Focus

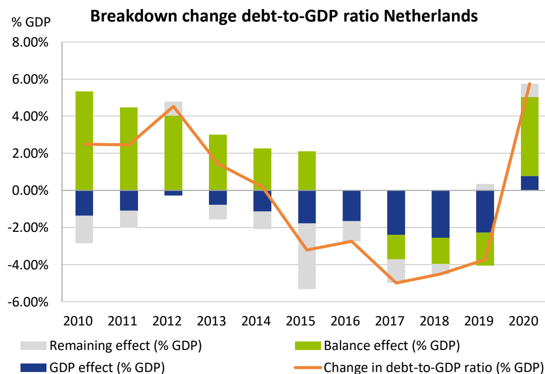
To date, the Dutch cabinet has spent more than EUR 76.2 billion to combat the corona crisis. At the start of the corona crisis, the government expected the largest budget deficit since 1918. The Dutch government debt would rapidly increase to 65% of gross domestic product (GDP). According to the latest estimates published by Dutch central bank De Nederlandsche Bank (DNB) during June 2021 (June 14, 2021), the government debt will peak at 56.4% this year. Followed up by a decline to 54% in 2022, and 52.2% in 2023. Whilst the average government ratio in the eurozone reports about 102%. How is it possible that the Dutch government debt has remained below the 60% standard? And is this 60% standard still relevant in a context with an average eurozone debt-to-GDP ratio above 100%?

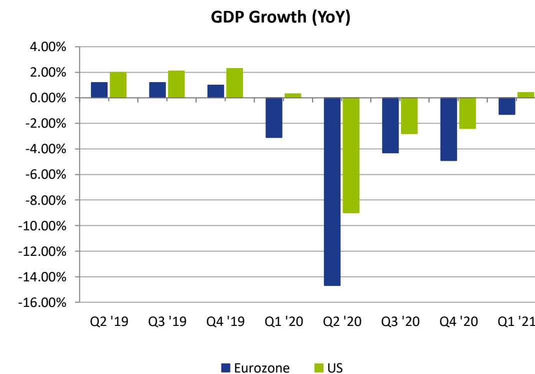
The current favourable debt figures for the Netherlands are due to a number of 'windfalls'. The Dutch economy is growing faster than expected: GDP is growing, causing the debt ratio to fall. Perhaps the biggest windfall is the speed of the vaccination program. Low interest rates have a major influence as well. The state still earns interest on the new state loans taken out (up to 10 years). At the moment, a rising government debt does not cost the state any extra money. Some call this risky. Critics state that if interest rates will be higher than economic growth in the future, the negative consequences of an unsustainable government debt will be great.

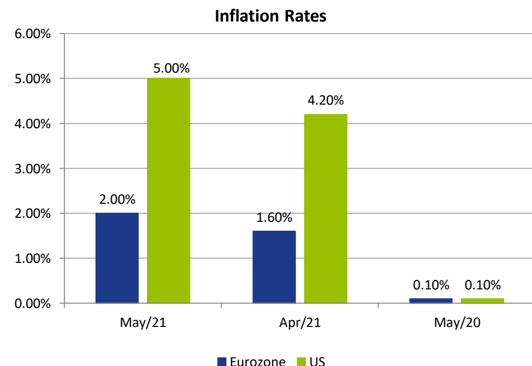
Based on the fear of a rapidly rising interest rate, the Netherlands continues to use the course of austerity to compensate for the extra government expenditure. With the premise not to pass on the costs of the recovery from the corona crisis to future generations. In the austerity drive after the credit crisis, the Dutch state reduced the debt-to-GDP ratio from 69% to 49% in less than five years. The development of the Dutch debt-to-GDP ratio is reported in the figure on the right. However, is it correct to use the size of the Dutch government debt as starting point for the policy pursued?

