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Kingdom of the Netherlands—Netherlands: 2001 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2001 Article IV consultation with the Netherlands, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **March 12, 2001,** with the officials of the Netherlands on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on May 11, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff supplement of **May 25, 2001** updating information on recent economic developments.

- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during its June 6, 2001, discussion** of the staff report that concluded the Article IV consultation.

The document(s) listed below have been or will be separately released.

Mission Concluding Statement
Selected Issues papers

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KINGDOM OF THE NETHERLANDS—NETHERLANDS

Staff Report for the 2001 Article IV Consultation

Prepared by the Staff Representatives for the 2001 Consultation
with the Kingdom of the Netherlands—Netherlands

Approved by C. M. Watson and G. Russell Kincaid

May 11, 2001

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I. Introduction

1. A staff team comprising Mr. Ford (Head), and Ms. Detragiache, Kollau, and Louppe, (all EU1) visited Amsterdam and The Hague during March 2–12, 2001. Mr. Nijsse (Assistant to the Executive Director) also attended the meetings. In concluding the last consultation, on June 12, 2000 (SUR/00/47), Executive Directors commended the authorities for pursuing sound macroeconomic and structural policies, which had underpinned a prolonged expansion. Given the outlook, Directors stressed the risk of overheating and the need to conduct prudent fiscal policy to contain such risk, while still implementing the long-planned 2001 tax reform. They commended the medium-term, rules-based fiscal framework and indicated that, beyond 2002, it could usefully include more room for automatic stabilizers and a structural balance target. Directors encouraged the authorities to continue strengthening labor and product market reform, and to be vigilant of mortgage market risks.

2. The left-right coalition began its second term in 1998, and elections are expected in May 2002. Data provision is timely and adequate for surveillance of economic developments and policies (Appendix III). The Netherlands has accepted the obligations of Article VIII. The authorities have expressed their intention to publish this report.

II. Background

3. **The economy expanded strongly in 2000, for the fifth year running.** Real GDP growth of 3.9 percent exceeded both potential growth, estimated by the staff to be about 2¾ percent a year, and average growth in the euro area (Figure 1 and Table 1). The external sector was strong, reflecting growth in world trade and the depreciation of the euro. Although interest rates rose in the first half of 2000, they remained low by recent historical standards (Figure 2). Demand was also boosted by continued growth in employment and incomes, as well as by further rises in house and equity prices (Figure 3). Regarding the latter, the authorities estimated that the resulting increases in wealth had raised aggregate demand growth by about ½ of a percentage point a year in the past two years. In 2000, equity prices weakened; by contrast house prices rose strongly again through the year, although they showed signs of decelerating in the last quarter.

4. **As a result of several years of buoyant growth, labor and product markets have tightened, and wage pressures have appeared.** [1] Registered unemployment continued its decline, falling to 2½ percent in February 2001. Increases in compensation per employee have been edging up since the mid-1990s (Figure 4) and as a result profits are being squeezed. For 2001, the largest trade union federation recommended a wage increase of 4 percent to its members. The construction sector, however, recently settled for 5 percent

[1] The staff estimates that in 2000 aggregate demand exceeded supply (the output gap) by about 3 percent of potential GDP and the NAIRU was about 4 percent, or 1½ percentage points above the unemployment rate. These estimates are subject to considerable uncertainty.

(plus an adjustment if inflation exceeds 3.5 percent, marking the re-introduction of automatic cost-of-living provisions). In other sectors there are demands for non-wage concessions, such as extra holidays and profit sharing. Labor-market tightness has yet to translate into price pressures, however. Headline inflation rose sharply due largely to oil prices, but underlying inflation (HICP, excluding energy, food, tobacco, and alcohol) remained moderate at about 1¾ percent, although it too jumped sharply to 3¼ percent in January 2001 reflecting an increase in the VAT rate, which added an estimated 1 to 1¼ percentage points to the price level.

5. **As labor costs accelerated, competitiveness vis-à-vis the euro area gradually deteriorated**. Thanks to the large depreciation of the euro, overall competitiveness did not worsen (Figure 5). However, unit labor costs in manufacturing, which had fallen earlier in the decade, began to rise in the late 1990s, even as those in Germany and France continued to decline. Nevertheless, the external sector has remained strong. In 2000, the current account surplus fell slightly due to a drop in net factor income, but the trade surplus rose to 4.9 percent of GDP, as exports rose broadly in line with foreign demand.

6. **The fiscal consolidation begun in the late 1980s continued in 2000**. This longstanding policy has resulted in significant declines in the size of the public sector relative to GDP, with expenditures, taxes, the deficit, and the national debt all falling as a ratio to GDP (Figure 6). Since 1994, consolidation has been underpinned by the commitment of two successive governing coalitions to fiscal rules centered on ceilings for real expenditure growth.[2] In 2000, the surplus rose from 1 percent of GDP to a better-than-expected 2.2 percent of GDP (of which 0.7 percentage points were one-time receipts from the sale of UMTS licenses) and the debt-GDP ratio declined to 56.5 percent.

III. Policy Discussions

7. **In view of the cyclical situation, discussions centered in large part on the short-term outlook and the stance of fiscal policy**. There was little disagreement over the growth projection for this year and next, although the staff's interpretation of the slowdown was somewhat more benign than that of the authorities. In the context of risks to the projection, the staff emphasized the key role of the financial sector, which by all accounts should be able to weather even a hard landing. The authorities and staff agreed that the downgrading of

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[2] At its inception, the coalition agreed on a fiscal framework lasting through the end of the government period in 2002. Real expenditure growth was subject to a ceiling. In addition, rules were devised to deal with revenue windfalls or shortfalls due to deviations of actual growth from the prudent growth rate assumed as part of the framework. The relevant rule is that one-half the windfall is to be devoted to deficit reduction, and one half to tax cuts. In the event, growth has been substantially higher than assumed but, due to concerns about inflationary pressures, the windfalls have mainly not been used for tax cuts. Under the rule, the accumulated windfalls would allow a tax cut of up to 1.1 percent of GDP in 2002.

economic prospects had reduced the inflationary risks, but also that fiscal stimulus would be undesirable from a cyclical point of view. In a medium-term context, the mission discussed the shape of the fiscal framework that might be adopted by the new government after 2002, which was being studied at the time of the mission. The agenda for structural reform was also examined, particularly possible reforms of the tax and benefit systems to enhance incentives to work.

A. Short-Term Policy Considerations

8. **The authorities and the staff largely agreed that the short-term outlook was for lower growth.** The staff projects real GDP to grow by 2.9 percent in 2001 and 2.7 percent in 2002.[3] The National Bureau for Economic Research (CPB) forecast is 3.2 percent in 2001 and 2.8 percent in 2002, and the April Consensus Forecast is 3.1 percent and 3.2 percent. These projections are approximately in line with staff estimates of potential output growth, leaving the substantial positive output gap little changed. Several indicators, notably sharply declining consumer confidence, point to a short-term deceleration of economic activity (Figure 7). More fundamentally, growth will be reduced by sluggish foreign demand, traceable to the U.S. slowdown, weakness in Germany, lower private-sector investment growth, and the likely end of large increases in household wealth as the stock market stagnates or declines and house price increases tail off.

9. **Monetary and fiscal conditions, however, are expansionary**. The authorities and the staff agreed that monetary conditions were probably still too supportive from the perspective of the Dutch economy. Although this issue had become less pressing with the deterioration in short-term growth prospects, the cyclical position of the Dutch economy was substantially tighter than those of the major euro-area economies. Also, the fiscal stance is set to be quite expansionary in 2001. According to staff estimates, the surplus will fall to 0.7 percent of GDP, and the structural balance will move from near balance to a deficit of 0.8 percent of potential GDP (Table 2). This reflects a substantial decline in the revenue-GDP ratio of 1.9 percentage points, which is due to the long-planned tax reform (see Box 1), alone accounting for 1.2 percentage points, an expected correction in the extraordinarily buoyant inflows in 2000 of corporate and capital taxes, lower growth in housing transfer tax revenues due to the forecast cooling of the housing market, and a small deterioration in non-tax revenues.

[3] This is the Spring 2001 WEO projection. Based on futures prices, it is assumed that between 2000 and 2001 short-term interest rates decline by 20 basis points, the value of the euro against the dollar is essentially unchanged, oil prices fall from $28.20 to $25.50 a barrel. In addition, the WEO projection itself implies that the growth of Dutch export markets slows in real terms from 10.7 percent to 8.3 percent.

Box 1. The 2001 Tax Reform

The 2001 tax reform aims to secure a more stable tax base and improve incentives to work. In the broadest terms, it shifts the burden from direct taxation to indirect and environmental taxes. For income taxes, income is divided into 3 "boxes": Box 1 is income from work and imputed rent on a principal residence; Box 2 is income from a substantial business interest; and Box 3 is income from capital.

The key features of the reform are:

- The income tax base is broadened by eliminating some tax deductions, for example for consumer credit and the costs of commuting by car, by narrowing deductions for occupational savings and life insurance schemes, and by reducing (but not eliminating) the deduction for mortgage interest.
- Marginal income tax rates are reduced in all four tax brackets concerning Box 1 income. The lowest rate was set at 32.35 percent, while the top marginal rate was reduced from 60 percent to 52 percent.
- Tax credits replace tax allowances. Eligibility for tax credits is now determined on an individual basis, rather than on the basis of household income. In the new system, non-working partners are entitled to the general tax credit, while in the old system their working partners received a higher basic allowance. As this was at a high marginal tax rate, there was a disincentive for non-working partners to enter the labor market. For employed persons, a labor income tax credit was introduced to reduce the poverty trap.
- Capital income (that is, Box 3 income) receives more uniform tax treatment through the introduction of a 30 percent tax on imputed income from real and financial assets (excluding a principal residence). This tax replaces the wealth tax and the inclusion of dividends and interest receipts in ordinary income. Income from a substantial business interest (Box 2 income) remains taxable at a flat rate of 25 percent.
- The standard VAT rate rose from 17.5 percent to 19 percent, and there is to be a gradual further increase in environmental levies.

10. **Notwithstanding slower growth, tight labor markets are likely to put some continuing pressure on wage growth.** For 2001, the staff projects labor compensation to rise by 4¾ percent, which implies some overrun relative to the guideline of 4 percent set by the Dutch Trade Union Federation. Next year, wage pressures could ease somewhat, since headline price inflation is projected to fall to 2.4 percent (from 3.9 percent this year), as the effects of oil price increases and the rise in the VAT rate wear off. On this basis, and bearing in mind that labor-market pressures are unlikely to recede significantly, the CPB and the staff project labor compensation to rise by 4 percent in 2002. These figures compare with underlying labor productivity growth (that is, consistent with estimates of potential output growth) of 1 to 1½ percent.

11. **While noting that lower growth helped to ease inflationary tensions, the authorities pointed to risks, notably on the wage front.** Sustained high wage growth would result in a further deterioration of competitiveness against the euro area, especially if unit labor costs in Germany and France remained moderate. This might, in turn, begin to reverse the beneficial effects of the longstanding social consensus on wage moderation—which has been a fundamental contributor to economic performance—and thereby jeopardize growth and employment. The authorities also pointed to the more immediate risk of a sharper than anticipated worldwide downturn in the short term. Apart from direct trade links with the United States, they argued that Dutch growth would be adversely affected through international financial markets, the substantial presence of Dutch multinationals in the United States, and trade links through emerging markets. In this connection, they noted that the 2001 fiscal impulse may prove fortuitous, even though a year ago it had seemed badly timed from a cyclical perspective.

12. **The staff argued that recent developments were consistent with the central projection of a soft landing in the Netherlands, but that the economic consequences of the risks to that projection were asymmetric.** In the absence of monetary mechanisms, the observed rise in labor costs and the pressures on competitiveness and profits are mechanisms by which macroeconomic adjustment occurs in a cyclically advanced economy like the Netherlands.[4] In this light, the staff emphasized the asymmetric nature of the risks to the projection. Somewhat lower growth than projected would be relatively benign, in that demand pressures would be relieved; but a period of higher growth would intensify wage pressures and could lead to significant overshooting and ultimately a more severe correction. The staff noted that the fiscal expansion this year, while integral to the tax reform which had clear merit, had tended to delay the necessary macroeconomic adjustment.[5]

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[4] See the Selected Issues paper for a discussion of cyclically advanced economies in the euro area.

[5] According to simulations of the Oxford Economic Forecasting (OEF) model, in the absence of this impulse real GDP growth would be 0.4 percentage points lower in 2001, and the output gap would therefore narrow by about ¼ of a percentage point.

13. **The authorities and the staff agreed that further fiscal expansion in 2002 would be undesirable, both for cyclical reasons and in a longer-term perspective.**[6] The fiscal framework would in principle allow tax reductions in 2002 of as much as 1.1 percent of GDP, based on the accumulated growth-related revenue windfalls.[7] In addition, the authorities reported that, following years of austerity, political pressure to raise expenditures had increased. These pressures were especially intense for heath care and education, which many people perceived to have been starved, although expenditure growth in these areas had roughly kept pace with GDP growth in recent years. To avoid a fiscal expansion, the staff recommended that the accumulated revenue windfalls be devoted fully to debt reduction, rather than to tax cuts, and that the expenditure ceilings be strictly observed. The authorities indicated that any tax cuts would be much smaller than the maximum allowed by the framework. They also stated their intention to adhere to the expenditure ceiling, and redeploy resources under it to meet spending demands.

