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Recent Economic Developments in the Netherlands:
January-March, 1965

25 pages

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Summary

The outlook for reasonably balanced growth in the Netherlands has become increasingly more favorable in the last months of 1964 and in early 1965.[1/] Productive capacity proved to have been a great deal more elastic in 1964 than had been anticipated. Consequently, real GNP grew by 7.8 per cent as compared with 5.5 per cent forecast in September 1964 and an actual growth of 3.5 per cent in 1963. The vigorous rise in domestic output--industrial production was up 8.6 per cent in 1964--has helped to moderate demand pressures emanating from the strong rise in money incomes. As a result, prices have remained relatively stable since mid-1964 and the 1964 deficit on current transactions with the foreign sector (at $182 million) was only about half the amount anticipated as late as September 1964.

The favorable developments during 1964 are continuing into 1965. It would now appear that demand pressures are beginning to moderate slightly and that demand and supply are moving into an increasingly balanced relationship. The major point of pressure remains the still very tight labor situation. Official estimates foresee some easing of labor market strains--with unemployment rising to about 1 per cent of the labor force in 1965. But this would still be very near the structural minimum; it is generally estimated that a 2 per cent unemployment level would be necessary to give a comfortable labor reserve margin.

1/ See "Recent Economic Developments in the Netherlands, September-December, 1964," dated February 12, 1965.

The Central Planning Bureau revised its assessment of developments in 1965 in view of the much more favorable outturn for 1964 and the conclusion of the basic wage guidelines at the end of 1964. GNP is now expected to rise by 4 per cent, in real terms--or at about half the 1964 rate--rather than by the 2.5 per cent forecast earlier. Exports and construction are expected to remain the most dynamic forces in the economic expansion. Private consumption is expected to rise only slightly faster than GNP despite the fact that the first half of the fl 1 billion tax cut recently enacted will become effective on July 1, 1965.[2/] With the reduced rate of growth, as compared with 1964, the increase in the volume of imports is estimated to slow considerably; partly because of a reduction in inventory accumulation and partly because last year's large investments in the distribution net for the natural gas finds (which necessitated large imports) are beginning to taper off. In fact, the natural gas discoveries, because of the income from exploration concessions from foreign companies, displacement of fuel imports and exports of gas should soon make a net contribution to the Dutch current account balance. Productive capacity is estimated to grow slightly faster than aggregate demand providing room for the virtual restoration of external balance and some relaxation of internal tensions. However, the estimated margins are very small and fall certainly within the range of estimating errors.

2/ For details see "Recent Economic Developments in the Netherlands, September-December 1964" dated February 12, 1965, p. 25-26.

As a result, government policies under current conditions are expected to remain mildly restrictive. The Annual Report of the Netherlands Bank attributes a considerable share of the favorable development in 1964 to incidental factors and implies the further need for restrictive monetary policies. But there may be a basic change in official attitudes toward economic matters in 1965. The new Government coalition, which for the first time in six years reunites the two largest parties (the Labor Party and the Catholic Party), may be expected to pursue a more vigorous economic policy than did its predecessor. The fact that the two major economic posts, the Finance Ministry and the Economics Ministry, are occupied by the Labor Party at least suggests a greater involvement of the government in economic matters. The new Government's policy declaration also supports this possibility. There probably will be greater emphasis on fiscal policy, with some increase in government expenditures as well as taxation. The Government remains committed to the tax cut recently enacted, but it is proposing to introduce a short-term capital gains tax. In addition, greater involvement of the State in the exploration of natural resources is proposed and greater emphasis is put upon longer-term economic planning.

Demand and supply moving toward nearer balance

The trends toward the achievement of an increasingly better balance between demand supply evident in the second half of 1964 continued into the first quarter of 1965. Industrial output expanded further, although not at the very fast rates registered in 1964.

For the year 1964 industrial production had averaged 8.6 per cent above the preceding year: in the fourth quarter, the year-to-year growth rate was also 8.6 per cent; but in November and December it declined to 8.0 per cent and in January-February (1965) it averaged 7 per cent. (See Table 1.)