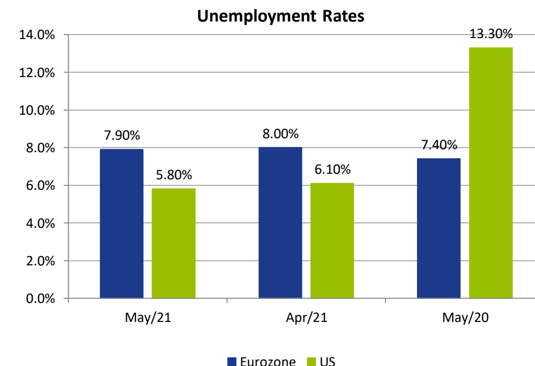
The fiscal rules in the Stability and Growth Pact (SGP), a set of agreements between countries of the Economic and Monetary Union to ensure the value of the euro, are temporarily deactivated due to corona. In combination with the extremely low capital market interest rate, this offers the opportunity to utilize the extra scope for investments. However, this requires a mindset that is far removed from the pursuit of a low debt-to-GDP ratio. If the state makes targeted investments in education, Research & Development, infrastructure and energy transition, productivity at macro level will be increased. This increase in productivity leads to economic growth in the long run. This economic growth could just compensate the increase in government debt in the short term, in terms of the debt-to-GDP ratio. The National Growth Fund, announced in the 2020 Budget Memorandum, was established in line with this line of thought. An investment fund established by the Dutch government with the aim of investing in projects that ensure long-term economic growth. A recent study by RaboResearch calculated the effects of the planned investment packages on GDP and government debt, using different scenarios in time and size. This study concludes that the debt ratio will hardly increase in the first years, ie until 2025-2026. And in the longer term to a limited extent (until 2035), in the least favourable case an increase to 61%-62%.

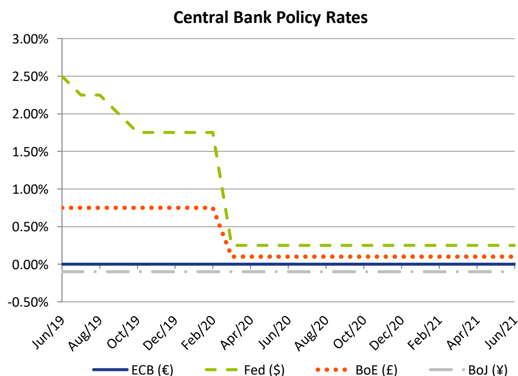
On the one hand, abandoning the 60% standard will provide scope for the mentioned investments. On the other hand, the Dutch austerity drive in the past also ensured that there was room to implement the necessary stimulus programs during the corona crisis. It is unclear whether European fiscal rules will be revised for the long term. To date, it seems that the European Commission has put this sensitive discussion on hold. A differentiation in budgetary policy may offer a solution for utilizing the Dutch investment scope.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa3	AA-
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Disclaimer: this monthly publication is based on information available from several international financial and economic sources that Zanders regards as reliable. This publication can be used for informational purposes only. The data contained in the publication are prepared as of a particular date and time and will not reflect subsequent changes in the market. We do not accept any liability for the correctness, exactness, and completeness.

Review & preview

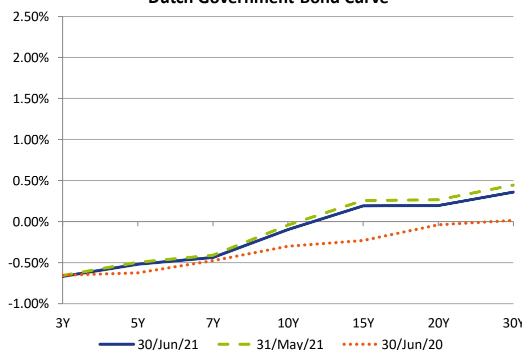
In June, the European Central Bank (ECB), the Federal Reserve (Fed) and the Bank of England (BoE) all decided to keep their policy rates unchanged. The ECB also agreed on a new inflation target. Where previously inflation was aimed at close to, but below 2%, the new inflation target is 2%. Additionally, the ECB indicated that in the shorter term a higher inflation is accepted, because in the past decade the inflation rate was substantially lower than 2%. The Fed has also indicated that it is temporarily accepting higher inflation; US inflation reached 5.0% in May 2021. However, in a U.S. Senate meeting, Fed Chair Janet Yellen indicated that she expects annualized inflation to fall to levels near the 2% inflation target in the remainder of 2021.

