



Ministerie van Financiën

# Economic policy during the COVID-19 crisis

**PFN Webinar**

March 2021

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March 2020

## Emergency Package 'Jobs and Economy'

### **Emergency measures for three months**

- › Wage bill subsidies based on revenue decline (NOW, replaces WTV)
- › Income support for the self-employed (TOZO)
- › Direct transfers to business (Noodlokket, then TOGS)
- › Deferral of tax payments, lower interest rate on tax liabilities
- › Credit measures: BMKB, GO, Qredits



Initial challenges

## Implementation issues (1/2)

- › Reduction of working hours (WTV) declared applicable to impacted firms
  - Existing scheme for temporary leave
  - Wage subsidy comparable to unemployment benefits
  - Usually no pay-cut for employees
  
- › Over 100.000 applications in a weekend, which could not be processed
  
- › A new scheme is set up (NOW)
  - Uses revenue drop, to be checked by accountants
  - Firms to receive 90% of (wage bill x revenue drop)
  - No requirement to put workers on leave, no impact on employees
  - Choice for speed over precision (and sensitive to fraud)



Initial challenges

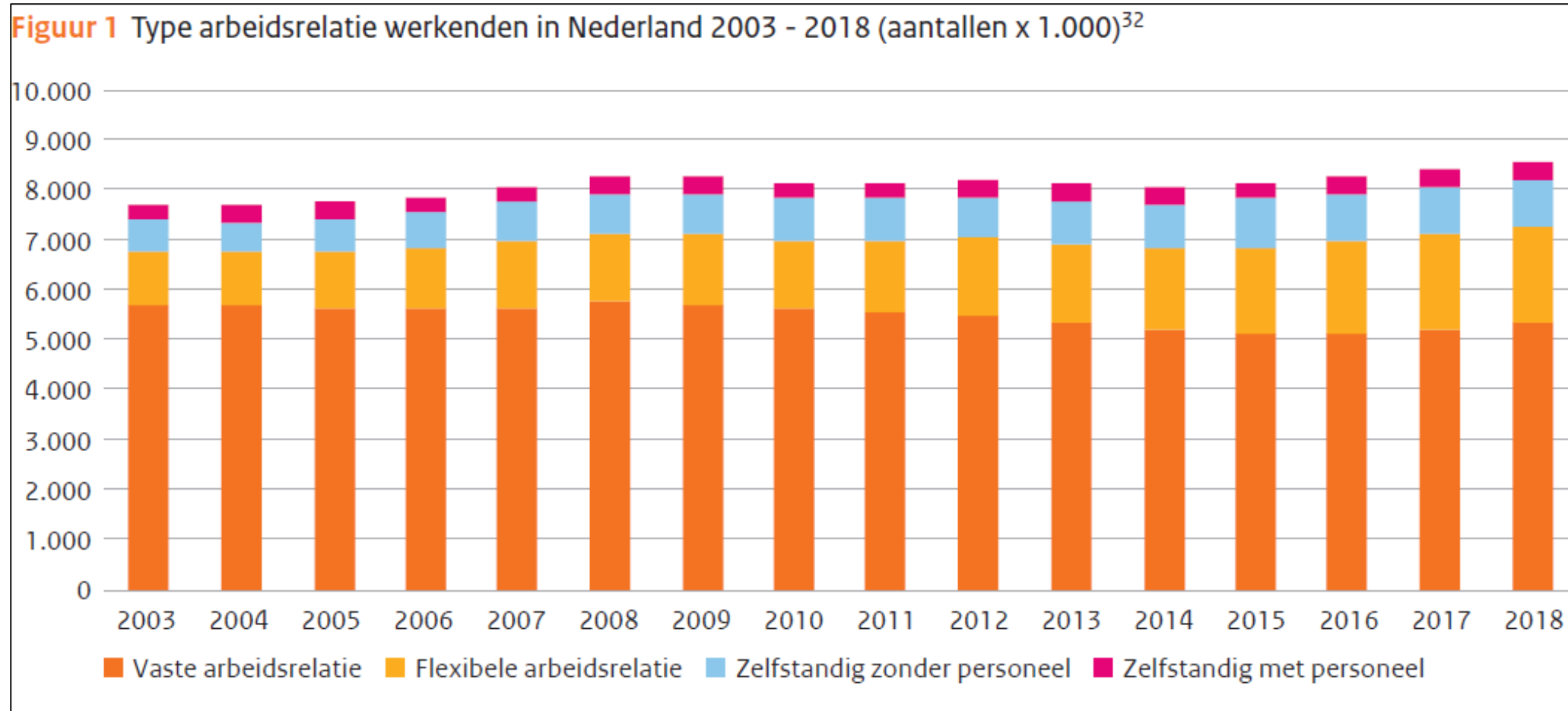
## Implementation issues (2/2)

