CPB Netherlands Bureau for Economic Policy Analysis

June forecast 2020

Baseline forecast
Moderate recovery

The corona crisis delivers an unprecedented blow. Recovery will start in third quarter, albeit only partly.

Unemployment will double. Public finances will worsen, substantially, but will not enter the danger zone.

In addition to the baseline forecast, scenarios provide insight into uncertainties due to the crisis.

Second wave

Companies will suffer again, under their already partly depleted financial buffers. Unemployment rises to 10%.

Weak recovery

Larger problems at trade partners and related financial problems lead to a deeper and longer recession.

Full recovery

Consumers and companies are optimistic and catch up on postponed spending and investments. Limited increase in unemployment.

CPB Forecast

June 2020

Outlook 2020–2021

Forecasts are never certain, but due to the corona crisis, the degree of uncertainty is greater than usual. In addition to the baseline forecast, we present scenarios on main uncertainties

Full recovery
Rapid shift in employment; spending and investment catch-up

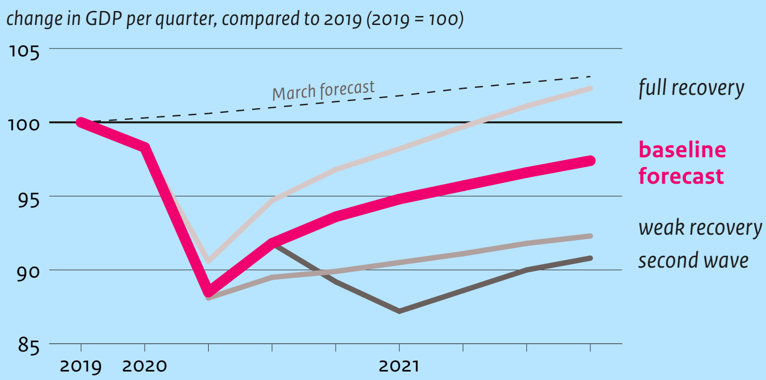
baseline forecast

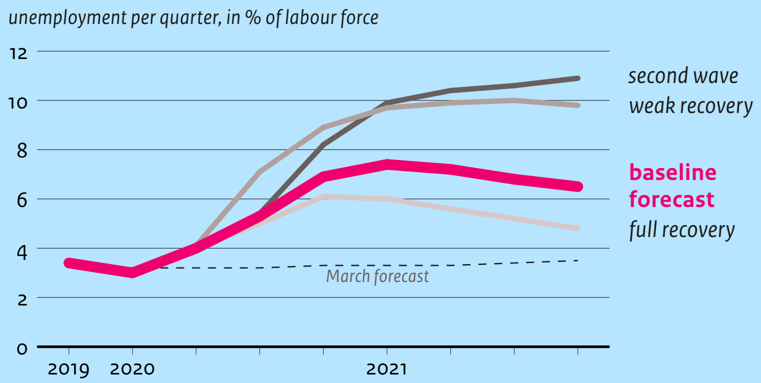
Moderate recovery
Recovery starts in third quarter of 2020, but only partly. Unemployment doubles

Weak recovery
Large problems abroad and in financial system lead to a deeper and longer recession

Second wave
Businesses face severe problems due to renewed outbreak and restrictions, while buffers have shrunk

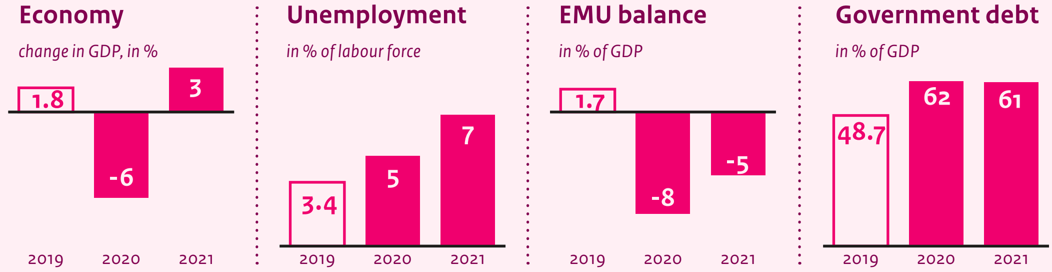
Economic development
Unprecedented decline in activities in 2020. Degree and pace of recovery uncertain





Unemployment
Crisis further increases the divide on the labour market, affecting particularly the self-employed and flex workers

Main data Baseline forecast



Summary

As a result of the global corona outbreak, uncertainty about economic development is very high. There is uncertainty about the degree to which economic activity has declined over the first half of the year, and about how quickly the economy is likely to recover. Another source of uncertainty is that of the course of the pandemic and, in its wake, the easing or tightening of measures. This Policy Brief, therefore, devotes ample attention to the current economic situation and, in addition to the baseline projections, elaborates on three scenarios that explore the uncertainties with regard to the economic recovery and development of the pandemic. On the economic side, we distinguish between a scenario in which the depth of the recession is not too great and recovery is strong, and one with a deep recession followed by a weak recovery. The baseline scenario with a moderate recovery lies in-between these two. Under the epidemic scenario, the economy will be hit very hard; particularly, if a second wave of infections breaks out.

Social distancing measures to counter the pandemic in the Netherlands have led to an exceptional decline in economic activity of some 10% to 15%, between late February and late April. In April, non-food retail sales were 17% lower than at the end of 2019, while the hospitality, culture and leisure sectors had largely come to a standstill. The corona outbreak elsewhere in the world had major consequences for Dutch goods exports. In March, overall exports of goods were already 7% lower than at the end of 2019, and the drop was even more pronounced in April (-15%). Services exports, such as in aviation, have also been severely affected by the corona outbreak. The measures taken also had a major direct impact on the labour market. As a result of the loss of turnover, the number of hours worked per head of the working population was 10% lower in April. The Temporary Emergency Bridging Measure to Preserve Employment (NOW) is a wage cost subsidy that enables this adjustment to the total number of hours worked without causing a large wave of redundancies. Despite this, the number of people employed in April also decreased, by 160,000 compared to the previous month (1.8%), mainly because temporary contracts were not renewed and fewer people were hired.

An upsurge in the pandemic will have a negative impact on the Dutch economy. It is highly uncertain whether and when a new wave of contaminations will hit around the world in general and the Netherlands in particular. The second-wave scenario assumes a new corona wave by the end of this year, which will lead to the reintroduction of social distancing measures and greater caution on the part of consumers and businesses. Reduced production will again go hand in hand with decreased demand. Companies that have already drawn on their buffers during the first wave of corona will suffer heavily in the second wave. Suppliers who need to close down would again leave gaps in their production chain. GDP and consumption after the initial upturn in the third quarter, would again decrease sharply. Under this scenario, year on year, GDP decreases further in 2021 and unemployment increases to 10%. Under this second-wave scenario, the budget deficit would remain historically high next year, due to the harsh economic environment and the assumed continuation of the support packages.

Economic factors can also slow down the recovery of production, employment and spending. In the weaker-recovery scenario, the pick-up in world trade is disappointing due to major economic problems for trading partners. This may be due to the limited ability of government authorities elsewhere to support the recovery. As the global recovery lags behind, banks may run into difficulties as a result of increasing bad debts. This makes lending to businesses more difficult, with negative impact on business investments and residential housing investments. In this scenario, domestic recovery is also very tentative. Consumers remain cautious about spending because of higher unemployment. This is accompanied by declining house prices, which puts further pressure on household spending. The disappointing exports, together with gloomy business expectations and credit shortfalls, have a negative impact on corporate investments in 2021, and unemployment will increase to over 10%. The budget deficit increases further due to lower tax revenues and

additional support measures. The large budget deficit, low GDP (denominator effect) as well as additional support for companies will bring public debt to 76% of GDP.

Developments in production and labour market will be favourable, under a scenario of full recovery. A strong rebound from the corona-related recession is conceivable. Under this scenario, economic recovery will go well and more social distancing measures are lifted. Consumers and businesses are optimistic about the economy starting up again. The additional household savings, in the first half of 2020, will therefore be spent in the rest of the year and in 2021. Companies will be making additional investments to respond to new, post-corona opportunities. Shifts in employment between industries are taking place rapidly, limiting the rise in unemployment. Under this scenario, over the course of 2021, GDP will increase to above late 2019 levels.

Under the Baseline projections, which are between the gloomy and more favourable scenarios, Dutch GDP will decrease by 6% this year.[1] From a historical perspective, this decrease is unprecedented. Unemployment will rise to 7% by the end of 2020. A gradual recovery is expected from the third quarter onwards, because of the reopening of businesses after the lockdown. These baseline projections assume that the pandemic will not see a second wave and that the reimplementation of social distancing measures will not be necessary. Loss of income combined with weakened consumer confidence limit the recovery of private consumption. A certain share of households will want to increase their savings, as a precaution. Business investments will decline as a result of gloomy turnover expectations and smaller cash flows. Similar effects also have a negative impact on consumption and investments in the rest of Europe and the United States. The consequence for the Netherlands would be that, next year, relevant world trade and Dutch exports recover only to a limited extent.

Under the baseline projections, production and employment will still be below pre-corona levels, by the end of next year. This is due to the assumed continuation of some social distancing measures that limit the supply of certain goods and services, and to consumer confidence lagging behind, which means that consumption levels remain low. Recovery is also weakened by the fact that the lockdown has led to losses in income and jobs, despite rapid government intervention. Under the baseline projections, the 6% drop in GDP in 2020 will be followed by an increase of only 3% in 2021. Unemployment will rise further to 7%.

The impact of the support measures on the government budget is large but bearable. Following a first package of emergency measures in March, a second package was presented in May. The ex-ante impact of the corona measures on the budget balance is 31 billion euros. In addition to these measures, the budget balance will deteriorate even further, due to lower tax revenues and higher unemployment benefit expenditure as a result of the recession. Including these effects, the budget deficit will deteriorate by 69 billion euros. The budget balance, under the baseline projections, turns from a surplus of 1.7% of GDP in 2019 to a deficit of 8% in 2020. On the basis of the policy assumptions provided, almost all measures are temporary until the beginning of October. As a result, the budget deficit will decrease to 5% of GDP in 2021. Gross public debt will grow very sharply, from 48.8% of GDP in 2019 to 62% in 2020 and 61% in 2021. Under the weak economic recovery scenario and the second corona wave scenario, by 2021, the debt will even have increased to 76% of GDP. However, under all scenarios, the public debt level will remain far away from what the literature identifies as 'risk-bearing'.

Support policy has dealt with the first blow to the economy, and, for the next phase, it makes sense to focus on facilitating recovery and addressing structural vulnerabilities. Now that social distancing measures are being phased out, emergency measures can be reduced in a controlled way to facilitate the necessary restructuring. International coordination may also help to accelerate recovery. In addition, the crisis

[1] Projections, in this Policy Brief, were rounded to whole figures, seeing their very high degree of uncertainty.

