



Press release

PB02-149
18 July 2002
9:30 AM

Economy in 2001: households save more, less profits for companies, government surplus evaporates

According to figures just published by Statistics Netherlands on developments in the Dutch economy in 2001, economic growth fell to 1.3 percent in 2001. Government spending accounted for half of this growth. Exports hardly rose at all. In spite of tax cuts, household consumption growth was a lot lower than in recent years, and households put more money into savings accounts. Disappointing demand from at home and abroad and a slight acceleration in wage increases reduced profitability in the private sector in 2001. The record government surplus in 2000 has all but evaporated, going into tax cuts, increased expenditure and the fact that there were no one-off revenues in 2001.

Economic growth down sharply in 2001

The general economic picture in 2001 is determined by a downslide in economic growth. In 2001 Dutch economic growth was 1.3 percent, the lowest since 1993, and substantially down on the 3.3 percent in 2000 and the average 4 percent in the top years 1997-1999.

The growth rate for 2001 is below the average for the EU which provisional estimates put at 1.7 percent. In the second half of the nineties the economy in the Netherlands grew faster than in the EU. Government spending was responsible for half of Dutch economic growth. The motor behind growth in previous years, household consumption and exports, grew by only very little in 2001.

The 1.3 percent growth is slightly higher than the previously published estimate of 1.1 percent.

Increase in consumption lags behind income growth

Households were more careful with their money in 2001 than in the previous year. In 2000 consumption expenditure exceeded disposable income and 'free' savings were negative. 'Free' savings are total savings minus contractual savings (e.g. pension fund contributions).

Households' disposable income increased substantially in 2001. These were pushed up by slightly higher wage increases than in 2000 and by the tax plans for 2001, which comprised tax reductions for households. Altogether, the disposable income of households rose by 16 billion euro. With a 12 billion euro increase, consumer spending grew by less. This put the 'free' savings by households back in the black at 4.4 billion euro. After a continuous decrease since 1998, 'free' savings in 2000 were minus 2.4 billion euro.

This cautious behaviour by households in 2001 was also reflected in financial transactions. On balance 6 billion euro worth of shares were sold, while savings balances expanded strongly (+17 billion euro). Partly in anticipation of the introduction of the euro the circulation of banknotes declined. Households put 7 billion euro worth of guilders in the bank. Sales and lower share prices pushed down the value of shares owned by households by 28 billion euro to 231 billion euro.

Government surplus falls to 0.1 percent of GDP

Following two years of high net surpluses the government surplus in 2001 fell sharply to 0.6 billion euro or 0.1 percent of GDP. This is the so-called EMU surplus. The surplus hit a record 8.7 billion euro (+2.2 percent of GDP) in 2000, mainly padded by high surpluses of the social security institutions and the revenues of the auctioning off of the UMTS frequencies. In 2001, the surpluses of the social security institutions had disappeared and the new tax measures had effects on government revenues: income from income and capital tax and contributions for mandatory social insurance, mainly paid by households fell by 0.7 billion euro. However, higher revenues from natural gas, higher VAT, excises and other taxes on production and imports and higher dividend payments from the Netherlands Central Bank pushed up revenues in 2001 by nearly 13.5 billion euro.

Government spending increased faster than income though; by a total of nearly 22 billion euro. Higher spending for public health costs and insurance, outlays connected with the restructuring of the Dutch gas market, the foot-and-mouth crisis, higher costs of social benefits and other operational costs such as wage costs, all contributed to this. Rising wage costs were connected with a strong growth in employment in the government sector. This in turn was caused by both an intensification of policy implementation and a slightly wider labour supply so that the government could fill up positions more easily.

In spite of the surplus, the Dutch EMU debt rose slightly in absolute terms in 2001 as a consequence of a number of large financial transactions. However, in terms of a percentage of GDP the Dutch EMU debt continued to decrease steadily. In 2001 it fell to 52.8 percent of GDP.

Companies less profitable

The net profits of commercial businesses (excluding financial institutions) fell by 0.6 billion euro to 44.0 billion euro in 2001. In 2000 private sector profits rose by 2.4 billion euro. Commercial companies paid more interest on balance than in 2000 while foreign subsidiaries of Dutch mother companies also made less profit. On balance, after tax profits fell by 16 percent.

