CPB Netherlands Bureau for Economic Policy Analysis

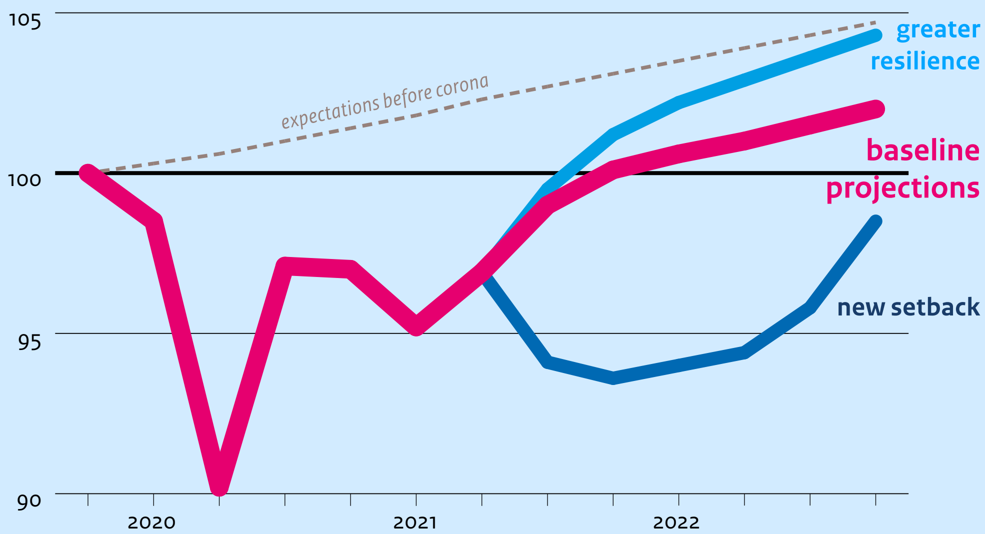
Central Economic Plan 2021

The **government deficit** will peak at nearly 6% of GDP this year and will subsequently decrease to 1.7% in 2022. **Government debt** will reach 57% of GDP next year.

The economy is showing resilience. **Economic recovery will accelerate** in the second half of this year, causing GDP to increase by **2.2%** in 2021 and **3.5%** in 2022.

Unemployment will increase from **4.4%** this year to **4.7%** next year.

economic development, per quarter (indexed, Q4 2019 = 100)



GDP will exceed its late 2019 level again by the end or 2021. Under the pessimistic scenario, new coronavirus variants will cause another outbreak. Under the optimistic scenario, the level of resilience is greater.

It is important that supports make way for recovery policy. This offers possibilities for repairing the damage incurred and ensures that the economy is able to adjust.

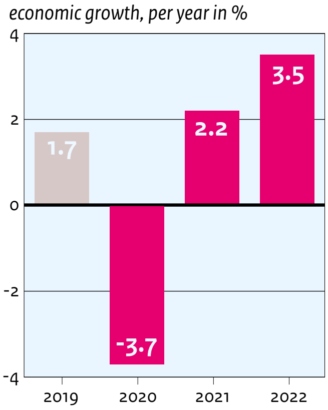
→ **Considerations for policy-making**, page 30

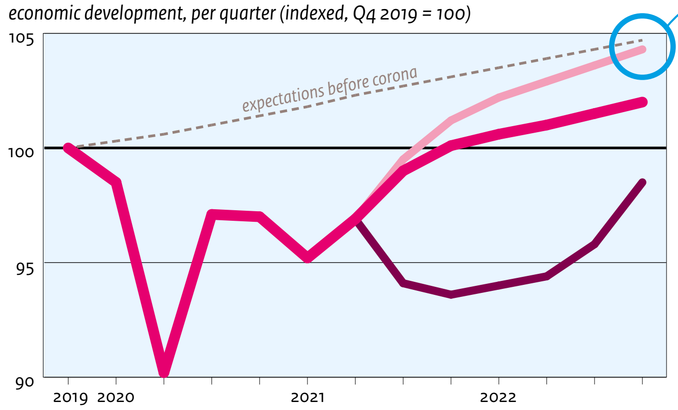
CPB Projections

March 2021

Economy after a year corona crisis

By the end of this year, the economy will be back at the pre-corona level. Recovery is strong, but the effects of the coronavirus crisis linger on. New outbreaks or major vaccination setbacks could throw a spanner in the works





even under more rapid growth, the economy will not make up for all of the growth missed

baseline projections — scenario greater resilience — scenario new setback

starting points baseline projections

Pandemic

infections are decreasing, restrictions will be lifted over the course of this year

Consumption

people will be able to spend their savings again

Support policy

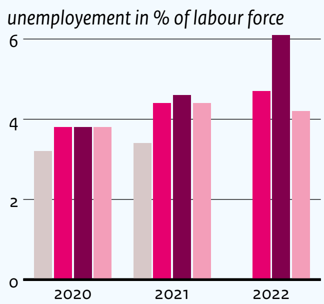
phase out of support measures in second half of 2021

Businesses

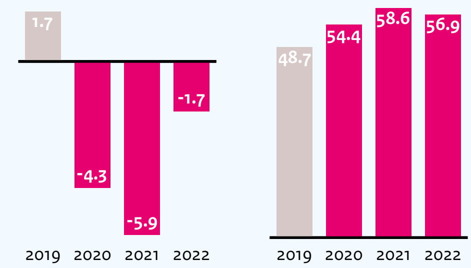
investments increase when confidence returns, some will still face difficulties

Abroad

recovery abroad, exports increase



When support measures expire, this will involve restructuring and bankruptcies, in turn causing unemployement to increase



Due to the extensive support measures, this year's budget deficit is historically large, but it will subsequently decrease due to recovery and the expiration of support

the deficit and increasing government debt will stay well under the eurozone's average

Although the course of the pandemic is disappointing, the economy is showing resilience. But even when the virus is brought under control, the economic impact of the crisis will linger on. Under all scenarios, it is important that support is turned into recovery policy in order to repair damage and ensure the economy can adapt → **Considerations for policy-making, page 30**

Summary

After the decrease in GDP that was caused by the second wave of the coronavirus, economic recovery is gradually gaining momentum in the second quarter. Growth is projected to accelerate in the second half of the year, increasing GDP by 2.2% in 2021 and 3.5% in 2022. By the end of 2021, it will be above the level of late 2019 again. These projections are based on the government's current policy intentions according to which financial support measures will expire at the end of June. Consumption will increase strongly once shops and restaurants fully reopen and consumer fears of becoming infected diminish as more people are vaccinated. The sharp increase in savings during the coronavirus-induced recession will allow for a strong growth in consumption. Investments will show a positive response to the increase in sales and the more favourable revenue expectations, supported by low financing costs. However, investment growth will be dampened by additional bankruptcies in certain sectors after termination of the support policy and as a result of the damage to the balance sheet suffered by companies during the virus outbreak.

Exports will increase as restrictions are being lifted elsewhere in Europe. As a result, production and spending in Europe are on the rise again, with positive effects on the demand for Dutch products. Start-up problems in the new trade relationship between the EU and the United Kingdom will have a negative impact on Dutch exports, while the US support programme of USD 1900 billion will have a positive impact on these exports.

Government spending plays an important role in GDP development. In the Netherlands, the Temporary Emergency Bridging Measure to Preserve Employment (NOW) and the Reimbursement Fixed Costs SMEs (TVL) will prevent a further decrease in GDP in the first half of 2021. Additional government spending, including on testing capacity and curbing learning deficits, will contribute to economic recovery. In addition, this will be supplemented by the first government expenditures under the National Growth Fund.

The GDP level in 2025 is projected to be lower than was expected before the coronavirus outbreak. CPB publishes another technical update of its Medium Term Outlook at the same time as this Central Economic Plan. Due to the inclusion of figures from the latest population forecast by Statistics Netherlands, labour supply is projected to be higher, resulting in GDP in 2025 being projected at 2% higher than in last November's projections. The volume of GDP in 2025 will be 3% lower than in the March 2020 projections, which did not yet take coronavirus into account. This lower level is mainly due to a lower trend in labour productivity growth as a result of foregone investments due to the coronavirus-induced recession.

Unemployment will increase to 5% of the labour force, by the end of the year, after which it will decrease to 4.5% by late 2022. As usual, economic recovery will materialise later, over the course of 2022, as a decrease in unemployment. For the annual averages, this means an increase from 3.8% in 2020 to 4.4% in 2021 and 4.7% in 2022. The unemployment rate has been revised downwards by 1.7 and 0.7 percentage points for 2021 and 2022, respectively, compared to the November projections, mainly due to the unexpected further drop in unemployment between November and January, as a result of stronger-than-expected employment growth. The projected recovery in output will not be able to prevent unemployment from increasing in the second half of 2021. By then, however, the number of hours worked per person and labour productivity per hour worked will already be increasing. On the basis of currently proposed policy, the extensive support measures will expire at the end of June. This will be accompanied by restructuring and bankruptcies, which will push up unemployment in the second half of the year but also reduce the productivity-boosting dynamics of companies.

As a result of the coronavirus-induced recession, the CAO wage increase in the market sector will decrease from 2.7% in 2020 to 1.5% in 2021 and 2022. The CAOs (collective wage agreements) reached since the coronavirus outbreak contain lower wage increases, due to the uncertain and more negative outlook. Higher energy prices cause inflation (HICP) to rise from 1.1% in 2020 to 1.9% in 2021, before easing to 1.4% in 2022. These wage and price developments mean a decline in real CAO wages in 2021 and stabilisation in 2022, after the marked increase of 1.6% in 2020. In 2021, median static purchasing power will still increase by 0.7% due to reductions in the financial burden, but, for 2022, there are hardly any positive purchasing-power-related policy measures and purchasing power will decline by 0.1%.

The government deficit will increase this year to 5.9% of GDP, as a result of the very large financial support measures and the recession. This will surpass the 5.2% GDP deficit recorded during the financial crisis in 2010. With the expiration of the support measures and due to the economic recovery, the deficit will decrease to 1.7% of GDP in 2022, below the European maximum budget deficit of 3%. The budget deficits, resulting from the granted tax deferrals and the additional government loans to businesses, are causing the government debt to increase, reaching 59% of GDP in 2021, which is 10 percentage points higher than in 2019. In 2022, the government debt will decline to 57% of GDP. Despite the higher debt level, the interest payments on it will be lower in 2022 than in 2019, due to lower interest rates. The government deficit and the increase in government debt remain well below the eurozone's average.

It is expected that the proposed additional funding of EUR 8.5 billion for education will not be fully spent by the end of 2023. In order to address the learning deficits caused by the closure of schools during the pandemic, the government has set up a National Educational Programme, which represents an addition to the budget of EUR 8.5 billion in 2021–2023. This sizeable incentive will take time to bear fruit, with implementation also being hampered by the lack of additional teaching staff.

The course of the coronavirus pandemic is uncertain and causes large uncertainty with respect to the economic outlook. Vaccinations do offer the prospect of a strong reduction in the number of hospital admissions. However, there is uncertainty about the timely supply of vaccines and the protection they offer against new variants of the coronavirus. It is as yet unclear how cautious consumers will remain and how quickly social distancing measures will be lifted. The economy proved to be very resilient in the third quarter of 2020, after restrictions were relaxed. It remains to be seen whether businesses after this latest stringent lockdown and the further depletion of their financial buffers will show the same resilience in the upcoming period of easing. It is also as yet unclear how rapidly households will dip into their additional savings and step up their level of consumption.

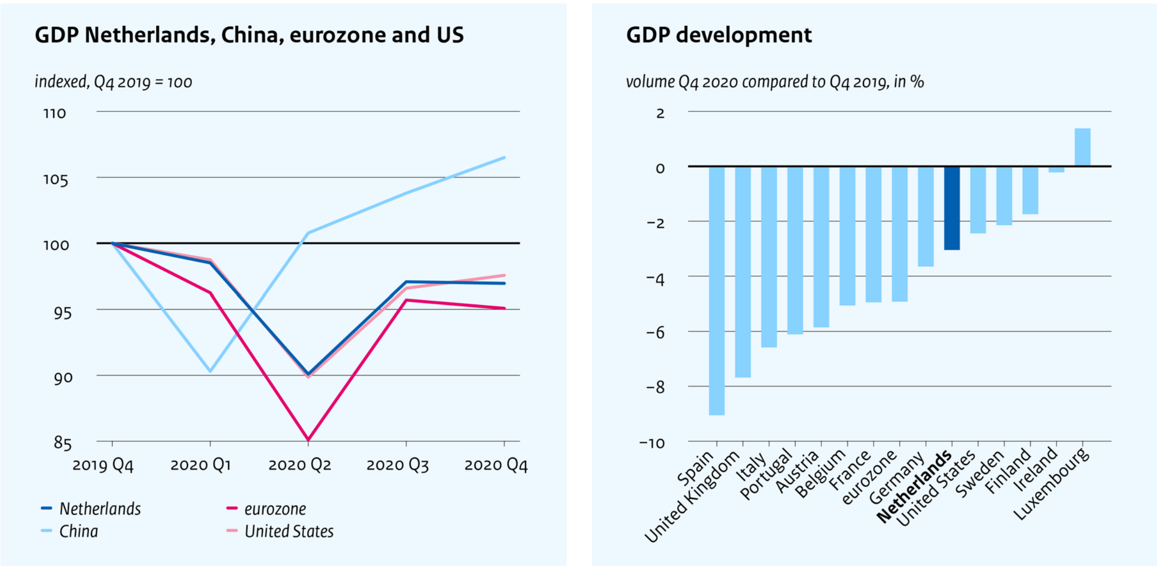
Because of the considerable uncertainty, these projections also include a pessimistic and an optimistic scenario, in addition to the baseline projection. Under the pessimistic scenario, new coronavirus variants, against which current vaccinations prove insufficient, will cause another outbreak in the autumn. This new outbreak will trigger new restrictive measures as well as additional cautious behaviour in households, which in turn will reduce GDP and further increase unemployment. Under the optimistic scenario, positive household and business expectations will lead to a stronger recovery after the lifting of social distancing measures. Increased confidence in the future will lead households to spend their additional savings more rapidly, resulting in additional consumption. Businesses will be scaling up their investments, made possible by low financing costs. With similar developments elsewhere in the eurozone, exports will also be more buoyant.

If, after vaccination, the restrictive measures can be lifted, the current financial support packages should be replaced as soon as possible by policies that are aimed at recovery. Recovery policy should first and foremost focus on repairing the damage incurred. The outgoing government has already responded to this by setting up the National Educational Programme. Another form of damage concerns businesses and self-employed persons whose balance sheets have deteriorated due to additional loans taken out and the depletion of financial reserves. Recovery policy should also focus on facilitating economic adjustments. Additional retraining opportunities that have already been introduced during the pandemic should be continued in the coming period of restructuring. For workers with small unemployment benefit entitlements (i.e. especially young people), a temporary extension of such retraining schemes could facilitate the required adjustments in the labour market. The need to stimulate demand in the short term, alongside recovery policy, is limited; any additional investments would be most effective when linked to long-term challenges. However, given the uncertainty about the long-term consequences of the coronavirus crisis for the state of public finances, it is not advisable to impose an additional structural burden on the budget; structural spending increases and reductions in the financial burden should therefore be balanced with spending cuts or increases in the tax burden elsewhere in the budget.