This slowdown in the growth rate probably was more a reflection of the high rate of capacity utilization rather than a real slowdown in the expansion of demand. Nevertheless, the current expansion of output appears to be sufficient not only to satisfy the current rate of growth of demand, but also to reduce order backlogs. According to a monthly survey conducted by the Central Bureau of Statistics, order backlogs had remained comparatively stable from mid-1964 until the end of the year. (See Table 2.) But from the beginning of 1965 they have been declining, mainly as a result of a shortening of order books in the capital goods sector. Consumer goods order backlogs, which declined rather sharply around mid-1964 and again later in the year, have been relatively stable in recent months. The order position in March 1965 was judged normal by 85 per cent of the respondents, large by 5 per cent and small by 10 per cent; in March 1964 some 75 per cent had judged their order position to be normal, 15 per csnt thought it large and 10 per cent small. The results of the survey thus support the indications of a lessening of demand pressures on productive capacity.

Labor situation remains tight

Pressures on productive capacity have been lessened considerably by unusually large increases in labor productivity. Output per worker

Table 1. Netherlands: Industrial Production, 1963-February 1965 a/
(Index numbers, 1958=100 and percentage changes)

Year		Index	Percentage change from preceding year	Year		Index	Percentage change from preceding year
1963		139	+4.5	1964	July-Sept.	142	+6.0
1964		151	+8.6		Oct.-Dec.	164	+8.6
1963	Jan.-March	131	+1.5		October	164	+10.1
	April-June	141	+6.0		November	165	+7.1
	July-Sept.	134	+4.7		December	162	+8.0
	Oct.-Dec.	151	+6.9	1965	January	154	+7.7
1964	Jan.-March	146	+11.5		February e/	154	+6.2
	April-June	152	+7.8				

a/ Adjusted for number of working days; seasonally adjusted data are being revised and are not yet available.
e/ Estimated.
Source: Centraal Bureau voor de Statistiek.

Table 2. Netherlands: Order Backlog, 1963-March 1965
(Orders in terms of months of production, end-January 1964=100)

End of Month	All industries 1/			Consumer goods sector			Investment goods and all others		
	1963	1964	1965	1963	1964	1965	1963	1964	1965
January	100	100	97	96	100	95	101	100	98
February	100	102	96	94	100	94	101	102	97
March	99	101	95	95	102	95	100	101	95
June	100	99		98	103		100	99	
September	95	99		95	97		95	100	
October	100	100		98	102		101	99	
November	101	99		103	97		101	99	
December	103	99		102	96		103	99	

1/ Excluding chemical industry.
Source: Centraal Bureau voor de Statistiek.

in 1964 is estimated to have risen by 6.5 per cent over 1963, the largest annual increase registered since 1960. In fact, between 1960 and 1963 productivity increases have averaged only 1.8 per cent per year. This rapid acceleration in the rate of output per man made considerable expansion in industrial output possible, despite a continuing acute labor shortage.

The expansion of output beyond the needs of current demand are expected to produce some easing of the labor situation. However, so far, signs of any relaxation of labor market strains have been very slight and shortages remain acute. Unemployment, after seasonal adjustment, has been moving up fractionally since mid-1964 and job vacancies began to fall off in the fourth quarter of 1964. (See Table 3.) As a result, the ratio of job openings to the number of unemployed was reduced from 4.8 in the second and third quarters of 1964 to 4.0 in the first quarter of 1965. But this is still a very substantial figure, and suggests that unemployment remains around the structural minimum levels. For 1964 as a whole, unemployment averaged about 0.8 per cent of the labor force, considerably below the 2 per cent level which traditionally is considered necessary to provide a comfortable labor reserve margin. Thus, recruitment of foreign labor continues vigorously despite the forecast of the Central Planning Bureau that the labor situation will ease during 1965 and that the rate of unemployment will rise to about 1 per cent. Currently, foreign labor, at 65,000, constitutes about 2 per cent of the total Dutch labor force.

Table 3. Netherlands: Labor Market 1963-IQ 1965
(in thousands, monthly averages, seasonally adjusted)

		Unemployment	Vacancies	Ratio of vacancies to unemployment
1963	I	38	115	3.0
	II	31	121	3.9
	III	29	123	4.2
	IV	28	126	4.5
1964	I	27	126	4.7
	II	27	130	4.8
	III	28	135	4.8
	IV	30	134	4.5
1965	I	32	128	4.0

Source: OECD

Wage settlements moving ahead

Because the general wage guidelines (which provided a basic increase in contract rates of 5 per cent) were approved only in December 1964, an estimated million workers were employed without contracts at the beginning of 1965. By the end of March, contracts had been approved for about 40 per cent of the workers, including the important construction industry.

