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FOREIGN AFFAIRS & TRADE
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Report on the Dutch Economy

Market Report

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Prepared by the New Zealand Embassy in The Hague.

Summary

- The Dutch economy suffered its biggest decline on record in 2020, with GDP dropping 3.8%. This compares favourably to other EU Member States where several saw GDP fall more than 9%.
- The relatively light-touch "intelligent lockdown" of the Spring and the "partial lockdown" in place from October until 15 December can claim some responsibility for the relatively mild decline, as can the level of digitalisation in the Dutch economy and an existing culture of working from home.
- The Government continues to invest billions of euros in supporting affected businesses, and as a result, Dutch state debt is rising fast and will likely exceed the EU's 60% of GDP norm this year.
- The economic pain has not been evenly shared, with supermarkets and online retailers experiencing record turnover while the travel, events and hospitality sectors have been hit disproportionately hard.
- Dutch employer's group VNO-NCW has launched a new strategy to grow the economy out of the crisis, with a renewed focus on sustainability and equal opportunities.
- Exports have fallen significantly, with provisional figures indicating a decline of more than 5%. However exports to some countries, including China, have grown through 2020.
- While reduced trade volumes with the post-Brexit UK have hurt the Dutch, Brexit has also brought opportunities which the Dutch have been quick to seize. Amsterdam has emerged as the busiest share trading hub in Europe, while Dutch logistics firms have been kept busy by UK companies seeking warehousing and distribution options on the continent.

Report

- The impacts of the COVID-19 pandemic and associated government restrictions led to the largest ever drop in Dutch GDP in 2020 with the economy shrinking 3.8%. Although the economic decline is the largest on record, it still compares favourably to its European neighbours. Of those European countries which have published full year GDP figures, only Lithuania (-0.9%) performed better, with others such as Germany (-5.0%), Belgium (-6.2%), France (-9%), the UK (-9.9%) and Spain (-11%) faring much worse.

- There are a number of factors that have contributed to the Dutch economy weathering the storm better than most. A key factor is the duration and intensity of lockdown measures. The Netherlands implemented lighter restrictions during the first wave in spring 2020 and was able to do the same until relatively late in the second wave (for example non-essential shops remained open throughout the first wave and did not close until 15 December). Another significant advantage for The Netherlands has been that the country is not dependent on tourism revenue to the same extent as countries on the Mediterranean coast during the summer or with alpine regions in the winter. The Netherlands has also benefited from its economy being heavy in services, which makes working from home easier, along with high quality digital infrastructure. The European Commission is forecasting the Dutch economy to grow less than other EU members in 2021 (1.8% compared to 3.7% across the Eurozone).

However, coming off a lower drop in 2020 the Dutch economy may yet emerge in a better position than its neighbours by the end of 2021. Pundits also predict growth will largely depend on vaccination programmes, which will allow an opening up of society. That said, 2020 taught us to take long term forecasts with a grain of salt as long as the uncertainties of the COVID-19 pandemic continue.

- Another major factor in mitigating damage to the Dutch economy has been the Government's support packages which have been expanded and adjusted to meet changing needs as the pandemic has progressed. The most recent upgrade of support measures was announced on 21 January in response to the stricter lockdown in place since mid-December. The fixed costs subsidy (TVL) was expanded to allow more companies to claim compensation and for greater amounts to be approved (from a maximum of €90,000 previously to €330,000 for SMEs and €400,000 for larger companies now). To support the smallest businesses, the minimum payment was increased from €750 to €1500. The Government has budgeted €3.8 billion for the TVL in the first half of 2021. Retail businesses which have been subject to store closures will be eligible for a top up of 21% on top of the TVL to compensate for stocks they are unable to sell (such as Christmas supplies and winter clothing collections) – an additional €160 million has been reserved for this.

- The wage subsidy (NOW) for businesses suffering at least a 20% reduction in turnover has been extended and expanded, with the subsidy now covering up to 85% of wage costs for the most affected businesses (up from 80%). The Government is now expecting the wage subsidy costs for 2021 to amount to €9.9 billion, on top of the €13.5 billion spent in 2020. As the economic and social impacts of the COVID-19 crisis become clearer for different sectors, the Government continues to announce additional support measures. In February, €8.5 billion was announced for the education sector. A part of this package is an average of €180,000 per primary school and €1.3 million per high school for additional learning, social, and emotional support for students. Lower decile schools will receive a higher proportion of this funding. Schools are being encouraged to use some of this funding for summer schools to tackle educational shortfalls during the lockdowns. Students in higher education will receive a 50% reduction in fees for the 2021-22 academic year. Smaller support packages are being developed for specific sectors, such as €39 million in support for zoos to assist them to maintain care of their animals and conduct essential maintenance during the extended closure.