14. **The discussions probed whether the risks of a hard landing, if they materialized, would be aggravated by financial-sector developments triggered by the house market.** A weakening of the banking sector would magnify a downturn—in the short-term, or after a period of further high growth had exacerbated the financial imbalances—by causing an undue restriction of credit. An area of potential vulnerability is the house market. Mortgage debt has risen rapidly, and stood at over 130 percent of household disposable income in 2000. This compares to 90 percent in 1995 and 60 percent at the peak of the real estate boom in the late 1970s (although at that time interest rates were much higher).[8] The authorities considered first-time buyers who had entered the market recently at high prices to be particularly exposed: according to a March, 2000 survey, interest payments of households who took out mortgages after 1995 amounted to 17.5 percent of their gross income. The

[6] Another source of demand stimulus would be a significant easing of monetary conditions in the euro area, although this is, of course, beyond the control of Dutch policymakers. Simulations of the OEF model suggest that a 100 basis point cut in interest rates in 2001 would raise the level of Dutch GDP by almost 1 percent and inflation by 0.6 percentage points by 2003.

[7] Simulations of the OEF model indicate that a tax cut this large would raise GDP growth by about ⅓ of a percentage point in 2002 and 2003, and lower the unemployment rate by about ⅓ of a percentage point by 2004. The Morkmon model of the Dutch central bank yields similar qualitative results, but a larger decline in unemployment.

[8] It is also one of the highest ratios in the EU. The extension of mortgages in the Netherlands has been facilitated to some extent by a relaxation of bank lending criteria, the tax deductibility of mortgage interest, and the popularity of mortgage arrangements that maximize this tax deduction (spaarhypotheek). The 2001 tax reform limits tax deductibility of mortgage interest payments to the first mortgage, unless the second mortgage is used for home improvements.

direct wealth effects of a collapse in house prices could be substantial. According to simulations by the central bank, a 40 percent decline in house prices would cut real GDP by nearly 2 percent over three years via wealth effects, although the authorities emphasized that they considered a decline of this magnitude to be very unlikely. In addition, to the wealth effect, the decline in house values coupled with a sharp rise in unemployment could lead to a wave of mortgage defaults, undermining the financial sector.

15. **However, any repercussions through the financial sector would probably be limited.** The banking supervisor (the central bank) judged the solidity of the system to be beyond dispute. It is dominated by three large, diversified banks, which are in a good position to weather even a hard landing. The profitability, capitalization, and asset quality of the sector remain strong (see Table). On the other hand, the ratio of risk-adjusted capital to assets has declined somewhat in the past few years (although it is well above the 8 percent Basle requirement), exposure to emerging markets rose to 55 percent of own funds in 2000, and real estate mortgages alone accounted for a fifth of bank assets. Regarding the latter, the authorities regarded mortgages as low-risk assets because this has been the case historically and they felt that even in the event of a substantial fall in house prices almost all households would continue to make their mortgage payments. Exposure to the high-tech sector, which may represent a significant risk in view of sums paid for UMTS licenses and of recent steep declines in equity values in that sector, while not quantified, was deemed well within prudent limits.

Netherlands-Selected Banking System Indicators
(In percentage)

	Total banking sector		Three largest banks	
	1999	2000	1999	2000
Risk-adjusted capital asset ratio	11.18	11.25	10.57	10.61
Provisions/loans and advances	1.5	n.a.	1.6	n.a.
Liquidity ratio (actual/required)	1.64	1.56	1.46	1.37
Return on equity	14.24	14.68	13.74	13.19
Domestic real estate mortgages/total assets	21	20	n.a.	n.a.
Exposures to U.S./own funds	70	102	57	83
Exposures to emerging markets/own funds	36	55	27	38

Source: DNB.

16. **The authorities and the staff agreed on the need for continued close supervision of the financial sector.** The establishment of the Council of Financial Supervisors had solidified the links and cooperation between banking, insurance, and securities supervisors. The staff raised the issue of supervision of banking-insurance conglomerates, noting that it was important to avoid unnecessary duplication, but also to ensure there were no supervisory gaps. The authorities considered that the potential for overlap was adequately dealt with by

coordination between the supervisors. As to gaps, it appeared that both the banking and insurance arms of the conglomerates were so well diversified that there was little to be gained by supervising the conglomerate as a whole, except to the extent that strategic decisions were being made at the top level. Looking forward, the banking supervisor strongly supported the new Basle capital accord, since it would align capital requirements more closely with the underlying risks, create incentives for the banks themselves to better assess and manage their risks, and enhance market discipline through greater disclosure. They noted, however, that implementing the accord would require strengthening supervisors' analytical capacities, which was in the process of being developed.

B. Medium-Term Fiscal Issues

17. **There was agreement that fiscal rules should continue in some form in the next government**. The general shape of the framework for the next government period, beginning in 2002, had been the subject of a report by the Social and Economic Council (SER) in July 2000, and at the time of the mission a high-level government committee was formulating a new proposal for consideration by the political parties and eventually the incoming government. The general sentiment, with which the staff agreed, was that the current framework had worked well and that its key features should therefore be retained. In particular, there was agreement on the importance of the expenditure ceiling and its separation from revenue decisions. This ceiling has been at the heart of the current framework, helping to ensure the room for deficit and tax reductions.

18. **The accumulation of revenue windfalls during the past three years pointed to two interconnected reforms**. The staff argued that replacing the current rule (that half such windfalls be devoted to tax cuts) with one that devoted them all to the deficit, and using a realistic, rather than a deliberately conservative, assumption regarding potential growth would effectively allow the full use of the automatic stabilizers.[9] A medium-term budget scenario built on a realistic assumption for potential growth would also provide a clearer picture of the government's budgetary goals. There was support for abandoning the windfall rules, which in any case had not been implemented, and for a more realistic growth assumption, as had been advised by the SER. The authorities noted, however, that adopting a

[9] Full operation of the automatic stabilizers requires that changes in the fiscal balance resulting from deviations of output from potential not be offset by discretionary measures. In contrast, the current framework envisions a partial offset. Using a realistic assumption for growth would help to ensure that fiscal policy turned expansionary when output was below potential and vice versa.

cautious assumption would help to hold spending in check, and it would also tend to result in revenue windfalls, which are easier to deal with than shortfalls.[10] It was agreed that great care should be taken in estimating trend output, especially because the recent period of unusually high growth could lead to an excessively optimistic estimate.

19. **In the staff's view, the details of the expenditure ceilings, though of less importance, also warranted examination**. Excluding the non-tax revenue items that are in the current spending ceiling, and defining the expenditure control aggregate to match national accounts practice more closely, would increase transparency. And excluding very cyclically sensitive items, notably unemployment insurance outlays, would limit the risk that other expenditures would have to be cut unduly in the event of an economic downturn, as well as allowing some automatic stabilization on the expenditure side.[11] The authorities argued that the latter suggestion would tend to weaken the ceilings by excluding a substantial fraction of expenditure and by reducing transparency.

20. **In addition to the rules, specific medium-term fiscal needs were also discussed.** The dominant long-term consideration is, of course, the fiscal costs of aging, and the staff argued that an explicit view should therefore be taken regarding the desirable path of public debt or, equivalently, the structural balance.[12] The CPB estimated that public sector pension payments (net of tax revenues, as pension payments are taxable) and health-care expenditures will rise as a fraction of GDP by 3.5 percentage points between now and 2040. In a recent study, the European Commission presented estimates that appeared to be somewhat larger, although an exact comparison cannot be made. The authorities and the staff agreed that a sustained surplus of between 1 and 2 percent of GDP would allow costs of this magnitude to be met from interest savings on the public debt.[13] In addition, the need to improve the

[10] In this context, it is worth recalling that the staff medium-term projection is an average growth rate of real GDP in the next five years of 2¼ percent. This is the same as the authorities' conservative assumption. However, since the staff projection assumes that the existing output gap will be gradually eliminated—a soft landing—this figure is average growth in the downturn phase of the current business cycle, rather than potential output.

[11] In the past few years, of course, the economic boom has caused an unanticipated decline in cyclical expenditures, allowing spending on other items to grow more rapidly.

[12] The elderly dependency ratio in the Netherlands will peak at 43 percent in 2040, compared to the current level of 22 percent; the average for the 15 EU countries will rise from 27 percent to 53 percent over the same period.

[13] In a straightforward simulation by the staff, a surplus of 1½ percent of GDP, sustained from 2001 to 2020, would essentially eliminate the national debt (45 percent of GDP in 2000) and thereby reduce interest payments from 3½ percent of GDP to zero. By contrast, a budget balance would reduce the net debt to about 18 percent of GDP and yield interest savings of about 1½ percent of GDP.

balance, as well as to cut the tax burden further, implied that the ceiling on the growth of real expenditures would have to be below the long-term real growth potential of the Dutch economy, as had been the case in the current framework.

C. Labor Market Issues

21. **Progress on labor-market reform has been considerable, but the Netherlands still has a considerable pool of unutilized labor.** Participation rates have risen to nearly the euro-area average, but remain low among some groups (women, minorities, and those aged 55–64).[14] In addition, unemployment and nonparticipation is high among minorities. The large number of social assistance benefit recipients, along with generous benefit payments, imposes a substantial burden on public finances, amounting to 11.2 percent of GDP in 2000.

22. **A key remaining impediment to further labor-force expansion is the large poverty and inactivity traps at low earnings.** High marginal effective tax rates reflect to some extent the flatness of personal income taxes, but are mainly due to the withdrawal of various welfare benefits as a result of becoming employed or of increasing work effort once employed. Thus, marginal effective tax rates for a single-earner family with three children, including loss of benefits as income rises, are about 120 percent for incomes as high as 40 percent above the minimum wage (Figure 8). The authorities agreed that reform of benefit programs was essential, with the reservation that the purchasing power of beneficiaries would have to be protected. A commission had been established to investigate this issue from a long-term perspective. To increase the transparency of the implicit tax rates, the staff suggested greater integration of taxes and benefits (the "fiscalization" of benefits). The authorities agreed that this had some appeal, but noted that it would mean reversing the trend towards an individualized income tax system, since benefits are necessarily family based. Also, fiscalization would not in itself change effective tax rates, and thus would be only a first step in a long reform process.

23. **The 2001 tax reform contains measures to encourage labor market participation by the low skilled.** Tax rates on labor income were reduced, although including social security contributions they remain over 30 percent, even at the low end. Personal allowances have been replaced by a general tax credit for each taxpayer, which reduces the disincentive for married partners to seek employment. An important measure is the introduction of a labor tax credit (LTC), to which only earners of labor income are entitled, which increases after-tax income to widen the gap between work and welfare, and reduces marginal tax rates at the low end. (See the Selected Issues paper for a detailed description and international comparisons.)

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[14] In 1999, compared to an overall rate of 65.5 percent, the participation rate was 54 percent for women, 57 percent for minorities (in 1998), and 32 percent for those aged 55-65.

24. **The staff argued that the LTC should be expanded to further stimulate labor supply**. This would involve both increasing the work subsidy for low-wage earners and adding rebates (a "refundable credit") so those who qualified, but had a small tax liability, would benefit fully. The authorities agreed that expanding the LTC would be desirable, but noted the high budgetary cost. This was essentially because, unlike in the similar French, U.K., and U.S. programs, the credit does not taper off at higher incomes. As a result, those earning more than the target group, and whose labor-market incentives are unaffected, receive some 80 percent of the spending under the program. The staff argued for phasing out the credit as income increased, but the authorities responded that this would unduly discourage the work effort of those at higher income levels because their marginal tax rates (while still well below the rates faced by some at the low end) would necessarily rise.

25. **Recent measures to reform the large disability program have not stemmed the inflow of beneficiaries, and it was widely recognized that more needed to be done**. The number of disability beneficiaries has been rising in recent years; it stood at 942,000 in 2000 and might rise above the politically sensitive figure of one million as early as this year. The authorities noted that the overall benefit-dependency rate was not especially high in the Netherlands (see Table), which suggested some substitution across programs. To some extent, this issue may be addressed by the ongoing reform of the welfare administration, which has merged the five agencies responsible for delivering welfare services and introduced a "gatekeeper" (a single entry point into the welfare system) to enhance reintegration. At the time of the mission, the Donner Commission was formulating policy advice specific to the disability program. The staff argued that the replacement rate should be reduced; it is 100 percent in the first year (sickness benefits) and often nearly that in the second year (that is, the first year of disability benefits proper). They also argued that the quality of medical examination should be increased, to ensure that only the truly disabled were allowed into the program. While agreeing with the latter, the authorities argued that overall replacement rates in Dutch program compared well with those in other countries.

26. **Concerning those in the 55 to 64 year bracket, the government has set a target of raising the participation rate, now at 32 percent, by 0.75 percentage points a year**. The problems posed by low participation of this group will intensify if the same proportion of the large baby-boom cohort also chooses early retirement. Since 1997, the social partners have been moving from an early retirement system that penalized continued work to one that is more actuarially fair. More recently, people in early retirement have been allowed to work part-time, and the calculation of retirement benefits will no longer penalize workers who reduce work hours or accept lower pay in the last years of work. The government is also considering lifting the exemption from job search for older unemployed by 2003, pending an assessment of employment opportunities for this group of workers. The mission supported these measures, and argued for the abolition of the job-search exemption in particular. In this connection, it noted that the assessment should be forward-looking, in that it should consider the incentives and opportunities of future cohorts, rather than of just the current individuals in this age group.

