

Focus

The United States (US) is one of the countries hit hardest by the outbreak of the coronavirus. Not only are there a large amount of infections and deaths, the economic impact is also significant. For example, unemployment has risen from 3.5% in February to 14.7% in April and 11.1% in June since the outbreak of the virus. To kickstart the economy, several stimulus packages have been enacted. What fiscal measures are used by the US to stimulate the economy?

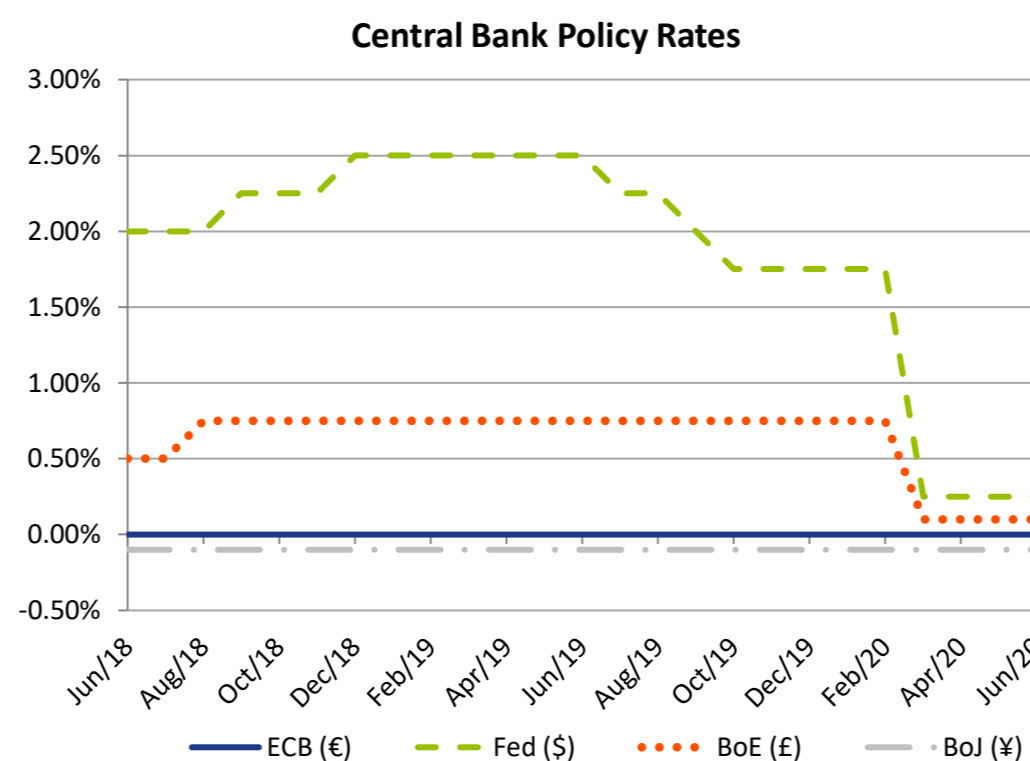
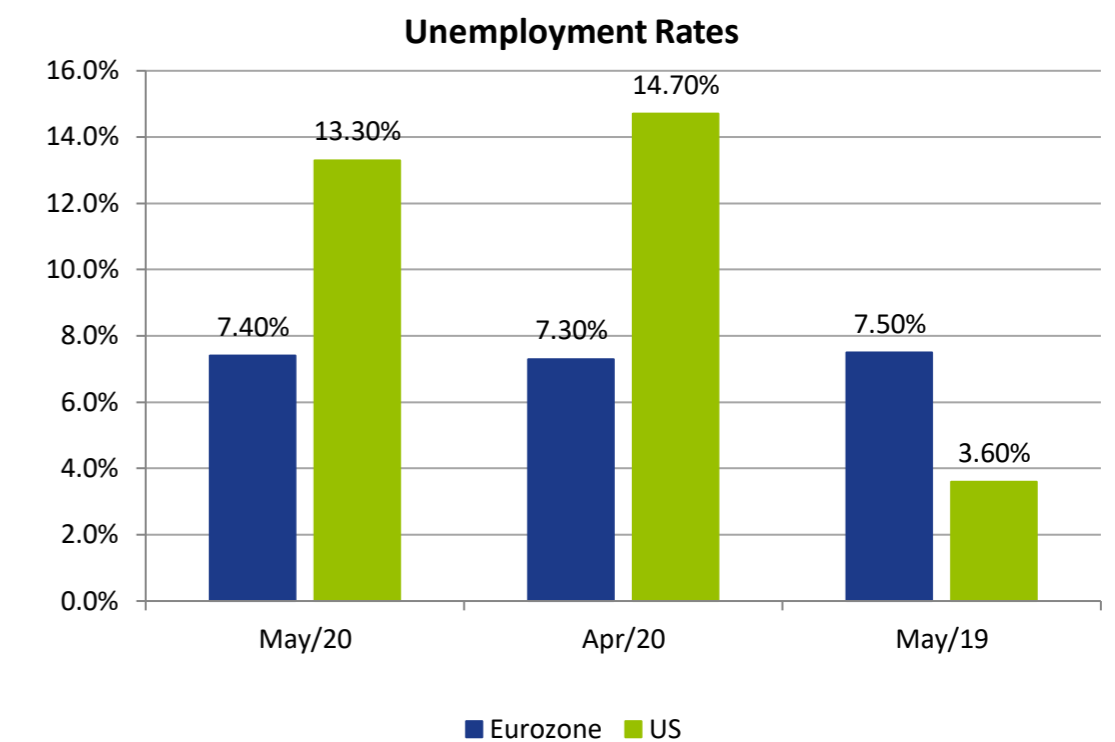
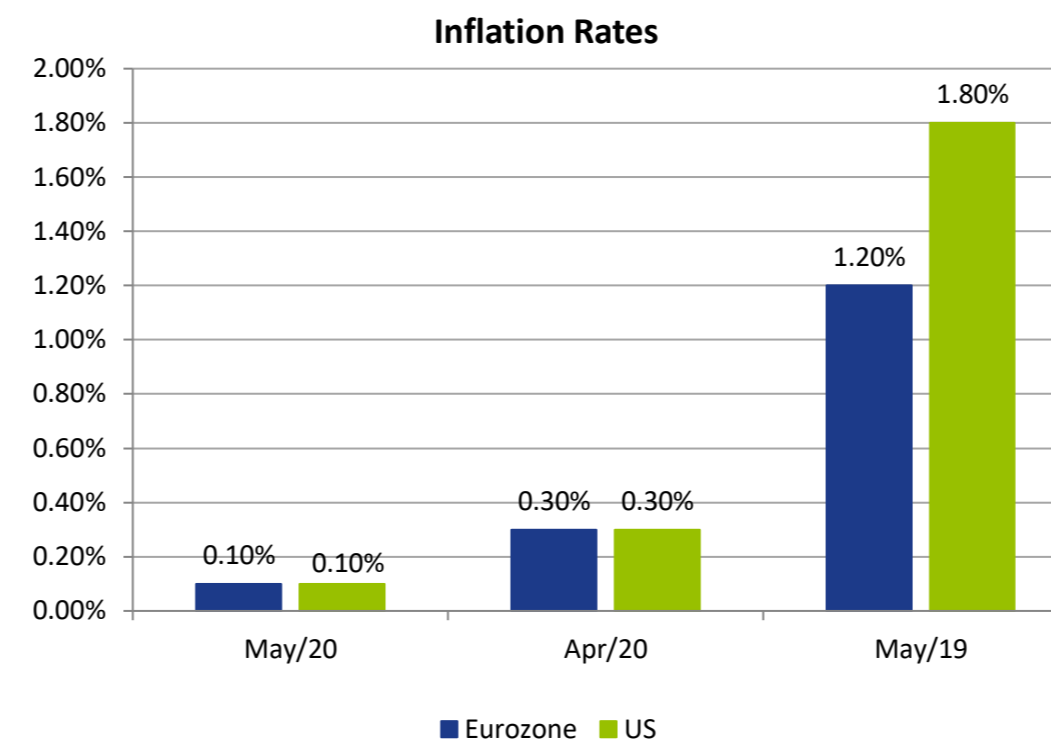
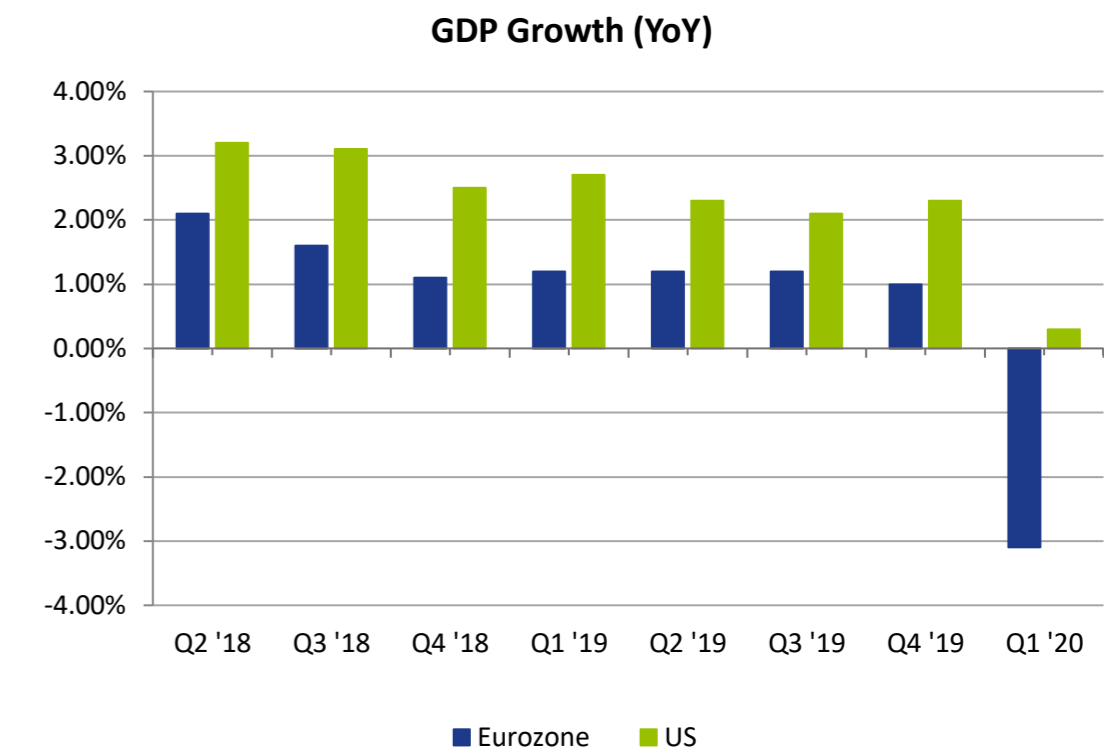
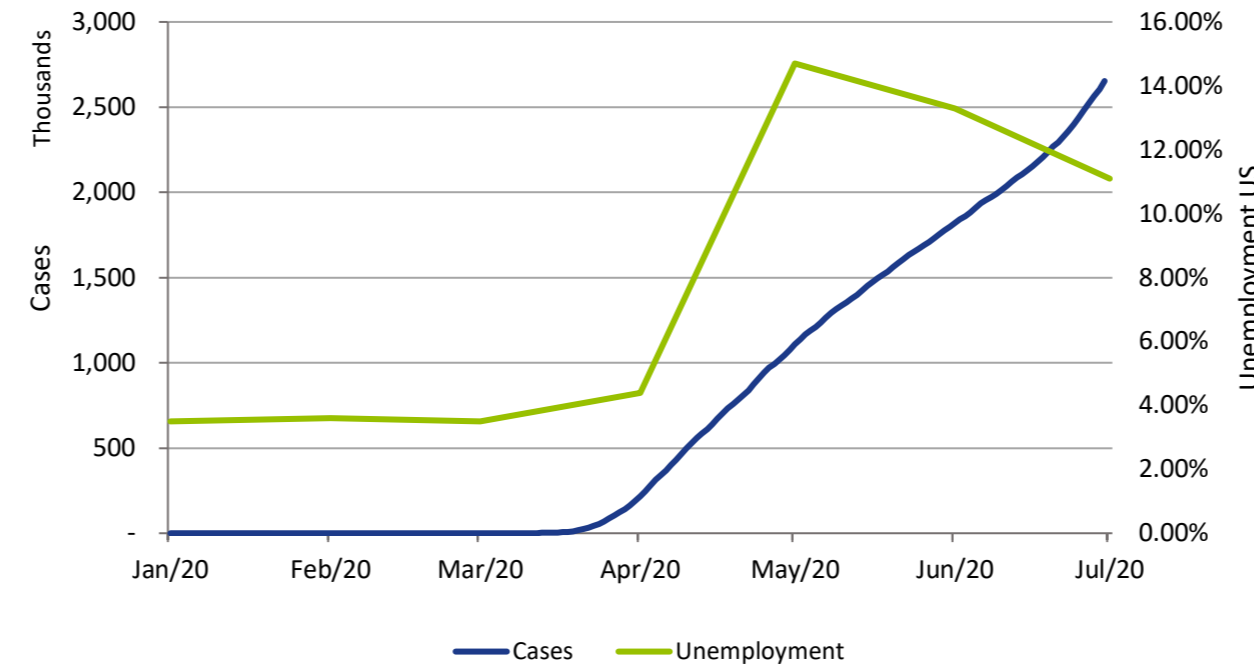
The US has spent multiple trillions of dollars on fiscal measures, of which USD 2.3 trillion is specified in the CARES Act (Coronavirus Aid, Relief, and Economic Security act). The CARES Act was signed into law on March 27th of 2020 and is focussed on four targets: supporting American households, supporting small businesses, preserving jobs and supporting state, local and tribal governments.