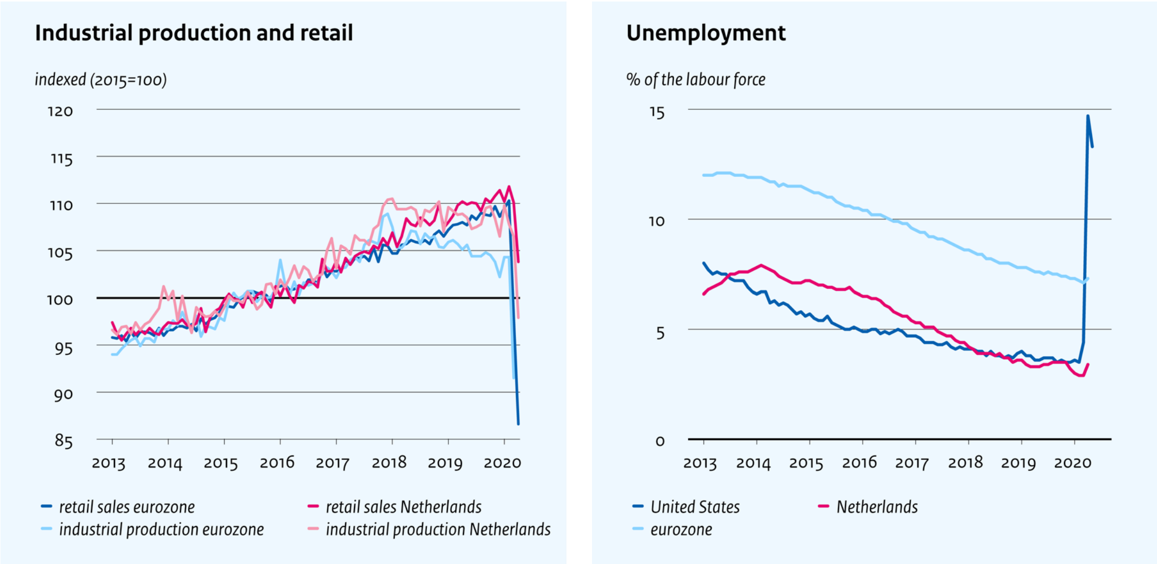
also highlights structural vulnerabilities, such as the dichotomy in the labour market and the structure of the EMU. The crisis may provide an incentive for further reform in these areas. At the same time, it is important not to link everything with everything on the policy agenda; Dutch economist Jan Tinbergen already pointed out that the number of policy objectives need to keep pace with the number of policy instruments.

Dramatic decrease in production and spending in the first half of 2020

The coronavirus and social distancing measures have led to an exceptionally sharp decrease in economic activity, worldwide, during the first half of this year. To prevent the spread of the coronavirus, non-essential businesses were closed down in many countries and passenger traffic was reduced or halted. Even where shops did remain open, the readiness to buy was low, with the exception of supermarkets, DIY stores and online shops.

As early as in January, the Chinese economy already started to be severely affected by the pandemic. It was the first country with quarantines and other physical-contact restrictions. As a result, its GDP decreased by almost 10%, in the first quarter, compared to the previous quarter — by far the largest decline since China's Cultural Revolution in the 1960s and 1970s. Chinese factories have restarted and stores reopened since March, but the recovery is still tentative, due to the decrease in demand from Europe and the United States. In addition, Chinese households remain cautious in their purchases of goods and services and social distancing measures remain in place.

Figure 1 Production and spending collapsed due to the corona pandemic, under explosive growth in unemployment (a)



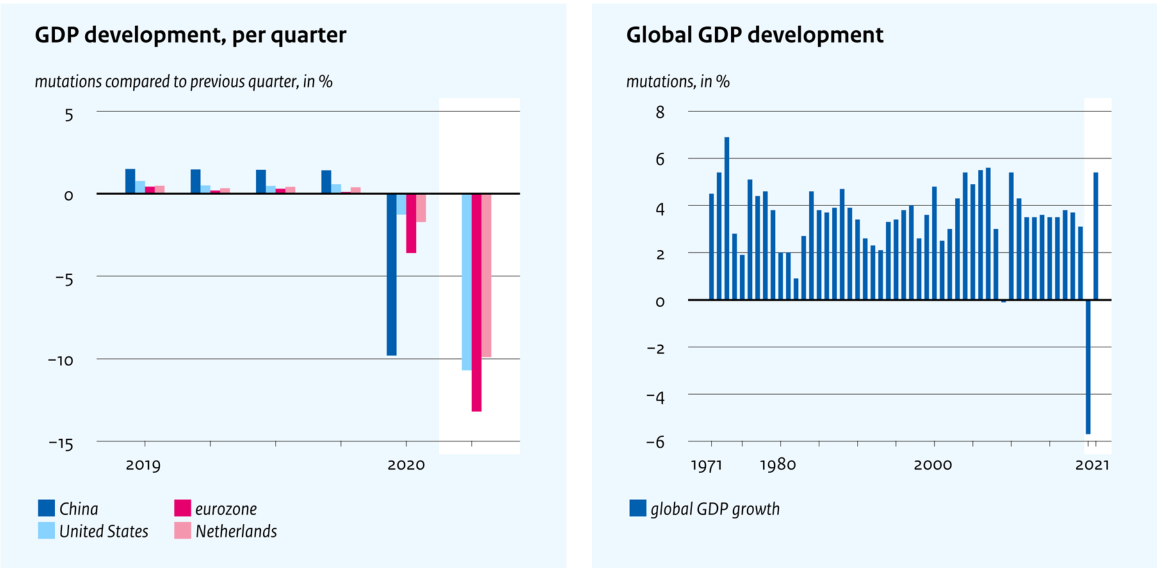
(a). Wage-cost subsidies for reduced working hours have severely limited the increase in unemployment in the eurozone, including in the Netherlands
Source: CBS, Eurostat, BLS. (link)

Europe has been hit hard, since March. In March, non-essential companies were closed down in Europe, particularly in southern Europe, to keep the virus contained. Decreases in production and spending have been enormous (see Figure 1 on the left). In the eurozone, for example, industrial production levels fell by 12% in

March compared to the previous month; in construction this was 14%, and retail sales decreased by 11%. Although there were hardly any effects up to February, GDP already decreased in the first quarter, by 3.6% (Figure 2), representing the largest decline since records began in 1995. The decreases in production and spending continued in April. Businesses and shops gradually reopened in May. As yet, however, there are hardly any concrete data on May, but available confidence indicators present a slightly less negative picture. The monthly figures currently available indicate that the decrease in GDP will be much greater in the second quarter than in the first.

In April, the impact in the United States was particularly severe. There, too, the pandemic is having a major impact on economic activity as a result of business closures and reduced mobility. In April, industrial production was 15% lower than two months prior, while retail sales were down 23%. These decreases are sharper than those at the beginning of the major recession in 2008–2009, when the impact on the labour market was enormous. This time, in April employment was 14.5% lower than two months prior and despite many people withdrawing from the labour market, unemployment rose rapidly to 14.7% of the labour force (see Figure 1, right). As a result of the reopening of businesses in May, the loss of employment fell to 12.8% and unemployment reached 13.3%. Although this unemployment rate is surrounded by some uncertainty, a decline from April's level is clearly visible.[2] The available monthly figures indicate that the decrease in GDP in the second quarter will be much greater than that in the first quarter.

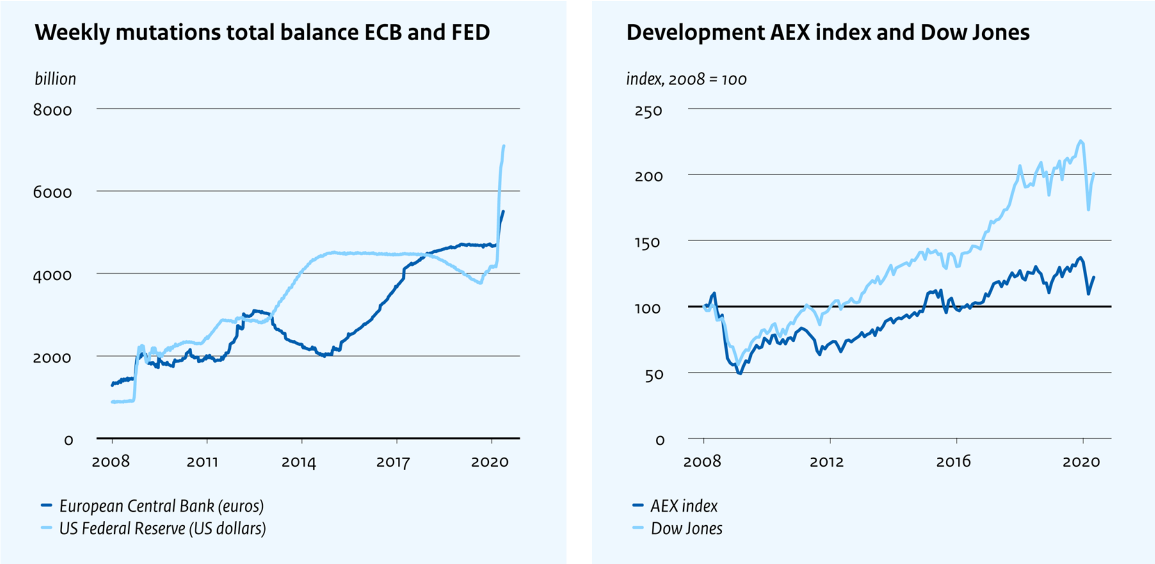
Figure 2 Unprecedented decreases in GDP



Source: CBS, CPB, Eurostat, National Bureau of Statistics of China. (link)

[2] U.S. Bureau of Labor Statistics (2020), THE EMPLOYMENT SITUATION — MAY 2020, 5 June. (link); Groshen, E.L. (2020), Will the True Unemployment Rate Please Stand Up? Misclassification in the May 2020 Jobs Report. (link).

