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No. 81 July 1990

COUNTRY STUDIES

The Netherlands

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The Netherlands

Directorate-General for Economic and Financial Affairs*

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This paper is also available in Dutch.

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1. SUMMARY AND CONCLUSIONS

1. The Monetary Committee's previous examination of the economic situation in the Netherlands took place in March 1985 when the Committee commented on the initial results of an economic policy which had been launched several years earlier against an international economic background which was particularly unfavourable. Since then, the improvements noted on that occasion (low inflation rate, wage moderation, recovery of profits, revival of investment, reduction of the budget deficit, limiting of public sector expenditure...) have generally gone further, and progress has been made in other areas (employment creation, fall in the unemployment rate...). These further improvements have occurred despite the reverse oil shock of 1986, the effects of which were not entirely favourable, unlike the situation in most of the other Member States.

2. The recovery of the Dutch economy since the early 1980s is remarkable both because of its scale, starting as it did from a situation which was particularly unbalanced from many points of view, and because it marks a break with earlier decades in that it represents a complete change of economic policy, allied with profoundly different behaviour on the labour market.

From the late 1970s, the Government had explicitly chosen a medium-term growth and employment strategy, endeavouring to correct the structural imbalances which had developed and built up in the preceding decades; their most obvious symptoms were:

- the increase in the public sector's share of the economy and the fact that public expenditure was increasingly difficult to control, especially subsidies and social benefits;

- serious distorsions in relative factor prices;

- the deterioration in the profitability of fixed capital and the fall in the investment ratio;

- employment problems exacerbated by demographic changes.

The conditions for recovery have gradually been established by:

- an incomes policy the main thrust of which was to curb nominal and real wages with the object of contributing to an improvement in the employment situation by improving the level of cost competitiveness and restoring company profitability;

- a budgetary policy aimed at reducing the deficit and helping to revitalize the private sector by limiting expenditure and stabilizing or even cutting the burden of taxation and parafiscal charges;

- a monetary policy aimed at price stability and increasingly influenced by the objective of maintaining a stable exchange rate against the German mark.

3. In adopting these policies, the Netherlands was in the forefront in reinvigorating supply conditions. The policies have remained broadly the same since 1982. In addition, greater attention has been paid to the distorting effects of a number of rigidities connected with the tax and parafiscal system, which affect cost formation in the economy and supply and demand on the labour market. The structure of the public budget has also been reformed through measures designed to simplify the fiscal system of revenue and expenditure.

4. All the changes made created the conditions necessary for the Dutch economy to benefit from the improvement in the European environment. From 1984, economic growth returned to a more sustained rate, averaging 2.7 % a year since then in GDP terms, compared with an average growth rate of 3% for the Community as a whole. For enterprises alone and excluding the energy sector - where value added has remained virtually static in recent years - growth has averaged 3.2 % a year.

   Growth was largely led by investment, and more recently by private consumption, and has helped to reduce the current account surplus from 4 % of GDP in 1985 to some 3 % at present.

   The inflation rate has averaged only 1 % a year. Since 1983 it has been the lowest rate in the Community and in the industrialized world.

5. Employment has increased steadily since 1985, at between 1 % and 1.5 % a year, and the unemployment rate has fallen. The priority given to job creation rather than to wage increases, and the greater flexibility in working contracts have had positive results and have resulted in an improvement in the labour market situation.

However, although international comparisons are particularly difficult in the case of the Netherlands, the unemployment rate is still relatively high (9.3 % of the labour force in 1989 according to Eurostat figures as compared to 9 % for the Community average) and its structural component is increasingly large, with problems of mismatch between supply and demand and a worsening of long-term unemployment. Moreover, this has prompted the authorities to concentrate their efforts on training.

In addition, the number of people receiving benefits from the invalidity scheme (845 000 at the end of 1989) and the steady increase in this number suggest that the improvement has not been as clear as that shown by the traditional labour market indicators. A revision of the conditions governing eligibility under the system, possibly involving greater selectivity and the possibility of employment in other sectors or professions, has to be envisaged. This should make it possible to maintain a level of social security protection that meets real needs without jeopardizing the whole social security system. It would also seem appropriate to draw firms' attention to the costs involved in the rising number of people benefiting from the invalidity scheme. This is currently envisaged by the authorities.

6. The public finance situation still gives budgetary policy little room for manoeuvre and the new programme drawn up for the period 1991-94 fails to deal fully with the problem of the risk inherent in a high level of debt. Admittedly, great efforts have been made since the beginning of the 80s to reform expenditure. More recently they helped to limit the adverse effect of the reverse oil shock on the budget balance, and subsequently, against a favourable economic background, to make it possible to cut the deficit (from 6.5 % of GDP in 1987 to 5.3 % in 1989) and to achieve a primary surplus. However, the debt ratio – which now stands at almost 80 % of GDP – is continuing to increase. While its stabilization, and indeed its reduction, are considered by the Dutch authorities to be necessary, this is not an explicit priority target of the medium-term budgetary programmes.

In future, budgetary policy in the Netherlands will have to respond to a number of difficulties:

- the adjustment effort necessary to halt the increase in the debt/GDP ratio will have to be greater than that envisaged by the programme covering the period 1991-94, in present conditions relating to interest rates and growth;

- in the shorter term, the attainment of budget objectives is subject to a number of uncertainties, notably the evaluation of windfall gains in revenue and the consequences of restoring the link between wages in the public sector and social security benefits on the one hand and private sector wages on the other. According to recent estimates by the Ministry of Finance, the target set for 1991 could be overshot by 0.6 % of GDP;

- after a number of years of budgetary restriction, some reticence is beginning to be shown. Given the budgetary rigidities, it will probably be increasingly difficult to curb expenditure without modifying transfer payment systems.

In the Netherlands, the need for a budgetary adjustment is not accompanied by imbalances related to the balance of payments or inflation. There is no budgetary crisis anymore. However this has brought about crowding out which is testified by the level of real interest rates. Efforts must be made, first, to reduce the resources absorbed by the public sector and, second, to halt the rise in the debt ratio and then to bring it down, because the current path of debt and deficits are not sustainable in the long run.

7. The Netherlands provide an example of a country where monetary authorities endeavour at the same time to influence domestic liquidity creation and to maintain a stable exchange rate. Indeed, the objective of keeping the guilder's exchange rate stable against the German mark has become dominant, and the distinction between domestic and external monetary policy is tending to become blurred. However, the Dutch authorities consider that it is necessary to prevent excessive liquidity growth, which could give rise to a flight of capital. The instrument currently used is based on a system of monetary cash reserves applied by means of agreements concluded with the banking sector to limit "net" domestic credit expansion (i.e. expansion not financed by long-term resources). Similarly, the public sector has undertaken not to resort to "monetary financing" of the deficit - considered to be any net increase in the short-term debt.

The usefulness and effectiveness of the domestic instruments of this policy are open to question. A country of the size of the Netherlands which maintains a stable exchange rate against the German mark has little headroom for pursuing an independent money supply policy. Given the growing mobility of capital in Europe and the assured credibility of the exchange-rate commitment, the degree of substitution between domestic and external assets is increasing and the impact on monetary expansion of a limit on domestic credit tends to be offset by capital movements. In addition, in increasingly integrated markets with growing possibilities of financial innovation, the effectiveness of limiting credit may be limited not only by recourse to the external sector but also by the development of new forms of non-bank credit.

Recent events illustrate these problems. In June 1989, the Nederlandsche Bank concluded an agreement with the banks in order to limit credit expansion over the period 1 July 1989 to 30 June 1990. During the last six months of 1989, net money creation by banks actually slowed down appreciably – chiefly because of sales of long-term public securities by the banks – but the contractionary impact on monetary expansion has been more than compensated by capital inflows, largely due to non-residents' heavy demand for Netherlands government bonds.

In addition, the liquidity ratio (as measured by the ratio of M2 to net national income), the traditional target variable of Dutch monetary policy, has lost some of its value as an indicator: during the major part of the 1980s, monetary growth was very rapid (+7.5 % a year on average) and bore no relation to the nominal variables and the inflation rate. This has led the monetary authorities to consider other indicators, and in particular to attribute more importance to the analysis of liquidity variations by sector.

8. Despite lower inflation than in Germany, and the Dutch authorities' continued commitment since 1983 to maintain a stable exchange rate against the German mark, there is still a positive interest-rate differential in relation to German rates. In nominal terms it persisted, indeed at a low level, until last March. This probably reflects the fact that the markets cannot predict with complete certainty the monetary/exchange-rate policy reaction, beyond the lifetime of the present government, to any future need for budgetary contraction. In the absence of any significant expectations of rising inflation in the Netherlands, this means that real interest rates are relatively high. In the case of the Netherlands, it would seem that this situation should be viewed particularly in the light of the public-sector debt and deficit position, necessitating a further sustained adjustment effort in the future.

9. The de facto monetary union between the Netherlands and Germany is relatively recent judging by the trend of the risk premium and still shows an asymmetry as regards expectations: in markets' view, there is little prospect of the guilder appreciating against the German mark. This experience nevertheless provides an example of monetary union in its main effects for monetary policy.

The nature of the specific shocks affecting the Dutch economy may help to explain this asymmetry.

Overall, the reverse oil shock of 1986-87 did not have the same favourable effects on the Dutch economy as it did on the German economy. Given the relative importance of the energy production in the Netherlands, the terms of trade gains were not nearly so great as for Germany, and the fall in natural gas prices led to a substantial loss of public receipts (4.5 % of GDP between 1985 and 1989). New budgetary restrictions were adopted so as to bring the deficit back to a path close to the initial targets. Such a conjunction of events called necessarily for a real depreciation of the exchange rate. The policy of maintaining a stable exchange rate in nominal terms against the German mark was not called into question, but the widening of the nominal interest-rate differential with German rates, in a period of relative deflation, translated into high levels of real interest rates in the Netherlands. The labour market was responsible for much of the adjustment. Increases in both nominal and real wages were appreciably smaller than in Germany, and this permitted competitiveness to improve vis-à-vis the Federal Republic and limited the adverse effects on growth and employment of the budgetary restrictions and of real interest rates however remaining high.

The situation with regard to the public sector's deficit and indebtedness creates another type of asymmetry between the Dutch and German economies. The question arises if the need to carry out a substantial budgetary adjustment over a relatively long period in a system of "fixed" exchange rates has not inhibited the economy's performance in terms of growth, given that this situation translates indirectly into high levels of real interest rates.

Wage moderation and changes in labour market attitudes and structures seem, in this context, to be essential preconditions for adjusting to various types of shocks in a fixed exchange-rate regime. It appears that the Netherlands could not have adjusted to these asymmetrical shocks while maintaining a fixed parity without the important changes in attitudes on the labour market which had taken place in the first half of the 1980s.

10. Capital movements have been totally liberalized since 1986. Important developments have occurred on the Dutch financial markets in recent years. Amsterdam has long been an important continental financial centre, admittedly smaller than Paris and Frankfurt, but offering a wide range of products and very active markets. Nevertheless Amsterdam has lost some ground, and a large proportion of transactions in guilder bonds are carried out on other markets (nearly half in London). The authorities have reacted by trying to make Amsterdam more attractive, taking a number of measures to ease rules and regulations and to cut transaction costs. The banking industry is also undergoing major changes, which include the privatization of one of the main banks and the amalgamation of two other leading Dutch banks.

2. GENERAL ECONOMIC TREND SINCE 1985 AND IMPLICATIONS OF THE COMPLETION OF THE SINGLE MARKET

2.1 Growth factors

The policy which has been pursued since 1982 with a view to reorganizing public finance, reducing the burden on firms and improving the allocation of available manpower has had favourable effects on economic growth. Wage moderation, which was achieved following a period of hefty wage increases in the 1970s, has led to an improvement in the competitiveness of Dutch firms, which, as a result have been able to take advantage of the buoyancy of world trade and to step up investment.

Following a period of hesitancy, the improvement in the profits and cash position of firms, together with increased competitiveness and a higher degree of productive capacity utilization, led to very dynamic growth in private investment by firms from 1985 onwards.(1) As a proportion of GDP, investment rose from 18 % in 1983 to 22.5 % in 1989, the corresponding figures for the Community being 19.6 % and 20.6 %. Against this, investment by the public authorities dipped slightly on account of a restrictive fiscal policy. As a proportion of GDP, it fell from 2.6 % in 1985 to 2.3 % in 1989.

Exports staged a brisk recovery in 1983. Rising by an average of 5.4 % a year in the period 1983-85, they made an undoubted contribution to the improvement in company profits and to the restoration of confidence. This favourable development was interrupted in 1986 and 1987, when Dutch exporters had to lower their selling prices in order to limit the falls in competitiveness associated with the guilders' appreciation. All in all, firms increased their market shares compared to the situation at the beginning of the 1980s.

(1) However, the annual rates of growth of investment in equipment do not reflect this basic trend because they are considerably affected by the irregular purchases of means of transport and by the trend of investment in the energy sector (which accounts for a high proportion of the total).

NATURAL GAS AND THE DUTCH ECONOMY

1. The place of natural gas in the economy

After the discovery of natural gas in the Netherlands in 1959, production increased rapidly. The volume of sales reached a peak in 1976 (with 94.5 billion m^3 compared with 42 billion m^3 in 1970). Since then, sales volume has diminished appreciably (66.4 billion m^3 in 1988). The two oil shocks had a very profound effect on the Dutch economy, which was dominated by extremely capital-intensive commercial firms and industries consuming large amounts of energy. The rise in petroleum product prices was very disadvantageous for these specialized industries. On the other hand, State revenue increased, and this facilitated, inter alia, a policy of employment in the public sector.

In 1988, the production of natural gas in the Netherlands accounted for 41 % of Community production. In the same year, 48 % of the country's consumption of energy was met by natural gas, compared with a figure of only 18 % for the Community as a whole. The growth of value added (at constant prices) in the natural gas sector has been negative in some years, and averages no more than 1 % for the years 1985-89. The value added of gas production now represents some 3 % of GDP compared to a record 7 % in 1985. Employment in the production sector increased slightly between 1984 and 1988, whereas it stabilized in the distribution sector.

At the beginning of 1989 the reserves were estimated at 1,730 billion m^3, in addition to discoveries of new deposits; on the basis of 1988 production, for example, this will permit exploitation for more than twenty-five years. The policy of restricting sales which was followed from 1974 to 1983 has since been abandoned. For small consumers, movements in petroleum product prices remain the determining factor (with a delay of between six and nine months in adjusting prices), while for the new electric power stations it will be possible to take the price of coal into consideration.

2. Impact on public finances

The State levies taxes on the profits made by the companies working the gas fields and distributing gas and receives indirectly a portion of the profits of the company responsible for domestic and overseas natural gas sales (Gasunie).

After reaching a record level of HFL 24.5 billion in 1985, natural gas revenue fell sharply in the following years, as a result of the drop in prices. Natural gas revenue fell from 5.9 % of GDP in 1985 to 1.3 % in 1989 and the proportion of total State revenue which it represented fell from 17 % to 4 % over the same period.

The medium-term revenue forecasts depend on assumptions concerning the dollar/HFL exchange rate, petroleum product prices and demand on the international market. The estimates of the Central Planning Bureau for the period 1991-94 indicate that, as a percentage of net national income, non-tax revenue will fall from 1.1 % to 0.9 % and tax revenue will stabilize at 0.5 %. This would be the result of a very slight increase in sales volume.

3. Importance of natural gas for the current-account balance

Natural gas exploitation makes an important contribution to the Netherlands' balance-of-payments surplus. A direct effect is produced by revenue from overseas natural gas sales and by smaller imports of other energy products. In 1985, the year when sales were at their highest level, gas exports represented 7.7 % of total exports in terms of value. In 1989 they represented less than 2 %, with export prices having fallen by 65 % and export volume by some 10 %.

One should also take into account the value of energy products which would have been imported had domestic natural gas not been available. The magnitude of the substitution is evident from the reduction in the Dutch economy's dependence on imported energy, which stood at some 21.6 % in 1988 (52 % in 1970). Assuming that the domestic price for natural gas is the same as the price obtained for exports, the effect of the substitution of natural gas for imported energy may be estimated at HFL 6 billion in 1988.

The total direct effect on the current-account balance would therefore be HFL 10.5 billion, a figure which should be compared with the surplus of HFL 10.7 billion recorded in 1988.(1)

	1985	1989
Value added as % of GDP	7	3
Public receipts as % of State revenue	17	4
as % of GDP	5.9	1.3
Exports as % of total exports	7.7	1.8

(1) Taking into account the effect of the additional income generated by natural gas production that is spent on imports, the positive effect mentioned is appreciably lower (according to some calculation, it is halved).

However, wage moderation, which was conducive to improving the competitiveness of the Dutch economy, held back the expansion in private consumption, which had been very weak in the period 1980-84 and by only 2.5 % a year in the period 1985-89. It is only in the last few years that personal disposable income has grown more rapidly, particularly as a result of tax concessions. The saving ratio has displayed a slight downward tendency, remaining below the level recorded in 1982, when private consumption actually fell.

The upturn in domestic demand led to an increase in imports, which grew by an average of 6 % a year in the period 1985-89, albeit with fairly wide fluctuations from one year to the next due to deliveries of capital goods (aircraft and ships).

Overall, following a deeper recession than in the rest of the Community at the beginning of the 1980s, the Netherlands experienced an upturn in growth from 1984. GDP grew at an annual average of 2.5 % over the period 1985-89, compared with 0.6 % in 1980-84. The corresponding figures for the Community were 3.0 % and 1.2 %. However, GDP growth in the Netherlands has been adversely affected by activity in the energy sector (see box on page 3a). Thus, value added in the company sector, excluding energy, increased by 3.2 % a year between 1985 and 1989.

In 1990, real GDP growth is expected to slacken slightly compared with the preceding year (3.5 % as against 4 %), a rate comparable to that forecast for the Community. A contraction in aggregate investment, particularly in construction, will probably be offset in part by a sustained increase in private consumption attributable to a reduction in the burden of taxation.

2.2 Labour market

After a number of years in which total employment declined, the labour market situation began to improve from 1985. This favourable trend has continued since then as a result not only of the upturn in activity but also of the measures taken to limit the cost of labour, notably wage moderation and the reduction in social security contributions. The increase in part-time working and the reduction in the working week have also helped to increase the number of people in work. However, starting from a very unfavourable situation at the beginning of the 80's, the imbalances are still pronounced.

Between 1985 and 1989, employment in the Netherlands grew more rapidly than in the Community as a whole. On the basis of the number of persons in employment, the increase was 1.5 % to 2 % a year on average compared with 1.2 % for the Community. Most activity branches recorded an increase in employment; the increase was particularly marked in the market services sector and in the construction industry, whereas the rise in manufacturing industry was more limited. Employment in the energy sector, expressed in man-years, has barely varied since 1980 despite wide fluctuations in production in this sector. Employment in the public sector still slightly increased, despite the decision to reduce the number of civil servants.

In terms of man-years,[1] however, the growth in employment has been less rapid owing mainly to the increase in part-time working. The share taken by half-time working, which was already high in relation to neighbouring countries, has increased further. In addition, the studies carried out also show that flexible employment contracts and temporary jobs play a very important role in the Netherlands.

The labour force is continuing to grow more rapidly than in the Community as a whole. This trend is linked to the growth in the overall population and to the increase in the participation rate for women, which is only partially offset by a fall in that for men. However, the overall activity rate is lower than in the other countries of the Community. A fall in the activity rate in the higher-age categories is attributable among other things to the policy pursued regarding early retirement and incapacity for work.

All the available statistical series indicate a fall in unemployment over the period 1987-89. On an international comparison, however, the unemployment rate is still very high. The harmonized Eurostat rate stood at 9.3 % in 1989 compared to 9 % for Eur-12[2]. In addition, long-term unemployment remains very high; its share in total unemployment was about 50% in 1988 (unemployed for more than one year) and the share of very long-term unemployment (over three years) was more than 20%.

The labour market is far from being balanced. In particular, there is a growing mismatch between the job skills sought by firms and those offered by job-seekers. As a result, shortages of certain specialist skills are regularly reported. In the programmes designed to combat unemployment, emphasis has been placed on

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(1) See the note concerning employment statistics in the statistical annex.

(2) However, the official unemployment rate in the Netherlands is 6.5 % of the labour force. This figure is derived from the new method of calculation which has been applied since January 1988 owing to the errors detected in the way in which those registered as unemployed are counted. As a result of this, a comparison over time is difficult. According to the series compiled by the Ministry of Social Affairs, 660,000 people were unemployed in September 1989 compared with 688,000 in September 1988, whereas the series currently accepted as the official indicator show a figure of only 408,000 on the same date.

MEASURES TO PROMOTE EMPLOYMENT

A wide variety of measures have been taken in the field of labour market policy. The following are the most important:

- recruitment assistance and grants for creating jobs for the long-term unemployed (WVM) and for young people unemployed for two years (JOB) and exemptions from social-security contributions for employers who recruit the very long-term unemployed (MLW/VM);

- in-work training for young unemployed people (BVJ), work-familiarization programmes for young people in the semi-public sector (GWJ/JWG), and in-work training and recycling (KRS);

- specific vocational training, e.g. in computer technology, (SI), or the improvement and updating of technical and administrative training (CVV and CAVV) or training by branch of activity (BBS);

- the establishment of a temporary employment bureau (Start) which operates like a private agency but provides jobs for people unemployed for more than three months, for the older unemployed and for the partially handicapped.

According to the Ministry of Labour, the estimated number of persons benefiting from all these measures was 150 000 in 1989, of which 114 000 received training.

vocational training and on in-work training (see box on page 8). In addition, a system of grants and tax exemptions has been introduced to encourage firms to take on the young and long-term unemployed.

However, the key element in the strategy of combating unemployment, as conceived by the authorities, has been incomes policy.

