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February 15, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Netherlands - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with the Netherlands. This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Van't dack, ext. 74310.

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INTERNATIONAL MONETARY FUND

THE KINGDOM OF THE NETHERLANDS

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983 Consultation with The Kingdom of the Netherlands

Approved by L. A. Whittome and Subimal Mookerjee

February 14, 1984

I. Introduction

A staff team consisting of Mrs. H. B. Junz, Messrs. P. Dhonte, L. Manison, K-W. Riechel, B. de Schaetzen, and J. Van't dack (all EUR), and Miss M. Stuart (EXR), as secretary, visited The Hague and Amsterdam December 6-16, 1983 to conduct Article IV consultation discussions. The Netherlands' authorities were represented by officials of the Ministries of Finance, Economic Affairs, and Social Affairs and Employment, the Central Planning Bureau, and the Netherlands Bank. The team also met with the Minister of Finance, Mr. H. O. Ruding; the Minister of Social Affairs, Mr. J. de Koning; and the President of the Netherlands Bank, Dr. W. F. Duisenberg. Mr. J. J. Polak, Executive Director, and Mr. T. de Vries, Alternate Executive Director, participated in a number of meetings as observers. The Netherlands formally accepted the obligations of Article VIII, Sections 2, 3, and 4, as of February 15, 1961.

II. Background

1. Recent economic trends and prospects for 1984

In the wake of the policy efforts of the past several years and the beginning recovery of economic activity in the OECD area, a number of positive signs are emerging in the Dutch economy. The erosion of profitability in the business sector appears to have been halted in 1983, albeit at a level at which a rather high percentage of enterprises is still experiencing negative cash flows. In addition, the downward trend of domestic demand and employment appear to be stabilizing, although absolute declines are still estimated for 1983 and, with the labor force growing at an annual rate of 1.3 percent, unemployment reached 17 percent of the dependent labor force (14 percent on the standardized definition). Despite the flattening of the downward trends, the internal economy continues to be more subdued than that in neighboring countries.

Growth of total activity, under the impetus of growing export demand, has become positive in 1983, with GDP rising by about 1 1/4 percent in real terms. The rise in export demand partly reflects the improvement in the competitive position, but is largely cyclically determined since the concentration of Dutch production on intermediate goods results in a revival of export deliveries at a very early stage in the upturn of the trade cycle.

Continued depressed domestic demand coupled with the pickup of exports has raised the already high external current account surplus to about 3 percent of GDP. Without a temporary pickup of domestic investment demand, concentrated largely on ships and aircraft, which have a high import content, the rise in the external surplus might have been even greater. In 1984, a further rise is projected, to about 4 percent of GDP, despite a positive shift in the growth of domestic demand (from minus 1/4 percent to plus 1 percent).

Consumption expenditures are expected to fall, in real terms, in 1984, although the trend is to improve during the year. The projected drop in private consumption largely reflects the effects on disposable income of policy actions to cut back public sector wages and transfer payments. 1/ However, the recent improvement in consumer confidence, the increase in wealth associated with the rise in the stock market, and the slight upward tendency of housing prices all contributed to some decline of the personal savings rate from the high levels reached in 1982. Although the rate of noncontractual savings (free savings) has reverted to the levels that obtained in the late 1970s, the apparently permanent upward shift of contractual savings suggests that a further reduction in the free savings rate could well occur, which in turn would support consumption expenditures in 1984 as it did in 1983. While the recovery of fixed capital formation is likely to remain hesitant, it reflects a clear improvement over the investment performance of the early 1980s. 2/ Given the sluggishness of final domestic demand, the impetus to growth is expected to derive mainly from the foreign sector, which also should stimulate some inventory accumulation. The still fragile pickup in activity--2 percent for GDP--projected for 1984 is not expected to stem the decline in employment fully. Accordingly, unemployment could rise by a further 2 percentage points. But with wage moderation continuing, the improvement of business profitability that became apparent in 1983 should broaden in 1984, although the low inflation rate indicates that a considerable part of at least the past improvement in costs was passed on to consumers. With a relatively accommodating monetary policy, a firm fiscal policy, and a further improvement in the competitive position, the potential for a revival of domestic demand has improved measurably, a change also reflected in the indicators of business and consumer confidence (Chart 1). The question remains whether the imbalances in the economy still are such as to prevent any recovery being other than feeble.

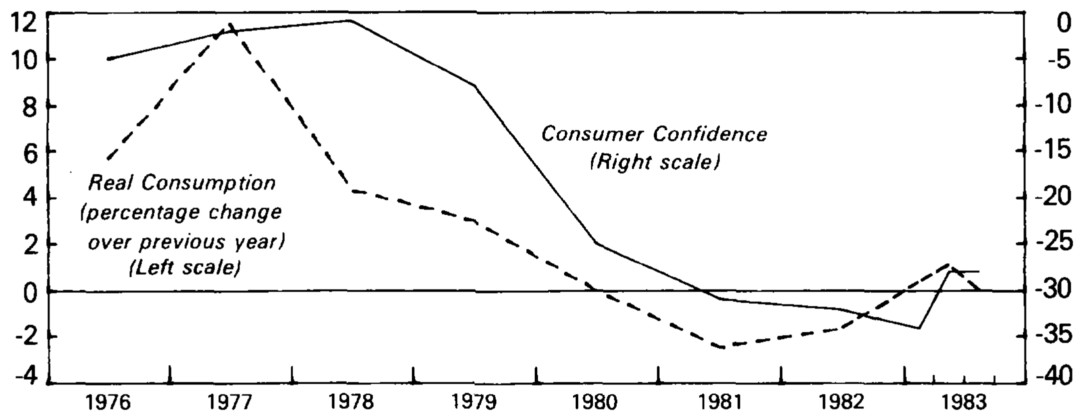
1/ Preliminary forecasts of the Central Planning Bureau suggest an even stronger decline in real disposable income and, consequently, a larger drop in private consumption.

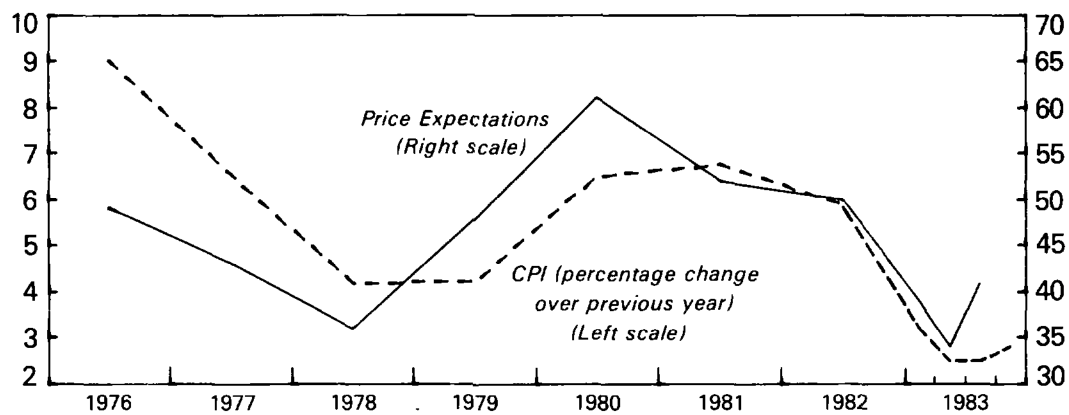
2/ The higher rate of fixed investment, realized in 1983, was mainly caused by incidental factors, in particular, large purchases of ships and planes.

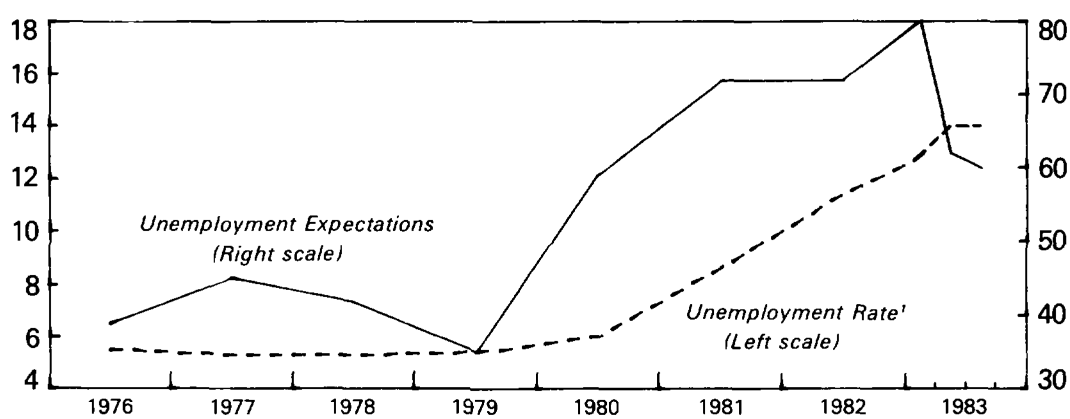
CHART 1

NETHERLANDS

ECONOMIC INDICATORS







Sources: Commission of the EC, *European Economy*, Supplement C; IMF, *International Financial Statistics;* OECD, *Main Economic Indicators;* and Central Bureau of Statistics, *Statistisch Bulletin*.

[1]Standardized definition.

2. The structural problem

The present situation in the Netherlands is marked by paradoxes that largely reflect the deep imbalances in the economy. First and foremost, the virtually inexorable rise of the public sector deficit--by 4 1/2 percentage points to 11 1/2 percent of net national income (NNI) between 1980 and 1983--has been accompanied by a swing into surplus of the external current account balance to an even greater degree (Chart 2). In 1983, the current account surplus exceeded 3 1/2 percent of NNI and is continuing to rise indicating a mounting private savings surplus. However, this surplus is not being translated into increased domestic demand. On the contrary, domestic demand, in real terms, has been falling for four years in a row and in 1983 was 6 1/2 percent below its 1979 peak.

Second, despite three years of wage moderation, during which real wages fell at an annual average rate of 1 percent, the labor income share 1/ in nominal terms only stabilized, at a very high level of 90.5 percent in 1983, while unemployment has risen to one of the highest levels among industrialized countries (Chart 3).

Third, the large balance of payments surplus combined with a relatively passive monetary policy has led to a rapid increase in domestic liquidity, but the inflation rate has declined to one of the lowest in Europe, while real interest rates are among the highest (Chart 4).

