The Netherlands

Emergency package to protect jobs and businesses

As the country went into a selected lockdown, business confidence plummeted. To limit the economic fallout, the government announced a comprehensive package to protect jobs and businesses, its favourable budgetary position giving it sufficient firing power. Nevertheless, each month of lockdown may reduce output growth by around 2 percentage points. In the case of a rapid recovery, the GDP shrinkage could be limited to around 3.5% in 2020.

Confidence plummeted in March

As a result of the coronavirus, the economic climate has seriously deteriorated. Producer confidence plummeted in March, as enterprises anticipated a sharp decline in activity. In particular, consumer oriented branches such as retail, hospitality and travel reported sharp deteriorations in the business climate. In the manufacturing sector, businesses still reported well filled order books and low inventories of final products. However, these positive signals are likely to disappear as the country is in lockdown.

An emergency plan

The government has taken a raft of measures to support employees, self-employed and businesses. In order to protect salaries, companies that expect a decline of at least 20% of their turnover, can apply for a wage subsidy amounting to a maximum of 90% of the salary for three months for both permanent staff and flex workers under condition that no workers will be dismissed. Self-employed can receive a benefit of maximum EUR 1500 per month.

To avoid liquidity problems, enterprises that have difficulties in getting bank loans or bank guarantees can get a loan guarantee from the state. Starters may obtain a deferment of their reimbursements for 6 months. Moreover, companies may apply for tax deferment.

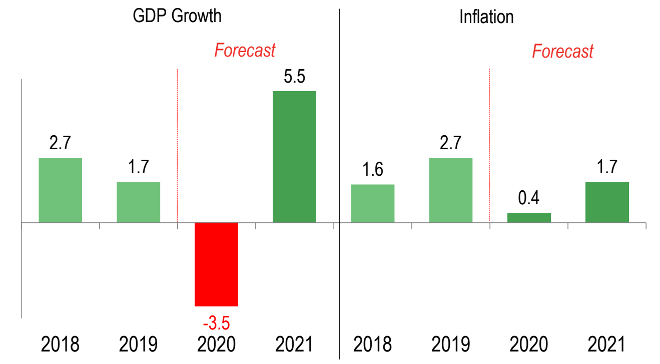
The budgetary costs of the emergency plan are substantial, possibly between EUR 10-20 billion per quarter. The government estimates that the costs of the short-time work scheme on its own could already at EUR 10 billion, if 25% of employers applied for it for 45% of the wage bill for three months. This is affordable even if the crisis would last for several quarters. In 2019, the budget surplus amounted to EUR 14 billion (1.7% of GDP) and the public sector debt was only 48.6% of GDP.

As a result of the crisis, public debt will rapidly increase in the coming months as tax receipts fall and social security benefits are set to increase. Moreover, the government might have to increase its participation in some struggling companies. Fortunately, the government finances are in good shape. The major problem might be an efficient implementation of the loan guarantees and other support measures in the coming quarters.

Output losses could be substantial

As a result of the lockout, activity is expected to contract in a wide range of sectors. The lockout measures in particular affect the services sectors such as hospitality, tourism, and personal services.

1- GDP Growth and inflation
(Y/Y, %)



Source: BNP Paribas Global Markets

Other sectors such as manufacturing might be affected because of supply chain disruption and slumping demand. The Netherlands Bureau of Economic Policy Analysis (CPB) estimates that in the case of a three-month lockdown, economic activity could shrink by 10-15% in Q2. In this scenario, the GDP growth would contract by 1.2% in 2020, compared with 1.4% growth estimated in early March. The government deficit would amount to 1.3% of GDP, whereas the CPB had earlier expected a surplus of 1.1% of GDP.

The CPB might have substantially underestimated the economic consequences of the lockdown. The OECD estimates that for each month of lockdown, annual GDP growth could decline by around 2 percentage points. Assuming a selected lockdown of around 2 months followed by a quick recovery, GDP could shrink by close to 3.5% in 2020. It would make the current recession the severest since the Second World War.

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