2.3 Wages, prices and competitiveness

The agreement concluded between employers and unions in 1982[1] concerning wage policy has continued to influence wage developments throughout the 1980s. It was designed to increase employment by re-establishing economic growth, improving business profitability and enhancing the distribution of the employment available. An important measure in this respect was the freezing of the minimum wage, which led to the level of numerous social transfer payments being frozen. This measure, and the government's withdrawal from the negotiating committee and decentralization were intended to promote greater wage differentiation. Since then, within decentralized wage negotiations (being conducted at branch and company level), the creation of new jobs has continued to be given priority over wage increases. These measures and agreements, and in particular the importance attached by employers and unions to the need to preserve and indeed improve the competitiveness of the Dutch economy, have all had a decisive impact on wage costs.[2] The reduction in employers' social security contributions in 1989 has also limited the rise in wage costs.

The increase in nominal wages (per man-year) has consequently been very moderate in recent years (see Table 4): it was 1.5 % a year over the period 1985-1989, as compared with almost 6 %[3] for the Community countries as a whole. The rise was slightly more rapid in the business sector, whereas it was restricted by the freezing of wage scales in the public sector.

In manufacturing, if account is taken of productivity growth, the slowdown in wages has led to an average annual rise in unit wage costs of only 0.7 % (including a fall in 1988 and 1989) compared

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(1) Stichtingsakkoord.

(2) Recently, however, there have been signs of upward pressure in the negotiations which began in 1990 in a number of major sectors. However, the results announced in March 1990 were moderate.

(3) Per person employed.

with a figure of 2.3 % on average for the narrow-band ERM-countries. For the whole economy, excluding energy, the slowdown of growth in 1986-87 has led to an interruption in productivity gains, followed by a sharp rise in 1988-89.

Real wages (deflated by private consumer prices) increased by only 0.6 % a year between 1985 and 1989, as compared with 1.7 % for the Community as a whole.

The share of wages and salaries in value added in the business sector (excluding gas) has continued to fall.(1) This fall was more rapid in 1988-89, when productivity exceeded the rise in real per capita wages. This development is an indication that the wage moderation policy has made a major contribution to restoring profitability and to the investment climate.

The analysis of companies' results confirms this assessment (see Table 8): the share of wages in value added has declined by more than 10 percentage points since the beginning of the 1980s and allowed for a marked rise in self-financing capacity. In the manufacturing industry, profit rates have risen from about 5 % at the beginning of the 80's to somewhat more than 12 % in 1987, and were probably higher in 1988 and 1989. In the services, results have also improved, starting however from a less unfavourable level.

Since 1983, the Netherlands has recorded the lowest inflation rate in the Community. The average rise in consumer prices was around 1 % a year and, although some acceleration has taken place in recent months, the increase anticipated for 1990 (2.3 %) will probably remain below the levels expected for the other Member States (2.8 % in Germany and 2.9 % in France).(2)

A straightforward breakdown of the rate of increase in the prices of final expenditure (Table 5) shows that throughout the period the very moderate trend - which was sometimes even negative - in unit wage costs was a critical factor and that the impact of the external disinflation factors in 1986-87 accentuated by the guilder's appreciation has been very marked. In addition, changes in indirect taxation were used to help maintain inflation at a low level. In 1989, for example, the impact of accelerating import prices on consumer prices was partially neutralized by the cut in the top VAT rate at the beginning of the year.

Throughout the 1980s, the appreciation in the guilder's effective exchange rate (12 % vis-à-vis 19 trading partner currencies, 18 % vis-à-vis ERM currencies) was more than offset by the fall in relative unit wage costs. In 1986 and 1987, when cost

(1) According to the Central Planning Bureau, the wage share fell from 85.5 % of Net National Income in 1985 to 78.0 % in 1989.

(2) Commission forecasts, March 1990.

competitiveness deteriorated, not only in relation to the Netherlands' 19 trading partners but also in relation to its European partners (see Tables 13A and 13B), a tendency for profits to be held back in the exporting sector made it possible to limit market share losses. Since then, a further improvement in competitiveness in relative cost terms has been recorded.

In 1990, all the components of consumer prices will push prices higher; this includes not only domestic factors, such as the rise in rents and in the price of gas for households, but also wage costs, the rise in which will not be offset by a contraction in profit margins or a smaller increase in imports. According to the Commission's forecasts, unit wage costs are likely to increase by 2.2 % in 1990 following a fall of 1.2 % in 1989, while for the Community as a whole an increase of 4.5 is forecast for 1990 and 5 % in 1991. In manufacturing, the increase in unit wage costs could be less than that forecast for the economy as a whole. The competitiveness of Dutch firms in relative costs terms could improve further.

2.4 Balance of payments

Following the effects of the collapse in oil prices on the trade balance in 1986-87 and of portfolio adjustments on the capital account in 1987-88, the Dutch balance of payments has returned to a more traditional pattern. The current-account surplus (of the order of 3 % of GDP in 1989 and 1990) is generally offset by net outflows of private capital, the balance of which conceals substantial direct investment abroad and growing foreign demand for Dutch securities.

The current account is the only macroeconomic variable whose trend in recent years has differed appreciably from that in Germany. The differences have been due principally to variations in the energy balance, governed by fluctuations in the terms of trade. As the Netherlands is an importer of crude oil and an exporter of natural gas and oil products whose prices are adjusted with a time-lag of six to nine months, the fall in prices on international markets led first to an energy surplus in 1985-86 and then to a return to a slight deficit (see Table 9).

Apart from the changes in cost competitiveness, the current account has also been influenced by:

- the upturn in domestic demand, and particularly in investment, which helped to reduce the trade surplus up to 1987 and led in particular to a sharp increase in imports from Germany. More recently, however, the change in the composition of growth has caused imports to slacken;

- the balance of services, which is especially sensitive to changes in world trade (particularly in view of the importance of transport activities) and to fluctuations in the exchange rate of the dollar and in that of the guilder in relation to the currencies of the main tourist countries;

- investment income, also very sensitive to fluctuations in the dollar and to interest-rate changes. Given the size of external assets (put at HFL 505 bn in 1987, or 117 % of GDP), a change in yields has a significant impact on the current account.(1)

Direct Dutch investment abroad has been running at particularly high levels since the 1970s. The four main Dutch multinational companies play a key role in this regard, since they account for two thirds of such investment, which is concentrated principally in the industrialized countries, especially the United States and the United Kingdom (see Table 12). A series of factors influenced this trend, in particular the relatively low level of demand in the Netherlands and the high level of wage costs in the early 1980s. However, structural factors are also important, such as the limited size of the national market and a level of taxation which is still one of the highest among the industrialized countries.

During the last two years, the balance of capital flows has also been influenced by portfolio movements connected with the announcement of tax measures in Germany (end of 1987 - beginning of 1988) and by the obligation on Dutch banks to declare income as from January 1988. In addition, foreign investors' demand for Dutch Government securities has increased appreciably over the last two years.

2.5 Completion of the single market: implications for the Dutch economy

The completion of the single market could well have a relatively major macroeconomic impact on the Netherlands. The various estimates which have been made in this connection,(2) which take account of the interaction between the different sectors of the economy, point to: an overall more significant growth effect than the average growth effect for the other Community countries; an appreciable increase in production, entailing a rise in productivity; and an acceleration in private consumption. The importance of these effects for the Dutch economy arises essentially from the fact that it is a small economy which is very open to intra-Community trade, and this makes it particularly sensitive to

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(1) The level of this income appears, however, relatively low compared with the volumes invested, which reflects Dutch multinationals' policy of reinvesting locally. Retained profits should, in principle, be added to the current account balance.
(2) Commission departments, 1988, and Central Planning Bureau, 1989.

changes in international trade and to the anticipated effects of reduced costs on trade between Member States. The high level of direct Dutch investment abroad adds a further dimension to the implications of 1992 for this economy.

However, the implications of completion of the single market could vary widely depending on the branch of activity under consideration. Generally speaking, the sectors which are directly or indirectly involved in international trade (distributive trades, transport, communications) and which play an important part in the Dutch economy will be the first to benefit from the opening up of frontiers, at least in terms of production. Taking the tertiary sector as a whole, however, employment may well decrease in view of the expected losses arising from the abolition of administrative barriers in particular and from the consequences of increased competition in the banking industry, for example.

In manufacturing industry, completion of the single market could have an overall positive impact, in terms of both production and employment. Applying the methodology developed by the Commission departments,(1) a detailed analysis of the export performances of Dutch firms and of the positions of the various sectors(2) has produced the following findings:

- in the Netherlands, the relative importance of the 40 sectors of activity identified as being especially sensitive to completion of the internal market is close to the Community average: they generate 47 % of value added (compared with an average of 49 % for the community) and 45 % of employment in manufacturing;

- export performances(3) are favourable in most "sensitive" activities, not in terms of the number of sectors but in terms of value added and employment. These favourable performances are found notably in the group comprising the high-tech sectors and the largely automated sectors (electrical components, chemicals) demand for whose products is growing sharply in the Community. These sectors will very probably benefit from the expansion in intra-Community trade;

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(1) "The European single market: implications for Dutch manufacturing industries", L. Sleuwaegen, 1989.

(2) According to this methodology, 40 out of a total of 120 sectors of activity (3-digit NACE code) were identified at Community level as being especially sensitive to completion of the single market. They were classified into 4 groups: (i) sectors associated with public procurement (information technologies, telecommunications, etc.); (ii) more traditional sectors characterized by the existence of high non-tariff barriers, by only a small degree of openness to international trade and by large price disparities; (iii) sectors in which extra-Community trade has, until now, been more important (shipbuilding, electrical engineering, etc.); (iv) sectors characterized by moderate non-tariff barriers such as national standards and administrative controls (radios, televisions, household electrical equipment, etc.).

(3) Calculated by reference to the rate of intra-EC exports to intra-EC imports.

- the export performances of Dutch firms are mediocre in sectors which are protected by non-tariff barriers and in which major restructuring could take place (pharmaceutical products, electrical equipment, etc.). In some cases, despecialization would have to be envisaged.

Completion of the single market could also bring about substantial expansion by Dutch firms abroad. In a large number of cases, this could strengthen the activities of multinationals in the Netherlands. In other cases, however, there is a tendency for activities to be relocated (mainly machine-tools, assembly operations). The conduct of economic policy could influence the way in which these movements may offset one another, in terms of activity and employment.

3. PUBLIC FINANCE

3.1 Fiscal policy

In the Netherlands, the trend of fiscal policy is laid down within a medium-term framework. The government sets annual quantified targets for a four-year period: the targets relate to the deficit (expressed as a percentage of net national income), the burden of taxation and social security contributions, non-tax revenues and expenditure (in nominal terms). Since the early 1980s, a medium-term adjustment target has been the priority in the preparation of budgetary programmes. However, the budget balance has fluctuated widely since 1985. The effects of the reverse oil shock but also sizeable expenditure overruns and an economic context which differed from the projections have produced an outturn which diverges appreciably from the forecast path.

The 1982 government agreement set targets for central government and the local authorities together.(1) The 1986 agreement, covering the period 1987-90, related solely to the central government budget; its aim was to cut the deficit from 8 % of net national income in 1987 to 5 1/4 % in 1990. The 1987-90 programme contained expenditure cuts for goods and services and for transfers. It was intended that the burden of taxation and social security contributions(2) should at least stabilize at the 1986 level. No target was set for the public debt.

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(1) For 1986, the target for the central government net balance to be financed was 6 % of NNI while that for central government and the local authorities taken together was 7.5 %.

(2) The Dutch authorities use the concept of "collective burden", defined as the sum of direct taxes, indirect taxes, social security contributions, and certain non-tax revenues such as receipts from natural gas sales.

All in all, medium-term programming has been efficient as regards financial balances, but much less so as regards expenditure and receipts.

For the whole of general government, total expenditure (national accounts definition) has fallen by 2 points of GDP compared with 1985, to stand at almost 57.5 % in 1989. This fall was due mainly to the limitation imposed in respect of expenditure on public consumption (wage freeze and restriction on employment) and to a reduction in subsidies from 1988 (abolition of the investment allowance scheme). Public investment has also fallen (-0.3 of a point of GDP). The share of revenue declined from 55 % to 52.2 % of GDP (see Tables 15A and 15B). Net borrowing, which had been cut from 7.1 % of GDP in 1982 to 4.8 % in 1985, increased to 6.5 % at the time of the reverse oil shock but was back to 5.3 % in 1989 (see Table 14, heading 5).

Central government net borrowing requirement

	1985	1986	1987	1988	1989	1990
<u>As % of net national income</u>						
Target (including off-budget expenditures, excluding early loan repayments)	-8.5	-5 3/4	-8	-7	-6	-5 1/4
Outturn	-7.0	-6.5	-7.5	-6.4	-5.9	-
<u>As % of GDP</u>						
Outturn	-6.4	-5.8	-6.9	-5.8	-5.3	-

Movements in natural gas revenue made it more difficult to attain the target set by the 1986 programme. Given the time-lag in adjusting prices, natural gas revenue fell particularly sharply in 1987. In 1985 it stood at the record level of 5.9 % of GDP whereas in 1989 it was down to 1.3 %. When it became clear, in mid-1986, that it would not be possible to attain the target set for 1987, the Government adopted a package of measures providing for additional expenditure cuts and increases in tax revenue. As a result of these measures, the increase in the deficit in 1987 was limited and it was subsequently brought back to a path close to the original targets. Half of the fall in natural gas revenue was thus offset by expenditure cuts and half by an increase in indirect taxation.

At the beginning of 1988, the Government was also prompted to tighten the rules on budgetary discipline, because of sizeable overruns of appropriations, and the failure to offset increases in expenditure.

The November 1989 government agreement set a target for the central government deficit to be reduced from a level estimated at 5 1/4 % of net national income in 1990 to 3 1/4 % in 1994.(1)

This target was formulated against the background of the decisions taken on additional expenditure and the savings to be made. Compared with the original baseline forecast, the increase in central government expenditure should be due mainly to new measures in the fields of the environment (in particular investment in public transport), social security (child allowances), justice, the labour market and above all the restoration of the link between the trend in wages in the public sector and different social security benefits and the trend in contractual wages in the private sector. With a view to limiting the possible consequences of this latest measure on public expenditure, two conditions have been defined: the linkage could be suspended (i) if wage increases in the private sector were not "responsible", and this could be the case if they exceeded the sum of the increase in the price level and productivity gains in such a way that it would harm employment perspectives, and (ii) if the rise in the number of social security recipients was such that a significant increase in the collective burden would be inevitable.

These additional expenditures decided by the new Government will probably be offset in part by a slight increase in taxation but chiefly by windfall gains in revenue, estimated on the basis of the outturn achieved for the first months of 1989. The less favourable trend for this revenue in the closing months of 1989 has however revealed the danger that the target for both 1990 and 1994 might not be met. The Government has moreover already reacted by deciding to postpone certain new expenditures.

In the context of the aim of reducing central government's share in the economy, a privatization programme was carried out. The State surrendered holdings in many enterprises.(2) Since 1985, privatisation receipts were estimated at some HFL 4.6 billion (1 % of GDP). In addition, the autonomy of certain public enterprises or departments was increased. The post and telecommunications services were turned into companies and so was the national printing enterprise. Other services were either converted into companies and sold to the private sector, or became concessions.

3.2 <u>Changes in taxation</u>

The burden of taxes and social security contributions in the Netherlands remains high compared with the other Community countries, associated with a high level of social protection.

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(1) i.e. from 5 % of GDP in 1990 to 3 % of GDP in 1994.
(2) The major enterprises were KLM, the Nederlandsche Middenstandsbank(NMB) and DSM (Dutch State Mines, operating in the chemical industry).

Overall, after fluctuating among others in line with the measures taken to limit the public deficit, the burden has returned to the level of the early 1980s. Although its reduction was not the prime objective of the Dutch authorities, they have nevertheless endeavoured not to increase the "collective burden" in recent years. In addition, social security charges have been reduced to encourage the moderation of wage costs and they have been used in connection with labour market policy in order to help young people and the long term unemployed to find work. But it is only recently that radical reforms have been introduced with regard to corporate taxation (1988) and personal taxation (1990).

The reform of personal income tax, which came into force on 1 January 1990, is largely based on proposals made by a special Commission.(1) The principal aim of this reform was to simplify the system while maintaining budget neutrality. However, during the preparatory discussions it was decided to associate the reform with tax cuts; this operation was facilitated by the actual and currently expected windfall gains in tax revenue which enable the target set for the budget deficit to be met.

The main elements of this reform are:

- the collection of income tax and social security contributions on the same basis and in a single operation;(2)
- the reduction of the number of tax rates;(3)
- the reduction in the top marginal rate from 72 % to 60 %;
- the limiting of tax deductions;

The gross revenue shortfall due to the reduction of tax rates has been estimated at HFL 6.5 billion or 1.3 % of GDP. The broadening of the tax base resulting from the reduction or elimination of certain tax deductions(4) (costs of a mixed nature incurred in the course of professional activities) should produce an additional HFL 2.4 billion in revenue.

Overall, the net effect on revenue in 1990 would be a shortfall of between HFL 4 billion and HFL 4.5 billion, or 0.9 % of GDP. The effect of the reform on taxpayers' disposable income will, in general, be more favourable for lower income categories.

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(1) The Commission was chaired by Professor Oort.

(2) In order to enable the combined payment to be collected on the same basis, the burden of social security contributions which was formerly payable by employers was shifted to employees, who receive a compensatory allowance.

(3) The number of tax rates is reduced to three: 35 %, 50 % and 60 %. The lowest rate of 35 % applies to the first HFL 42,123 of taxable income (some 80 % of taxpayers are in this bracket); it is made up of a rate of 22 % in respect of social security contributions and a rate of 13 % in respect of income tax.

(4) The upper limit for the authorized flat-rate deduction was raised by 25 %.

In order to combat tax evasion in connection with income from savings, a system was introduced as of the tax year 1987 which requires banks to report on fixed incomes to the tax authorities. Withholding tax on dividends remains unchaged at 25 %.

In March 1990, the Government set up a new Commission to look into ways of simplifying personal income tax, to examine the links with corporation tax and to adjust certain rules that had been criticized. An initial report is expected to be produced in 1991.

Corporate taxation has been amended several times, but the most important measure was the suspension in 1988 of the WIR investment allowance scheme and of the deductions allowed for stocks and other assets. Firms were compensated for the loss of these allowances by the shift of welfare contributions for child allowances from employees to the central government budget, and by a reduction in corporate income tax from 42 % to 40 % for the first HFL 250 000 and to 35 % for profits above that amount.

Indirect taxes were first raised and then lowered: both were measures taken in the context of the policy which aimed initially at controlling the budget deficit and then at contributing to wage moderation. The raising of VAT and of certain excise duties in 1987 was intended to limit the widening of the deficit resulting from the fall in natural gas revenue. The cut in the top rate of VAT in January 1989 represents a move towards the rates in force in the other countries of the Community and was also decided in the context of the policy of wage moderation, in order to preserve purchasing power. A further cut in the top rate of VAT is planned to take place between now and 1994, provided that it does not jeopardize the objectives laid down in the government programme.

3.3 Local authorities and social security funds

The local authorities' deficit was cut from 0.7 % to 0.3 %[1] of GDP between 1985 and 1989.

The local authorities occupy a relatively important position in Dutch public finances, since their expenditure represents 30 % of the expenditure of general government. However, their autonomy is very limited insofar as their main areas of operation are largely regulated by the central government. In addition, the local authorities are required by law to balance their current accounts, and may borrow only in order to finance capital expenditure. Yet their own receipts represent no more than 10 % of their total revenue, with the remainder coming from central government grants.

(1) From 0.8 % to 0.4 % of net national income.

The autonomy of the local authorities could, however, increase in future, since the government has begun to incorporate special purpose transfers in the general transfers made to the Municipalities and Provinces Fund.(1)

As part of the fiscal adjustment policy, the government has concluded agreements with the local authorities on the principles of transfers to the Municipalities and Provinces Fund and on reducing special purpose transfers. Between 1983 and 1989, central government transfers fell by 11.5 %; the fall related chiefly to transfers intended for specific expenditure, notably unemployment benefits and subsidized housing.

However, for the social security sector as a whole, the reforms introduced during the second half of the 1980s did not in general produce the results expected. The purpose of the reform plan of 1986-87 was to increase the economic efficiency of social security expenditure and to slow down its rise, while continuing to respect the principles of social justice. In the unemployment scheme, the reform has succeeded in curbing expenditure (in 1989)(2); however as regards the invalidity-scheme, the effect of the reform in terms of overall expenditure has been less favorable than expected, chiefly because the increase in the number of people receiving benefits offset the relative fall in the individual benefits themselves. The access criteria for invalidity are, in the Netherlands, generally wider than in the other Community countries, a situation which may explain the high number of recipients (see Table 3).(3)

The rate of increase of social security expenditure has, however, been appreciably curbed as a result of the freezing of the minimum wage to which most benefits are tied. The ratio of social security expenditure to GDP which had fallen in 1984-85 because of a nominal reduction in benefits, has since stabilized at around 20 %.

Over the medium term, the social security fund accounts have to be balanced. In recent years, their overall balance was slightly in surplus, and until 1988, 95 % of their expenditure was financed by

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(1) Special purpose transfers relate chiefly to housing, the social sector and education. Since 1985, the number of specific transfers has been significantly reduced and their total value decreased by 20 % whereas over the same period, general transfers increased by 9 %.

(2) The main element of the reform was the adoption of a maximum rate of unemployment benefit equivalent to 70 % (instead of the previous 80 %) of the eligible proportion of the last wage earned, or of the minimum wage, depending on the case.

(3) Among those eligible, for instance, are persons who, as a result of sickness or infirmity, cannot earn the "normal" earnings taking account of their training. In most of the other Community countries, the earning ability must be reduced to less than a proportion of the normal earnings (e.g. 1/3 in France, Italy, Belgium, 1/2 in the FRG).

contributions. Starting in 1989, however, the share of central government transfers will be higher (some 7 % to 9 % of revenue), as a result of the changes made such as the shift from employers to central government of contributions to the child allowance scheme (in order to compensate for the abolition of the investment allowance scheme) and the amalgamation of contributions with personal income tax as part of the income tax reform.

3.4 The financing of the deficit and the public debt

The persistence of the budget deficit and the increase in the need for refinancing, attributable to redemption payments on the public debt, make the central government a large borrower on the capital markets.