The basic weaknesses in the economy that allow these developments to exist side by side stem from a growth of the public sector that over the past two decades has sapped the vitality of the private sector to an increasing extent (Table 1). In the early 1960s, the share of Dutch public sector expenditures, at around two fifths of NNI, was not out of line with those registered in other industrialized European countries. However, by the mid-1970s, a relatively strong growth performance of the Dutch economy and the revenues from the exploitation of natural gas, moved the focus of economic policy to a broadening and deepening of the social security system. This, over time, imparted a momentum to public expenditures that brought their share of NNI to the highest among OECD countries. Despite the accelerating trend of public sector expenditures, the public sector remained in surplus until the late 1970s. This entailed, however, steady increases in the tax burden that ultimately were shifted to the business sector and that, by leading to a greatly reduced capacity and willingness to invest, progressively eroded the growth performance of the Dutch economy (Chart 5). With the public sector intermediating an increasing amount of resources from those with lesser to those with higher propensities to consume, the share of consumption 2/ in NNI reached a peak of 88 percent in 1980 and has stabilized at about 87 1/2 percent since. By 1979, net transfer payments covered about one third of personal consumption expenditures. Since then, the relative importance of transfer payments in personal consumption expenditures has risen further to about

1/ Excluding natural gas; source: Central Planning Bureau.
2/ Government and households.

two fifths. Although personal consumption, measured in real terms, has fallen by 4 percent since 1980, at two thirds of GDP, it still absorbs a significantly higher share of output than elsewhere in Europe (Table 2). The shift in the Dutch expenditure pattern toward consumption went hand in hand with a shift of the production and employment pattern toward services and the shrinkage of employment in recent years has been concentrated largely in the manufacturing sector, whereas the services sector only began to shed labor in 1982.

Table 1. Growth and Structure of Public Sector Expenditures, 1960-83 1/

(In percent of NNI)

	Public Sector Expenditures					
	Own expenditures of which:		Transfers of which:			
	Consumption	Investment	Households	Business	Interest on Debt	Total Expenditure
1960	14.6	3.7	11.2	1.6	2.9	35.9
1965	16.7	4.4	15.4	1.1	2.6	41.4
1970	17.7	4.4	19.6	1.1	3.3	48.2
1977	18.9	3.0	26.7	0.9	3.3	56.9
1980	19.8	2.8	29.3	2.5	4.1	63.3
1981	19.7	2.8	30.7	2.8	4.9	65.4
1982	19.7	2.5	32.7	2.7	5.8	68.3
1983	19.6	2.3	33.8	2.7	6.7	70.6
1984	18.8	2.2	33.5	2.6	7.5	69.9

Source: Ministry of Finance.

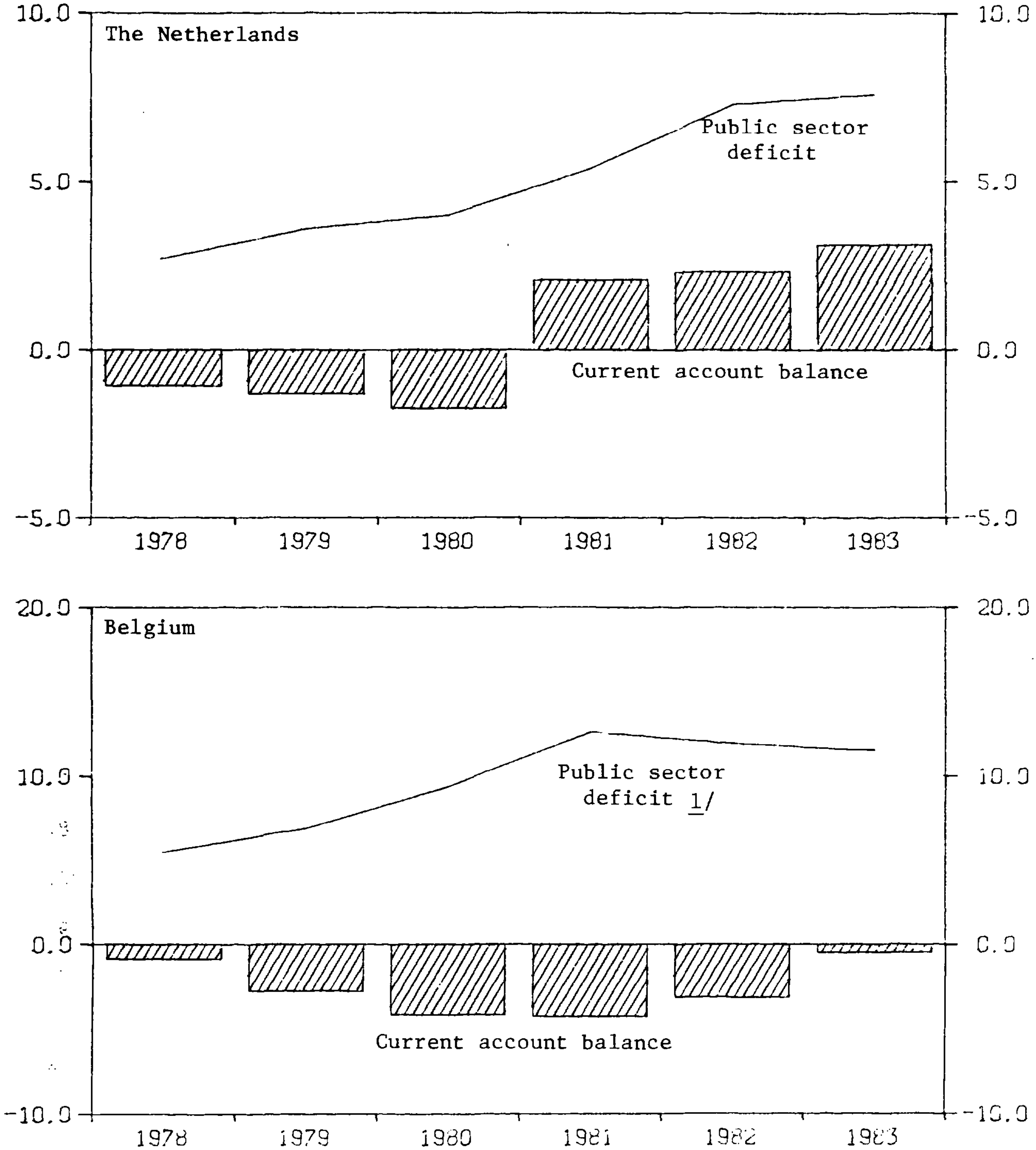
1/ Data prior to 1977 not strictly comparable, 1983 estimated, and 1984 projected.

Chart 2

NETHERLANDS

Public Sector Deficit and Current Account Balance

(Percentage of GDP)



Sources: Dutch Central Bureau of Statistics, National Accounts; IMF, International Financial Statistics; National Bank of Belgium, Annual Report; and staff estimates.

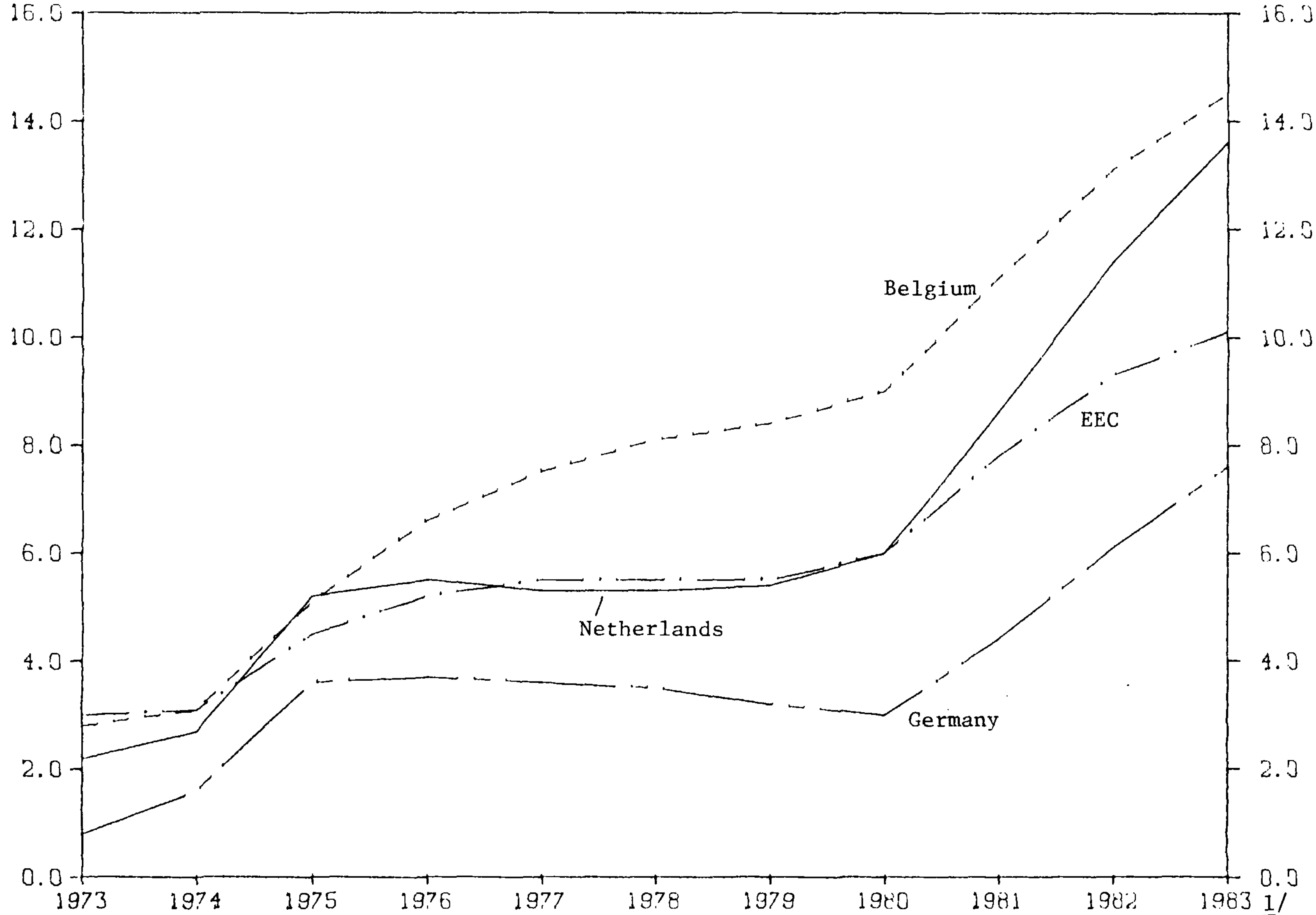
1/ Excluding financial transactions.

