THE NETHERLANDS

WAITING FOR A NEW GOVERNMENT

Thanks to healthy government finances and a light lockdown strategy, the Netherlands weathered the crisis better than the surrounding countries. Nevertheless, the economy was in a mild recession in Q1 2021. Economic sentiment indicators point to rapid recovery in the second half of the year. Despite the clear victory of the outgoing government at the general election in March, the formation of a new coalition is in turmoil. Doubt has increased whether Mark Rutte can lead his fourth government in succession. The main task of the coalition is to put a recovery programme on the rails.

MILD RECESSION IN Q1 2021

The government's light lockdown strategy announced in March 2020 initially paid off. In 2020, the economy contracted 3.7%, –similar to the fall recorded during the financial crisis in 2009– but this compared favourably with the surrounding countries. As the number of infections rose rapidly after summer, a second partial lockdown was imposed from mid-October. The measures have been progressively tightened in the following months. The imposition of a curfew in January led to unprecedented violent protests and pillaging in many places in the country.

The economic impact of the second lockdown is likely to be much more limited than in March-May 2020. In Q4 2020, GDP contracted by 0.1%, largely due to a fall in household consumption (-1.4%). A further contraction (-0.5%) is expected in Q1 2021. By comparison, in Q2 2020, GDP contracted by 9%. The reason is partly due to the effectiveness of the policy responses to the crisis. Thanks to the furlough schemes, the unemployment rate declined to 3.6% in February after having peaked at 4.6% last August. In the same month, the number of bankruptcies was even at its lowest level for 30 years. Moreover, as household savings have increased to historically high levels due to limited consumption possibilities, house prices have been rising sharply. As elsewhere in Europe, the business climate improved in March, on the back of rising world trade. However, consumer confidence moved sideways.

UNCERTAINTY CONCERNING GOVERNMENT FORMATION

In March, the conservative liberals VVD led by prime minister Mark Rutte remained the largest party at the general election. The social liberals (D66) came surprisingly second. Technically, it would be possible to continue the outgoing centre-right coalition with the Christian Democrats (CDA and CU), despite heavy losses of the CDA. However, the chaotic first phase of the formation process suggests that it can take some time before a new government is in place. After losing 5 seats and plagued by inner divisions, the CDA might be reluctant to join a new coalition. The social democrats (PvdA) and Green/Left are keen to join a new government, but this would imply a change in policy. Moreover, severely criticised by his former coalition parties during a parliamentary debate on the formation, Mr Rutte runs the risk of becoming an obstacle in the formation process. In general, the forming of a new government takes several months. The longest formation - that of the outgoing government - lasted 225 days. Speed is called for, as the country needs a new government to put a recovery programme on the rails.

Whatever the outcome of the formation process, the new government will continue its prudent budgetary policy. Thanks to the country's healthy financial position at the outset of the crisis, the government was able to support the economy better than the surrounding countries.

GROWTH AND INFLATION (%)

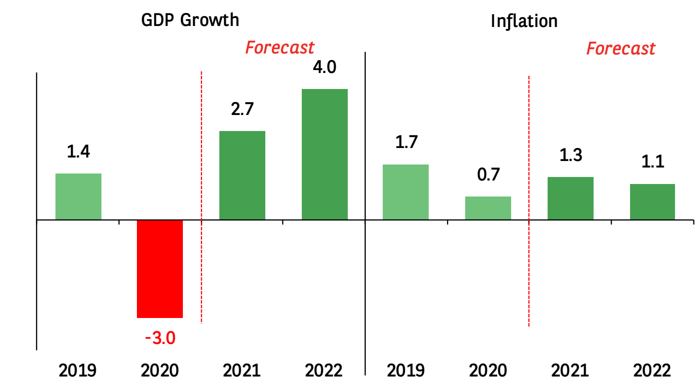

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

Despite the important gains of the pro-EU party D66, the government will remain circumspect about deepening the European integration given the progress of the anti-EU parties in parliament.

LIFTING SUPPORT MEASURES MAY PROVOKE BANKRUPTCIES

In the coming months, as Covid-19 cases are expected to come down, lockdown restrictions could be lifted gradually. Household demand is likely to be one of the major engines for growth in the coming quarters as savings rates will return to pre-crisis levels. In the course of 2022, the economy could be back at pre-crisis level.

At the same time, the government is likely to withdraw gradually . This could cause problems for some enterprises that have been kept alive by transfers, loan guarantees and furlough schemes. Bankruptcies are expected to rise, in particular among companies that were already weak before the health crisis. For this reason, employment conditions could again deteriorate and unemployment may even rise to 5% of the labour force by the end of the year. As a result, collectively agreed wage increases could slow to 1.5%.

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