The Dutch authorities have generally sought to limit the "monetary financing" of the public deficits and to finance themselves almost exclusively on the domestic capital market (see Table 16).

In the context of a money supply policy based on an analysis of the counterparts of money creation, the Nederlandsche Bank considers that monetary financing is any net increase in the short-term debt with the central bank, the banking sector and the private non-bank sector. Banks' purchases of long-term public securities are considered to be money creation on the banks' initiative.

Since 1983, the central government has formally undertaken not to resort to this type of monetary financing. Under an agreement, which is renewed each year, the central bank is able to finance the Treasury's seasonal needs up to a predetermined ceiling (equivalent to 3 % of the preceding year's budget receipts). However, during the last few years, only marginal use has been made of this facility. For local authorities, recourse to monetary financing is limited by law.

Although the Dutch authorities have never resorted to direct financing in guilders abroad or in foreign currencies, "external" financing has increased in so far as subscriptions by foreign investors to government bonds have risen sharply in recent years.

The public debt/GDP ratio(1) is still rising but at a distinctly slower pace than previously; it went from 46 % in 1980 to 70 % in 1985 and 78 % in 1989. It should also be noted that the increase of GDP in nominal terms has been relatively small.

In the second half of the 1980s, the central government's recourse to the market was heavily influenced by large amounts of early repayments of subsidized housing loans, which were particularly high in 1986 and 1987. Although this enabled the central government to reduce its direct recourse to the market, the housing corporations

(1) General government excluding social security funds.

for their part refinanced the loans on the capital market so that the overall recourse to the market remained virtually unchanged. In addition, refinancing of the central government debt has become increasingly substantial. For central government, redemption payments represented 25 % of the total recourse to the market in 1985, whereas they were estimated at 46 % of the total in 1989. It will take a few years before the effect of reducing the budget deficit makes itself felt on recourse to the capital market.

In the last few years, two concerns have governed management of the public debt: the wish to increase the average maturity and the desire to attract foreign investors.

Seventy per cent of the debt consists of medium and long-term paper. The average maturity of central government borrowings has varied appreciably during the years 1980-90. It fell from 11 years in 1980 to 6.5 years in 1983, but thereafter it increased and now stands at around 8 years (see table 17B). The last bonds issued in 1989 were for a ten-year period.

The interest of non-residents in Dutch central government borrowings has increased appreciably in recent years. Their share in subscriptions to new issues rose from 25 % to an average of 41 % of 1989. Non-residents subscribed 61 % of the January 1990 issue. The growing credibility of the policy of a stable exchange vis-à-vis the German mark and the issue of "bullet bonds" have stimulated this interest.

3.5 Appraisal of budgetary targets

The formulation of budgetary policy targets in the Netherlands raises a number of questions; these relate to (i) the entity considered and in general the definition of the public sector, (ii) the problems encountered in establishing the medium-term projections, (iii) the pro-cyclical nature of the target, and (iv) the fact that there is no target for the rate of indebtedness.

Macroeconomic analysis in the Netherlands uses different definitions of the public sector, depending on the area of investigation. The central bank monetary analysis considers the combined deficit of the central government and the local authorities. Budgetary policy and the management of expenditure concentrate on central government alone. The social security system is generally considered separately.

However, although formally the objectives set for the deficit primarily relate to central government, the other public sector entities have, in recent years, indirectly been subject to the same budgetary stringency. The first reason for this is the fact that the local authorities have until now had relatively little autonomy in the management of their expenditure, in terms of both its allocation and its volume. Secondly, the social security accounts must be balanced in the medium term.

The multiannual budget estimates are based on medium-term macroeconomic forecasts and are, consequently, subject to the measure of uncertainty which affects this frame of reference.

During the period 1987-89, gross domestic product rose more rapidly than had been forecast in 1986. This led to substantially higher than expected taxation and parafiscal revenue - estimated by the Central Planning Bureau at almost 2 percentage points of net national income - which enabled the government to reduce taxation whithout jeopardizing the objective of reducing the deficit.

Furthermore, the multiannual expenditure estimates of the various Ministries also raise the problem of the reliability of the basic assumptions (evolution of the school population, number of dwellings necessary, etc.). The systematic overshooting of forecasts by actual expenditure has prompted the government to launch a critical examination of the multiannual estimates.

The strictness of budget discipline is another aspect of the same problem. Noting the scale of expenditure overruns, the government has tightened the rules of the restrictive policy which primarily govern compensation within each Ministry. It should nevertheless be noted that these measures have produced virtually no satisfactory results. Sizeable overruns have in particular been recorded for aid to investment - which moreover prompted the abolition of the investment allowance scheme - and for the departments of national education, health and housing.

Overall, the target which had been set in 1986 for the deficit in 1989 was achieved, but this outturn is largely attributable to higher than expected tax and parafiscal revenue which offset substantial overruns of the expenditure forecasts. In addition, a wide discrepancy can be seen between the figures adopted in the draft budget and the outturns for the years 1985 to 1988.

For 1990, according to the introduction to the budget, expenditure should be 7 % higher than the forecasts established when the government agreement was concluded in 1986. In addition, the implementation of the income tax reform creates a number of uncertainties as to how direct tax revenues will evolve. The planned reduction in VAT could even be postponed if the evolution of overall receipts proved to be too unfavourable.

According to the Minister of Finance, if receipts and expenditure were extrapolated to 1994, on the basis of the level recorded at the end of 1989, and adjusted by taking account of the new expenditure forecast in the agreement for the next few years, the target set for 1994 would be overshot by 1 percentage point of GDP. The burden of taxation and social security contributions is expected to fall by 0.25 percentage points of GDP between 1990 and 1994. The measures necessary to prevent this deviation will be examined in the spring of 1990. In addition, the slight contraction in the growth of GDP forecast for the next few years rules out any hope of windfall gains in revenue as high as in 1989. All these factors are an argument for prudence in assessing the outlook for the period ahead.

In this context, it should be noted that the attainment of targets set by reference to national income is strongly pro-cyclical in nature, since the effort to be made in a period of strong growth could become less binding; by contrast, in periods of low growth and very low inflation to meet the norm was more difficult.

Until now, the Dutch budgetary authorities have not set a precise target for the level of the debt. However, at the time of the 1989 agreement, the government formulated a declaration of intent stating that they wished to stabilize it as a proportion of GDP.

According to estimates by the Finance Ministry, the debt ratio is expected to continue to climb until 1993 before falling again in 1994.

However, assuming that the differential between the interest rate and the rate of economic growth remains unchanged (at almost 4 points) and given the current level of the primary balance (surplus of about 1 % of GDP), an adjustment effort of the order of 0.5 % of GDP per year would be necessary to interrupt the rise in the debt/GDP ratio in 1994.(1) Stabilization would, however, take place at a relatively high level (84 % of GDP for general government), and this will continue to limit budgetary policy headroom for several years.

4. MONETARY POLICY

4.1 Changes in objectives and instruments

The prime objective of monetary policy in the Netherlands is exchange-rate stability, in the form of a policy designed to maintain stability vis-à-vis the German mark. As part of this policy, the authorities also endeavour to avoid excessive domestic liquidity creation. The choice of a stable relationship with the German mark has been motivated for a long time by two types of factors: (i) the important part played by Germany in the external trade of the Netherlands, which means that an exchange-rate move vis-à-vis the DM would have destabilizing effects in the Dutch economy; and (ii) the priority accorded by the German monetary authorities to price stability, which makes the exchange-rate objective consistent with the final objective of the Dutch authorities.

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(1) Calculations of Commission departments.

MONETARY POLICY OBJECTIVES AND INSTRUMENTS

Objectives

- Stability of the exchange rate within the EMS, in practice stability in relation to the German mark;

- to maintain, over the long term, net domestic credit expansion on a growth path which is compatible with the growth in capacity.

Instruments

- intervention on the foreign-exchange market;

- instruments designed to influence money market interest rates:

  (i) official rates: discount rate and current account advances rate;

  (ii) rediscount and advances ceilings and non-quota area (possibly involving an additional cost). The ceilings, set for a three-month period, are kept within anticipated market needs so that the banks must use the additional credit provided by the central bank through open market operations;

  (iii) day-to-day management of the money market through open market operations: - special loans arranged under repurchase agreements for fixed periods (ranging from one day to four weeks) at a predetermined interest rate;
  - currency swaps for periods ranging from one week to several months;

  (iv) compulsory money-market cash reserve requirement;

- limitation of net domestic credit expansion:

  (i) agreement between the central bank and the Ministry of Finance to avoid monetary financing of the public deficit;

  (ii) temporary agreements between the central bank and the banking sector to restrict net domestic credit expansion, defined as follows: short- and long-term lending to the private sector **plus** long-term lending to the public sector **plus** other capital market investments **minus** long-term liabilities. The most recent agreement, covering the period from July 1989 to June 1990, is based on an arrangement under which non-interest-bearing cash reserves are deposited with the central bank in proportion to the extent to which individual ceilings on net domestic credit expansion are exceeded (if applicable);

- open market policy on the capital market: this instrument was introduced in July 1988 to indicate to the market the desired direction of interest rates and the intentions with regard to monetary policy.

While the traditional cornerstones of monetary policy remain, the changes which have occurred on financial markets in the 1980s - involving in particular a decompartmentalization of money and capital markets and greater mobility of long-term capital - and the tendency of the Dutch authorities, as elsewhere in Europe, to give freer rein to market mechanisms in the allocation of resources have gradually led the authorities to realign their approach, both as regards objectives and instruments:

- the liquidity ratio, as measured by the ratio of the money supply M2 to net national income, (the traditional target variable of domestic monetary policy) has lost some of its value as an indicator. It rose from 35 % in 1980 to 55 % in 1989, mainly as a result of changes in the structures of bank assets and liabilities, the accumulation of liquidities by companies with a view to corporate restructuring in anticipation of 1992, and the economic upturn since 1984. In addition, the accumulation of external liquid assets held by residents has accelerated sharply since 1987. If these were added to M2 the measure of monetary expansion would have been even more significant. The Dutch authorities have not taken the view that these trends presented per se a threat of inflationary pressures, given the prevailing wage moderation and the fact that the accumulated liquidity mainly involves the business sector and not households. They continue, however, to analys the pattern of liquidity in the economy very closely. To do that, they have turned to other indicators, in particular the analysis of liquidity variations by sector;

- the objective of exchange-rate stability has become dominant and the distinction between internal and external stability policy is tending to become blurred. In recent years, the Dutch authorities have acted to curb growth in the monetary aggregates only where it has been accompanied by a risk of exchange-rate destabilization. Only in 1986, when there was pressure on the guilder, and in 1989, when the growth in the money supply was seen as a potential threat to exchange-rate stability, did the central bank take steps to limit domestic monetary expansion;

- in view of the growing difficulty of controlling the external contribution, monetary policy is geared to controlling domestic money creation. A monetary cash reserve arrangement is at present the main instrument used to limit liquidity expansion. The agreements concluded between the central bank and the banking sector (for the periods 1986-87 and July 1989/June 1990) with a view to limiting net domestic credit expansion are designed to encourage the banks to expand their long-term resources and thereby to induce an upturn in long-term rates. Given the international climate of deregulation and policies giving freer rein to market behaviour, the central bank has employed more indirect means of restricting domestic credit. The 1989 agreement is thus based on a monetary cash reserve arrangement, which requires each bank to hold a non-interest-bearing reserve at the central bank if its net credit expansion exceeds a predetermined level. Market forces therefore play a greater role in the adjustment in that the volume of credit is not limited, although the proportion financed from short-term funds may entail an additional cost;

- in addition to the credit restriction instrument, the central bank has also sought to influence the yield curve by conducting an open-market policy on the capital market. To that end, it began to build up in 1988 a portfolio of medium- and long-term public securities; this amounted to some HFL 3 billion in March 1989, when the bank began to use it to signal its wishes to the market. In order to ensure that the building up of this portfolio through the purchase of securities on the primary market does not constitute monetary financing of the deficit, the Ministry of Finance, acting under an agreement between itself and the central bank, has withdrawn the equivalent amount of short-term securities by not refinancing those reaching maturity;

- with regard to specific exchange-rate policy instruments for influencing money market conditions, a change has also occurred in recent years with the introduction in 1988 of money-market cash reserves designed to compensate for the effect of certain market-enlarging factors which were tending to reduce the effectiveness of the system of advances and swaps the central bank uses to influence short-term interest rates. These enlarging factors included in particular the growth in foreign exchange reserves connected with the trend in the external balance and the non-renewal of short-term public securities as a counterpart to the building up of the central bank's portfolio of long-term securities.

4.2 <u>Monetary aggregates and credit expansion</u>

During the first half of the eighties the monetary aggregate M2(1), the Netherlands quantitative indicator variable, had grown at fairly high rates averaging 7.5 % a year. Monetary expansion decelerated temporarily in 1986-1987 to 4.1 % annually but picked up again recently with annual growth rates of 14 % in December 1988 and 18 % in December 1989 (see Table 18).

(1) M2 includes short-term government liabilities held by the non-bank sector, companies' assets up to 2 years and households' demand deposits. Households' savings deposits are only partially included, according to their turnover (commercial paper held by companies is excluded).

In February 1986, the Nederlandse Bank and private banks made an agreement aimed at restricting the "money-creating activities" of banks - their long-term lending to public authorities, long- and short-term lending to the private sector, netted out with their domestic long-term liabilities - to grow at 5.5 - 6 %. However, the effects did not become apparent before the last few months of the year and the overall increase of M2 was considered too strong by the Nederlandse Bank. In December 1986, the agreement was thus extended and a target expansion of 11 - 12 % was set for the 24-month period 1986-87 as a whole.

In 1987, banks "money-creating operations" came down from 9 % in 1986 to 4 %, mainly because long-term lending to public authorities stagnated. Two developments had, however, an expansionary impact on money growth: (i) considérable withdrawals of savings after the middle of the year in reaction to the announcement that banks would be obliged to report interest paid to clients to tax authorities and (ii) the reverse of capital movements from net outflows to net inflows. Domestic money supply increased by 4.2 % while nominal income growth was at 5.5 %. At the end of 1987, monetary expansion was forecasted to remain within acceptable limits, due to expectations of a weakening of economic activity and sustained price stability. The Nederlandse Bank decided then not to reconduct the agreement made with commercial banks on credit growth.

However, immediately after the termination of the agreement, money supply regained a high rate of expansion and the return to a more moderate path was almost wholly undone. In 1988, contrary to the projections, money supply M2 increased sharply, two thirds of the rise being due to domestic money creation. Lending to the business sector increased rapidly in connection with the pick-up in investment. The demand for liquid assets by financial institutions(1) was exceptionally strong. The increased preference for liquid assets holding might be explained by a flattening yield curve and by greater uncertainty in bond and share investment.

In the first quarter of 1989, banks' net money-creating operations accelerated, expanding by 17 % over 12 months, in anticipation of restrictive measures, but capital outflows and destruction of liquidity by public authorities restrained the growth of money supply to 3 %. In contrast to these developments net money-creating operations remained practically constant in the second quarter while strong capital inflow, in part due to increased demand for Netherlands securities on the narrowing of the interest rate differential with the US, boosted domestic money supply. The Nederlandsche Bank concluded a new agreement with the

(1) Including social insurance funds.

banks, in the form of a "monetary cash reserve" arrangement. The agreement initially covered the period from 1 July 1989 to 30 June 1990. During the second half of 1989, domestic money creation by banks had returned to an annual growth rate of around 6 %, and the agreement was suspended in March 1990. This was also due to the inversion of the yield curve, banks having in particular sold long-term public securities. However, the contractionary impact on monetary expansion has been more than compensated by capital inflows, largely due to non-resident demand for Netherlands government bonds.

4.3 Assessment

A country of the size of the Netherlands which maintains a stable exchange rate against the German mark has little headroom for pursuing an independent money supply policy. Any restriction on the growth in domestic credit tends to be offset by capital inflows, all the more so as the degree of substitution between internal and external assets is high. Given the growing mobility of capital in Europe and the assured credibility of the exchange-rate commitment, this degree of substitution is increasing and the yield differentials between the Dutch and German markets are tending to narrow. This trend has been apparent in recent years. The speed at which portfolio adjustments are occurring is also increasing with the technical improvements made on financial markets. The scope for pursuing an independent monetary policy is therefore diminishing further and the level of the money supply is increasingly determined in an endogenous manner.

In this context, the changes which have occurred in recent years in the choice of the intermediate objective and in the implementation of monetary policy in the Netherlands reflect the authorities' concern to adapt to the financial changes under way, while at the same time maintaining control over domestic money creation. The link between the trend in the monetary aggregate and price stability has diminished appreciably. The control on money creation from internal sources aims primarily to prevent excessive growth in liquidity leading to capital outflows which could imply exchange-rate pressure.

The effectiveness of the limitation on lending depends, however, solely on the banks' and other economic agents' attitudes: its impact can be neutralized, in increasingly integrated markets with growing opportunities for financial innovation, either by recourse to the external sector or by the development of new forms of non-bank credit. Admittedly, innovations do not, as yet, seem to have played a significant role in the Netherlands and the banks do not appear to have shifted their activities elsewhere during the periods when credit conditions were tightened. Increased recourse by companies to external financing in 1986/87, which doubtless had something to do with the tightening of domestic conditions, did not pose a threat to the exchange rate.

Generally speaking, however, this type of instrument, while it may be effective to some degree in the shorter term, certainly cannot be envisaged on a permanent basis, both on account of the possibilities it affords for sidestepping controls and because of the drawbacks it presents for competition and for dynamism in the banking sector.

4.4 Exchange rate and interest rates

Since 1984 the guilder has remained practically stable against the German mark. Since mid-1987, it has maintained a position in the upper part of the EMS fluctuation band. Overall, its effective exchange rate in relation to the ERM currencies appreciated by almost 5 % between 1985 and 1987 and, following a temporary rise in 1988, it has come back at its 1987 level.

In recent years, the Dutch authorities have followed practically all the interest rate moves initiated by the Bundesbank. The main exceptions to this policy were at the beginning of 1987 (during a period of domestic monetary tightening in the Netherlands) when a fall in German rates was not followed and during the first few months of 1988 (a period of relative German mark weakness) when Dutch rates were relaxed independently of those in Germany. In order to influence market rates, the central bank has actively used its open-market policy on the money market and has responded almost immediately to each movement in German rates by altering its own official rates, which have gradually risen from an all-time low of 3.75 % (advances rate) at the beginning of 1988 to 7.75 % today.

Dutch money market rates have generally moved in a very similar fashion to German rates, with a long period of downward movements between 1985 and mid-1988 (from 6.3 % to 4.0 %) and a significant and virtually continuous rise since then (from 4.0 % in April 1988 to 8.9 % in January 1990) (see graph 3, table 19A). The fall in long-term rates up to 1988 was more marked than that of short-term rates. Their rise has been appreciably less pronounced up to October 1989, but accelerated since then. The yield curve, which has been inverted for a number of months, has followed the same type of trend as in Germany.

Despite lower inflation than in Germany, an appreciable current account surplus and the Dutch authorities' continued commitment since 1983 to maintain a stable exchange rate against the German mark, there is still a positive interest-rate differential in relation to German rates. In nominal terms, this gap has become relatively narrow (of the order of 0.5 to 0.7 of a percentage point in the case of short-term rates and 0.2 of a percentage point in the case of long-term rates): it can partly be explained by the narrower range of instruments available on the Dutch market (particularly on the short-term market). The public sector debt/deficit situation may also have some small role to play in that the markets cannot predict with complete certainty the monetary/exchange-rate policy reaction, beyond the lifetime of the present government, to any future need for budgetary contraction. Moreover, keeping the exchange rate stable is not necessarily regarded by all as an irreversible option, as is witnessed by the uncertainty in the face of the initial reactions to the plan for German unification.

This differential means, when adjustment is made for current inflation, that interest-rate levels are relatively high in the Netherlands (see Graph 3D). It is true that, taking underlying inflation, the differential with regard to adjusted German rates is probably smaller. Nevertheless, in the absence of expectations of significantly higher inflation, this differential indicates that real interest rates are higher in the Netherlands. This situation may stem from two types of factors: either there are more favourable investment opportunities in the Netherlands than in Germany (which seems unlikely, particularly given the events of recent months) or there is an expectation of relative deflation due to the announced budgetary squeeze necessitated by the public debt position. This in fact represents a continuation of the situation which has prevailed for a number of years and is characterized by a budgetary adjustment policy pursued against the background of a fixed exchange rate.

4.5 <u>Experiences of a de facto monetary union with the Federal Republic of Germany</u>

The reduction in the risk premium in Dutch interest rates over the past two to three years has indicated a growing credibility of the fixed HFL/DM parity. Thus the Netherlands provide an example, albeit one which is relatively recent and not seen by everyone as being irrevocable, of a de facto monetary union between a small country and a large country, at least in its main implications for monetary policy: the decisions to dispense with exchange-rate adjustments as a policy instrument and the absence of an independent money supply policy.

Two arguments can be brought forward in favour of pegging the guilder to the DM: the Federal Republic is the most important trading partner of the Netherlands, and the Bundesbank provides the nominal anchor at a high degree of price stability.

The tentative conclusions with respect to the working of a monetary union drawn from the Netherlands example cannot be generalized for two main reasons. Firstly, the Netherlands have to be counted as a small country that typically has very limited influence on the union aggregates but adjusts more or less passively to monetary policy measures that are exogenous from its point of view. And secondly, a number of economic similarities with Germany makes a "coordinated" policy relatively easy.

During the 1980s, these two countries have experienced comparable macroeconomic trends in various respects (see graph 5):

- a similar level of GDP per person employed;

- a similar pattern of supply developments, with production potential in the manufacturing sector and labour forces moving in parallel;

- a comparable overall growth performance, with however differences in time patterns and sectoral contributions;

- unemployment rates still remaining above acceptable levels, but having declined since the mid-1980s;

- the same overall increase in private consumption prices during the last decade. Both countries experienced a period of gradual disinflation during the first half of the 1980s. Since 1983, with the exception of 1986, the Netherlands' inflation rate has however been lower than that in the Federal Republic, mainly due to wage developments and to diverging tax policies.