1 Looking back at the economy of 2020

In the eurozone and the United States, support measures in 2020 prevented both a sharper production decline and higher unemployment. However, in the eurozone, the second coronavirus wave and the related social distancing measures caused GDP to decrease again in the last quarter of 2020. Retail sales declined again as a result of the second wave, although recovery in industrial production continued (Figure 1.3). The renewed decline contributed to GDP being 5% lower in the fourth quarter than a year earlier (Figure 1.1, left).[1] This decline was larger than in the United States (-2.5%). The differences between EU Member States were substantial in 2020, and the trend varied from a decline of 9.1% in Spain to an increase of 1.4% in Luxembourg (Figure 1.1, right). Many factors played a role in the differences between the countries: differences in the severity of the epidemic (Figure 1.2, left), in people's fear of becoming infected, in the severity of the measures taken, in the size of financial support packages (Figure 1.2, right) and differences in sectoral structure. Countries with a very large tourism sector, such as Spain, were affected more severely. What all Member States have in common is that private consumption and international trade in services have been hit relatively hard. Another commonality is that mainly their services sector has been hit by this recession, while, in previous recessions, industry was particularly affected.

Figure 1.1 Substantial differences between countries in the economic effect of the coronavirus pandemic



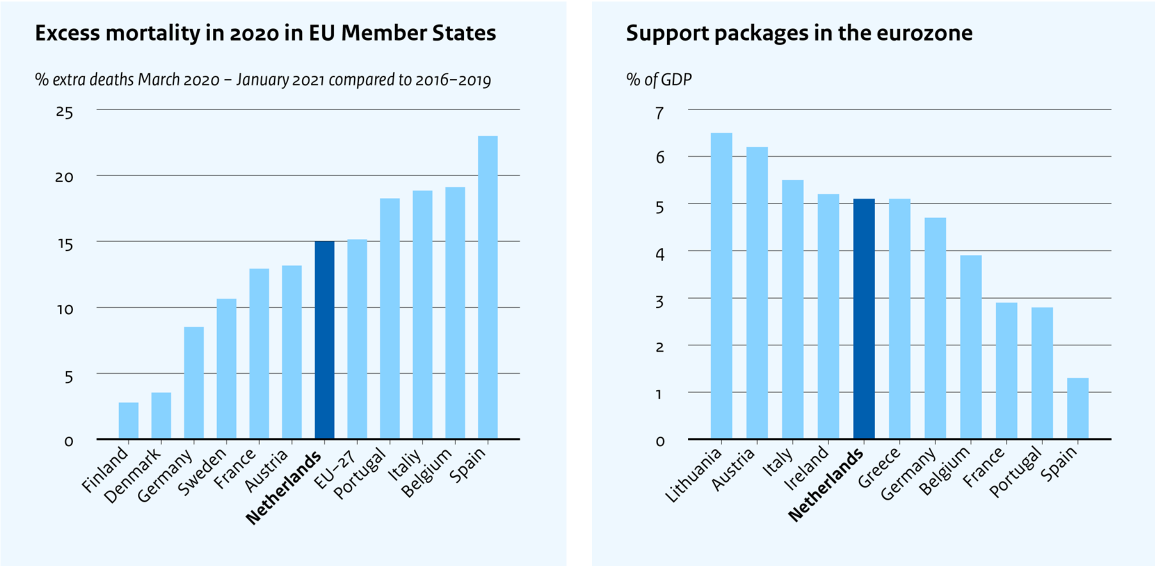
Source: Eurostat, OECD, BEA, ONS and CBS (link)

In China, economic growth continued in the fourth quarter. Infection-preventing measures remained limited to temporary regional interventions and restrictions on incoming flights. The favourable results in the fight against the pandemic allowed for a further recovery of domestic spending, aided by flexible budgetary policies that led to additional investments in infrastructure. Export growth continued, supported by international demand for medical devices and IT equipment. In the fourth quarter, Chinese exports of electrical equipment were nominally 9% higher than in 2019, and for medical equipment this was even 124% higher. While global goods exports in December were 1% higher in terms of volume than in the fourth quarter

[1] The year-on-year decrease is larger: -6.8%. For this year-on-year figure, the lower level carries more weight in Q2.

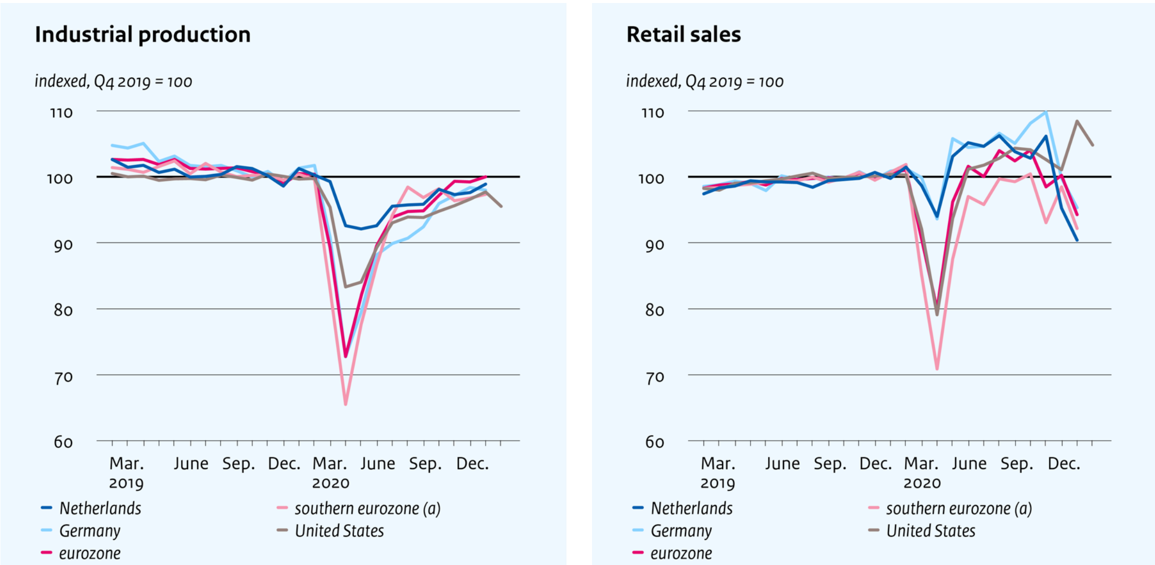
of 2019, Chinese goods exports were as much as 12% higher.[2] This means that, with their exceptionally strict lockdown measures at the start of the year, China was the only G20 country, besides Turkey, to see GDP growth in 2020.

Figure 1.2 Excess mortality in 2020 in EU Member States, and financial support packages



Source: Eurostat and European Commission (link)

Figure 1.3 Retail sales down again due to second coronavirus wave, but industrial production continues to recover



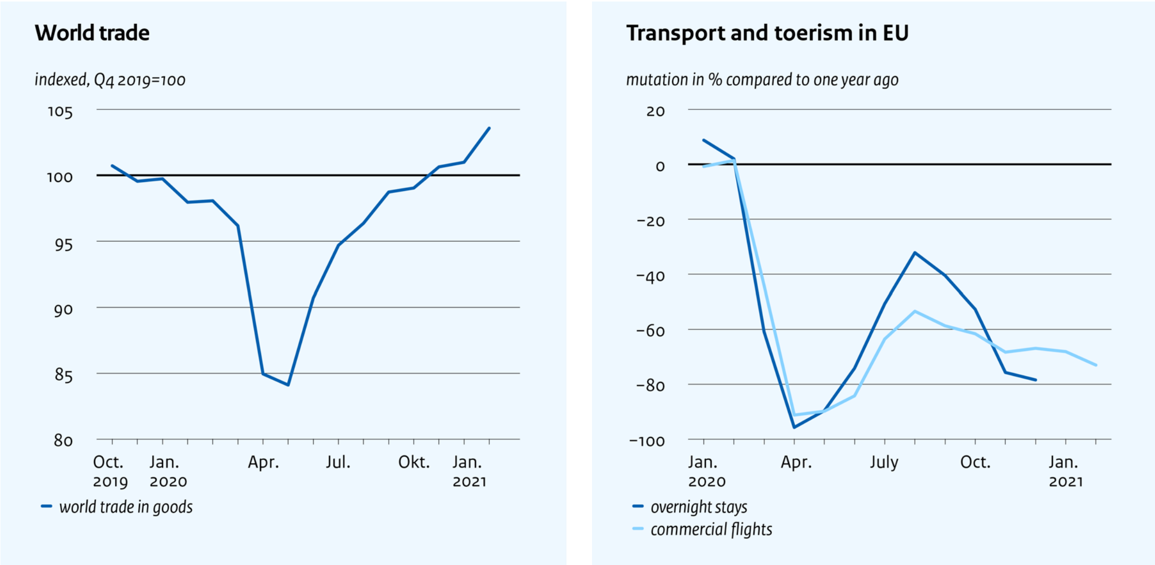
(a) Unweighted average of France, Italy, Spain and Portugal
Source: Eurostat, Federal Reserve, US Census Bureau (link)

World trade in goods has already returned to pre-pandemic levels, but trade in services is still down. In December, world trade was 1.2% higher than in the fourth quarter of 2019 (Figure 1.4, left) — the result of a 16% drop through May, followed by a 20% increase in the following months. Thus, the decline was deeper than in 2009 and recovery was faster. The steep decline was caused not only by the decrease in demand and by social distancing measures, but also by the negative impact on production and transport chains. Once these

[2] CPB (2021), World Trade Monitor December 2020. (link)

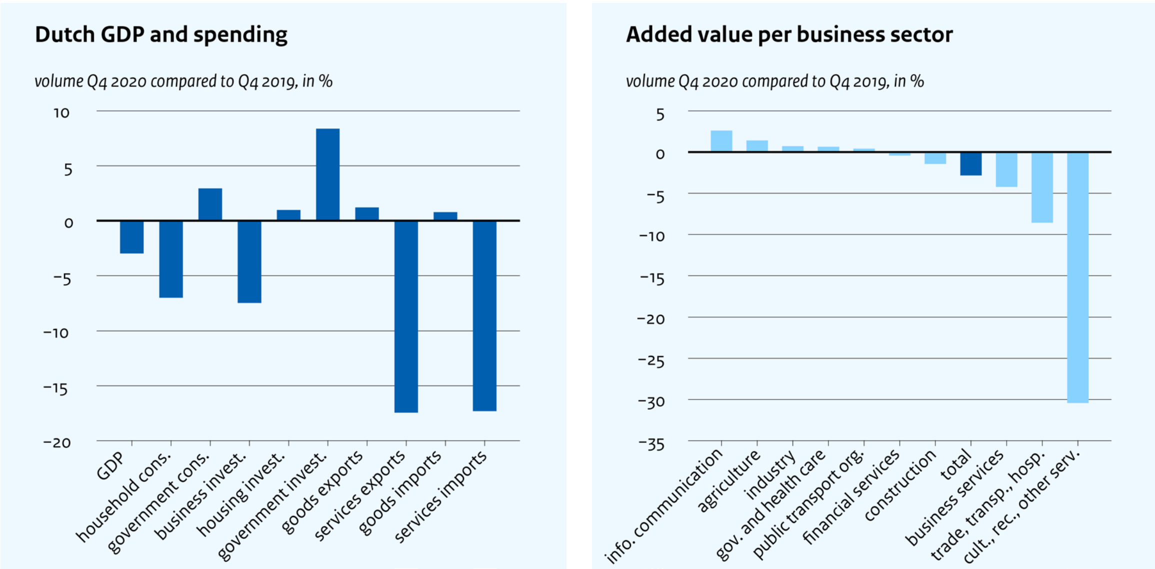
problems were solved and demand returned, a quick recovery could follow. This recovery has so far failed to materialise in the international trade in services. Coronavirus-related measures have kept international travel and tourism at a very low level (Figure 1.4, right).

Figure 1.4 Global trade in goods recovering, services lagging behind



Source: CPB, Eurostat [(link)]

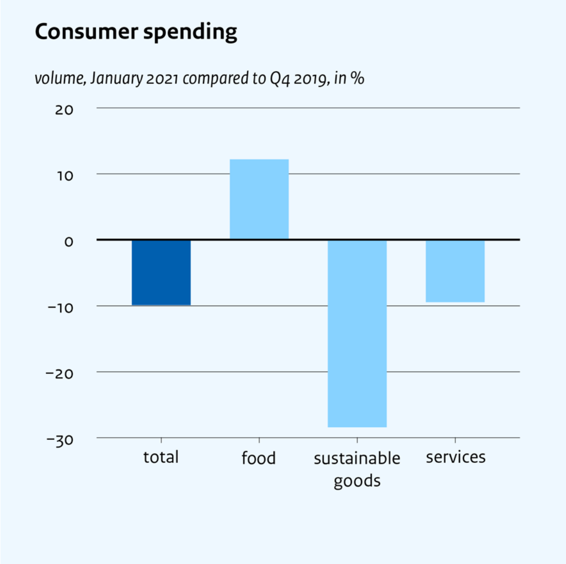
Figure 1.5 Economic blows due to pandemic in the Netherlands particularly landed at services and consumption



Source: CBS (link)

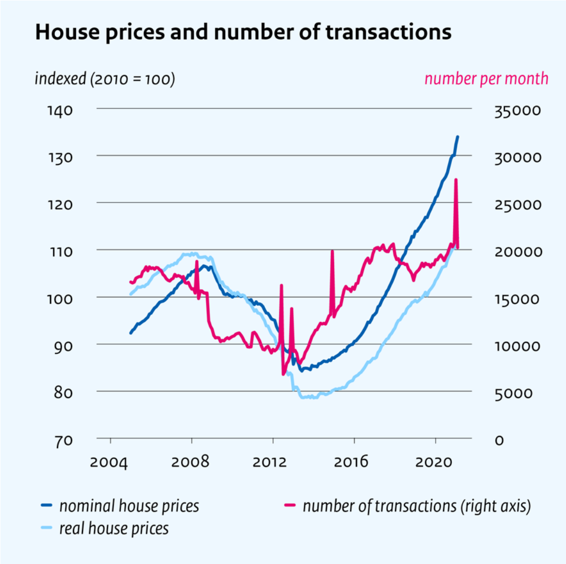
In the Netherlands, the decrease in GDP in the fourth quarter was limited to 0.1%. This is much smaller than the 8.4% decline in the second quarter, compared to the previous quarter during the first wave. Unlike in the first wave, industry and international goods trade were not disrupted in the fourth quarter. Monthly figures show that the negative effects occurred mainly in December. For example, non-food retail sales fell sharply due to the closure of shops from mid December onwards (Figure 1.6). Compared to a year earlier, GDP was 3.0% lower in the fourth quarter.[3] Due to the resilient response to restrictions being reduced after the first wave, by the end of 2020, 80% of the decrease in production caused by the pandemic in the first half of the year had already been recouped. However, there are large differences between spending categories and between types of industry (Figure 1.5). By the end of 2020, goods export levels were already higher than one year earlier (+1%), but exports of services were still 17% lower and household consumption was 7% lower. By the end of 2020, industry had already recovered from the decrease in production (value added +1%), but the decline in the services sector still remained huge (-8.6% for trade, transport and hospitality and -30% for culture and recreation).