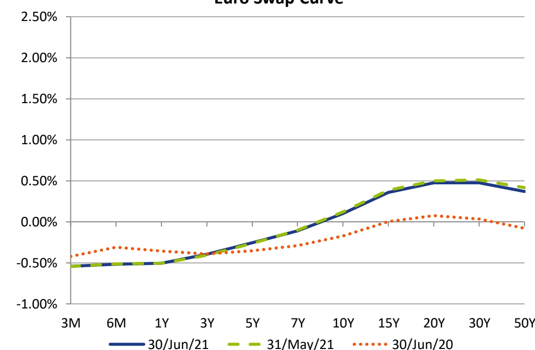
Oil prices rose sharply in June 2021. A barrel of Brent oil still paid USD 69.32 at the end of May, but by the end of June this had risen to USD 75.13, an increase of 8.4%. The increase was mainly influenced by the global growth of economies. This further increased demand, while OPEC still maintains a production limitation. On July 1, OPEC+ (a collection of OPEC countries and other major oil producing countries such as Russia and Kazakhstan) will have a policy meeting. This is expected to discuss increasing oil production. Russia and Kazakhstan in particular are in favor of this. Other countries, such as Saudi Arabia for example, are more cautious, fearing a drop in the price of oil. Their fear is that, if the spread of the delta variant of the coronavirus continues, the economic growth that has started could come to a standstill, resulting in a sharp drop in oil prices.

The Netherlands Bureau for Economic Policy Analysis (CPB) expects the Dutch economy to recover from the corona crisis faster than previously anticipated. According to a forecast published by the CPB in June, the Dutch economy will grow by 3.2% this year, while the previous estimate from March still assumed 2.2% economic growth for 2021. The improved outlook is due to the vaccination campaign going smoothly, resulting in a rapid decline in the number of corona infections. Unemployment continues to decline this year from 3.8% in 2020 to 3.6% this year. Next year, unemployment is expected to rise again to 4.1%, due to an increase in bankruptcies after government support is discontinued by the end of this year.

Agenda

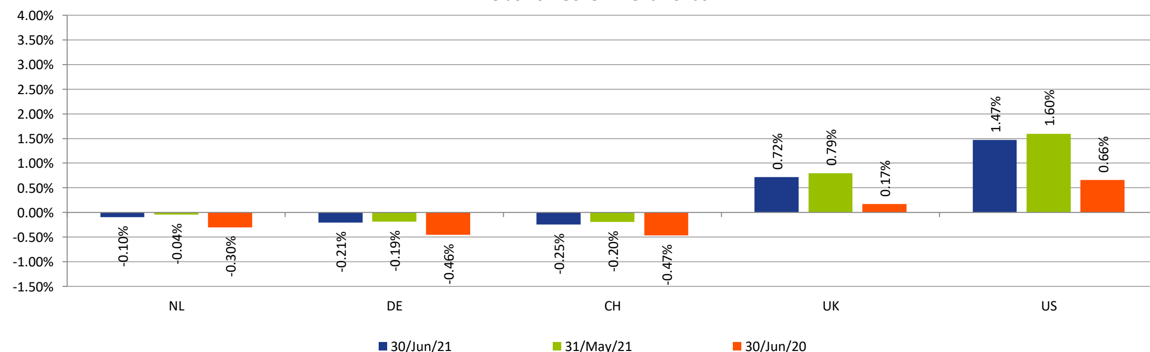
9 July	Inflation China
13 July	Inflation United States
14 July	Inflation United Kingdom
16 July	Interest rate decision Bank of Japan
22 July	Interest rate decision European Central Bank
28 July	Interest rate decision Federal Reserve (US)





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	A+
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	Aa3	A

Currencies	30/Jun/21	31/May/21	30/Jun/20
EUR/USD	1.186	1.223	1.123
EUR/GBP	0.857	0.860	0.906
EUR/CHF	1.097	1.099	1.064
EUR/JPY	131.755	133.970	121.240
EUR/DKK	7.436	7.437	7.452
EUR/SEK	10.140	10.145	10.471
EUR/CAD	1.470	1.475	1.525
EUR/AUD	1.581	1.581	1.627
EUR/CNY	7.657	7.790	7.937



ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Disclaimer: this monthly publication is based on information available from several international financial and economic sources that Zanders regards as reliable. This publication can be used for informational purposes only. The data contained in the publication are prepared as of a particular date and time and will not reflect subsequent changes in the market. We do not accept any liability for the correctness, exactness, and completeness.