Figure 3 Balance sheet totals of Federal Reserve and ECB rising sharply; share prices partly recovering after mid March

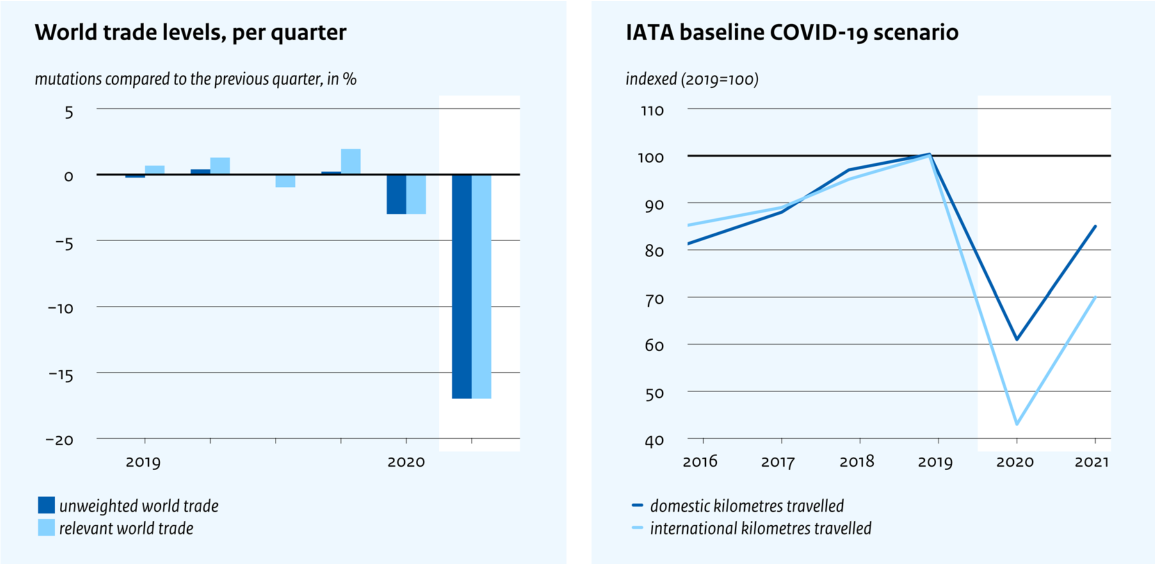


Source: Federal Reserve, ECB and Euronext. (link)

Financial markets calmed down after rapid intervention by central banks. Stock market share prices fell sharply at the beginning of March, when the economic consequences of the corona outbreak became clear (Figure 3). For example, the AEX index fell by 36%, between 14 February, the day of its record level, and 18 March; for the Dow Jones, the decline was 37%, between 12 February and 23 March. At the same time, interest rates on risk-bearing corporate bonds rose sharply. Central banks responded rapidly to the outbreak. The US Federal Reserve cut its benchmark interest rate to 0% and proceeded to provide very massive liquidity injections. US capital market interest rates then fell sharply. The ECB rapidly began to ease the terms and conditions for lending to the banks, came with new loans to banks, and introduced an additional, broader bond-buying programme, the so-called Pandemic Emergency Purchase Programme. This enabled banks to meet the additional demand for business credit. At the same time, national governments implemented sizeable packages of emergency budget measures. This happened more rapidly than in 2008–2009. Following these rapid responses by the central banks and national governments, the free fall on the stock markets came to an end. From 18 March onwards, share prices partially recovered. On 10 June, for example, the decrease since the peak in February was reduced to 11% for the AEX and 9% for the Dow Jones.

World trade did not collapse until the second quarter. Even before the corona outbreak, growth in world trade had been historically low, partly due to the trade frictions between the United States and China. As early as in January and February, the closing down of factories already had a negative impact on Chinese imports and exports. Other trade flows are also affected through their particular chains. Within the EU, too, trade chains are affected by the closure of companies in other EU Member States. In the first quarter, the world trade in goods already decreased by 2.5%, the largest decline since the beginning of 2009. Because of production stagnating in large parts of the world, decreasing demand and increasing uncertainty — which particularly affects the demand for trade-intensive, sustainable goods — a much larger decrease in the trade in goods is projected for the second quarter. Trade in services, which accounts for roughly a quarter of world trade, is also expected to see a considerable decrease. An important part of the world trade in services relies on international transport, which has been shut down almost completely, as a result of the corona outbreak. International Air Transport Association (IATA) expects domestic air traffic to return to pre-crisis levels no earlier than by the end of 2022, and international air traffic not until mid 2023 (Figure 4, on the right). Under the baseline projections, the world trade in goods and services in the second quarter will decrease between 15% and 20%, compared to the previous quarter.

Figure 4 World trade and air traffic took a dive due to the corona outbreak



Source: CPB and IATA. [(link)]

Economic activity in the Netherlands also declined sharply, by some 10% to 15%, between the end of February and the end of April. Large parts of the economy came to a standstill due to the corona outbreak and the implementation of social distancing measures. Some shops closed of their own accord because consumers were postponing their purchases. More than a quarter of employees work in industries that have been severely impacted by the government's corona outbreak measures.[3] Monthly figures on turnover and production in the services sector indicate a very negative trend, up to the month of May. For example, non-food high street sales in April were 17% lower than at the end of 2019 (Table 1). The impact on hospitality, recreation, culture and aviation was even greater. Industrial production in April was 10% lower than at the end of 2019. However, building construction increased up to and including March, despite the social distancing measures and higher level of sickness absence. Based on the available data, the reduction in economic activity, between the end of February and the end of April, is estimated at between 10% and 15%.

Under the baseline projections, GDP volume for the second quarter of 2020 is projected at 11% below that of the fourth quarter of 2019.[4] The shortcomings of the GDP indicator are even more pressing during this corona crisis. For example, the degree of home schooling during the weeks when schools were closed is not reflected in GDP. The same applies to the greater numbers of home-cooked meals, as fewer people were able to dine out. Similar shortcomings can be found with respect to the number of hours worked per employee. With the 11% decrease, over the first half of the year, the initial production decrease is greater than in 2008–2009. Although there were hardly any effects up to February, GDP already fell by 1.7% in the first quarter, compared to the previous one, representing the end of the long period of continuous GDP growth that had started in 2014. In its publication on the quarterly figures, Statistics Netherlands stresses that uncertainty about this growth rate is greater than usual.[5]

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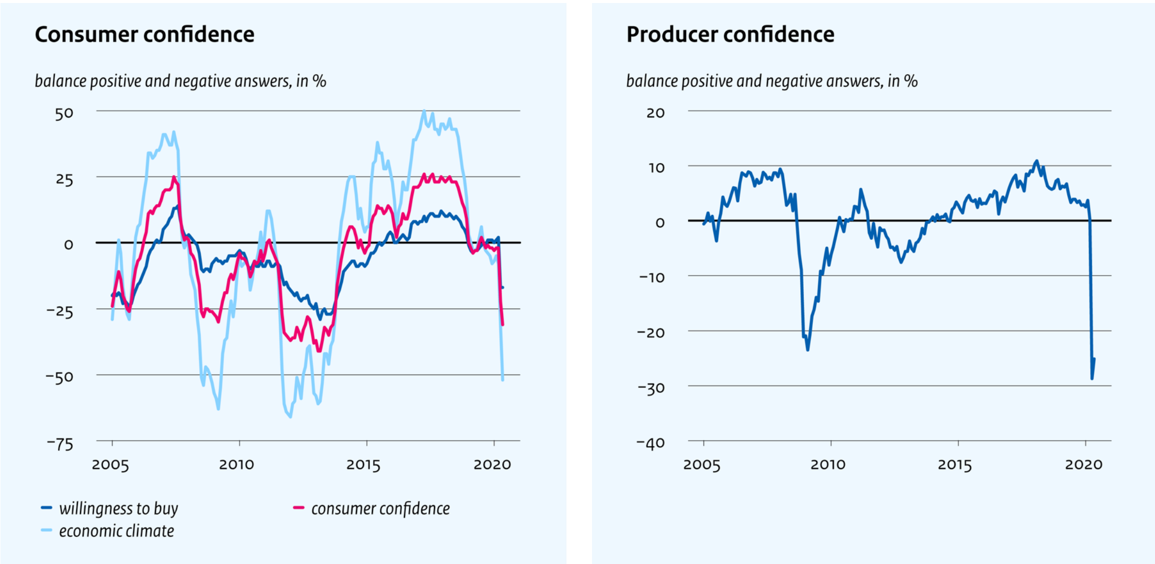
[3] CBS (2020), Hoeveel mannen en vrouwen werken bij de getroffen branches? [how many men and women are employed in the affected sectors?] 17 April. (link)
[4] This is more than in the March scenario analysis. There, the decrease ranged between 1.9% and 10.3%. See CPB (2020), Corona crisis scenarios, 26 March. (link)
[5] CBS (2020), Economic contraction of 1.7 percent in Q1 2020, 15 May. (link)

The decline in GDP is smaller in the Netherlands than elsewhere in the eurozone. Under the baseline projections, the decline between the fourth quarter of 2019 and the second quarter of 2020 is estimated at 11% for the Netherlands and 18% for the eurozone as a whole (with wide ranges around these point estimates). The decline was already smaller in the first quarter, with GDP decreasing by 1.7% in the Netherlands and 3.6% in the eurozone as a whole. The differences can be explained by the fact that the corona outbreak started later in the Netherlands and by the less stringent Dutch measures than those implemented in southern European countries.[6] The differences are also reflected in the monthly figures. For example, the reduction in industrial production in the Netherlands, in April (-10% compared to Q4 of 2019), was much smaller than in the eurozone as a whole (-31%); building construction levels in the Netherlands in March were even slightly higher (1% compared to Q4 of 2019) while they declined sharply in the eurozone as a whole (-12%); the decrease in retail sales was markedly smaller in the Netherlands (5% lower in April than at the end of 2019) than in the eurozone (with -21%). In addition to the less stringent measures, Dutch production and spending were possibly less severely affected than elsewhere, due to the greater opportunities for working from home and online purchasing.[7] The more rapid disbursement of packages of emergency budget measures may also have played a role (for an international comparison of the packages, see the text box 'Corona package of measures in perspective').

Figure 5 Sharp drop in consumer and producer confidence



Source: CBS. (link)

The corona outbreak mainly affects consumption and exports. In the first quarter, private consumption was already down by 2.7%, compared to the previous quarter, the largest decrease in the series started in 1988. Exports of goods and services decreased by 3%, the largest decline since 2015. For example, the closure of shops and restaurants elsewhere in Europe meant that exports of flowers, plants and potatoes came to a virtual standstill. The decline in investments was only limited, with 1.1%, probably due to the long timespan between

[6] The stringency index of the University of Oxford points to less stringent measures for the Netherlands, over the period from mid March to mid May, than were implemented in southern Europe. See University of Oxford (2020), Oxford COVID-19 Government Response Tracker (OxCGRT). (link)

[7] Eurostat data (link) show that the Netherlands has the highest percentage of households with an internet connection (in 2019 this was 98%, while in the EU it was 90%); the Netherlands is in a shared fourth place on individual online purchases in the last three months (with 70% in 2019; while overall in the EU this was 53%); and the Netherlands has the largest percentage of people working from home at least once a week (20% in 2018; 10% in the EU).

purchase and delivery. The monthly figures indicate a much stronger decline in the second quarter. Confidence indicators confirm this indication (Figure 5).

The corona outbreak has had a limited effect on the housing market, so far. In March and April, the upward trend in the price of owner-occupied housing continued. In April, prices rose by 7.3% compared to the previous year. According to the Dutch Association of Real Estate Brokers and Real Estate Experts (NVM), housing transaction numbers have remained steady, since the start of the corona crisis.[8] Although sickness absence has increased, building construction has so far hardly been affected by the corona outbreak. In March, it was up 1% from the fourth quarter of 2019 (see Table 1).

