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FOREIGN AFFAIRS & TRADE
Manatū Aorere

The Netherlands: Economy Update
Market Report

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Prepared by the New Zealand Embassy in The Hague

Summary

- In the 2021 budget the Dutch Government confirmed its intent to invest its way out of the COVID-19 driven economic crisis.
- The surplus that had been intended for election year sweeteners has evaporated in the face of the immensity of the COVID-19 response which, to date, has had €62.5 billion allocated to it. A number of small tax relief measures were announced but the larger tax cuts originally anticipated did not eventuate.
- Unlike in 2008, the general consensus is that the economic basics are sound and that the Government's focus should be on protecting jobs and investing to limit structural damage to the economy. With the general election coming up in March 2021, it will be for the next Government to pick up the pieces and repay the debt.
- The budget contains significant new spending on affordable housing, reducing greenhouse gas emissions and mitigating nitrogen pollution. While the defence budget has increased, it does not get close to the 2% of GDP target agreed with NATO partners.
- The COVID-19 economic support package (wage subsidies and support for independent contractors) has been extended through to June 2021 in a more limited form.
- The Government also announced a €20 billion National Growth Fund. This is intended to take advantage of the current historically low interest rates to borrow large sums for long-term investments in infrastructure, research and education.

Report

Budget 2021

1 On 15 September, Dutch Finance Minister Wopke Hoekstra delivered his third and final budget before the March 2021 general election. Whereas a year ago, on presenting the 2020 budget, Hoekstra said "we expect 2020 to be the seventh year of economic growth in a row", this year's budget was delivered against the backdrop of a global pandemic and the sharpest economic recession on record.

2 The total budgeted cost of economic support measures to mitigate the effects of the COVID-19 crisis adds up to €62.5 billion (NZ$110 billion). This includes €45.9 billion in new spending (including €20 billion for wage subsidies, €3.5 billion for support to independent contractors and €3.6 billion to assist small businesses with fixed costs) and €16.6 billion in reduced income through tax deferrals for businesses and other COVID-19 related fiscal measures.

3 Despite the unprecedented recession and the massive cost of the crisis response, the Government has responded markedly differently to the way it dealt with the 2008 Global Financial Crisis, when austerity and structural reform were the order of the day. The 2021 budget maintains the approach the Government has held throughout the COVID-19 crisis i.e. that the way out of the crisis is through investment rather than austerity. After four years of operating with a surplus, the Netherlands is expected to record a deficit of 7.2% of GDP in 2020 and 5.5% in 2021.

4 While significantly less far-reaching than might have been expected without COVID-19, the third Rutte administration's final budget includes a relatively small investment in tax relief, with €340 million going to tax cuts for working people and an increase in the tax-free threshold (to €50,000) before the asset tax applies. A pre-announced reduction in the lowest tax rate will also continue as planned.

5 The Government has set aside €295 million to tackle the shortage of affordable housing in the Netherlands. This includes direct investment of €150 million to deliver 15-25,000 additional homes and a reduction in the housing sales tax for first time homeowners. In addition, the Government will look to take a more prominent role in the identification of suitable areas for new subdivisions, a role that in recent years has been left to property developers and local government.

6 More than a billion euros has been set aside for future-proofing the economy and society, including reducing CO2 emissions, tackling nitrogen pollution and further reducing natural gas extraction in the earthquake-prone province of Groningen. From 2021 until 2030 an increasing amount (eventually €300 million per year) will be allocated to mitigating the negative effects of nitrogen pollution in nature reserves. An additional €300 million per year will be made available to reduce greenhouse gas emissions to meet the target agreed in the National Climate Agreement of 49% below 1990 levels by 2030. Of this, in 2021 €60 million will be spent on innovation and pilot projects such as scaling-up green hydrogen, carbon capture and storage in industry, and projects to accelerate existing measures to reduce emissions.

Third Support Package

7 The third package of economic support measures for businesses affected by COVID-19 was rolled out on 1 October. This will extend most of the current measures, in a scaled-back form, through to 1 July 2021. The Government has allocated €11 billion for this package. While in the initial response to the crisis all affected businesses were able to receive the wage subsidy, going forward businesses will need to show that their underlying business model is sound so that the Government does not artificially support businesses that would have failed anyway without COVID-19 (to date bankruptcies are down on 2019). The support package also contains more funding (€1 billion) for re-training to help redeploy workers from sectors that are likely to face long-term difficulties. Until 1 October, businesses suffering more than 20% loss of income were able to claim up to 90% of wage costs. The amount of subsidy available will drop in steps to 60%, and the required drop in income will rise to 30% from 1 January 2021. The payment of dividends and bonuses by companies receiving government support will continue to be prohibited.

National Growth Fund

8 The week before the budget, the Government announced a National Growth Fund for education, research and development, innovation and infrastructure, which will be funded to the tune of €20 billion (NZ$35.4 billion) over the next five years. A panel of ten experts (including leaders from business, academia and politics) has been established to assess proposals. The idea for the fund pre-dates COVID-19, and a small amount was set aside in last year's budget to lay the groundwork for the fund. The initial idea was to take advantage of historically low interest rates to borrow large sums from the market to spend on long-term investments, and for the fund to be endowed with several hundred billion euros, and have a decades-long timeline. COVID-19 has led to a shorter timeframe and a smaller budget, but with the possibility that this could be extended as economic conditions improve.

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