The main difference in macroeconomic results lies in the current account trend, this largely as a result of differing energy dependence rates.

These two economies also display a number of common structural characteristics. The composition of production by branch of activity is similar. The main differences are the existence of a large energy sector in the Netherlands (which even became a net exporter in 1985 and 1986) and the role played by the production of capital goods and transport equipment in Germany.

The question arises as to what extent the convergence of the main macroeconomic results stems from the link established by the exchange-rate policy - more evident since 1984 but already discernible before then - and from its implications for other aspects of economic policy, and to what extent it is connected to the structural similarities which exist between the two economies and which have undoubtedly made it easier to pursue closely coordinated policies.

An analysis of the consequences of the 1986-87 oil counter-shock provides a number of interesting pointers in this regard, in that it provides an example of adjustment to an asymetrical shock when the exchange-rate instrument is no longer used.

The decline in oil prices in 1986 led to a significant rise in the terms of trade of the Federal Republic relative to those of the Netherlands. In 1987, a deterioration was even recorded in the Netherlands. Consequently, their current accounts registered divergent developments. The fall in energy prices also led to significant loss of public revenues. The response of economic policy in the Netherlands can be summed up as follows:

- Dutch authorities immediately announced budgetary restrictions, as well in terms of limiting expenditure than increasing indirect taxation. However, the Netherlands' deficit jumped from 4.7 % in 1985 to over 6 % of GDP in 1987, while the fiscal deficit in the Federal Republic rose only marginally in reaction to low growth in nominal demand and tax cuts in 1986 and 1988;

- monetary policy has become marginally tighter relative to Germany. Given the large asymmetry of the shock, the policy of pegging the guilder to the DM was successfully carried out while nominal interest rate differentials remained relatively narrow (1 to 1.5 point on short-term, 0.5 on long term in 1986-87), which means that markets gave sufficient credibility to the exchange rate commitment. However, this led to very high levels of interest rates in real terms;

- confidence in the ability of the Dutch economy to adjust to the given real shock was reinforced by prevailing attitudes in the labour market. Since 1985, wage settlements seem to have increasingly taken external requirements into consideration. The relative deterioration of the terms of trade seems to have reinforced wage moderation relative to the Federal Republic. While in the Federal Republic the improvement in the terms of trade has led to rising real wages, the increase in nominal and real wages was smaller in the Netherlands. Also in the following years, Dutch wages growth moderated much more than in the Federal Republic, leading to an improvement of competitiveness relative to the Federal Republic.

5. <u>FINANCIAL MARKETS</u>

5.1 <u>Overall view</u>

Compared to continental financial centres like Paris or Frankfurt, Amsterdam is rather small. The capitalisation of domestic shares in the Netherlands is about one half of that in France or Germany. Despite this lack of size, Amsterdam is an important financial centre offering a wide range of products treated in active markets. Besides the principal market on the stock exchange, there is a parallel market to facilitate the access of smaller companies to risk capital and an options market. Dutch financial markets can rely on a developed banking system, which already respects the 8 % solvency ratio, and important institutional investors. In addition, the stable domestic currency contributes to the international attractiveness of the Netherlands for carrying out financial operations.

MEASURES OF FINANCIAL MARKET DEREGULATION SINCE 1986

1 January 1986

- A bond can be issued with a minimum maturity of 2 years instead of 5.5 years and the method of reimbursement is free.

- Programmes for Commercial Paper and Certificates of Deposits are allowed.

- Floating rate notes became possible.

- Foreign banks established in the Netherlands could lead manage issues under a reciprocity condition.

- The calendar requirements became more flexible and authorisation is only required for relatively large issues (above HFL 50 million instead of HFL 15 million).

- The ceiling on the issue of euro-guilder notes was abolished.

5 May 1986

- The Amsterdam Interprofessional Market System started. This allowed banks carrying out large transactions (HFL 1 million for quoted shares and HFL 2 million for quoted bonds) to bypass the brokers ("Hoekllieden") and negotiate freely bid and offer prices. For small orders intermediation of the brokers is obligatory, commission is regulated and banks which bring in a large part of the orders cannot participate in their capital.

1 January 1988

- The issue of zero-bonds was allowed. These were forbidden until then for taxation reasons.

22 January 1988

- The arrangement of Programmes for Medium Term Notes is permitted.

1 January 1989

- The calender requirements were limited to a one day notice requirement for issues larger than HFL 50 million.

6 March 1990

- A new tender system was introduced for the issue of government bonds. Applicants pay their initial bid price, if above the minimum price fixed by the government, instead of the uniform price like determined in the existing tender system. This led in the past to some applicants effectively paying less than their initial offer. After the closing of the tender, the issue of the bond continues on tap at prices fixed by the government.

1 July 1990

- Stamp duty will be abolished and commissions on stock exchange transactions become fully negotiable.

Memorandum

Indexed bonds remain forbidden.

Nevertheless, Amsterdam lost some ground especially to London, where about one half of transactions in guilder bonds occur. In order not to lose its position in an increasingly competitive world and in order to locate the guilder bond market in Amsterdam, the authorities took several measures since 1986 to deregulate the Dutch financial system (see box 37) .

With respect to capital controls, the Netherlands abolished the last restrictions on capital movements, concerning the issue of euroguilder notes, in 1986, anticipating an EEC Directive which entered into force on 28 February 1987. The capital movements which, according to the new directive, are to be liberalized on 1 July 1990 are already free.

5.2. Demand and supply in the capital market

Insurance companies, pension funds and social insurance funds (see table 20) are the main suppliers of capital(1). In 1989 these institutional investors supplied 45 % of long-term capital. This is explained by the large proportion of contractual savings in the form of insurance premiums and pension contributions that Dutch households accumulate in order to finance their well developed social security system. On average in the period 1985-1988 total savings of households amounted to 13.5 % of disposable income, of which 11.0 % were contractual savings, leaving only 2.5 % which could be freely allocated.

Until recently the demand side was dominated by the public sector. With the reduction of the public deficit since 1983, the pressure in relative terms of public borrowing on the capital markets decreased. In 1988 the public sector took about 38 % of total capital, i.e. the same proportion than the non-financial private sector, whilst from 1981 the demand for capital by the public sector had largely exceeded that of the private sector. This favourable evolution of government pressure in capital markets has to be qualified somewhat by the anticipated reimbursements of loans by building fund societies which took advantage of the decline in interest rates. In addition, because of an investment boom in those years, the private sector considerably increased its demand for capital.

The openness of the capital markets has increased during the 1980's: demand and supply of capital by the foreign sector on Dutch financial markets substantially increased. Between 1982 and 1987, demand was larger than supply, indicating an outflow of capital.

(1) Financial liabilities with a maturity of at least two years.

Behind this lies the 1983 devaluation of the Dutch guilder vis-à-vis the German mark and also the announcement in 1987 of the declaration duty to the fiscal authorities by the banks. In 1988 the Dutch capital markets again registered a net inflow of funds from abroad, which was connected to the announcement by the German authorities of a withholding tax. Also in 1989 net inflows were recorded.

5.3 The Amsterdam Stock Exchange and the international guilder bond market

Almost 50 % of the intermediation between demand and supply occurs in the form of shares and bonds negociated on the Amsterdam Stock Exchange. Also for firms the stock exchange became more important as a large part of their liabilities took the form of shares and bonds: 22 % in 1987 against 17 % in 1982.

The capitalization of domestic shares represents about 50 % of GNP in 1988 (see table 21). It is dominated by the so-called "internationals", which are the large Dutch multinationals like Philips, Royal Dutch, Unilever, Akzo. They account for 48 % of the ANP/CBS all share index and about 40 % of total share turnover in Amsterdam is realized in these shares.

The outstanding value of domestic bonds is about the same size as the capitalization of domestic shares. It is dominated by the government as a consequence of the accumulation of budget deficits which were to a large extent financed by public issues. Nevertheless, the private sector also regularly called upon the bond market. The value of quoted private bonds amounted in 1988 to 28 % of total outstanding domestic bonds.

Traditionally, the Netherlands' monetary authorities made a sharp distinction between the money and capital market. The purpose was to prevent long-term guilder bonds assuming a liquidity function and as a consequence hampering the control of the money supply. Therefore, the Netherlands required since the 1960's that guilder bonds issued in the Dutch capital market be reimbursed in at least four equal annual instalments, of which the longest term should be a minimum of 7 years. Hence, a guilder bond in the Netherlands had a minimum average maturity of 5.5 years. Reimbursement was decided upon by drawing lots.

A consequence of this regulation was that the bond holder was uncertain about the reimbursement date which reduced the market liquidity of the bond and made treasury management more difficult. In the euro-market these regulations did not exist and guilder bonds of the bullet-type (reimbursed at once at a date known in advance) could be issued there up to a certain ceiling.

Gradually, however, large institutional investors accumulated a growing share of the total of bonds issued in their portfolio. This lead, because of the law of large numbers, to a reduction of the uncertainty concerning reimbursement dates. Because the reimbursement rules did not contribute any longer to the efficiency of monetary policy and in order to recuperate some of the lost financial activity(1) due to uncompetitive intermediation costs, Dutch capital market regulations underwent some important modifications since 1986. The objective is to make Amsterdam the main location for guilder bonds. This should allow for a better transmission of monetary policy signals to the market.

With respect to the results of the deregulation measures, there are indications that a part of the trade in London moved back to Amsterdam. As far as the primary market is concerned the results are modest. Private residents continue to issue between 20 and 30 % of their debt on the euro-market (see table 22). Non-residents, however, seemed to have slightly increased their interest in the Dutch capital market: a relatively more important part of guilder borrowing by non-residents took place in the Netherlands.

5.4 The banking system

Two important measures characterize preparation for 1992 in the Dutch banking system.

The first concerns the revision of the so-called "structure policy". The structure policy segregated the banking and insurance sector. As of January 1, 1990 this policy was liberalized in the sense that the Dutch authorities no longer à priori object to mergers between banks and insurance companies, that is, a declaration of no-objection is still required. This liberalized system is in line with the rules of the Act on the supervision of the credit-system, which requires a declaration of no-objection in the case of participation with more than 5% in other enterprises by credit institutions, or in credit institutions by others.

The second series of measures relates to a number of collaboration agreements among banks. The Postbank which has a strong position in the savings deposits market (see table 23), was privatised on January 1, 1986 and intensified collaboration with the NMB Bank (the third largest bank in the Netherlands). ABN Bank and Amro Bank (the numbers 1 and 2 respectively) announced a merger investigation on March 26, 1990.

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(1) It was estimated that turnover of Dutch government bonds in London was about the same size as in Amsterdam.

5.5 Households and their savings

The most important development which was observed[2], is the increased attractiveness of shares. In 1982 about 9 % of households' financial assets were invested in shares which increased against the background of a favourable stock exchange climate to 19 % in 1986. After the stock market crisis of October 1987 the percentage of share dropped to 14 %. Also bonds increased their share in the portfolio of households from 16 % in 1982 to 17.5 % in 1987.

The increase in investment in securities mainly occurred to the detriment of credit institutions which collected a relatively smaller share of funds from households who had become more sensitive to differences in rates of return. The share of savings deposits in the portfolio of households decreased from 51 % in 1982 to 44 % in 1987.

With respect to the internationalization of the portfolio of households, the available data suggest that the larger part of savings are invested in the Netherlands in spite of the open nature of the Dutch capital market. The main explanation for this is probably the strong currency policy. In 1987 the share of foreign financial assets in the total of financial savings amounted to 10 % against 6.7 % in 1982.

6. CONCLUSIONS

6.1 The economic situation in the Netherlands improved appreciably in the second half of the 1980s. There was a resumption of a more sustained rate of growth, leading to a marked increase in employment and a fall in the unemployment rate, the inflation rate remained the lowest in the Community and the external surplus on current account returned to a moderate level.

These developments resulted from macroeconomic management which enabled the Dutch economy to benefit from favourble international trends and to overcome certain negative effects of the oil counter-shock. This management was characterized by a relatively restrictive monetary policy based on a firm and credible commitment to maintain a stable exchange rate against the German mark and by substantial progress in the budgetary adjustment field, which made it possible to reduce the deficit and to curb the rise in the public debt ratio.

Structural policies and incomes policy played a major supporting role. The very moderate growth in wage costs was a key factor in a number of respects: it helped to re-establish a climate conducive to investment and employment growth, it played a central role in

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(2) J. SWANK, L. DE HAAN, F.J. VELDKAMP, Financiële balansen van gezinnen en bedrijven in Nederland, 1982-1987, De Nederlandsche Bank, Monetaire Monografiën, n° 10, 1989;

reducing the budget deficit, and it kept the inflation rate at a low level. The government's influence on the wage cost trend in the private sector, if less pronounced than in the past, has however been important, with measures freezing the minimum wage and the reduction of social security contributions. The readiness of employers and unions to take account of the objective of preserving or improving competitiveness at a given exchange rate and of the need to improve company profitability in order to promote job creation also seems to have been crucial.

6.2 The progress made in correcting the disequilibria in the Dutch economy is all the more remarkable in that those disequilibria were particularly marked in the early 1980s. Furthermore, the 1986-87 oil counter-shock did not have the same impact as in the other Community countries. It necessitated a further tightening of budgetary policy, whereas the burden on monetary policy remained relatively slight.

However, the disequilibria are still pronounced:

- the public debt is equivalent to almost 80 % of GDP and the interest payable on that debt absorbs 11 % of current revenue, which imposes an appreciable constraint on the room for manoeuvre in the budgetary policy field. The general government deficit was still equivalent to 5.3 % of GDP in 1989 and, while the budgetary programme established for the period 1991-94 provides for the central government borrowing requirement to be reduced gradually by approximately 2 percentage points of GDP in four years, there are a number of factors which cast doubt on whether that target will be achieved;

- although the situation on the labour market is difficult to assess and any international comparison is made particularly difficult by the statistical problems it raises, major disequilibria, largely of a structural nature, still exist. The unemployment rate remains high despite a participation rate which is still relatively low compared with other European countries, and the mismatch between supply and demand is becoming increasingly acute.

Rapid and continuous progress is essential in these two fields, not only to alleviate the current problems but also to prepare the Dutch economy better for the changes which will occur over the next few years.

6.3 The Netherlands has already had some de facto experience vis-à-vis the process of economic and monetary unification in Europe in that it has maintained a firm commitment to the objective of exchange-rate stability for a number of years now and that commitment has had implications for economic policy generally.

While monetary policy is principally determined by the commitment to maintain a stable exchange rate in relation to the German mark, the liquidity of the economy and domestic money creation remain useful indicators for the monetary authorities. The instrument used to influence net domestic credit expansion may be effective to some extent in the short term. However, its use cannot be contemplated on a permanent basis and, although the most recent "gentlemen's agreement" with the banking sector no longer has the same disadvantages as direct credit restriction, there may be doubts as to its relevance in a context of growing capital mobility in Europe and increased competition in the banking sector.

Open-market operations on the capital market were intended not as a new monetary policy instrument but as a means of transmitting signals to the market regarding the desired direction of interest rates. However, the impact of those operations can only be marginal and very short-term. Generally speaking, it is difficult for the monetary authorities to influence the level of long-term interest rates directly other than by influencing long-term inflationary expectations through monetary policy as a whole.

The positive interest-rate differential in relation to German rates has become very narrow in nominal terms but is probably fairly sizeable in real terms in view of the fact that the factors exerting pressure on prices do not seem to be as strong as in Germany.

The experience of a stable exchange-rate option has also demonstrated the importance of acquiring increased room for manoeuvre in the budgetary policy field. In view of the size of the debt and the interest burden, which are impeding efforts to control expenditure and reduce the deficit, the aim of simply stabilizing the debt/GDP ratio would not be very ambitious. A priority medium-term adjustment objective which is compatible with a reduction in the debt/GDP ratio should therefore be pursued. Given the level of the primary balance (+ 1 % of GDP) and assuming that the current gap between the interest rate level and the rate of growth of the economy continues, such an objective would call for a slightly more vigorous adjustment effort than is provided for in the programme set for the period 1991-94.

Certain overrun risks are already casting doubt on whether the current budgetary programme can be achieved, particularly in view of the possible consequences of restoring the link between the wage trend in the public sector and wages in the private sector.

The continution of a moderate wage cost trend remains a key element in maintaining the investment ratio at its restored level but also, in the context of the completion of the single market, in improving the potential consequences of that for employment in the Netherlands. The tax reforms are welcome in this connection in that the reform of personal income tax should reduce the unfavourable impact of high marginal rates on the labour market and the reduction of social security contributions may cut labour costs. Over the years ahead, however, it may be appropriate to step up these efforts and to pursue a policy which takes account of the economic implications of taxation and parafiscal charges without jeopardizing the objective of reducing the deficit.

The 1992 single market could also present new development opportunities in the financial field. In recent years, the authorities have taken a series of measures to develop and modernize the financial markets so as to ensure that Amsterdam retains its position among the main continental financial centres. However, the measures taken to attract trading in guilder-denominated government bonds back to Amsterdam have so far achieved only relatively modest success. Generally speaking, activity has been deregulated since 1986. However, the rules governing defence against company takeovers appear to be rather rigid and could impede the internationalization of industrial enterprises brought about by the single market.

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STATISTICAL NOTES

Unemployment

The CBS (Centraal Bureau voor de Statistiek) has been publishing the official unemployment figures since the beginning of 1988. The series are based on both the registrations communicated by the employment agencies (GAB) and the results of the CBS regular monthly survey. The statistics are published as a three-month moving average.

Up to 1988, the official figure related solely to unemployed persons registered with employment agencies. For some years, the surveys have detected assessment errors, showing that a large proportion of those registered as unemployed (between 25 % and 30 %) did not satisfy the criteria of seeking employment and being available for work (because they were working in temporary jobs, for example).

In 1987, the number of persons satisfying the official definition of unemployment was estimated at 450,000; the earlier figure (from the Ministry for Social Security and Employment) put the number of unemployed at 686,000 for the same year.

Employment

In the national accounts, employment is expressed as person-years (arbeidsjaren). This unit is the average contractual duration of work for a person in full-time employment. This figure has fallen in recent years.

In view of the fact that employment expressed as a number of persons includes persons working part time and that the proportion of these workers in total employment is rising each year, employment expressed as a number of persons is rising more rapidly than employment expressed as person-years.

The introduction of these two concepts has implications for comparisons with other countries of data concerning productivity (output per person-year in the national accounts) and per capita wages (wage bill per person-year).

Net national income (NNI)/Gross domestic product (GDP)

In the Netherlands the authorities use NNI as a reference. Budgetary policy objectives in particular, (borrowing requirement, collective burden and share of expenditure) are therefore expressed as percentages of NNI at market prices.

The difference between NNI and GDP are depreciation and the balance of factor incomes from abroad. In 1988, and at current prices, NNI was HFL 401.65 billion, and GDP was HFL 451.23 billion.

TABLE 1 : MAIN ECONOMIC INDICATORS.