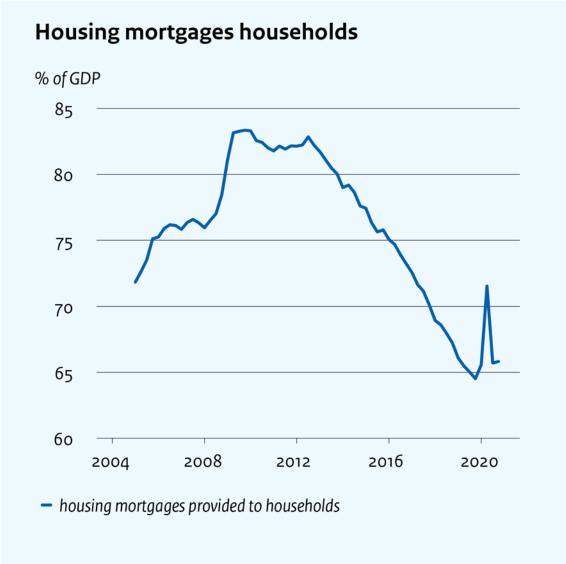
Figure 1.6 Exceptional decrease in consumption, with large differences between spending categories



Source: CBS and CPB; on the right, seasonal correction by CPB, based on CBS data (link)

Figure 1.7 The housing market is unaffected by the crisis





Source: CPB seasonal correction, based on CBS and DNB data (link)

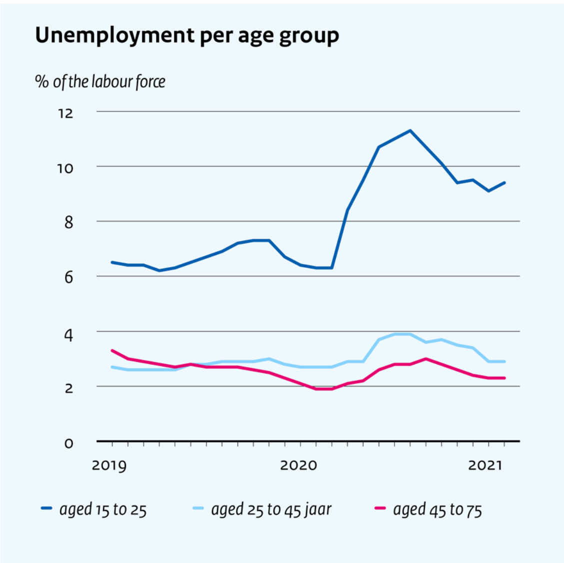
[3] The year-on-year decrease is larger: 3.7%. For the year-on-year figure, the lower level carries more weight in Q2.

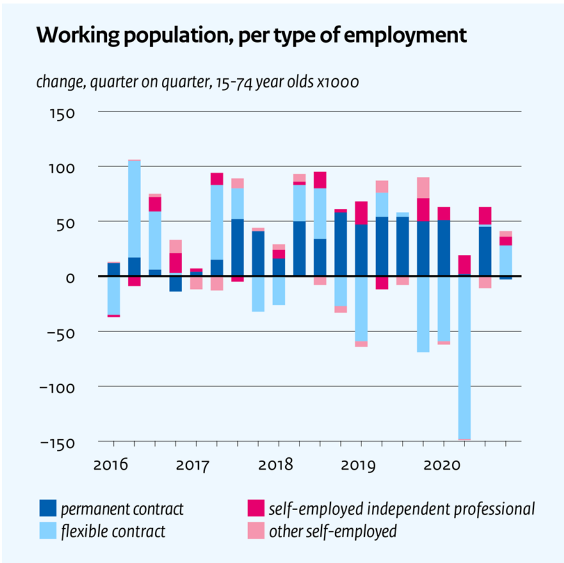
The housing market and the construction sector survived 2020 virtually unscathed. House price increases rose even further during 2020 and early 2021, from 6.3% in January 2020 to 9.3% in January 2021. Housing shortages, due to construction lagging behind demographic demand, and low interest rates are explanatory factors with respect to this rise, although it remains surprising in light of the deep recession. Investments did decline by 2.4%, last year, after six years of strong increases. In addition to the coronavirus crisis, labour shortages and legal problems with PFASs and nitrogen standards delaying building permits played a role, here.

Despite the recurring decline in GDP in the fourth quarter of 2020, unemployment decreased in late 2020 and early 2021. From an unemployment peak of 4.6% of the labour force in August 2020, unemployment decreased to 3.6% in February. Prior to that, unemployment had actually increased from a record low of 2.9% in March. The post-August decrease partly stems from the strong recovery in production in the third quarter, but the further decline at the end of the year is a notable one, given the sharp decrease in production since the start of the coronavirus outbreak. On average, unemployment was 3.8% in 2020, 0.4 percentage points above 2019 levels. The extensive financial support measures have significantly limited the increase in unemployment. The decline in labour demand was mainly absorbed by a decrease in the hours worked per person, which declined by 2.9%, although it should be noted that data on the number of hours worked per self-employed person are provisional. Many workers initially withdrew from the labour market, but most of them returned when production picked up (see the text box 'Dynamics during corona'). This also applies to labour migration. As a result, the labour force did grow in 2020, by 0.4%. The working population remained almost the same in 2020.

Young people and employees on a flexible contract are particularly affected by the coronavirus-induced recession (Figures 1.8 and 1.9, left). This is due to their weaker position on the labour market and because the recession has mainly reduced production in the services sector, where a relatively large number of young people and those on flexible contracts are employed. Since the end of 2020, unemployment among young people has been decreasing again and the number of employees on flexible contracts has been increasing. The number of business closures increased last year, but, at the same time, more new businesses were started (Figure 1.10, left). The number of temporary employees is also on the rise again (Figure 1.10, right). The outlook for job seekers is also more positive. The vacancy indicator, which shows how employers expect vacancies to develop, is in fact moving upwards again (Figure 1.9, right).

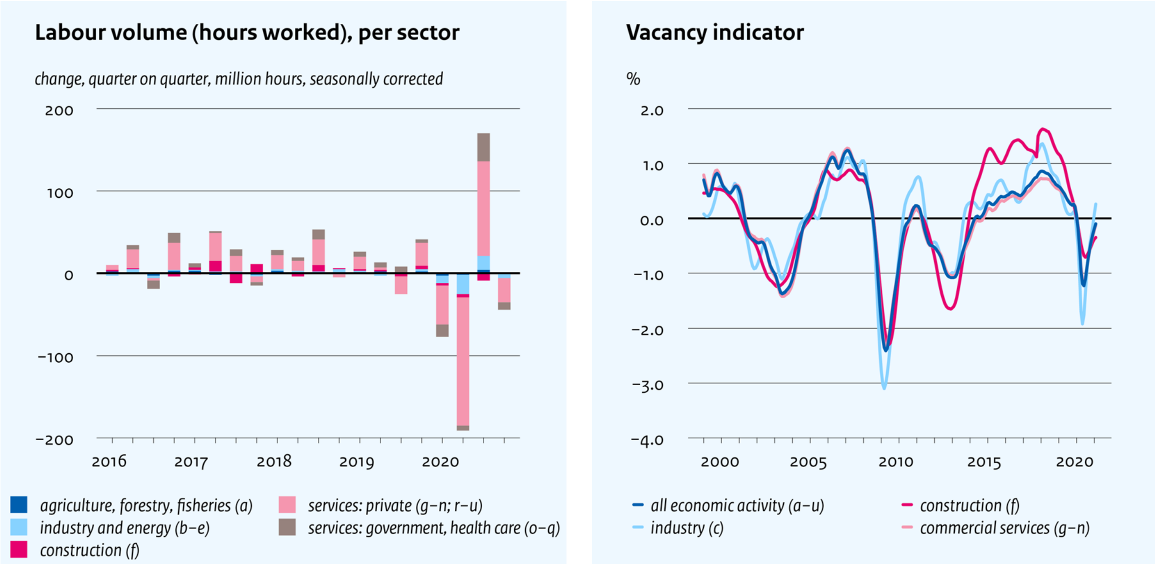
Figure 1.8 Young people and flex workers are particularly affected by the labour market





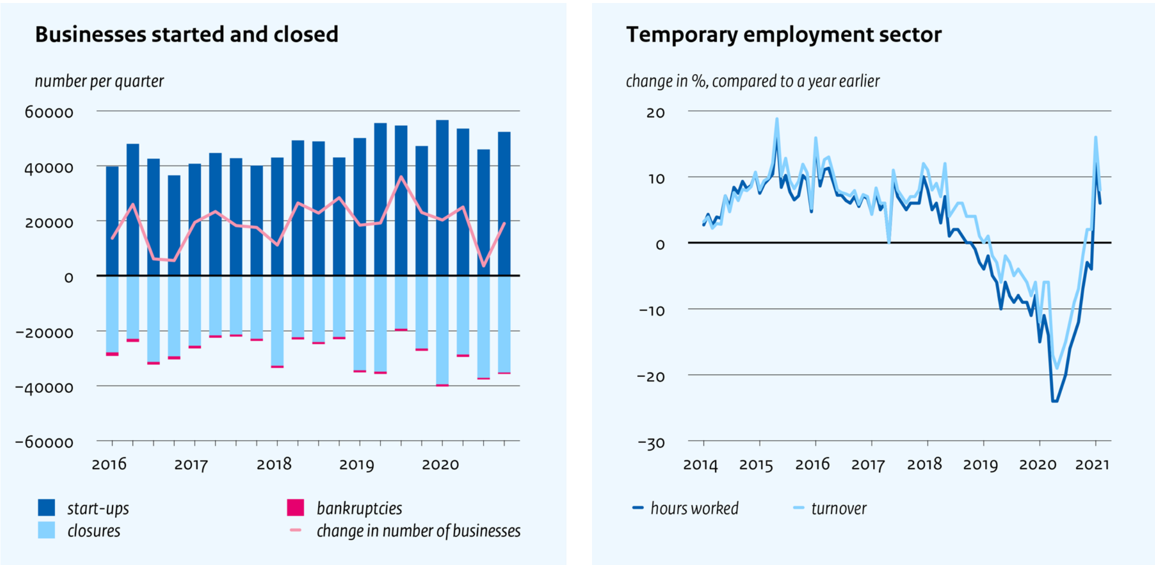
Source: CBS (link)

Figure 1.9 A sizeable increase in employment in the services sector, following a substantial decrease



Source: CBS (link)

Figure 1.10 Fewer new businesses during the coronavirus crisis (left); temporary employment sector in 2021 on the rise again (right)



Source: CBS (link)

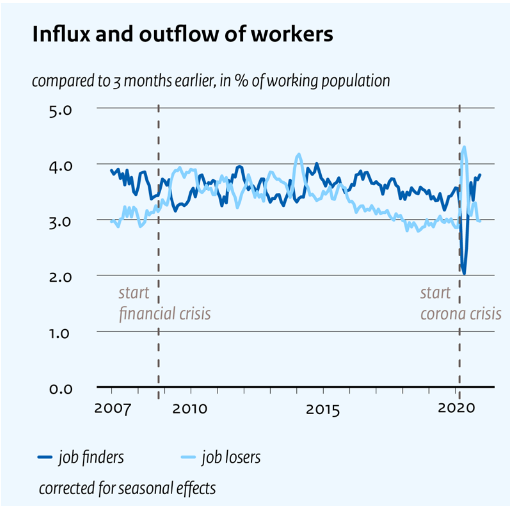
Dynamics during corona

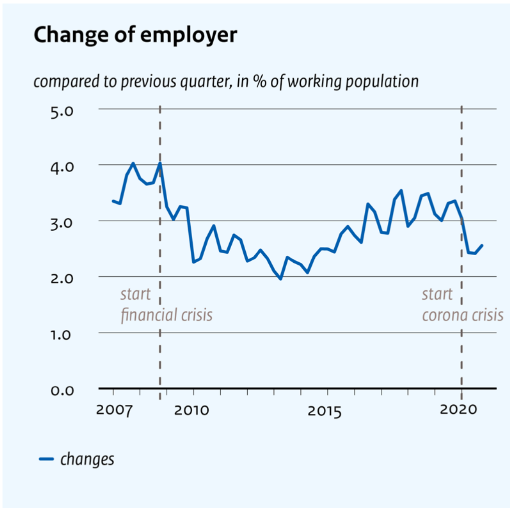
Numbers of job losers and job finders back to pre-coronavirus levels. At the beginning of the coronavirus crisis, April–June 2020, unemployment rose sharply as many people lost their jobs and fewer people found a job (Figure left). Since the third quarter of 2020, however, the numbers of job losers and job finders has returned to pre-corona crisis levels, which means that the number of people finding a job are outnumbering those that lose their employment.

Increase in job losers lasted only a short time but was steep, compared to the financial crisis. During the financial crisis (from the fourth quarter of 2008 onwards), the number of job losers remained higher, with some delay, over a longer period of time than the number of job finders (figure on the left). This difference is likely in part the result of the expected temporary character of the coronavirus crisis, the size of the financial support, and the fact that there are companies badly affected by the crisis as well as those that profit from it.

The number of people changing jobs has decreased, which has both advantages and disadvantages. The practice of 'hoarding' employees, aided by the support policy, prevents company-specific knowledge from being lost and workers losing their skills during unemployment (a). On the other hand, the general process of `creative destruction' (b), whereby workers move from less productive jobs to more productive ones, is also decreasing. The job-to-job employment mobility has been declining since the beginning of the coronavirus crisis (figure on the right), despite substantial differences in turnover between companies.

Job finders, job losers and job changers: 2007–2020 (c)





(a) See Adema et al. (2020), Blijvende economische schade van de coronacrisis [lasting economic damage due to coronavirus crisis (in Dutch)], CPB corona publication, The Hague (link) and Blanchard et al. (2020), A new toolkit is needed as countries exit COVID-19 lockdowns, Peterson Institute for International Economics, Policy Brief 20-08, Washington (link).

(b) Schumpeter, J. (1942), *Capitalism, Socialism and Democracy*, Harper Perennial, New York.

(c) *Job finders* are the people who started working over the past 3 months from a position of unemployment and being inactive. *Job losers* represent people who have become unemployed over the last 3 months or have become inactve. *Job changers* are employed people who have changed their employer in the last 3 months.

Table 1.1 Main data for the Netherlands, 2017–2022

	2017	2018	2019	2020	2021	2022
	mutations per year, in %					
International economy						
Relevant world trade volume goods and services	5.5	3.7	3.1	-9.0	6.0	6.0
Competitor prices (a)	1.1	-0.8	3.1	0.4	1.1	0.9
Oil price (in USD per barrel)	54.3	70.9	64.3	41.8	62.6	59.2
Euro exchange rate (USD per euro)	1.13	1.18	1.12	1.14	1.22	1.22
Long-term interest rate, the Netherlands (level in %)	0.5	0.6	-0.1	-0.4	-0.3	-0.2
Volume GDP and spending						
Gross Domestic Product (GDP, economic growth)	2.9	2.4	1.7	-3.7	2.2	3.5
Household consumption	2.1	2.2	1.5	-6.4	0.6	6.1
Public consumption	0.9	1.7	1.6	1.4	5.7	0.2
Investments (including stocks)	4.2	3.9	3.6	-4.0	2.3	2.8
Export of goods and services	6.5	4.3	2.7	-4.3	2.6	5.2
Import of goods and services	6.2	4.7	3.2	-4.3	3.0	5.4
Prices, wages and purchasing power						
Price level Gross Domestic Product	1.3	2.4	3.0	2.4	1.5	1.6
Export prices goods and services, excluding energy	1.3	0.9	1.0	-0.4	1.3	1.0
Price levels imported goods	3.6	2.2	-1.1	-4.8	4.8	0.1
Inflation, Harmonised Index of Consumer Prices (HICP)	1.3	1.6	2.7	1.1	1.9	1.4
Wage rate business sector (per hour) (d)	0.9	1.9	2.4	6.8	0.4	0.1
Collective labour agreement (CAO) wages (c)	1.5	2.0	2.4	2.7	1.7	1.5
Purchasing power, static, median all households	0.2	0.0	1.0	2.2	0.7	-0.1
Labour market						
Labour force	0.8	1.2	1.6	0.4	-0.1	1.3
Working population	2.1	2.3	2.0	0.0	-0.8	1.1
Unemployed labour force (x thousand persons)	438	350	314	357	415	445
Unemployed labour force (in %)	4.9	3.8	3.4	3.8	4.4	4.7
Employment (in hours)	2.4	2.6	2.2	-3.5	2.0	1.5
Other						
labour income share (in %)	73.3	73.4	74.0	74.3	74.6	74.6
Labour productivity business sector (per hour)	0.6	-0.1	-0.5	0.0	0.4	2.2
Individual saving share (in % disposable income) (b)	3.0	3.2	3.1	9.4	11.0	5.9
Balance current accounts (in % of GDP)	10.8	10.8	9.9	8.9	8.9	9.0
	in % of GDP					
Public sector						
EMU balance	1.3	1.4	1.7	-4.3	-5.9	-1.7
EMU debt (end of year)	56.9	52.4	48.7	54.4	58.6	56.9
Public financial burden	38.7	38.8	39.3	39.7	39.1	38.8
Gross public spending	42.9	42.8	42.4	48.6	49.1	44.9

(a) Goods and services, excluding natural resources and fuels.
(b) Level; disposable household income includes public savings.
(c) Former contract wages business sector.
(d) The NOW wage cost subsidy and the continuity contribution in health care will have an upward effect of 3.4 percentage points on wage rate mutations in 2020 and a downward effect of 1.7 percentage points in 2021 and 1.4 percentage points in 2022.

