

Press release

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Dutch economy 2002: modest increase in household income, growing budget deficit, and less profit in the private sector

According to the latest figures by Statistics Netherlands the Dutch economy only grew by 0.2 percent in 2002. This is the lowest growth rate in two decades. Dutch government expenditure was responsible for the fact that there was growth. Spendable household income increased by 4 percent, which financed the modest growth in consumption. The government budget deficit was substantially higher than in 2001, due to less than expected tax and premium revenues and greater expenditure on care, education and safety. The profits in the private sector fell again in 2002.

Hardly any economic growth left in 2002

The general economic picture is characterised by the almost complete absence of economic growth. In 2002 economic growth was 0.2 percent, which is substantially less than the average 3.5 percent in the period 1994-2000.

Dutch government consumption in 2002 was the motor of economic growth. Growth in government consumption compensated for the negative contribution made by investments. The earlier motors, exports and household consumption, hardly contributed to economic growth at all in 2002.

With its 0.2 percent growth rate, the Netherlands fell below the EU average economic growth rate, for which the preliminary figure is set at 1.0 percent. In the second half of the nineties the Dutch economy grew faster than the EU average.

Increase in spendable income enough for modest increase in consumption growth

The 5 percent increase in employee compensation, and the increase of almost 3 percent in the income of the self-employed in 2002 was enough to cushion the increases in income and wealth tax. As a consequence, spendable household income in 2002 increased by 9.0 billion euro or 4.1 percent. Consumption expenditure of households increased almost as much in value as spendable income, namely 8.6 billion or 4 percent. So the growth of spendable income was sufficient to finance the growth in household consumption expenditure. Furthermore the growth of spendable income left room for the growth of free household savings with 0.4 billion to a total of 4.8 billion euro in 2002.

Stock market slump deeply affects households

The loss in the direct shares owned by households in 2002 was almost 73 billion (-34.6 percent). This loss follows the losses households suffered in 2001 when their shares lost 39.4 billion (-15.1 percent). 2000 was also a bad year for the stock market, even if it wasn't as bad as 2001 and 2002. The total loss in shares owned by households over the last three years is close to 117 billion. This means that 45 percent of the value of the shares owned directly by households evaporated in three years time.

On balance households sold 15.7 billion worth of shares in 2002, fleeing into bonds. On balance they bought over 11.6 billion worth of bonds, which increased the total value of bonds owned by households by 37 percent. Savings and deposits also profited from this flight from shares, as well as a greater motivation to save, and increased by 19 billion (almost 11 percent). In 2001 this increase was also considerable, after years of much more modest growth rates.

Budget deficit up to 1.6 percent of GDP

In 2002 the budget deficit increased to 1.6 percent (7.1 billion) of the Gross Domestic Product (GDP). After relatively great surpluses in 1999 and 2000 the government had a negative balance of payments in 2001. In 2002 the balance went more deeply in the red. The surpluses of the social insurance institutions turned into a 1.8 billion deficit. The budget deficit of central government increased to 4.6 billion. The local governments reached a 0.7 billion deficit in 2002. This means that all three levels of government had a negative balance for the first time since the early eighties.

The modest economic developments in 2002 influenced revenues. The revenues in corporate tax and dividends fell compared to 2001 due to lower profits in the private sector. Furthermore, reduced economic growth cut most other government tax revenues. One exception comes from local taxes such as real estate tax and levies on pollution and sewage charges. The revenues of these far outshone economic growth.

The total tax and premiums levied fell from 39.8 percent of GDP in 2001 to 39.3 percent in 2002. Furthermore there was a decrease in 2002 of non-tax revenues, such as the revenues on natural gas and dividends paid on profits by De Nederlandsche Bank and the railways (NS).

On the expenditure side, the intensification of policies made for a substantial increase. In 2002 the expenditure on social security and social benefits went up by almost 8 percent. Especially the expenditure on care within the framework of the Compulsory Health Insurance and Exceptional Medical Expenses Act contributed to this with an increase of more than 13 percent. Furthermore government costs went up by intensifying the policies on education and safety. Employment in government increased by 2.8 percent.

