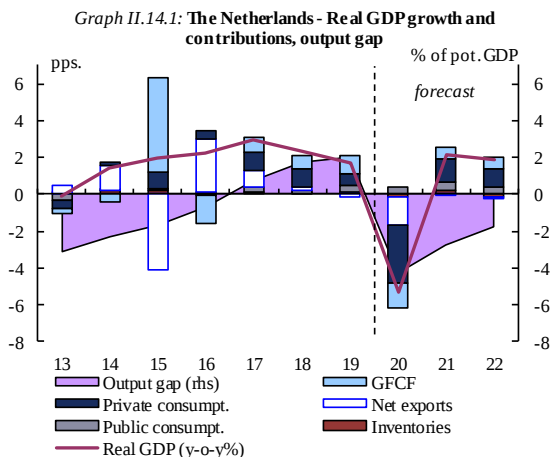


14. THE NETHERLANDS

The Dutch economy contracted sharply in the first half of 2020 due to the impact of COVID-19. Since the relaxation of containment measures in late spring, a partial and fragile rebound has been under way. The recovery is expected to be weighed down because of persistent uncertainty surrounding the pandemic evolution and the impact of the change to less beneficial EU-UK trade relations. Together with the operation of automatic stabilisers and increased expenditure to aid the recovery, the budget balance is set to improve only marginally following a significant deficit in 2020.

A protracted and fragile recovery ahead

The COVID-19 pandemic derailed the Dutch economy in the first two quarters of 2020, with economic activity contracting by 1.5% and 8.5% q-o-q respectively. Since the relaxation of the containment measures in late spring, a partial (technical) rebound has been under way, which has continued to take hold in the third quarter. Despite substantial policy support, a drawn-out and incomplete recovery is expected because of the longer-lasting implications of the pandemic and the impact of the change to less beneficial EU-UK trade relations. This year, annual real GDP is forecast to decline by around 5¼%, before a partial recovery of about 2¼% in 2021 and 2% in 2022. As a result, real GDP is expected to remain below its pre-crisis level by the end of the forecast period.



In recent months, manufacturing and consumption expenditure have seen a robust though incomplete rebound, driven by pent-up demand for durables whereas services have continued to suffer from a protracted slump. However, leading indicators suggest that the growth momentum is already evaporating, while the sharp flaring-up of the virus and the re-imposition of containment measures are again restricting economic activity in contact-dependent sectors. Domestic demand is expected

to be the principal driver of the recovery, underpinned by fiscal stimulus dampening losses in employment and supporting disposable incomes. Nevertheless, the outlook for consumption expenditure is weighed down by persistent COVID-19 related uncertainties that depress consumer confidence, as well as adverse employment expectations that are set to keep precautionary savings elevated. Supported by additional public investment, capital spending is set to regain some traction as of next year. On the other hand, business investment is projected to remain subdued because of pervasive dampening factors such as exceptional uncertainty about future turnover, low capacity utilisation and the need to shore up liquidity positions. In line with the projected global recovery, both imports and exports are set to return to growth next year after a strong contraction this year, although trade in services - tourism in particular - is expected to lag behind goods trade. In addition, higher trade barriers and value-chain disruptions resulting from the change in trade relations with the UK depress the outlook. With imports expected to marginally outperform exports, the current account surplus is set to continue a gradual decline from a high level.

Support cushions slump in the labour market

The annual unemployment rate is projected to increase to 4.4% this year, coming from a pre-crisis record low of 2.9%. Initially, the rise in unemployment pertained to the shedding of workers on flexible and temporary contracts in affected sectors. However, the continued increase after the economy reopened stemmed mostly from the re-entry into the labour market of those who lost their jobs at the onset of the crisis. Support measures that facilitate labour hoarding have been extended until mid-2021, albeit with increasingly tighter conditionality. Although this is expected to dampen employment losses until the summer of next year, labour market conditions are inevitably set to deteriorate further in the coming quarters. In particular, firms in the most affected sectors that

continue to cope with restrictions and turnover losses are projected to shed labour as they face a growing prospect of restructurings, orderly endings and bankruptcies, with those in a more vulnerable labour market position bearing the brunt. In 2021, the unemployment rate is forecast to increase to 6.4%, peaking in the second half of the year after support is rolled back, and to decline only gradually over 2022. Because most wage agreements for 2020 were concluded in pre-COVID-19 times, nominal wage growth remains solid this year at 2.4%. For 2021 and 2022, more subdued wage growth of just over 1% is expected.

