Country report

NETHERLANDS

Economy:
The Dutch economy shrank by 4% in 2009, the biggest post-war decline. However, the much stronger than the foreseen upturn in the world trade is the main reason for the economy regaining growth in the second half of 2009. This growth is expected to continue this and next year (1¾%) and will be mainly driven by stronger foreign demand. Dutch companies and consumers remain fairly cautious in their spending. Yet the damage from the crisis is still far from recovered. In the years ahead (2011-2015) we foresee an average GDP growth of 1¾% which is lower than the potential pre-crisis growth, implying that the economy will embark on a long term lower growth path.
Given the sharp drop in production, the implications for the labour market seem to be relatively modest. In 2009 a total of 109,000 people joined the jobless ranks. In the first half of 2009 the pace of rising unemployment was about the same as in 2002, although the current economic downturn is much stronger. The unemployment is expected to rise further in 2010 to an average of 5½% (Eurostat definition) and it will remain above 5% in 2011 as well. Compared to other European countries, Dutch unemployment is among the lowest. A higher proportion of self-employed workers, strong discouraged worker effect, the introduction of the legislation of part-time unemployment benefits are some of the explanations for the lower-than-feared rise in unemployment.

In 2009, the budget balance deteriorated sharply, turning the surplus position of the past years into a deficit of 5.3% of GDP. The lion's share of the deterioration in the government budget balance is due to the automatic stabilisers: revenues from taxes and national insurance contributions are falling, while outlays on unemployment benefits are rising. This year the deficit will widen further, to 6¼% of GDP, whereas the present recovery may lead to a slight decrease of deficit to 4¾% in 2011. In the Netherlands, the financial support measures had a considerable impact on public debt, but only to a limited extent on the government deficit. The public debt is expected to increase from 45½% of GDP in 2007 to more than 68% of GDP in 2011. Government finances are not expected to recover completely in the coming years. After all, the production losses due to the recent crisis mean that government receipts are at a structurally lower level. Moreover, the higher debt implies a larger debt service and therefore higher expenditure. The ageing of the Dutch population will also cause government finances to deteriorate further. The sustainability gap of 4½% of GDP illustrates the size of the structural adjustment in government finances that is needed in order to make these finances sustainable.

Banking Sector:
In response to the stabilising financial market conditions and the improved sentiment Dutch banks were able to raise new capital from private investors and sell parts of their business in order to strengthen their capital position. In 2009 financial institutions paid back part of the government support (€31 bn). By strengthening their capital position banks are anticipating the forthcoming changes to the Basel II framework which will oblige banks to hold relatively more high quality capital.

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