Negotiations had been slowed down by a number of controversial issues centering around equal pay for women (as required by EEC rules), special benefits for union members, and profit sharing schemes. The contract for construction workers incorporated a differential benefit in vacation allowances for union members, but so far no equal-pay-for-women provision has been approved. The contract for the Phillips Company, if approved, would constitute a breakthrough in the attempts by the unions to move toward a freer wage policy. The major innovation is that the agreement is to run for three years, rather than the customary one year for which guidelines are established. It provides for a 6 per cent increase in 1965 and for rises of 5 per cent each in 1966 and 1967 and includes a cost of living clause.

Most contracts conform to the 5 per cent maximum guideline, but extra allowances and productivity differentials are expected to raise the average increase in the wage sum per worker to 9 per cent for 1965 as compared with 17 per cent in 1964.

Price rises remain moderate

Despite the large increase in wage costs per worker in 1964, prices have risen only slightly since mid-1964. (See Table 4.) The wholesale price index rose by 2 per cent in October-November, more or less in line with raw materials prices, and has remained stable between November 1964 and January 1965, the latest month for which data are available. The index for manufactured products has been even more stable: it remained at its September 1964 level through January 1965.

Consumer prices, which had been very stable during the last three quarters of 1964, again began to move up in early 1965. In March, the index was 1.7 per cent above the December 1964 level. The upward movement was mainly attributed to the continuing upward trend for the cost of services.

Export prices, which had exhibited a more pronounced upward trend than domestic prices during most of 1964, reached a peak in

Table 4. Netherlands: Selected Price and Wage Indicators, 1963-March 1965
(Index numbers, 1958=100, monthly averages and month)

		Hourly wages rates	Wholesale prices	Manufactured product prices	Cost of living	Export prices	Import prices
1963							
	I	137	100	102	109	100	94
	II	138	99	102	111	99	95
	III	139	100	103	108	99	96
	IV	140	104	105	110	99	96
1964							
	I	153	106	108	113	101	99
	II	162	107	109	117	102	99
	III	165	107	109	116	102	99
	IV	165	109	110	117	104	98
	October	165	108	110	117	103	97
	November	165	109	110	117	105	98
	December	165	109	110	117	103	98
1965							
	January	169	109	110	116	102	98
	February	169	n.a.	n.a.	117	101	98
	March	169	n.a.	n.a.	119	n.a.	n.a.

n.a. Not available.
Source: Centraal Bureau voor de Statistiek; OECD.

November, 7 per cent above the November 1963 level. However, since then, the trend appears to have been reversed; in February (1965) export prices were 4 per cent below the November 1964 figure and only 1 per cent above February 1964. In view of price developments in neighboring countries, Dutch exporters seem to be at least maintaining their relative price position, if they are not actually improving it.

Trade returns continue to improve

The continuing improvement in exports adds confirming evidence to the fact that the Dutch competitive position in world markets has, so far, not materially deteriorated. The upward trend of exports, which was evident throughout last year, continued into 1965: January-February exports (after seasonal adjustment) rose 5 per cent above the fourth quarter (1964) level. (See Table 5.) The year-to-year rate of growth of exports was 15.2 per cent in January and February.

The expansion of exports was accompanied by a slowdown in the growth of imports. These had been expanding very rapidly during the first half of 1964, partly because of the acceleration of business activity, but mainly because of a massive inventory build-up. The high rate of inventory accumulation was accompanied by a rapid rise in world market prices for raw materials, which contributed materially to the increase in import values.

After mid-1964 import prices stabilized and the inventory build-up slowed down. As a result, imports stabilized at about the high second quarter 1964 level during the second half of the year.