The pandemic and social distancing measures have led to a sharp drop in the number of hours worked, and the number of employed is now also seeing a significant decline. The number of hours worked per worker was 10% lower in April than a year earlier.[9] The wage cost subsidy schemes NOW (Temporary Emergency Bridging Measure to Preserve Employment) and TOZO (Temporary Support Scheme for Self-Employed Persons) meant that the impact was cushioned, mainly, with respect to the number of hours worked per worker, and that the impact on the number of people employed remained only limited. By the end of May, more than one fifth of employees had applied for the NOW wage subsidy.[10] In addition, more than one fifth of the self-employed made use of the TOZO scheme. However, the impact on the labour market did not remain limited to this. In April, the number of people in employment decreased considerably, by 160,000, compared to the previous month (1.8%), the largest decrease in the series that was started in 2003 (Figure 1.6, on the left). Most people who lost their job have temporarily withdrawn from the labour market (see Figure 6, on the right). Their number consisted, in part, of less labour migration. Nevertheless, unemployment also clearly increased, in April, by 41,000 people (15%, or 0.5% of the labour force).

Workers without a permanent contract have been particularly affected. Almost 40% of the Dutch working population has a flexible contract or is self-employed.[11] These groups are being affected most severely by the decline in economic activity. People with a flexible contract have a greater chance of losing their job than those on a permanent contract. In addition, they relatively often work in the industries that are affected by social distancing measures, such as in hospitality and catering, the cultural sector and temp agencies. In March and April, self-employed people saw their hours reduced by twice as much as those of people on permanent contracts.[12] In the period between 20 April and 17 May, the number of temp hours was 24% lower than a year earlier.

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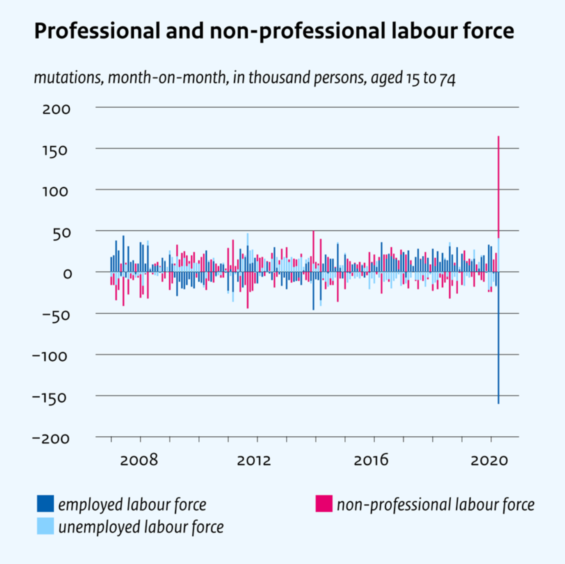
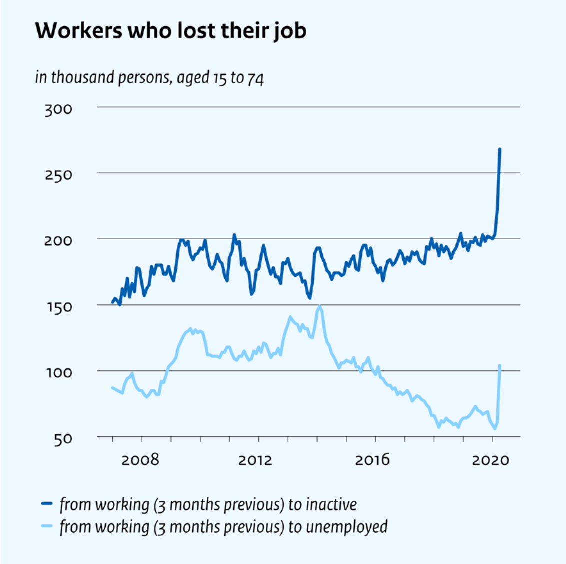
[8] Van der Graaf, S. (2020), Woningmarkt na twee maanden lockdown nog steeds op peil, NVM [Housing market still steady two months after lockdown]. (link)
[9] CBS (2020), 2,1 procent minder uren gewerkt in eerste kwartaal [2.1% *fewer hours worked in the first quarter*], 5 June. (link)
[10] At the end of May, NOW applications had been approved for 123,000 employers. These employers, collectively, employed 2.1 million people. See UWV (2020), Nog een week tijd voor aanvraag NOW 1.0 [*one more week to apply for the NOW 1.0*], press release, 29 May. (link)
[11] Jongen, E., J. Ebregt, B.Scheer and H. von Gaudecker (2020), Arbeidsmarkt: sterke daling gewerkte uren [*labour market: strong decline in hours worked*]. (link)
[12] Jongen, E., J. Ebregt, B.Scheer and H. von Gaudecker (2020), Arbeidsmarkt: sterke daling gewerkte uren [*labour market: strong decline in hours worked*]. (link)

Figure 6 Substantial drop in employment in April (left), most of those who lost their job in April withdrew from the labour market (right)





Source: CBS. (link)

The corona outbreak leads to fewer new collective labour agreements (CAO). Immediately after the outbreak, most of the collective labour agreement negotiations were postponed, because physical meetings were not possible and parties had to rethink the greatly changed outlook. By the beginning of May, labour agreements for 2020 had been set for 71% of the CAOs in the market sector. In the limited number of CAOs that were agreed on only recently, wage increases are lower than in previous CAOs. Because a large proportion of CAOs have already been set, the average wage increase in 2020 remains robust. At the same time, the increase in consumer prices has slowed down this year, from 2.8% in December (based on HICP) to 1.1% in May. This is due to the fact that the impact of the low VAT rate, in January 2019, was not included in the inflation rate, and because of the sharp decrease in energy prices. Underlying inflation, on the other hand, remained stable at 2%, on average, over the first months of this year, partly as a result of higher labour costs.

Table 1 Indications of the size of the decline in the Dutch economy in 2020

	% mutation last observation compared to 2019 Q4 (a)	last observation	% mutation last observation compared to 2019 Q4 (a)	last observation
Spending and GDP (quarter series)				
Consumer spending, households	-17	late March/early April (b)		
Consumer spending, government	-10	late March/early April (b)		
Investments in fixed assets	-8	late March/early April (b)		
Exports of goods and services	-20	late March/early April (b)		
Imports of goods and services	-22	late March/early April (b)		
Gross Domestic Product	-12	late March/early April (b)		
GDP eurozone	-19	late March/early April (b)		
Spending and production (monthly series)				
Household consumption	-9	(March)		
Retail sales	-5	(April)		
- food	2	(April)		
- non-food	-17	(April)		
Internet retail sales (c)	62	(April)		
Car sales (c)	-59	(May)		
Exported goods	-7	(March)		
Imported goods	-6	(March)		
Industrial production	-10	(April)		
Building construction (gross)	1	(March)		
Labour market				
Labour force	-1.4	(April)		
Working population	-1.4	(April)		
Unemployed labour force	-0.7	(April)		
Hours worked	-2.1	(Q1)		
Hours worked per worker (c)	-10.0	(April)		
Job vacancies	-21	(Q1)		
Job vacancies (UWV)	-26	(6–24 April)		
Temp work (c)	-24	(23 March – 19 April)	-24	(20 April – 17 May)
Confidence indicators				
Consumer confidence (CBS; d)	-29	(May)	-27	(late May)
Producer confidence, industry (CBS; d)	-28	(April)	-25	(May)
Producer confidence, retail (EC; d)	-19	(April)	-17	(May)
Producer confidence, services (EC; d)	-53	(May)		
Producer confidence, construction (EC; d)	-21	(April)	-17	(May)

(a) Unless otherwise stated.
(b) Based on quarterly figures up to and including Q1 2020 and the assumption that social distancing measures will have an impact from mid March onwards.
(c) Compared to the corresponding period one year earlier.
(d) Mutation in the balance of positive and negative answers.

Technical issues in these projections

The emergency packages have led to new schemes, such as the Temporary Emergency Measure Bridging Work Retention (NOW), the Temporary Support Scheme for Self-Employed Persons (TOZO) and the Compensation for Entrepreneurs in Affected Sectors COVID-19 (TOGS). This last one has since been replaced by the Reimbursement Fixed Costs SMEs (TVL). We processed the NOW measure as a non-product-related subsidy, more specifically a wage cost subsidy. The payment part of the TOZO has been accounted for as 'other' subsidy on production; the loan part of the TOZO has no effect on the EMU balance but does have an impact on the EMU debt. The TOGS and the TVL were processed as 'other' subsidies on production.

The decrease in the number of hours worked per worker reflects the decrease in the realised labour input. Hours not worked but supported by the NOW were not included in the number of hours worked per person employed.[a] The effect on labour productivity per hour, therefore, is limited. The effect on overall wages of the lower number of hours worked per person employed is largely neutralised by the NOW. Overall wages per hour, including the NOW, do show strong growth, as a result.

A correction was made for the calculation of potential growth. The same adjustment was made by the European Commission in its spring forecast; for the number of hours worked per person in 2020, the adjusted figure is considered to be the average number of hours worked per person, over the years 2019 and 2021.[b]

Tax deferrals have no effect on the EMU balance. Tax deferrals shift revenues to the following calendar year, thus, complicating calculations of projected tax revenue. Up to 1 October of this year, entrepreneurs can apply for three months' special tax deferral for nearly all types of taxes, virtually without any preconditions. The tax deferral can be further extended if the entrepreneur demonstrates that payment problems are related to the corona crisis. When the deferral scheme expires, the then current payment obligations will need to met again. At the same time, a repayment arrangement will be set up for the incurred tax debt. The transposed cash revenues from 2020 to 2021 are not relevant for the EMU balance. Although tax revenue collection is delayed, the underlying transactions relate to 2020. Eurostat has recently highlighted the guidelines, which indicate that the EMU balance is measured according to time of transaction.[c] Tax deferrals do, however, have an impact on gross government debt, because the deferrals require the issuance of additional debt securities.

(a) CBS (2020), 2,1 procent minder uren gewerkt in eerste kwartaal [2.1% *fewer hours worked in the first quarter*], 5 June. (link)
(b) European Commission (2020), EU-CAM estimation of potential output and output gaps in the context of the COVID-19 pandemic shock, note, 27 April. (link)
(c) See 20.171 t/m 20.175 in European Union (2013), on the European system of national and regional accounts in the European Union. (link) and Eurostat (2020), Draft note on statistical implications of some policy measures in the context of the COVID-19 crisis (link)

Technical issues in these projections

(continued from previous page)

Packages of support measures have an impact on the structural EMU balance. Due to activation of the general escape clause, the emergency measures in response to the coronavirus outbreak in 2020 will not be assessed as 'one-offs'. For this reason, the structural EMU balance is not corrected for these — in principle, temporary — support packages.

GDP per quarter reflects the average production over those three months and, thus, does not reflect the output at the end of the quarter. As a result, the sharp decrease in production in March is reflected more in the second quarter's GDP mutation than in that of the first quarter. It also means that the positive impact of businesses reopening on the production level of May and June will mainly be reflected in the GDP development over the third quarter.

The corona crisis complicates economic statistics. This also applies to the consumer price index. For the goods and services for which sales have come to a standstill due to the corona crisis (e.g. air travel, hairdressers, restaurants, 14% of the total), CBS applied fictitious prices.(d) Since January, consumer prices in the Netherlands are no longer physically observed in shops, but are collected via transaction data and web scraping, among other things. As a result, observation of prices of products and services is hardly affected by the corona measures. Elsewhere in Europe, this is a problem, and this also applies to other statistics. Despite coordination through Eurostat, the comparability of main economic data is likely to be lower, at present.

