



8 May 2012

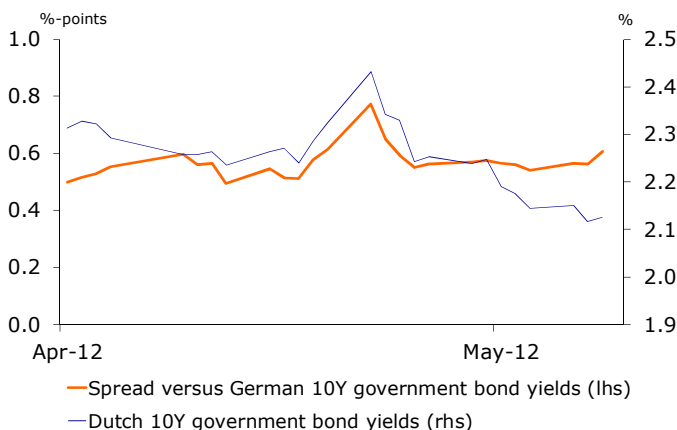
Prolonged budget talks collapse

	2011	2012	2013
<i>Year-on-year change in %</i>			
Gross Domestic Product	1.2	-3/4	1
Private consumption	-0.9	-1 1/4	-1/2
Government expenditures	0.4	-1	-1 1/4
Private investment	5.8	-2 1/4	2
Exports of goods and services	3.7	1 3/4	5
Imports of goods and services	3.5	1	4 1/4
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Consumer price index	2.4	2 1/4	2
Unemployment (% labour force)	5.4	6 1/2	6 1/2
Government budget (% GDP)	-5	-4 1/2	-4 1/2
Government debt (% GDP)	65.4	69 1/2	73
Current account balance (% GDP)	6 3/4	7 1/4	7

Negotiations between the coalition parties VVD, CDA and PVV about additional austerity measures failed to reach agreement in late April. The parties failed to agree on a joint plan to reduce the government deficit by 2013 from 4.6% to 3% of GDP. After calculations by the Netherlands Bureau for Economic Policy Analysis (CPB), the PVV claimed the proposed measures would severely reduce the purchasing power of older people, and pulled the plug on the negotiations. Prime Minister Mark Rutte subsequently submitted the cabinet's resignation to the Queen. It was feared that the Netherlands would be a test case for new, partly self-imposed stricter fiscal discipline.

Source: Statistics Netherlands, Rabobank

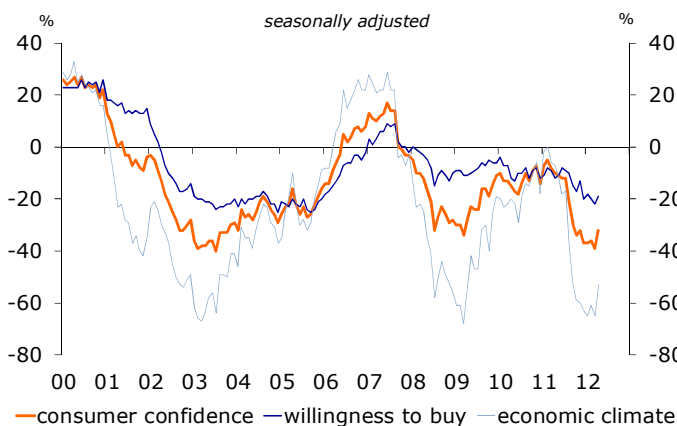
Where there's a will there's a way



The spread between Dutch and German government bonds increased sharply to 77 basis points during the first day of trading after the collapse of the budget talks. This was considerably more than the long-term average of 20 bps. The panic proved unfounded, however. Within two days, the decommissioned cabinet reached agreement with parties outside the coalition on a supplementary package of measures aimed at resolving the country's acute financial problems. The bond spread subsequently retracted quickly.

Source: EcoWin

Purchasing power under further pressure



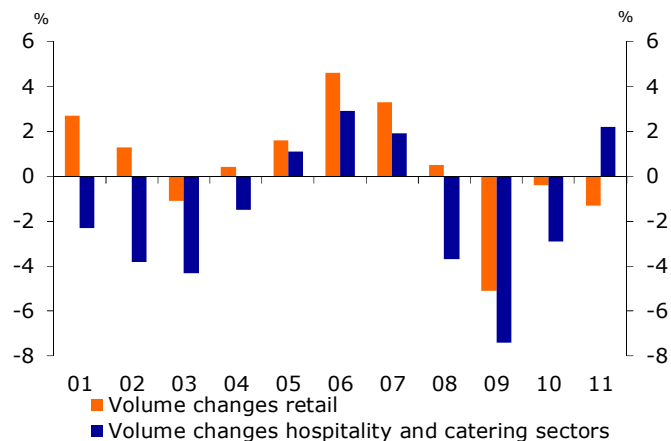
In order to comply with the EU budgetary requirements in 2013, the Dutch cabinet will not be able to avoid taking action soon. The so-called (interim) "Kunduz-coalition" has decided to pass on part of the necessary cutbacks to the public. An increase in VAT from 19% to 21% is expected to yield savings of € 4 bn. There will also be a rise in the excess payment for insured health care. This does not bode well for consumer purchasing power. Real disposable incomes were already under pressure from wage and employment development as well as proposed increased charges and taxes. It is therefore unsurprising that consumers are showing little willingness to spend money.