- One of the support measures extended to businesses has been in the form of suspended tax payments. In contrast to the measures outlined above, the expectation is that delayed payments will eventually be repaid to the Tax Department. A debt of €13.2 billion is now hanging above the heads of more than 200,000 Dutch businesses, with increasing levels of concern as to whether struggling businesses will ever be able to repay this. While the vast majority of affected businesses are small ones, 2700 have more than 50 staff and 655 more than 250. Should these businesses collapse it could have a massive effect on employment and flow on effects to related businesses. In principle businesses will have 36 months from 1 October 2021 to repay their tax debt, and the Government is reported to be in talks with private sector financiers regarding the possibility of debt write offs in the longer term.

- As a result of Government support, fewer Dutch businesses applied for bankruptcy in 2020 than in a normal year, and the unemployment rate has been astonishingly resilient, with unemployment down to 3.6% in January 2021 after peaking at 4.6% in August 2020. Forecasts however indicate that as Government support is wound back through the course of 2020 the number of insolvencies and the unemployment rate can be expected to rise.

- The impacts of the crisis continues to be spread unevenly, with various sectors affected differently by the restrictions in place. Ahold Delhaize, the company behind both the country's largest supermarket chain (Albert Heijn) and the largest online retailer (bol.com) announced this week that it had generated record revenue of €74.7 billion in 2020, up almost 13% on the previous year. Meanwhile the Air France-KLM group behind national airline KLM announced its worst year ever, with a net loss of €7.1 billion and an expectation that 2019 passenger numbers will not be seen again until 2024.

- The Confederation of Netherlands Industry and Employers (VNO-NCW), and SME Netherlands have launched a new collective strategy to grow Dutch business in the aftermath of the COVID-19 crisis. As well as addressing the consequences of the pandemic, the strategy aims to tackle identified pre-existing challenges. Climate change and increasing resource scarcity calls for a sustainable and circular business model. Falling GDP growth forecasts has strengthened calls for a renewed focus on productivity to strengthen structural earning capacity. Digital technology and the emergence of AI present opportunities, and the business organisations want to work to ensure The Netherlands doesn't fall behind in a rapidly changing environment. New VNO-NCW chairperson Ingrid Thijssen has taken a much stronger environmental and social line than her predecessor. Alongside growing the business sector, the new plan also devotes attention to equality through "fairer sharing" and the importance of a sustainable living environment. The business organisations are promoting a "Rhine Model 2.0", calling for The Netherlands to "invest in a stronger government" to work with citizens and companies to develop broadly accepted solutions. VNO-NCW and SME Netherlands have also explicitly endorsed the UN Sustainable Development Goals and committed to responsible entrepreneurship internationally.

- Preliminary data shows the Dutch exports for 2020 were down more than 5% on 2019, with particularly large decreases during the first wave in spring 2020 being followed by a small recovery in autumn. Forecasts for the coming months are positive, despite the current restrictions in place. Like the impact domestically, the effects of the crisis on exports have varied strongly by region. Figures for the first three quarters of 2020 show that, for example, Dutch exports to China were stronger than in 2019. The export of machines (including microchip machines, food industry machinery and agricultural equipment) has shown particularly strong growth.

- In a rare glimmer of light for The Netherlands, Amsterdam (where the world's first modern securities exchange was launched in 1602) has displaced London as Europe's biggest share trading centre. An average of €9.2 billion of stocks per day were traded in Amsterdam, compared to €8.6 billion in London. This compares to €17.5 billion per day in London in 2020, when Amsterdam was the sixth busiest trading centre at €2.6 billion. As well as European Euronext, the London Stock Exchange's Turquoise and the Chicago Board Options Exchange (CBOE) have moved their EU operations from London to Amsterdam. The Dutch Financial Markets Authority (AFM) has over the last two years issued 60 "Brexit-related" permits to financial institutions, largely trading platforms and share traders. The AFM has had to recruit 20 additional staff to manage the increase in activity in Amsterdam. Further growth is possible, with CBOE reportedly considering moving its options platform to Amsterdam and Intercontinental Exchange looking into relocating its trading in emissions rights to Amsterdam. The Amsterdam City Council has responded positively to these developments, suggesting it will boost the city's reputation as a place to conduct business and improve its competitive position. Direct employment benefits as a result of the shift are limited to a few hundred jobs as trading takes place digitally, but economists expect growth in supporting industries like technical support, econometrics and legal services. Whether Amsterdam is able to maintain its new position is to a large extent dependent on ongoing EU-UK negotiations on financial services, and the EU decision on equivalence.

- Another Brexit-related boost to the Dutch economy has been felt in the logistics and warehousing sector, where port delays, VAT, customs duties and increased shipping costs have driven UK-based suppliers to look to establish a continental logistics base. Many companies had prepared for all eventualities and established logistics hubs in The Netherlands last year, but even more companies are reported to be considering doing so now that the full complexity of post-Brexit cross channel trading has been made clear. The Dutch Foreign Investment Agency (NFIA) has reported a surge in the number of foreign companies looking to set up shop in The Netherlands, with half of these being UK companies and the rest from third countries including New Zealand seeking an entry point to the EU. Market research continues to show The Netherlands as the number one spot in Europe for ease of doing business including set-up advice and support.

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