Chart 3

NETHERLANDS

Standardized Unemployment Rate--International Comparison

(In percent)



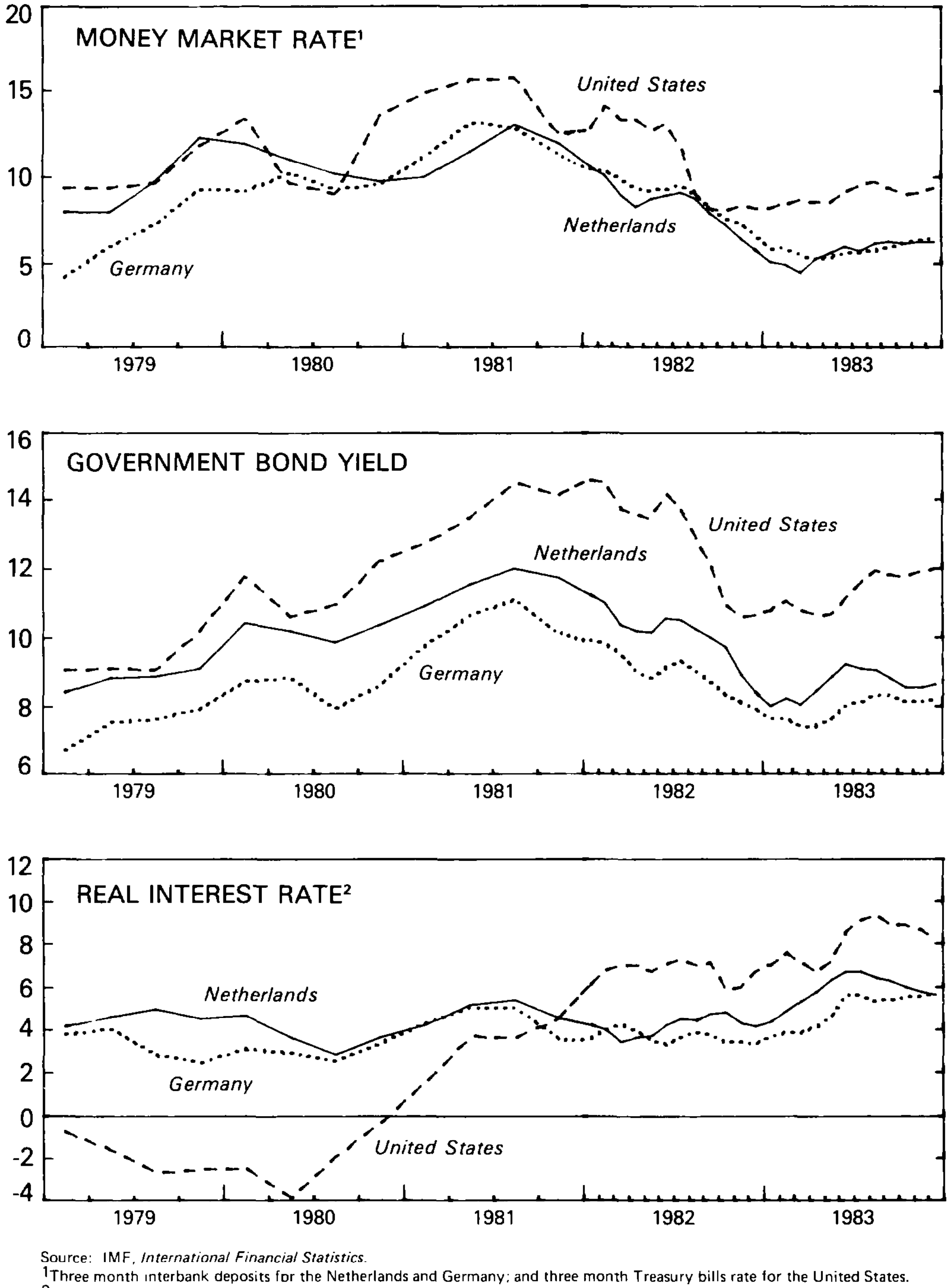
Source: OECD, Main Economic Indicators.
1/ Average first three quarters of 1983.

CHART 4

NETHERLANDS

INTEREST RATE DEVELOPMENTS

(In percent)



Source: IMF, *International Financial Statistics*.

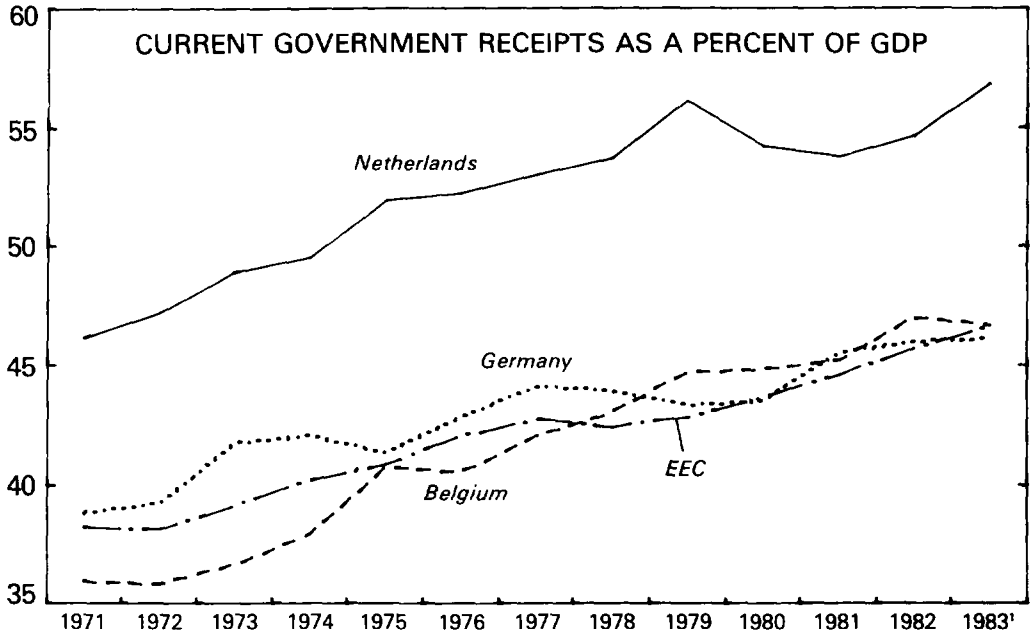
[1]Three month interbank deposits for the Netherlands and Germany; and three month Treasury bills rate for the United States.

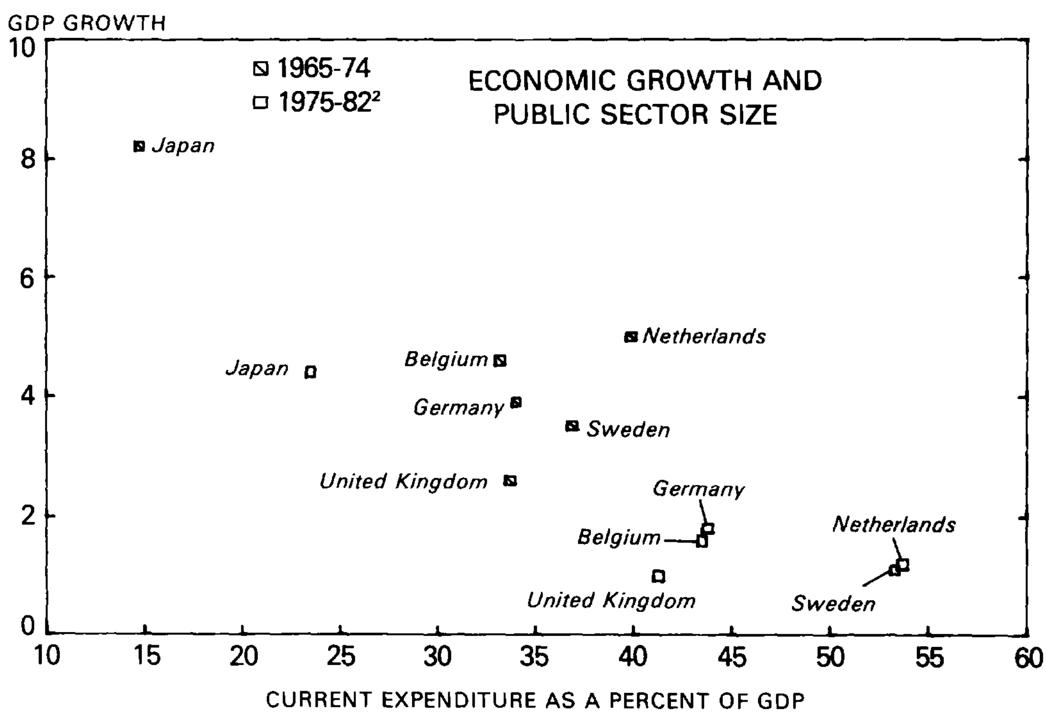
[2]Government bond yield minus change in consumer prices.

CHART 5

NETHERLANDS

PUBLIC SECTOR AND ECONOMIC GROWTH





Sources: European Communities, *Annual Economic Report, 1983-84;* and OECD, *National Accounts.*

[1] Estimates.

[2] 1975-81 for the public sector size of Japan and Sweden.

Table 2. Netherlands: International Comparison of Consumption Expenditures in 1982

(As a percentage of GDP; 1980 prices)

	Netherlands	Italy	Germany	Sweden	United Kingdom
Share of consumption expenditures in GDP	66	64	54	52	51

Source: OECD, National Accounts.