Source: Statistics Netherlands

Economic Update The Netherlands

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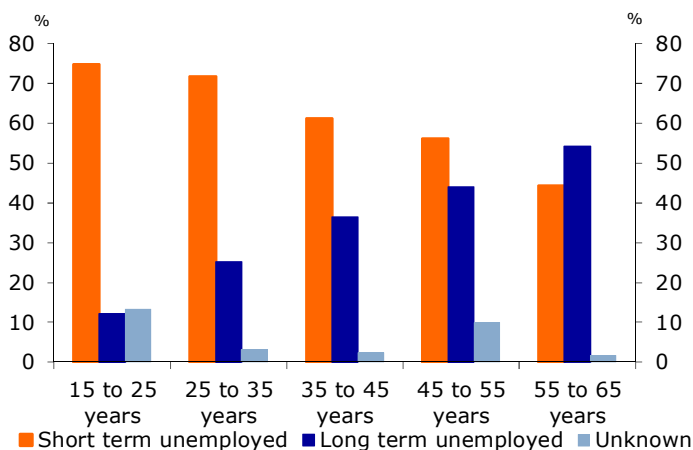
Business sector shares the pain



Source: Statistics Netherlands

The sectors that depend on domestic demand are feeling the knock-on effect of the increased burden on consumers. These are mainly the retail and hospitality/catering sectors, where sales volumes were already very low. More internationally orientated companies are feeling the pinch from the declining growth in world trade, but may expect to see a recovery in 2013. Although many companies are struggling, entrepreneurs are nevertheless expected to make a contribution to restoring order to government finances. For instance, employers will have to pay the first six months of employees' unemployment benefit in future. At the same time, however, severance payments will be reduced.

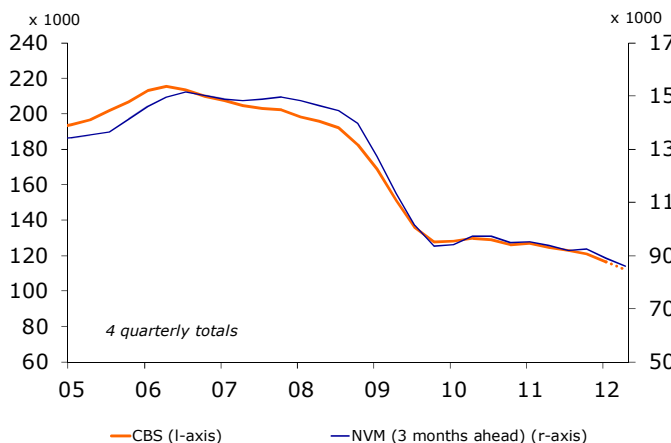
Pension accord thrown open



Source: Statistics Netherlands

The pension agreement states that the increase in the age for entitlement to a state pension (AOW) will be accelerated, rising from early 2013 by one month. By 2019 the pensionable age is to have reached 66 years, and by 2024 67 years. The current average age of retirement is now just over 63 years. The age of AOW entitlement for those in receipt of an employer's pension (second pillar) is also to be pushed back to 67 years by 2014. This means there will be a discrepancy between the two pensionable ages. It is not yet clear how this is to be resolved. In order for the rise in pensionable age to be effective, the labour market for older age groups has to improve. When older people lose their jobs, they often have great difficulty in finding work. More than half of older unemployed people remain jobless for over a year. However, no changes to employment law are proposed.

Tackling the housing market



Source: Statistics Netherlands

A start is made with the implementation of structural reforms on the housing market. From January 2013 new mortgages will have to be fully redeemed by the end of a thirty year period; and partial redemptions must be made at least annually as a condition of eligibility for tax relief. In order to further reduce the risks attached to high mortgage debt, the Loan-to-Value ratio will be gradually reduced from 106% to 100%. Transfer tax (stamp duty) will be permanently reduced to 2%, in an attempt to improve movement along the property ladder. It is hoped that these measures will restore confidence. According to the Dutch Association of Real Estate Brokers (NVM) house prices were down 4% during the past quarter year-on-year, and 14.2% fewer houses changed hands compared to a year ago.

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