The Netherlands: Building a stronger recovery

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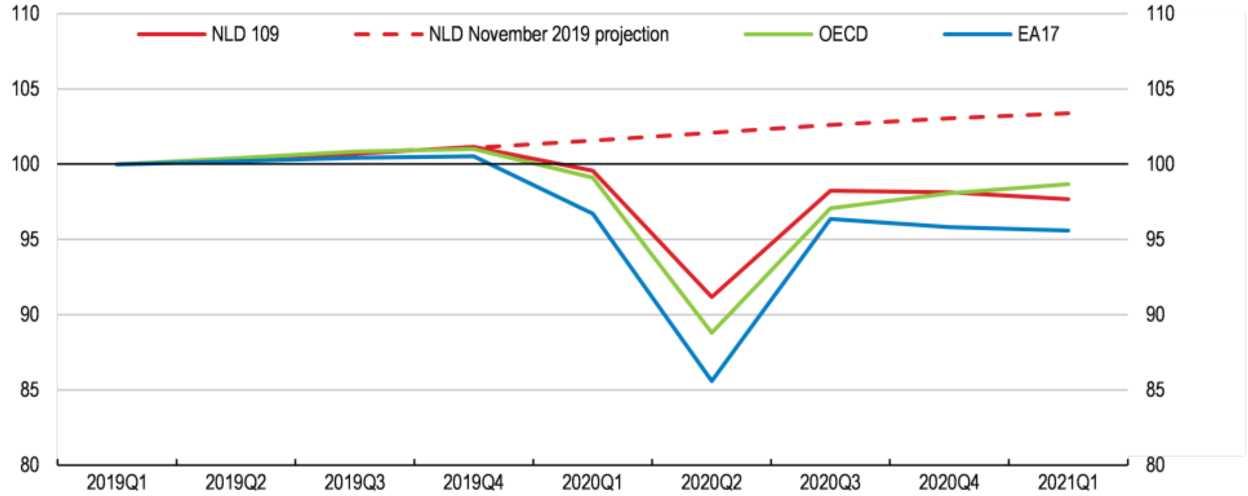
The Netherlands is recovering from its largest economic contraction since the Second World War. Almost overnight, the COVID-19 outbreak restricted people's daily lives. Work and education shifted to take place from home. Many businesses offering non-essential but close contact jobs could not easily adjust, leading to a reduction in working hours or number of employed. Travel, social interactions, shopping, cultural and leisure activities were restricted to hold back the spread of the virus. The Dutch government swiftly implemented a comprehensive support package, and extended and adjusted the measures several times in response to prolonged restrictions. These policies reduced uncertainty and protected people, businesses and jobs. In combination with structural and institutional strengths and a high level of digitalisation, the generous fiscal support helped the country to weather the COVID-19 crisis with limited economic damage compared to many OECD countries (Figure 1).

Figure 1. The economy contracted less than elsewhere
Real GDP, Index Q4 2019=100



Note: The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.
Source: OECD Economic Outlook 106 and 109 databases.

The start of the vaccination campaign earlier this year marked the beginning of the end of the health emergency. As the Dutch roll up their sleeves, restrictions are progressively lifted, business and consumer confidence are improving, and the economy is set to recover gradually. The *2021 Economic Survey of the Netherlands* foresees annual growth of 2.7% in 2021 and 3.7% in 2022, with GDP recovering the pre-crisis level at the beginning of 2022. Private consumption will drive the recovery as households can eat out, shop and enjoy many of the social, cultural and leisure possibilities that have been off-limits during the pandemic. Nevertheless, private consumption will be held back by households facing an increase in pension premiums and rising unemployment as the result of support measures being phased out. Uncertainties still abound. Quicker than expected vaccine roll out can contribute to faster economic growth, especially if returning confidence spurs people to spend some of the savings amassed during the pandemic. On the other hand, potential outbreaks of vaccine-resistant virus strains could postpone the recovery. Well-targeted fiscal support should remain in place in the short term to support the recovery, but the government should also plan forward and carefully weigh permanent spending increases against pressures emerging from population ageing and related health care expenditures.

The *2021 Economic Survey of the Netherlands* argues that coming out of the pandemic is an opportunity to build back stronger, fairer and greener, by addressing some long-standing structural challenges:

- In the Netherlands, a high share of workers are on non-standard contracts. This trend has increased over recent years, driven largely by lower labour costs for the self-employed and other non-standard workers than for regular employed. During the crisis, self-employed and other flexible workers on freelance or on-call contracts were more likely to lose their job as the job retention scheme mainly protected workers on permanent contracts. Temporary contracts are also used more frequently in hospitality and service sectors, which were hit hard by the COVID-19 crisis, in lower skilled occupations and among young workers. Although the government provided some income support for the self-employed, the crisis may have exacerbated income inequality. Implementing the Commission for the Regulation of Work recommendations is key to reducing labour market duality. More should also be done to reduce the gap in part-time work between women and men.
- People living in the Netherlands are exposed to the risk of local air pollution and to climate change risks such as floods, as large parts of the country are below sea level. People's exposure to nitrogen emissions remains among the highest in the EU owing to high population density, high industrial and agricultural production and being home to Europe's main seaport. A High Court ruling in 2019 stipulated a re-evaluation of permits for a range of nitrogen emitting activities, notably for construction and agriculture projects near natural preservation areas. The available

nitrogen space for new developments remains limited, constraining new investment in infrastructure, buildings and agriculture. Greenhouse gas emissions are also high compared to the EU average, and a High Court ruling in 2019 mandated a 25% reduction compared to 1990 levels by the end of 2020. This prompted a reduction in coal power capacity and other measures. The 2020 target was just met, owing in part to the COVID-19 crisis that reduced economic activity and mobility. Long-run prosperity and people’s well-being hinge on the reduction of local air pollution and greenhouse gas emissions, which requires concrete national-level actions, as well as enhanced regional and international cooperation.

- High debt and a high share of illiquid assets, mainly housing, held by households create macroeconomic and financial vulnerabilities. Household debt is at more than 200% of disposable income, among the highest in the OECD, mainly consisting of mortgages. Limited housing supply and favourable tax treatment for owner-occupied housing have contributed to soaring house prices. As a result, home-owners are not only better off compared to people not yet owning a house, i.e. often the young and people on non-standard work contracts, due to higher equity, but also compared to investors of other assets. A possible future correction in house prices is a risk to economic growth, as households who suffer large capital losses tend to cut back on consumption in order to continue servicing their debt. A more balanced housing market with affordable prices and a better functioning rental market would not only reduce inequality and macroeconomic risks but also boost growth. A coherent package of reforms is needed, including to the tax treatment of owner-occupied housing, spatial planning and rental regulations.

As the Netherlands re-emerges from the shadows of the pandemic, and people and businesses are weaned off emergency support, it is not the time to return to the old ways. It is the time to build a new future. A future that is better.