2 The economy in 2021 and 2022

Global economic growth will continue in the first quarter of 2021, despite a further decline in GDP in the eurozone. Production levels in the eurozone are under pressure due to the high number of infections, the continuing stringent coronavirus-related measures and a relatively low vaccination rate. Budgetary measures are dampening the effect. In the United States, however, GDP growth is continuing, aided by the USD 900 billion support package adopted in December, the decline in the number of infections and the scaling back of social distancing measures. In the United Kingdom, GDP is declining, partly due to the end of the Brexit transition period which is causing adjustment problems. As a result, UK goods exports to the EU decreased by 41% in January compared to December, while imports from the EU declined by 29%.[4] We expect these adjustment problems to continue to create temporary impediments to trade for the remainder of the year. They thus will have a negative impact on GDP and international trade for the United Kingdom and, to a lesser extent, also for the eurozone, in 2021–2022. The agreed Free Trade Agreement (FTA) will also have negative economic effects in the long term, but to a lesser degree than would have been the case under a Brexit without FTA (see text box 'Brexit: trade deal with costs').

Vaccination and expansionary monetary and budgetary policies will ensure continued global production growth in the remainder of 2021 and in 2022. In rich countries, the vast majority of the population will have been vaccinated by mid 2021, but in poorer countries this will take until sometime next year. In countries that depend heavily on international tourism, economic recovery will start later. A strong recovery in household consumption will contribute significantly to GDP growth around the globe. The US economy will get a boost from the new USD 1900 billion in financial support (9% of GDP). The OECD estimates the positive impact on US GDP in the first year to be 3% to 4%, and the ECB projects an impact on eurozone's GDP of 0.3% in 2021–2023.[5] The 4% decrease in global GDP in 2020 will be followed by an increase of 4.8% in 2021 and 4.2% in 2022. By mid 2021, global production will have returned to pre-corona levels. In addition to the growth levels in the United States, growth will also be strong in China.

World trade will increase by around 6% per year, in 2021 and 2022, after a decline of almost 10% in 2020. International trade in goods is on the rise, due to the recovery in consumption and business investments. Because of consumer caution and prolonged restrictions on international air travel and tourism, a clear recovery of the international trade in services will not be seen until 2022.

The higher oil price will lead to higher inflation. Oil prices will rise from USD 42 per barrel in 2020 to USD 62 in 2021. This technical assumption regarding oil prices is in line with the global economic recovery and oil producers holding back on their oil supply.[6] After the inflationary pressure in 2020 caused by the decrease in oil price and the temporary German VAT reduction, there will be a temporary upward effect in 2021 due to the oil price increase. For the eurozone, inflation is expected to increase from 0.3% in 2020 to 2.1% in 2021, before easing to 1.5%, below the ECB's medium-term objective.

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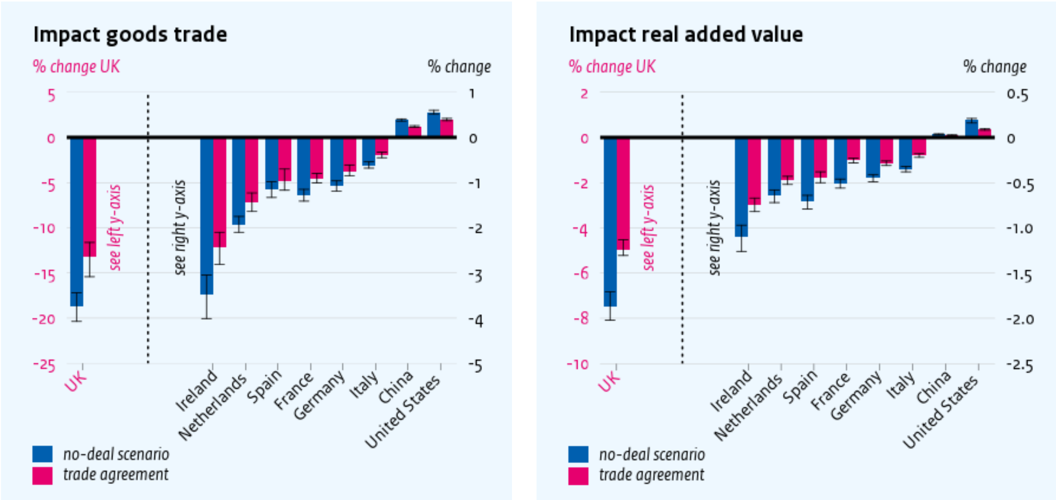
[4] ONS (2021), UK trade: January 2021. (link)
[5] OECD (2021), Economic Outlook, Interim Report; March. (link); ECB (2021), ECB staff macroeconomic projections for the euro area, March. (link)
[6] The technical assumptions on energy prices, interest rates and exchange rates are based on market data on week 8 (22–28 February). The baseline projections are based on economic data and policy measures as known on 18 March.

Brexit: trade deal with costs

The Brexit trade agreement stipulates the absence of trade tariffs. Nevertheless, trade barriers are increasing due to the United Kingdom being no longer a part of the European single market. This leads to a substantial drop in exported goods.(a) Trade barriers include technical and safety standards for products. These are potentially the highest and most uncertain costs, because they depend on the extent to which the United Kingdom will deviate from European standards. Other examples of trade barriers include customs duty and administrative costs related to import and export forms. Trade in services is also falling sharply, but because of data limitations, we have not included them, here.

Costs of trade barriers compared to EU membership are largest for the United Kingdom itself



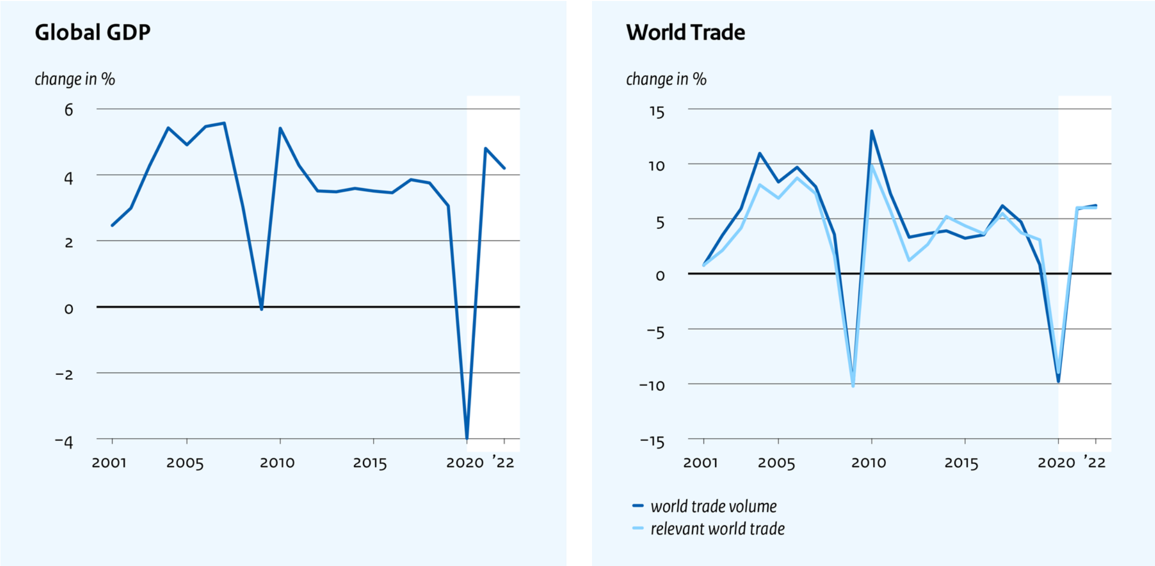
Comparison between the no-deal Brexit scenario in CPB (2020) and the first estimations based on the trade agreement. The margins give 95% confidence intervals within the scenario. Trade barriers based on The Economist Intelligence Unit data (link).

In the medium term (3–6 years), UK goods exports will decrease by 13.5%. This follows from calculations with a gravity model.(b) Small open economies such as the Netherlands (-1.4%) and Ireland (-2.3%) also see their exports decline. The Netherlands is compensating for part of the UK-related export losses (44%) by increased trade with other countries. Because products from the United Kingdom become relatively more expensive due to higher trade costs, the Netherlands is becoming more competitive in relation to the United Kingdom. This also applies to other EU and non-EU countries, such as China and the United States (see figure on the left). Also in terms of real value added, the United Kingdom is by far the biggest loser, with -5.4%. The Netherlands is one of the greater European losers, with an added value decrease of -0.4% (see figure on the right).

The impact of the UK–EU trade agreement is substantial, but more favourable than the no-deal scenario (blue bar) with trade tariffs.(b) The actual outcome of the trade agreement in the medium term depends on the United Kingdom's willingness to conform to current and future EU standards. If the United Kingdom stays close to those standards, the impact will be less than this estimate, also for the Netherlands. In the current adjustment period, the sharp decline in trade between the European Union and the United Kingdom says little about the medium-term effects.

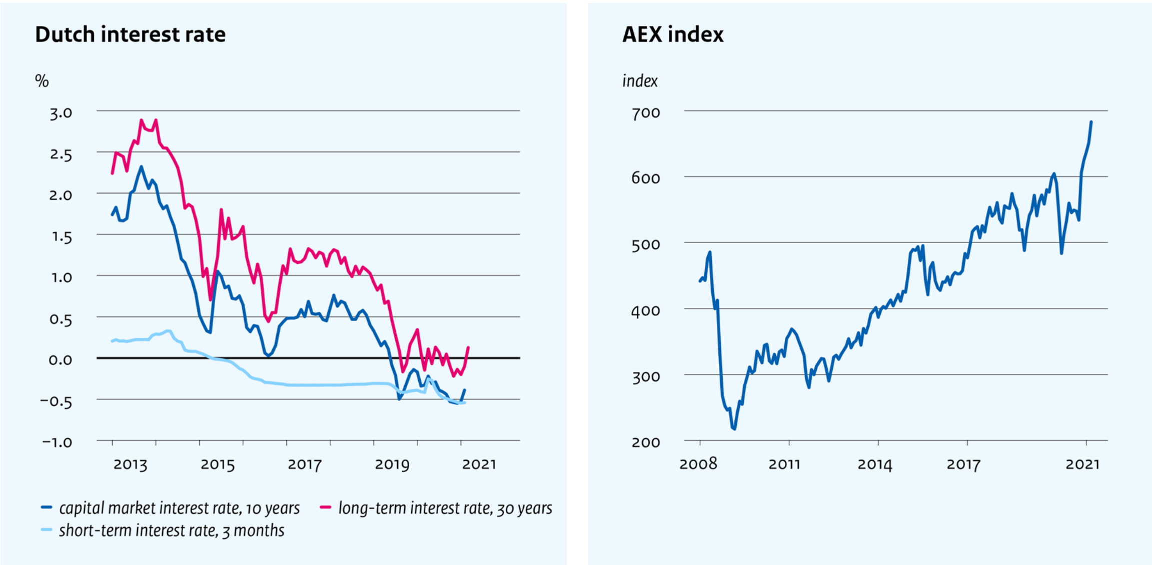
(a) For an extensive explanation of the agreement, see Meijerink, G. (2021), CPB Column Brexit, (link)
(b) See Bollen, J., D. Freeman and R. Teulings (2020), Analyse van handelsbeleid met een graviteitsmodel [analysis of trade policy using a gravity model (in Dutch)], CPB Background Document (link).

Figure 2.1 Global growth recovery in 2021



Source: CBS and CPB [(link)]

Figure 2.2 Capital market interest rates early 2021 on the rise, shares prices reach record high in February

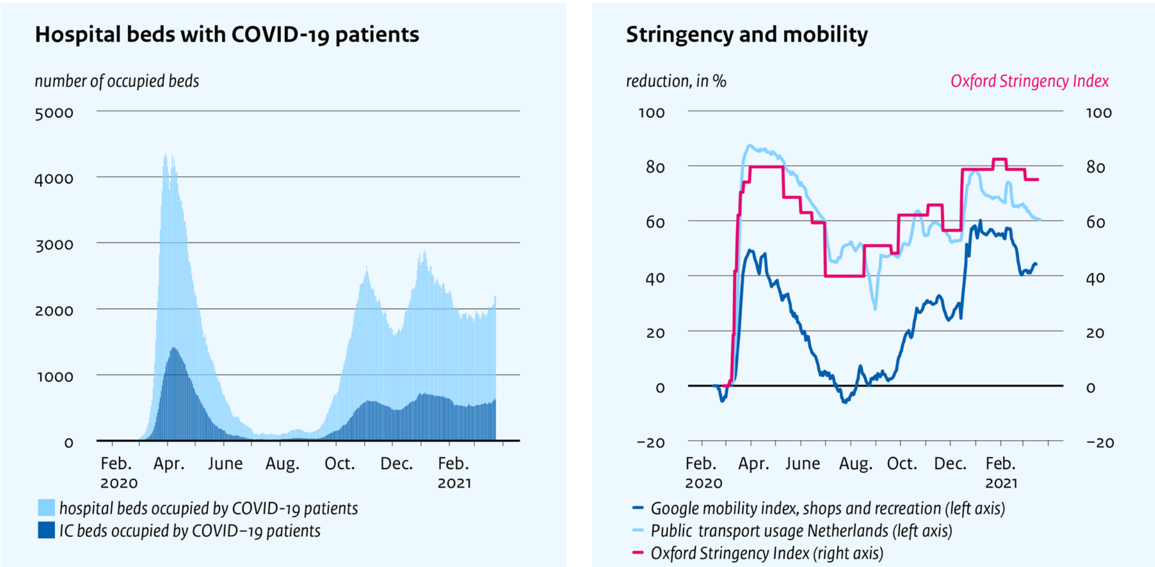


Source: DNB, Refinitiv and Euronext [(link)]

In the Netherlands, the more stringent restrictive measures will further reduce GDP in the first quarter of 2021. In mid December, non-essential shops had to close, leading to a sharp decline in retail sales that continued into early 2021 (Figure 1.6). Although there was a simultaneous sharp increase in online purchases, household consumption declined in the first quarter. The closure of hairdressers and other non-medical contact professions from mid December to late February also contributed to this drop in consumption. Unlike during the first coronavirus wave, the negative economic impact is limited to consumption and the services sector. Industrial production and goods exports are continuing to increase.

Recovery under the baseline projections starts gradually in the second quarter and accelerates in the second half of the year, increasing GDP by 2.2% in 2021 and 3.5% in 2022. The vaccination rate increases further in the second quarter, reducing infections and hospitalisations. By the end of 2021, GDP is again above its end of 2019 level. The projections are based on the government's current policy intentions, in which support measures will expire at the end of June. Consumption will rise sharply once shops and restaurants fully reopen and consumer fears of becoming infected diminish as more people are vaccinated. The savings rate, which increased sharply during the coronavirus-induced recession, will enable strong growth in consumption. However, not everyone's savings increased last year; many self-employed and flexible workers actually had to dip into their savings last year. Corporate investments, later this year, will respond positively to the increasing turnover and more favourable turnover expectations, supported by low financing costs. However, investment growth will be dampened by additional bankruptcies in some sectors after the expiry of support policies in June.

