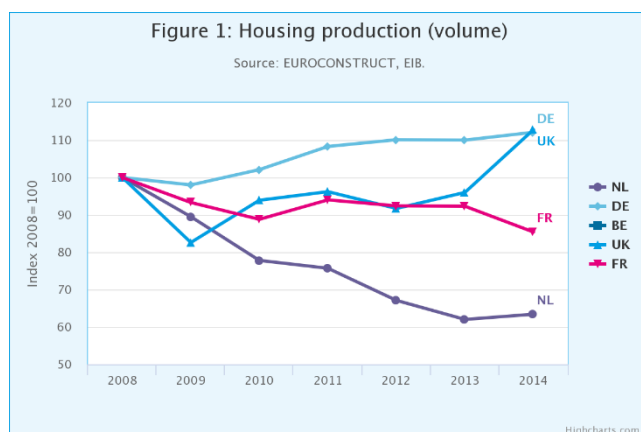


## The Dutch construction sector in times of crisis

As a consequence of the expected decline in construction output due to Covid-19, the Dutch construction sector is at risk of losing 40,000 fulltime jobs over the upcoming two years. Well directed policy measures can enhance the resilience of construction expenditures and thereby have the ability to limit the amount of jobs that will be lost. On behalf of the Ministry of Internal Affairs the Economic Institute for Construction and Housing (EIB) has recently evaluated the effectiveness of such policy measures and found that about half of the estimated job loss can be prevented when the right measures are adopted. The measures that have been evaluated target the removal of financial- and supply restrictions, stimulation of renovations and maintenance as well as continuation of production. Most effective are policy measures aimed at increasing access to capital for first-time home buyers, reducing barriers with respect to spatial planning and continuation of housing construction through a public procurement fund that buys new build houses and resells them after the dust of the corona crisis has settled.

### Lessons from previous crises

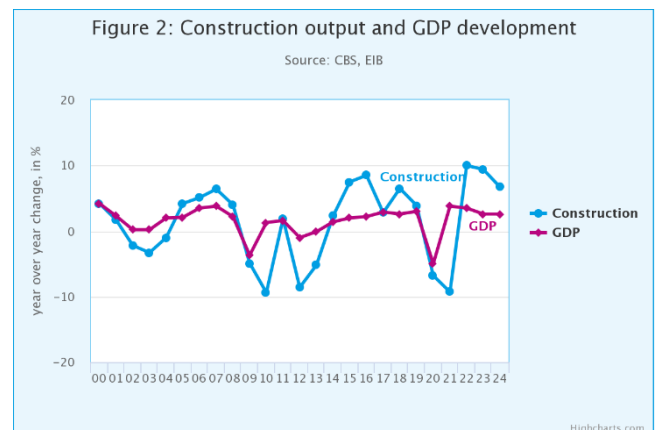
Analyzing the mechanisms that were at play during the previous two crises and relate them to the policy pursued during these times reveals that measures intended to assist the construction sector were focused at structural reforms rather than supporting demand. This was especially the case throughout the Eurozone crisis, which explains why Dutch housing production dropped to a much larger extent than production in other subsectors of the construction sector and housing production in neighboring countries. Mitigating the negative demand shock is key in times of crisis and government policy should address this problem in order to make a difference.



Subsequently, removing supply restrictions at specific locations can be used to accommodate the additional demand and thereby further boosts the production levels in times of crisis.

### Flattening the V-shaped curve

By the start of April EIB published its production and employment forecasts for the construction sector assuming there would be no changes with respect to pursued policy. As such, the forecasts show a pattern that is similar to the previous crises: a strong decline in construction output during the crisis followed by a strong recovery. Both of the aforementioned developments can cause serious damage. In the first stage jobs will be lost and construction firms will exit the market as they go bankrupt. This is followed by a period of rising labor scarcity and tension on the housing market. Hence, policy measures aimed at mitigating the negative demand shock can limit the amount of jobs that will be lost during the crisis and tie manpower to the construction sector, which is vital to the fulfilment of future social challenges such as sufficient supply of housing and pursuing sustainability ambitions.