GDP measurement and interpretation are both problematic in the corona crisis. The corona crisis complicates measuring GDP, especially for the health and welfare component.[e] In addition, GDP as a measure of economic activity has its limitations which are particularly pressing during this crisis. For example, the provision of home education during the weeks of schools being closed is not reflected in GDP. The same applies to more home meals being cooked because fewer people could go out to eat. Similar drawbacks apply to the number of hours worked per worker.

Many effects of the corona-related recession are not reflected in static purchasing power. For many Dutch households, disposable income levels will change considerably this year and next year, due to the corona crisis. A large number of people will become unemployed, which will have a negative impact on disposable income. The same applies to employees who will be working fewer hours due to the drop in production, even though this will largely be compensated by the NOW scheme. Self-employed people who get fewer assignments will also see their income decrease. These effects are not reflected in the static purchasing power that CPB normally presents in its projections.

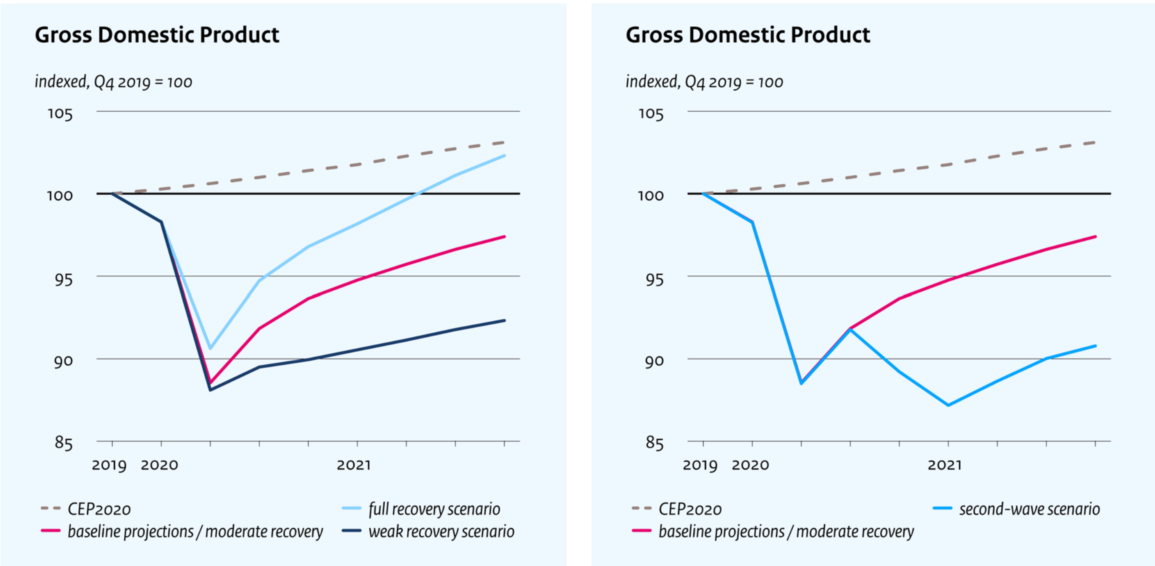
(d) CBS (2020), De gevolgen van de coronacrisis voor het samenstellen van de CPI [*the consequences of the corona crisis for compiling the CPI*], 12 May. (link) CBS (2020), Stijging consumentenprijzen in april lager [*Lower increase in consumer prices in April*], CBS message, 12 May. (link)
(e) CBS (2020), Invloed van de coronacrisis op de eerste berekening [corona crisis impact on initial calculation] , CBS explanation, 15 May. (link)

Outlook to the end of 2021

There is great uncertainty about economic development in the coming quarters. Therefore, this Policy Brief elaborates three scenarios, in addition to the baseline projections, which explore the uncertainty regarding both economic recovery and development of the pandemic. On the economic side, it distinguishes between a scenario in which the recession is not too deep and recovery is strong, and one with a deep recession and weak recovery. The baseline projections are somewhere in-between the two, with a moderate economic recovery. The epidemic scenario mainly shows that the economy will be hit hard if a second wave of infections were to hit. The scenarios explore a bandwidth, but do not represent a lower or upper limit of possible outcomes. The outlook is uncertain, not only because of corona, but also because of US trade policy and the future trade relationship between the United Kingdom and the European Union.

An upsurge in the pandemic would have a negative impact on the Dutch economy. Development of the coronavirus is extremely uncertain, and a scenario in which a new wave of infections will hit the world and the Netherlands, severely, is not inconceivable.[13] Under the second-wave scenario, a new coronavirus wave is assumed to hit at the end of this year, which will lead to the reimplementation of social distancing measures and greater caution among consumers and businesses. Reduced production will, once again, go hand in hand with a decrease in demand. Companies that have already used much of their financial buffer in the first wave will suffer heavily in the second. Supply companies closing their doors again would once more leave gaps in the production chains. GDP and consumption levels, after the initial upturn in the third quarter, would decrease sharply, again. In this scenario, GDP would go down further, year-on-year, in 2021, and unemployment would rise above 10%. In this second-wave scenario, the budget deficit would hardly decrease in 2021, due to the harsh economic climate and the assumed continuation of the packages of support measures.

Figure 7 GDP volume, under various scenarios



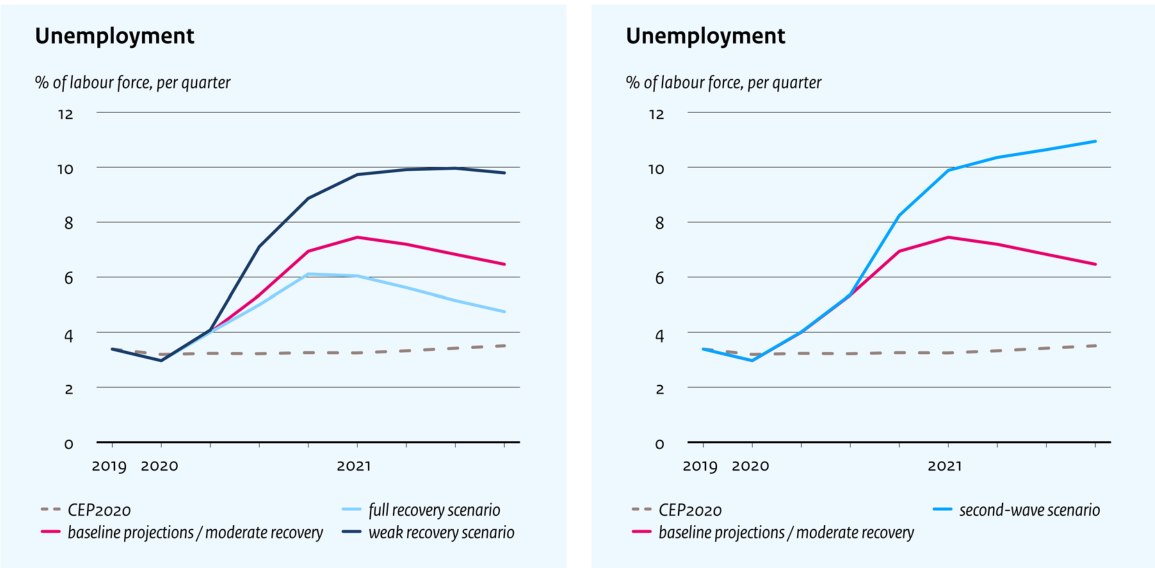
Source: CPB. (link)

[13] Also see scenarios in Van Dissel (2020), COVID-19, presentation for the Dutch House of Representatives, 20 May. (link)

Economic factors can also slow down recovery in production, employment and spending. Under a weak recovery scenario, the increase in world trade is disappointing, due to major economic problems at various trading partners. This may be due to the limited ability of governments elsewhere to support economic recovery. As global recovery lags behind, banks may run into difficulties because of an increase in bad debts.[14] This makes providing credit to businesses more difficult, with negative effects on business investment and housing construction. In this scenario, domestic recovery is also very tentative. Consumers remain cautious about spending, because of the higher rate of unemployment. This is accompanied by decreasing house prices, which puts further pressure on household spending. Disappointing exports, together with gloomy business prospects and faltering credit provision, have a negative impact on business investments. The labour market will not recover, with companies making further cuts in hiring both permanent and flex workers. Under this scenario, there will be no year-on-year GDP recovery in 2021 and unemployment will rise to 10%. The budget deficit continues to widen due to low tax revenues, rising expenditure on unemployment benefit payments and additional support measures. The large budget deficit, low GDP (denominator effect), as well as additional credit provision to companies will increase public debt to 76% of GDP.

Production and labour market both develop favourably, under the full recovery scenario. A strong bounceback from the corona-related recession is conceivable. Under this scenario, economic recovery goes well and social distancing measures are lifted further. Consumers and businesses are optimistic about the restart of the economy. The additional money saved by households during the first half of 2020 will therefore be spent in the remainder of the year and in 2021. Companies are making additional investments to respond to new opportunities, following corona. Shifts in employment between sectors are taking place rapidly, limiting the rise in unemployment. Under this scenario, by the end of 2021, GDP will be above its level of late 2019.

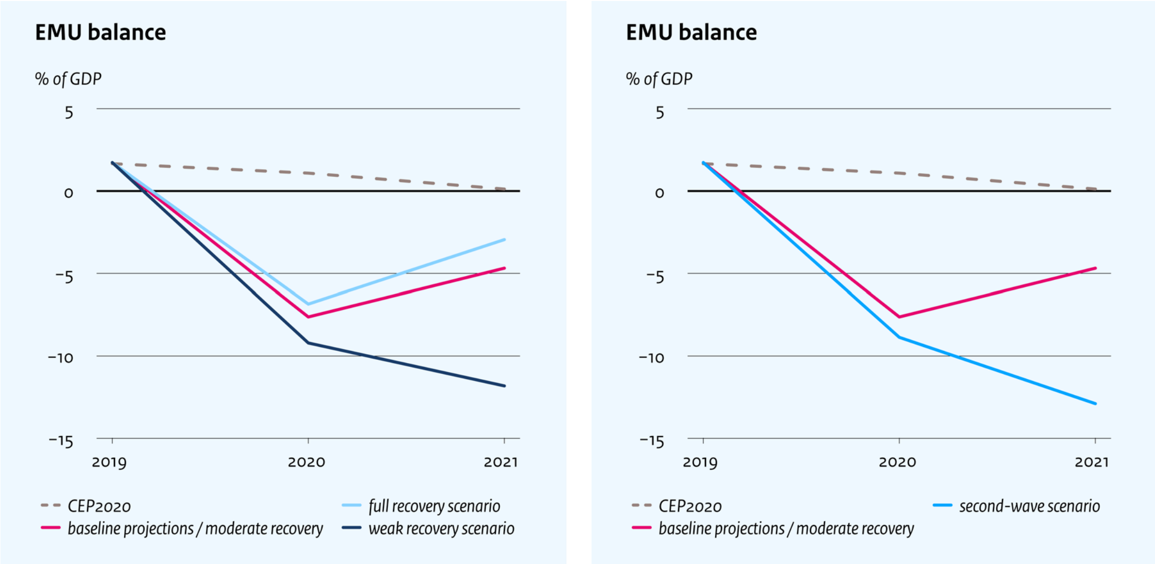
Figure 8 Unemployment, under various scenarios