	80	81	82	83	84	85	86	87	88	89	90	91
GDP, 1980 prices, % p.a.												
Netherlands	.9	-.6	-1.4	1.4	3.1	2.6	2.0	1.1	2.7	4.0	3.5	3.1
EUR-12	1.3	.2	.9	1.6	2.3	2.5	2.6	2.7	3.7	3.4	3.1	3.0
Netherlands												
Total enterprises		-.7	-1.7	1.6	4.3	3.3	1.8	1.4	3.5	4.7	4.1	3.5
Excl. energy		.1	-.8	1.1	4.5	3.0	2.2	1.4	4.5	4.9	4.3	3.6
GDP per head												
(in SPA index EUR-12=100)	111.1	109.8	107.1	106.6	107.3	107.2	106.3	104.0	102.6	103.0	103.3	103.3
GDP deflator, % p.a.												
Netherlands	5.7	5.5	6.1	1.9	1.9	1.8	.5	-.4	1.9	1.0	2.6	2.4
EUR-12	10.9	9.7	8.3	5.1	5.6	4.8	3.2	2.6	4.2	5.0	4.0	4.2
Total employment, % p.a.												
Netherlands	.7	-1.5	-2.5	-1.9	-.1	1.5	2.0	1.4	1.3	1.7	1.6	1.2
EUR-12	.3	-1.2	-.9	-.7	.2	.6	.8	1.4	1.6	1.8	1.4	.9
Unemployment rate, as % of civilian labour force												
Netherlands (2)	6.2	8.6	11.6	12.5	12.5	10.4	10.3	10.2	10.3	9.3	9.1	9.0
Eur-12	6.4	8.1	9.5	10.0	10.8	10.9	10.8	10.4	10.0	9.0	8.5	8.3
Current balance of payments position												
(as % of GDP)	-1.5	2.2	3.2	3.1	4.2	4.1	2.7	1.4	2.4	3.2	3.0	3.1
Capacity / borrowing requirement of general government, (as % of GDP)	-4.0	-5.5	-7.1	-6.4	-6.3	-4.8	-6.0	-6.5	-4.9	-5.3	-5.3	-5.4
Exchange rate (yearly averages)												
1 USD = ... HFL	1.99	2.49	2.67	2.85	3.20	3.31	2.44	2.02	1.97	2.12	1.88	1.85
1 ECU = ... HFL	2.76	2.78	2.61	2.54	2.52	2.51	2.40	2.34	2.34	2.34	2.30	2.30
ERM effective exchange rate (1)	100.0	101.1	107.8	111.1	111.7	112.3	115.2	117.8	118.7	118.1	118.5	118.6
19 Partners effective exchange rate	100.0	95.7	100.5	102.6	101.0	101.2	109.0	114.6	114.1	112.9	117.3	117.4

(1) exchange rate mecanism, double weighted for exports
Index 1980 = 100
(2) Source Eurostat.
Sources : Commission departments
FOR 1990 AND 1991 : Commission staff forecasts (March 1990)

TABLE 2.A : ANALYSIS OF GDP USES

as % - current prices

	80	81	82	83	84	85	86	87	88	89	90	91
Private consumption	61.1	60.4	60.1	60.3	59.2	59.2	59.8	61.0	59.5	59.1	59.0	59.0
Public consumption	17.9	17.8	17.7	17.5	16.6	16.2	16.0	16.3	15.7	15.1	14.8	14.7
GFCF	21.0	19.2	18.2	18.2	18.6	19.2	20.1	20.1	21.4	21.9	21.8	21.6
Of which : equipment	7.3	6.8	6.9	7.5	8.0	9.0	9.6	9.5	9.8	10.2	10.4	10.7
Change in stocks	.5	-.9	-.3	.1	.5	.6	-.4	-.5	-.6	-.3	.1	.2
Balance of goods and services	-.5	3.5	4.3	3.8	5.2	4.8	4.6	3.1	4.0	4.2	4.3	4.5
Exports	52.5	58.0	57.6	57.7	62.1	63.5	54.2	52.5	54.5	58.0	57.2	58.5
Imports	53.0	54.5	53.4	53.9	56.9	58.7	49.7	49.4	50.5	53.8	52.9	54.0

Source : Commission departments
FOR 1990 AND 1991 : Commission staff forecasts (March 1990)

TABLE 2.B : CHANGE OF DEMAND COMPONENTS (a) AND CONTRIBUTION TO GDP GROWTH (b)

1980 prices

	80	81	82	83	84	85	86	87	88	89	90	91
Change (a)												
Private consumption	.0	-2.0	-1.4	.7	.8	2.4	3.2	3.1	1.2	3.4	3.7	2.7
Public consumption	.6	2.5	.4	1.0	-.8	1.3	2.5	2.0	.0	.5	.5	1.0
GFCF	-.9	-10.0	-4.3	1.9	5.2	6.7	7.9	.7	9.8	4.5	3.2	2.0
Of which : equipment	-5.5	-10.4	.0	10.0	9.5	16.1	11.3	1.1	6.3	5.9	6.4	5.2
Domestic demand (including stocks)	-.1	-2.9	-1.6	1.0	1.4	3.0	4.0	2.4	2.8	3.1	3.0	2.2
Exports	1.5	2.1	-.3	3.3	7.2	5.3	3.4	4.1	7.8	5.8	5.1	5.7
Imports	-.4	-5.8	1.1	3.9	5.0	6.5	3.6	6.1	7.0	5.5	5.6	5.2
Contributions to growth (b)												
Final domestic demand (including stocks)	-.2	-5.0	-.7	1.5	1.6	3.0	2.0	2.0	1.9	4.6	3.7	2.6
Foreign balance	1.1	4.4	-.7	-.2	1.5	-.4	.0	-1.0	.8	.5	-.1	.6
GDP (a)	.9	-.6	-1.4	1.4	3.1	2.6	2.0	1.1	2.7	4.0	3.5	3.1

(a) change as % p.a.   (b) change as % of GDP of preceding year
Source : Commission departments
FOR 1990 AND 1991 : Commission staff forecasts (March 1990)

Table 3 : Labour market indicators

x 1000

	1984	1985	1986	1987	1988	1989*
Labour force						
Netherlands - Eurostat	5773	5812	5864	5933	5980	6030
- CBS				6592	6756	6833
EUR 12 - Eurostat	138607	139723	140791	142062	143340	144200
Unemployment (in 1000 persons)						
- registered unempl. (GWL)(CBS) (official figures)	-	-	-	450	433	390
- unempl. registered at the labour offices(BZB)(Min.Soc. Aff.)	822	761	711	686	682	660
- unemployed, ILO definition (WZB) (CPB)	756	699	635	622	609	558
- insured unemployed	691	679	650	650	641	620
Disablement Insurance Acts (AAW/WAO) number of persons (end of year)	746	762	776	794	814	845
Unemployment rate						
- registered unemployed (GWL)	-	-	-	6,8	6,4	5,7
- unempl., labour offices (BZB)	13,2	12,3	11,7	10,8	10,3	9,8
- EUROSTAT, nat. concept	14,5	13,3	12,3	11,8	7,4	6,9
- Standardized EUROSTAT-rate	12,3	10,5	10,2	10,0	9,5	9,3
Employment, in thous. man-year						
- total	4.528	4.598	4.689	4.754	4.814	4.896
- enterprises	3.192	3.255	3.338	3.396	3.457	3.538
- general government	730	736	742	746	744	743
Employment, in 1000 of persons	-	-	5.690	5.864	6.032	6.155
Changes in %	-	-	-	3,1	2,9	2,0
Part-time employment	830	865	904	921	1005	1020
Characteristics of unemployed						
Unemployed, less than 25 years old, x 1000	318,9	286,3	248,8	225,9	132,3	110,5
As % of unemployed at labour offices (BZB)	38,8	37,6	35,0	32,9	19,4	16,7
Unfilled vacancies (x 1000)	15,3	24,5	27,1	26,5	27,8	32,0
Duration of unemployment (BZB) (x 1000)						
- less than one year	386	354	326	322	327	318
- more than one year	436	407	385	364	355	344

* Estimations

Sources : Centraal Bureau voor de Statistiek, Ministry for employment
Centraal Planbureau, Eurostat

TABLE 4 : WAGES , PRODUCTIVITY AND TERMS OF TRADE

(% p.a)

	80	81	82	83	84	85	86	87	88	89	90	91
Nominal wages per employee	5.5	3.5	5.8	3.2	.2	1.4	1.6	1.4	1.4	1.1	4.2	4.1
Private consumption prices	6.9	5.8	5.5	2.9	2.2	2.2	.2	-.4	.7	1.1	2.3	2.7
Real wages (priv. consumption prices)	-1.3	-2.2	.2	.2	-1.9	-.8	1.4	1.8	.7	.0	1.9	1.3
Productivity (real GDP / person employed)												
(whole economy)	.1	.8	1.1	3.3	3.2	1.0	.0	-.3	1.5	2.3	1.9	1.9
(whole economy excl. energy)		1.5	1.8	3.0	3.3	.8	.4	-.3	2.3	2.4	2.0	1.9
Unit wage costs (whole economy)	5.3	2.6	4.6	-.2	-2.9	.4	1.6	1.8	-.1	-1.2	2.2	2.2
Terms of trade (goods and services)	-1.9	-.7	2.8	-.3	-.2	.2	1.1	-.9	1.0	-.6	.9	-.3
Wage share (whole economy)	-.3	-2.7	-1.3	-2.0	-4.6	-1.4	1.1	2.2	-1.9	-2.2	-.4	-.3

Source : Commission departments
FOR 1990 AND 1991 : Commission staff forecasts (March 1990)

TABLE 5 : CONTRIBUTIONS TO THE RISE IN IMPLICIT PRICES OF FINAL EXPENDITURE.

	80	81	82	83	84	85	86	87	88	89	90 (3)	91 (3)
Import prices	4.8	4.9	.5	.1	2.0	.4	-6.0	-1.9	.0	2.1	-.4	.8
Of which : exchange rate (1)	.1	2.2	-1.5	-.7	.7	.0	-2.8	-1.6	.2	.4	-1.3	.0
Unit wage costs	2.4	1.1	2.0	-.1	-1.2	.2	.6	.7	.0	-.5	.9	.8
Net indirect taxes	.4	.2	.1	.1	.1	.1	.3	.1	.0	.2	.2	.0
Gross operating surplus (2)	1.0	2.2	1.9	1.2	2.3	.9	-.6	-1.1	1.2	1.0	.6	.7
Total = deflator of final expenditure, % p.a.	8.6	8.5	4.4	1.4	3.2	1.6	-5.8	-2.4	.9	2.7	1.2	2.3

(1) influence of changes in the nominal effective exchange rate vis-a-vis 19 partners, double weighted for exports
(2) enterprises profits and income of the self-employed
(3) FOR 1990 AND 1991 : Commission staff forecasts (March 1990)
Source : Commission departments

Table 6 : Savings, investment and net borrowing by sector

(as % of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Savings (1)	20,1	20,5	21,1	21,5	23,2	23,8	22,9	21,4	23,5
Households (2)	8,1	8,9	11,2	9,8	9,4	9,1	9,5	8,9	9
Enterprises	10,5	11,3	11,6	13,1	14,8	14,5	14,1	13,6	14,9
General government	1,5	0,2	-1,7	-1,4	-1	0,2	-0,7	-1,1	-0,4
Net capital transfers total	-0,3	-0,3	-0,3	-0,2	-0,2	-0,1	-0,3	-0,3	-0,3
Households (2)	-7,6	-7,4	-8	-8,4	-8,2	-7,8	-7,8	-7,7	-7,6
Enterprises	9,6	9,7	10,2	10,5	10,5	10	10,3	10,4	9,5
General government	-2,3	-2,6	-2,5	-2,3	-2,4	-2,3	-2,8	-3	-2,2
Gross capital formation total	21,5	18,3	17,9	18,4	19,1	19,8	19,7	19,6	20,8
Enterprises	18,3	15,1	15,1	15,7	16,3	17,2	17,2	17,2	18,4
General government	3,3	3,1	2,9	2,7	2,8	2,6	2,5	2,4	2,4
Borrowing requirement total	-1,7	1,9	2,8	2,9	4	4	2,4	1,1	2,1
Households (2)	0,5	1,5	3,1	1,4	1,2	1,2	1,7	1,2	1,4
Enterprises	1,8	5,8	6,8	7,9	9	7,4	7,2	6,8	6,1
General government	-4	-5,5	-7,1	-6,4	-6,3	-4,8	-6	-6,5	-5
Balance of current transactions	-1,5	2,2	3,2	3,1	4,2	4,1	2,7	1,4	2,4

(1) Incl. adjustment
(2) Incl. Pension Funds

Source : Central bureau of statistics, National Accounts, transaction base.

Table 7: Saving and investment in EC-countries

- 1989, as % of GDP -

	Private saving	Private investment	Difference	Public sector saving	Public Investment
Belgium	23.9	17.6	6.3	- 4.1	1.6
Germany	23.1	19.0	4.1	3.5	2.3
France	18.9	18.3	0.6	2.1	3.2
Italy	26.3	18.3	8.0	- 5.6	3.5
Netherlands	24.9	19.7	5.2	- 0.5	2.3

Source: Commission departments, September 1989 forecasts

Table 8: Financial structure and results of Dutch firms (manufacturing)

26 1 1990

COUNTRY : NETHERLANDS
SECTOR : MANUFACTURING INDUSTRY
SIZE : 0 = ALL SIZES

RATIOS

		1980	1981	1982	1983	1984	1985	1986	1987
1 BORROWED CAPITAL / OWN RESOURCES	%	47.47	48.68	49.99	48.45	42.47	39.63	38.76	40.75
2 LONG TERM RESOURCES / INVESTED CAPITAL	%	98.76	98.80	99.03	102.06	102.73	105.18	104.11	102.32
3 CURRENT ASSETS / SHORT TERM DEBT	%	143.47	142.72	140.61	144.14	144.45	143.90	146.07	145.29
4 LIQUID ASSETS / SHORT TERM DEBT	%	86.30	88.13	84.87	91.40	89.59	91.39	92.63	94.22
5 LONG TERM DEBT / SELF FINANCING CAPACITY	YEARS	3.0	3.1	3.1	2.4	1.7	1.8	1.7	1.6
6 GROSS OPERATING SURPLUS / INVESTED CAPITAL	%	10.51	10.68	10.61	12.92	14.94	15.49	15.59	15.49
7 NET PROFIT AFTER TAXES / EQUITY	%	4.16	5.33	5.06	7.98	12.41	10.57	11.01	12.39
8 VALUE ADDED / PRODUCTION	%	25.96	24.83	24.60	25.65	24.24	23.91	26.18	28.43
9 LABOUR COSTS / VALUE ADDED	%	76.78	75.72	76.68	72.19	67.05	66.93	66.47	65.83
10 GROSS OPERATING SURPLUS / NET TURNOVER	%	6.04	6.04	5.75	7.16	8.01	7.94	8.82	9.77
11 WORKING CAPITAL REQUIREMENTS / NET TURNOVER	DAYS	46	44	42	40	38	35	38	42
12 SELF FINANCING CAPACITY / VALUE ADDED	%	19.10	19.85	19.23	24.61	31.81	29.06	30.32	33.67
13 NET TURNOVER / TOTAL ASSETS	%	118.72	120.57	123.64	118.51	121.83	122.22	115.15	106.89
14 INTEREST CHARGES / BORROWED CAPITAL	%	10.97	11.62	11.65	10.14	10.43	10.03	9.54	8.19
15 TOTAL FINANCIAL ASSETS / TOTAL FIXED ASSETS	%	45.60	46.45	44.66	44.72	47.26	44.06	42.18	42.00

Source: BACH (European Commission: DG 2)

Average ratios computed on the basis of annual accounts (1,200 firms)

TABLE 9A : BALANCE OF PAYMENTS
(in million HFL)

	82	83	84	85	86	87	88	89
1. Current account on transaction basis	11632	11812	16739	17230	11633	6542	10668	
2. Trade balance	12258	11886	18025	18128	17918	10593	15908	
Of which : energy balance	-2897	-2951	-2815	670	6170	-237	-1562	
3. Services	2662	1751	2145	1359	-1648	322	-1089	
4. Factor income	-310	523	-494	678	-986	-579	-1888	
5. Transfers	-2978	-2348	-2936	-2935	-3652	-3793	-2263	
6. Current account cash basis	10479	7844	13245	14211	8759	4009	5001	11067
7. Capital movements	-9666	-5210	-12520	-12522	-21887	-4568	37	13822
8. Capital transfers	-913	-474	-314	-211	-523	-582	-459	-807
9. Long-term capital, Non-banking private sector	-6690	-3942	-9939	-9666	-15720	-1191	6774	15365
10. Short-term capital, Non-banking private sector	-2359	-805	-1840	-2762	-4479	-2345	-4001	-68
11. Public sector	296	11	-428	118	-1165	-449	-2277	-669
12. Others	-369	540	1037	410	-2928	1211	-1073	-3031
13. Non-monetary operations	443	3175	1762	2098	-16056	652	3964	21858
14. Banking sector	4310	-3690	-1828	-14	15056	5209	-739	-20850
15. Change in official reserves (1)	4754	-515	-67	2085	-999	5861	3225	1008

(1) increase (+)
Source : De Nederlandsche Bank

TABLE 9B : BALANCE OF PAYMENTS
(as % of GDP)

	82	83	84	85	86	87	88	89
1. Current account on transaction basis	3.2	3.1	4.2	4.1	2.7	1.5	2.4	
2. Trade balance	3.3	3.1	4.5	4.3	4.2	2.5	3.5	
Of which : energy balance	-.8	-.8	-.7	.2	1.4	-.1	-.3	
3. Services	.7	.5	.5	.3	-.4	.1	-.2	
4. Factor income	-.1	.1	-.1	.2	-.2	-.1	-.4	
5. Transfers	-.8	-.6	-.7	-.7	-.9	-.9	-.5	
6. Current account cash basis	2.8	2.1	3.3	3.4	2.0	.9	1.1	2.3
7. Capital movements	-2.6	-1.4	-3.1	-3.0	-5.1	-1.1	.0	2.9
8. Capital transfers	-.2	-.1	-.1	-.1	-.1	-.1	-.1	-.2
9. Long-term capital, Non-banking private sector	-1.8	-1.0	-2.5	-2.3	-3.7	-.3	1.5	3.2
10. Short-term capital, Non-banking private sector	-.6	-.2	-.5	-.7	-1.0	-.5	-.9	.0
11. Public sector	.1	.0	-.1	.0	-.3	-.1	-.5	-.1
12. Others	-.1	.1	.3	.1	-.7	.3	-.2	-.6
13. Non-monetary operations	.1	.8	.4	.5	-3.7	.2	.9	4.6
14. Banking sector	1.2	-1.0	-.5	.0	3.5	1.2	-.2	-4.4
15. Change in official reserves (1)	1.3	-.1	.0	.5	-.2	1.4	.7	.2

(1) increase (+)
Source : De Nederlandsche Bank

Table 10 : Merchandise trade by SITC sections (as % of total)

IMPORTS

	1980	1981	1982	1983	1984	1985	1986	1987	1988
TOTAL									
0. Foods and live animals	11,2	11,6	11,8	11,7	11,2	11,1	11,7	11,8	12,7
1. Beverage, tobacco	1,4	1,3	1,4	1,4	1,3	1,2	1,4	1,4	1,2
2. Crude materials, excl. fuels	6,3	6,2	5,9	5,9	6,0	6,0	5,7	5,5	6,0
3. Mineral fuels, lubricants	24,1	26,5	26,0	25,0	24,2	23,3	13,0	12,1	9,7
5. Chemicals	8,2	8,6	8,6	8,9	9,5	10,1	10,5	10,7	11,0
6. Manufactured goods	15,9	14,4	14,4	14,0	14,4	14,4	16,7	16,4	17,3
7. Machinery and transport equipment	19,8	18,8	19,3	21,1	21,3	22,2	27,4	27,9	28,2
8. Other manufactures	11,0	10,5	10,2	10,2	9,7	9,8	12,1	12,8	12,8
9. Other non classified	1,3	1,3	1,5	1,0	0,9	0,8	0,7	1,0	0,5

EXPORTS

	1980	1981	1982	1983	1984	1985	1986	1987	1988
TOTAL									
0. Foods and live animals	17,1	18,3	18,2	17,6	16,9	16,1	17,4	18,2	18,1
1. Beverage, tobacco	1,6	1,6	1,7	1,7	1,7	1,6	2,0	2,1	1,9
2. Crude materials, excl. fuels	5,2	4,7	4,7	4,7	4,8	5,1	5,7	6,0	6,5
3. Mineral fuels, lubricants	22,2	24,0	23,9	23,6	23,3	24,0	15,8	11,5	8,7
5. Chemicals	15,1	14,7	14,6	15,2	15,2	14,8	15,4	16,3	16,8
6. Manufactured goods	13,5	12,6	12,4	12,2	12,3	12,2	13,6	13,9	14,3
7. Machinery and transport equipment	16,9	15,8	16,0	16,2	16,0	16,2	19,2	20,5	21,5
8. Other manufactures	6,0	5,6	5,8	6,0	5,9	6,2	7,3	7,9	8,0
9. Other non classified	1,4	1,7	1,7	1,8	2,4	2,4	2,8	2,9	3,5

TABLE 11 : GEOGRAPHICAL DISTRIBUTION OF EXTERNAL TRADE
(as % of the total)

	80	81	82	83	84	85	86	87	88
EXPORTS									
Eur-12	73.9	71.2	72.2	70.4	69.9	70.0	69.8	69.4	70.5
Of which : BLEU	15.1	14.2	14.0	13.3	13.5	13.5	13.4	13.7	13.9
Germany	30.1	28.9	28.9	29.2	28.3	28.5	26.8	25.6	25.0
Spain	1.1	.9	.9	.8	.9	1.0	1.3	1.3	1.8
France	10.5	10.1	10.2	9.9	10.0	9.9	10.1	10.2	10.2
Italy	5.8	5.5	5.5	5.2	5.3	5.3	5.8	5.9	5.9
United-Kingdom	7.9	8.1	9.0	8.6	8.9	8.7	9.2	9.3	10.2
U.S.A.	2.5	2.8	2.8	3.6	4.3	4.3	3.9	3.8	3.9
Japan	.5	.4	.4	.4	.5	.4	.6	.6	.8
OPEC	5.5	4.9	4.5	4.0	3.4	2.9	2.4	2.1	2.4
Others	17.6	20.7	20.1	21.5	22.0	22.4	23.3	24.1	22.4
TOTAL	100	100	100	100	100	100	100	100	100
As % of GDP	52.5	58.0	57.6	57.7	62.1	63.5	54.1	52.5	54.5
IMPORTS									
Eur-12	54.8	53.0	54.9	53.7	53.3	56.0	61.9	62.3	63.7
Of which : BLEU	11.7	11.4	11.0	10.5	10.9	12.0	13.9	14.2	14.5
Germany	22.3	21.2	21.8	21.5	21.3	21.7	25.7	25.9	26.0
Spain	.9	.9	1.3	1.2	1.3	1.3	1.4	1.3	1.4
France	6.6	6.3	6.5	6.3	6.2	6.1	7.0	7.1	7.6
Italy	3.2	3.0	3.1	3.1	2.9	3.0	3.8	3.7	3.8
United-Kingdom	8.1	8.2	9.0	8.6	8.4	9.5	7.5	7.2	7.5
U.S.A.	8.8	9.1	8.7	8.7	8.2	7.7	7.0	6.3	7.5
Japan	1.9	1.9	2.1	2.1	2.3	2.3	3.2	3.2	3.2
OPEC	15.0	14.4	10.8	9.8	9.7	8.6	5.2	5.3	4.9
Others	19.5	21.6	23.5	25.7	26.5	25.4	22.7	22.8	20.7
TOTAL	100	100	100	100	100	100	100	100	100
As % of GDP	53.0	54.5	53.4	53.9	56.9	58.7	49.9	49.7	50.7