### Evaluating three sets of policy measures

A total of ten policy measures have been evaluated, which can be divided into the following three clusters:

- Regulation
- Renovation, maintenance and sustainability
- Project stimulation

The first cluster targets financial restrictions by easing the access to finance for first-time home buyers as well as removing barriers with respect to spatial planning. Exclusively applying the measures within this cluster already delivers an important positive contribution to employment and construction output. Together these measures can save 11,000 fulltime jobs that would otherwise be lost throughout the crisis. Moreover, these

measures have the capability to realize a cumulative additional production of 10,000 houses over the period 2020-2022. The most important benefit associated with this set of policy measures is that they require little additional public spending, whereas they positively affect public revenue. Besides, previous experience shows that relaxing mortgage requirements for first-time buyers has not negatively affected their creditworthiness. As such, these measures are considered to be 'no-regret'.

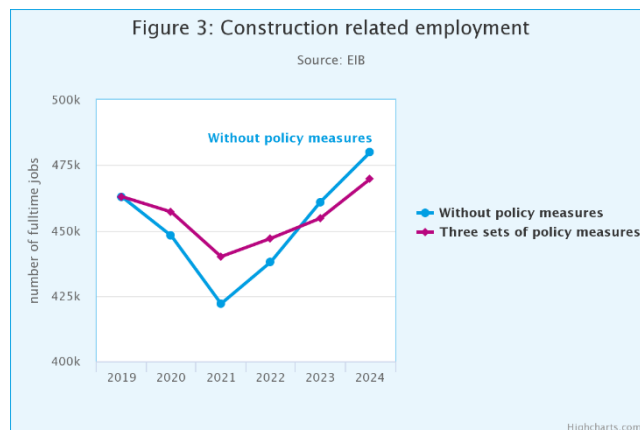
The second cluster contains measures that stimulate renovations and maintenance and thereby deliver a positive contribution to a more sustainable built environment. The most effective measure within this cluster is a temporary lowered VAT-rate for (major) renovations and maintenance. Even though this measure delivers an important contribution to construction output, it also generates a significant tax loss. Moreover, renovations and maintenance that would have taken place regardless of the lower VAT-rate will also benefit from this measure. Together the measures within this cluster can save 4,600 fulltime jobs and boost production by € 800 million.

Finally, measures within the third cluster are aimed at supporting project development and concern the already laid out government policy to boost housing production by a public investment of € 250 million. Several measures have been evaluated to demonstrate how this government contribution can be spend most effectively. Setting up a public procurement fund that invests in yet to be constructed houses appears to have the largest effect. In this scenario the government invests in projects that are in line with market conditions and are able to sell at least 40 percent during the presale phase. Subsequently, the government will buy 30 percent of the remaining houses to reach the 70 percent threshold that is required to be granted bank credit. After construction has been completed, the government owned houses will be put up for sale. One of the main benefits of this policy measure is that it concerns an investment that can be earned back rather than a subsidy that puts a strain on public revenue. Of course there is a risk that the price of the procured housing stock will drop between the time of the purchase and sale. The calculations have accounted for a loss of 10 percent, implying public expenditures of € 250 million in relation to a €2.5 billion investment. This measure results in an additional production of about € 1¼ billion over the period 2020-2022 and can save 9,000 fulltime jobs.

### Half of the expected employment loss can be prevented

Together these three clusters of measures have the ability to save a total of 28,000 fulltime jobs of which 19,000 are directly related to construction. This comprises about 50 percent of the

total expected employment loss in case no policy measures are taken. However, it should be noted that the effects attributed to each measure have been added up, whereas their combined impact might amplify or water down the effect of individual measures. At this stage, the interaction effects have not been explored. Executing the set of measures will require a public investment of € 1.7 billion and leads to savings on social security that amount to € 1 billion.



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