Table 5. Netherlands: Merchandise Trade, 1962-February 1965
(Millions of U.S. dollars, monthly averages, seasonally adjusted)

Year		Exports f.o.b.	Imports c.i.f.	Balance	Exports as % of imports
1963		414	497	-83	83.3
1964		484	588	-104	82.3
1963					
	I	389	462	-73	84.2
	II	432	492	-60	87.8
	III	424	508	-84	83.5
	IV	420	537	-117	78.2
1964					
	I	453	563	-110	80.5
	II	478	595	-117	80.3
	III	486	585	-99	83.1
	IV	500	592	-92	84.5
	December	526	619	-93	85.0
1965					
	January	522	552	-30	94.6
	February	529	597	-68	88.6

Source: OECD.

This trend appears to have continued into 1965, when January-February imports were only 2.0 per cent above January-February 1964. Although it is difficult to judge the extent to which the import figures may have been influenced by the U.S. dock strike, preliminary March returns suggest that the differential rate of growth of exports and imports may be continuing.

These developments have resulted in a steady narrowing of the trade gap. The coverage of imports by exports rose from 80.3 per cent in the second quarter of 1964 to 84.5 per cent in the fourth quarter and 88.6 per cent in February 1965. The Dutch authorities consider an 85 per cent coverage level the minimum compatible with a satisfactory payments balance (which would imply a current account surplus to cover traditional capital outflow--or to allow a mercantilistic margin of surplus for comfort).

Balance of payments in surplus in 1964

The continuing improvement in the Dutch trade position and large private capital inflows in the second half of 1964 led to a substantial balance of payments surplus both in the third and the fourth quarters of the year. At fl 1,295 million ($358 million) the second half (1964) surplus was more than sufficient to offset the fl 1,082 million ($299 million) deficit registered during the first half of the year. (See Table 6.) As the result, the year as a whole ended with a somewhat unexpected surplus of fl 213 million ($59 million).

The current account outturn was dominated by the developments in the trade balance. As late as September (1964), official estimates

Table 6. Netherlands: Balance of Payments, 1963 - 1964 1/
(in millions of Dutch guilders)

	Year			1964 a/			
	1962	1963	1964 a/	I	II	III	IV
Goods and Services							
Merchandise	-1,504	-1,325	-2,776	-792	-898	-683	-403
Investment income	382	645	734	195	-135	291	383
Other services	1,408	1,592	1,585	298	438	419	430
Total	286	912	- 457	-299	-595	27	410
(on transaction basis)	(502)	(367)	(-658)	(-542)	(-820)	(284)	(420)
Private Capital							
Transactions in domestic securities	747	524	325	- 62	44	190	153
Transactions in foreign securities	- 374	- 203	65	- 36	16	73	12
Direct investment	- 184	- 238	- 201	-139	- 32	- 44	14
Long-term credits	- 241	- 124	307	139	56	34	78
Other	- 9	101	233	33	- 83	152	131
Total	- 61	60	729	- 65	1	405	388
Commercial Banks Capital							
Total	- 60	- 148	18	-110	45	110	- 27
Official Payments							
Debt repayments	- 88	- 49	- 42	- 1	- 20	--	- 21
Other	- 90	- 18	- 35	- 8	- 35	21	- 18
Total	- 178	- 67	- 77	- 9	- 50	21	- 39
(Errors and omissions)	(-216)	(-545)	(201)	(243)	(225)	(-257)	(-10)
Surplus or Deficit (-)	- 13	757	213	-483	-599	563	732
Financed by:							
Special transactions							
Debt prepayments	- 108	- 253	--	--	--	--	--
Commercial banks							
Foreign exchange, net (Increase-)	52	100	682	260	496	59	-133
Central bank							
Drawing rights on IMF ((Increase-)	145	--	- 226	- 72	--	- 91	- 63
Consolidated credits (Receipts-)	18	12	9	3	1	4	1
Gold & foreign exchange (Increase-)	- 94	- 616	- 678	292	102	-535	-537
Total	69	- 604	- 895	223	103	-622	-599
Total financing	13	- 757	- 213	483	599	-563	-732

1/ Data are shown on a cash rather than a transactions basis. This affects primarily the current account balance and the commercial banks' capital flows.
a/ Preliminary.
Source: Netherlands Ministry of Finance.

had put the current account deficit for 1964 at fl 1,250 million ($345 million) on a transaction basis. But the improvement in the trade balance in the second half of the year was such that the 1964 current account deficit at fl 658 million ($182 million) was only slightly over half the anticipated amount. On a cash basis, the current-account deficit amounted to fl 457 million ($126 million), which resulted from a fl 894 million deficit during the first half of the year and a fl 437 million surplus in the second half. For the year as a whole, the current account balance deteriorated by fl 1.4 billion ($387 million) as compared with 1963.