Netherlands: Benefit-Dependency Ratio, 1997
(Benefit-years of those younger than 65, as a percent of full-time equivalent employment)

	Pre-pension[1]	Disability	Unemployment	Assistance	Other[2]	Total
Belgium	7.9	6.6	20.3	4.6	14.5	53.9
France	13.7	10.8	12.0	4.9	9.2	50.5
Germany	9.3	7.3	13.4	4.2	14.1	48.3
Austria	11.0	6.7	6.8	2.2	20.9	47.7
Denmark	4.4	9.5	8.3	11.4	9.5	43.1
United Kingdom	6.1	9.5	0.9	17.2	3.8	39.3
Netherlands[3]	**0**	**11.1**	**7.4**	**10.7**	**8.5**	**37.7**
Sweden	0.9	12.1	10.5	2.5	11.6	37.6
Spain	1.0	9.7	10.3	1.1	4.2	26.3
United States	2.9	7.9	1.9	3.5	4.6	20.8

Source: *Benefit DependencyRatios: An Analysis of Nine European Countries, Japan, and the United States* (1999), prepared by the Netherlands Economics Institute for the Dutch Ministry of Social Affairs; staff calculations. Although efforts have been made to mitigate inconsistencies across countries, full comparability has not been achieved regarding the treatment of, for example, benefits paid to families and individuals receiving multiple benefits.

[1]Includes those eligible for old-age pensions who are under 65 years old.
[2]Sickness, survivors, maternity
[3]For pre-pensions, 2.5 percent including non-statutory arrangements.

D. Other issues

27. **Progress continued to be made on product market reform.** The electricity and gas sectors are being liberalized: industrial consumers can already select their supplier, and others will be able to do so between now and 2004. The authorities endorsed the Lisbon summit approach of accelerated liberalization of these markets on a EU-wide basis. The telecom sector has also been liberalized, although the state still holds a 43 percent share in KPN, the main telecommunications operator. The Deregulation and Quality of Legislation scheme (MDQ), which has been at the heart of much product-market reform, has a long list of completed projects to its credit. The authorities explained that the MDQ was moving in new directions, notably exploring new regulatory instruments (for example, vouchers for education and, possibly, health care; and tradable permits for pig farming and taxis) and increased use of cost-benefit analysis. Progress has also been made on reducing the administrative burden, and an independent body to review the burden imposed by new legislation (ACTAL) is in place. There was agreement, however, that more needed to be done to reduce the impact of existing procedures, as well as designing new measures with a view to limiting additional burdens.

28. **Nevertheless, the momentum for reform appeared to be weakening.** To some extent, the authorities attributed this development to "reform fatigue": much had been done and there was a growing constituency for a pause. The public has perceived a deterioration in

the quality of public services, notably health care, education, and transport, an issue related to the spending pressures discussed above. In addition, it was increasingly felt that this trend would only be exacerbated by further liberalization and privatization, and that following privatization investment might prove insufficient and regulation inadequate. The recent and well publicized difficulties of the British rail system and the California power system had not improved the political climate.

29. **The 2001 tax reform made substantial changes to the personal income tax system, but left corporate income taxes untouched.** Reforms in Germany and France will reduce the euro-area average corporate tax rate to about the Dutch level of just below 35 percent by 2003. The staff noted that this erosion of relative tax rates may generate pressures for reform in the Netherlands in the years ahead. In addition, the 2001 tax reform provided some scope for corporate tax cuts, in the sense that rates on other forms of business income had been reduced, thereby lowering the incentive for tax arbitrage. While stressing that no decisions had been taken in this area, some authorities argued that reductions in corporate tax rates might help to improve the functioning of product markets, and in particular encourage the high-tech sector. The staff also raised the issue of widening the income tax base, notably by further restricting the tax deductibility of mortgage interest payments. The authorities agreed, while noting that further restrictions on mortgage interest deductibility would have to be phased in over time.

30. **Regarding international trade policy, the authorities emphasized continued multilateral efforts to lower barriers.** In this connection, they supported the decisions at the EU level to press for the beginning of another WTO round and the decision to allow the 48 poorest countries quota and duty-free access to EU markets (except for a transition period for sugar, rice, and bananas). Apart from direct beneficial effects for the countries involved, this initiative should contribute to the confidence-building needed in the run up to the next WTO trade round. The Netherlands has also made adjustments to its overseas development assistance (ODA) policy to allow the recipient countries to set spending priorities, to replace project-oriented assistance with multi-year sectoral programs, and to increase the share of multilateral ODA. The overall level of ODA is expected to be 0.8 percent of GNP in 2001, in excess of the United Nations target of 0.7 percent of GNP.

IV. Staff Appraisal

31. **The strong output growth and labor-market performance of recent years reflect both supply-side and demand-side factors.** Wage moderation, structural reform, and sustained reductions in both the tax burden and the fiscal deficit have underpinned medium-term improvements in the productive potential of the Dutch economy. In the past four years, an important cyclical component has been reflected in increasing labor market tensions, rising unit labor costs, and a deterioration in domestic profits and international competitiveness. With sound supervision of the financial sector, these latter developments are at this point best seen as part of the process of macroeconomic equilibration that will, over time, slow the economy to a more sustainable pace. But given the risks of overshooting and an eventual hard landing, fiscal restraint has a crucial role in ensuring this soft landing.

32. **In 2001 and 2002, real GDP growth is expected to moderate to under 3 percent, but the economic consequences of risks to this scenario are asymmetric.** The slowdown reflects the effect of reduced growth in the United States and Germany, as well as domestic cost pressures that have weakened private investment. These factors are this year being offset by the substantial fiscal impulse associated with the long-planned tax reform. Moreover, monetary conditions continue to remain supportive, in view of the advanced cyclical position of the Dutch economy, although worsened growth prospects have mitigated this concern. Unless growth proves lower than projected, the tight labor-market situation will not ease materially in the short run. By contrast, growth significantly higher than now expected, especially if it were sustained, would exacerbate the existing imbalances.

33. **The performance of the financial sector would be critical in the event of a hard landing.** In the worst case, such tensions could eventually lead to overshooting wages, a steep decline in economic activity, and a sharp rise in unemployment. These developments could weaken the financial sector, aggravating the downturn. However, the Dutch banking system is well positioned to weather a hard landing. The major institutions are large and highly diversified and supervision has remained vigilant. Nevertheless, risks have risen in the mortgage market as house prices and mortgage liabilities have increased substantially in recent years. Although the tax advantage enjoyed by mortgages has already been curtailed somewhat by the 2001 tax reform, further reduction over the longer run would encourage households to return to a more balanced financial position. For their part, supervisors will face the challenge of keeping pace with financial innovation, including new technologies of risk management, and with the increasing complexity of financial institutions.

34. **Fiscal restraint has a crucial role to play in containing the risk of further overheating, as well as in a medium-term perspective.** The decline in growth expected this year has eased overheating concerns somewhat, but fiscal stimulus should be avoided until demand pressures are relieved. In formulating next year's budget, therefore, it will be important to adhere strictly to the expenditure ceiling that was laid out in the coalition agreement. Pressures to increase spending in certain areas, such as health care and education, should be met by reallocating resources within the ceiling. In addition, the substantial tax cuts theoretically allowed by the fiscal rules should be forgone. Fiscal restraint would also be an important step toward establishing the structural, sustained surplus of between 1 and 2 percent of GDP needed to meet the eventual fiscal pressures that will be posed by population aging. Holding the line on both spending and taxes in 2002 would yield a surplus of about 1¼ percent of GDP, and balance in structural terms.

35. **The experience of the last seven years argues strongly for retaining the broad contours of the current fiscal framework.** The real expenditure ceiling, and the consequent separation of expenditure and revenue decisions, has proved especially critical. But there are also areas for improvement. The rules for dealing with windfall revenues should be replaced by the full use of automatic stabilizers; that is, devoting all growth-related windfalls and shortfalls to the balance. Within the multi-year framework, this policy would be facilitated by a realistic assumption about underlying, or potential, economic growth. Because of the large uncertainties involved, when estimating evolution of trend output in the years ahead a

prudent approach would be advisable; the recent growth rates of well over 3 percent a year should certainly not be taken as an indication of sustainable growth. In addition, it is worth considering aligning the spending aggregate subject to the ceiling more closely with widely understood national accounts concepts, and removing highly cyclical items (notably, unemployment insurance).

36. **Steady gains have been made in labor markets, although further measures to sharpen work incentives are needed.** The 2001 tax reform contains welcome measures to encourage labor-market participation, particularly the labor tax credit (LTC). The increasing use of actuarially fair early retirement benefit schemes should raise participation among older people, and the proposed elimination of the exemption from job search for older unemployment benefit recipients would be welcome. Yet, the situation of some groups (especially the unskilled, minorities, and those in the 55-65 age bracket), though improved, remains unsatisfactory.

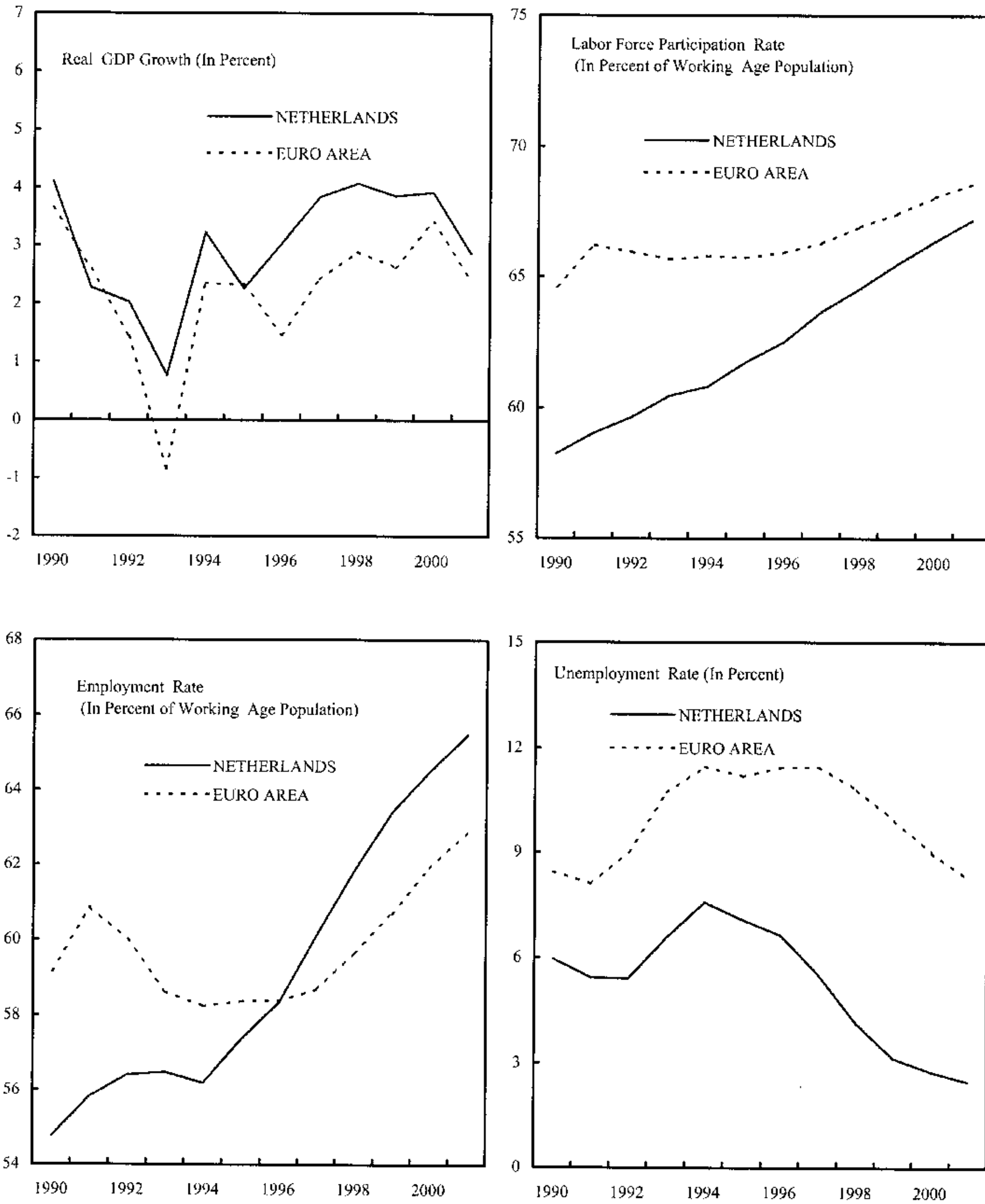
37. **Addressing the weaknesses of the disability program is a clear priority.** Although overall dependence on public transfer programs is not particularly high in the Netherlands, the number of people on disability benefits continues to grow. The widespread recognition that the disability program must be reformed is also welcome. Progress in this area will, however, depend on reducing the very high replacement rates in the first two years of sickness/disability, and strengthening the control of entry into the program. The reorganization of the welfare administration has the potential to increase the effectiveness of reintegration efforts, both with respect to disability and more generally.