Source : Eurostat

TABLE 12 : DIRECT INVESTMENT FLOWS

	85	86	87	88	89
DUTCH INVESTMENT ABROAD					
(distribution as % of total)					
Eur-12	46.3	56.5	37.6	19.2	55.1
Of which : BLEU	3.3	3.9	.7	18.7	16.0
Germany	4.5	-4.7	-2.1	12.2	6.0
France	4.1	4.2	1.0	9.0	6.9
Italy	.6	2.3	1.0	-7.0	1.2
United-Kingdom	31.1	41.8	36.5	-22.8	3.1
U.S.A.	29.9	15.3	45.1	43.1	29.6
Japan	1.6	-.4	.7	.4	.3
Switzerland	1.5	5.3	3.1	14.8	2.1
Developing countries	19.7	9.9	3.0	20.0	5.0
TOTAL	100	100	100	100	100
As % of GDP	2.8	1.9	3.4	1.6	4.4
As % of GFCF	14.4	9.6	16.8	7.4	20.3
FOREIGN INVESTMENT IN THE NETHERLANDS					
(distribution as % of total)					
Eur-12	45.3	62.7	52.6	70.4	57.9
Of which : BLEU	-7.1	-2.6	10.6	22.0	30.4
Germany	19.6	17.8	6.2	-.8	7.2
France	1.9	-2.5	1.0	2.7	1.9
Italy	.8	.0	-3.5	.5	.0
United-Kingdom	30.4	50.0	37.7	40.5	15.5
U.S.A.	-44.7	-17.2	11.8	-1.8	13.7
Japan	2.9	2.2	2.2	7.1	2.4
Switzerland	35.4	15.5	10.8	4.8	14.1
Developing countries	56.9	36.4	22.2	13.2	3.5
TOTAL	100	100	100	100	100
As % of GDP	.5	1.4	1.2	1.7	2.7
As % of GFCF	2.5	6.9	6.1	8.0	12.4
BALANCE AS % OF GDP					
Eur-12	-1.1	-.2	-.6	.9	-.9
Of which : BLEU	-.1	-.1	.1	.1	.1
Germany	.0	.3	.1	-.2	-.1
France	-.1	-.1	.0	-.1	-.3
Italy	.0	.0	-.1	.1	-.1
United-Kingdom	-.7	-.1	-.8	1.1	.3
U.S.A.	-1.0	-.5	-1.4	-.7	-.9
Japan	.0	.0	.0	.1	.1
Switzerland	.1	.1	.0	-.2	.3
Developing countries	-.3	.3	.2	-.1	-.1
TOTAL	-2.3	-.6	-2.2	.1	-1.7
As % of GFCF	-11.8	-2.8	-10.7	.6	-7.8

Source : De Nederlandsche Bank

TABLEAU 13A

II/D/3 - 3/ 4/1990
RELATIVE CYCLICAL POSITION, RELATIVE PRICES AND COSTS OF NETHERLANDS
VIS A VIS EMS PARTNERS

YEAR	INDEX OF RELATIVE CYCLE	EFFECTIVE EXCHANGE RATE	RELATIVE GDP PRICES		RELATIVE UNIT LABOR COSTS		RELATIVE WAGE SHARE
			NATIONAL CURRENCY	COMMON CURRENCY	NATIONAL CURRENCY	COMMON CURRENCY	
			INDEX 1970 = 100				
1970	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1971	99.0	100.6	100.8	101.4	100.7	101.3	99.9
1972	95.8	100.7	103.8	104.5	102.7	103.4	98.9
1973	95.1	101.2	104.7	105.9	104.2	105.5	99.5
1974	96.7	106.7	103.2	110.1	102.6	109.4	99.4
1975	97.6	107.2	103.3	110.8	102.5	109.9	99.2
1976	97.3	110.7	104.1	115.2	101.2	112.0	97.2
1977	99.0	115.6	103.0	119.0	99.8	115.4	96.9
1978	100.3	117.4	101.1	118.7	98.7	115.8	97.6
1979	97.0	117.7	97.9	115.3	96.9	114.1	99.0
1980	95.0	119.1	95.5	113.7	93.0	110.8	97.4
1981	92.8	120.4	93.2	112.2	87.8	105.7	94.2
1982	91.5	128.4	91.2	117.1	85.8	110.2	94.1
1983	93.0	132.4	87.0	115.1	81.4	107.7	93.6
1984	92.8	133.1	84.2	112.0	76.3	101.5	90.6
1985	94.2	133.7	81.9	109.6	73.9	98.9	90.2
1986	92.3	137.2	78.8	108.0	72.7	99.8	92.3
1987	91.3	140.3	76.1	106.8	71.9	100.9	94.5
1988	89.8	141.4	75.5	106.7	71.0	100.3	94.0
1989	90.1	140.6	73.7	103.6	68.6	96.4	93.1
1990	90.4	141.2	72.8	102.8	68.1	96.1	93.5
1991	90.3	141.3	72.1	101.8	67.5	95.3	93.6
			°/° CHANGE P.A.				
1971	- 1.0	.6	.8	1.4	.7	1.3	- .1
1972	- 3.2	.1	3.0	3.1	2.0	2.1	- 1.0
1973	- .7	.5	.9	1.3	1.5	2.0	.6
1974	1.7	5.4	- 1.4	4.0	- 1.5	3.7	- .1
1975	.9	.5	.1	.6	- .1	.5	- .2
1976	- .3	3.3	.8	4.0	- 1.3	1.9	- 2.0
1977	1.7	4.4	- 1.1	3.3	- 1.4	3.0	- .3
1978	1.3	1.6	- 1.8	- .3	- 1.1	.3	.7
1979	- 3.3	.3	- 3.2	- 2.9	- 1.8	- 1.5	1.4
1980	- 2.1	1.2	- 2.5	- 1.4	- 4.0	- 2.9	- 1.6
1981	- 2.3	1.1	- 2.4	- 1.3	- 5.6	- 4.6	- 3.3
1982	- 1.4	6.6	- 2.1	4.4	- 2.3	4.3	- .1
1983	1.6	3.1	- 4.6	- 1.7	- 5.1	- 2.3	- .5
1984	- .2	.5	- 3.2	- 2.7	- 6.3	- 5.8	- 3.2
1985	1.5	.5	- 2.7	- 2.1	- 3.1	- 2.6	- .4
1986	- 2.0	2.6	- 3.8	- 1.5	- 1.6	.9	2.3
1987	- 1.1	2.3	- 3.4	- 1.1	- 1.1	1.1	2.4
1988	- 1.6	.8	- .8	- .1	- 1.3	- .6	- .5
1989	.3	- .6	- 2.4	- 2.9	- 3.4	- 3.9	- 1.0
1990	.3	.4	- 1.2	- .8	- .7	- .3	.4
1991	- .1	.1	- 1.0	- 1.0	- .9	- .8	.1

TABLEAU 13B :

II/D/3 - 3/ 4/1990
RELATIVE CYCLICAL POSITION, RELATIVE PRICES AND COSTS OF NETHERLANDS
VIS A VIS IC19 PARTNERS

YEAR	INDEX OF RELATIVE CYCLE	EFFECTIVE EXCHANGE RATE	RELATIVE GDP PRICES		RELATIVE UNIT LABOR COSTS		RELATIVE WAGE SHARE
			NATIONAL CURRENCY	COMMON CURRENCY	NATIONAL CURRENCY	COMMON CURRENCY	
			INDEX 1970 = 100				
1970	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1971	99.1	101.0	101.0	102.0	101.4	102.3	100.4
1972	95.9	102.4	103.9	106.4	103.2	105.6	99.3
1973	95.1	105.7	104.8	110.8	104.9	110.8	100.1
1974	96.7	111.2	102.8	114.3	102.4	113.9	99.6
1975	96.9	113.9	101.6	115.7	101.2	115.2	99.6
1976	97.6	117.0	102.1	119.4	99.3	116.2	97.3
1977	99.8	123.2	100.8	124.2	98.2	121.0	97.4
1978	101.9	126.1	99.0	124.8	97.0	122.4	98.0
1979	97.9	127.9	95.4	122.0	94.9	121.4	99.5
1980	95.9	128.2	92.3	118.3	90.6	116.2	98.2
1981	94.0	122.7	89.8	110.1	85.5	104.9	95.2
1982	91.9	128.9	88.2	113.8	83.6	107.8	94.8
1983	92.8	131.6	84.8	111.5	79.9	105.1	94.2
1984	91.3	129.5	82.3	106.6	74.9	97.0	91.0
1985	92.0	129.8	80.2	104.2	72.5	94.2	90.4
1986	90.2	139.8	77.4	108.2	71.2	99.5	92.0
1987	89.0	146.9	74.6	109.6	70.3	103.2	94.2
1988	87.0	146.3	73.5	107.5	68.7	100.4	93.5
1989	87.3	144.8	71.4	103.4	65.5	94.9	91.7
1990	88.0	150.4	70.3	105.8	64.3	96.7	91.5
1991	88.0	150.5	69.4	104.4	63.3	95.3	91.2
			°/° CHANGE P.A.				
1971	- .9	1.0	1.0	2.0	1.4	2.3	.4
1972	- 3.2	1.4	2.9	4.3	1.8	3.2	- 1.1
1973	- .8	3.2	.9	4.1	1.6	4.9	.8
1974	1.7	5.2	- 1.9	3.2	- 2.4	2.8	- .5
1975	.2	2.4	- 1.2	1.2	- 1.2	1.1	- .0
1976	.7	2.7	.5	3.2	- 1.9	.9	- 2.3
1977	2.3	5.3	- 1.3	4.0	- 1.1	4.1	.1
1978	2.1	2.4	- 1.8	.5	- 1.2	1.2	.6
1979	- 3.9	1.4	- 3.6	- 2.2	- 2.2	- .8	1.5
1980	- 2.0	.2	- 3.2	- 3.0	- 4.5	- 4.3	- 1.3
1981	- 2.0	- 4.3	- 2.7	- 6.9	- 5.6	- 9.7	- 3.1
1982	- 2.2	5.1	- 1.8	3.4	- 2.2	2.8	- .4
1983	1.0	2.1	- 3.9	- 2.0	- 4.4	- 2.5	- .6
1984	- 1.6	- 1.6	- 2.9	- 4.4	- 6.3	- 7.7	- 3.4
1985	.8	.2	- 2.6	- 2.3	- 3.2	- 2.9	- .7
1986	- 2.0	7.7	- 3.5	3.8	- 1.8	5.6	1.8
1987	- 1.3	5.1	- 3.6	1.3	- 1.3	3.7	2.4
1988	- 2.2	- .4	- 1.5	- 1.9	- 2.3	- 2.7	- .7
1989	.3	- 1.0	- 2.9	- 3.8	- 4.7	- 5.5	- 1.9
1990	.8	3.9	- 1.5	2.3	- 1.8	1.9	- .2
1991	- .0	.1	- 1.3	- 1.3	- 1.6	- 1.4	- .3

TABLE 14 : MAIN PUBLIC FINANCE INDICATORS
(as % of GDP)

	80	81	82	83	84	85	86	87	88	89	90	91
1. Current public receipts												
Netherlands	53.5	53.8	54.2	55.6	54.5	54.9	53.7	54.7	54.3	52.2	52.2	51.4
EUR-12	41.0	41.9	42.7	43.4	43.5	43.8	43.6	43.7	43.4	43.6	43.4	43.4
2. Current public expenditures												
Netherlands	52.0	53.5	55.9	57.0	55.5	54.7	54.4	55.8	54.6	53.1	53.4	53.0
EUR-12	40.7	43.2	44.3	44.9	45.1	45.1	44.7	44.4	43.6	43.1	43.0	42.8
3. GFCF												
Netherlands	3.3	3.1	2.9	2.7	2.8	2.6	2.5	2.4	2.4	2.3	2.3	2.3
EUR-12		3.0	3.0	2.9	2.8	2.9	2.8	2.7	2.7	2.8	2.8	2.9
4. General government borrowing requirement												
Netherlands	-4.0	-5.5	-7.1	-6.4	-6.3	-4.8	-6.0	-6.5	-4.9	-5.3	-5.3	-5.4
EUR-12	—	-5.3	-5.5	-5.3	-5.4	-5.2	-4.8	-4.3	-3.5	-2.8	-3.0	-2.7
5. General government net financing balance on a cash basis	-6.8	-8.5	-9.6	-8.6	-7.7	-6.2	-7.4	-7.7	-5.6	-5.0	-5.1	-5.4
6. Interest on public debt	3.7	4.4	5.2	5.7	6.0	6.3	6.2	6.2	6.0	6.2	6.2	6.1
7. Gross public debt (1)	45.9	50.3	55.6	62.0	66.1	69.7	71.7	75.3	77.4	78.4	78.0	
Of which : State debt	29.6	33.6	39.2	45.9	50.7	54.6	55.7	58.2	60.8			
8. Budget target: State net financing balance as % of net national income												
Medium-term targets							5.7	8.0	7.0	6.0	5.3	
Outcome			9.4	10.1	9.0	7.0	6.5	7.5	6.4	5.7	5.0	

(1) excluding Social Security
Source : Commission departments
De Nederlandsche Bank, Ministry of Finance, CBS
FOR 1990 AND 1991 : Commission staff forecasts (March 1990)

TABLE 15A : GENERAL GOVERNMENT INCOME AND EXPENDITURE
(as % of GDP)

	80	81	82	83	84	85	86	87	88	89	90	91
Indirect taxes	12.0	11.6	11.4	11.6	11.8	11.9	12.3	13.1	13.0	12.6	12.3	12.1
Direct taxes	15.9	15.1	14.7	13.6	12.7	12.6	13.4	14.1	14.3	14.2	16.5	16.8
Social security contributions	18.2	18.7	19.7	21.9	20.7	20.6	19.8	20.7	20.5	18.9	17.3	16.9
Other current resources	7.5	8.3	8.5	8.5	9.2	9.8	8.1	6.8	6.5	6.5	6.1	5.6
TOTAL CURRENT RESOURCES	53.5	53.8	54.2	55.6	54.5	54.9	53.7	54.7	54.3	52.2	52.2	51.4
Current transfers	30.4	31.3	33.1	33.9	32.9	32.2	32.2	33.3	32.9	31.8	32.3	32.2
Of which : to enterprises	2.5	2.3	2.5	2.7	3.0	3.0	3.1	3.7	3.7	3.2	2.9	2.8
Public consumption	17.9	17.8	17.7	17.5	16.6	16.2	16.0	16.3	15.7	15.1	14.8	14.7
Of which : wages	13.0	12.7	12.6	12.2	11.5	11.1	11.0	11.2	10.7	10.2	10.0	9.9
Interests	3.7	4.4	5.2	5.7	6.0	6.3	6.2	6.2	6.0	6.2	6.2	6.1
TOTAL CURRENT EXPENDITURE	52.0	53.5	55.9	57.0	55.5	54.7	54.4	55.8	54.6	53.1	53.4	53.0
Net capital transfers	2.3	2.6	2.5	2.3	2.4	2.3	2.8	3.0	2.2	2.0	1.7	1.5
GFCF	3.3	3.1	2.9	2.7	2.8	2.6	2.5	2.4	2.4	2.3	2.3	2.3
TOTAL EXPENDITURE	57.5	59.3	61.3	62.0	60.7	59.6	59.7	61.2	59.2	57.5	57.4	56.8
Lending / borrowing	-4.0	-5.5	-7.1	-6.4	-6.3	-4.8	-6.0	-6.5	-4.9	-5.3	-5.3	-5.4
Interests / current expenditure (as %)	7.1	8.3	9.2	10.0	10.7	11.4	11.4	11.0	11.0	11.6	11.6	11.6
Non-interest current expenditure	48.3	49.1	50.8	51.4	49.5	48.4	48.2	49.6	48.6	46.9	47.2	46.9

Source : Commission departments
FOR 1990 AND 1991 : Commission staff forecasts (March 1990)

TABLE 15B : GENERAL GOVERNMENT INCOME AND EXPENDITURE
(as % of net national income)

	80	81	82	83	84	85	86	87	88	89	90	91
Indirect taxes	13.3	12.9	12.7	13.0	13.2	13.2	13.8	14.7	14.6	14.1	13.8	13.6
Direct taxes	17.6	16.8	16.4	15.2	14.2	14.1	15.0	15.8	16.0	15.9	18.4	18.7
Social security contributions	20.2	20.9	21.9	24.3	23.1	22.9	22.1	23.2	23.0	21.2	19.3	18.9
Other current resources	8.3	9.3	9.4	9.5	10.3	10.9	9.1	7.7	7.3	7.3	6.8	6.3
TOTAL CURRENT RESOURCES	59.3	60.0	60.5	61.9	60.8	61.0	59.9	61.3	61.0	58.4	58.3	57.5
Current transfers	33.7	34.9	37.0	37.7	36.8	35.8	36.0	37.3	37.0	35.6	36.2	36.0
Of which : to enterprises	2.7	2.5	2.8	3.1	3.3	3.4	3.4	4.1	4.2	3.6	3.2	3.2
Public consumption	19.8	19.8	19.7	19.4	18.5	18.0	17.9	18.3	17.7	16.9	16.6	16.4
Of which : wages	14.4	14.1	14.0	13.6	12.8	12.4	12.3	12.5	12.0	11.4	11.2	11.0
Interests	4.1	5.0	5.8	6.3	6.7	7.0	6.9	6.9	6.7	6.9	6.9	6.9
TOTAL CURRENT EXPENDITURE	57.7	59.7	62.4	63.5	61.9	60.8	60.8	62.4	61.4	59.5	59.7	59.2
Net capital transfers	2.5	2.9	2.8	2.5	2.7	2.6	3.1	3.4	2.4	2.2	1.9	1.6
GFCF	3.6	3.5	3.2	3.0	3.1	2.9	2.8	2.7	2.7	2.6	2.6	2.6
TOTAL EXPENDITURE	63.8	66.1	68.4	69.0	67.8	66.3	66.6	68.5	66.5	64.3	64.2	63.5
Lending / borrowing	-4.5	-6.1	-7.9	-7.1	-7.0	-5.3	-6.7	-7.2	-5.5	-5.9	-5.9	-6.0
Interests / current expenditure (as %)	7.1	8.3	9.2	10.0	10.7	11.4	11.4	11.0	11.0	11.6	11.6	11.6
Non-interest current expenditure	53.6	54.8	56.6	57.1	55.3	53.8	53.8	55.5	54.6	52.6	52.7	52.4

Source : Commission departments
FOR 1990 AND 1991 : Commission staff forecasts (March 1990)

TABLE 16 : FINANCING OF THE PUBLIC DEFICIT

	82	83	84	85	86	87	88	89
CENTRAL GOVERNMENT								
Net financing on a cash basis								
(in billions of HFL)	-27.3	-30.5	-30.2	-23.2	-6.2	-15.0	-19.9	-22.2
(as % of GDP)	-7.4	-8.0	-7.5	-5.5	-1.5	-3.5	-4.4	-4.7
(as % of net national income)	-8.3	-8.9	-8.4	-6.2	-1.6	-3.9	-4.9	-5.2
Capital market (netto)	29.1	30.9	29.7	25.4	10.8	14.9	23.4	22.9
Issues	18.2	22.9	25.1	20.4	14.3	21.4	30.8	32.7
External	.3	.0	-.4	.1	-1.2	-.4	-2.3	-.7
Central bank	-.4	.0	1.6	-1.6	-2.4	2.8	-.1	3.4
Short-term banking sector	1.3	-.1	-.9	-.3	-1.8	-2.1	-1.0	-2.2
Other short-term	.0	-.3	.2	-.2	.5	-.2	-.1	-.9
LOCAL AUTHORITIES								
Net financing on a cash basis								
(in billions of HFL)	-1.7	-1.7	-.5	-4.0	15.3	-14.8	-5.0	-1.2
(as % of GDP)	-.5	-.4	-.1	-1.0	3.6	-3.4	-1.1	-.3
(as % of net national income)	-.5	-.5	-.1	-1.1	4.0	-3.8	-1.3	-.3
Capital market (netto)	5.5	3.0	1.9	4.2	10.7	14.7	7.5	.2
Central bank	.0	-.1	.4	-.3	.2	-.2	.0	.0
Short-term banking sector	-3.0	-1.2	-1.5	.2	4.6	.7	-2.5	.2
Other short-term	-.3	.9	.0	.3	-.4	-.7	.2	.2

Source : De Nederlandsche Bank

TABLE 17A : GENERAL GOVERNMENT DEBT (1)
(as % of GDP)

	80	81	82	83	84	85	86	87	88
1. CENTRAL GOVERNMENT									
Gross debt	29.6	33.6	39.2	45.9	50.7	54.6	55.5	58.2	60.7
Long-term	23.6	27.9	33.7	40.8	46.2	50.3	51.4	54.6	58.7
Short-term	6.0	5.7	5.5	5.1	4.5	4.3	4.1	3.5	2.1
Net debt	27.5	31.3	37.2	44.0	49.1	52.3	51.9	53.9	56.2
2. LOCAL AUTHORITIES									
Gross debt	29.4	30.9	31.2	31.5	31.3	31.0	28.8	27.5	
Long-term	27.1	28.6	29.7	30.2	30.1	29.9	27.1	26.1	
Short-term	2.4	2.2	1.4	1.3	1.2	1.1	1.7	1.5	
Net debt	28.7	30.1	30.5	30.7	30.3	30.0	28.0	26.8	
3. TOTAL DEBT									
Gross debt	45.9	50.3	55.6	61.9	66.1	69.6	71.1	74.9	
Long-term	37.6	42.4	48.6	55.6	60.4	64.3	65.6	71.5	
Short-term	8.3	7.9	6.9	6.3	5.7	5.3	5.5	3.4	
Net debt	43.8	48.1	53.2	59.3	63.6	66.4	66.8	70.3	
4. TOTAL DEBT AS % OF NET NATIONAL INCOME									
Gross debt	50.9	56.1	62.0	68.9	73.7	77.4	79.7	84.0	
Net debt	48.6	53.7	59.3	66.0	70.9	73.9	74.8	78.8	

(1) State and local authorities
Source : De Nederlandsche Bank

TABLE 17B : CENTRAL GOVERNMENT DEBT.

	80	83	85	86	87	88
Average maturity of medium and long term debt (number of years)	11.2	6.6	9.3	9.5	8.5	7.8
Breakdown by type of debtor						
Institutional investors			49	49	53	
Foreign			10	10	13	
Households			15	14	11	
Banking sector			21	23	19	
Others			5	4	4	
Total			100	100	100	

Source : Ministry of Finance

TABLE 18 : MONETARY AND CREDIT AGGREGATES
(changes as % of M2N at the end of preceding year)

	82	83	84	85	86	87	88	89
1. M2	7.6	11.4	7.5	9.1	2.9	4.6	14.5	18.0
2. Credit to public sector	4.3	6.1	5.5	4.3	4.4	1.0	1.9	.1
Short-term	-2.1	-.6	-.1	-1.2	.5	.3	-2.0	.4
Long-term	6.3	6.7	5.6	5.6	3.8	.7	3.9	-.3
3. Credit to private sector	5.2	7.2	6.9	7.8	13.3	6.5	15.3	12.4
Short-term	1.9	1.8	2.9	.8	3.0	-1.7	3.8	2.8
Long-term	3.3	5.4	4.0	7.0	10.3	8.2	11.5	9.6
4. Others	-1.8	-2.2	-2.8	.7	3.5	1.2	-.7	-3.4
5. Non-monetary liabilities	3.4	3.6	8.7	6.5	10.8	4.5	8.5	8.5
6. Domestic counterparts	4.3	7.5	.9	6.4	10.4	4.1	8.0	.7
7. External counterparts	3.8	2.9	5.7	3.9	-5.4	1.9	4.8	13.5
8. Statistical adjustment	-.5	1.0	.9	-1.2	-2.0	-1.3	1.7	3.8
Liquidity ratio (M2/RNN)(1)	38.0	40.9	42.0	43.7	44.0	45.9	50.4	56.5

(1) Adjusted for items in transit and seasonal fluctuation, after elimination of breaks in series.