The growth of the intermediation of resources through the public sector, largely for purposes of social security, and the shift in the production pattern toward consumption and consumption-related services all reduced the ability of the Dutch economy to respond to the changing character of the international environment. Concomittantly, the flexibility of the economy has been reduced through extensive regulation of wage and price formation and in other fields as well. This is particularly apparent in the labor markets, which have shown increasingly less adaptability to changing demand and supply patterns. Statutory wage controls have eroded pay differentials across sectors and occupations and have reduced labor flexibility and mobility to a crippling extent. Restrictions on the dismissal of workers have prevented enterprises from making necessary short-run adjustment in their labor forces, and by contributing to business failures strongly undermined the intentions behind these restrictions. In fact, a major part of the recent fall in employment stems from the rising tide of business closures rather than from temporary layoffs. At the same time, high social benefit payments in relation to average wages have reduced incentives to move off the public benefit rolls.

The loss of adjustment potential of the economy, the erosion of business profitability, and the effects of a relatively high real exchange rate at a time when the growth of world trade was declining, all contributed to the sustained fall of domestic demand over the past several years. Policies, which since 1979 have been oriented toward controlling the growth of the public sector, reducing rigidities in the market sector, and increasing competitiveness, tended in their initial effects to compound the recessionary tendencies. These in turn have contributed to the increase in the share of public expenditures in NNI by 2 1/2 percentage points per annum between 1980 and 1983, despite the continuing efforts of the Government to contain this trend. Although the collective burden 1/ rose from 52.6 percent of NNI to 55.9 percent over

1/ Taxes, social security contributions, and revenues of a tax character.

the same period--despite a policy commitment to reduce it--the public sector deficit has risen from 7.2 percent of NNI to 11.6 percent. With this rise, a new dynamic has been added to public expenditure through the acceleration of interest payments on the public debt. The latter, which up to the mid-1970s equaled 3.3 percent of NNI, rose sharply to 6.7 percent in 1983 (Chart 6). The authorities estimate that, if the target of reducing the public sector deficit to 7 1/2 percent of NNI by 1986 can be achieved, the interest payment burden in the Central Government's debt, which accounts for two thirds of public sector debt, can be stabilized at 6.3 percent of NNI from 1986 on. However, if the deficit remains at its 1983 level, interest payments will equal about 8 percent of NNI by 1988 and pre-empt 21.7 percent of central government revenues against 11.8 percent in 1983. 1/

The current Government, when it took office in 1982, put priority on regaining control of public expenditures and of the deficit. Although well aware that the most recent increases in the public sector deficit had been largely the result of the deepening of the recession and of a significant erosion of employment opportunities, it decided that a broadening and intensification of the policies dealing with the structural imbalances was imperative if the downward trends in the economic activity were to be reversed and if an upswing in world demand was to be translated into a sustained recovery in the Netherlands as well.

III. Report of the Mission

1. Overview

The underlying problems of the Dutch economy pose a number of policy dilemmas for the authorities. Most important, a return of flexibility to the economy requires shrinking the size of the public sector, but this implies a possible further reduction of domestic demand. Second, the large current account surplus and the increase in competitiveness associated with wage moderation and low inflation prevent the use of the exchange rate instrument to increase business profitability and overall demand. Finally, to allow investment activity to resume, enterprises must have the opportunity to continue to reconstitute their balance sheets, which implies further increases in the monetary aggregates, but carries the risk that the resulting liquidity overhang could regenerate inflationary pressures down the line.

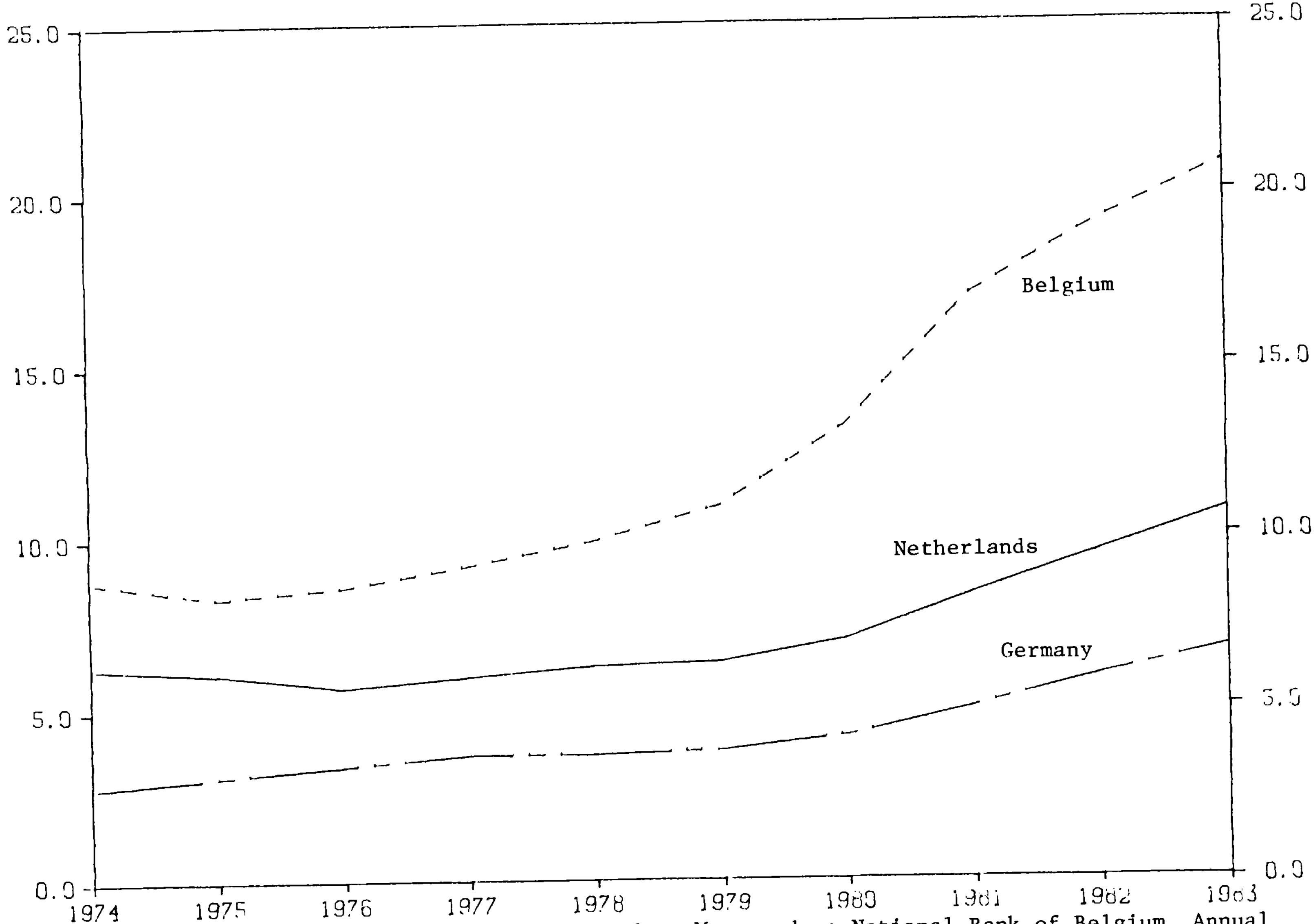
Faced with these dilemmas the Government has decided that there is no room left for expansionary fiscal policies. In fact, the 70 percent rise of the public sector deficit in terms of NNI over the past three

1/ This assumes 4 percent annual growth of NNI in nominal terms and interest rates falling to 6 percent in 1988 if the deficit is reduced, but remaining at 9 percent in the absence of a reduction.

Chart 6

NETHERLANDS

Interest on Public Debt as a Percentage of Total Government Revenue



Sources: Dutch Ministry of Finance, _Budget Memorandum_; National Bank of Belgium, _Annual Report_; and Statistisches Bundesamt, _Volkswirtschaftliche Gesamtrechnungen_.

years at the same time that unemployment rose from 6 to 14 percent of the labor force 1/ has convinced the authorities that it no longer is possible to draw a clear distinction between structural and countercyclical policies. Accordingly, the authorities have adopted a threepronged policy approach that accepts possible further negative effects on domestic expenditure in the short-term in favor of what is believed to be a greater payoff in the medium term. The three interlinked policy lines, therefore, deal with the underlying imbalances in the economy. First, public finances must be brought under control; second, the responsiveness of the market sector must be increased; and third, given the high and rising rate of unemployment, efforts to reduce working hours and thereby redistribute work opportunities must be undertaken. The discussions focused on these policy lines.

a. Fiscal policy

When the Government took office in 1982, the efforts to achieve control of public finances were articulated along two lines: (i) stabilization and eventual reduction of the collective burden in order to give the private sector more room to respond to market stimuli; and (ii) a steady reduction of the public sector borrowing requirement, by about 1 percentage point of NNI a year, to a level of 7.5 percent of NNI in 1986.

The 1983 budget inherited from the caretaker Government included already some elements of this policy orientation: public salaries and social benefits were frozen at their end-1983 level, social security contributions were raised; and miscellaneous cuts were implemented in departmental budgets for a total package of some f. 13 billion or nearly half the budget deficit in 1982. In early 1983, it became clear that both revenue and expenditures were off track and the earlier efforts were augmented by new spending cuts, further increases in social security contributions, and higher taxes on gasoline. Preliminary estimates suggest that the net financing requirement of the public sector has risen from 10.0 percent of NNI in 1982 to 11.6 percent in 1983 and the collective burden from 55.0 percent to 55.9 percent. On current estimates, 1983 will be the first year since 1979 in which the budgeted deficit has not been overshot, although the outcome for the collective burden would continue to exceed estimates. However, there is some evidence that the improvement in the expenditure trend in late 1983 may stem in part from some postponement of payments into 1984, indicating that the fight to overcome the dynamics of the growth of expenditures has not been won as yet.

In view of the difficulties encountered in restraining expenditure in 1983 and consistent with its basic strategy of reducing the size of the public sector, the Government in the 1984 budget has intensified its effort to cut public spending. Nominal salaries in the public sector were cut by 3 percent effective January 1, 1984 as were certain social security benefits. Further budgetary measures include freezing of child

1/ Standardized definition.

support allowances, changes in medical insurance coverage, and savings in the cost of health care for a total of some f. 7.5 billion. The cuts in social benefits made room for the reduction of employers' contributions to the social security system, which in turn will bring about some decline in the very high level of indirect wage costs. In addition, corporate profit taxes will be cut by 5 percentage points to 43 percent in 1984 and, if budgetary conditions permit, by a further 3 percentage points to 40 percent in 1985, with comparable tax reductions for nonincorporated businesses and various measures to stimulate venture capital and help small and medium-sized enterprises will be introduced. The net budgetary cost of these measures will be small in 1984 and 1985, but the cut in profit taxes is expected to be helpful both in improving the business climate and providing a stimulus to the inflow of foreign direct investment.