38. **The elimination of very high average and marginal tax rates at the low end of the earnings scale will be fundamental to further gains in labor-market performance.** Ultimately, this will require addressing the disincentives created by the withdrawal of benefits from those who wish to become employed or increase their hours worked. In the immediate future, however, expanding the LTC by raising the subsidy element and by making it refundable (so those with low tax liabilities would also benefit) would be a significant step forward. Considerable resources would be freed for this purpose by phasing out the credit at higher incomes, as is done in similar schemes elsewhere, even though doing so would raise marginal tax rates higher up the earnings schedule. In addition, the scale of the poverty trap and the problems it creates would become much more transparent, and thus support for reform might be increased, if the relevant benefit schemes were integrated into the tax system.

39. **Progress in liberalization of product markets has continued, but the momentum for reform needs to be maintained.** The Netherlands is at the forefront of EU countries in this respect, but since the process of reform remains incomplete it will be important to ensure that the next set of measures is successful, and is seen to be so. Regarding the administrative burden of government, the important steps already taken have not been sufficient, and it may take a broader, more central political effort to effectively address the problem. Finally, corporate income tax cuts elsewhere in the EU may increase pressure for reform in the Netherlands as well, although the benefits would have to be weighed against needed labor-market measures.

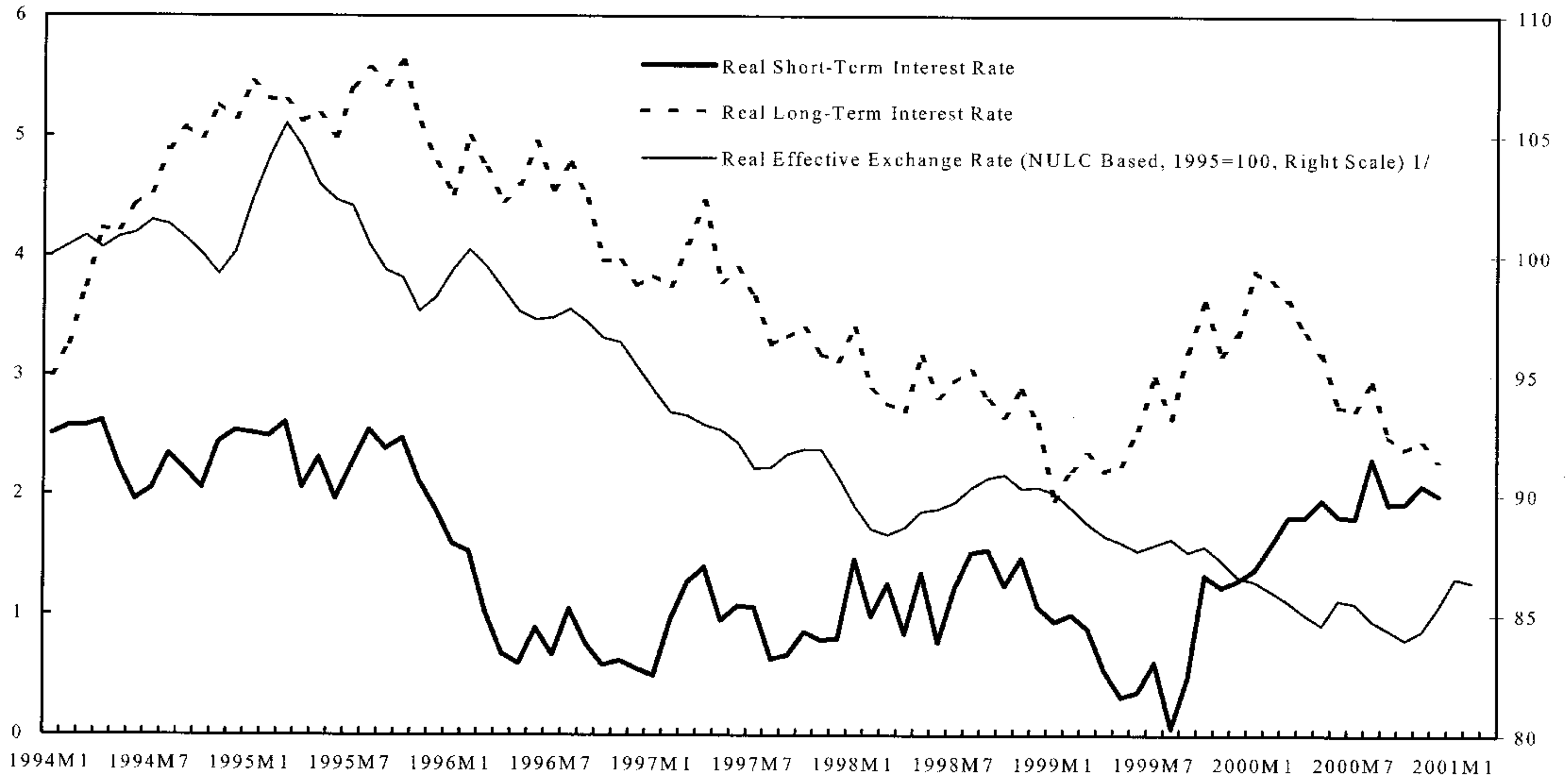
40. It is proposed that the next consultation be conducted on the standard 12-month cycle.

Figure 1. Netherlands: GDP and Labor Market Indicators



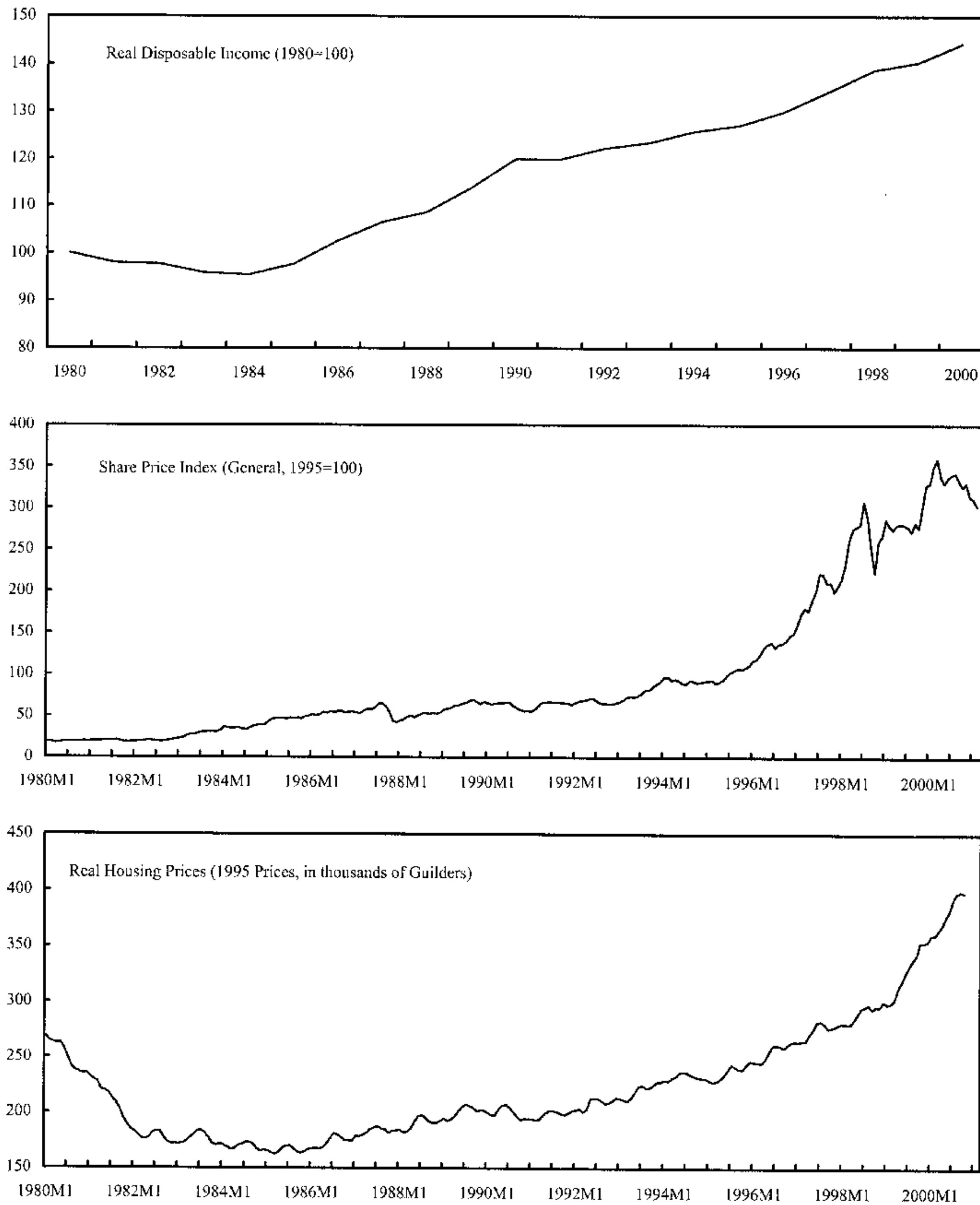
Sources: OECD, Economic Outlook Database and IMF, WEO.

Figure 2. Netherlands: Monetary Conditions



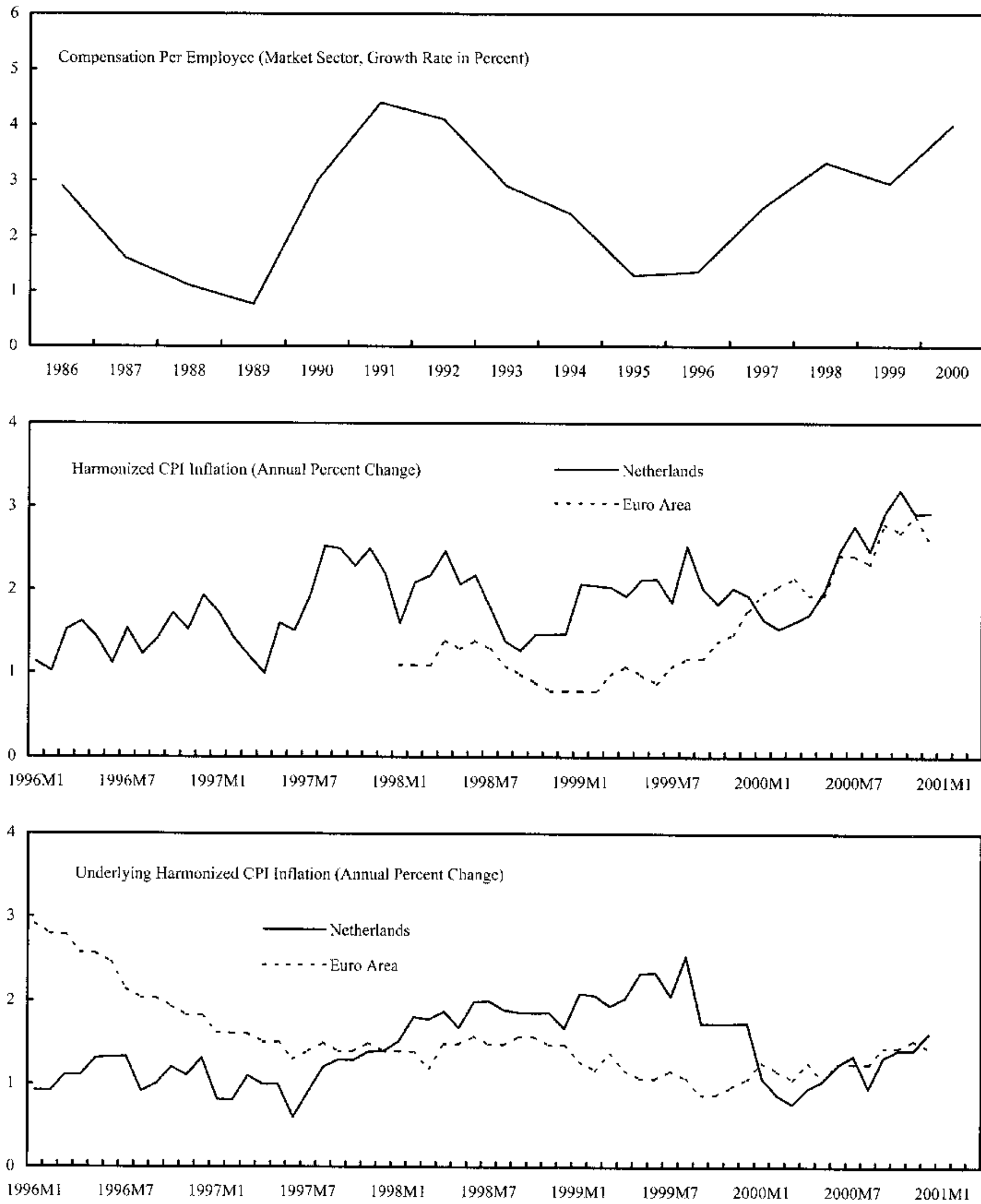
Source: IMF, IFS.
1/ An increase implies less accomodative conditions.