Figure 2.3 Second coronavirus wave leads to new restrictive measures and lower mobility levels



Source: LCPS, Google, Translink, Oxford University Blavatnik School of Government (link)

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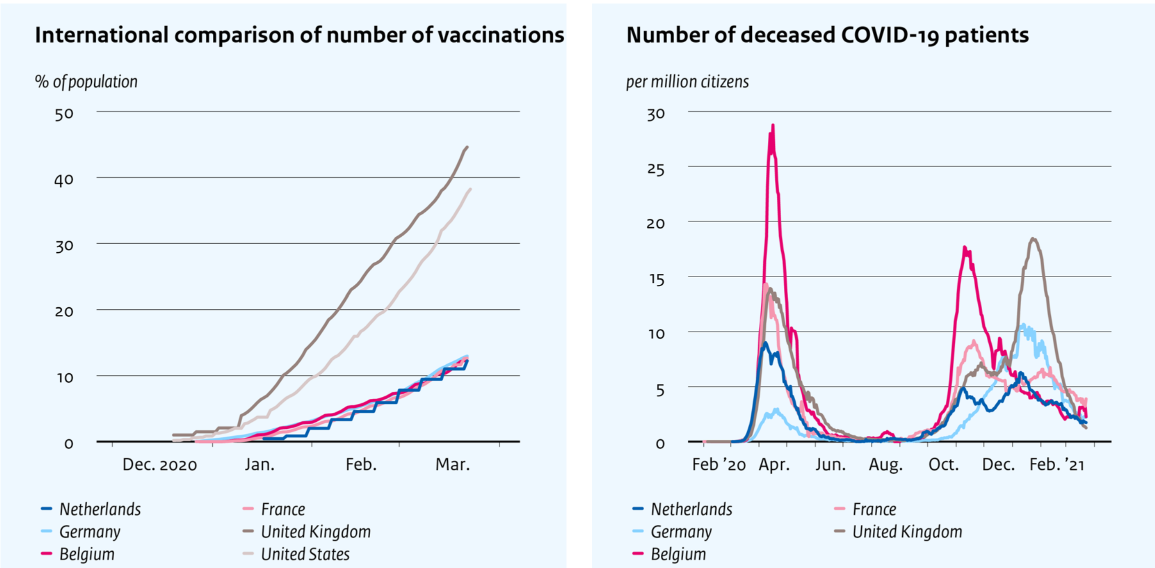
Figure 2.4 Large differences between countries in vaccination coverage and number of deceased corona patients



Source: Our World in Data. (link)

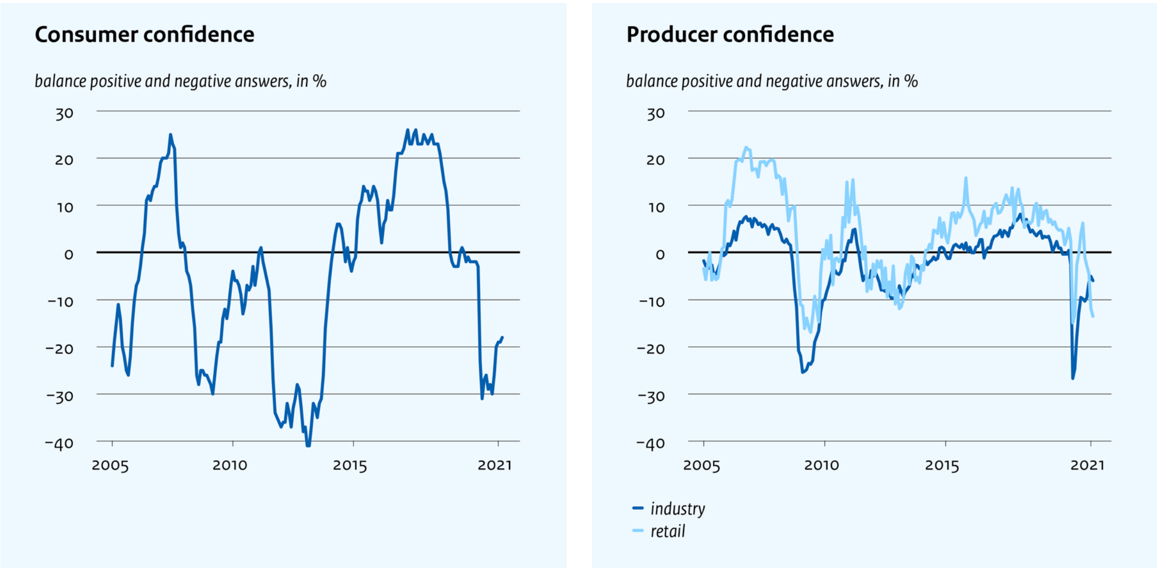
Goods exports will be picking up as restrictions are also lifted elsewhere in Europe, boosting production and spending. Start-up problems in the new trade relationship between the EU and the United Kingdom could have a negative impact on Dutch exports, while there will be a positive impact on exports from the United States financial support programme of USD 1900 billion. Recovery will take longer for services exports and imports, as restrictions on international air travel and tourism will continue for longer.

Government spending plays an important role in GDP development. In the Netherlands, the NOW (wage subsidy) and TVL (reimbursement of fixed costs for SMEs) schemes will prevent GDP from decreasing further, in the first half of 2021. Additional government expenditure, including additional spending on testing capacity and on curbing learning deficits, will contribute to economic recovery. Also in 2021, this is supplemented by the first government expenditures under the National Growth Fund.

Shortages on the housing market will continue. Thanks to continuing low interest rates and an improving economy, a substantial rise in house prices can also be expected in 2021 and 2022. Transactions show a peak in late 2020 and early 2021. This has to do with the introduction of the differentiation of the transfer tax. As a result, investors have brought purchases forward to late 2020 and first-time buyers have postponed purchases until the beginning of 2021. The number of transactions will decrease somewhat on an annual basis in 2021 and then stabilise in 2022. Housing investments are expected to increase by 1% in 2022.

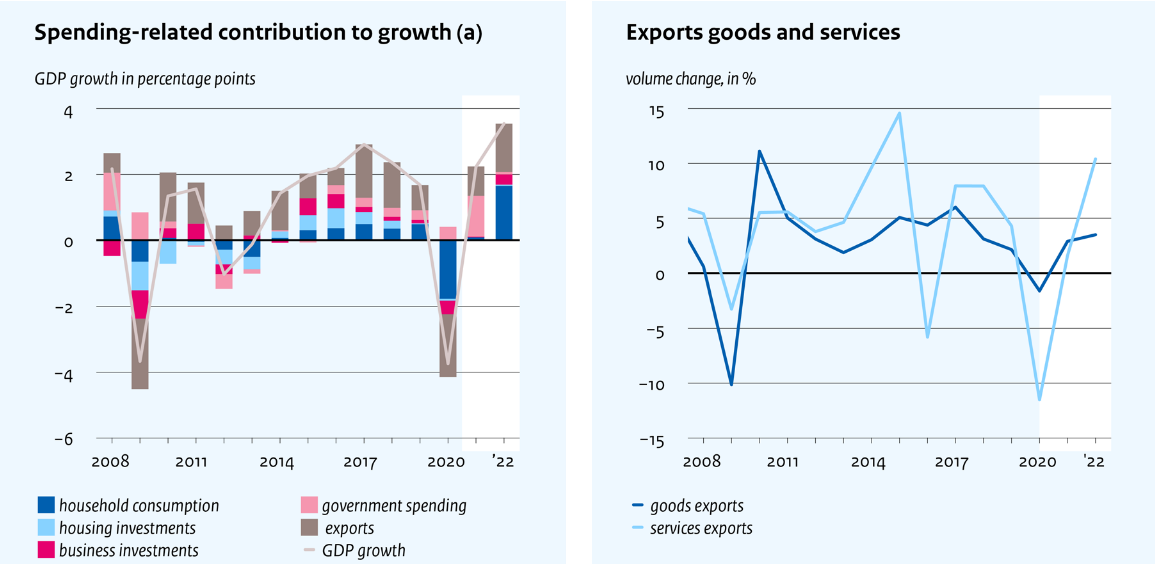
Unemployment will increase to 5% of the labour force by the end of the year, after which it will decrease to 4.5% in late 2022. As usual, economic recovery will take a while before having its decreasing effect on unemployment, over the course of 2022. For annual averages, this means an increase from 3.8% in 2020 to 4.4% in 2021 and 4.7% in 2022. Unemployment has been revised downwards by 1.7 and 0.7 percentage points, for 2021 and 2022, respectively. This is mainly due to the unexpected further decrease in unemployment in November to January, as a result of stronger than previously expected growth in employment. The projected recovery of production levels will not be able to prevent unemployment from rising, in the second half of 2021. Nevertheless, by that time, the number of hours worked per person and labour productivity per hour worked will already have increased, due to the increasing demand. On the basis of proposed policy, the current extensive support measures will expire at the end of June. This will involve restructuring and bankruptcies, which will push up unemployment in the second half of the year, but, for businesses, will also restore productivity-boosting dynamics.

Figure 2.5 Second wave causes no further decline in consumer confidence, but does have a negative impact on producer confidence in the retail sector



Source: CBS and European Commission (link)

Figure 2.6 Exports and all domestic spending will contribute to economic growth in 2021 and 2022



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

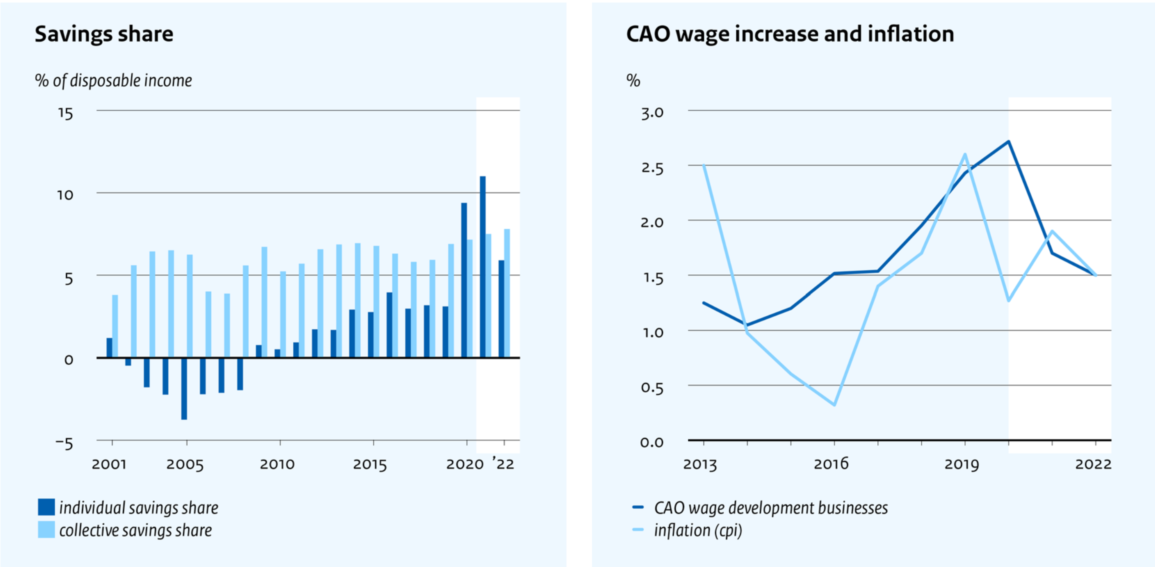
As a result of the coronavirus-induced recession, the CAO wage increase in the market sector will fall from 2.7% in 2020 to 1.5% in 2021 and 2022.[7] The collective wage agreements (CAOs) reached after the coronavirus outbreak in 2020 already had lower wage increases due to the uncertain outlook and the changed labour market. New CAOs that will be concluded in 2022 are already expected to have higher wage increases than those reached in 2021. However, this is not yet reflected in the annual figures, due to spillover effects.[8] Due to higher energy prices, inflation (HICP) will increase from 1.1% in 2020 to 1.9% in 2021 and then level off to 1.4% in 2022. Inflation is cushioned by lower rent increases than in previous years. This is due to the fact that regulated rents under existing rent agreements will see a nominal rent freeze and because of the cap on rent increases in the private housing sector. Rent increases per 1 July, therefore, will decrease from 2.7% in 2020 to 0.7% in 2021.

As a result of the financial support measures, the decrease in net national income (NNI) during the coronavirus-induced recession has landed with the government. Figure 2.8 shows how the real change in NNI can be attributed to households, companies and government.[9] In 2020, the disposable income of households was maintained despite the sharp fall in NNI. This was due to the fact that the government continued to pay part of the wage income, such as through the NOW scheme and through benefits or other forms of income support to those who saw their income reduced. The share of companies also hardly decreased in 2020 because the government absorbed the blow of the recession completely, unlike in previous recessions. In 2021, this picture will change. The number of hours worked and which are paid by employers

[7] The wage rate for businesses will increase by 0.4% in 2021 and by 0.1% in 2022. In 2020, the wage rate rose by 6.8%. The development of this wage rate, thus, deviates strongly from the CAO wage growth development. This is due to the NOW wage cost subsidy and the continuity contribution in health care, which have an upward effect on the wage rate mutation for businesses of 3.4 percentage points in 2020 and a downward effect of 1.7 percentage points in 2021 and 1.4 percentage points in 2022. Due to the coronavirus crisis, there has been a decrease in the number of hours worked, while employers are continuing to pay the wages of their employees with the help of wage subsidies. This means that the gross wage per employee in euros remains roughly unchanged, while the 2020 wage rate per hour worked increases sharply. The effect is temporary, resulting in a downward effect in 2021 and 2022.
[8] The CAO wage increase in 2021 is still partly being influenced by relatively positive CAOs that had been agreed on before the coronavirus outbreak, while the CAO wage increase for 2022 is partly influenced in a negative sense by less positive CAOs that are being agreed on over the course of 2021.
[9] Kranendonk, H. (2011), Het rekeningenstelsel, paragraaf 3.1 in De boekhoudkundige ruggengraat van SAFFIER II: de GPS-matrix en het rekeningenstelsel. [The accounts system, Section 3.1 in the accounting backbone of SAFFIER II: the GPS matrix and the accounts system] (link)

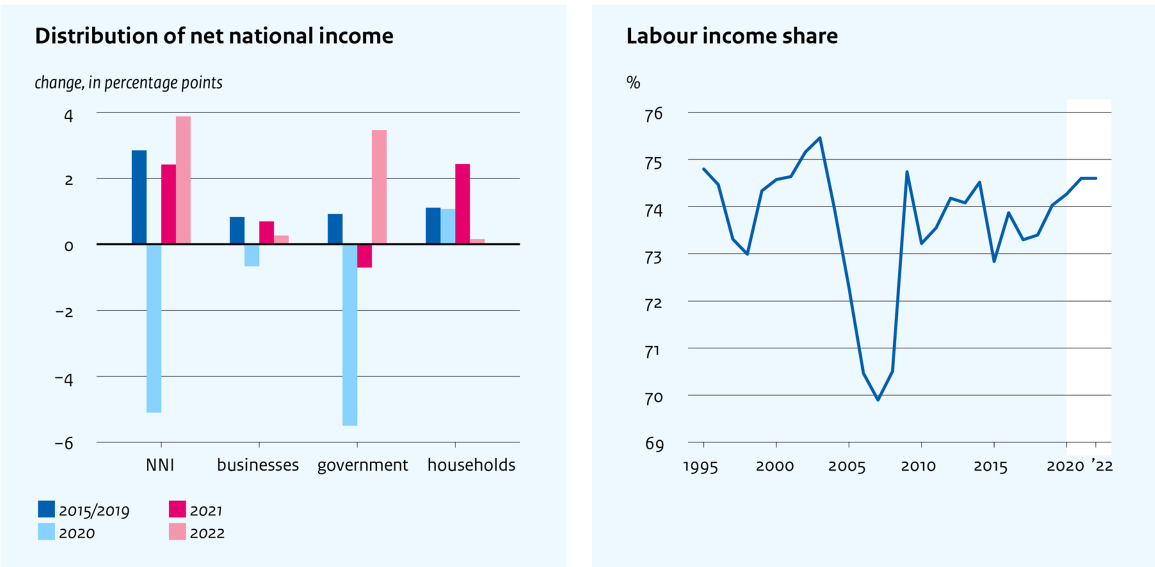
again will increase and their revenues will be rising. In 2022, when the economy really picks up and the increase in NNI will be at its highest, we will see disposable income increase again for all sectors, but especially for the government because, by that time, additional corona-related expenditures will have ended.