Although the net cost of the tax relief to business is relatively small and the social security measures are about balanced, the proposed expenditure cuts will not suffice to meet the objective of some decline of the deficit as a percentage of NNI. Accordingly, direct and indirect taxes are being increased through the continuation of the temporary income tax surcharge, restrictions on income tax deductions, increases in excise taxes on alcohol and tobacco, and a 1 percentage point rise in the value added tax tariffs. Because of the inflation adjustment of the tax structure, which will be maintained in 1984, and the continued fall of domestic demand, the collective burden is expected to fall slightly, to 55.0 percent of NNI, but the deficit will still rise fractionally to 12.1 percent.

In discussing the considerations behind the budget proposals, the authorities noted that major emphasis was being placed on transferring resources from the household sector to enterprises and on reducing the size of the public sector in the process. Although no explicit choice had been made between reducing either the collective burden or the public sector deficit as budgetary room was provided, it emerged during the discussions that policy emphasis was directed toward the reduction of the deficit. The authorities clearly were prepared to raise taxes, rather than to seek further expenditure cuts, if an overshooting of the target for the public sector deficit should appear likely. In that respect, there was already some evidence that the tax relief proposed for enterprises in 1985 might not materialize and that the cuts in social security benefits proposed for mid-1984 might either be postponed or be reshaped. The authorities, while still holding to their goal of reducing the public sector deficit to 7 1/2 percent of NNI in 1986, basically acknowledged that this no longer appeared to be a realistic target. Efforts to bring expenditure trends in line with the target would require a considerably tighter expenditure policy than that for 1984, which is perceived as being already politically very courageous.

In considering the medium-term projections provided by the Central Planning Bureau (CPB), the authorities noted that, even with a relatively favorable assumption regarding the growth of external markets, the public sector deficit would remain at current levels of NNI without discretionary increases in taxes. That is, the growth dividend, according to the properties built into the CPB model, would benefit the private sector and the tax burden would decrease, leaving the public sector deficit relatively unchanged. It appeared that, in order to realize the deficit target, the authorities would be prepared to reappropriate the growth dividend, keeping the collective burden at current levels through discretionary measures rather than fashion further expenditure cuts.

b. Monetary and exchange rate policy

The long-term objectives of monetary policy in the Netherlands have been to ensure a stable link with the deutsche mark and to sustain domestic activity while preventing upward pressure on prices. Until recently, these objectives translated principally into maintaining a policy of gradually reducing the national liquidity ratio and of keeping short-term interest rates in line with German interest rates. In the last two years, however, in view of the low domestic inflation and high unemployment rates, the objective of reducing the liquidity ratio has given way to the prevention of an excessive increase. Since 1982 no formal quantitative targets have been set for monetary expansion and the controls on bank credit have been suspended, although the reporting framework has been kept in place so as to allow prompt action to be taken if necessary.

As a consequence of this policy, the rate of monetary expansion in the Netherlands steadily accelerated from 3.9 percent in 1980 to an estimated 10 percent in 1983. On the supply side, this rapid acceleration was propelled mainly by, first, large inflows through the balance of payments, which contributed almost half the total monetary creation in 1981-83 and, second, the large borrowing requirement of the public sector, which in the last couple of years was financed increasingly by long-term bank credits. Since these credits were not covered by a corresponding increase in banks' long-term resources, this form of financing of the public sector has become a prime source of monetary creation from 1982 on, even though direct monetary financing of the public sector has been declining. In contrast, credit to the nonfinancial private sector which, on average, contributed 9 percentage points annually to monetary creation over the period 1973-80 has virtually ceased to grow as households, on balance, repaid credit and loan demand from business for investment purposes dried up.

The rapid growth of money balances has been reflected in a considerable increase in the liquidity ratio by 2 percentage points each in 1982 and 1983. Part of the increase results from the particular definitions employed by the Netherlands Bank for the broader monetary aggregates. Thus, M2 will rise with a move out of savings deposits into securities. Since this would be largely motivated by interest rate considerations, it is viewed as a portfolio shift rather than a reduction in the propensity to save and thus involves no change in underlying trends. Similarly, a significant part of the increase in the personal savings rate in 1981 and 1982 had been in contractual savings with pension funds and insurance companies and recent reductions in the free personal savings rate could reflect the end of such restructuring of savings portfolios. A further factor influencing savings deposits may have been the effect of recent measures to close off possibilities for tax evasion on interest earnings on savings certificates held by households.

Demand for money in the economy appeared to be rising at an underlying rate of 1/4 percentage point per annum. The underground economy--the size of which was estimated at 10-15 percent of GDP--seemed to have had no discernible effect on the growth of demand for money. Technological changes in the banking sector were held to account for a considerable part of this increase. The remaining rise in the liquidity ratio largely seemed to be concentrated in increased holdings of time deposits by the corporate sector. This reflects the process of the strengthening of business balance sheets, which is viewed as an essential precondition for an upturn in investment. The liquidity balances, therefore, were considered to present no immediate inflationary danger, but were expected eventually to lead to an acceleration of imports of investment goods. Since the depressed state of investment activity is a major factor in the present large balance of payments surplus, a revival of investment spending would speed external adjustment as well. A further reason for the relatively relaxed monetary policy stance is that inflation in the Netherlands is low compared to that in other industrialized countries. For the time being, the authorities, therefore, intend to continue this policy stance and no formal targets have been set for 1984.

The authorities noted that, against a background of rising capacity utilization, they would indeed view the inflationary potential of continuing increases in the liquidity ratio with concern. However, the large and rising current account surplus coupled with a growing PSBR limited their effective means of control. Still, they would be prepared to take action to restrict monetary growth if the liquidity overhang appeared to become excessive. In particular, reintroduction of ceilings on the extension of bank credit, perhaps also including credit to the public sector, may be considered.

Although monetary ease would accommodate inflationary tendencies, a more direct cause of such tendencies would be a rise in import prices, and the control of inflation, therefore, would be linked directly to exchange rate policy. The close link of the Dutch guilder to the deutsche mark constituted the cornerstone of this policy. This link also was a crucial element for the credibility of the central bank. In the bank's view, a firm position of the Dutch guilder in the exchange markets determines the scope for a reduction of interest rates; lower capital costs, in turn, were considered a crucial factor for increasing investment, with positive effects on the competitive position of enterprises as well. 1/

The importance for confidence of the exchange rate link with the deutsche mark was highlighted at the time of the EMS realignment of March

1/ The central bank estimates that, given the size of the outstanding debt of enterprises, a 1 percent reduction in the level of interest rates has an equal effect on profitability as a 1 percent reduction of wages.

1983 when the guilder was allowed to devalue by 2 percent against the deutsche mark. The perception that stability of the link with the deutsche mark was no longer guaranteed forced a sharp increase in domestic interest rates in order to defend the guilder. The interest differential vis-à-vis Germany is now back to a more normal level, suggesting that confidence in the stability of the guilder in relation to the deutsche mark has returned.

c. Incomes and labor market policies

Wage restraint remains a fundamental element of the Government's policy to restore the profitability of enterprises and to maintain the competitiveness of the export sector. From 1983, however, the Government has withdrawn from formulating a statutory incomes policy. Private sector wage formation is left to the social partners, although the Government continues to issue recommendations, particularly regarding the use of reductions in labor costs resulting from any loosening of the price/wage links that are negotiated at the enterprise level. From January 1, 1984, guidelines for maximum prices by sector were abolished and price controls are being maintained only in limited areas of social concern.

With the agreement to effect a cut in nominal public sector wages, the link between wage developments in the private and the public sector has been broken. The future of this policy depends, inter alia, on current studies of the wage differentials between the public and private sectors. Although the agreed reduction of public sector salaries is significant in gross terms, its impact on net nominal salaries is likely to be negligible because of parallel declines in social security contributions. In some parts of the private sector, wage cuts, with the acquiescence of the unions, in fact had been more drastic than those in the public sector. This largely explains the lack of enthusiasm with which the industrial unions viewed support for the work stoppages in the public sector during the negotiations of the wage cuts in that sector. Partly as a result of wage indexation arrangements, the wage bill for the private sector, however, is expected to remain constant in 1984.

According to the authorities, the rapid rise in unemployment over the last few years could not be attributed mainly to the strong growth of the labor supply. Similar growth trends existed in other countries, notably the United States and Canada, which had been associated with substantial increases in employment in these countries. The fall in employment in the Netherlands was explained largely by the rapid rise in real wage costs during the 1970s, which had been rolled back fractionally only recently. A further impediment to employment was the low degree of wage differentiation and, particularly for young people, the high level of the minimum wage. Since only 5 percent of wage earners and social security recipients depend on the minimum wage as their only source of income, there could be some leeway for reducing the minimum wage at least for new entrants into the labor force. However, there still was a general need to lower real labor costs across the board. The scope for doing so through wage moderation had narrowed as inflation was tending toward minimum levels. In the view of the authorities, the ability to reduce indirect labor costs was also limited as a lowering of social security premiums had to be associated with cuts in benefits, as long as a reduction of the public sector deficit was the primary policy goal.

The scope for lowering the level of social security benefits, particularly unemployment benefits, however, appears not as narrow as depicted by the authorities. For example, for 1982, unemployment benefits paid to the average unemployed "typical" worker with a wife and three children in the Netherlands equaled over 89 percent of what he would have earned if he had been employed, a benefit level somewhat higher than that paid in the early 1970s, when unemployment was relatively low. For other OECD countries the corresponding proportions averaged 70 percent (Table 3). The level of unemployment benefits in the Netherlands, which lags only that in France, probably is the highest in Europe when the generous provisions regarding duration are taken into account. There can be no doubt that these social security provisions have contributed to keeping the participation of women in the Dutch labor force the lowest among OECD countries and easy access to generous disability schemes has lowered participation rates generally. The depressed employment situation together with the low participation rates account for a ratio of the active to the nonactive population of 3 to 2 in 1983, compared with 3 to 1 in 1970.