Figure 3. Netherlands: Asset Prices and the Mortgage Market



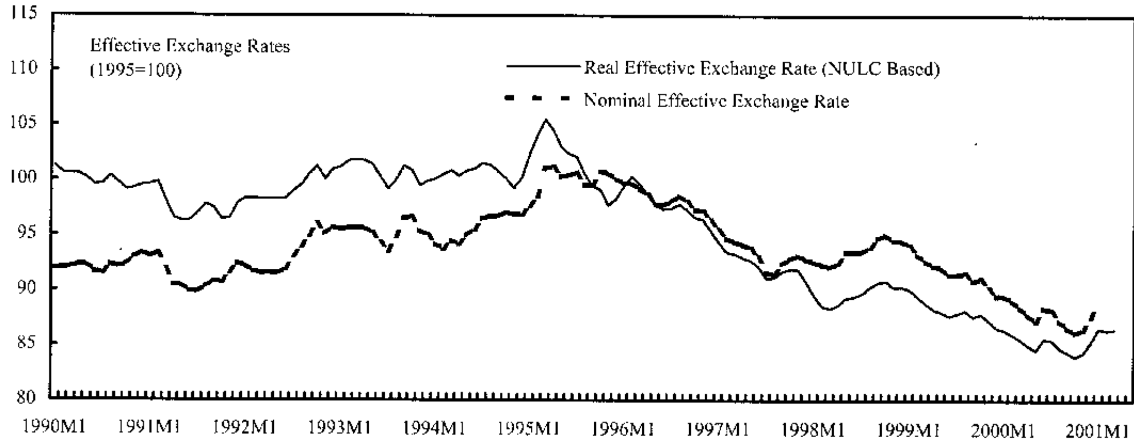
Sources: IMF, IFS and WEO; and the Authorities.

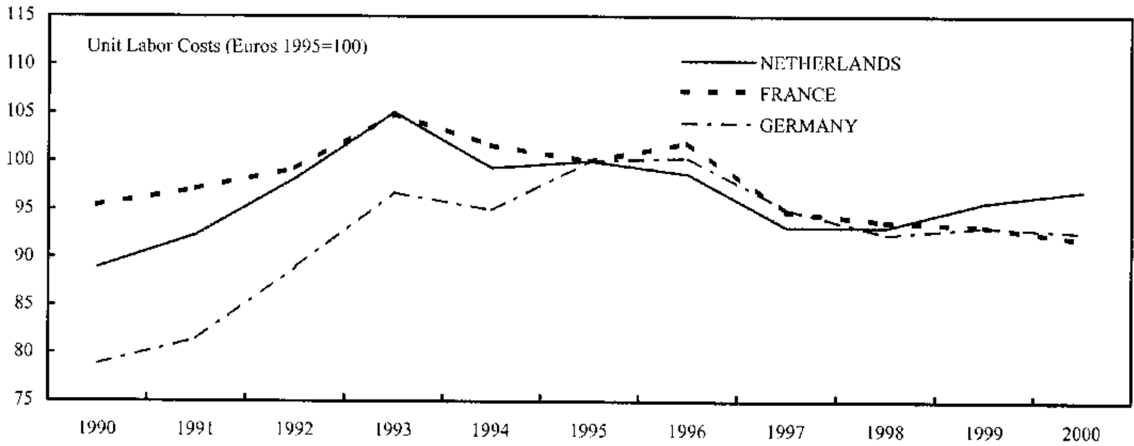
Figure 4. Netherlands: Prices and Wages

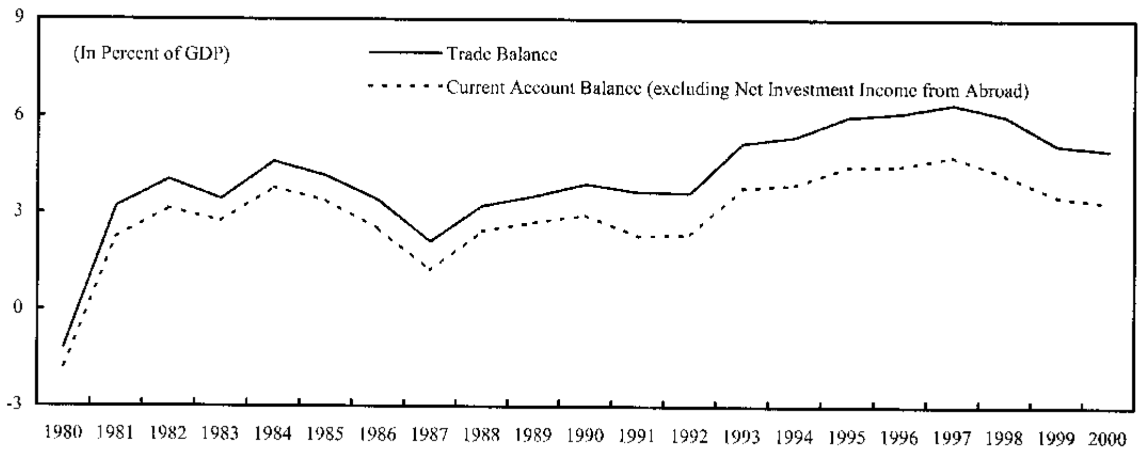


Sources: Eurostat; CPB ; and IMF, IFS.

Figure 5. Netherlands: Competitiveness Indicators

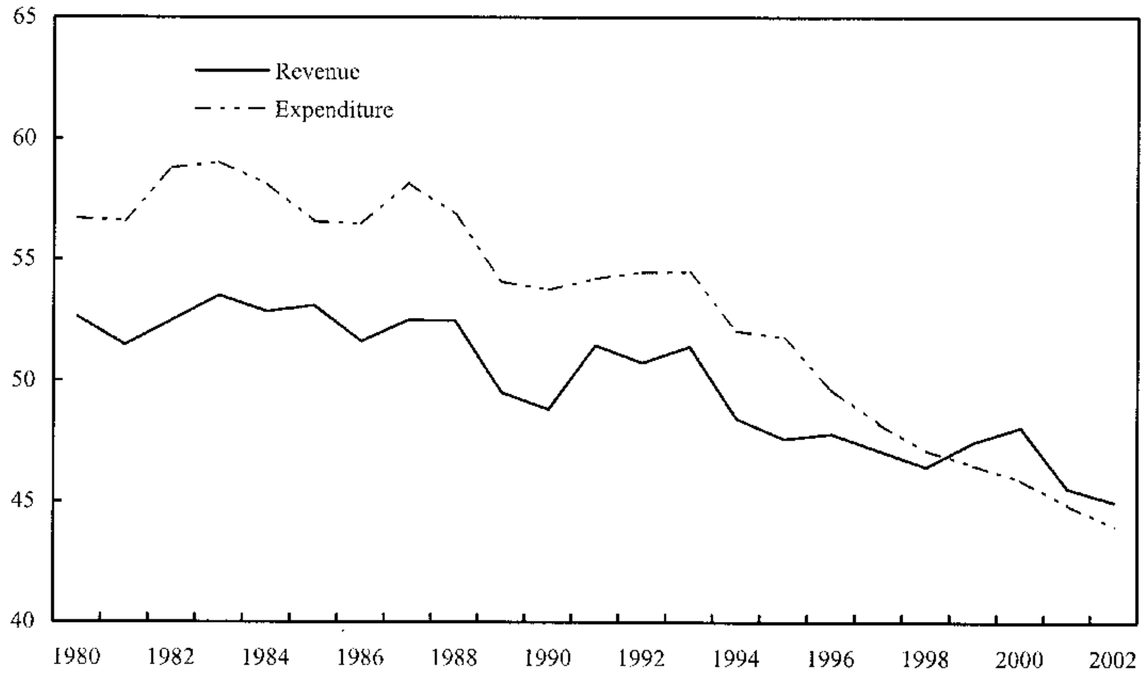


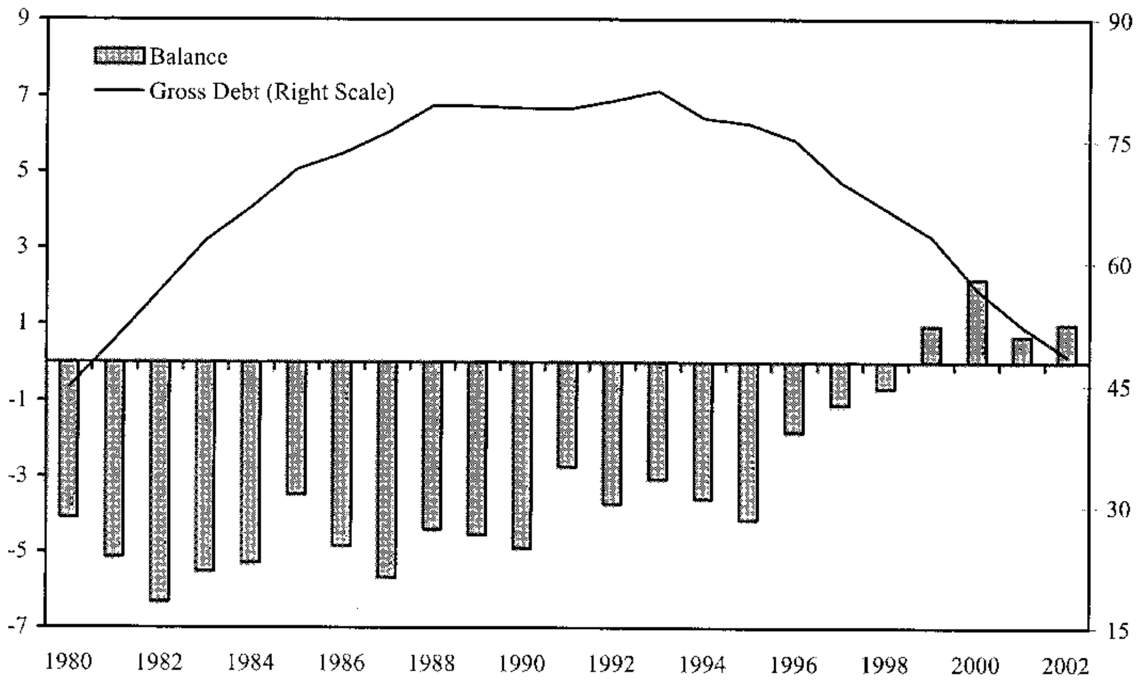




Sources: IMF, IFS and WEO; and AMECO Database.

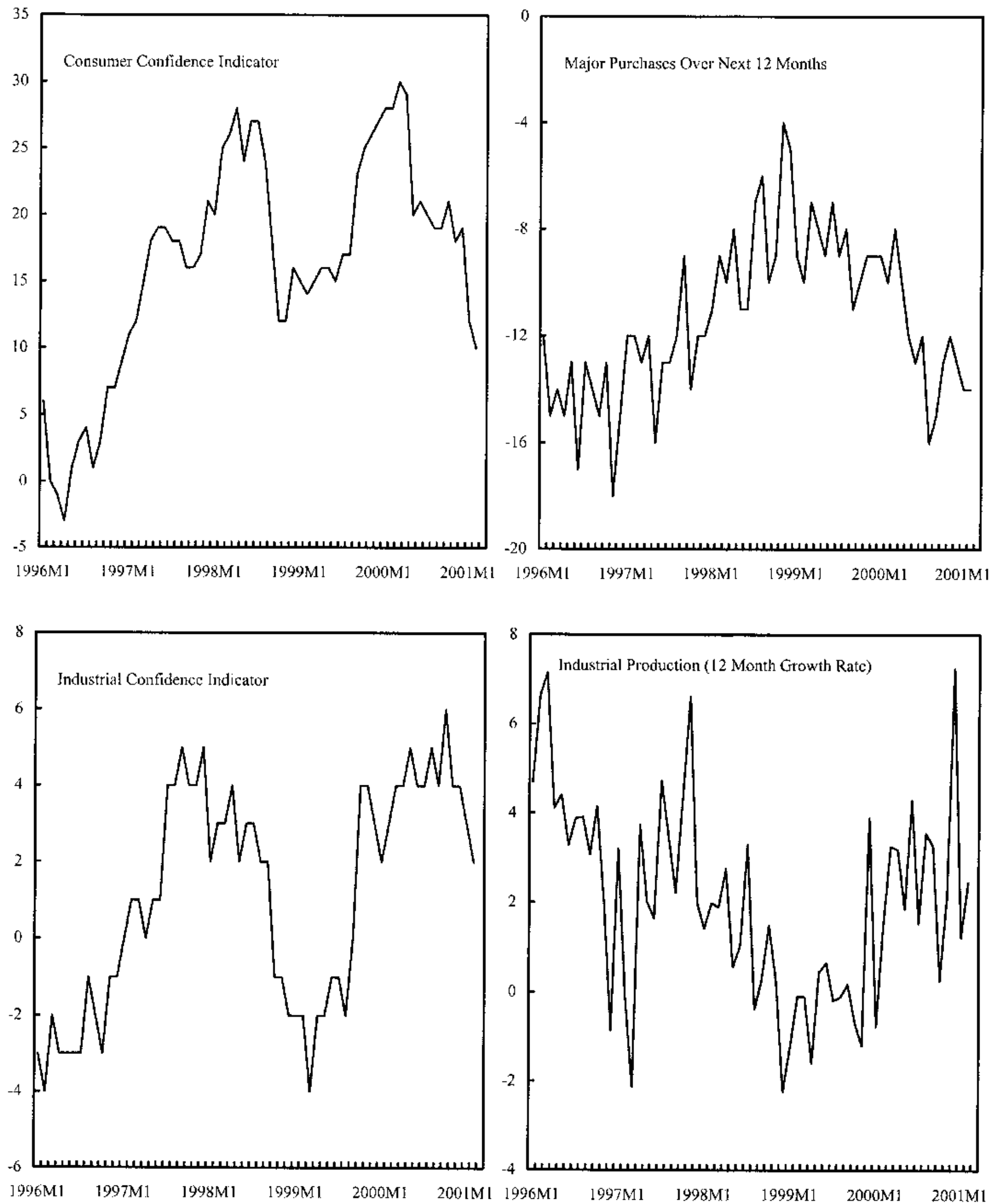
Figure 6. Netherlands: Fiscal Indicators
(General Government, in percent of GDP)