- > Comparison to other countries:
  - Germany: Reduction of working hours (*Kurzarbeit*) where state supports workers, wo lose some income and have incentive to find other work
  - UK: 'Furlough scheme', similar outcomes as German model
  - USA: Nothing of the sort initially, large spike in unemployment
- > Generally: crisis policies almost exclusively use *existing* parameters
  - Revenue drop measure has been used to cover firm fixed costs as well, although in a very crude way
  - 'Ideal' schemes require measuring things the state does not see



Initial challenges

# Labour market duality and safety nets (1/2)





## Initial challenges

# Labour market duality and safety nets (2/2)

- › Labor market duality in The Netherlands
  - Declining share of employees with fixed employment contracts
  - Large group of `self-employed`, but often dependent on one `client`
    - Mailman, hairdresser, ...
  
- › These self-employed do not qualify for final safety net (welfare)
  - Unless they give up on their business
  - Many were put out of work
  
- › Policy response: income support measure (TOZO)
  - Implemented by municipal governments
  - Less checks and tests than usual safety net (welfare)



May 2020

## Emergency Package 2.0

- › By now a lot of extra measures and adjustments
  - Education, childcare, Caribbean Netherlands, ...
  - A package of tax measures
  - Sectoral support: e.g. specialist agriculture
  - Support framework for individual companies
- › Estimated total cost (on 24 april 2020): 20 bln

### **Emergency measures extended by three months**

- › Fine in NOW removed, subsidy percentage up
- › Significant firm subsidies targeting fixed costs (TOGS -> TVL)
- › Decision making slows, pressure from opposition and 'social partners'
- › Estimated additional cost: 15-17 bln



Augustus 2020

## Support- and recovery package

### **Managed reduction of support, in 3 x 3 months**

- > For NOW, TOZO en TVL
  - Room to reduce wage bill in NOW
  
- > Accompanying policies
  - From work to work, (re)training
  - Poverty and debt alleviation, youth unemployment, vulnerable groups
  