The capital account, in contrast to the current account, registered a large improvement between 1963 and 1964. During 1964, there was an inflow of capital to the amount of fl 670 million ($185 million), while in 1963 an outflow of fl 408 million ($113 million) was registered. The inflow of long-term foreign capital amounted to about fl 1 billion ($276 million) both in 1963 and 1964. In 1963 the inflow had been concentrated in the first half of the year, when foreigners bought Dutch shares. By contrast, the inflow in 1964 was concentrated in the second half of the year, when the rise in bond yields attracted foreign purchasers. The inflow of foreign long-term funds was accompanied by a reduction in the outflow of Dutch long-term capital: there were net sales by Dutch residents of foreign securities (primarily of German securities presumably because of the proposed withholding tax on income from fixed interest securities accruing to foreigners) to the amount of fl 65 million ($18 million) as compared with net purchases of fl 203 million ($56 million) of such securities in 1963.

The short-term capital balance also showed considerable improvement in 1964. In addition to the pulling back of private Dutch short-term capital from abroad in response to tightening financial conditions, foreigners added to their short-term assets in the Netherlands: in 1963 they had reduced them.

Thus, the unexpectedly strong export position and the restrictive monetary policy of the Netherlands Bank, which resulted in a substantial upward movement of the interest rate level produced--instead of the anticipated substantial deficit--a balance of payments surplus of fl 213 million in 1964.

Official reserves increase

Tightening domestic financial conditions led commercial banks to reduce their foreign exchange assets by $188 million during 1964. Reduced commercial bank holdings and the $59 million balance of payments surplus led to an appreciable rise in official holdings of gold and foreign exchange in 1964. The gold holdings of the Netherlands Bank rose by $87 million during the year and foreign exchange holdings increased by $98 million. In addition, drawing rights on the IMF rose by $62 million. (See Table 7.)

During the first four months of 1965, the Netherlands Bank added a further $35 million to its gold holdings, while foreign exchange assets remained about unchanged. By the end of April, gold represented 81 per cent of the Netherlands Bank's holdings of gold and foreign exchange, somewhat below the 84 per cent level recorded at the end of 1963.

Table 7. Netherlands: Changes in Official Reserves 1962-April 1965
(In millions of U.S. dollars, end of period figures)

		Gold	Foreign exchange	Total	IMF	Total
Annual change:						
1962		--	28	28	-40	-12
1963		20	136	156	--	156
1964		87	98	185	62	247
Quarterly change:						
1963	I	--	7	7	--	7
	II	--	88	88	- 5	83
	III	--	15	15	5	20
	IV	20	26	46	--	46
1964	I	--	-66	-66	20	-46
	II	--	-47	-47	--	-47
	III	--	174	174	25	199
	IV	87	37	124	17	141
1965	I	35	-50	-15	4	-11
Monthly change:						
1964	October	10	- 5	5	-10	- 5
	November	10	94	104	- 7	97
	December	67	-52	15	34	49
1965	January	--	- 9	- 9	4	- 5
	February	35	-16	19	--	19
	March	--	-25	-25	--	-25
	April 1/	--	51	51	n.a.	n.a.

1/ Estimated.
n.a. Not available.
Source: *International Financial Statistics*; Netherlands Bank.

The improved Dutch payments position was reflected early in 1965 in the strength of the guilder in foreign exchange markets. Through most of January and February, the guilder was traded at 27.83 U.S. cents, fractionally below the upper limit of 27.84 U.S. cents at which the Netherlands Bank is committed to intervene in the market. (See Table 8.) From mid-February to the end of April quotations for the guilder declined slightly. On April 30 the guilder had slipped to 27.76 U.S. cents. But in early May, with money market conditions tightening in the Netherlands, demand for the guilder rose again.