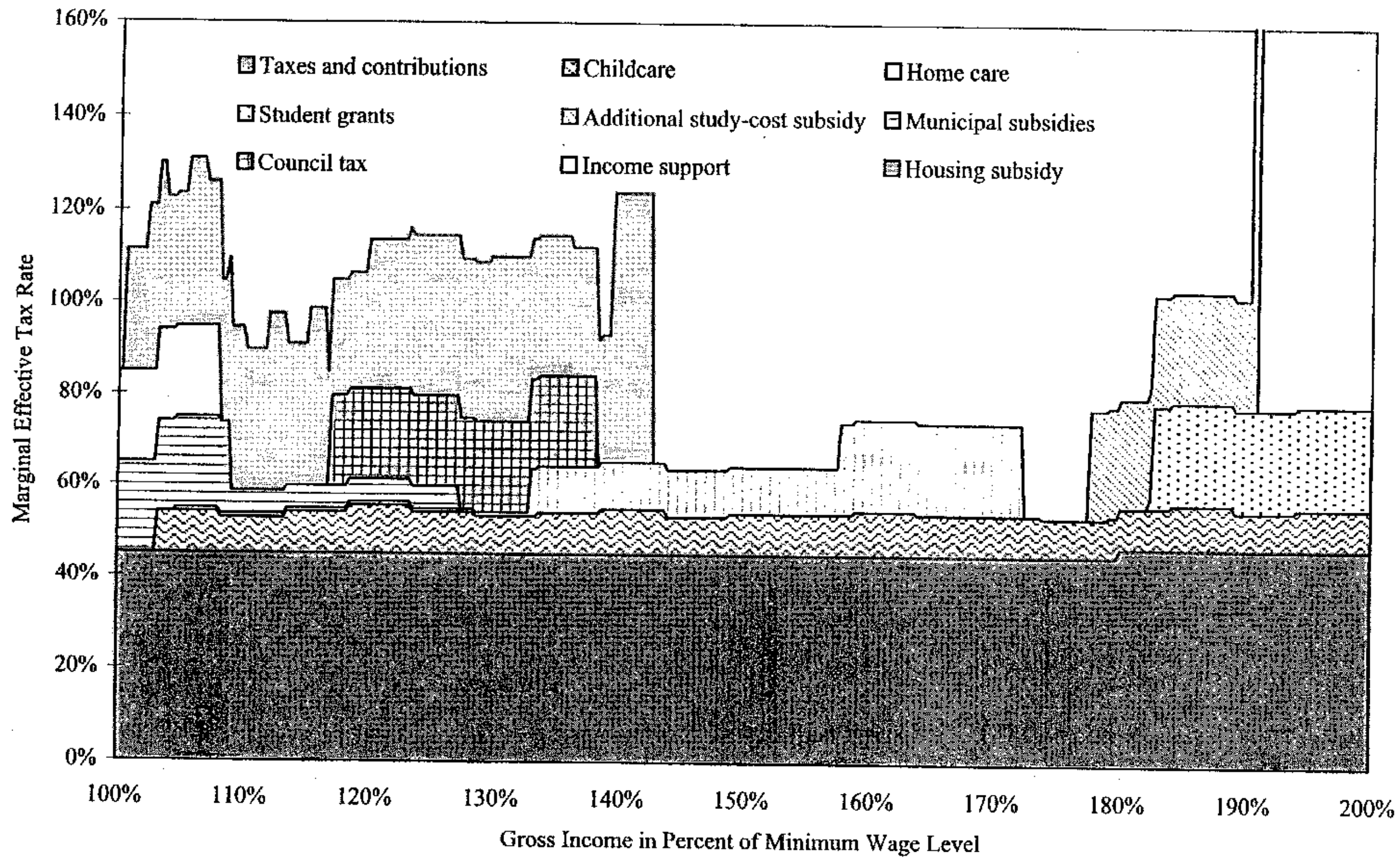
Source: IMF, WEO.

Figure 7. Netherlands: Cyclical Indicators



Source: WEFA, Intline Database; and IMF, IFS.

Figure 8. Netherlands: Marginal Effective Tax Rates (Single Earner Household with Three Children)
(In percent)



Source: National authorities.

Table 1. Netherlands: Basic Data

Land area (1999)	41.5 thousand sq. km.	
Population (1999)	15.8 million	
Population characteristics and health:		
Life expectancy at birth (1999)	75.3 (male), 80.5 (female)	
Fertility rate (1999)	1.7 children/woman	
Infant mortality rate (1999)	5.2 per 1,000 live births	
Population per sq. km. of land area (1999)	465 persons	
National accounts (1999 at current prices)	(In billions of guilders)	(In percent of GDP)
Private consumption	411.107	49.9
Public consumption	188.141	22.8
Gross fixed investment	183.109	22.2
Stockbuilding	0.962	0.1
Exports of goods and nonfactor services	500.892	60.8
Imports of goods and nonfactor services	460.228	55.9
GDP	823.983	100.0

	1996	1997	1998	1999	2000 Est.	2001 Proj.
	(percentage changes unless otherwise noted)					
National accounts (constant prices)						
Private consumption	4.0	3.0	4.3	4.5	3.7	3.8
Public consumption	-0.4	3.1	3.5	2.5	3.1	2.3
Gross fixed investment	6.3	6.7	4.1	6.5	4.3	3.4
Total domestic demand	2.8	3.5	4.2	4.6	3.4	3.4
Exports of goods and nonfactor services	4.6	9.0	6.4	6.5	9.1	5.8
Imports of goods and nonfactor services	4.3	9.6	8.1	6.2	8.9	7.0
Net foreign balance 1/	0.4	0.2	-0.5	0.5	0.7	-0.4
Gross domestic product	3.0	3.8	4.1	3.9	3.9	2.9
Output gap (in percent of potential output)	-1.7	-0.6	0.8	1.9	3.1	3.3
Prices, wages, and employment						
Consumer price index (year average)	2.1	2.2	2.0	2.0	2.3	3.9
GDP deflator	1.2	2.0	2.0	1.7	3.1	4.3
Hourly compensation (manufacturing)	1.9	2.8	3.2	3.1	3.9	4.8
Unit labor costs (manufacturing)	0.5	-0.5	0.8	0.2	1.2	2.6
Employment	2.0	3.4	2.9	3.0	2.4	1.6
Unemployment rate (in percent)	6.6	5.5	4.1	3.2	2.8	3.0
NAIRU	5.6	5.5	5.4	4.8	4.6	4.5

	1996	1997	1998	1999	2000 Est.	2001 Proj.
Personal sector						
Real disposable income	2.3	3.3	3.3	1.2	2.8	5.0
Household savings ratio 2/	13.7	14.1	13.4	10.7	9.5	10.6
External trade						
Exports of goods, volume	4.4	9.2	7.4	6.0	10.5	5.7
Imports of goods, volume	4.4	10.4	8.1	6.5	9.6	7.0
Terms of trade	-0.6	0.5	0.3	-1.3	-1.0	1.0
Merchandise balance (percent of GDP)	5.6	5.7	5.6	4.8	5.5	5.5
Current account balance (percent of GDP)	5.5	6.7	3.3	4.3	3.7	3.7
Exchange rates (1995=100)						
Nominal effective rate	98.1	93.5	93.4	92.1	88.1	...
Real effective rate (relative RULC based)	96.4	90.9	88.3	86.4	83.4	...
Public sector accounts (percent of GDP)						
General government balance	-1.8	-1.1	-0.7	1.0	2.2	0.7
Structural balance	-0.9	-0.8	-1.0	–	0.1	-0.8
Primary balance	2.9	3.3	3.5	4.8	5.6	3.5
Structural primary balance	3.8	3.7	3.2	3.9	3.7	2.1
General government gross debt	75.2	70.0	66.6	63.2	56.5	51.9

Sources: Dutch official publications; IMF International Financial Statistics; and Fund staff estimates.
1/ Contribution to GDP growth.
2/ In percent of disposable income.

Table 2. The Netherlands: General Government Finances, 1997–2006

(In percent of GDP)

	1997	1998	1999	2000	2001 Proj.	2002 Proj.	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.
Stability program, cautious scenario 1/ 2/										
Balance (ex. UMTS in 2000)	...	...	1.0	1.0	0.7	0.3	0.3	0.6	...	...
Gross debt	...	...	62.9	56.6	52.3	50.3	48.7	46.7	...	...
Stability program, favorable scenario 1/ 3/										
Balance (ex. UMTS in 2000)	...	...	1.0	1.0	0.7	0.6	1.1	1.9	...	...
Gross debt	...	...	62.9	56.6	52.4	49.5	46.5	42.2	...	...
Staff projections										
Revenues	47.1	46.4	47.5	47.4	45.5	45.0	44.6	44.2	44.1	43.9
Revenue windfalls:	...	...	1.1	2.0	2.0	3.1	...	...	...	...
Tax burden	39.6	39.4	40.8	40.8	39.0	39.5	39.1	38.7	38.5	38.4
Expenditures 4/	48.2	47.1	46.5	45.2	44.9	44.0	43.6	43.4	43.3	43.2
Covered by fiscal framework	...	...	43.0	42.4	41.3	40.4	...	...	...	...
Room under expenditure ceiling	...	...	0.3	0.2	0.1	0.1	...	...	...	...
Balance 4/	-1.1	-0.7	1.0	2.2	0.7	1.0	1.0	0.8	0.8	0.7
Gross debt 4/	70.0	66.6	63.2	56.5	51.9	48.3	45.1	42.4	40.0	37.8
Structural balance 5/	-0.8	-1.0	0.0	0.1	-0.8	-0.4	-0.2	0.0	0.3	0.7
Primary structural balance 5/	3.7	3.1	3.8	3.5	2.1	2.1	2.0	1.9	2.1	2.3
Fiscal impulse 6/										
Overall structural balance	...	0.3	-1.0	-0.1	0.9	-0.4	-0.2	-0.2	-0.4	-0.4
Primary structural balance	...	0.5	-0.6	0.2	1.5	0.0	0.1	0.1	-0.2	-0.2
Of which: 2001 tax reform	...	...	...	...	1.2	-0.5	...	...	...	...
Memorandum items:										
Output gap 5/	-0.6	0.8	1.9	3.1	3.3	3.1	2.8	2.0	1.0	0.0
Real GDP growth (in percent)	3.8	4.1	3.9	3.9	2.9	2.7	2.5	2.0	1.9	1.8
Real potential GDP growth (in percent)	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.8
Net interest payments	4.4	4.2	3.8	3.5	2.8	2.5	2.2	2.0	1.8	1.6

Sources: Ministry of Finance; CPB; and Fund staff projections.

1/ Deficit and debt data presented under the assumption that the margin is spent on debt-reduction.

2/ Assumes an average growth rate of 2 1/4 percent over 1999-2002, and 2 percent for 2003 and 2004.

3/ Assumes an average growth rate of 2 1/4 percent over 1999-2001 and 3 1/4 percent over 2002-2004.

4/ For 2000 includes the one-time proceeds from the sale of UMTS licenses of NLG 5.9 billion, or 0.7 percent of GDP.

5/ As a percent of potential GDP.

6/ Change in overall and primary structural balance, respectively; minus sign indicates withdrawal of stimulus.