Due to the increased budget deficit, the EMU deficit of the Dutch government increased by 6 billion euro in absolute terms in 2002. The deficits were mainly financed in 2002 by short-term finances. However, as a percentage of GDP the Dutch EMU debt continued to decrease. However, the decrease was not as strong as in the previous years. The EMU deficit in 2002 was 52.4 percent of GDP. It levels off the sharp decreases of the last few years.

Corporate profits down again in 2002

Dutch commercial enterprises (excluding financial institutions) saw their net positive results in 2002 sink by 1.3 billion to 42.1 billion euro. In 2001 there had already been a 1.9 billion drop in their results. This is in dire contrast with the period 1996 - 2000 when the annual profits of commercial enterprises grew constantly.

Dutch commercial enterprises with foreign participations saw their daughters abroad perform less well in 2002. The participation dividend received fell by 2.4 billion to 9.3 billion euro. The Dutch daughters of foreign parent companies also paid less participation dividend. The participation dividend paid to foreign parent companies fell by 3.0 billion to 3.3 billion. The enterprises kept the external dividend paid at the 2001 level (11.7 billion).

Less profitability went hand in hand with less investment in fixed capital formation. These investments by commercial enterprises fell by 1.4 billion to 33.4 billion euro in 2002.

Financial institutions: stabilising profits in 2002 after dip in 2001

After a huge dip in 2001 the net profit after taxes made by financial institutions stabilised at a level of 18.0 billion in 2002 (18.6 billion in 2001). In the highly successful year 2000 the net profit after tax realised was 21.1 billion

There are clear differences in developments within the group of financial institutions. Banks profited from the lower interest rates. The costs fell faster than the revenues in interest rates, which resulted in a profit margin increase from 13.9 billion in 2001 to 15.4 billion in 2002. The banks also managed to cut costs substantially.

The results of the insurance companies and pension funds were under pressure in 2002. The number of new individual life insurance policies fell by almost 10 percent. The insurance premiums against damages increased by 16.0 percent. This is partly because of the high re-insurance premiums for the increased risks of storm and water damage and international terrorism. The damages paid also increased substantially, namely by 15.0 percent.

Worse financial situation for insurance companies and pension funds

The financial position of insurance companies and pension funds worsened dramatically because of the ailing stock markets in 2002. The volume of the financial assets fell by 40.5 billion reaching 647.8 billion euro. The net purchase of stocks, worth 28.4 billion, was offset by a value decrease of the total stock portfolio of 61.7 billion. Completely against the general trend, the insurance companies and pension funds on balance invested heavily in shares in 2002, some 20.3 billion worth. This is substantially less than in 2001, however, when they invested 39.2 billion in the purchase of shares.

All in all the pension and life insurance provisions fell to 618.1 billion in 2002, despite the net contribution by households of 23.8 billion. This constitutes a decrease of 26.1 billion euro. The coverage provided by the pension funds, which is the capital needed to meet future obligations, fell again in 2002. Some pension funds already took far-reaching measures to address this: increasing pension premiums and reducing indexation. Lean pension

schemes, changing from benefits based on the last earned salary to average lifetime earnings, and raising the age of retirement are being considered.

National income well below GDP

In 2002 the value increase of 1.8 percent of the national income (total income of Dutch residents) lagged behind the GDP value increase (the total value added in the Netherlands), which increased by 3.6 percent.

This is because Dutch residents paid, on balance, 9.1 billion worth of primary income (including interest and dividend) abroad. The payments by the Dutch abroad maintained a reasonable level (-2.1 percent), but amounts received from abroad dropped by a substantial 12.7 percent. The activities of Dutch enterprises abroad were less profitable than in previous years.

Government expenditure is the motor of economic growth

The developments in value described above took place against a background of very modest volume developments. Economic growth in 2002 was a mere 0.2 percent. The volume growth of government consumption remained high at 3.8 percent. Care received more money, as did education and public government. The Dutch economy would have seen negative growth without the high government consumption in 2002.