In common with a number of other European countries, the Dutch authorities have embarked upon the introduction of work-sharing arrangements as a means to alleviate the unemployment problem. At the end of 1982, the main employers' and employees' organizations agreed that possible alternatives to nominal wage increases already specified in existing labor agreements should be freely negotiable at the collective bargaining level. At the same time, the authorities appealed to the social partners to move toward a redistribution of work over a greater number of employees, however, within the priority of creating conditions for a recovery of profitability.

By the latter part of 1983, over 60 percent of employees in the private sector covered by collective agreements had accepted labor-time reductions in exchange for foregoing part of the 2 percent cost of living adjustment that became due on January 1, 1983. The remainder of any foregone wage indexation went to increase profitability. For the private sector as a whole, the authorities estimate that work-sharing arrangements may have cut annual hours worked by about 0.6 percent in 1983. As these arrangements generally do not oblige employers to take on new labor equal to the room created by labor-time reductions, and given the considerable underutilization of productive capacity, the so-called reoccupation rate in Dutch private enterprises was quite low in 1983. Accordingly, the direct employment-creating effects of work-sharing arrangements have been

Table 3. Netherlands: Rate of Disposable Income Replacement 1/ of an Unemployed "Typical Worker": Married Worker with Three Dependents

(In percent)

	1972	1977	1982
Belgium	63.7	66.2	67.3
France 2/	84.7	91.6	90.0
Federal Republic of Germany	70.0	75.0	75.0
Italy 2/	43.6	45.1	47.0
Netherlands 3/	85.0	89.8	89.4
Sweden 4/	69.1	81.5	80.5
United Kingdom 5/	75.0	74.8	47.0
Canada	75.2	73.5	74.8
United States 6/	58.9	59.6	63.3

Source: United Nations, Economic Bulletin for Europe, September 1983.

1/ Benefits exclude allowances for rent, clothing, and transportation.

2/ Benefits are those payable when redundancy is due to economic reasons, i.e., cessation of the enterprise or reduction in staff. If the unemployment was due to other reasons, the replacement ratio for France would be 60.2 percent in 1972 and 64.0 percent in 1982, and for Italy 17.7 percent in 1972 and 19.0 percent in 1982. The figures for Italy include wife allowances but exclude child allowances which were Lit 19,760 per child in 1981. If these are included, the 1981 replacement ratio would be 52.3 percent.

3/ Disposable income is gross of private pension contributions.

4/ The ratio of unemployment benefits to gross earnings was increased in 1975 (to a maximum of 11/12 of former gross earnings) and family supplements ceased. Benefits from 1975 onward are taxable.

5/ The reduction in the replacement ratio between 1977 and 1982 stems in part from the introduction of taxation of benefits and the elimination of the supplementary benefits. This may have been offset in part, however, by increases in allowances for school meals, free milk, rent, and tax rebates, which are not included. Years are financial years.

6/ Benefits exclude dependents' supplements as these vary significantly among states.

minimal. 1/ However, it was pointed out by the authorities that, insofar as labor-time reductions helped to prevent the further shedding of redundant labor, work-sharing arrangements made a contribution to easing the unemployment situation.

With respect to the public and the quasi-public sector, an agreement was reached in January 1983 that reduced annual work time by 1.2 percent in lieu of part of the scheduled cost of living increase. Work-sharing arrangements in the public sector are estimated to have created around 6,000 jobs in 1983. Further reductions in annual work hours are to take place in 1984 and 1985.

The staff, while acknowledging that work-sharing arrangements might help temporarily to ease the unemployment problem, was concerned that it might contribute to intensifying existing rigidities in the labor market, by making it more difficult to lay off redundant workers and by preserving the existing structure of wage rates. Moreover, with rising capacity utilization, labor costs could rise steeply if cuts in work time proved irreversible. As a result, the market sector might be stifled in its ability to respond to a recovery in demand. The authorities stressed that the experience to date had indicated that Dutch employers and trade unions have been flexible and imaginative in introducing work-sharing arrangements and are sensitive about the need not to affect industrial profitability adversely. They added that, since work-sharing arrangements were being introduced at a decentralized level, they could be tailored to individual plant needs and that medium-term growth prospects were unlikely to be jeopardized.

d. Industrial policy

In order to stimulate private sector activity, industrial policy is directed both at creating a more favorable environment in which new and

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1/ The small direct employment generation effect of work-sharing arrangements in the Netherlands is consistent with theoretical findings and the experience in certain other countries. For example, in France the normal workweek was reduced by one hour to 39 hours in 1981 and paid holiday entitlements were extended from four to five weeks, resulting in a decline in work time of 3.25 percentage points between 1981 and 1982; it is estimated that about 80 percent of this reduction in work time was offset by productivity gains with the effect on employment being very slight (OECD, "Employment Outlook," (Paris, September 1983)). R. A. Hart in a recent study (Working Time: A Review of Problems and Policies Within a Collective Bargaining Framework) concludes that, while "several OECD countries are currently planning marginal reductions in work hours, the evidence points firmly against the likelihood of any significant employment-generating effects." At present, some unions in the United Kingdom and West Germany are pressing for a reduction in the normal week from 40 to 35 hours. Here the research evidence on the basis of some favorable assumptions, especially as to income-sharing arrangements and on the phasing in of labor-time reductions, say, over a five-year period, points to significant employment-generation effects.

existing activity can function more efficiently and in laying a base from which the financial position of enterprises and their investment activity can improve. Within the framework of the first objective, greater emphasis is being put on the necessity to reduce and streamline existing regulations. First steps toward the simplification of regulations in the areas of environmental control and regional planning have been implemented; regulations affecting the labor and product markets are being studied by public commissions with a view to simplification and elimination.

Within the purview of the second objective, instruments of assistance to enterprises are being reviewed on the basis of their efficiency, accessibility, and impact on the competitive situation. The most important instrument in this respect is the transfer of resources to enterprises under the Capital Investment Law Scheme (WIR). To enhance its effectiveness, the Government has consolidated the multitude of premia under the scheme and has taken measures to simplify the red tape governing accessibility. The jury is still out regarding the overall effectiveness of transfers under the WIR, which have stabilized at a level of f. 5 1/4 billion per year. At that level, they currently about equal the financing needs for net new investment of the industrial sector. The superiority of these transfers compared with tax reductions, either in the sphere of property taxes or social security contributions or accelerated depreciation allowances, is argued on the basis of econometric evidence provided by the CPB. However, even this evidence shows that the multiplier attached to the WIR transfers reaches barely one after three years. The CPB is careful to point out the limits of such measurements because of the inability of the model to incorporate the effects of improvements in the financial balances of enterprises and stimulation of inward direct investment associated with a more favorable tax environment.

e. <u>Trade policy, capital movements, and external debt</u>

The Dutch authorities traditionally have been pursuing liberal trade policies. Although unemployment levels are at historic as well as regional highs, the Dutch authorities steadfastly have resisted pressures to reduce import competition on the domestic market. Thus, they did not conclude any bilateral export restraint agreements with partner countries. Within the European Communities (EC), the Netherlands often has advocated the removal of trade restrictions or tried to prevent their establishment, but has remained bound by common EC regulations, notably those under the Common Agricultural Policy and on imports of textiles.

Effective July 1, 1983 all remaining restrictions on capital imports were eliminated. In particular, capital imports of a money market nature (i.e., with a maturity of less than two years) and longer-term financial inflows with a variable interest rate became no longer subject to exchange control restrictions, as the legal basis for maintaining these restrictions in the absence of domestic credit controls was no longer present.

Public sector debt consists entirely of domestically issued, guilder-denominated debt. Refraining from borrowing in foreign currencies is a matter of basic policy in the Netherlands. Accordingly, the Netherlands has no foreign currency debt. However, foreign participation in public bond issues typically has been significant. At the end of 1982, total foreign holdings of Dutch public debt amounted to an estimated f. 15 billion, equivalent to about 25 percent of total quoted debt.

f. Development assistance

The policy of the Netherlands to allocate 1.5 percent of NNI to development assistance was adhered to in 1983. Annual development budgets for the 1982-84 period ranged around f. 4.4 billion, equaling 1.2 percent of GDP in 1982-83 and an estimated 1.1 percent in 1984, of which approximately 83 percent was allocated to official development assistance.

IV. Staff Appraisal

Policies aiming at wage moderation of recent years, coupled with the latest policy actions in the budgetary field have halted the deteriorating trend of business profitability, which is one essential prerequisite for an upturn of investment (Chart 7). For the first time in several years, the outlook for the economy has thus improved quite distinctly, helped by the recovery abroad. A corollary to the improving trend of profitability is a strengthening of the competitive position of Dutch industry in world markets, and a contributing factor has been the downward move of nominal interest rates from their high levels of 1981 (Chart 8). This, together with the increase in liquidity associated with the large current account surplus and the relatively accommodating stance of monetary policy, has created room for the reconstitution of company financial balances. Thus, the potential for a recovery of activity led by exports and eventually joined by investment demand appears to have been created.

