



Press release

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Buying power households declining in 2003

In 2003 the real spendable income of households decreased for the first time in ten years. Corporate profits shrank but there were higher profits in banking. The budget deficit went up, mainly caused by higher government expenditure, according to figures published by Statistics Netherlands.

Real spendable household income down by 1.3 percent

Spendable household income grew a nominal 0.8 percent, not enough to compensate for inflation. The real spendable income fell by 1.3 percent. Earned income and income from benefits, including pensions, rose. Household contributions to social insurance premiums, including pension schemes, rose substantially; income from property dropped dramatically. The volume of household consumption expenditure fell by 0.9 percent. Free household savings were positive in 2003 and totalled 4.8 billion euro which means that households had enough spendable income to finance consumption.

Total household debt exceeds GDP

Total household debt grew by 45 billion to 490 billion euro in 2003. Outstanding mortgage debts amounted to 407 billion euro and accounted for the bulk of the increase (40 billion euro). Total mortgage debt has risen by an average 12.5 percent a year in the last decade. Total household debt grew much faster than the GDP and exceeded the GDP by 8 percent for the first time in 2003. Against this debt is a higher amount of non-financial fixed capital formation, for instance the value of houses.

Households save more money

Households evidently preferred risk-free savings in 2003. The value of their savings, including interest received, increased by over 19 billion euro to more than 187 billion euro. Almost a quarter of the total amount is on savings accounts on the internet. Towards the end of 2003 the average household's savings were worth 26,600 euro against 24,100 euro in 2002.

On balance households bought shares worth 0.5 billion euro and bonds worth 2.8 billion euro.

The value of shares owned by households increased by 5 billion euro and contrasts sharply with a loss of 82 billion euro in 2002. The value of household shares was more than 128 billion euro at the end of 2003; bonds were worth nearly 48 billion euro.

Production private sector less profitable

Value added of non-financial companies rose by only 1.4 percent in 2003. In spite of the decline in employment, the total amount of wages paid rose by 2.4 percent. This caused the operating surplus to drop. Consequently, the production of goods and services provided by non-financial companies was less profitable in 2003 compared to 2002. This is reflected in a rising labour share.

In spite of declining profitability of production, profits of non-financial companies went up by 5.8 billion euro to 37.2 billion euro in 2003. Companies paid less dividend, achieved better results on foreign participations and paid significantly less tax on profits on account of compensable losses. Increased profits were mainly used to restore the financial balance and not for extra investments. Investments fell by 1.2 billion euro in 2003.

Higher profits in banking

In spite of the difficult economic situation Dutch banks realised higher profits. They benefited from lower short-term interest rates which were higher than the decrease of long-term interest rates. Because banks mainly attract short-term money and put out long-term money, lower interest rates result in a higher interest margin. Dutch households saved more money, thus banks had more cheap financial means at their disposal while more credit was granted to households (particularly mortgages). This caused the interest margin to increase by 7.9 %. The operating surplus reached a record high of 5 billion euro.

Pension premiums significantly higher

For insurance companies and pension funds, as for banks, 2003 was a much better year than 2002. They profited from rising share prices on the international stock markets. Institutional investors added 21.8 billion euro to pension and life insurance schemes. Pension premiums received, as usual, exceeded the total amount of pensions paid. Pension premiums paid rose by no less than 18.6 percent, the equivalent of 4 billion euro. Nevertheless the coverage of pension funds did not meet the expectations of the Pension and Insurance Chamber.

Labour share private sector continues to rise

In spite of the good results realised by banks and insurance companies profitability of total production in the Netherlands declined. This is reflected in an increase in the labour share of the private sector which rose from 85.3 in 2002 to 86.9 in 2003. For the fifth year in a row the labour share is rising.

Budget deficit 3.2 percent of GDP

The economic depression also affected government finances. The national deficit reached 3.2 percent of the GDP in 2003, the highest since 1995. The deficit was smaller in 2002 with 1.9 percent and in 2001 with 0.1 percent.

In 2003 government revenues fell by 0.1 of a percent point of the GDP, whereas government expenditure rose by 1.2 of a percent point. Economic

