



6 November 2012

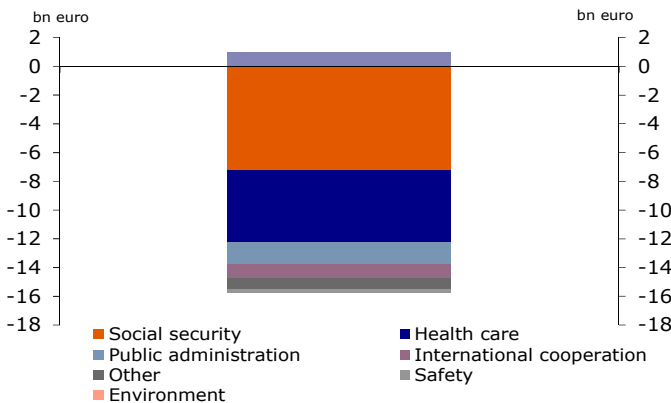
Coalition measures focus on the short term

	2011	2012	2013
<i>Year-on-year change in %</i>			
Gross Domestic Product	1.1	-½	½
Private consumption	-1.0	-1	0
Government expenditures	0.1	-¼	-1
Private investment	8.9	-2½	1
Exports of goods and services	3.9	4½	5
Imports of goods and services	3.6	3½	4
Consumer price index	2.4	2½	2
Unemployment (% labour force)	5.4	6½	7
Government budget (% GDP)	-5.0	-3.6	-2.7
Government debt (% GDP)	65.4	71.6	72.9
Current account balance (% GDP)	6¾	7¼	7

On 29 October coalition partners VVD and PvdA presented their programme for government. This states that between 2013 and 2017 projected savings of 15¾ bn euro are to be achieved via a raft of measures that are to come on top of earlier agreed proposals under the 1st Rutte cabinet and the 2013 budget agreement. The aim is to reduce the budget deficit to 1.5% of GDP by 2017. Unfortunately, the policies are chiefly aimed at short term budgetary consolidation. Not only will this have a negative impact on the economy, it will not be very effective in achieving the desired goals. The effect on reducing the budget deficit will be limited.

Source: Rabobank

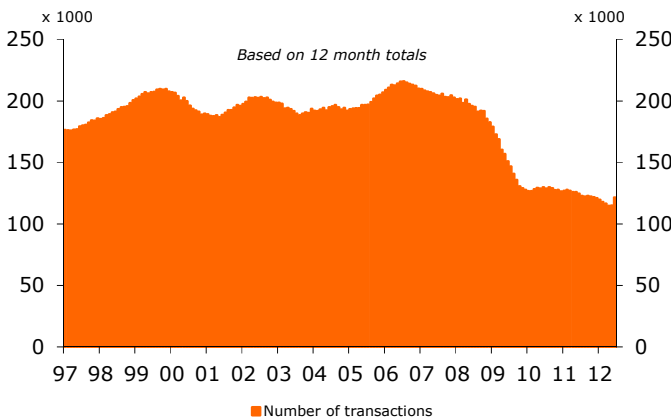
Biggest savings to be made in health care and social security



The largest cuts in government spending will be made in health care and social security. Long-term care will be treated as a provision and the financing of curative care will also be cut: the care allowance is to be abolished and the health insurance premium and insurance excess are to be made income-dependent. The introduction of a higher pensionable age is to be brought forward, and the maximum annual accumulation of pension rights is to be reduced. The duration and amount of unemployment benefit is to be limited and the accumulation of entitlements will be slowed down. Dismissal legislation is also to be tackled. In our view, the reforms do not all go far enough. Further action will be necessary in some cases.

Source: Bureau for Economic Policy Analysis

Reform of the housing market



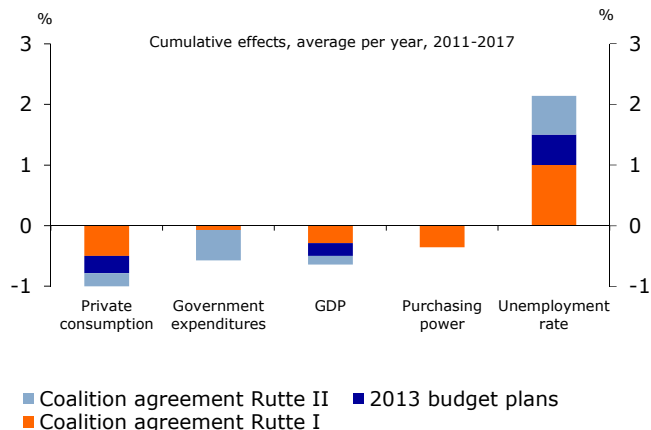
Reforms have also been announced for the housing market. In addition to the previously agreed rent increase, there will be a further rise of 1.5% plus inflation. Lower incomes will be compensated. The points system for rating rental housing will be abolished and replaced by a system based on the official WOZ-valuation. The coalition partners have agreed that the maximum rate at which mortgage interest may be deducted for tax purposes will be reduced annually by 0.5% over a period of 28 years. From 1 January, first-time buyers will be eligible for mortgage interest relief only if they fully redeem their mortgages on an annuity basis. This may lead to a temporary rise in the number of transactions.