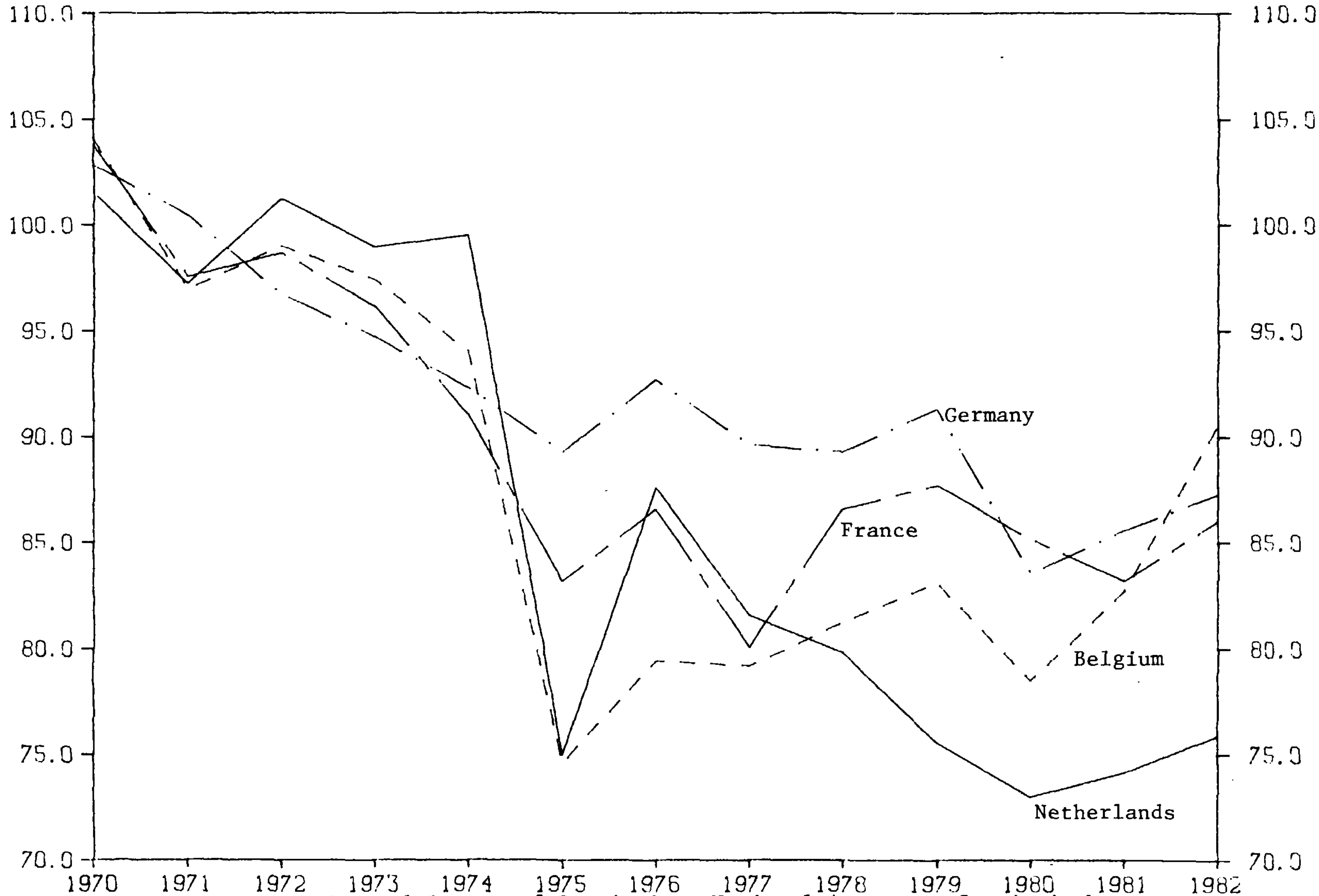
If this potential is to be translated into actuality, and in particular, if any upturn in activity is to be sustained and to bring relief on the unemployment side, it is crucial that the Government's ability to stay the course and to implement its medium-term policy plans not be put in question. The erosion of business profitability of the past decade cannot be corrected in short order, and the improvement noted so far has largely been concentrated in the large multinational enterprises that have a high export ratio. But, even if profitability were to increase more broadly, it was the impression of the mission from contacts with the business sector that investment now may be held back more by the uncertainty regarding the Government's ability to continue the present policy course than by such factors as profitability, low capacity utilization, or the cost of capital. Indeed, the authorities consider an early sign of positive developments in the economy a sine qua non for obtaining the public support that will allow continuation of their policies. At the same time, these developments may be slow in surfacing precisely because decisionmakers in the private sector are looking to the consolidation and continuation of the Government's policy line. Thus, continuity and clarity of purpose are essential as is the need to avoid shortfalls from stated policy goals. Deviations from the policy focus on the three underlying weaknesses in the economy, i.e., the size of the public sector,

Chart 7

NETHERLANDS

Nonwage Share in Manufacturing--International Comparison

(Index 1970-72 = 100)



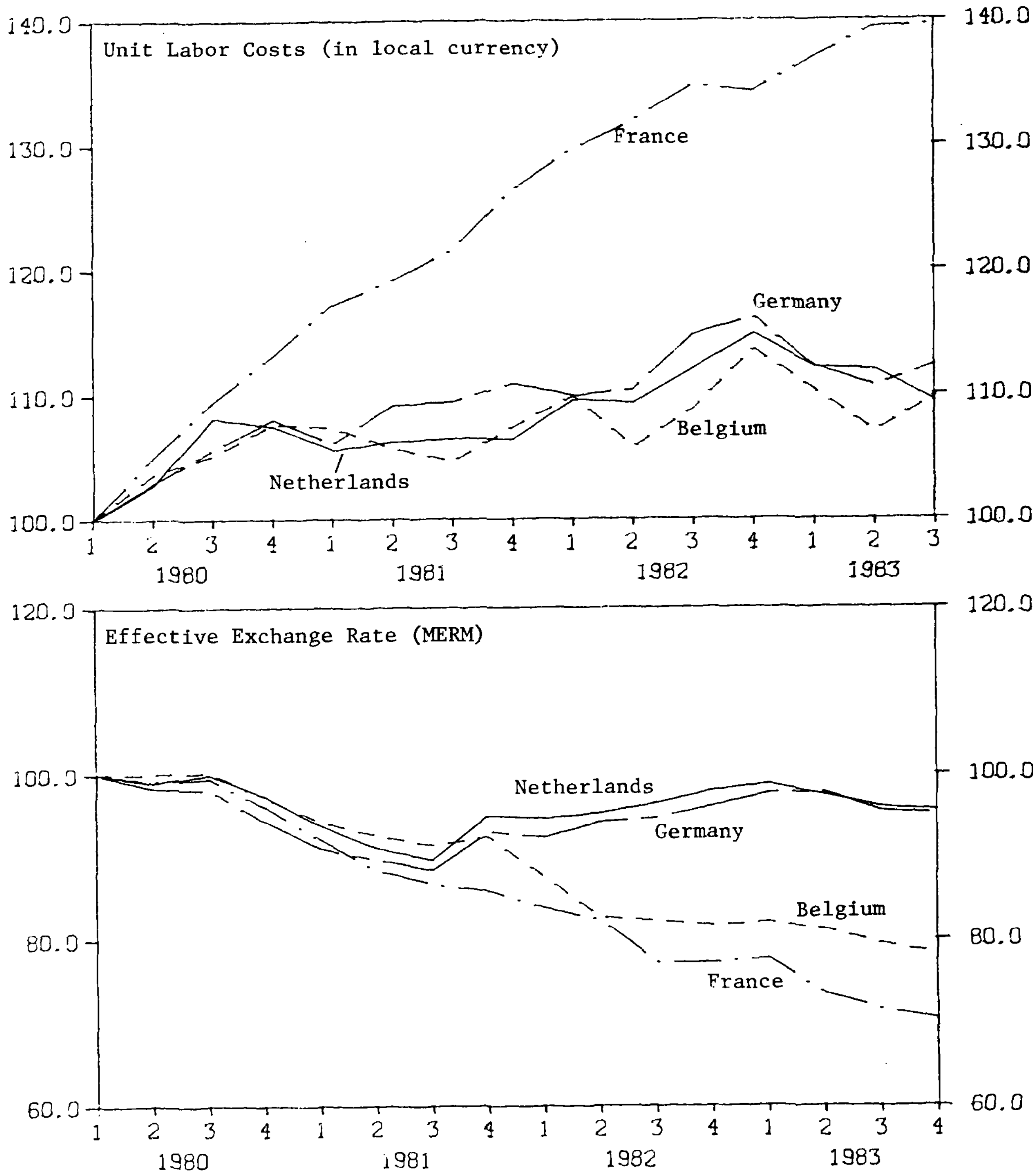
Sources: Dutch Central Bureau of Statistics, National Accounts; Statistisches Bundesamt, Volkswirtschaftliche Gesamtrechnungen; IMF, International Financial Statistics; and staff estimates.

Chart 8

NETHERLANDS

Indicators of Competitiveness in Manufacturing

(Index first quarter 1980=100)



Source: IMF, International Financial Statistics.

the lack of profitability in the business sector, and the rigidities in the labor and product markets, would not only erode the Government's credibility, but would materially impede the recovery.

With regard to public finances, the Government is taking courageous steps toward containing just those expenditures that have shown the fastest growth trends. But these steps represent only the first stage in what necessarily will be a long and arduous process. The difficulties in achieving the budget objectives for 1983--and particularly the fact that the continued tendency toward overshooting of expenditures had to be offset by greater-than-planned tax increases--demonstrates the virtually intractable buoyancy of government expenditures and raises concerns that the objectives may again not be achieved fully in 1984. Attainment of the objectives for 1984 is a necessary, but not a sufficient, condition. Equally important is that the budgetary plans be implemented in a manner that allows the goals for 1985 and 1986 to be reached as well. Therefore, current indications that the cutback in nominal wages in the public sector may have been effected in a manner that may foreclose further steps in subsequent years are a cause for worry. This is compounded by the fact that alleviation of the pressure on public sector expenditures through the reduction of gross public sector wages may be less significant than appears, because corresponding reductions in contributions to social security offset the greater part of this move, so that net pay remains virtually unaffected for the majority of public sector employees. The signaling effect of the Government's ability to negotiate this wage package nevertheless remains substantial, but the cost may turn out to have been high if the continuity of the policy trend is put in question.

Similarly, the plan to cut unemployment and other social security benefits in gross terms by 10 percentage points overstates its significance. For example, in net terms, average unemployment benefits still will equal 77 percent of previous take-home pay, and this is high both by international standards and in terms of the domestic budgetary realities. Financing of so high a level of benefits will continue to require a rise in contributions to balance the system, with the result that the gap between take-home pay and labor costs may have been reduced only temporarily. If employment opportunities are to grow, it is clear that total labor costs must be reduced further. A limit may have been reached, but further reductions of direct real wages may be limited, particularly with inflation rates tending toward zero (the GDP deflator was 1 1/2 percent in 1983). The major area for further reductions, accordingly, must be found in a narrowing of the above-mentioned gap.

The Government has made significant strides toward cutting the linkage between price changes and wages and toward creating the potential for greater wage differentiation. This progress is remarkable, since only a couple of years ago steps in this area were not even discussable. But labor management policies cannot be successful without greater scope for enterprises to manage their labor force flexibly. Progress is being made to speed the process with which labor can be released from enterprises in the process of restructuring, although the associated costs remain high. But, more important, greater flexibility in managing layoffs before bankruptcy is necessary, if new and additional hiring is to be encouraged. Changes in these procedures, which require shifts in long-standing and ingrained attitudes, at a time when job security is becoming increasingly important are difficult to obtain. Nevertheless, they would appear to be inevitable.