The major slowdown of economic growth is clearly visible in investments. These fell sharply, by 4.5 percent. Investments were down primarily in buildings, computers and means of transport. Investments in housing are also down. The slowdown in investments is entirely found in the private sector and households. Government investments increased by 2 percent, which was substantially less than in previous years. Major government investments were the large infrastructure projects such as the high speed train and the commodity railway link to Germany (Betuwelijn).

In line with the modest increase in purchasing power the volume of household consumption expenditure increased only by 0.8 percent in 2002. This is slightly less than the 1.4 percent of 2001 and substantially less than the growth rates over the previous five years, which averaged 4 percent. In those years the expenditure on durable goods increased most, as is usually the case during an economic boom. In 2002 the expenditure on durable consumer goods increased by 1.7 percent, and expenditure on services by 0.8 percent.

In 2002 the volume of exports – excluding re-exports - was only 0.3 percent higher than in 2001. This is the lowest growth rate since 1982. Exports increased in chemical, rubber and plastic products, natural gas, machinery and services and decreased in electrical products, food, beverages and tobacco. The import volume barely fell. Import and export prices fell modestly. The Netherlands continued to have a positive trade balance of over 5 percent of GDP

Production in construction and the manufacturing industry

Production fell in several branches of industry. Production was down by 1.6 percent on 2001 in the manufacturing industry and by 3.2 percent in construction. The greatest drop in production (close to 10 percent) took place in the electrical engineering industry. Production was down again in agriculture.

There was hardly any growth left in commercial services, (0.2 percent, which had been the fastest growing branch for years. Well below this average are the branches where production actually fell: banks and insurance companies, hotels and restaurants, temp agencies and computer services. Positive exceptions were postal services and telecommunications with a growth rate of over 8 percent, and water transport (+5.8 percent).

Well above the average economic was the performance of government and in particular the care sector. In health and welfare production even increased by 5.1 percent.

Growth in employment close to zero

Employment for employees and the self-employed in 2002 increased by 15 thousand working years, the equivalent of 0.2 percent. This is well below the growth rates in previous years, which is why unemployment was on the increase for the first time in seven years. Developments in employment differ greatly between branches. In care and government together employment increased by 2.9 percent, elsewhere in the economy employment dropped by 0.8 percent.

The greatest decrease in employment took place in the manufacturing industry. Construction also provided less work for the first time in years.

Commercial services, the fastest grower in years, had a 45 percent share in total employment. There was a slight decrease in employment (0.3 percent). Employment fell by banks, telecommunications, computer services, hotels and restaurants and temp agencies among others.

The growth rate in employment for the economy as a whole was the same as the growth rate in production in 2002. Labour productivity therefore remained unchanged, while it increased marginally in the private sector.

The number of jobs increased by 0.6 percent in 2002. The increase was greater than the increase in working years because the share of parttime work continued to rise.

Less wage and price increases

The wage costs per working year increased by 4.9 percent, slightly less than in 2001 when the increase reached its top at 5.5 percent. Per product unit the wage cost increase in the private sector fell from 5.7 to 4.7 percent. Despite this, the income quote from working in the private sector rose from 83.8 percent in 2001 to 84.9 percent in 2002.

The GDP price increase slowed down considerably, from 5.4 percent in 2001 to 3.4 percent in 2002. This is primarily due to the lower price increases in domestic expenditure (consumption and investments). The effects of the rise in VAT disappeared, and the wage cost and import price increases were slightly lower, all of which played a role. There is hardly any influence from the exchange rates because the price decrease in exports is virtually matched by the price decrease in imports.