Table 3. Netherlands: Indicators of External and Financial Vulnerability[1]
(In percent of GDP, unless otherwise indicated)

	1996	1997	1998	1999	2000	2001	
						Latest estimate	Date
External indicators							
Exports goods and services (annual percent change, in U.S. dollars)	0.7	-2.1	3.7	1.5	2.4	3.7	
Imports goods and services (annual percent change, in U.S. dollars)	0.6	-1.8	4.3	3.1	3.5	4.2	
Terms of trade goods (annual percent change)	-0.6	0.5	0.3	-1.3	1.3	0.8	
Current account balance	5.5	6.7	3.3	4.3	3.7	3.7	
Capital and financial account balance							
Inward portfolio investment	3.2	4.7	9.1	19.6	3.4		
Inward foreign direct investment	3.9	3.0	9.6	10.9	4.3		
Other investment liabilities							
Official reserves (in U.S. dollars, billions)[2]	40.3	33.8	31.4	18.9	17.8		
Broad money to reserves (ratio)[3]	7.8	8.7	11.0	17.3	19.4		
Central bank foreign liabilities (in U.S. dollars, billions)[2]	0.1	0.1	0.7	0.5	3.0		
Foreign assets of the banking sector (in U.S. dollars, billions)[4]	246.9	272.5	...	156.3	204.0		
Foreign liabilities of the banking sector (in U.S. dollars, billions)[4]	254.2	300.6	...	197.2	233.8		
Official reserves in months of imports	2.2	1.9	1.7	1.0	0.9		
Total external debt	77.8	76.2	78.1	...	...		
Of which: General government debt				n.a.	n.a.		
Total external debt to exports (ratio)	1.3	1.2	1.2	...	...		
External interest payment to exports (in percent)							
Exchange rate (per U.S. dollar, period average)	1.69	1.95	1.98	2.07	2.39	2.45	Apr. 20
Financial Market Indicators							
Public sector debt (Maastricht definition)	75.2	70.0	66.6	63.2	56.5	51.9	
Government bond yield	6.5	5.8	4.9	4.9	5.5		
Government bond yield (real)	4.5	3.6	2.9	2.7	3.0		
Stock market index	134.4	195.3	261.6	284.6	335.5		
Spread of government bond yield with Germany	0.87	0.73	0.48	0.66	0.27		
Financial Sector Risk Indicators[5]							
Mortgage credit to total assets (in percent)[6]	24.0	23.9	30.7	28.3	27.9		
Rate of provisioning	0.2	1.2	2.2	3.2	4.2		
Classified loan to total loans (in percent)	2.2	2.2	2.8	3.0	...		
Provisioning to classified loans (in percent)	23.0	19.6	26.7	16.0	...		
Contingent and off-balance-sheet accounts to total assets (in percent)	14.9	13.0	6.5	7.5	7.9		
Risk based capital-asset ratio	11.0	10.9	10.8	10.6	10.6		

Sources: Data provided by the Dutch authorities, and IMF, *International Financial Statistics*.

[1]The interpretation of some indicators is affected by the launch of monetary union in 1999.

[2]Reserves and foreign liabilities refer to the Dutch central bank, both before and after EMU. End-of-period.

[3]Data for M3 refer to the Dutch contribution to the euro area aggregate.

[4]Foreign assets/liabilities of the banking institutions. From 1999 onward claims on/liabilities to non euro area countries only.

[5]Weighted average for the three largest banks.

[6]New series starting in 1997.

Netherlands: Fund Relations

As of March 31, 2001

I. **Membership Status**: Joined December 27, 1945; Article VIII.

II. **General Resources Account**:

	SDR Million	Percent of Quota
Quota	5,162.40	100.0
Fund holdings of currency	3,606.39	69.9
Reserve position in Fund	1,556.02	30.1
Operational budget transfers (net)	152.00	

III. **SDR Department**

	SDR Million	Percent of Allocation
Net cumulative allocation	530.34	100.0
Holdings	513.63	96.8

IV. **Outstanding Purchases and Loans**: None

V. **Financial Arrangements**: None

VI. **Projected Obligations to Fund**: (SDR million; based on existing use of resources and present holdings of SDRs): None

VII. **Exchange Rate Arrangements**:

The Netherlands entered the final stage of European Economic and Monetary Union on January 1, 1999, at a rate of 2.20371 guilder per euro.

VIII. **Article IV Consultation**:

Discussions for the 2000 Article IV consultation were held in Amsterdam and the Hague in March 10–20, 2000. The staff report for the 2000 Article IV consultation (SM/00/95, 5/22/00) was considered by the Executive Board on June 12, 2000 (EBM/00/59). The Article IV discussions with the Netherlands are on the standard 12-month consultation cycle.

IX. **Exchange Restrictions**:

The Netherlands maintains exchange restrictions vis-à-vis Iraq (notified to the Fund under Decision 144-(52/51) in EBD/90/267 (8/27/90) and EBD/94/83 (5/13/94)); and the Socialist People's Libyan Arab Jamahiriya (see EBD/94/83).

Netherlands: Statistical Data Issues

The Netherlands publishes a wide range of economic and financial statistics. Specifically, annual and quarterly national account data are provided by the Central Bureau of Statistics; financial and balance of payments data are provided by De Nederlandsche Bank; and fiscal data are provided by the Ministry of Finance. These data are increasingly available in electronic form. Macroeconomic data are generally of high quality.

The frequency and timeliness of the availability of the core statistical indicators for Fund surveillance purposes are summarized in the attached table. The authorities subscribe to the Special Data Dissemination Standard, providing information about their data and data dissemination practices on the IMF Dissemination Standards Bulletin Board.

Netherlands: Core Statistical Indicators
As of April 13, 2001

	Int'l Reserves 1/	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	External Government Debt	GDP/GNP
Date of Latest Observation	2/01/01	3/30/01	3/30/01	3/30/01	4/13/01	3/01	Q4/00	Q4/00	2/01	1996	Q4/00
Date Received	4/01	4/10/01	4/10/01	2/01	4/13/01	4/6/01	3/01	3/01	4/01	9/97	4/01
Frequency of Data	Monthly	Weekly	Weekly	Monthly	Daily	Monthly	Monthly	Quarterly	Monthly	Annually	Quarterly
Frequency of Reporting	Monthly	Weekly	Weekly	Monthly	Daily	Monthly	Monthly	Quarterly	Monthly	Annually	Quarterly
Source of Update	DNB	DNB	DNB	DNB	Reuters	CBS 2/	CBS 2/	DNB	MoF	MoF	CBS 2/
Mode of Reporting	Electronic	Electronic	Electronic	Electronic	Electronic	Electronic	Electronic	Electronic	Electronic	Electronic	Electronic
Confidentiality	Public	Public	Public	Public	Public	Public	Public	Public	Public	Public	Public
Frequency of Publication	Monthly	Weekly	Weekly	Weekly	Daily	Monthly	Monthly	Quarterly	Monthly	Annually	Quarterly

1/ De Nederlandsche Bank = central bank.
2/ Central Bureau of Statistics.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—NETHERLANDS

Staff Report for the 2001 Article IV Consultation
Supplementary Information

Prepared by the European I Department

(In consultation with the Policy Development and Review Department)

Approved by C. Maxwell Watson and G. Russell Kincaid

May 25, 2001

1. Since the circulation of the Staff Report to the Executive Board, there have been two important developments: the release of preliminary first quarter national accounts estimates and the publication of the 2001 spring supplementary budget (the Voorjaarsnota). These changes do not affect the staff appraisal.

2. Real growth in the first quarter of 2001 was estimated to be 0.5 percent at an annual rate, substantially below staff expectations. Weakness was particularly pronounced in household consumption and exports. The former reflects to some extent the shifting of consumption into the fourth quarter in order to escape the increase in the VAT rate at the beginning of this year. The latter may be due to the weakness in the German economy. In addition, consumer and business confidence have continued to decline As a result of this new information, the staff has revised 2001 growth from 2.9 percent to 2.6 percent (Table 1).[1] Slower growth would tend to ease concerns that inflationary pressures would increase further. However, since the revised projected growth would still be only slightly less than the staff estimate of potential (2¾ percent), the pressures that have built up over the past few years would largely remain.

3. Headline inflation has risen more sharply than expected in the first part of the year, reaching 5.3 percent (HICP, year-on-year) in April. To some extent this reflects energy and food prices, as well as the increase in the VAT rate at the beginning of the year (estimated by the authorities to have added about 1 percentage point or so to the price level). Underlying inflation has been close to 3½ percent (year-on-year) in the first four months of the year, up

[1] The May Consensus Forecast (which does not incorporate the latest information) is 3.0 percent.

from 1 to 1½ percent through 2000, also partly reflecting the VAT hike. The staff projection of consumer price inflation for 2001 has been revised from 3.9 percent to 4.2 percent; and the increase in the GDP deflator has been revised from 4.3 percent to 4.8 percent.

4. The spring supplementary budget includes new expenditures, relative to last year's 2001 budget, of NLG 6.7 billion, of which NLG 2.6 billion is financed by expenditure cuts elsewhere, leaving a net increase of NLG 4.1 billion (0.4 percent of GDP). The bulk of the new expenditure—NLG 4.6 billion—is devoted to the priority areas of health care, education, and public safety. The staff projection of the fiscal surplus has been revised from 0.7 percent of GDP to 0.5 percent of GDP (Table 2).[2] The extra spending (less NLG 3 billion, which had been anticipated in the staff report) accounts for about 0.1 percentage points; the rest is due to the downward revision to economic growth. The increased spending in the supplementary budget appears to be consistent with the spending ceiling stipulated by the coalition's fiscal framework, although the relevant calculations of the National Bureau for Economic Research (CPB) have yet to be released. Along with the absence of the large tax cuts that were possible under the coalition agreement, the fiscal situation is thus largely in line with the position of the staff report. The government intends to keep spending within the ceiling in 2002 as well, although there will be little room left under it, and some of the measures to limit spending in 2001—such as lower payments to the EU and use of the spending reserve—appear to be one-time savings.

[2] In addition, a revision to GDP in 2000 has changed slightly the estimate of the structural balance, from 0.1 percent of GDP to -0.1 percent of GDP.

Table 1. Netherlands: Basic Data

Land area (1999)	41.5 thousand sq. km.	
Population (1999)	15.8 million	
Population characteristics and health:		
Life expectancy at birth (1999)	75.3 (male), 80.5 (female)	
Fertility rate (1999)	1.7 children/woman	
Infant mortality rate (1999)	5.2 per 1,000 live births	
Population per sq. km. of land area (1999)	465 persons	
National accounts (1999 at current prices)	(In billions of guilders)	(In percent of GDP)
Private consumption	411.107	49.9
Public consumption	188.141	22.8
Gross fixed investment	183.109	22.2
Stockbuilding	0.962	0.1
Exports of goods and nonfactor services	500.892	60.8
Imports of goods and nonfactor services	460.228	55.9
GDP	823.983	100.0

	1996	1997	1998	1999	2000 Est.	2001 Proj.
	(percentage changes unless otherwise noted)					
National accounts (constant prices)						
Private consumption	4.0	3.0	4.3	4.5	4.0	3.0
Public consumption	-0.4	3.1	3.5	2.5	3.0	2.3
Gross fixed investment	6.3	6.7	4.1	6.5	4.1	1.8
Total domestic demand	2.8	3.5	4.2	4.6	3.6	2.5
Exports of goods and nonfactor services	4.6	9.0	6.4	6.5	9.0	5.7
Imports of goods and nonfactor services	4.3	9.6	8.1	6.2	9.2	6.0
Net foreign balance 1/	0.4	0.2	-0.5	0.5	0.4	0.2
Gross domestic product	3.0	3.8	4.1	3.8	3.9	2.6
Output gap (in percent of potential output)	-1.3	-0.2	1.1	2.2	3.4	3.3
Prices, wages, and employment						
Consumer price index (year average)	2.1	2.2	2.0	2.0	2.3	4.2
GDP deflator	1.2	2.0	2.0	1.7	3.1	4.8
Hourly compensation (manufacturing)	1.9	2.8	3.2	3.1	3.9	4.8
Unit labor costs (manufacturing)	0.5	-0.5	0.8	0.2	1.2	2.9
Employment	2.0	3.4	2.9	3.0	2.4	1.6
Unemployment rate (in percent)	6.6	5.5	4.1	3.2	2.8	3.0
NAIRU	5.6	5.5	5.4	4.8	4.6	4.5

	1996	1997	1998	1999	2000 Est.	2001 Proj.
Personal sector						
Real disposable income	2.3	3.3	3.3	1.2	2.8	4.7
Household savings ratio 2/	13.7	14.1	13.4	10.7	9.3	10.3
External trade						
Exports of goods, volume	4.4	9.2	7.4	6.0	10.5	5.7
Imports of goods, volume	4.4	10.4	8.1	6.5	9.6	6.0
Terms of trade	-0.6	0.5	0.3	-1.3	-1.0	1.0
Merchandise balance (percent of GDP)	5.6	5.7	5.6	4.8	5.5	6.0
Current account balance (percent of GDP)	5.5	6.7	3.3	4.3	3.7	4.3
Exchange rates (1995=100)						
Nominal effective rate	98.1	93.5	93.4	92.1	88.1	...
Real effective rate (relative RULC based)	96.4	90.9	88.3	86.4	83.4	...
Public sector accounts (percent of GDP)						
General government balance	-1.8	-1.1	-0.7	1.0	2.2	0.5
Structural balance	-1.1	-1.0	-1.2	-0.2	-0.1	-1.0
Primary balance	2.9	3.3	3.5	4.8	5.6	3.3
Structural primary balance	3.6	3.5	3.0	3.7	3.5	1.9
General government gross debt	75.2	70.0	66.6	63.2	56.5	52.1

Sources: Dutch official publications; International Monetary Fund, International Financial Statistics; and Fund staff estimates.

1/ Contribution to GDP growth.
2/ In percent of disposable income.

