

THE NETHERLANDS

18

SUFFICIENTLY DEEP POCKETS FOR STIMULUS

Economic activity contracted less than in the neighbouring countries (-8.5%). Hard data confirm a rebound in Q3, although social distancing rules are weighing on activity, in particular in services. Thanks to the substantial financial buffers, the government can cope with the considerable costs caused by the Covid-19 pandemic. In 2021, the deficit is projected at around 5% of GDP and the debt ratio may end up just above 60%. The centre-right coalition is likely to lose the majority at the next general election in March 2021. If the social democrats and greens do well, a purple coalition would be possible.

REBOUND AFTER LOCKDOWN

Economic activity contracted sharply in Q2 by 8.5%. This compared favourably with the neighbours Germany (-9.7%) and Belgium (-12.1%), where lockdowns were stricter. Since May, the economic climate has gradually improved, in line with the easing of the lockdown restrictions. However, the economic sentiment indicator, on a rising trend since May, was still 5% below its long-term average.

Hard data confirm the gradual improvement of economic activity. In July, industrial production was almost 6% lower than a year ago, compared to around -12% in April-May. In some parts of the services sector, the rules on social distancing have prevented the reopening of businesses or slowed their activity. In the hospitality sector, sales were almost 60% lower in Q2 than a year ago. By contrast, retail sales have been booming since the reopening of shops. In July, the sales volume was 7% higher compared to a year earlier.

The government's emergency package launched in March has proven to be effective in preserving businesses and employment. The unemployment rate inched up to 4.5%, only 1 percentage point higher than before the crisis thanks to the extensive use of the furlough schemes NOW and Tozo (for self-employed). In the period June–August these schemes were used for 1.4 mn workers, i.e. 16% of the working population.

FISCAL POLICY TO REMAIN VERY ACCOMMODATIVE

Thanks to the substantial financial buffers, the government can cope with the substantial costs provoked by the Covid-19 pandemic. Discretionary measures and automatic stabilisers might have negatively affected the government budget by almost EUR 70 bn (or 8.7% of GDP). As a result, a budget deficit of 7.6% of GDP is expected for 2020. The debt ratio, which also includes direct loans and tax deferral, could increase to around 60% of GDP compared with 49% in 2019.

In September, the government presented the 2021 Budget. The economic situation requires a very accommodative fiscal policy. Nevertheless, the deficit is projected to be slightly lower than in 2020 (5% of GDP), as some discretionary measures end. The debt ratio is projected to increase further to 62% of GDP.

Households will benefit from tax reductions, which were already decided before the Covid-19 outbreak. However, the business sector will be confronted with tax increases as support measures end and due to the scrapping of the projected reduction in the corporate tax rate. In 2021, purchasing power will increase on average by 0.8% against 2.2% in 2020. In particular, middle-income households and those with children will benefit.

The government has announced the setting up of a National Growth Fund for knowledge development, infrastructure, research and innovation. An independent commission will approve the projects. The size of the fund will be a total of EUR 20 bn for the period 2021-2026, of which EUR 1 bn to be spent in 2021.

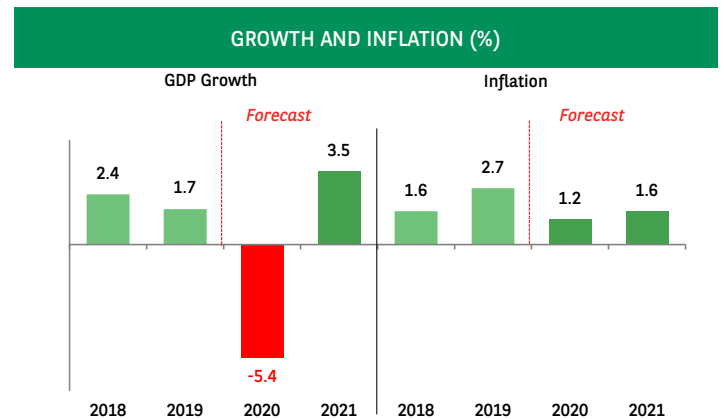


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

POLITICAL UNCERTAINTY AHEAD

It will be difficult to form a government after the next general election to be held in March 2021. According to the polls, Prime Minister Rutte's party VVD (conservative liberal) will remain the largest, but his centre-right coalition will lose the majority. Moreover, the extreme right parties PVV and FVD are projected to gain about 25% of the vote. If the social democrats and greens make a good score, a return of a purple coalition – a coalition without the Christian democrats – would be a possibility. A long formation period lies probably ahead.

Raymond Van der Putten

raymond.vanderputten@bnpparibas.com



BNP PARIBAS

The bank
for a changing
world