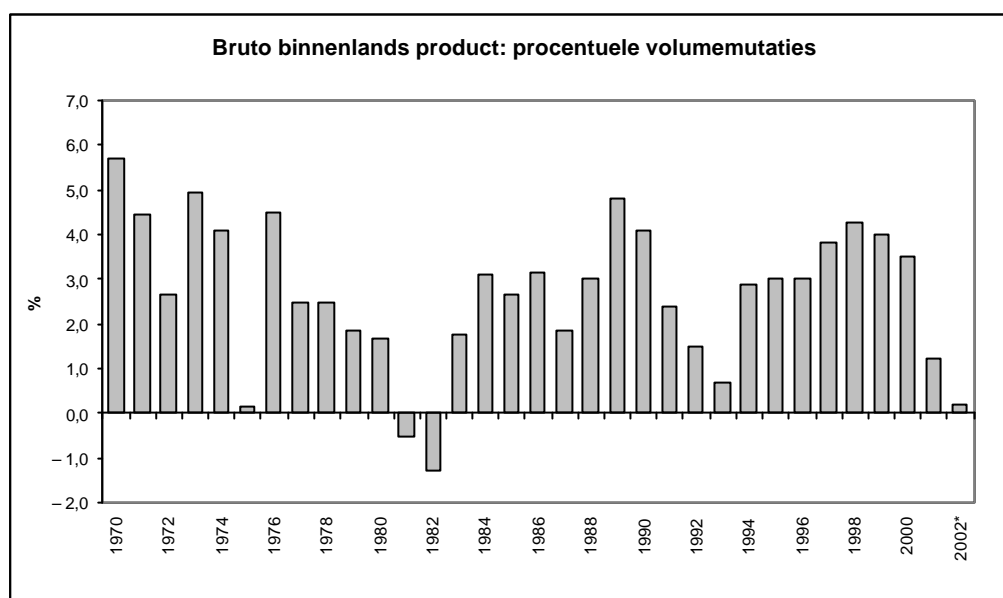
Long term growth rate 2.7 percent a year

Together with the new figures for recent years, Statistics Netherlands has made new time series available for virtually all macro-economic figures on the period 1969-2002.

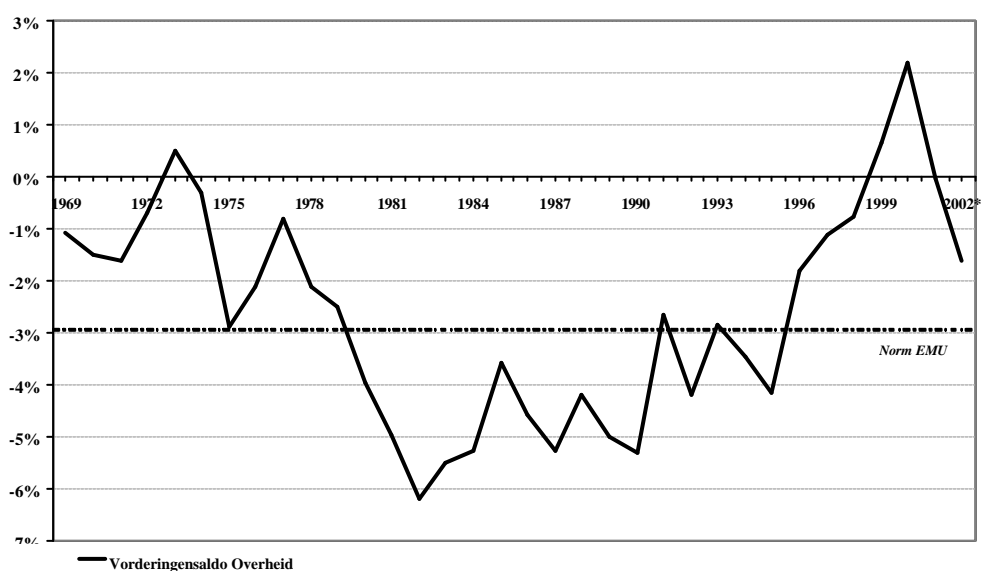
In this 33-year period the economic growth rate averaged 2.7 percent. Employment increased from 4.9 to 6.5 million working years. This is a 32 percent increase, or 0.8 percent a year. The increase took place almost entirely since the mid-eighties.

The government deficit averaged 2.4 percent of GDP during this period. The only years that government had a surplus were 1973, 1999 and 2000.

Gross domestic product: volume percentage changes



Source: CBS



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