The CARES Act encompasses USD 350 billion in loans for small enterprises to meet operational expenditures, also known as the Payment Protection Program (PPP). Of these forgiven amounts, 75% must be used for payroll costs. Additionally, households up to a certain income threshold have received a one-time check to stimulate people to keep spending money. The costs of the one-time compensation are estimated at USD 290 billion.

Furthermore, employment benefits were increased and extended by 13 weeks, and self-employed and contractors were also made eligible for benefits. Other measures include USD 150 billion in loans to state and local governments and USD 117 billion for the health care sector. Finally, the Treasury received USD 500 billion for aid to industries, non-profits, and public bodies and institutions.

The upcoming stimulus package, the HEROES Act (Health and Economic Recovery Omnibus Emergency Solutions Act), has passed the House of Representatives and will be discussed in the Senate in coming weeks. The HEROES Act would provide a stimulus of USD 3.4 trillion and is primarily a continuation of the CARES Act with some adjustments.

Critics argue that the measures are mainly beneficial for large corporates, without combatting unemployment sufficiently. For example, businesses are now allowed to deduct losses they made in 2018 to 2020 from taxable profits in the last five years, giving them billions in tax refunds. Additionally, small businesses are hesitant to make use of the PPP, as they are unsure if they are able to pay back the loans in two years. Finally, it is uncertain for how long the US can sustain these measures. The stimulus packages have a significant impact on the US public debt position. In a report published in June, the IMF expects US public debt to rise from 108.7% of GDP in 2019 to 146.1% in 2021. Time will tell if the US approach will be effective and sustainable.