Table 2. Netherlands: General Government Finances, 1997-2006
(In percent of GDP)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Stability program, cautious scenario 1/ 2/										
Balance (ex. UMTS in 2000)	...	...	1.0	1.0	0.7	0.3	0.3	0.6		
Gross Debt	...	...	62.9	56.6	52.3	50.3	48.7	46.7		
Stability program, favorable scenario 1/ 3/										
Balance (ex. UMTS in 2000)	...	...	1.0	1.0	0.7	0.6	1.1	1.9	...	...
Gross Debt	...	...	62.9	56.6	52.3	49.5	46.5	42.2	...	...
Staff projections										
Revenues	47.1	46.4	47.5	47.4	45.6	45.0	44.6	44.2	44.1	43.9
Revenue windfalls:	...	...	1.1	2.0	2.1	3.2	...	...	...	...
Tax burden	39.6	39.4	40.8	40.8	39.0	39.5	39.1	38.7	38.5	38.4
Expenditures 4/	48.2	47.1	46.5	45.3	45.1	44.1	43.8	43.6	43.5	43.4
Covered by fiscal framework	...	...	43.0	42.4	41.4	40.6	...	...	...	...
Room under expenditure ceiling	...	...	0.3	0.2	0.0	0.0	...	...	...	...
Balance 4/	-1.1	-0.7	1.0	2.2	0.5	0.9	0.8	0.6	0.6	0.5
Gross Debt 4/	70.0	66.6	63.2	56.5	52.1	48.6	45.6	43.1	40.8	38.8
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural balance 5/	-1.0	-1.2	-0.2	-0.1	-1.0	-0.6	-0.4	-0.2	0.2	0.5
Primary structural balance 5/	3.5	3.0	3.6	3.4	1.8	1.9	1.8	1.8	2.0	2.2
Fiscal impulse 6/										
Overall structural balance	...	0.3	-1.0	-0.1	1.0	-0.5	-0.2	-0.2	-0.4	-0.4
Primary structural balance	...	0.5	-0.6	0.2	1.6	-0.1	0.0	0.1	-0.2	-0.2
Of which: 2001 tax reform	...	...	...	...	1.2	-0.5	...	...	...	...
Memorandum items:										
Output gap 5/	-0.2	1.1	2.2	3.4	3.3	3.3	2.8	1.9	1.0	0.0
Real GDP growth (in percent)	3.8	4.1	3.8	3.9	2.6	2.8	2.3	2.0	1.9	1.8
Real potential GDP growth (in percent)	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.8
Net interest payments	4.4	4.2	3.8	3.5	2.8	2.5	2.2	2.0	1.8	1.6

Sources: Ministry of Finance; CPB; and staff projections.

1/ Deficit and debt data are presented under the assumption that the margin is spent on debt-reduction.
2/ Assumes an average growth rate of 2 1/4 percent over 1999-2002, and 2 percent for 2003 and 2004.
3/ Assumes an average growth rate of 2 1/4 percent over 1999-2001 and 3 1/4 percent over 2002-2004.
4/ For 2000 includes the one-time proceeds from the sale of UMTS licenses of NLG 5.9 billion, or 0.7 percent of GDP.
5/ As a percent of potential GDP.
6/ Change in overall and primary structural balance, respectively; minus sign indicates withdrawal of stimulus.

Table 3. Netherlands: Indicators of External and Financial Vulnerability[1]
(In percent of GDP, unless otherwise indicated)

	1996	1997	1998	1999	2000	2001	
						Latest estimate	Date
External indicators							
Exports goods and services (annual percent change, in U.S. dollars)	0.7	-2.1	3.7	1.5	2.4	3.7	
Imports goods and services (annual percent change, in U.S. dollars)	0.6	-1.8	4.3	3.1	3.5	4.2	
Terms of trade goods (annual percent change)	-0.6	0.5	0.3	-1.3	1.3	0.8	
Current account balance	5.5	6.7	3.3	4.3	3.7	3.7	
Capital and financial account balance							
Inward portfolio investment	3.2	4.7	9.1	19.6	3.4		
Inward foreign direct investment	3.9	3.0	9.6	10.9	4.3		
Other investment liabilities							
Official reserves (in U.S. dollars, billions)[2]	40.3	33.8	31.4	18.9	17.8		
Broad money to reserves (ratio)[3]	7.8	8.7	11.0	17.3	19.4		
Central bank foreign liabilities (in U.S. dollars, billions)[2]	0.1	0.1	0.7	0.5	3.0		
Foreign assets of the banking sector (in U.S. dollars, billions)[4]	246.9	272.5	...	156.3	204.0		
Foreign liabilities of the banking sector (in U.S. dollars, billions)[4]	254.2	300.6	...	197.2	233.8		
Official reserves in months of imports	2.2	1.9	1.7	1.0	0.9		
Total external debt	77.8	76.2	78.1	...	...		
Of which: General government debt				n.a.	n.a.		
Total external debt to exports (ratio)	1.3	1.2	1.2	...	...		
External interest payment to exports (in percent)							
Exchange rate (per U.S. dollar, period average)	1.69	1.95	1.98	2.07	2.39	2.45	Apr. 20
Financial Market Indicators							
Public sector debt (Maastricht definition)	75.2	70.0	66.6	63.2	56.5	52.1	
Government bond yield	6.5	5.8	4.9	4.9	5.5		
Government bond yield (real)	4.5	3.6	2.9	2.7	3.0		
Stock market index	134.4	195.3	261.6	284.6	335.5		
Spread of government bond yield with Germany	0.87	0.73	0.48	0.66	0.27		
Financial Sector Risk Indicators[5]							
Mortgage credit to total assets (in percent)[6]	24.0	23.9	30.7	28.3	27.9		
Rate of provisioning	0.2	1.2	2.2	3.2	4.2		
Classified loan to total loans (in percent)	2.2	2.2	2.8	3.0	...		
Provisioning to classified loans (in percent)	23.0	19.6	26.7	16.0	...		
Contingent and off-balance-sheet accounts to total assets (in percent)	14.9	13.0	6.5	7.5	7.9		
Risk based capital-asset ratio	11.0	10.9	10.8	10.6	10.6		

Sources: Data provided by the Dutch authorities, and IMF, *International Financial Statistics*.
[1]The interpretation of some indicators is affected by the launch of monetary union in 1999.
[2]Reserves and foreign liabilities refer to the Dutch central bank, both before and after EMU. End-of-period.
[3]Data for M3 refer to the Dutch contribution to the euro area aggregate.
[4]Foreign assets/liabilities of the banking institutions. From 1999 onward claims on/liabilities to non euro area countries only.
[5]Weighted average for the three largest banks.
[6]New series starting in 1997.

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 01/61
FOR IMMEDIATE RELEASE
July 6, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with the Kingdom of the Netherlands—Netherlands

On June 6, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Kingdom of the Netherlands—Netherlands.[1]

Background

Real GDP is projected to rise by nearly 3 percent this year and by about 2¾ percent next year, compared to annual growth of about 4 percent in the past three years. This deceleration reflects the weaker external environment, particularly the direct and indirect effects of the slowdown in the United States, but also lower domestic investment growth due to deteriorating profits. Despite the moderation of growth, labor markets remain very tight and consequently growth in wage costs is rising. This has, however, not been reflected in price inflation: although headline inflation has increased (reflecting oil prices and, in 2001, an increase in the VAT rate), underlying inflation remains low.

The fiscal position has improved steadily for some years, with taxes, expenditures, and the deficit all falling as a percentage of GDP. The larger than expected surplus in 2000 of 2.2 percent of GDP (of which 0.7 of a percentage point was one-time receipts from the sale of UMTS licenses) is projected to fall to 0.5 percent of GDP in 2001, mainly because of the large tax reductions that are part of the long-planned tax reform. As a result, the budget provided a substantial positive impulse to domestic demand in 2001. Apart from its effect on the balance, the tax reform lowers marginal income tax rates, changes the system of investment income taxation, and raises the VAT and some eco-taxes.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the June 6, 2001 Executive Board discussion based on the staff report.

The labor market has also improved dramatically over the past several years, and the unemployment rate, at 2.4 percent, is among the lowest in the industrialized world. Nevertheless, the labor-market situation of some groups—people 55 to 65 years old, minorities, and the low-skilled—remains unsatisfactory. Also, the disability program is very large and still growing, although overall rates of dependency on government transfer programs are not particularly high in the Netherlands. The 2001 budget contained measures to alleviate these problems, both in the tax reform and by introducing the Labor Tax Credit, which lowers marginal tax rates at the low end of the earnings schedule. In addition, the administrative structure of the welfare system is undergoing substantial reform with a view to increasing reintegration of beneficiaries into the labor force.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They noted that deep rooted structural reform, substantial improvements in the fiscal position, and wage moderation had resulted in high output growth in recent years, and the lowest unemployment rate among industrial countries. Directors commended the authorities for their sustained application of these policies.

Directors judged, however, that since early 2001 labor markets have become very tight, observing that wage settlements and inflation have been rising, although in the latter case this reflected in part oil and food price increases as well as an increase in consumption taxes. The recent softening of growth since 2000 eased somewhat the concerns that wage and price pressures might intensify, and Directors agreed that rising labor costs and the consequent deterioration in international competitiveness could help to return the economy to a more sustainable position over time.

Directors emphasized that in the event of a hard landing, the robustness of the financial sector would be critical. Dutch financial institutions are large and well diversified, but Directors observed that the mortgage market may have become overextended, and cautioned that supervisors should maintain their vigilance. Indeed, they welcomed the signs that the housing market, which had helped to fuel consumer demand through wealth effects, is cooling off. Directors suggested that the Dutch authorities could find it useful to participate in the Financial Sector Assessment Program at a suitable time.

Against this backdrop, Directors recommended a prudent fiscal policy, arguing that fiscal stimulus should be avoided until inflationary pressures subside. In this connection, they noted that monetary conditions remained expansionary, given the cyclical position of the Dutch economy. They therefore commended the authorities for limiting expenditure increases this year, and for not making the tax cuts that would have been allowed under the Dutch fiscal framework. Directors recommended that such restraint be carried over to the 2002 budget, and that priority areas be funded by reallocating resources within the expenditure ceiling agreed by

the coalition. This restraint would also contribute to meeting the authorities' medium-term fiscal surplus target, which is designed to cope with population aging.

In view of the successful record of fiscal consolidation over the past several years, Directors recommended that the authorities retain the key features of the current medium-term fiscal framework. They regarded the real expenditure ceiling, and thus the separation of expenditure and revenue decisions, as especially important. However, some Directors argued that the complicated rules regarding windfall revenues should be replaced by rules that would permit the full operation of automatic stabilizers. A few also noted that the framework could be further enhanced by the use of a realistic assumption for underlying growth, while cautioning against overestimating trend growth based on the experience of the past few years.

Directors welcomed the performance of the Dutch labor market, which is characterized by high employment growth and very low unemployment. Many people, nevertheless, face weak work incentives. Directors endorsed recent policy initiatives, including the introduction of the labor tax credit, which would reduce the disincentives to work at the low end, and the introduction of actuarially fairer early retirement schemes, which would encourage continued labor market participation of older workers. They noted, however, that workers at the low end of the earnings schedule face strong disincentives, owing particularly to the generous benefit system. Directors recommended that the authorities reform these programs to improve incentives. They also urged reform of the large disability program, both by restricting the inflow of beneficiaries and promoting reintegration into the workforce of those in the program.

Directors welcomed the program of product market reform, which has placed the Netherlands at the forefront of EU countries. They expressed concern, however, that momentum might be waning and encouraged the authorities to reinvigorate the process.

Directors commended the authorities for their continuing support for multilateral trade liberalization, as well as for development assistance, which exceeds the United Nations target. They also noted that the provision of economic data is complete and timely.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Kingdom of the Netherlands—Netherlands: Selected Economic Indicators

	1997	1998	1999	2000	2001[1]
Real economy (change in percent)					
GDP	3.8	4.1	3.9	3.9	2.6
Domestic demand	3.5	4.2	4.6	3.6	2.5
CPI (year average)	2.2	2.0	2.0	2.3	4.2
Unemployment rate (in percent)	6.2	4.8	4.0	3.6	3.7
Gross national saving (percent of GDP)	27.9	25.9	27.9	27.5	27.7
Gross domestic investment (percent of GDP)	21.7	21.9	22.3	22.4	22.6
Public finance (percent of GDP)					
General government balance	-1.1	-0.7	1.0	2.2	0.5
Structural balance	-0.8	-1.0	--	0.1	-1.0
Structural primary balance	3.7	3.2	3.9	3.7	2.1
General government debt	70.0	66.6	63.2	56.5	52.1
Money and credit (end of year, percent change)					
Domestic credit	13.1	16.2	...	...	...
M3	7.4	9.6	10.2	10.3	...
Interest rates (percent)					
Money market rate [2] [3]	3.1	3.2	3.0	4.0	4.8
Government bond yield [4]	5.8	4.9	4.9	5.6	5.1
Balance of payments (percent of GDP) [5]					
Trade balance	5.6	5.3	4.5	4.9	4.8
Current account	6.7	3.3	4.3	3.7	3.7
Official reserves, excl. gold (US$ billion) [3]	24.9	21.4	10.1	9.2	8.6
Reserve cover (months of imports of GNFS)	1.4	1.2	0.5	0.4	...
Exchange rate					
Exchange rate regime		Member of euro area			
Euros per U.S. dollar (April 20, 2001)					0.90
Nominal effective rate (1990=100)	93.5	93.4	92.1	89.7	...
Real effective rate (1990=100) [6]	90.0	88.3	86.4	83.4	...

Sources: International Financial Statistics; Dutch authorities; and IFM staff estimates.
[1] IMF staff projections.
[2] Refers to euro rate beginning in 1999.
[3] For 2001, average of the first two months.
[4] For 2001, average of the first three months.
[5] On a transaction basis.
[6] Based on relative normalized unit labor costs in manufacturing.