Source : De Nederlandsche Bank

TABLEAU 19A : SHORT-TERM INTEREST RATES (monthly)

	NL	D	USA	DIFF NL - D
8701	5.71	4.49	5.43	1.22
8702	5.42	3.97	5.59	1.45
8703	5.55	3.99	5.59	1.56
8704	5.43	3.89	5.53	1.54
8705	5.23	3.76	6.03	1.47
8706	5.27	3.70	5.82	1.57
8707	5.33	3.83	5.78	1.50
8708	5.36	3.95	6.00	1.41
8709	5.41	3.99	6.53	1.42
8710	5.79	4.70	6.32	1.09
8711	5.11	3.94	5.81	1.17
8712	4.75	3.65	5.98	1.10
8801	4.36	3.40	5.98	.96
8802	4.11	3.32	5.87	.79
8803	4.08	3.39	5.86	.69
8804	4.07	3.39	6.09	.68
8805	4.19	3.49	6.47	.70
8806	4.20	3.89	6.67	.31
8807	4.97	4.90	6.93	.07
8808	5.62	5.32	7.30	.30
8809	5.63	4.96	7.47	.67
8810	5.47	5.00	7.58	.47
8811	5.40	4.90	8.04	.50
8812	5.70	5.33	8.34	.37
8901	6.10	5.65	8.55	.45
8902	6.86	6.39	8.83	.47
8903	6.98	6.62	9.15	.36
8904	6.80	6.43	8.98	.37
8905	7.41	6.98	8.73	.43
8906	7.22	6.96	8.44	.26
8907	7.19	7.04	8.15	.15
8908	7.25	7.02	8.17	.23
8909	7.63	7.36	8.01	.27
8910	8.17	8.08	7.88	.09
8911	8.47	8.23	7.94	.24
8912	8.57	8.05	7.88	.52
9001	8.92	8.25	7.88	.67
9002	9.01	8.26	8.00	.75
9003	8.76	8.37	8.16	.39

INTEREST RATE DEFINITIONS.

NL, D : 3-month interbank rates.
USA : yield on 3-month Treasury bills.

TABLE 19B : LONG-TERM INTEREST RATES.
(quarterly averages)

	NL	D	USA	DIFF NL - D	DIFF NL - USA
85.1	7.80	7.37	11.43	.44	-3.62
85.2	7.57	7.10	10.91	.47	-3.35
85.3	7.01	6.47	10.59	.54	-3.59
85.4	7.00	6.53	10.08	.47	-3.08
86.1	6.70	6.13	8.90	.56	-2.21
86.2	6.31	5.73	7.95	.57	-1.64
86.3	6.10	5.80	7.89	.30	-1.79
86.4	6.31	6.00	7.84	.31	-1.53
87.1	6.19	5.70	7.64	.49	-1.44
87.2	6.15	5.50	8.70	.65	-2.55
87.3	6.60	6.00	9.08	.60	-2.48
87.4	6.57	6.17	9.21	.41	-2.64
88.1	6.12	5.83	8.61	.29	-2.49
88.2	6.22	6.00	9.06	.22	-2.85
88.3	6.52	6.40	9.23	.12	-2.70
88.4	6.29	6.20	9.02	.09	-2.73
89.1	6.88	6.77	9.04	.11	-2.16
89.2	7.21	6.97	8.73	.25	-1.52
89.3	7.10	6.90	8.12	.20	-1.01
89.4	7.64	7.50	7.93	.13	-.29
90.1	8.67	8.50	8.44	.17	-.29

INTEREST RATE DEFINITIONS :

NL : yield of State bonds with the longest maturity.
D : outstanding public sector bonds.
USA : Central government bonds over 10 years.

TABLE 20

DEMAND AND SYPPLY IN THE DUTCH CAPITAL MARKET BY SECTOR AND PRODUCT

in %	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Net supply by sector	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Financial institutions (a)	51.2	59.1	56.6	55.8	58.5	51.5	50.6	44.5	46.0	44.5
Banking sector (b)	34.6	28.6	27.4	29.3	29.6	36.3	41.4	30.5	41.3	27.3
Personal and business sector	4.2	7.8	11.7	11.7	10.2	3.9	9.9	14.8	-5.2	7.7
Foreign sector	10.0	4.6	4.3	3.2	1.7	8.3	-1.9	10.3	17.9	20.5
Net demand by sector	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public sector (c)	33.8	59.8	64.3	67.1	68.3	50.6	33.3	49.4	38.3	37.5
Personal and business sector	48.6	39.2	30.8	21.6	21.6	28.6	26.1	33.0	37.4	48.4
Other (d)	16.7	-1.8	-4.8	1.4	-0.3	4.1	13.1	6.1	9.8	14.4
Foreign sector	0.8	2.8	9.7	9.9	10.4	16.7	27.5	11.6	14.5	-0.3
Net supply (=demand) by product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Shares	-1.3	-0.6	0.0	2.3	-1.6	4.8	13.1	5.9	4.6	15.7
Bonds	20.5	25.6	38.5	46.4	56.5	40.6	33.9	36.0	46.1	28.2
Private loans	40.8	50.6	49.2	37.8	29.1	36.3	33.1	35.4	29.9	23.7
Mortgage loans	32.3	15.7	4.4	9.5	10.3	14.1	16.7	19.9	15.5	27.6
Real estate	7.7	8.8	7.9	3.9	5.7	4.2	3.3	2.8	4.0	4.9
p.m.: net supply (=demand) in bn HFL	46.9	41.6	49.0	50.6	46.3	58.6	64.7	60.0	80.8	61.7
(in % of GDP)	13.9	11.8	13.3	13.3	11.6	14.0	15.1	13.9	17.9	13.0

(a) Insurance companies, pension funds and social insurance funds
(b) Banks, savings banks, mortgage banks and building fund societies
(c) Central government and local authorities
(d) Banking sector and financial institutions

Source: De Nederlandsche Bank

TABLE 21

THE AMSTERDAM STOCK EXCHANGE IN 1988

A. The principal market

	Shares	Bonds
Securities quoted	453	1311
domestic	226	1146
(public)	(-)	(253)
(private)	(-)	(893)
foreign	227	165
(public)	(-)	(140)
(private)	(-)	(25)
Capitalization (a) of domestic securities		
HFL bn	227,40	229,25
(public)	(-)	(165,45)
(private)	(-)	(63,80)
% GNP	50,8	51,0
% Eur 12	7,1	5,7
Turnover		
HFL bn	120,32	206,73
("internationals") (b)	(47,01)	(-)
(domestic)	(72,63)	(-)
(foreign)	(0,68)	(-)

(a) Par value in case of bonds
(b) Philips, Royal Dutch, Shell, Akzo, Unilever

B. The parallel market in 1988

Shares quoted	60
domestic	3
foreign	57
Capitalization of domestic shares HFL bn	2,8
Share turnover	
HFL bn	1,0
% of capitalization	35,7

Source : Committee of Stock Exchanges in the EEC

Source : De Nederlandsche Bank

TABLE 22

ISSUES IN THE GUILDER BOND MARKET

in bn HFL	DOMESTIC MARKET			EURO-MARKET		
	residents		non-residents	residents	non-residents	% of total euro market
	public authorities (a)	private sector (b)				
1980	7,63	3,05	0,64	1,09	0	2,69 %
1981	11,52	2,16	1,21	0,57	0,65	1,57 %
1982	18,88	2,45	1,95	0,95	0,70	1,23 %
1983	23,84	2,57	2,76	0,95	1,18	1,49 %
1984	25,45	2,30	3,75	1,26	0,94	0,85 %
1985	21,00	4,87	3,10	0,94	1,20	0,48 %
1986	15,07	5,93	4,74	1,43	0,94	0,52 %
1987	21,58	5,55	2,46	2,01	0,27	0,79 %
1988	31,56	8,89	3,06	2,10	2,02	1,16 %

(a) central and local government
(b) includes public non-financial enterprises

<u>Source</u> : OECD

TABLE 23

THE NETHERLANDS BANKING SYSTEM

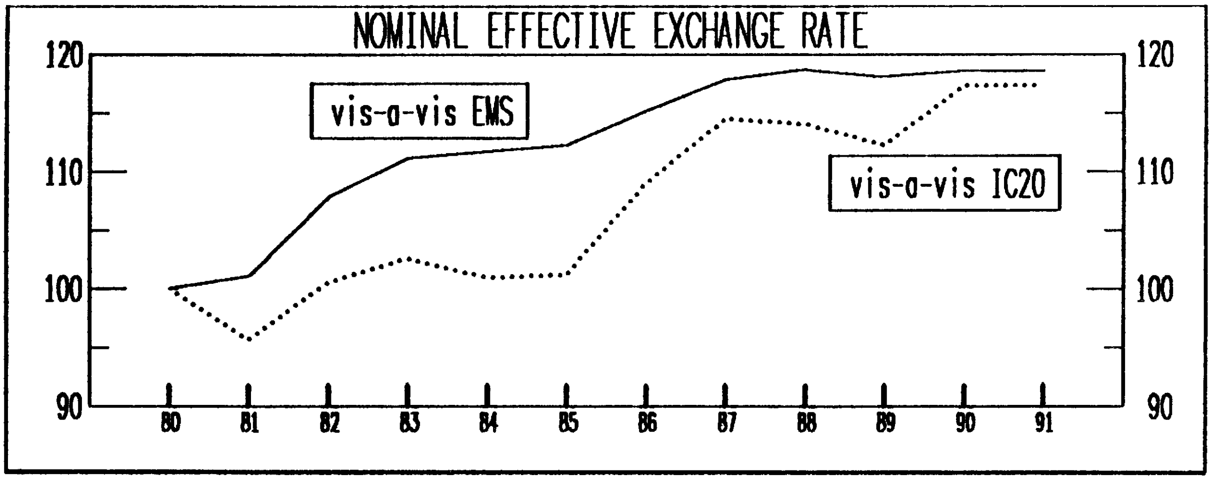
(bn HFL)	1980	1985	1986	1987	1988	1989
Balance sheet total	396,6	569,4	649,9	670,5	746,7	887,4
Universal banks, Rabobanks, Postbank (a)	370,6	516,5	597,0	617,5	690,0	827,4
Savings banks	25,6	34,2	36,1	37,0	40,7	43,0
Other (b)	0,4 (c)	18,6	16,9	15,9	15,9	17,0
Savings deposits	114,1	142,9	150,2	151,7	157,0	163,5
Universal banks	31,4	40,0	42,4	42,0	43,7	46,3
Postbank (a)	16,3	21,5	23,0	24,5	25,8	26,7
Rabobanks	46,5	56,8	59,5	60,7	62,4	64,3
Savings banks	19,9	24,6	25,4	24,6	25,1	26,2

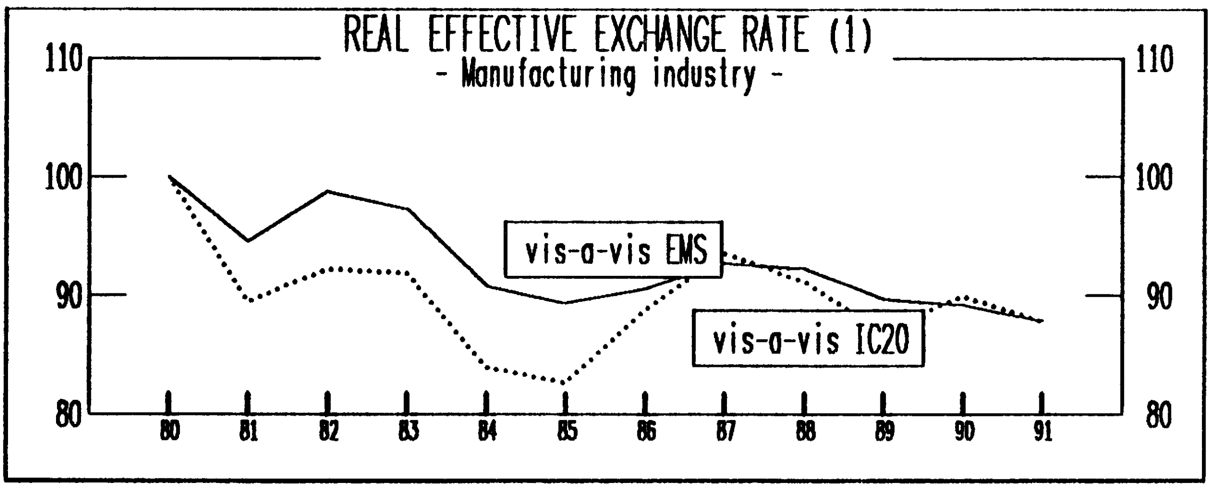
(a) before 1986 : Post Office Savings Banks
(b) Security credit institutions, Mortgage banks
(c) Only Security credit institutions.