Figure 2.7 Coronavirus outbreak leads to exceptionally high savings and a weakening of wage increases



Source: CBS and CPB (link)

Figure 2.8 Government bears the burden of the coronavirus-induced recession



Source: CBS and CPB (link)

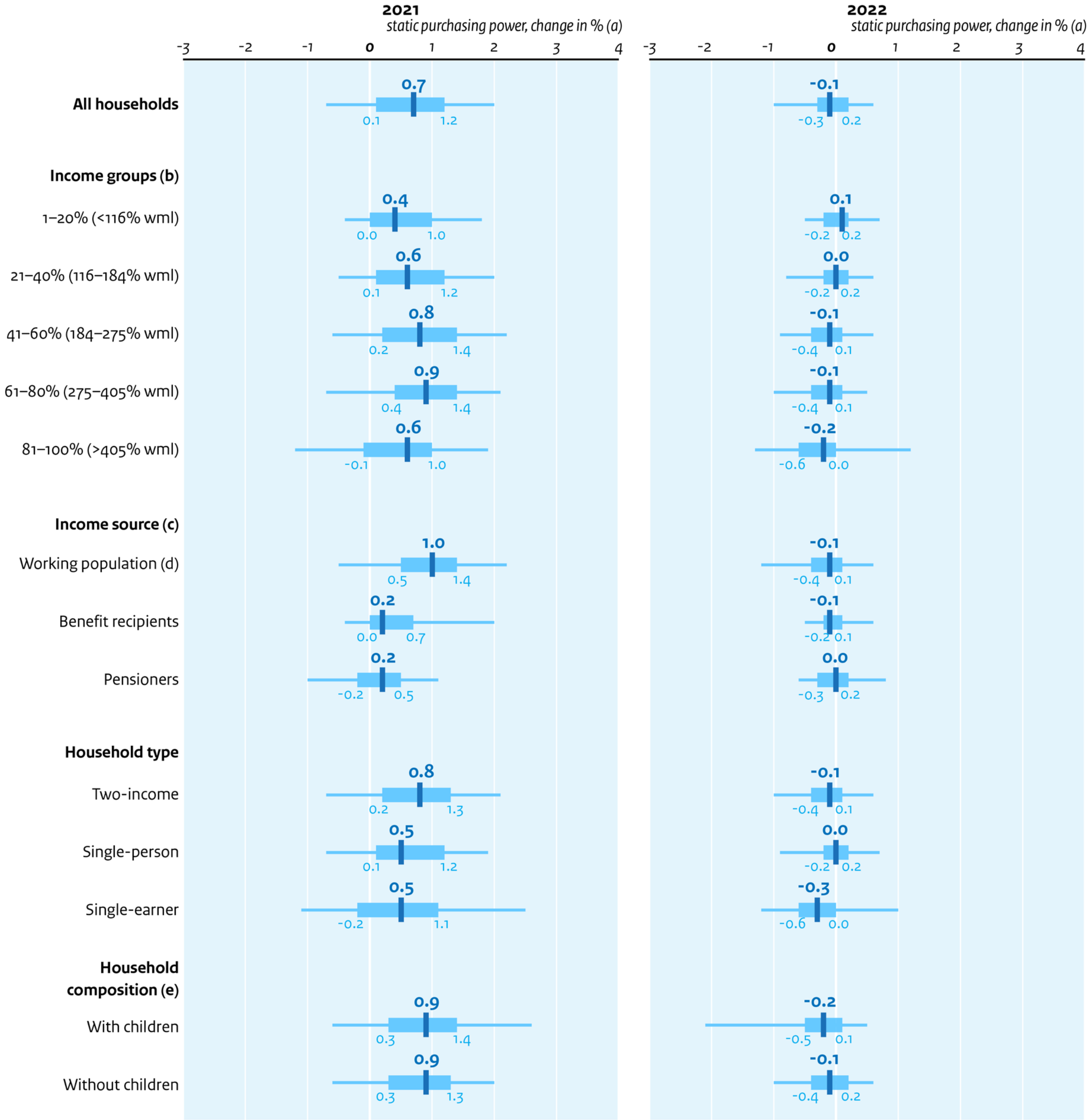
The increase in purchasing power of households will be limited in 2021–2022. This is mainly because, unlike in 2020, real wages will decrease in 2021 and stabilise in 2022. In 2021, median static purchasing power will still increase, by 0.7%, due to a reduction in the tax burden (Figures 2.9 and 2.10). For pensioners, purchasing power development will lag behind that of working people, partly because most pension benefits are not or not fully indexed. The large pension funds are avoiding nominal pension cuts because their solvency rate, at the end of 2020, was just above 90%, and funds were therefore not required to make nominal cuts. For 2022, there are hardly any positive purchasing-power-related policy measures and purchasing power will decline by 0.1%.

Figure 2.9 Purchasing power development in 2021[10]

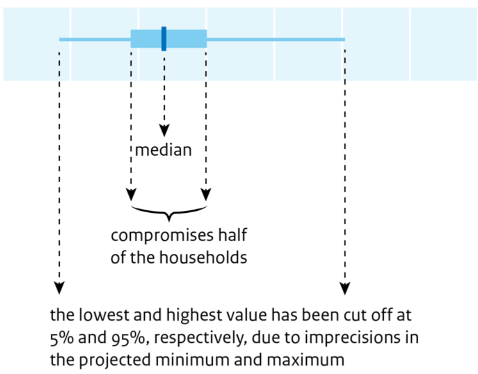
Source: CBS and CPB [(link)]

[10] The figure shows purchasing power development for all households. The three lines represent the medians per source of income.

Figure 2.10 Purchasing power development in 2021 and 2022



How to read the table?



The 'median' is the middle value of a series of figures, ordered from low to high. A median purchasing power development of 1.3% for all households means that, for half of them, purchasing power development will be 1.3% or less, while, for the other half, it will be 1.3% or more. For half of the households, purchasing power development will be within the blue bar, with one quarter below and one quarter above the median. For the other half, purchasing power development will be outside this range. The box plot's whiskers show the lowest en highest development in purchasing power.

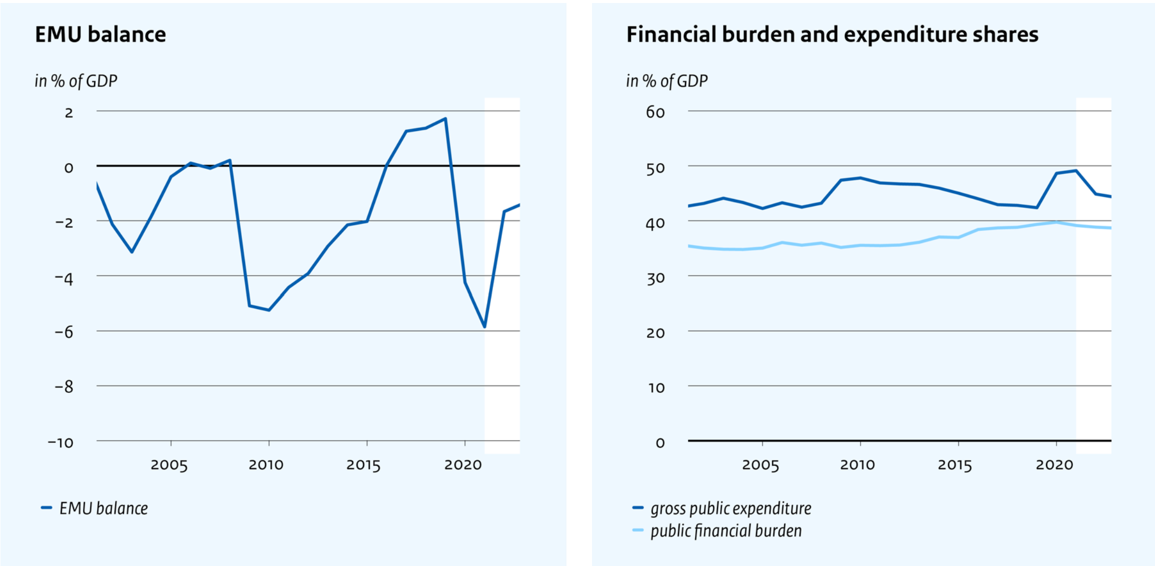
(a) Not including indicental changes in income.
(b) Gross labour income or welfare benefits on household level; the national minimum wage (nwm) in 2021 is around 21,940 euros. Income groups have been divided into five groups of equal size in ascending order of income, each containing 20% of all households.
(c) The categorisation according to source of income is based on the highest income source per household, with households of which the main income is derived from investments or products having been categorised under the employed. Households on early retirement income or student grants as their main source of income have been excluded.
(d) Changes in purchasing power for the employed do not include incidental wage changes, such as bonuses received or lost.
(e) The categorisation according to household composition is based on the presence of children of up to eighteen years and excludes pensioner households.

Source: CBS and CPB (link)

3 Government budget 2020–2022

The coronavirus will continue to dominate government budget developments this year. The deficit will increase further this year, as a result of the extension of the support package and additional expenditures in health care and education. Furthermore, there will be additional expenditures on reimbursement payments to parents, in relation to the so-called 'child care allowance affair'. Parents are being compensated and there is extra budget for the implementation services.

Figure 3.1 EMU balance, and financial burden and expenditure shares



Source: CBS and CPB (link)

As a result of the restrictions imposed during the second coronavirus wave, additional measures were introduced and existing financial support measures were extended.[11] In terms of the budget, the greatest effects are related to extending rather than scaling down the wage subsidy scheme (NOW), the increase in the reimbursements of fixed costs (TVL) for all sectors, and because of not introducing a means test for the temporary financial support for self-employed persons (TOZO). Furthermore, a stocks allowance for non-food retail and the temporary support scheme for essential costs (TONK) for the self-employed have been introduced. Furthermore, 'availability' payments to public transport organisations have been extended. The total government expenditure on coronavirus-related support measures (including fiscal measures) will thus come to about EUR 30 billion (3.6% of GDP) in 2021, with an additional impact of EUR 12 billion on debt due to tax deferrals, loans and discrepancies between transaction-based and actual (cash) revenues, related to coronavirus measures. (See Table 3.1 and the text box 'One of these days is none of these days?').

Revenues from tax and premium payments declined in 2020 because of both the coronavirus crisis and reductions in the tax burden. Total revenues decreased from EUR 318.7 billion in 2019 to EUR 317.5 billion in 2020. The contraction is therefore smaller than that of the economy as a whole, taking into account the

[11] Ministry of Economic Affairs and Climate Change (2021), Supplements to the economic financial support and recovery package, Parliamentary letter, 12 March (link); Ministry of Finance (2021), Updated overview of budgetary decision-making, following the Autumn Memorandum, Parliamentary Letter, 3 March (link).

granted tax deferrals.[12] Expressed in percentage of GDP, the financial burden therefore increased from 39.3% in 2019 to 39.7% in 2020. In 2021 and 2022, revenues will increase again due to recovering consumption levels and investments and the positive impact of fiscal policy measures on income. Revenues from wage and income tax remained at the same level in 2020 due to support policies, but will stabilise in 2021. In 2022, revenues will continue to grow, partly driven by policy measures.

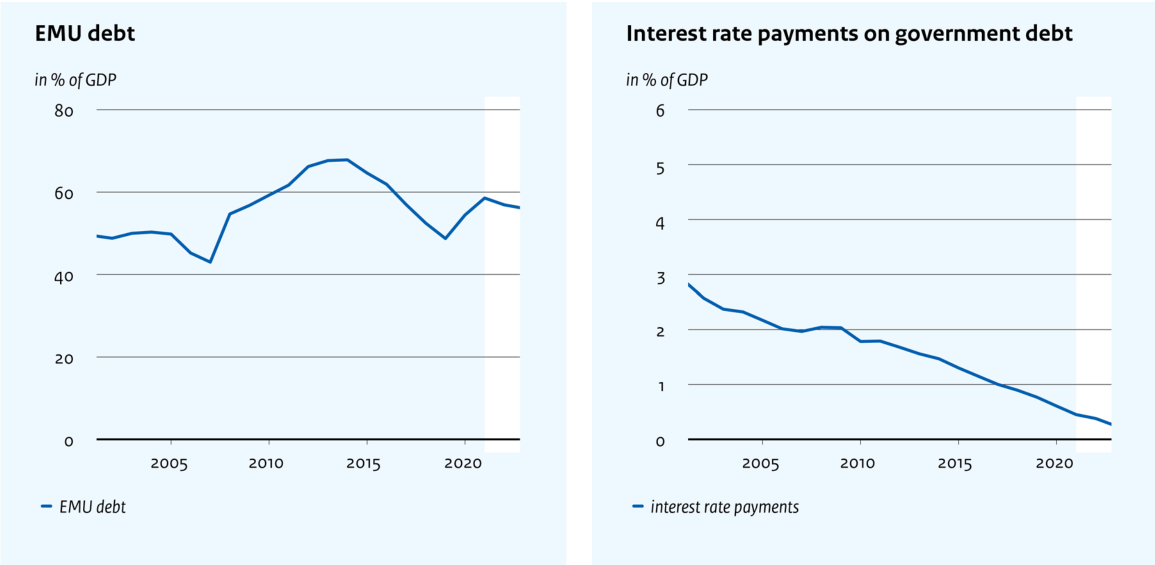
The fight against the pandemic, also in 2021, is projected to lead to substantial government expenditures, of about EUR 30 billion. The NOW wage subsidy scheme, which will run until July under current policy assumptions, is the largest support measure (EUR 7 billion), followed by the TVL fixed-cost compensations (EUR 6 billion). There will also be additional expenditures in health care, due to the costs of vaccination, infection source and contact investigations and coronavirus testing (EUR 6 billion). These expenditures mean higher income transfers, higher subsidies for businesses and more government consumption. In 2021, government consumption is expected to increase by 5.7%, the highest growth rate since 2009. The above-mentioned additional government expenditure of EUR 30 billion includes additional spending on education to make up for learning deficits caused by the pandemic.

The proposed EUR 8.5 billion in additional educational funding is not expected to be fully spent by the end of 2023. In order to make up for learning deficits caused by the closure of schools during the pandemic, the government has set up the National Educational Programme, with an additional budget of EUR 8.5 billion in 2021–2023.[13] This is a substantial stimulus, for which schools must first draw up plans. This will take some time and the implementation is made more difficult by the lack of additional teaching staff.