Inflationary pressures to remain subdued

Headline inflation is forecast to moderate to 1.1% in 2020 partly reflecting the shock to domestic demand and the collapse in oil prices earlier this year. However, it also reflects base effects from a VAT increase in 2019 and a lowering of energy-related indirect taxes. Domestic demand and wages are not expected to exert strong inflationary pressures in the coming years. Supported by the recovery in oil prices, HICP inflation is forecast at 1.3% in 2021. In 2022, consumer prices are set to increase by 1.4%.

Extraordinary measures support the recovery

The general government balance is forecast to reach a deficit of about 7¼% of GDP in 2020. Automatic stabilisers on both the revenue and expenditure side, such as lower tax income and higher spending on social transfers, contribute strongly to this. Moreover, emergency measures taken by the government and their extension until July 2021 entail a cumulative estimated budgetary cost of 6½% of GDP. The measures aim to avoid structural damage to the economy by focusing on protecting employment, supporting household incomes, mitigating liquidity problems and improving the resilience of the economy. Based on current plans, the government deficit is expected to narrow gradually to 5¾% in 2021 and 3¾% in 2022, as revenues increase in line with the projected recovery. The forecast does not take into account measures related to the Recovery and Resilience Facility, as these have not been specified. In a no-policy-change scenario, government debt is forecast to rise to 60% of GDP in 2020, and increase to 63% in 2021 and 66% in 2022. A large amount of loan guarantees presents a downside risk to the budget balance.

Table II.14.1:

Main features of country forecast - NETHERLANDS

	2019			Annual percentage change						
	bn EUR	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP	810.2	100.0		1.2	2.9	2.4	1.7	-5.3	2.2	1.9
Private Consumption	354.7	43.8		0.4	2.1	2.2	1.5	-7.1	3.0	2.3
Public Consumption	198.6	24.5		2.0	0.9	1.7	1.6	1.7	1.4	1.0
Gross fixed capital formation	170.1	21.0		0.8	4.2	3.6	4.6	-6.3	3.3	3.1
of which: equipment	47.6	5.9		1.3	3.2	0.7	6.5	-14.2	6.7	4.3
Exports (goods and services)	675.2	83.3		3.5	6.5	4.3	2.7	-6.6	2.1	3.3
Imports (goods and services)	590.7	72.9		3.4	6.2	4.7	3.2	-5.5	2.4	3.7
GNI (GDP deflator)	813.4	100.4		1.0	5.2	2.8	0.9	-5.7	2.2	1.9
Contribution to GDP growth:										
Domestic demand				0.8	2.0	2.1	2.0	-4.0	2.3	1.9
Inventories				0.0	0.0	0.1	-0.2	0.2	-0.1	0.0
Net exports				0.4	0.9	0.2	-0.1	-1.5	-0.1	0.0
Employment				0.4	2.2	2.6	1.9	-1.1	-1.7	0.8
Unemployment rate (a)				5.0	4.9	3.8	3.4	4.4	6.4	6.1
Compensation of employees / f.t.e.				2.4	1.0	1.8	2.9	2.4	1.3	1.2
Unit labour costs whole economy				1.6	0.3	2.1	3.1	7.0	-2.5	0.2
Real unit labour cost				0.0	-1.0	-0.3	0.1	5.0	-3.7	-1.0
Saving rate of households (b)				12.7	15.3	15.6	16.6	25.9	22.6	19.6
GDP deflator				1.6	1.3	2.4	3.0	1.9	1.3	1.2
Harmonised index of consumer prices				1.9	1.3	1.6	2.7	1.1	1.3	1.4
Terms of trade goods				0.3	-0.3	-0.2	0.9	0.9	0.1	0.0
Trade balance (goods) (c)				8.4	9.7	9.3	8.4	7.7	7.5	7.4
Current-account balance (c)				6.9	10.8	10.8	9.9	8.4	8.0	7.9
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.7	10.8	10.8	9.9	8.3	8.0	7.9
General government balance (c)				-2.1	1.3	1.4	1.7	-7.2	-5.7	-3.8
Cyclically-adjusted budget balance (d)				-1.4	0.8	0.3	0.5	-4.6	-4.0	-2.7
Structural budget balance (d)				-	0.3	0.3	0.3	-4.6	-3.9	-2.7
General government gross debt (c)				56.1	56.9	52.4	48.7	60.0	63.5	65.9

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.