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Report on the Dutch Economy

Market Report

2 JULY 2020

Prepared by the New Zealand Embassy in The Hague, 2 July 2020

Summary

- The Netherlands has eased most COVID-19 restrictive measures from 1 July, but social distancing and working from home will remain the norm through summer.
- While life may be, almost, back to normal, the economy isn't, with a 6% contraction forecast for 2020 and a slower recovery than first hoped for. A second wave would further deepen the recession and delay the recovery.
- The Dutch economic support packages have achieved their primary goals of ensuring businesses can survive the "intelligent lockdown" and that workers can maintain their employment. So far bankruptcies are only marginally up and the increase in unemployment has been small, but forecasters expect both to continue rising through 2021.
- The end of most restrictive measures comes just in time for the summer holiday period.

Report/Findings

1 The official Dutch economic forecast is now predicting a GDP contraction of 6% in 2020, followed by 3% growth in 2021. This represents both a sharper drop than anticipated in March and a slower recovery. This forecast is based on a weak recovery from the third quarter of 2020. Given the enormous degree of uncertainty, both with regards to the development of the virus in the Netherlands and its impact on the global economy, the CPB (the government agency responsible for forecasting) has also generated forecasts based on a full recovery, a slower recovery and the re-imposition of restrictive measures to contain a second wave.

2 Under the baseline scenario, the reduction in economic activity in the first half of 2020 will lead to unemployment rising from just 2.9% in February 2020 to over 7% in early 2021 before slowly falling. The Government's budget will, on the basis of policy continuity, go from a surplus of 1.7% of GDP in 2019 to a deficit of 8% in 2020 and 5% in 2021. Government debt will rise from 48.7% of GDP prior to the crisis to 62% in 2020 before stabilising in 2021. Data indicates that economic activity in most sectors is returning to normal levels, with electricity usage higher than before the start of the "intelligent lockdown" in March. With working from home still advised whenever possible, traffic volumes are still down 15% on last year, but are much higher than in April.

3 In the event that economic recovery is slower than expected, or that the country must implement restrictions again to fight a second wave of infections, Government forecasters expect an even gloomier scenario. A second wave would cause a second consecutive year of negative economic growth, and unemployment would reach 10%. The baseline forecast shows government debt rising, but not to unmanageable levels. However, should a second wave require another lockdown, debt could rise to almost 80% of GDP with the Government running deficits of more than 10% in 2020 and 2021.

4 The number of bankruptcies has fluctuated greatly week by week through the crisis to date, but is trending slightly up compared to the first half of 2019. Leading Dutch bank ING is expecting 1.5-2.5% of all businesses to file for bankruptcy in

2021, which is two to three times the number in a normal year due to the extended length of reduced turnover and the reduction of government support measures. Sales in the retail sector were up 8.2% in May compared to the same month in 2019. There remains a large degree of divergence between sectors, with DIY stores beating the record growth set in April. The food sector was up 10% on a year earlier, probably reflecting the continued closure of all restaurants throughout May. The clothing and shoe sectors had significantly lower turnover than in May 2019 (-23.4% and -20.5% respectively) but this was a less extreme reduction than experienced in April when sales in clothing stores were 57% down on 2019. The public transport sector has been hard hit, with State-owned railway company NS missing out on €6 million in income every day. The company expects the lost income over the next five years to be €4.7 billion and announced last week that it is planning to shed 2,300 jobs over the next five years (mostly through natural attrition) in a €1.4 billion cost cutting operation. Investments in new rolling stock will not be affected (a €1.1 billion order for 99 new intercity trains is due for delivery in 2022). Due to the economic recession, the increase in flexible working and online education, NS does not expect passenger numbers to reach 2019 levels until after 2024. Senior management will take a 10% pay cut.

5 The Dutch Tax Department has advised that 31% of all businesses with between 10 and 250 employees have been granted a deferral on their tax payments. Of hospitality businesses in that category, 57.4% have been granted a tax deferral. At the other end of the scale, only 14% of financial services companies and 17.5% of healthcare businesses have received deferrals. In total, the Dutch Government has approved deferrals of €9.8 billion in taxes.

6 Migration has plummeted, with the number of new migrants arriving in the Netherlands in April and May being almost half the number a year earlier. EU migration has been less affected. The number of arrivals was higher in May than in April, and in May the number of arrivals from EU countries outnumbered the departures. In May there was a net gain of 1,000 migrants from Central and Eastern Europe, while there was a net loss of 750 to countries outside the EU. The number of Dutch nationals returning spiked in March, but stabilised in April, and in May was below the same month in 2019. The number of Dutch citizens moving abroad has dropped drastically, with only 800 leaving in May, 1,000 fewer than in May 2019.

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