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

Review & preview

In June 2020, the economic consequences of the corona crisis became more visible. Companies worldwide are turning to national governments for support, and economic growth projections are bleak for 2020. The International Monetary Fund (IMF) expects global economic damage from the corona crisis in 2020 and 2021 to amount to more than USD 12,000 billion. Global economic contraction is projected to reach 4.9% in 2020. However, the IMF predicts an economic growth of 5.4% in 2021. According to the IMF, the virus outbreak and global lockdown have caused the deepest recession since the Great Depression. Due to the large-scale aid packages that have already been announced, government debt worldwide is expected to rise to a level higher than after World War II.

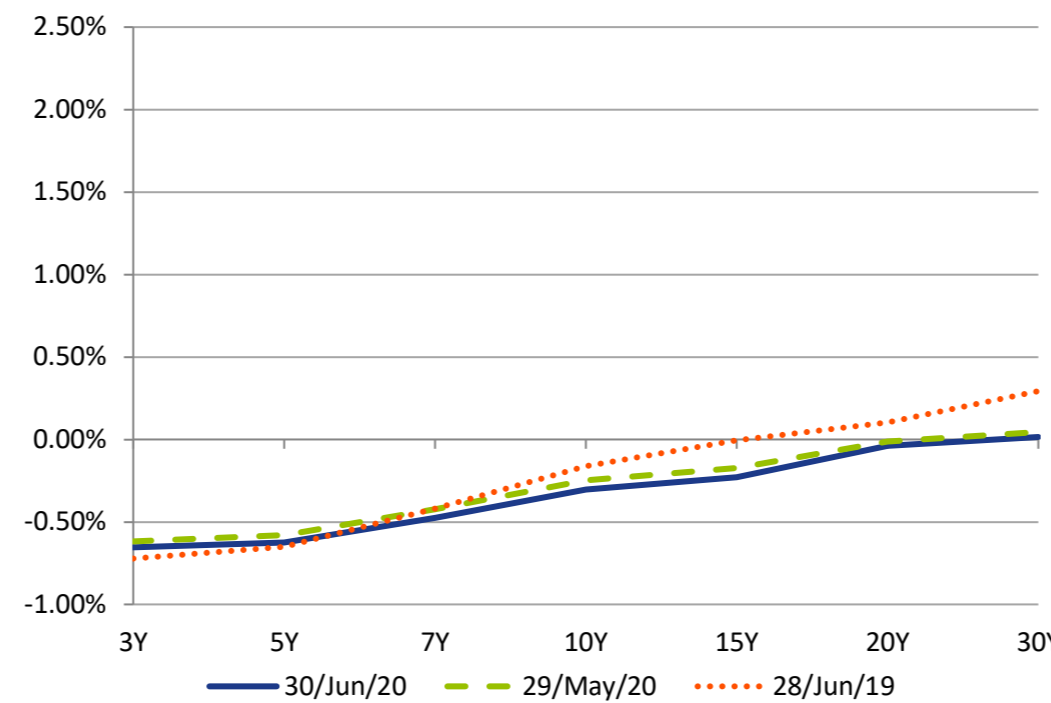
According to Eurostat, the economic contraction for the eurozone in the first quarter of 2020 amounted to 3.6% on a quarterly basis. In the Netherlands, the economic contraction in the first quarter of 2020 remained relatively limited, partly as a result of the support measures from the Dutch government. In the second estimate by Statistics Netherlands, the economic contraction in Q1 amounted to "only" 1.5%, where 1.7% was first expected. However, Dutch government debt rose sharply. For example, the Treasury Agency of the Ministry of Finance (DSTA) announced that the total financing requirement for 2020 is expected to amount to EUR 138.8 billion. Before the corona crisis, a financing requirement of EUR 42.7 billion was anticipated. Public debt in the Netherlands is expected to reach approximately 65.2% of GDP at the end of 2020.