Source: CPB. (link)

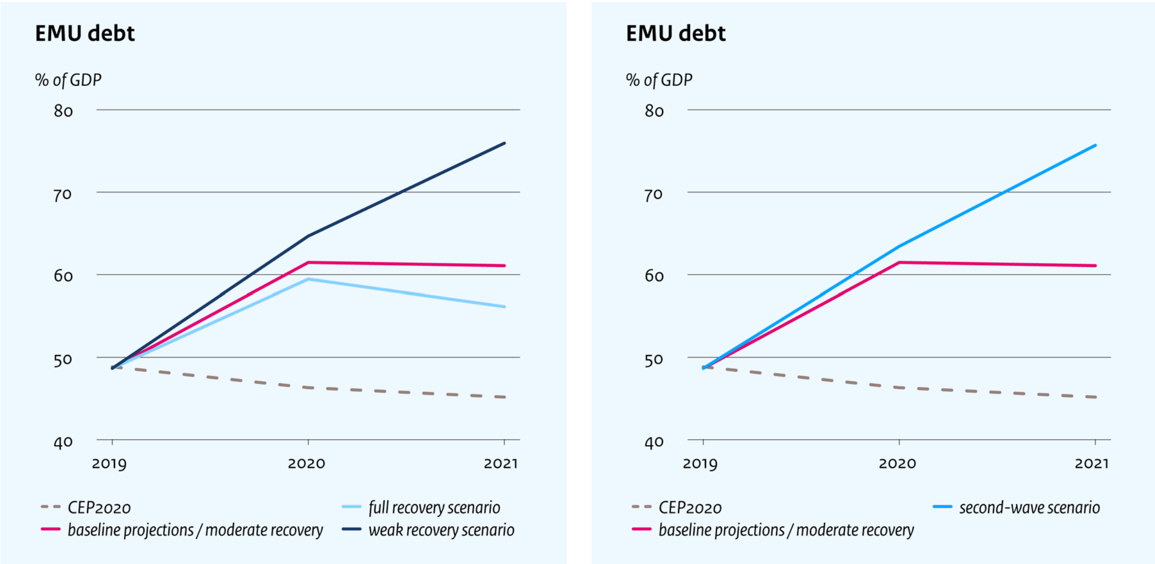
[14] CPB (2020), Risicorapportage Financiële markten 2020 [CPB Financial Stability Report 2020], 2 June. (link)

Figure 9 Budget balance, under various scenarios



Source: CPB [(link)]

Figure 10 Government debt, under various scenarios



Source: CPB [(link)]

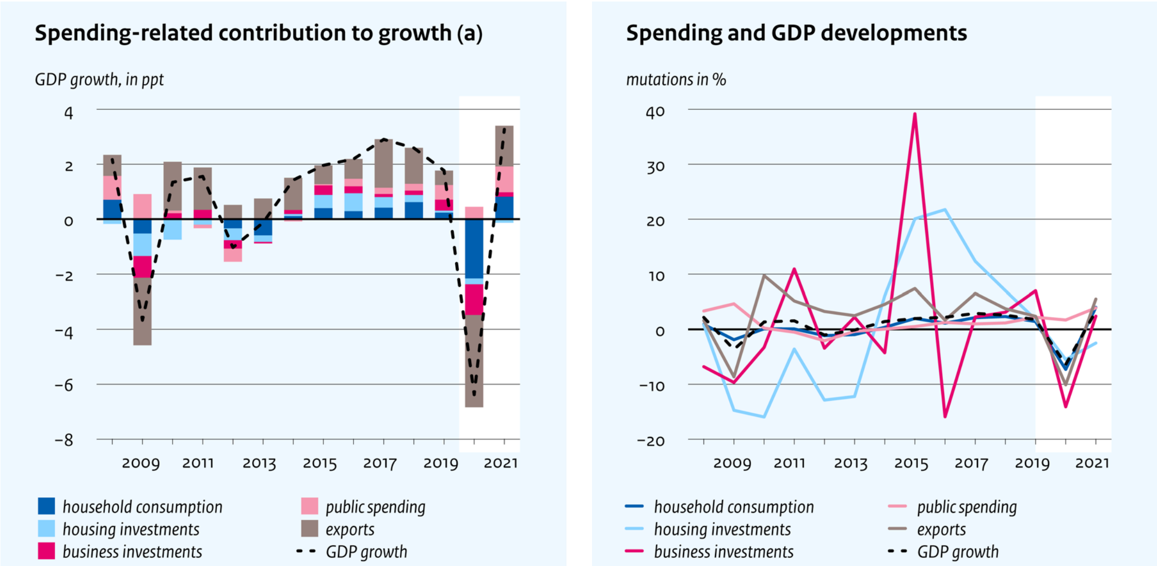
Under baseline projections, which are in-between the gloomy and the more favourable scenario, the economy will recover, from the third quarter onwards.[15] This applies to the Netherlands, but also to the rest of the eurozone and the United States. In China, economic recovery is likely to start already in the second quarter. Production and spending are bouncing back, due to the reopening of businesses after the lockdown and fewer physical restrictions for consumers. However, there is no V-curve; recovery is much less steep than the preceding decline. This is partly due to social distancing measures that reduce the supply of certain goods and services, and to households postponing the purchase of goods and services to limit social interaction. Reduced public transport capacity is another limiting factor. The recovery is also weakened by the fact that the lockdown has led to loss of income and jobs, despite rapid implementation of government measures.

[15] The baseline projections are based on the economic data and policy measures as these were known on 5 June. The technical assumptions on interest rates, exchange rates and energy prices are based on data for week 21 (18–24 May).

The economic impact is mainly felt by flex workers and the self-employed; various sectors, particularly hospitality, tourism, culture and aviation continue to be negatively affected. Loss of income combined with weakened consumer confidence limit the recovery of private consumption. A certain share of households will be inclined to up their savings, as a precaution. Business investments are under pressure due to gloomy turnover expectations and lower cash flows. Despite the sizeable package of support measures, some businesses will go bankrupt, with negative effects on business investments. Similar effects also affect consumption and investments in the rest of Europe and in the United States. For the Netherlands, this means that relevant world trade and Dutch exports will recover only to a limited extent.

Baseline projections assume a situation in which the pandemic is under control, both in the Netherlands and internationally, but without there being a vaccine available to combat the virus. This corresponds with the slow-burn scenario outlined by the RIVM.[16] From an economic perspective, this means that the reintroduction of social distancing measures is not necessary, and possibly even a further scale-down of the restrictions could be implemented.

Figure 11 Annual GDP and spending, under the baseline projections, 2008–2021



(a) Final and cumulated intermediate imports have been deducted from the spending categories
Source: CBS and CPB. (link)

Despite the recovery in the second half of the year, Dutch GDP will decrease by 6% this year, which represents an unprecedented decline. By comparison: in 2009 GDP declined by 3.7% and in 1931 by 3.6%.[17] The current year will therefore be the seventh post-war year with a drop in GDP.[18] For individual expenditure categories, too, the year-on-year decrease is exceptional: 7% for household consumption, 14% for business investment and 10% for exports. For all spending categories, the decline is due to a sharp decrease in the first and second quarters, followed by an incomplete recovery in the second half of the year. On average, the impact of the corona outbreak on household disposable income is limited, but for some it is large. Government measures, such as the NOW wage cost subsidy and the income support measures for the self-employed via the TOZO scheme, play a major role with respect to average disposable income. It is also important to note that the CAO-related wage increases for 2020 already were largely fixed before the outbreak of the pandemic. Disadvantageous for disposable income is the decline in the number of jobs for employees

[16] Van Dissel, J. (2020), COVID-19, presentation Dutch House of Representatives, 20 May. (link)
[17] CBS, 2014, National accounts; historical 1900–2012, Statline. (link)
[18] CPB, 2019, Zeventig jaar conjunctuurgolven [Seventy years of economic waves], text box in the Macro Economic Outlook 2020. (link)

and in the assignments for the self-employed. The combination of limited mutations in disposable income and strong decreases in consumption leads to a sharp increase in the household savings share in 2020.

By the end of next year, production will likely still be below the pre-corona level. In the baseline projections, the 6% decrease in GDP, in 2020, will be followed by a growth of only 3% in 2021. This incomplete recovery is the result of social distancing measures and the impact of the massive economic blow caused by the corona outbreak. Baseline projections are based on the policy assumptions as supplied by the ministries. These mainly concern the first and second packages of emergency measures, which will end in September 2020, as described in detail in the following section. In 2021, in view of the decline in 2020, household consumption and exports will increase slightly, by 4% and 5%, respectively. Delays and cancellations that result from a reduced turnover will further limit business investments, to an increase of 2%.

Housing investments will decline by 5% in 2020 and 3% in 2021, mainly due to corona-related delays in construction projects. Social distancing measures are delaying land-development procedures and building permits. Although housing demand is decreasing due to declining employment, lower growth in disposable income and a reduced migration balance, the economic impact on the housing market will remain only mild and housing scarcity great. However, the decline in the demand will be reflected in lower house prices than would have been the case without the corona pandemic.

In the baseline projections, unemployment will continue to rise, in the second half of this year and early 2021. The delayed adjustment of the numbers of employees to the lower production level will continue, despite production levels improving from the second half of 2020 onwards. The decline in the number of people employed is attenuated by the fact that the reduced production mainly leads to fewer working hours per person. The NOW and TOZO subsidy schemes support this labour hoarding until October. In addition, companies are reluctant to make changes to their numbers of employees, which in turn is due to the vivid memory of how difficult it was to find suitable personnel just before the corona outbreak. Year on year, the number of people employed will decrease, by 2% in both 2020 and 2021. The number of hours worked will decrease by 7% in 2020, followed by a limited growth of 3% in 2021. The decline in the number of jobs will lead to withdrawals from the Dutch labour market (i.e. the *discouraged worker effect*). The limited entitlement of flex workers to unemployment benefits also plays a role, here. In addition, there will also be fewer labour migrants.[19] After years of strong growth, this will result in a decrease in labour force of 1% in 2020. Unemployment is nevertheless expected to rise sharply, from 3.4% of the labour force in 2019 to 5% in 2020 and 7% in 2021.

Wage increases will slow down in 2021. Wage increases, in the remainder of 2020 and in 2021, will come under pressure from rapidly rising unemployment and the uncertain economic outlook. CAO-related wage increases in the market sector are expected to decline, from 3% in 2020 to 1% in 2021. At the beginning of May, 29% of collective labour agreements (CAOs) still had to be reached for the year 2020. For this year, no wage increases are expected to be agreed on, for a substantial part of these CAOs. For 2021, in 79% of CAOs agreements still have to be reached. New collective labour agreements are expected to result in lower wage increases. As a result, real wage increases will be very modest, in 2021.