The lower profitability was accompanied by less investment in fixed capital and less investment in foreign subsidiaries. Fixed capital formation by commercial enterprises fell by 1.4 billion euro to 35.3 billion euro in 2001. This is the first time since 1993 that investment levels fell. In addition investment in

foreign subsidiary companies fell from 54 billion euro in 2000 to 35 billion in 2001.

Banks: less commission and stagnating credit

The production value of the bank sector grew more slowly in 2001 than in 2000. Following years of increase, income from commission fell by 3.2 percent in 2001. Commission from stockbroking, issues and mergers was down. However, the income in the bank sector remained stable as net income from interest rose by 13 percent. The net income from interest is the interest and dividends received by the banks on outstanding loans, shares and participations minus interest payments on their own borrowing.

Quite remarkably the growth in credit granted to the private sector slowed down in 2001. In 2000 a net 43 billion euro of credit was granted to private households. In 2001 this had shrunk to 39 billion. This was mainly caused by a decrease in consumer credit and other short-term loans. Mortgage loans retained their 2000 level, namely around 40 billion euro. Credit granted to non-financial companies was only 1 billion euro in 2001, down from 14 billion in 2000.

Insurance companies and pension funds stay in shares

The value of the share portfolios of insurance companies and pension funds fell by more than 41 billion euro through lower share prices. At the same time, these institutions bought shares for about the same amount (40 billion euro). Insurance companies now face a dilemma, as their yields from fixed interest securities (loans and bonds) is not enough to fulfil future obligations under unchanged premium and payment policy. The coverage, the capacity of meeting pension payment demands, fell further in 2001. Pension premiums rose faster than in preceding years, mainly through the removal of premium reduction schemes.

National income lower than domestic product

The increase in gross domestic product, the total of value added in the Netherlands, was higher in 2001 than the growth in national income, the total income of all Dutch residents. This was because Dutch residents spent a net 5 billion euro of primary income outside the Netherlands. In 2000 more than 4 billion euro was received from countries outside the Netherlands. Foreign activities of Dutch companies in particular were less profitable in 2001.

Government spending motor behind economic growth

The above value developments took place against a background of very moderate volume developments. Economic growth, for example, was only 1.3 percent in 2001. The volume growth of government consumption rose to 3.1 percent in 2001. More money went to the care sector in particular, but also to education and public administration. Government spending thus accounts for half of GDP growth.

For the first time since 1993, investment fell in 2001, by 0.8 percent. Less money was invested in machines and installations, computers and transport equipment. Investment in houses also showed a slight decrease. The fall in investment spending was entirely for the private sector and households. The volume of investment spending by the government rose by more than 9

percent. The most important contributors to this increase were the investments in large infrastructure projects such as the high-speed and Betuwe rail links.

In spite of an increase in purchasing power through the tax cuts, the volume of consumption expenditure by households rose by only 1.3 percent in 2001. This is considerably less than the growth rates of more than 4 percent on average in the three preceding years. In these years spending on durable goods rose by most, a usual phenomenon in times of strong economic growth. In 2001 spending on this category fell, especially spending on new cars. Household consumption is under pressure of waning consumer confidence and toppling share prices.

At 1.1 percent the volume growth of exports - including re-exports - was much smaller than in 2000. In other EU countries, too, export growth dropped sharply under the influence of the deteriorating international economy. Food, chemical products and natural gas are the largest contributors to higher exports. Import volume grew just as fast. Prices of imports and exports rose more slowly than in 2000. As the price increase of exports exceeds that of imports the balance of trade of the Netherlands rose further to more than 5 percent of GDP.

Hardly any growth in manufacturing

The substantial fall in economic growth in 2001 is also reflected in lower growth rates for most branches of industry. The largest slowdown was for manufacturing: from 5.0 percent in 2000 to 0.2 percent in 2001. The chemical industry did better than average, in metal and electrical engineering production was down.

The growth in commercial services also fell. In 2000 it was still as high as 4.3 percent, in 2001 it was only 1.2 percent. Trade, banking and insurance, hotels and restaurants and transport all performed below average. The latter sector suffered the added effects of the terrorist attacks of 11 September.

Agricultural production fell by 3.4 percent, partly because of the foot-and-mouth outbreak and BSE scares. Construction and non-commercial government and care services did better than average.