Source: Statistics Netherlands

Economic Update The Netherlands

6 November 2012

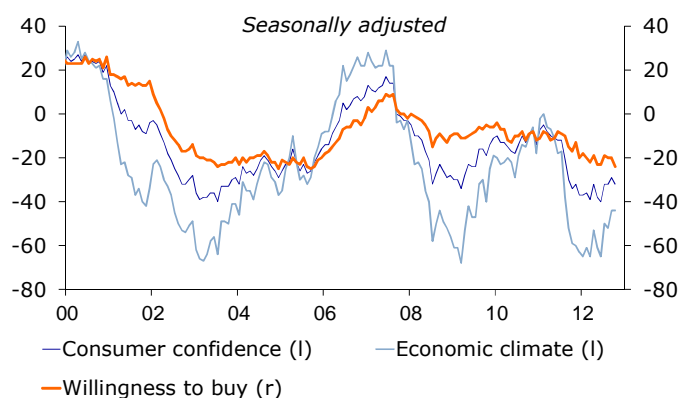
Coalition agreement will dampen economic growth



Reducing the budget deficit will unavoidably have some negative consequences for economic growth. On a cumulative basis, the cutbacks and tax increases contained in the 1st Rutte coalition agreement, the 2013 budget plans and the 2nd Rutte coalition agreement will have a negative effect on economic growth amounting to 4.5% of GDP for the 2011-2017 period. The phasing of the measures means that the main effect on the economy has yet to be felt in the coming years. A large part of this effect will be channelled through reduced consumer spending, which is largely attributable to the policies of the 1st Rutte Cabinet. The measures proposed by Rutte II mainly involve cuts to government spending.

Source: Bureau for Economic Policy Analysis, Rabobank

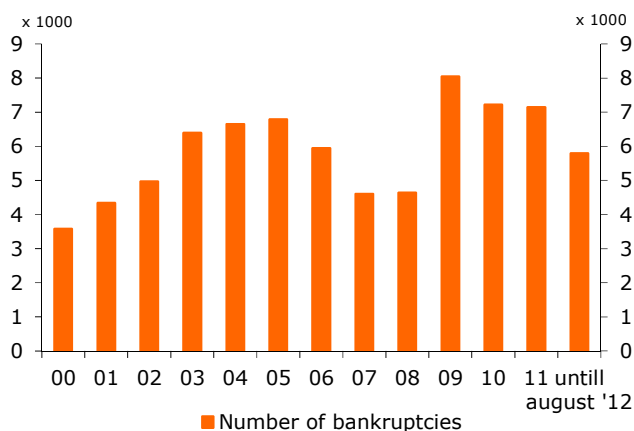
Consumers in a pessimistic mood



Consumer sentiment has been gloomy for a long time. Willingness to buy reached a low last month not seen since the start of the crisis in 2008. The pessimistic mood is not only the result of the economic situation, but is also related to uncertainty about issues such as future government policy. The new coalition agreement has brought little good news and it also lacks clarity. Questions have already been raised in the media for instance, about plans to make health insurance premiums income-dependent. It is therefore doubtful whether the programme for government can bring about a change in consumer sentiment.

Source: Statistics Netherlands

Businesses struggling



The accumulation of austerity measures will lead to a 4.5% decline in median purchasing power for the 2013-2017 period. The cutbacks and tax increases will furthermore result in a contraction of employment which will push up the unemployment rate by 2.1% between 2011 and 2017. It may be assumed that private consumption will decline by 1%-point during the same period. During the years ahead, a further decline in consumer spending can be expected. This is bad news for businesses. The growing number of bankruptcies shows that many companies are struggling. They will not be helped by consumers tightening their purse strings.

Source: Statistics Netherlands

www.rabobank.com/economics

Ruth van de Belt
Tel. +31 (0)30 - 2160143
R.Belt@rn.rabobank.nl