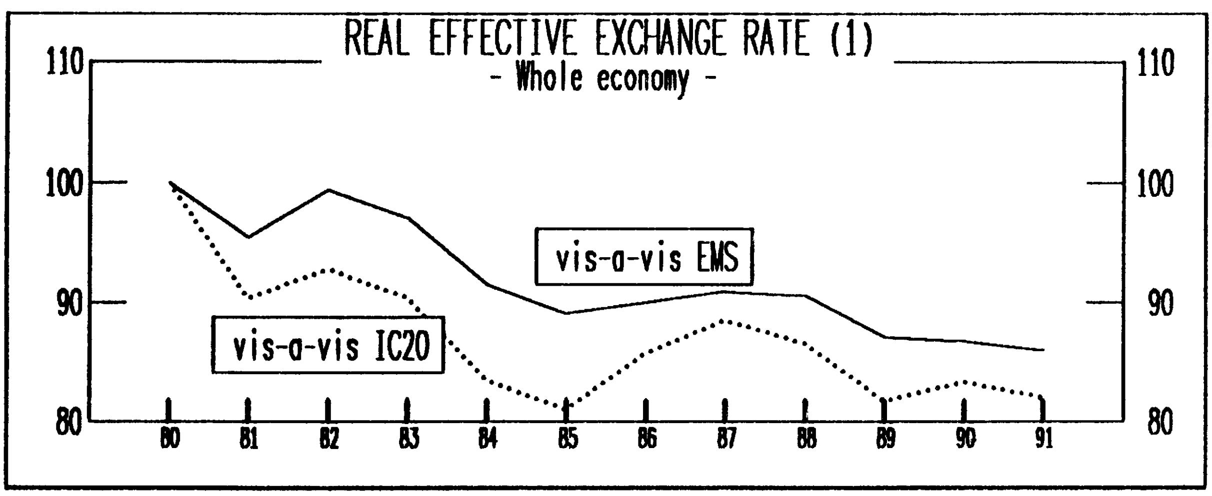
Source : De Nederlandsche Bank

GRAPH 1

THE EFFECTIVE EXCHANGE RATE OF THE HFL

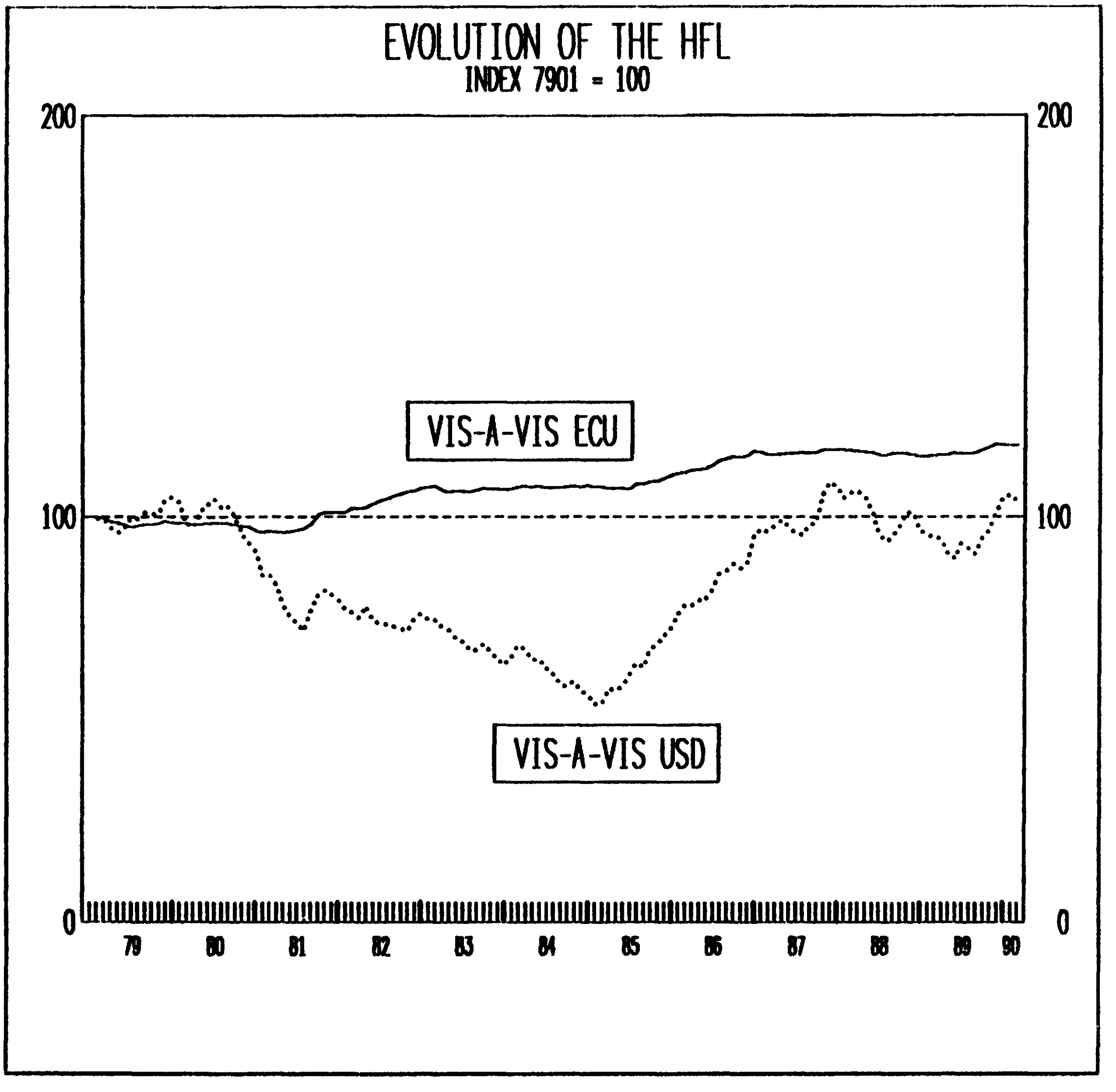


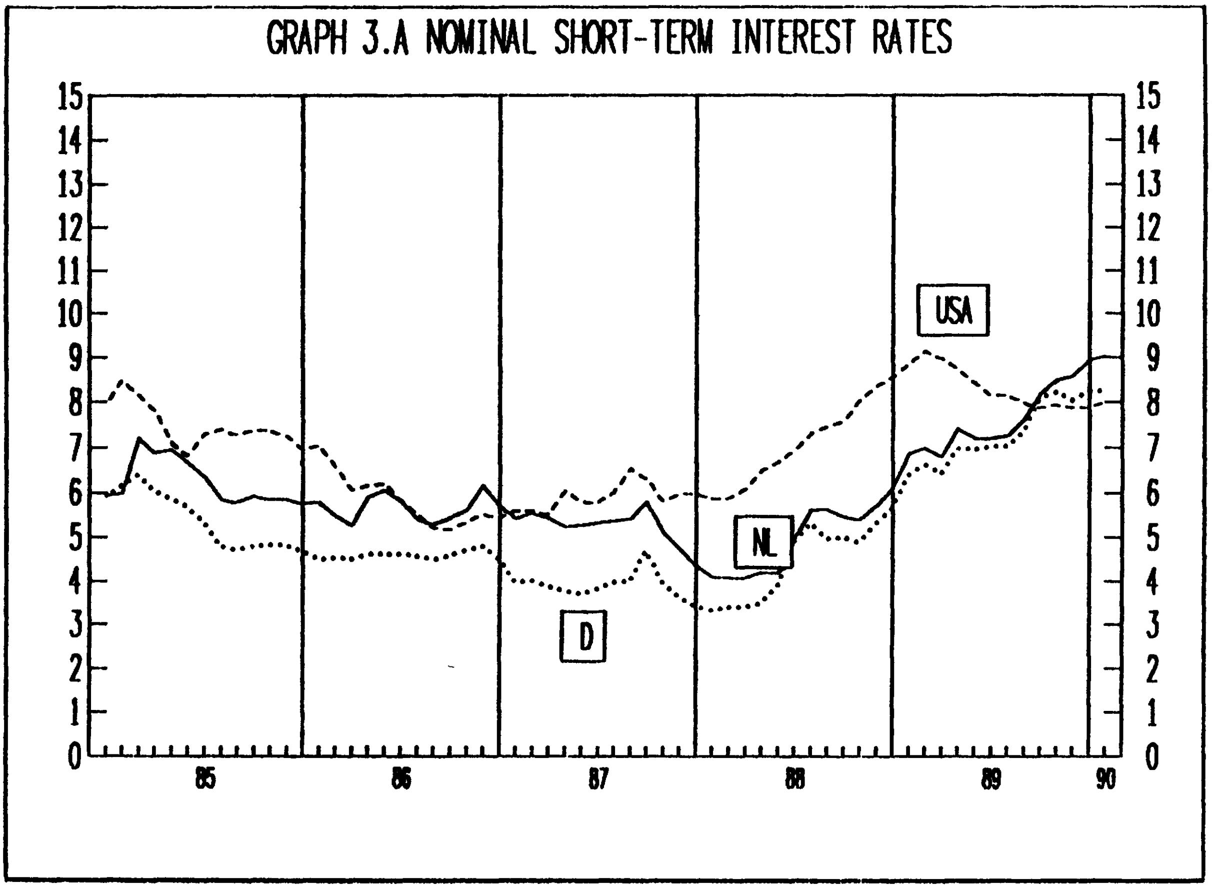


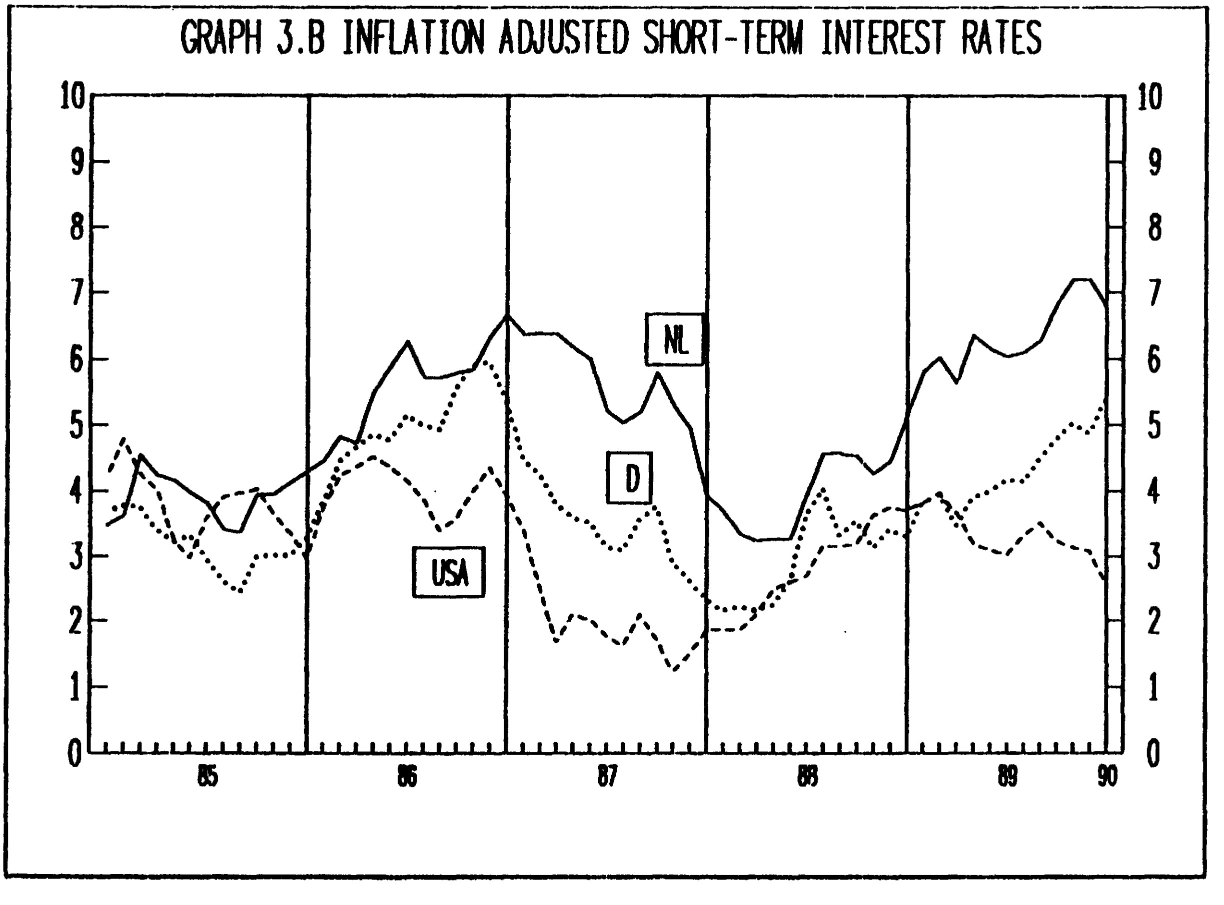


(1) Sur base des couts salariaux unitaires relatifs
Source : Services de la Commission
Pour 90 et 91 : previsions de mars 90

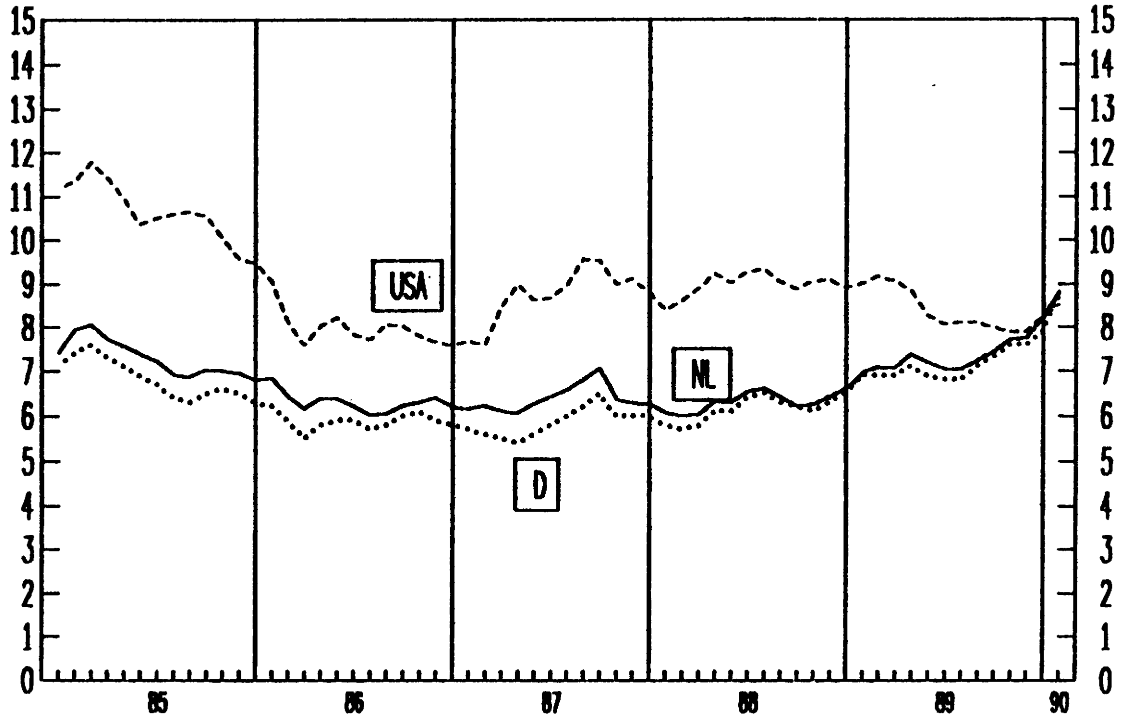
GRAPH 2


EVOLUTION OF THE HFL
INDEX 7901 = 100
200
100
0
VIS-A-VIS ECU
VIS-A-VIS USD
79
80
81
82
83
84
85
86
87
88
89
90

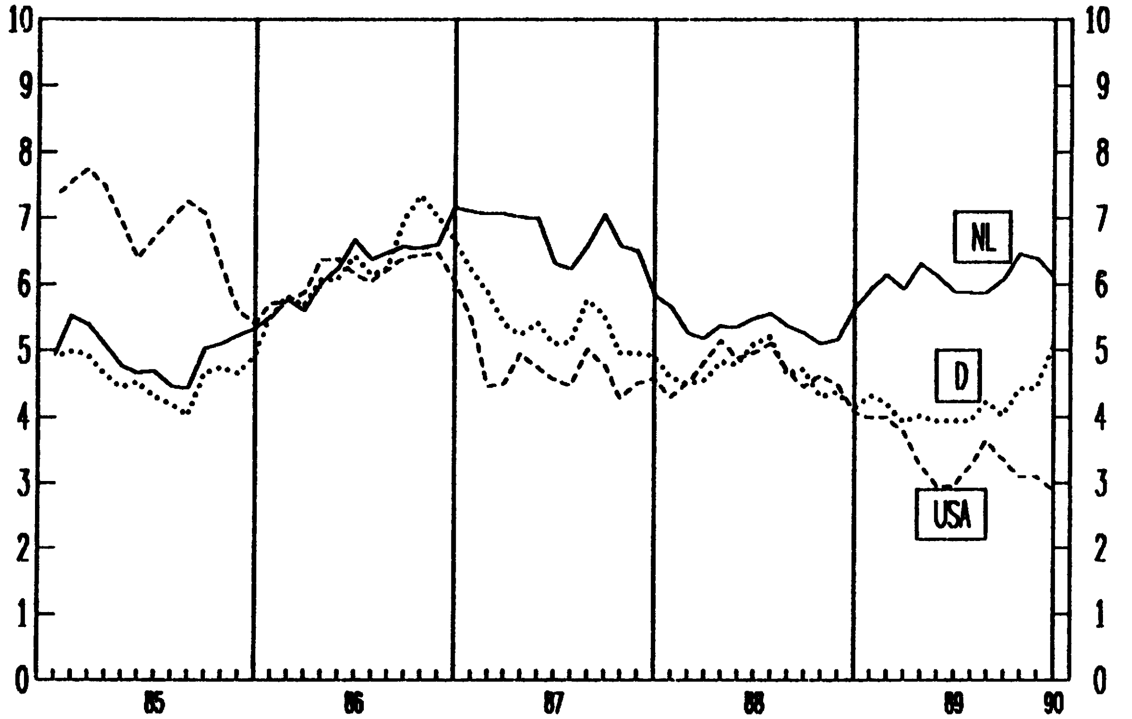

GRAPH 3.A NOMINAL SHORT-TERM INTEREST RATES
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
USA
NL
D
85
86
87
88
89
90


GRAPH 3.B INFLATION ADJUSTED SHORT-TERM INTEREST RATES
10
9
8
7
6
5
4
3
2
1
0
NL
D
USA
85
86
87
88
89
90

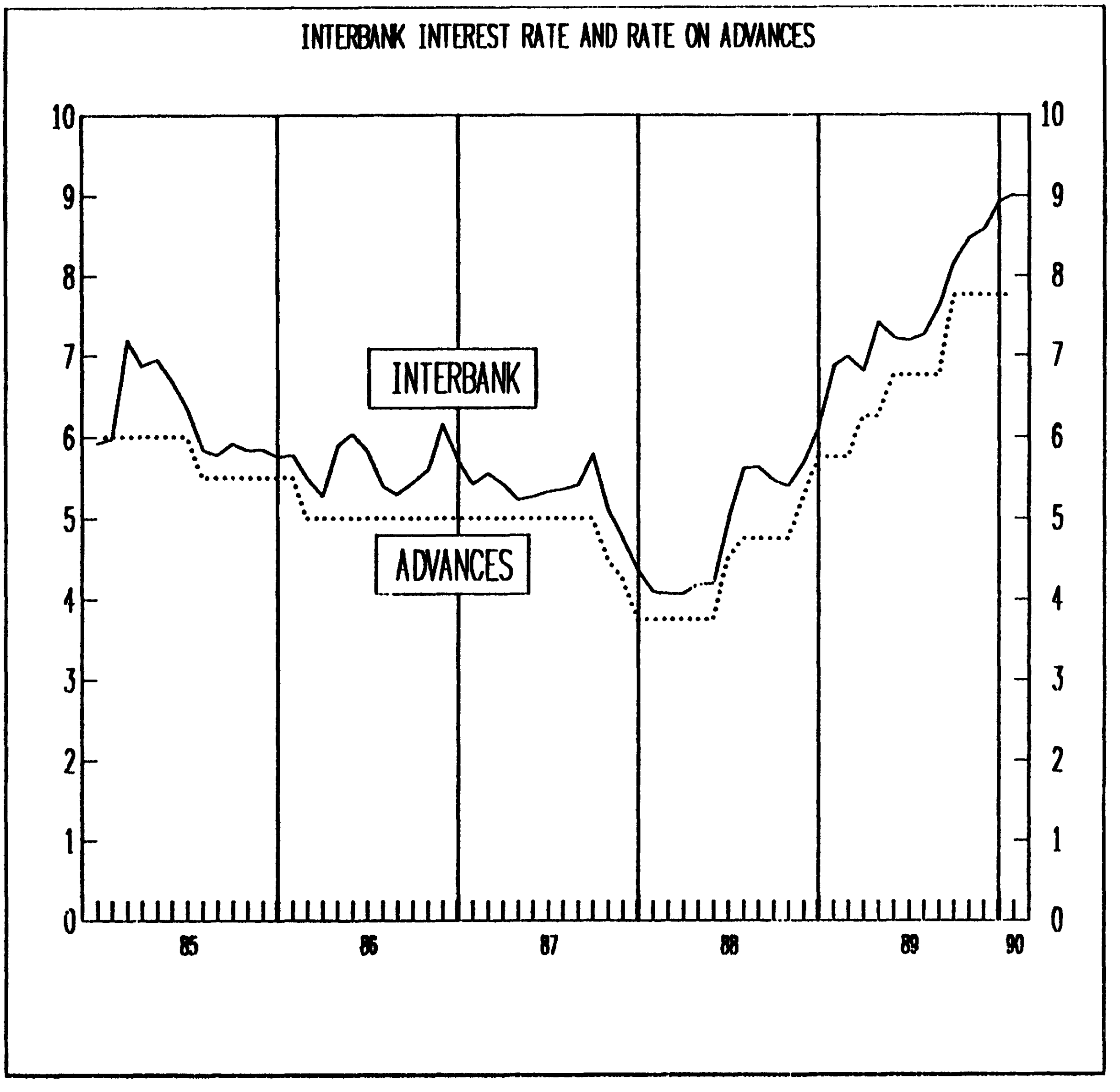
GRAPH 3.C NOMINAL LONG-TERM INTEREST RATES



GRAPH 3.D INFLATION ADJUSTED LONG-TERM INTEREST RATES

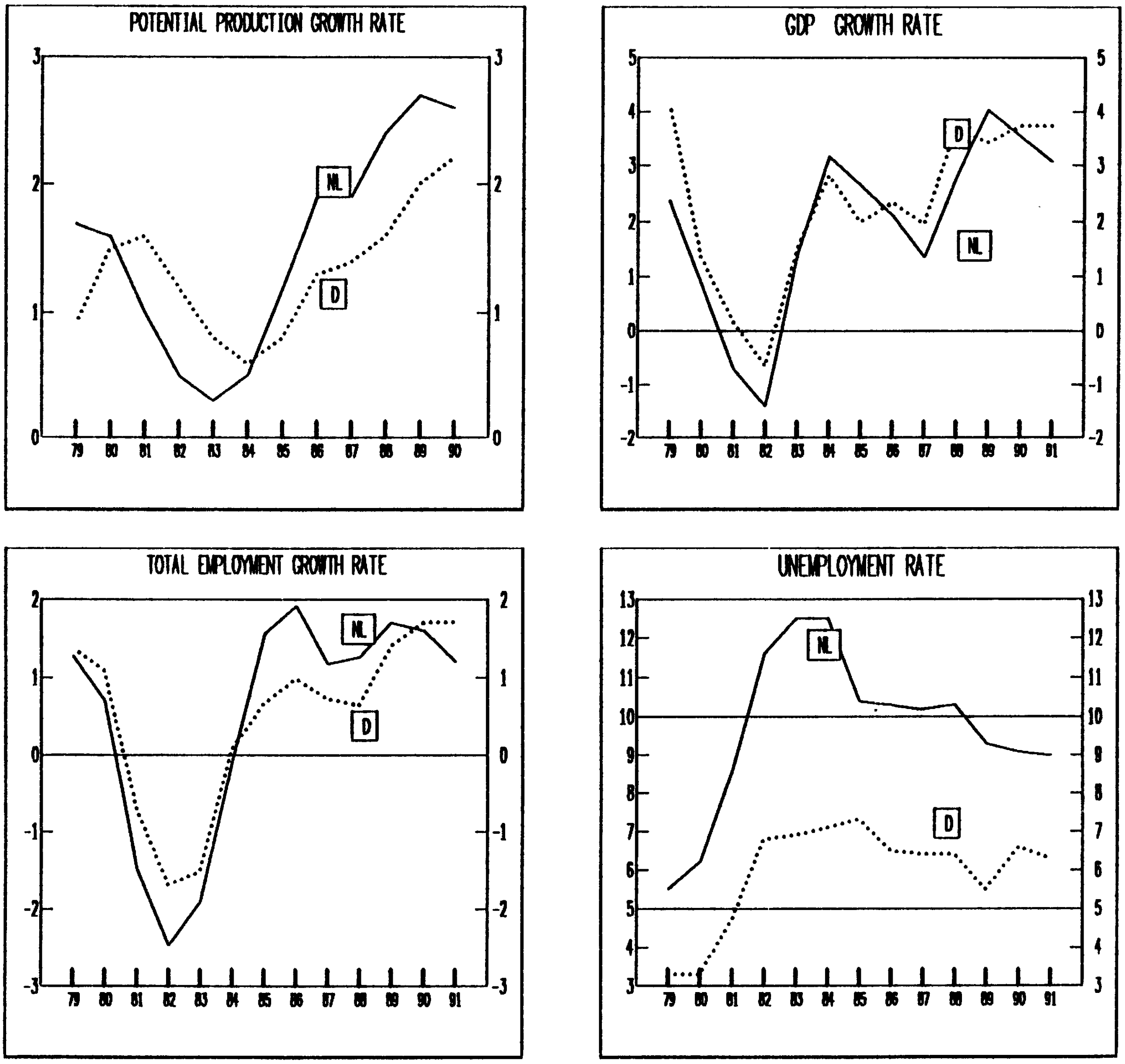


GRAPH 4

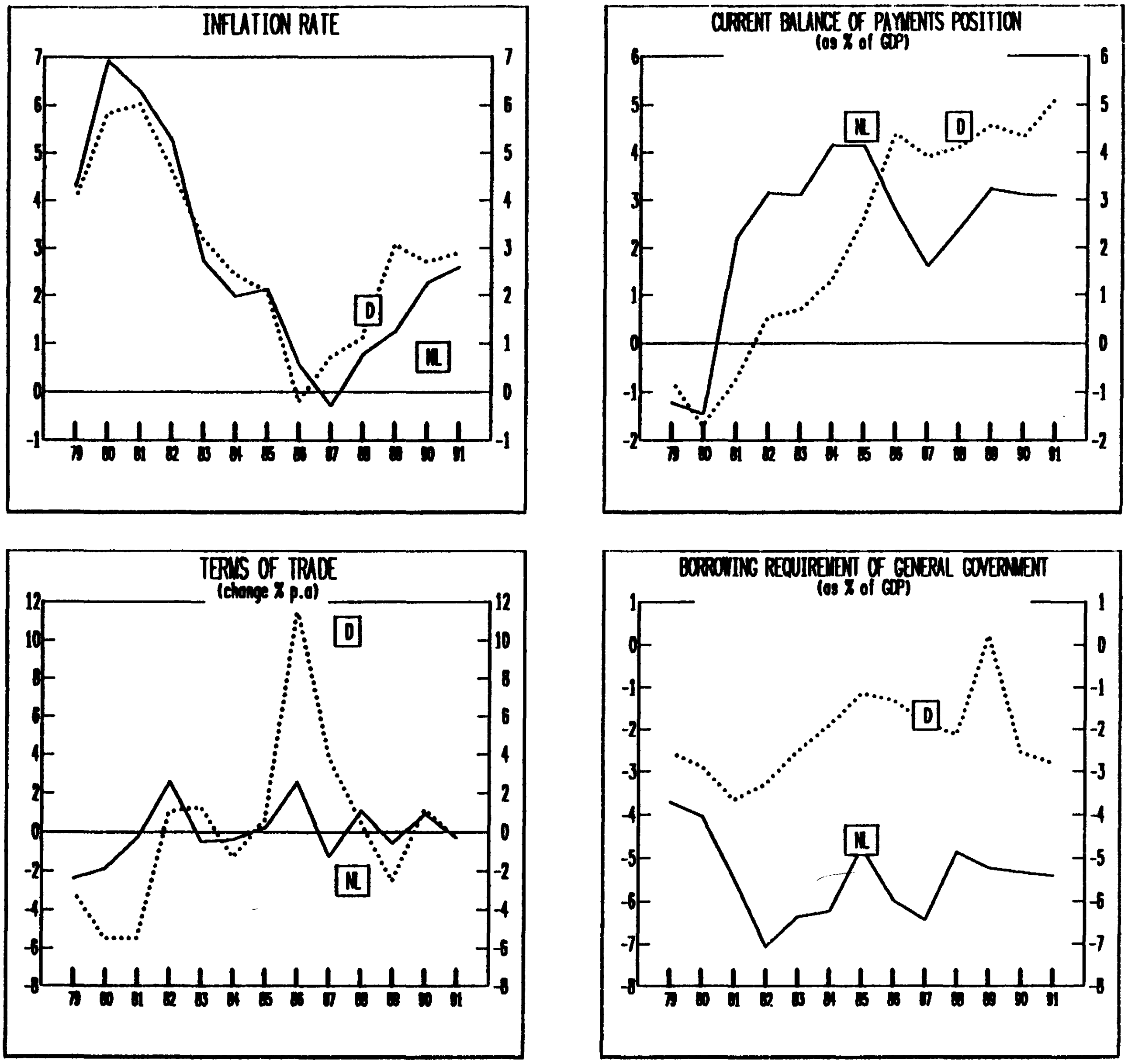

INTERBANK INTEREST RATE AND RATE ON ADVANCES
10
9
8
7
6
5
4
3
2
1
0
INTERBANK
ADVANCES
85
86
87
88
89
90

GRAPH 5

MAIN ECONOMIC INDICATORS IN THE NETHERLANDS
AND THE FED REP OF GERMANY



GRAPH 5 (continued)



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