The government deficit is projected to increase to 5.9% of GDP this year. Due to the support measures and lower tax revenues resulting from the recession, the government budget will turn from a surplus of 1.7% of GDP in 2019 to a deficit of 4.3% in 2020 and 5.9% in 2021, exceeding the 5.2% GDP deficit of 2010 during the Great Recession. With the expiration of financial support measures and the economic recovery, the deficit will be reduced to 1.7% of GDP in 2022. These budgetary deficits, tax deferrals and additional government loans to companies will increase the government debt to 58.6% and 56.9% of GDP in 2021 and 2022, respectively, which is on average 9 percentage points higher than in 2019. Nevertheless, due to lower interest rates, interest payments on the government debt will be lower in 2022 than they were in 2019 (0.4% of GDP, compared to 0.8%). The EMU balance and the increase in government debt, therefore, remain well below the eurozone's average.

[12] The tax system over 2020 of around EUR 13 billion leads to lower cash income, but in the budgetary figures this is excluded from the projections.
[13] Ministry of Education, Culture and Science (2021), Nationaal Programma Onderwijs: steunprogramma voor herstel en perspectief [National Educational Programme: support scheme for recovery and perspective], Parliamentary Letter, 17 February. (link)

Figure 3.2 Government debt and related interest payments



Source: CBS and CPB (link)

European budgetary regulations will not restrict budgetary policy in 2021, despite the deterioration of the eurozone's structural budget balance and government debt. Due to the severe recession caused by the coronavirus outbreak, the finance ministers in EU Member States have activated the general escape clause from the Stability and Growth Pact.[14] This means that the European Commission will not present these ministers with proposals in the event of a deviation from the rules on maximum budget deficit and debt. The European Commission will make a proposal for 2022 after the publication of its spring forecast. The Commission has already indicated that, based on the current outlook, it is in favour of continuing the implementation of the escape clause.[15]

Table 3.1 Main data on public finances, 2019–2022

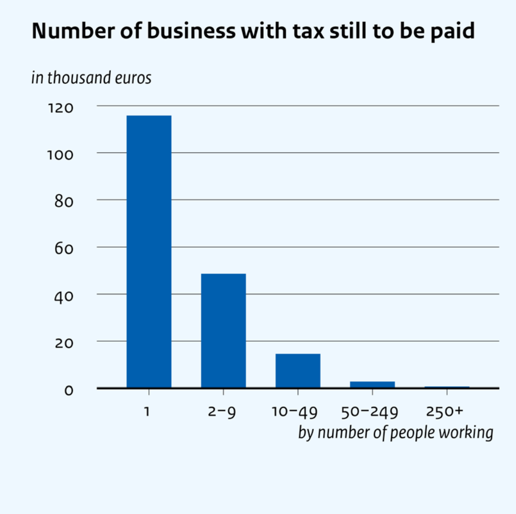
	2019	2020	2021	2022
	% of GDP			
Gross public expenditure	42.4	48.6	49.1	44.9
Public financial burden	39.3	39.7	39.1	38.8
Non-tax revenues	4.8	4.6	4.1	4.4
EMU balance	1.7	-4.3	-5.9	-1.7
of which EMU balance local government				
EMU balance, structural (EC method)	0.7	-1.9	-4.1	-1.4
EMU debt	48.7	54.4	58.6	56.9
Stock exchange price TTF natural gas	15	9.1	17	16.3

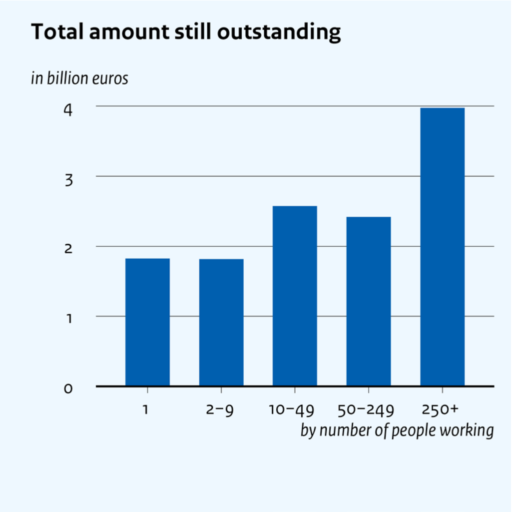
[14] Council of the EU (2020), Statement of EU ministers of finance on the Stability and Growth Pact in light of the COVID-19 crisis, Press Release, 23 March. (link)

[15] European Commission (2021), One year since the outbreak of COVID-19: fiscal policy response, 3 March. (link) (link) Eurogroup, 2021, Eurogroup statement on the euro area fiscal policy response to the COVID-19 crisis and the path forward, 15 March. (link)

One of these days is none of these days?

Businesses have outstanding tax deferrals of EUR 13.3 billion. The deferral possibilities have been expanded due to corona. In the spring of 2020, the outstanding amount increased rapidly to EUR 9.8 billion and rose further in the second half of 2020. By mid January 2021, the total stood at EUR 13.3 billion. (a) Almost half of which in deferred wage taxes. The effects of the second lockdown are still unclear, as there is a delay before they appear in the figures. Tax deferrals can be useful to prevent basically viable companies from collapsing due to acute liquidity problems.





Source: CBS, situation of 18 January 2021

Large corporations are responsible for a large share of the amount outstanding. There are currently around 180,000 businesses with unpaid tax deferrals, close to 120,000 of which are self-employed independents. With respect to this last group, the average amount outstanding is EUR 16,000. For the 655 large corporations (each with over 250 employees) that owe money to the Dutch Tax and Customs Administration, the average deferral is around EUR 6 million. For SMEs, the average tax deferral amounts to around EUR 50,000.

Part of the deferrals granted will never be repaid. From 1 October 2021 onwards, tax debts need to be repaid via a 36-month debt repayment scheme. Businesses that go bankrupt will not be able to fully repay the amount they owe in tax deferrals. In such cases, the Dutch Tax and Customs Administration (*Belastingdienst*), as preferential creditor, will try to recover as much of the outstanding amount as possible from the value of the assets. Since 2001, an average of 5000 businesses have gone bankrupt each year, with a maximum of 8376 in 2013. (b) Most of those are small businesses. A study on bankruptcies per company size showed that 90 large corporations went bankrupt in 2015. (c) Cancellation of tax debts, in those cases, would concern around EUR 1 billion. However, it is difficult to make a reliable estimation of the total number of bankruptcies in this crisis. These projections have only taken limited account of any cancellations of tax debts.

Table 3.2 The packages of emergency measures and other budgetary measures

	2020	2021
+ is negative impact on EMU balance / increasing EMU debt (a)		
	billion euros	
Expenditure support package	31.1	29.8
NOW	16.4	7.3
TOZO	3.8	0.7
Bonus for health care workers	2.0	1.0
Purchase and distribution medical devices	1.8	-0.2
TVL	1.1	6.3
Expansion testing capacity	0.9	1.5
Municipal packages	0.9	0.7
TOGS	0.9	
Financial scheme for public transport organisations	0.8	1.6
Spending increase GGDs and safety regions	0.5	0.7
Various healh care measures	0.4	1.0
Reduction in revenues from interest rate payments, fines and settlements	0.4	0.5
Support package cultural sector	0.3	0.5
Compensation own contribution child care	0.3	0.2
Spending increase education	0.3	0.5
Vaccine development and purchase	0.1	1.1
Flanking policies SZW	0.1	0.8
Spending increase on security	0.1	0.1
National educational programme		0.8
Vaccinations roll-out		0.8
Subsidies testing employers		0.7
Support sports sector		0.7
Deposits in solvency fund		0.3
Spending increase on Temporary support for essential costs (TONK)		0.2
TOA (time-out arrangement) credit		0.2
Cessation scheme for mink farms	0.1	0.1
Compensation guarantee schemes	-0.1	0.5
Building subsidies and ventilation in schools		0.1
Other (incl. flanking policies EZK, support horticultural sector)		1.3
Tax support package	4.4	-2.0
Fiscal corona reserve corporation tax	3.0	-3.0
Normal wage 2020 reduced at decrease in turnover	1.0	0.6
Other	0.4	0.4
EMU balance (ex-ante)	35.5	27.8
EMU debt-increasing measures (incl. loans, tax deferrals and discrepancies between transaction-based and actual (cash) revenues)	12.5	-0.7
EMU debt-increasing measures (% of GDP)	1.6	-0.1
Guarantees	60.8	60.8
Guarantees (% of GDP)	7.6	7.3

(a) + is negative impact on EMU balance / increasing EMU debt. Guarantees are not included in the EMU balance nor in the EMU debt, with the exception of the payments on the guarantee schemes.

4 Alternative scenarios

Due to the large uncertainty, this CPB Policy Brief includes both a pessimistic and an optimistic scenario, in addition to the baseline scenario. Scenario analysis helps to highlight the uncertainty regarding economic development. With respect to policy, the most likely development is relevant, but so are possible alternative developments. The two alternative scenarios do not reflect all uncertainties and should not be regarded as the upper and lower limits of possible outcomes.

Under the pessimistic scenario, new coronavirus variants will cause a new coronavirus outbreak, resulting in a new recession. The scenario assumes that the current vaccinations will prove ineffective against new coronavirus variants and that modified vaccines will not be available on time, resulting in a renewed increase in the number of people infected and new hospital admissions next autumn. This will lead to extra caution among households, which in turn reduces consumption. Moreover, at this point, the government will reintroduce restrictive measures to counteract the epidemic, causing a further reduction in consumption. Under this scenario, the rest of Europe and the United States also face a new wave of infections, which will also reduce spending in those countries, with negative consequences for Dutch exports. Corporate investments not only react negatively to declining consumption and exports, but also to increased uncertainty about future developments and the further erosion of corporate balance sheets as a result of a new coronavirus wave. New support packages and further flexibility of monetary policy will reduce the negative impact on GDP and the upward effect on unemployment. Government deficit and debt will be higher than under the baseline scenario due to the additional support packages, lower tax revenues and higher unemployment benefit payments, as a result of the new recession. Under this scenario, GDP will decrease further in 2021, by 0.8%, and growth in 2022 will remain limited to 0.8%. Unemployment will rise to 6.1% of the labour force in 2022 (see Figures 4.1 and 4.2 and Table 4.2).

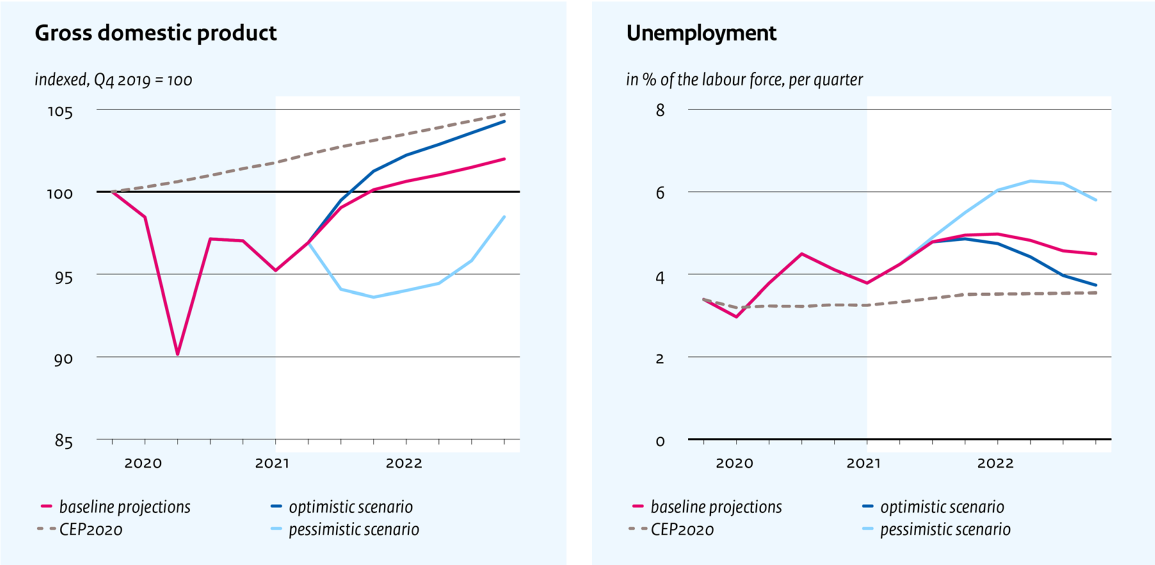
Under the optimistic scenario, the lifting of physical contact restrictions will lead to a stronger rise in consumer and producer confidence. Increased confidence in the future will cause households to spend their excess savings more rapidly, leading to additional consumption. Businesses will be scaling up their investments, enabled by consistently low financing costs. With similar developments elsewhere in the eurozone, exports will also be buoyant. As a result, the increase in employment will be higher than under the baseline scenario, which will thus lead to lower unemployment. The tighter labour market will lead to stronger wage increases in 2022, which will further boost consumption. Stronger economic growth also means higher tax revenues and lower benefit payments, resulting in lower government deficit and debt. Under this scenario, GDP growth increases to 2.6% in 2021 and 5.1% in 2022, while unemployment decreases to 4.2% of the labour force.

The two scenarios do not include all risks and uncertainties. The development of the economic relationship between the EU and the United Kingdom, for example, is uncertain. Friction may increase, with negative impact for the eurozone and particularly also for the UK economy. However, it could also be that the economic damage of the Brexit is reduced by certain adjustments. Another uncertainty concerns the trade relations between China and the United States. Although the risk of a tense trade situation has been reduced by the new US Federal Government, a large number of tricky dossiers still remain (i.e. agricultural products, taxation of digital services, etc.). There are uncertainties about the impact of the large US budgetary stimulus on inflation and interest rates in the United States as well as on the eurozone.[16] For the eurozone, there are uncertainties about the economic effects of the recovery programmes within the framework of the European

[16] Blanchard, O. (2021), In defense of concerns over the USD 1.9 trillion relief plan, PIIE blog, 18 February. (link) .

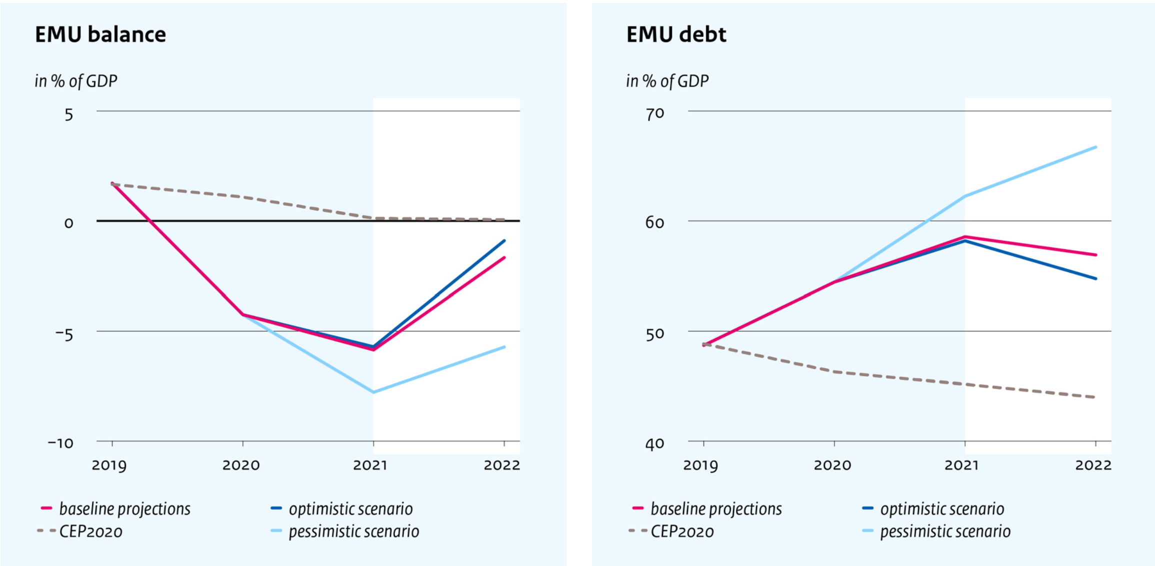
Recovery and Resilience Fund (RRF). On a national level, the nitrogen problem may lead to greater constraints than assumed in the baseline scenario. The projections for the Dutch economy are based on unchanged policy; the coalition agreement of the next cabinet may result in different outcomes over the projected period.