- > Targeted investments
  - Expedited government investments, Growth Fund, BIK
  
- > Estimated cost: 14 bln





December 2020

# Adjustments to the Support and recovery package

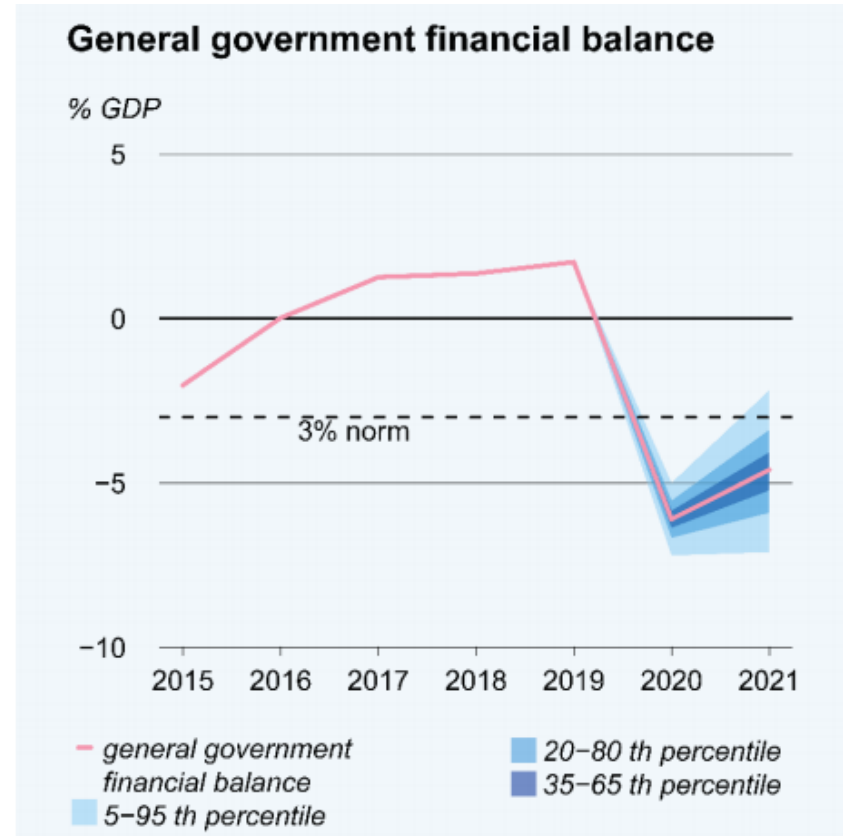
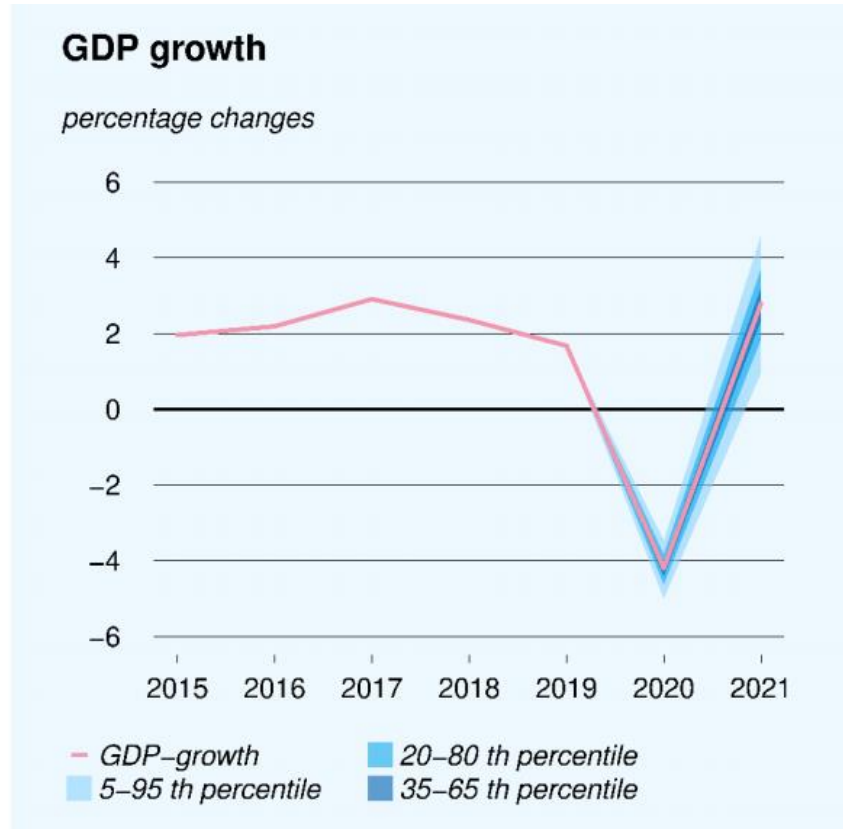
## **Managed reduction is withdrawn**

- > Due to 'second wave'
  
- > Since then:
  - Specific changes to the Package (end of December)
  - Extension of the Package (end of January)
  
- > Estimated cost (total for 2020 and 2021):
  - Expenditures: 58,8 bln
  - Tax measures: 2,5 bln
  - Loans and guarantees: 2,8 bln
  - Tax deferral: 10,4 mrd



# Looking ahead

## Outlook uncertain





Looking ahead

# 2021 and the next government

- › Budget 2021: trust, resilience and earnings capacity
- › Dilemma's for the future government – elections in March 2021
  - When will the economy reopen, and will it bounce back?
    - Main emergency measures formally end after June 2021
    - Further/different support needed after reopening?
    - Will business debts be a burden on recovery?
  - How much fiscal space to use? Temporary, structural
- › Lessons to be learned?
  - Labour market duality
  - Preparation for future crises?



Questions?

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