Financial markets ease temporarily

Seasonal movements and the balance of payments surplus brought temporary ease to financial markets in early 1965. The domestic interest rate level declined somewhat with both short-term and long-term rates moving downward. Three-month Treasury bill yields were reduced from a high of 3.84 per cent per annum in November to 3.29 per cent in January. (See Table 9.) The Bank for Netherlands Municipalities floated its first loan in 1965 with a 5.5 per cent coupon, and followed it with a second loan-bearing 5-1/4 per cent interest. Both loans were placed successfully, partly because of lively foreign interest, particularly from Switzerland.

A further indication of somewhat greater ease in the capital market was the fact that banks appeared to keep increasingly within the limits to credit expansion set by the Netherlands Bank. From mid-November to mid-January, banks were required to keep interest-free penalty deposits of over fl 200 million with the Netherlands Bank

Table 8. Netherlands: Exchange Rate in U.S. Cents per Guilder 1/
January 1964 - May 1965

Par Value	27.624
Lower limit	27.42
Upper limit	27.84

Monthly Average			End of Week			
1964	January	27.753	1965	February	11	27.831
	April	27.711			26	27.813
	July	27.657		March	12	27.783
	October	27.772			26	27.786
	November	27.824		April	16	27.788
	December	27.831			30	27.756
1965	January	27.827		May	7	27.792
	February	27.825				
	March	27.780				
	April	27.780				

1/ Noon buying rates.
Source: Federal Reserve Board.

Table 9. Netherlands: Selected Interest Rates, January 1964 - April 1965
(per cent per year)

			Official Call Money Rate	Three Month Treasury Bill Rate	Government Bond Yield
Monthly Average					
1964	January		1.67	2.31	4.83
	June		2.05	3.81	4.87
	September		2.09	3.70	4.78
	October		3.14	3.80	4.84
	November		2.79	3.84	4.92
	December		2.09	3.68	4.98
1965	January		2.35	3.29	4.98
Week Ending					
1965	February	5	4.00	3.38	4.91
		12	3.50	3.38	4.95
		19	3.50	3.25	4.98
		26	3.50	3.25	4.93
	March	5	3.00	3.38	4.94
		12	3.50	3.44	4.93
		19	2.00	3.38	4.95
		26	3.50	3.50	4.96
	April	2	4.00	3.50	4.97
		9	3.00	3.50	4.98
		16	3.00	3.50	5.03
		23	3.00	3.63	5.04
		29	4.00	3.69	5.08

Source: Netherlands Bank.

because they had exceeded their credit limits by this amount. By February, their excess credits were much smaller and they were required to put up only fl 67 million in penalty deposits.

However, the easier tone was short-lived: credit expansion again began to exceed the limits by increasing amounts; in mid-May banks were required to put up fl 133 million. A loan announced by the National Investment Bank again carried a 5-3/4 per cent coupon and two EEC Institution loans, one by the European Investment Bank and one by the Steel and Coal Community, carried 5-3/4 per cent coupons and were issued at par. Both loans appear to have been heavily oversubscribed.

The flotation of these two foreign loans--although Community Institution loans receive preferential treatment, they still are considered "foreign"--indicates the more flexible attitude the monetary authorities are taking towards foreign borrowing in the Netherlands capital market. Foreign loans are to be licensed more freely in 1965 and commercial banks may now take up certain loans in full and hold them in their portfolios. Until February 25, banks were allowed to take up only 25 per cent of such loans. The relaxation of restrictions on foreign loans is taken as a direct reflection of the growth of exchange reserves and the inflows of private capital.

<u>Business prospects for 1965</u>

Economic prospects for 1965 show the effects of the unexpectedly good performance of the economy in 1964. The latest estimates of the Central Planning Bureau foresee a virtual return to internal and external equilibrium during 1965. Gross National Product in real terms is estimated to increase by 4 per cent as compared with 7.8 per cent in 1964. (See Table 10.)

Productive capacity, on the other hand, is expected to grow by 5 per cent, and domestic demand by 3.5 per cent. The difference in the rate of growth of supply potential and domestic demand opens the possibility for a further reduction in the current-account deficit and a possible relaxation of demand pressures.

The Central Planning Bureau estimates an about equal division of the differential between these two factors, yielding virtual balance on external account as the current account deficit is expected to shrink to fl 100 million ($28 million) and some reduction in the rate of capacity utilization. The latter, in turn, is expected to lead to some easing of the strains on the labor market.