Inflation is largely determined by the volatile oil price, and reduced demand is expected to increasingly slow inflation. In the second half of 2020, inflation will remain low due to the low oil price. Year-on-year, inflation (HICP) will decrease from 2.7% in 2019 to 1% in 2020, due to the fact that the VAT increase of January 2019 is not included in the inflation figure and because of the halving of the oil price, from USD 64 per barrel

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[19] CBS (2020), Immigratie gedaald na uitbreken coronapandemie [Immigration decreased after outbreak of coronavirus pandemic], 19 May. (link)

to USD 38 per barrel. Inflation is expected to be 1.5% in 2021. After the oil price has dampened inflation in 2020, the estimated increase in the oil price in 2021 will have a positive effect on inflation. Supply bottlenecks and demand effects work against each other in the Dutch economy. In some sectors, social distancing measures lead to cost increases and higher prices. On the other hand, demand will decline as a result of lower consumer confidence and rising unemployment. Furthermore, capacity utilisation is low, which has a negative impact on company margins and leads to lower prices. This last effect dominates the baseline projections, but here, too, there is uncertainty.

In the baseline projections, nominal pensions will be cut in 2021.[20] These projections for pensions are based on the related policy principles as provided to CPB. They concern the accord reached under the pension agreement about only having to apply a discount to the MVEV (minimum own capital requirement) if the funding ratio is below 100%, in such a way that the funding ratio will return to 100%. This will lead to nominal discounts that will be distributed over a number of years. The expected implementation date is 1 July 2021. The projected discount over the whole of 2021 will be 2.1% for the public sector, 1.8% for the healthcare sector and an average of 1.6% for the market sector.

The consequences of the corona crisis are distributed very unevenly among the population. A favourable development of purchasing power for one part of the population is accompanied by insecurity and job losses for others. People who keep their jobs will see their purchasing power increase by an average of 2.3% in 2020. An increase in purchasing power in 2021 will be the result of high CAO-related wage increases, low inflation and certain policy measures. Opposite the positive purchasing power figures for people who keep their jobs, there is great uncertainty among people for whom job retention is uncertain, and a large drop in purchasing power for those who eventually lose their jobs. These effects are invisible in the purchasing power figures, because they are based on a static situation in which people keep their job and nothing changes in household circumstances. In an exceptional situation such as the corona crisis, static purchasing power figures therefore are less meaningful.

[20] Social partners and government reached a preliminary agreement on pensions on June 12. There will be no of smaller pension cuts when this becomes the final agreement on pensions.

Table 2 Main data for the Netherlands, 2016–2021

	2016	2017	2018	2019	2020	2021
	mutations per year, in %					
International economy						
Relevant world trade volume goods and services	3.7	5.5	3.4	3.1	-10.6	6.5
Competitor prices (a)	-2.6	1.3	-0.6	2.0	0.6	0.6
Oil price (in USD per barrel)	43.8	54.3	70.9	64.3	37.5	39.7
Euro exchange rate (USD per euro)	1.11	1.13	1.18	1.12	1.09	1.09
Long-term interest rate, the Netherlands (level in %)	0.3	0.5	0.6	-0.1	-0.3	-0.2
Volume GDP and spending						
Gross Domestic Product (GDP, economic growth)	2.2	2.9	2.6	1.8	-6.4	3.3
Household consumption	1.1	2.1	2.3	1.4	-7.3	4.0
Public consumption	1.3	0.9	1.6	1.8	1.5	3.6
Investments (including stocks)	-6.7	4.2	2.2	4.7	-10.3	3.2
Export of goods and services	1.7	6.5	3.7	2.4	-10.1	5.5
Import of goods and services	-2.0	6.2	3.3	3.1	-9.8	6.4
Prices, wages and purchasing power						
Price level Gross Domestic Product	0.5	1.3	2.2	3.0	2.5	1.0
Export prices goods and services, excluding energy	-1.3	1.3	1.0	0.8	0.5	1.0
Price levels imported goods	-4.5	3.6	2.7	-1.2	-4.4	1.1
Inflation, Harmonised Index of Consumer Prices (HICP)	0.1	1.3	1.6	2.7	1.1	1.5
Wage rate business sector (per hour) (d)	0.7	0.9	1.8	3.2	7.7	-2.7
Collective labour agreement (CAO) wages (c)	1.5	1.5	2.0	2.4	2.6	1.4
Purchasing power, static, median all households	2.5	0.2	0.1	1.0	2.3	0.5
Labour market						
Labour force	0.4	0.8	1.2	1.6	-0.6	0.3
Working population	1.3	2.1	2.3	2.0	-2.1	-2.0
Unemployed labour force (x thousand persons)	538	438	350	314	445	645
Unemployed labour force (in %)	6.0	4.9	3.8	3.4	4.8	7.0
Employment (in hours)	2.4	2.0	2.2	2.0	-6.8	3.3
Other						
labour income share (in %)	73.9	73.3	73.1	74.0	74.5	75.6
Labour productivity business sector (per hour)	-0.2	0.9	0.6	0.1	0.6	0.1
Individual saving share (in % disposable income) (b)	3.9	3.0	2.8	3.2	11.1	8.4
Balance current accounts (in % of GDP)	8.1	10.8	11.2	10.2	8.9	9.6
	in % of GDP					
Public sector						
EMU balance	0.0	1.3	1,5	1,7	-7,6	-4,7
EMU debt (ultimo year)	61.9	56.9	52,4	48,7	61,5	61,1
Public financial burden	38.4	38.6	38,7	39,3	37,6	37,7
Gross public spending	44.0	42.9	42,5	42,3	49,9	46,9

a) Goods and services, excluding natural resources and fuels.
(b) Level; disposable family income includes public savings.
(c) Former contract wages business sector.
(d) The NOW wage cost subsidy and the continuity contribution in healthcare will have an upward effect of 5.7 percentage points on wage rate changes in 2020 and a downward effect of 4.6 percentage points in 2021.

Government budget turns into substantial deficit

The impact of support measures on the government budget is large yet bearable. Following a first package of emergency measures in March, a second package was presented in May.[21] In addition to these packages and other corona-related measures, including extra spending on intensive care and face masks, other measures have also been taken this year, such as spending increases at the Dutch Tax and Customs Administration and a supplementary package of measures addressing the nitrogen problem.[22] The projected effect of the corona measures on the budget balance is 31 billion euros (see Table 3). In addition to the impact from these measures, the budget balance will also deteriorate as a result of lower tax revenues and higher unemployment benefit expenditures as a result of the recession. Including these effects, the budget deficit will increase by 69 billion euros in 2020. The budget balance will turn from a surplus of 1.7% of GDP in 2019 to a deficit of 8% in 2020. This deficit is larger than that of 2009 and 2010, when it was 5.1% and 5.2% of GDP, respectively. The measures taken are substantial, also from an international point of view (see the Text box 'Corona package of measures in perspective'). On the basis of the policy assumptions as provided to CPB, almost all the measures are temporary until the beginning of October. As a result, the budget deficit will decrease to 5% of GDP in 2021. This is due to the phasing out of the support measures as well as to the economic recovery in the baseline projections.

For now, the coronavirus seems to have hardly had any effect on healthcare expenditure. The higher expenditure on intensive care and protective equipment such as face masks, are offset by the lower expenditure on activities that are negatively affected by the pandemic. The currently lower income levels of care providers (e.g. dentists, physiotherapists, hospitals) will largely be compensated by way of a continuity contribution from health insurance companies in 2020 and 2021.

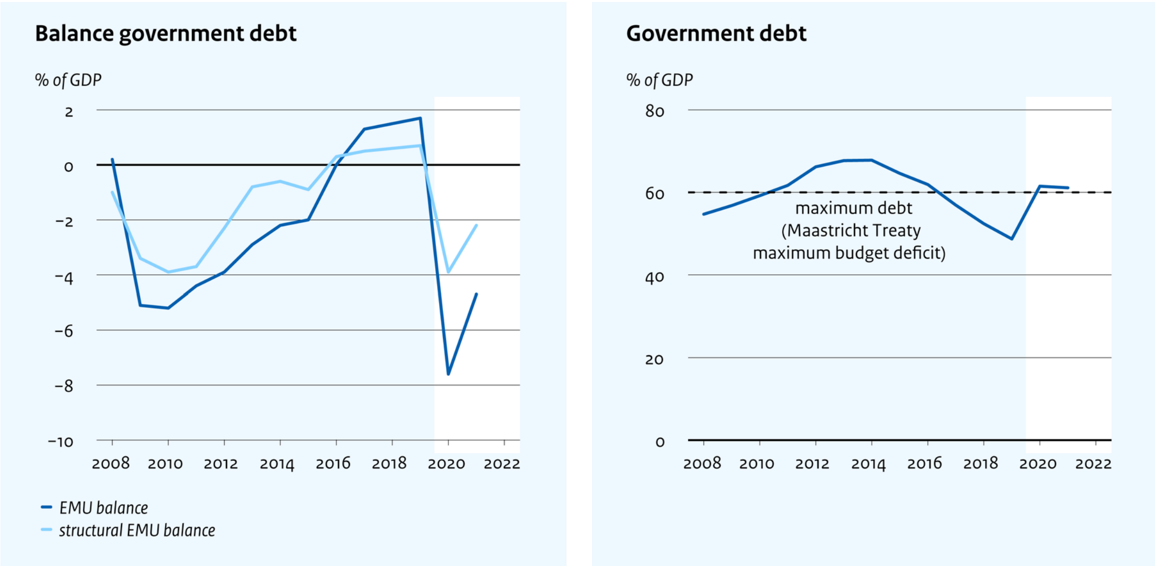
Government debt is increasing very sharply. According to the baseline projections, gross debt will increase from 48% of GDP in 2019 to 62% in 2020 after which it will stabilise at 61% in 2021. Under the weak economic recovery scenario and the second corona wave scenario, the debt will even increase to 76% of GDP in 2021. However, under all scenarios, the government debt remains at a large distance from levels identified as risk-bearing in the literature. The sharp increase in government debt in 2020 is due not only to the sizeable budget deficit, but also to the decrease in GDP (i.e. denominator effect) and to measures directly affecting the debt without having an impact on the EMU balance (providing additional loans and tax deferrals). The additional guarantees that are included in the packages of emergency measures will not be reflected in the gross public debt, as long as the financial damage from these schemes will not rise above the level currently foreseen in the budget.

Current national and European budgetary regulations impose no restrictions on budget policy. On a national level, budgetary ceilings are currently being raised to accommodate additional expenditures, so that

[21] Ministry of Economic Affairs and Climate Policy (2020), Noodpakket banen en economie [package of emergence measures on jobs and the economy], Parliamentary Letter, 17 March. (link); Ministry of Economic Affairs and Climate Policy (2020), Noodpakket 2.0 [Package of emergency measures 2.0], Parliamentary Letter, 20 May. (link); Ministry of Economic Affairs and Climate Policy (2020), Noodpakket 2.0 [Package of emergency measures 2.0], Parliamentary Letter, 28 May. (link)
[22] The temporary brigding scheme for flex workers (TOFA), as announced by the Ministry of SZW on 3 June (link), is not included in the calculation of the support measures. The overall budgetary estimation of TOFA by SZW is 0.2 billion euros.

none of the emergency packages will lead to these ceilings being exceeded.[23] Following a proposal by the European Commission, the national Ministers of Finance activated the general escape clause in the Stability and Growth Pact, because of the severe recession caused by the corona outbreak.[24] This activation means that the European Commission will not propose action on possible deviations from the rules on maximum budget deficits and national debt. This applies until such time as the Ministers of Finance decide to deactivate the clause.