The decision to deal with the unemployment problem through the shortening of work time and labor sharing, in the staff's view, seems to imply acceptance that growth prospects are meager at best. In an economy with positive growth, labor sharing will lead to higher labor costs, especially if normal work time has been progressively and irreversibly reduced. This is particularly important for medium-sized enterprises, which, however, have the highest employment-creating potential. Further, labor sharing tends to impede the moves toward wage differentiation that seem so crucial in bringing about the necessary structural changes in the labor market. This is particularly important because past experience has shown that mismatches in the labor market appear in the Netherlands at very early stages of any upturn, and even seem to exist at today's high levels of unemployment.

Policies that aim to remove the nonwage impediments to increases in effective demand for labor must be flanked by considerations regarding the level of the minimum wage and its relationship to unemployment benefits and incentives to work. There appears to be scope for reducing the minimum wage for employment of younger persons in exchange for on-the-job training. Indeed, the success of training schemes or "apprenticeships" at minimal remuneration in the Dutch metal industry and in West Germany show that much can be done in this respect. But all such schemes ultimately will founder if the remuneration for not working is continually higher than, or relatively close to, that for working. This is socially and politically a most sensitive point, as it is in other countries. But all easy solutions that basically cannot strike to the heart of the problem have either been tried and found wanting, with crucial loss of time and an erosion of policy effectiveness being the cost of the experiment.

The withdrawal of government involvement in wage and price formation should be coupled with a similar reduction of direct involvement in the enterprise sector. The steps under way to ease the regulatory burden on business are important. However, in the financial sphere, the investment premiums (WIR)--totaling f. 5 billion in 1983 and 1984 and equaling 12 percent participation in individual projects--may not be the most effective way of using scarce budgetary resources. These premiums can and do play an important part in the financing of such investments, since they are of the nature of equity participation without the requirement of the payment of dividends. As such they can be leveraged one to one at a minimum. Such aid may be important in some cases; however, it surely cannot be important for the big multinational companies and for a significant number of enterprises the decision whether to invest seemingly does not hinge on the availability of the WIR premiums. Furthermore, there is a risk that an excessive share of the expenditures under these programs is going toward keeping alive enterprises with less than marginal viability: to that extent, a procedure that would automatically cut off enterprises that for several years show no balance sheet improvement and have no clear restructuring plans, can help release resources for other purposes. The resources thus freed, for example, could be used toward phasing out the double taxation of dividends. This would help correct the currently very unfavorable debt/equity ratio of enterprises and move the business sector a step further toward the improvement in the corporate financial ratios that underpins an upturn in investment activity.

The staff accepted the stance of the monetary authorities that seeks through a stable guilder policy to provide the greatest possible scope to reduce interest rates, which in relation to the rate of inflation, are at very high levels. It also shared the view that the current increase in the liquidity ratio was beneficial to the extent that it expedited the necessary strengthening of the balance sheets of both enterprises and households. Nevertheless, the real and present prospect of further additions to liquidity raises concerns. This is where the paradoxical situation of the existence of a large and growing current account surplus side by side with a large public sector borrowing requirement circumscribes the authorities' effective means to rein in excessive monetary expansion. The close link to the deutsche mark together with the need to finance the PSBR and to roll over large amounts of maturing guilder debt held abroad, limits the range of deviation of interest rates from international levels even more than would be normal for a small open economy such as the Dutch.

The limited flexibility of monetary policy makes the success or otherwise of budgetary policy even more important. And this, in the staff's view, ultimately depends on an expenditure policy. The level of the tax burden in its widest sense (the collective burden) is already far too high and the income tax scale too steep. Accordingly, spending cuts must not continue to be "phantom cuts" made from a notional level of what they might have been under unchanged policies, particularly if, in the process, public support is eroded, and the past practice of resorting to temporary tax increases to offset overshoots in expenditures is continued. Not only do such temporary increases have a way of becoming permanent, they also ensure that permanent tax cuts tend to become temporary. Clearly, this creates a credibility problem, which is an important element in delaying the revival of investment activity. If a public consensus in support of the medium-term aims cannot be built, it is hard to believe that these aims can be achieved piecemeal. Therefore, the staff urged that explicit goals be set for what size of the public sector the authorities judge to be compatible with a sustainable rate of growth and that the time path for achieving that size be specified. The causality of the loss of vitality in the private sector runs from the size of the public sector to the growth of the deficit, rather than the other way around. Thus, reduction of the deficit through revenue increases is not likely to achieve the objective of regenerating growth in the economy.

It is recommended that the next Article IV consultation with the Netherlands be held on the standard 12-month cycle.

Relations with the Fund

(As of January 31, 1984)

General Resources Account	
Quota:	SDR 2,264.8 million.
Fund holdings of currency:	SDR 1,468.7 million, or 64.8 percent of the quota.
SDR Department	
Allocation and holdings:	The Netherlands has received a net cumulative allocation of SDR 530.3 million; the Netherlands' holdings of SDRs amount to SDR 501.8 million or 94.6 percent of the net cumulative allocation.
Lending to the Fund:	Supplementary financing facility: SDR 100 million, equal to 100 percent of total commitment.
Gold restitution:	The Netherlands acquired 0.60 million fine ounces in the four gold restitution operations.
Last Article IV consultation:	The last Article IV consultation discussions were held from October 26-November 5, 1982. The staff report (SM/82/244, 12/30/82) was considered by the Executive Board (EBM/83/28) on February 4, 1983.

Basic Data

Population (mid-1983)	14.4 million
1982 GDP per capita	SDR 8,708

National accounts (1982 at current prices)	In billions of SDRs	In percent of GDP
Private consumption	75.3	60.5
Public consumption	22.2	17.8
Gross fixed investment	22.8	18.3
Stockbuilding	-0.3	-0.2
Exports of goods and services	71.6	57.5
Imports of goods and services	67.0	53.8
GDP	124.6	100.0

Selected economic data	1980	1981	1982	1983 1/	1984 1/
		(Changes in percent)			
Demand and output at 1980 prices					
Private consumption	--	-2.5	-1.6	1/4	-1
Public consumption	0.6	1.6	0.7	1	-2
Gross fixed investment	-0.9	-10.0	-5.0	1 1/2	1 1/4
Stockbuilding 2/	-0.1	-1.8	1.2	-3/4	1 1/2
Total domestic demand	-0.2	-5.1	-0.6	-1/4	1
Foreign balance 2/	1.0	4.3	-1.0	1 1/2	1 1/4
GDP	0.9	-0.8	-1.6	1 1/4	2
Prices, wages, employment					
Consumer price index	6.5	6.7	5.9	3	3 1/2
GDP deflator	5.7	5.8	5.7	1	2 1/2
Hourly wages	4.2	3.0	6.8	2 3/4	2 1/2
Employment in manufacturing	-1.2	-3.3	-4.4	-3	-1/2
Output in manufacturing	1.3	-0.4	-1.2	1	2 1/4
Productivity in manufacturing	1.7	3.0	3.5	5 1/2	4 1/4
Unit labor costs in manufacturing	3.4	1.6	5.1	-1/2	-1 1/4
Registered unemployment (in thousands)	325	480	655	800	895
Incomes					
Compensation of employees	6.3	2.0	3.0	1/2	-1 1/4
Other incomes	5.6	10.5	11.5	9 3/4	10 1/2
Transfers (net)	8.7	9.2	11.0	4 1/2	1 3/4
Personal income	6.8	5.2	6.5	3 1/4	1 3/4
Direct taxes and social security contributions	8.2	3.6	6.5	7 1/4	-3/4
Disposable income of households	6.2	5.9	6.5	1 1/4	3
Real disposable income of households	-0.4	-0.7	0.6	-1 1/2	--

Sources: Official publications; and staff estimates and forecasts.

1/ Staff estimates.
2/ Contribution to growth of GDP.

	1980	1981	1982	1983 1/	1984 1/
			(Changes in percent)		
Monetary aggregates					
Money (M_2 - IFS definition)	5.7	7.6	5.3	9.3	...
Liquidity ratio (end-of-year level)	35.9	36.5	38.3	42.0	...
Fiscal aggregates			(In billions of guilders)		
Central government balance	-15.3	-20.9	-26.6	-30.6	-35.9
Local authorities balance	-6.4	-4.9	-1.9	-4.0	-4.1
			(As percent of NNI)		
General government borrowing requirement (cash basis)	7.2	9.2	10.0	11.6	12.1
Public expenditure (NIA basis)	63.3	65.4	68.3	70.6	69.9
Of which:					
Central Government	(19.0)	(19.8)	(20.9)	(22.4)	(22.2)
Other public bodies	(20.2)	(20.9)	(22.0)	(22.9)	(23.0)
Social insurance	(24.1)	(24.7)	(25.4)	(25.3)	(24.7)
"Collective burden" 2/	52.6	52.7	53.7	55.9	55.0
Balance of payments			(In millions of SDRs)		
Trade balance (f.o.b.)	-3,059	1,448	2,583	2,852	3,530
Balance on invisible transactions	864	1,432	1,601	1,508	...
Private transfers	-585	-561	-488)	-820	...
Official transfers	-357	-706	-664)		
Current balance	-3,138	1,613	3,032	3,540	4,730
(In percent of GDP)	(-2.4)	(1.3)	(2.4)	(2.9)	(3.8)
Long-term private capital	887	-1,294	-2,014	...	...
Short-term private and official capital	-157	-297	-501	...	...
Banking sector	3,397	-764	1,278	...	...
Errors and omissions	-178	166	-118	...	...
SDR allocations	96	89	--	...	...
Changes in reserves (- = increase)	907	-487	1,677	...	...
Exchange rate			(Period average)		
Guilders per U.S. dollar	1.99	2.50	2.67	2.85	3.02 3/
Guilders per SDR	2.59	2.94	2.95	3.05	3.17 3/

1/ Staff estimates.
2/ Tax and nontax revenues, and social security premiums.
3/ Assuming exchange rates in 1984 to be frozen at their level at the end of November 1983.