A European support package is still being negotiated by EU countries. A French-German proposal to set up a fund of approximately EUR 750 billion was rejected by Sweden, Austria, Denmark and the Netherlands. These four countries have serious objections to the package, which should consist partly of loans and partly of gifts. The objections mainly focus on the fact that money will be borrowed by the European Union as a whole, meaning that these countries will also need to guarantee repayments. The four countries also want to impose economic reform requirements on countries that draw from the fund. The Eurogroup will meet again on the 9th of July. However, analysts do not expect a final agreement on the support package until later.

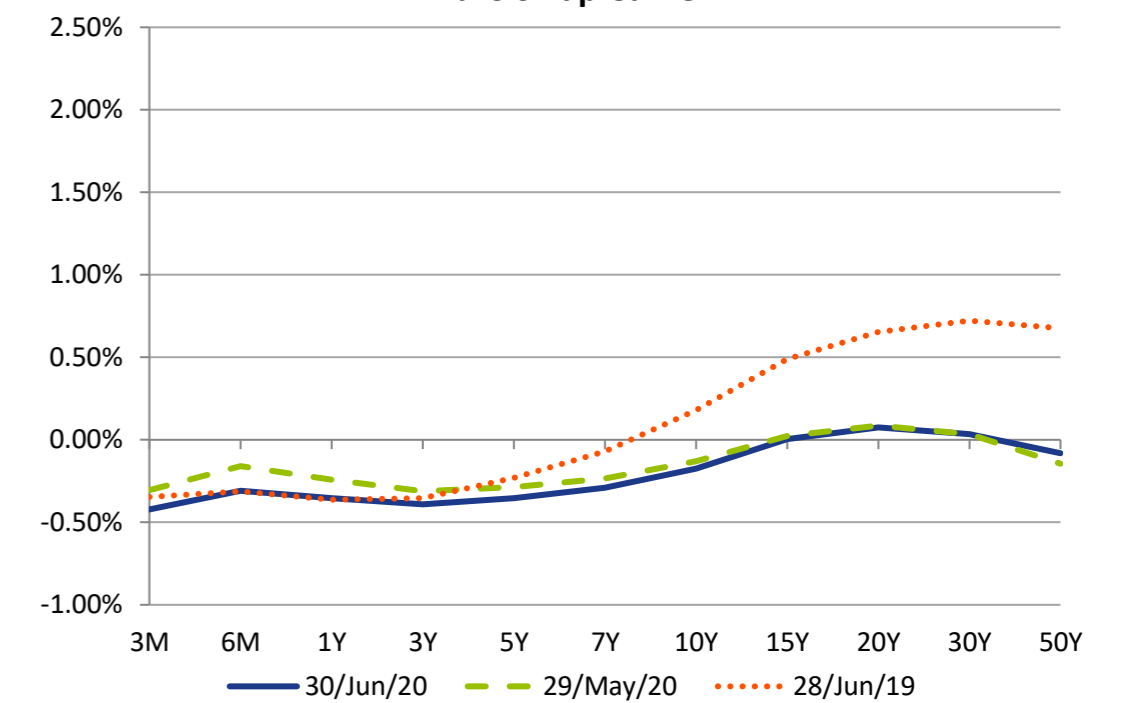
Agenda

- 9 July Eurogroup meeting
- 16 July Economic growth China Q2 2020
- 16 July ECB interest rate decision
- 29 July Federal Reserve interest rate decision
- 30 July Economic growth US Q2 2020
- 31 July Economic growth eurozone Q2 2020

Dutch Government Bond Curve



Euro Swap Curve



Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	AA-
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+	A1	A

Currencies	30/Jun/20	29/May/20	28/Jun/19
EUR/USD	1.123	1.110	1.137
EUR/GBP	0.906	0.899	0.896
EUR/CHF	1.064	1.067	1.110
EUR/JPY	121.240	119.770	122.660
EUR/DKK	7.452	7.457	7.466
EUR/SEK	10.471	10.473	10.560
EUR/CAD	1.525	1.530	1.489
EUR/AUD	1.627	1.667	1.620
EUR/CNY	7.937	7.924	7.808

Yields 10Y Government Bonds