Employment growth unchanged

Employment of employees and the self-employed increased by 116 thousand labour-years, or 1.8 percent, in 2001. This is nearly the same as the increase in growth in 2000. Unemployment was able to fall further to its lowest level in decades. There are differences between sectors of industry. Care and government sectors accounted for one quarter of employment growth in 2000, and nearly half in 2001. Employment growth in the care sector increased from 2.0 to 3.4 percent, in the government sector from 1.3 to 2.8 percent.

Commercial services, now accounting for 46 percent of employment, again manifested an above average growth in employment (2.0 percent), though the increase was less than in recent years. Within commercial services telecommunications, computer service bureaux, legal and economic services and the retail trade lead the field. Employment in manufacturing remains unchanged, just as in 2000.

Employment growth is higher than production growth. Employment had a delayed response to the rapid decrease in production growth. Labour productivity for the whole economy fell by 0.4 percent in 2001. Since the war labour productivity only previously fell in 1987 and 1958.

Prices and wages increasing

Wage costs per labour year rose by 5.0 percent, slightly faster than in 2000 (4.6 percent). In the market sector the wage rate increase was about 5 percent in both years.

Per product unit, the wage cost increase in the market sector went up from 2.9 percent to 5.8 percent. The 0.3 percent fall in labour productivity played an important part in this development. The labour income in the market sector rose from 82.1 percent in 2000 to 83.9 percent in 2001. The profitability of the market sector decreased.

The price increase of GDP accelerated considerably, from 4.2 percent in 2000 to 5.3 percent in 2001. This was caused primarily by the quickening price increases of domestic expenditure (consumption and construction investment). The increase of VAT also played a part in the respect; there was also an extra impulse from the differences between export prices and import prices (terms of trade).

Key figures on the Dutch economy

	1999	2000	2001
volume changes in %			
Gross Domestic Product (market prices)	4.0	3.3	1.3
Final consumption expenditure	4.0	3.1	1.8
Households	4.7	3.6	1.2
General government	2.5	1.9	3.1
Fixed capital formation (gross)	7.8	3.5	-0.8
Exports (excl. Re-exports)	4.1	9.2	1.1
Imports (excl. Re-exports)	5.1	8.8	1.5
Labour input of employed persons	2.3	1.9	1.8
Labour input of employees	3.0	2.1	2.1
in % of GDP			
General government surplus	0.7	2.2	0.1
changes in %			
GDP deflator	1.6	4.2	5.3
Labour productivity	1.7	1.5	-0.4
Idem, market sector	2.6	2.3	-0.3
Wage income per labour year	3.7	4.6	5.0
Idem, market sector	3.6	5.0	5.1
Labour costs per unit product	2.7	3.3	5.8
Idem, market sector	1.9	2.9	5.8
level, %			
Labour share in enterprise income	79.4	78.7	79.7
Idem, market sector	82.0	82.1	83.9

Provisional figures

Source: Statistics Netherlands

Composition of economic growth

	1999	2000*	2001*
In percentage points of the volume Growth of GDP			
Exports	1.3	2.2	0.4
Final consumption expenditures	2.0	0.9	0.9
Households	1.5	0.7	0.3
General government	0.5	0.2	0.6
Gross fixed capital formation	1.0	0.3	-0.1
Changes in inventories	-0.3	-0.1	0.1
Gross domestic product(GDP)	4.0	3.3	1.3

* Provisional figures

Source: Statistics Netherlands**Saving and net lending/net borrowing by sector**

	1999	2000	2001	2000	2001
billion euro					
changes in billion Euro					
Saving (net)					
Non-financial corporations	11.9	15.7	7.2	3.8	-8.5
Financial corporations	8.1	11.5	7.2	3.5	-4.3
Government	3.2	8.3	5.2	5.1	-3.1
Households	20.0	14.5	22.7	-5.5	8.2
Of which non contractual saving 1)	2.4	-2.4	4.4	-4.8	6.8
National saving	43.1	50.0	42.2	6.8	-7.7
Net lending/net borrowing					
Non-financial corporations	2.3	5.8	3.7	3.5	-2.1
Financial corporations	7.8	10.2	5.3	2.3	-4.9
Government	2.5	8.7	0.6	6.3	-8.1
Households	1.7	-4.9	4.0	-6.6	8.9
Total (=net lending with rest of the world)	-14.4	-19.8	-13.6	-5.5	6.2

1) Saving excluding saving by pension funds and life insurance companies

* Provisional figures

Source: Statistics Netherlands