Figure 12 Budget balance turns into a substantial deficit; government debt increases sharply



Source: CBS and CPB. (link)

[23] Ministry of Finance (2020), Spring Memorandum 2020, 24 April. (link)
[24] Council of the European Union (2020), Statement of EU ministers of finance on the Stability and Growth Pact in light of the COVID-19 crisis, press release, 23 March (link); Ministry of Finance (2020), Minutes extra meeting Economic and Financial Affairs Council and Euro group, 23 and 24 March 2020. (link)

Table 3 Packages of support measures and other budgetary measures

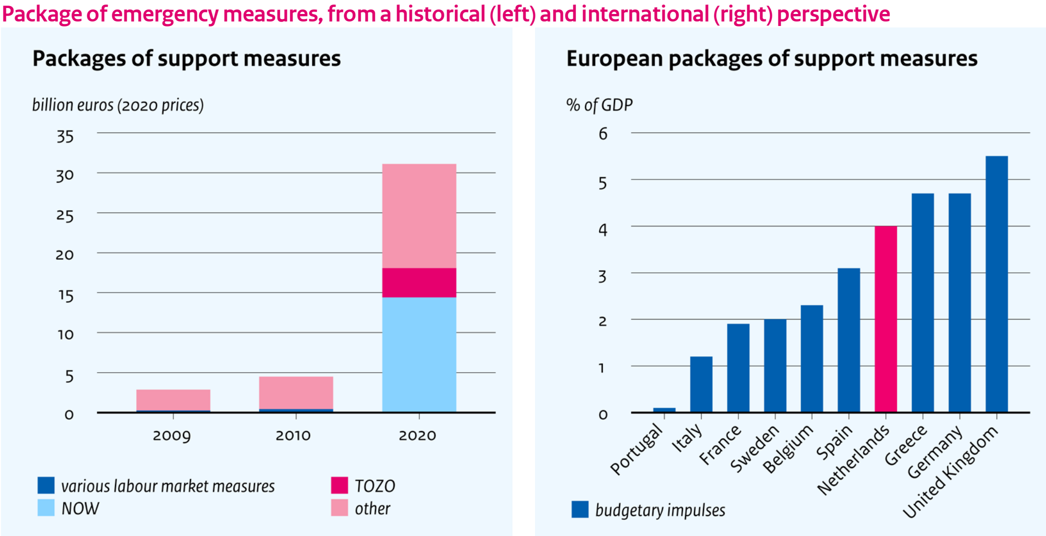
	2020
	+ is negative impact on EMU balance / increasing EMU debt (a)
	billion euros
Expenditure package of support measures	26.8
NOW (Temporary Emergency Bridging Measure to Preserve Employment)	14.4
TOZO (Temporary Support Scheme for Self-Employed Persons)	3.7
TOGS (Reimbursement for Entrepreneurs in Affected Sectors COVID-19)	1.7
Financial scheme for public transport companies	1.3
TVL (Reimbursement Fixed Costs SMEs)	0.9
Compensation guarantee schemes	0.8
Purchase, distribution and sales of medical aids	0.7
Package of emergency measures municipalities	0.6
Support measure cultural sector	0.3
Reimbursement of personal contribution to child care costs	0.3
Other (e.g. increase in spending on education, support for horticultural sector)	2.1
Taxation package of support measures	4.3
Fiscal corona reserve corporation tax	3.0
Wages 2020 reduced under a decrease in turnover	1.0
Other	0.3
Other policies	3.3
EMU balance (ex ante)	34.4
Delayed-impact effects	34.1
EMU balance (ex post)	68.5
EMU balance (ex post; % of GDP)	8.7
Balance-sheet mutations	
- of which: loans	2.0
- of which: tax postponement	23.6
- of which: regular discrepancies between transaction-based and actual revenues	-1.9
EMU debt (ex post)	91.2
EMU debt (% of GDP; including denominator effect)	15.2
Guarantees	50.0
Guaranties (% of GDP)	6.4

(a) + is negative impact on EMU balance / increases EMU debt. Guaranties are not reflected in the EMU balance nor in the EMU debt, with the exception of damages related to the guarantee schemes.

Corona package of measures in perspective

The size of the package of support measures is unprecedented, from a historical perspective. The corona-related package of measures consists of budgetary impulses, tax deferrals, government guarantees and liquidity measures, and has an estimated size of 14% of GDP, 4% of which consists of EMU balance-related measures.[a] On top of this is the impulse from the application of automatic stabilisers. Compared to previous support packages, this is a very large one (figure on the left). In response to the credit crisis in 2009 and 2010, a stimulus package of, on average, 0.6% of GDP was implemented, largely consisting of part-time unemployment benefits, measures on education, infrastructure and construction, and liquidity expansion for companies.[b]

Package of emergency measures, from a historical (left) and international (right) perspective



Source: CPB estimation for the Netherlands, for the other EU Member States (all measures up to the end of April, excluding tax deferrals) (link)

Other European countries also announced substantial support packages. The United Kingdom set up the largest package of emergency measures as a budgetary stimulus, for more than 5% of GDP (figure on the right). The support packages, in most countries, provide some form of direct income support to workers and businesses.[c] Spending on healthcare is also increased, including for the purchase of protective equipment and the hiring of additional staff. In addition, a number of countries rely on government guarantees and loans, such as Italy (over 30% of GDP) and Germany (almost 30% of GDP).[d] In the Netherlands, the volume of guarantees and loans is about 7% of GDP. **In many European countries, the question remains whether emergency support will arrive on time.** Implementation takes time and the implementing organisations are often not equipped to process large numbers of support applications. If aid does not arrive on time, this leads to extra income losses for households and business bankruptcies, with possible negative structural effects on economic growth. Time will tell whether the support will be on time to prevent this from happening.

(a) Tax deferrals are not included in the budgetary impulse, see the text box on 'Technical issues in these projections'.
(b) See Suyker, W. and A. Zeilstra (2011), Effecten stimuleringspakket [Effects stimulus package], CPB Communication, 12 September 2011. (link)
(c) See EU Independent Fiscal Institutions (2020), Special issue European Fiscal Monitor. (link)
(d) See Smid, B., B. Soederhuizen and R. Teulings (2020), Een nieuwe plaag voor de EMU [A new plague for the EMU], CPB corona publication. (link)

Prospects and economic policy

The corona crisis poses major challenges for policymakers. The nature and scale of the crisis call for active and massive government intervention; entire parts of the economy have been forced to come to a grinding halt, and the abrupt decline in economic activity is such that a downward spiral of bankruptcies, unemployment and falling demand is lurking. This is further exacerbated by the international character of the crisis. It also and again exposes vulnerabilities in international value chains and in the European financial architecture.

The initial policy response has been rapid and comprehensive, benefiting from the lessons of the Great Recession. National governments have responded with comprehensive support programmes. Lessons have been learned from what was effective in the previous crisis, such as providing liquidity on a large scale and enabling companies to retain staff. The scale on which this has now happened is much larger than in 2008–2009. Decisive action by central banks has also clearly been inspired by the lessons learned during the previous crisis and has brought calm to the financial system.

The challenge of the next stage is to phase out the support measures in a controlled way, but, at the same time, uncertainty is still very high. The support measures have absorbed the first blow, thus preventing further escalation of the crisis. Now that social distancing measures are being phased out and the recovery phase is coming into view, the question arises of how to phase out the emergency measures in a controlled manner. A complicating factor, here, is that the level of uncertainty is still extremely high, as our scenarios illustrate. In the event of a second wave and reimplementation of social distancing measures, the need for the continuation of some form of generic support is obvious. In the event of recovery, it is desirable to phase out the support so as not to hamper necessary restructuring. The pace of recovery will determine the extent to which the government will be able to withdraw. There is a real risk of a too rapid withdrawal exacerbating the problems — especially while recovery is only moderate.

Promising policy options can nevertheless be identified for the next phase, in particular in terms of international coordination and in facilitating adjustments to the economic structure. Enlightened self-interest points to international solidarity. The Netherlands will benefit more than average from successful recovery policies in other countries, and also has a clear interest in minimising the risks and uncertainties surrounding a possible disintegration of the EMU. At the same time, it must be recognised that there are no easy policy solutions within the current European framework.[25] For the Netherlands, it is important to leave room for restructuring the design of support policy. It is clear that adjustments are needed, either because for businesses in some sectors it is expected that they will stay below their former level, for quite some time to come (e.g. caterers, event organisers), or because new opportunities are emerging (online retail, distribution). In addition, it is also a fact that a recession of this magnitude, after a long period of boom, inevitably leads to a redistribution of production and employment, both between and within sectors. In order to accelerate recovery, it is desirable that policy facilitates this process wherever possible, or at least does not counteract it. A commitment to training and retraining rather than to job retention could also be considered, as well as to shaping policy generically where possible, rather than supporting specific sectors or companies.[26] Speeding up investments that have already been planned (e.g. in the energy transition) could possibly aid the recovery. In addition to allowing automatic stabilisers to operate as much as possible, this means that fiscal policy may remain expansionary for a longer period of time.

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[25] Smid, B., B. Soederhuizen and R. Teulings (2020), Een nieuwe plaag voor de EMU [A new plague for the EMU], CPB corona publication. (link)

[26] Exceptions may be considerations of strategic (aviation) of public interest (e.g. culture).

The crisis also draws attention to structural vulnerabilities, such as the dichotomy in the labour market and the structure of the EMU. The corona crisis also touches on a sore point in the Dutch economy; namely its labour market with large groups of self-employed and flex workers. The disproportionate blow to the most vulnerable groups on the labour market reinforces the already existing doubts about the sustainability of this model. [27] The recommendations by the Borstlap Committee[28] can be a starting point for reform. In Europe, the corona crisis has once again drawn attention to the unfinished design of the EMU and the banking union. [29] The current crisis may create scope for further development of the necessary reforms in these areas. At the same time, care must be taken not to link everything with everything on the policy agenda; Dutch economist Tinbergen already pointed out that the number of policy objectives must keep pace with the number of policy instruments.

[27] CPB (2019), What goes up, must come down, analyses in the Central Economic Plan 2019. (link); Geest, L. van, B. Smid and W. Suyker (2019), Trap bij een recessie niet op de rem [In times of recession, do not pull on the brakes], NRC. (link)
[28] Commissie Regulering van Werk (committee on regulating employment, Borstlap Committee) (2020), In what type of country would we like to work? Towards a new design for regulating employment. Final report (link)
[29] CPB (2020), CPB Financial Stability Report, 2 June. (link)