However, the Bureau warns that these estimates do not provide large margins and small changes in the basic assumptions could substantially change the results. For example, the improvement in the external balance is based upon the assumption that inventory accumulation falls to a relatively very low level. Furthermore, should wages rise by more than 9 per cent, prices could well rise more than the 4.5 per cent projected for consumption expenditures and the 1.5 per cent for export prices.

Within the various sectors of final demand, exports and construction are expected to play the most dynamic roles. Residential building is expected to rise by 9 per cent and exports by 8 per cent. Private investment in equipment, on the other hand, is projected to

Table 10. Netherlands: Changes in Gross National Product and Selected Components 1963 - 1965
(in real terms, per cent change from preceding years)

	1963	1964 A	1964 B	1965 A	1965 B
Private consumption	7.1	6.0	6.0	1.5	5
Public consumption	2.8	--	--	3.0	4
Gross fixed investment					
Private	4.0	13.0	15.1	-0.5	2
Public	3.4	15.0	14.8	2.5	5
Exports of goods	6.5	11.0	12.5	12.0	8
Imports of goods	10.1	15.5	15.0	6.0	5
Total GNP	3.5	5.5	7.8	2.5	4

Note: A - Estimated by Central Planning Bureau in September, 1964; 1965 estimate based on the assumption that contract wage rates were to rise by 2 per cent.

B - Estimated by Central Planning Bureau in March, 1965; 1965 estimate based on assumption that effective earnings per worker will rise by 9 per cent.

Source: Central Planning Bureau.

remain stable, possibly indicating that pressures toward investments in labor-saving devices are not quite as strong as generally assumed.

Despite the large increases in labor costs during 1964 and the relative price stability in the second half of the year, corporate profits (as indicated by company reports) developed very favorably. Of 118 companies reporting by April 1, 73 declared higher dividends in 1964, 36 kept their dividends at the 1963 rate and 9 lowered them. Thus, incentives to investment have hardly been curtailed so far. Further, the general mood of optimism (reflected in the substantial upward revision of the estimates of pace of economic expansion both for 1964 and for 1965) is not likely to produce cutbacks in investment activity either.

It is likely that the authorities will continue to pursue their restrictive policies. However, there may be some significant changes in basic economic policy under the new Government coalition which was formed in April.3/

The new Government may be much stronger than the previous Cabinet because, after about six years, it again reunites the two largest parties, the Labor Party and the Catholic Party. With the two major economic posts (the Finance and the Economics Ministries) occupied by the Labor Party, it was anticipated that a somewhat different trend in economic policy would be established.

3/ The new coalition consists of the Catholic, Labor, and Anti-Revolutionary (Protestant) parties. The previous Cabinet consisted of the Catholic, Liberal, Anti-Revolutionary and Christian-Historical Union (Calvinist) parties.

The policy declaration of the new Government confirmed this assumption. The major points are:

(a) Government expenditures may rise. The Government accepts in principle that Government expenditures should not rise faster than GNP but some increases may be necessary to ensure economic and social policy goals. (For example, the Government will make available an extra fl 50 million to the municipalities in 1965.)

(b) With rising Government expenditures, there will be less emphasis on reduction in the tax burden. To be sure the Government remains committed to the recently enacted reduction in income taxes, half of which is to become effective in mid-1965; but the Government has announced that it will introduce proposals for a "speculation" tax on short-term gains from the sale of securities or real estate. The proposed rate is 25 per cent and time limits are to be very much shorter for security transactions than for real estate.

(c) The pending changes in the corporation tax law will be re-examined, particularly the proposal for a lower rate of taxation for retained profits as compared with distributed profits will be eliminated.

(d) Greater Government involvement in the development of natural resources. Possible participation of the Government in the exploration of mineral resources will be studied and an amendment to the Continental Shelf Mining Bill will be introduced providing for Government participation in the extraction of resources other than natural gas.

(e) Legislative proposals will be introduced providing for a major medical insurance system.

(f) The Government supports the wage guidelines agreed upon for 1965 to prevent large wage cost increases which would harm the Dutch competitive position or reduce the purchasing power of the guilder.