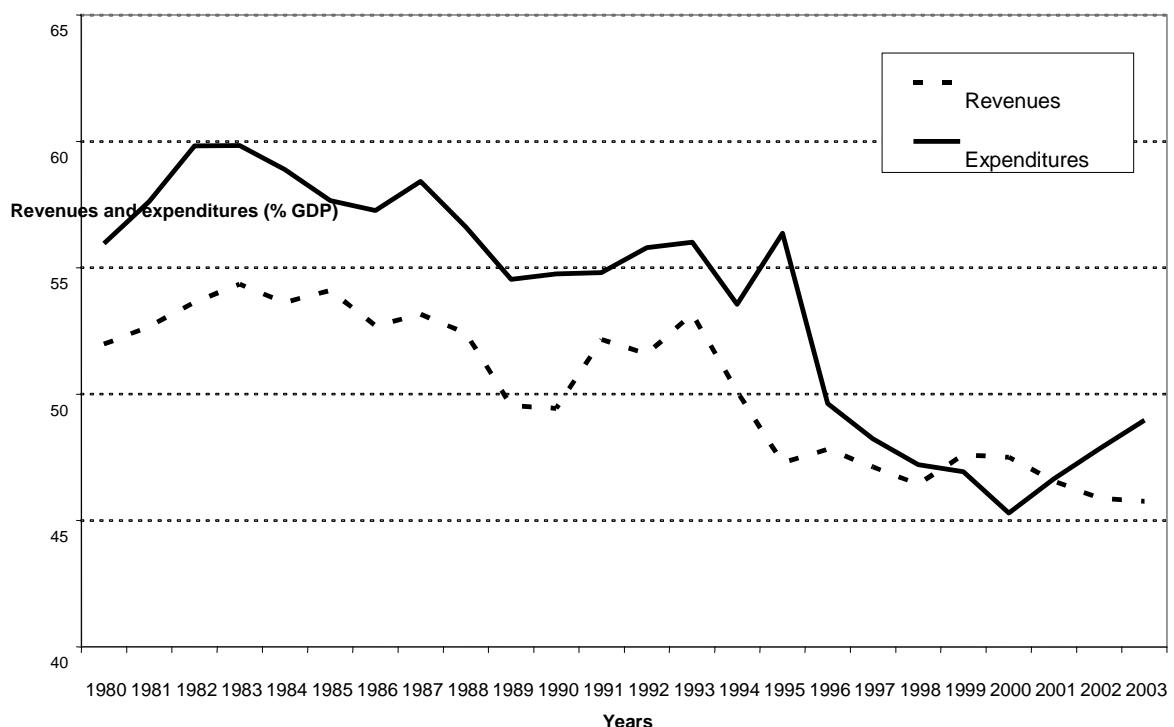
developments fell short of expectations and this was reflected in tax revenues which dropped from 25.0 to 24.2 percent of the GDP. The revenues from corporate tax and income tax decreased. Just like in 2002 the rise in local taxes was above average. Social insurance premiums rose from 13.9 percent of the GDP in 2002 to 14.5 percent in 2003. This was mainly caused by higher premiums for the compulsory health insurance fund and the Exceptional Medical Expenses Act (AWBZ) accounting for a 20 percent rise on 2002. The total tax and premium burden decreased only marginally from 39.2 percent in 2002 to 39.1 percent in 2003.

Just like in 2002 transfer costs for social services and social insurances rose sharply. In 2002 and 2003 the percentages were 18.8 and 19.8 of the GDP respectively. Particularly costs for care (Compulsory Health Insurance Act and Exceptional Medical Expenses Act) contributed to an 8.8 percent rise. Unemployment benefits rose by over 30 percent due to growing unemployment. Wage costs and other operational costs of the government increased from 17.4 to 17.8 percent of the GDP. The number of jobs in the public sector grew by more than 24 thousand (2.5 percent) in 2003, more than half of new jobs were in education.

EMU debt as a percentage of the GDP rising

In 2003 the budget deficit was largely financed by the emission of government bonds and securities with a special emphasis on long-term financing with bonds. The EMU debt increased to almost 11.5 billion euro. For the first time in many years the EMU debt, as a percentage of the GDP, rose: from 52.6 percent in 2002 to 54.1 percent in 2003.

Graph: Revenues and expenditures of general government 1980-2003 (% of GDP)



Economic key figures

	1999	2000	2001	2002	2003
<i>% changes on previous year</i>					
Gross domestic product, volume	4.0	3.5	1.4	0.6	-0.9
National income, real	5.3	3.5	0.5	-0.6	-0.8
Disposable income of households, real 1)	1.1	1.4	5.5	1.0	-1.3
<i>% of GDP</i>					
General government revenues, of which:	47.6	47.5	46.6	45.9	45.8
Taxes	24.7	24.6	24.9	25.0	24.2
Social security contributions	16.0	16.0	14.3	13.9	14.5
General government expenditures, of which:	46.9	45.3	46.7	47.8	49.0
Social security benefits	14.8	14.5	14.6	15.4	16.3
Social assistance benefits	3.6	3.4	3.4	3.4	3.5
Net lending/net borrowing (government deficit/surplus)	0.7	2.2	-0.1	-1.9	-3.2
Labour share in enterprise income, total	79.4	78.8	79.5	81.3	82.4
Idem, market sector	82.0	82.3	83.4	85.3	86.9
<i>1000 mln euro</i>					
Households including NPISH:					
Liabilities, of which:	326	369	409	445	490
Mortgages	257	294	334	367	407
Assets, of which:	1 167	1 204	1 182	1 085	1 163
Savings deposits	131	135	153	168	187
Shares and other equities	267	264	220	123	128
Long term bonds	27	29	33	46	48
Net equity of households in life insurance and pension funds reserve	617	645	642	611	661
Non-financial corporations:					
Operating surplus (net)	52.5	58.8	60.4	59.8	57.2
Net profit before taxes	49.1	54.2	47.2	44.9	48.7
Net profit after taxes	35.5	39.6	32.2	31.4	37.2
Monetary financial institutions:					
Operating surplus (net)	2.3	3.4	3.3	4.1	5.0
Net profit before taxes	6.6	9.8	8.9	8.3	9.5
Net profit after taxes	5.6	8.4	7.8	7.5	8.4
Surplus of the nation on current transactions	15.0	19.6	16.1	12.3	12.1

Source: CBS

1) Deflator: Consumer price index (CPI)