debt is forecast to rise to 59% of GDP in 2021. The CPB is predicting that deficits will fall steadily to 1.2% of GDP by 2025 and that debt will then plateau, remaining at 59.7% of GDP in 2025. This is, however, predicated on the policy settings of the current Government. Any changes in direction or policy, made by a new Government following the March 2021 general election, could have a significant impact on Government finances.

6 In the face of ongoing COVID-19 restrictions, the Government has extended its support package and cancelled earlier plans to scale this back. On 9 December, an additional €3.7 billion of funding for support to affected businesses was announced, taking the total cost of the Government's COVID-19 support packages to €37.4 billion (NZ$64.3 billion). The wages subsidy will continue to apply in the first quarter of 2021 at the same level as in the fourth quarter of 2020. Business subsidies for fixed costs will be made more generous for the most-affected sectors (e.g. hospitality, which has faced severe restrictions and closures since mid-October). Support for the events sector has been modified to take into account businesses with seasonally variable incomes. €130 million is being made available to local governments to provide to small businesses in genuine need, but which are not covered by the generic support schemes. The Government is also helping crucial sectors, such as health care and education, to take on additional workers through funding for so-called "corona jobs". Additional support for shops and other businesses affected by the stricter measures announced on 14 December will be developed in the coming days.

7 The Government's support measures face increasing criticism by Dutch business lobby groups as being insufficient. The hospitality industry has been particularly vocal in recent weeks, claiming that a wave of bankruptcy is imminent if extra support is not forthcoming (so far, this has not eventuated). This has led to tensions within the coalition, with Ministers with economic portfolios pushing for relaxation of restrictions, while those with health responsibilities emphasising the pressure on the healthcare system. In the face of rapidly rising infections leading into the Christmas period, the Government had little choice but to implement further restrictions, equating to a full lockdown until mid-January 2021.

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