Figure 4.1 GDP and unemployment under the additional scenarios and the baseline scenario



Source: CBS and CPB (link)

Figure 4.2 Budget deficit and government debt under the baseline and alternative scenarios



Source: CBS and CPB (link)

Table 4.1 Baseline and alternative scenarios, 2020–2022

	2020	2021	2022	2020	2021	2022	2020	2021	2022
	baseline scenario			optimist. scenario			pessimist. scenario		
Gross domestic product (GDP, economic growth, in %)	-3.7	2.2	3.5	-3.7	2.6	5.1	-3.7	-0.8	0.8
Household consumption (volume in %)	-6.4	0.6	6.1	-6.4	1.2	8.9	-6.4	-3.3	1.6
Investments (incl. stocks, volume in %)	-4.0	2.3	2.8	-4.0	3.1	5.8	-4.0	-3.0	-2.0
Exports of goods and services (volume in %)	-4.3	2.6	5.2	-4.3	2.9	6.9	-4.3	-1.0	0.8
Unemployed labour force (level in % of labour force)	3.8	4.4	4.7	3.8	4.4	4.2	3.8	4.6	6.1
Employment (in hours, mutation in %)	-3.5	2.0	1.5	-3.5	2.1	2.2	-3.5	0.1	-1.8
EMU balance (level in % of GDP)	-4.3	-5.9	-1.7	-4.3	-5.7	-0.9	-4.3	-7.8	-5.7
EMU debt (year end, level in % of GDP)	54.4	58.6	56.9	54.4	58.2	54.7	54.4	62.2	66.7

5 Policy considerations

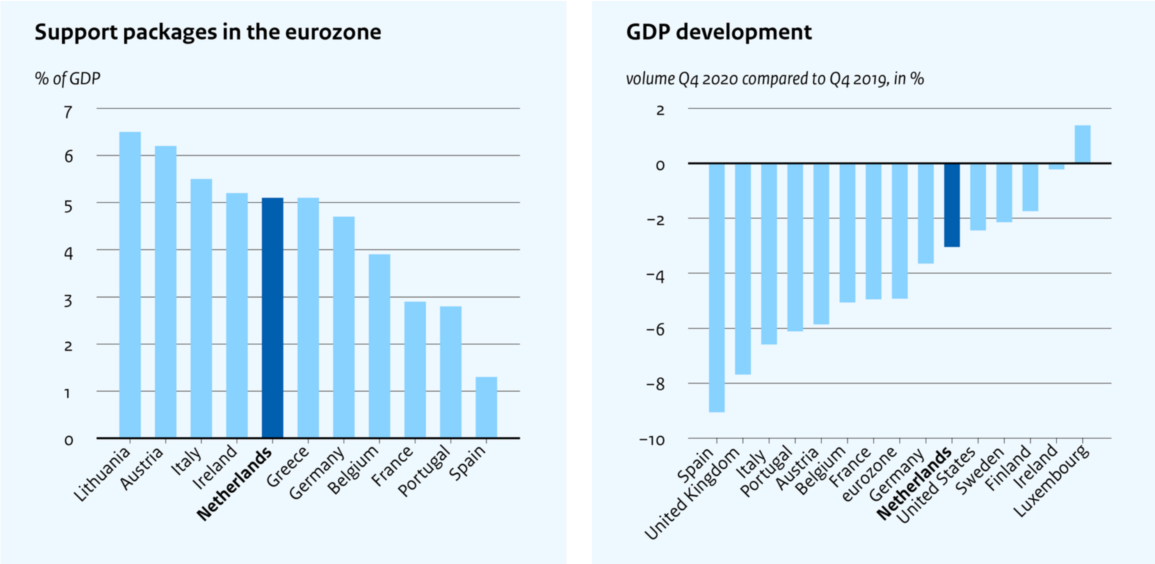
If, after vaccination, the restrictive measures can be lifted, the motivation for the current business support measures, which run until the second quarter, will disappear. From an economic point of view, the support policy should then be phased out, rapidly. The lockdown and the support policy have brought part of the economy to a standstill. Turnover decreased sharply in certain sectors, and the support policy was intended to prevent bankruptcies as well as a sharp increase in unemployment. The support policy seems to have succeeded in its objectives — indeed, there are indications that it is even keeping non-viable businesses afloat. Unemployment has remained low, and the number of bankruptcies has even declined. However, business dynamics and labour market movements are part of a healthy economy. The normal productivity-enhancing dynamics of start-ups and business closures must be restored to ensure that production resources are used efficiently. A support policy (aimed at keeping existing businesses afloat) that is continued for too long is detrimental to long-term earning power and will need to give way to policies aimed at recovery.[17] In principle, the adjustable design of the main support measures can automatically reduce the reliance on support in cases of turnover recovery, but this requires that the parameters of the schemes provide sufficient incentives for restarting. The various extensions of the support package in recent months, such as the 100% compensation under the TVL, have weakened these incentives.

Even under a less favourable scenario of continued infections, the sustainability of current support policy is limited. Under a scenario in which the vaccination campaign does not have the desired effect, the perspective shifts to a future in which social distancing measures will continue to be necessary for a longer period of time, and there may even be various lockdowns at regular intervals to deal with new waves of infection. Also under such a scenario, a phase-out of the current support policy is advisable, from an economic perspective.The effectiveness of support policies aimed at job retention diminishes the longer a crisis lasts.[18] And because, under such a scenario, the most affected business models will not become profitable again in the foreseeable future, a more structural adjustment to other forms of activity will be necessary. Under this

[17] SCP, PBL and CPB (2021), Briefadvies Planbureaus voor herstelbeleid, Een doorstart van de samenleving [Advisory document of the three assessment agencies, for recovery policy and a restart of society (in Dutch)], 18 February. (link) ; Hasekamp, P. (2021), Maak Nederland snel weer missionair [blog post, in Dutch], Financieel Dagblad and CPB, 19 March. (link)
[18] Jongen, E. en P. Koning, 2020, Lessen voor de NOW, CPB coronapublicatie. (link)

scenario, too, a shift is needed from policies that keep companies afloat to recovery policies that stimulate new dynamics.

Figure 5.1 Substantial differences between national support packages and decreases in GDP in 2020



Source: Eurostat and European Commission (link)

Recovery policy, first and foremost, should focus on repairing the damage suffered, so far. This, for example, includes students who have fallen behind in their learning; the outgoing government has already responded to this with the National Educational Programme. Another form of damage concerns businesses and self-employed people whose balance sheets have deteriorated because they had to take out additional loans and had to deplete their financial reserves. When solvency problems prevent new productive investments, this can hamper recovery. On the basis of currently available data, it is not yet possible to say how great the damage to the balance sheets of individual businesses is, but it seems safe to assume that there are large differences between them, with respect to the extent to which they have been affected. Pursuing a generic policy is less obvious, for this reason. Assessments to determine which businesses should be eligible for balance sheet relief should preferably be left to the market. The new Bankruptcy Act that came into force on 1 January may help to restructure balance sheets and make it possible for more businesses to be restarted. The government can play a facilitating role, here, as a prominent — and often privileged — creditor. The government has already indicated that it will take ample time to collect on granted tax deferrals. Existing credit guarantee facilities (e.g. BMKB, GO-C) could also be expanded if necessary.

In addition, recovery policy should be aimed to facilitate economic adjustments. The pandemic has had some permanent consequences for the economic structure, especially where existing trends have been reinforced. Digitisation has caused a shift in the activities in certain sectors, but is also changing the nature of the work, which could pose an additional challenge with respect to training and retraining of those who work there. Challenges from before the coronavirus outbreak (e.g. labour market dualisation, unequal opportunities) have become more obvious due to the crisis. The additional retraining opportunities that have already been introduced during the pandemic should be continued, in the coming period of restructuring. For workers with small unemployment benefit entitlements (i.e. especially young people), a temporary extension of such retraining schemes could facilitate the required adjustments in the labour market. Another policy option could be to extend the timespan within which municipalities are required to assess the viability of businesses owned by self-employed social welfare recipients.

Reform measures aimed to reduce labour market dualisation and tackle unequal opportunities in education are a long-term process, but will ultimately be able to sustainably improve the functioning of the economy and, thus, strengthen recovery over the coming years.

The need for stimulating short-term demand is limited; any investments could best be coupled to long-term challenges. If vaccinations proceed as planned and no new dangerous coronavirus variants emerge, economic recovery is in sight. In such a case, there is no economic rationale for temporary increases in spending and tax reductions.[19] And under the scenario in which the vaccination campaign is less successful, the effectiveness of demand stimulation is likely to be limited, as consumers remain cautious and supply constraints will limit consumption options. This does not alter the fact that policies aimed at long-term issues (e.g. climate change, nitrogen, housing shortages) may require substantial investments. For temporary, transition-related investments, the release of incidental funds may be considered, although the boundaries between the terms 'investment' and 'transition' need to be closely monitored. In view of the uncertainty about the long-term consequences of the coronavirus crisis for the state of public finances, however, it is not advisable to place an additional structural burden on the budget. Therefore, in order to be able to absorb disappointing economic development in the future and to prevent additional financial burdens from being pushed on to future generations, structural spending increases or reductions in the financial burden should be balanced with spending cuts or tax increases elsewhere in the budget.[20]

[19] Veldhuizen, S. van, en B. Smid, 2020, Opties voor vraagstimulering, CPB coronapublicatie. (link)
[20] Studiegroep Begrotingsruimte, 2020, Koers bepalen, Kiezen in tijden van budgettaire krapte, oktober. (link)

Main differences with the November projections

The main differences with the November projections[21] are:

- The second coronavirus wave is lasting longer than assumed in the November projections (did not end by late 2020) and has led to stringent additional measures, such as the closure of non-essential shops and the curfew. On the other hand, vaccinations in the Netherlands are taking place more rapidly than assumed in November (first half of the year, instead of the second half of 2021).
- Based on the goods trade that has been realised up to December and the more limited information on the international services trade, the decline in relevant world trade in 2020 has been revised from 8.8% to 9.0%. The growth in relevant world trade as projected for 2021 remains unchanged, but the total world trade growth has been revised upwards by 1.7 percentage points to 5.9%.
- The impact of the second coronavirus wave and the resulting social distancing measures was surprisingly limited in the fourth quarter of 2020, with GDP declining by 0.1% compared to the previous quarter, against a decline of 1.9% in the November projections. This upward revision also means a revision of the year-on-year change in 2020, from a decrease of 4.2% to a decrease of 3.7%
- The strong lockdown measures from mid December onwards are particularly reflected in the GDP of the first quarter of 2021, with a projected decline of 1.9%, against the November projections' expected increase of 1.2%.
- GDP growth in 2021 has been revised downwards from 2.8% in November to 2.2% in the current projections. This is due to the downward revision for the first quarter and despite more spillover from 2020 and more growth in the remaining quarters of 2021.
- The rate of unemployment in 2020 has been revised downwards from 4.1% to 3.8% of the labour force, based on better-than-expected realisations in the last two months of 2020. As a result, and because of better-than-expected figures in early 2021, the unemployment projected for 2021 has been revised from 6.1% to 4.4%.
- Based on realisations, inflation (HICP) in 2020 has been revised downwards from 1.2% to 1.1%. Inflation in 2021 has been revised upward from 1.3% to 1.9%; this is mainly due to the upward revision of the technical assumption regarding the oil price.
- Based on realisations and new information on collective labour agreements (CAOs), the CAO wage increase at companies in 2020 has been revised upwards from 2.5% to 2.7%; for 2021, the wage increase has also been revised upwards from 1.4% to 1.7%.
- The November projections assumed nominal pension cuts in 2021 at some large pension funds. At the end of 2020, however, solvency ratios were just above 90%, and these pension funds were not required to make nominal cuts. A small number of smaller funds will nevertheless be required to do so.
- The increase in static median purchasing power, in 2021, has been revised downwards from 1.0% to 0.7%, as inflation has been revised upwards by more than the contract wage growth.
- The tax deferrals granted to entrepreneurs in 2020 have been revised upwards by EUR 0.7 billion to approximately EUR 13 billion. This amount is assumed to be repaid within 36 months (starting in October 2021), but the time of repayment is expected to be later than was assumed in the November

[21] CPB (2020), Novemberraming: Economische vooruitzichten 2021 [November projections: Economic Outlook 2021], CPB Policy Brief. (link)

projections. Furthermore, an additional EUR 3.5 billion in tax deferrals has been scheduled for 2021, which is also to be repaid within those 36 months.

- The projected expenditure on job-related investment credits (BIK) in 2021 has been reduced by EUR 0.2 billion to EUR 1.8 billion, compared to the November projections.
- The November projections, on the basis of the Budget Memorandum, assumed that the Netherlands would submit a plan for 2021 within the framework of the European Recovery and Resilience Fund (RRF).

Appendices

The appendices of this Central Economic Plan 2021 and the update of the medium-term outlook 2022–2025 can be downloaded from CPB's website (link).

The figures in the following tables are in line with the National Accounts 2019 of Statistics Netherlands (CBS). The figures include the revision of the National Accounts 2015. The figures for the years 1995–2019 are based on CBS information after the revision, as published on Statline in June 2020, supplemented with CPB interpolations and estimates by CPB using developments of before the revision. All figures from before 1995 date from before the 2015 revision, which means that, for now, there is a revision break in the time series. This break has been made visible by including the year 1995 in the time series both before and after the revision.

The following appendices can be downloaded:

1 Kerngegevens voor Nederland, 1970-2025 [Main data on the Netherlands, 1970–2025]
2 Aanvullende kerngegevens Nederland, 1970-2025 [Additional main data on the Netherlands, 1970–2025]
3 Kerngegevens wereldeconomie en externe data voor Nederland, 1970-2025 [Main data global economy and external data on the Netherlands, 1970–2025]
4.1 Middelen en bestedingen 2020 [revenues and expenditures] (billion euros, annual mutations, in %)
4.2 Middelen en bestedingen 2021 [revenues and expenditures] (billion euros, annual mutations, in %)
4.3 Middelen en bestedingen 2022 [revenues and expenditures] (billion euros, annual mutations, in %)
4.4 Middelen en bestedingen 2023 [revenues and expenditures] (billion euros, annual mutations, in %)
4.5 Middelen en bestedingen 2024 [revenues and expenditures] (billion euros, annual mutations, in %)
4.6 Middelen en bestedingen 2025 [revenues and expenditures] (billion euros, annual mutations, in %)
5 Middelen en Bestedingen [revenues and expenditures], mutations, 1970–2025
6 Middelen en Bestedingen [revenues and expenditures], current price levels, 1970–2025
7 Consumptie, inkomen en besparingen van huishoudens en investeringen [consumption, income and savings of households and investments], 1970–2025
8 Nederlandse invoer en uitvoer [Dutch imports and exports], 1970–2025
9 Prijzen, lonen en koppeling [prices, wages and coupling], 1970–2025
10 Kerngegevens arbeidsmarkt [Main data on the labour market], 1970–2025
11 Kerngegevens collectieve financiën, naar functie [Main data on public finances, per function], 1970–2025
12 Kerngegevens collectieve sector, uitgaven en inkomsten [Main data on the public sector, expenditures and revenues], 1970-2025
13 Belasting- en premieontvangsten [Tax and premium revenues], 2000–2025
14 Sociale zekerheid [Social security], 1970–2025
15 Belasting- en premietarieven [Tax and premium tariffs], 2001–2025