HOW THE FINANCIAL CRISIS HAS AFFECTED THE ECONOMIC INDICATORS OF THE NETHERLANDS

Răzvan **Hagimă**[*]

Abstract: *Despite of being affected by the economic crisis, the Netherlands managed to minimize its effects. This situation is highlighted in a comparison with Romania and the European Union, between the levels of the most important economic indicators. Moreover, when other countries registered negative trends in their economic growth, the Dutch economy succeeded in this matter.*

Keywords: economic crisis; GDP growth rate; unemployment rate; budget deficit/surplus; inflation rate; FDI; foreign trade.
JEL Classification: G01; E00.

INTRODUCTION

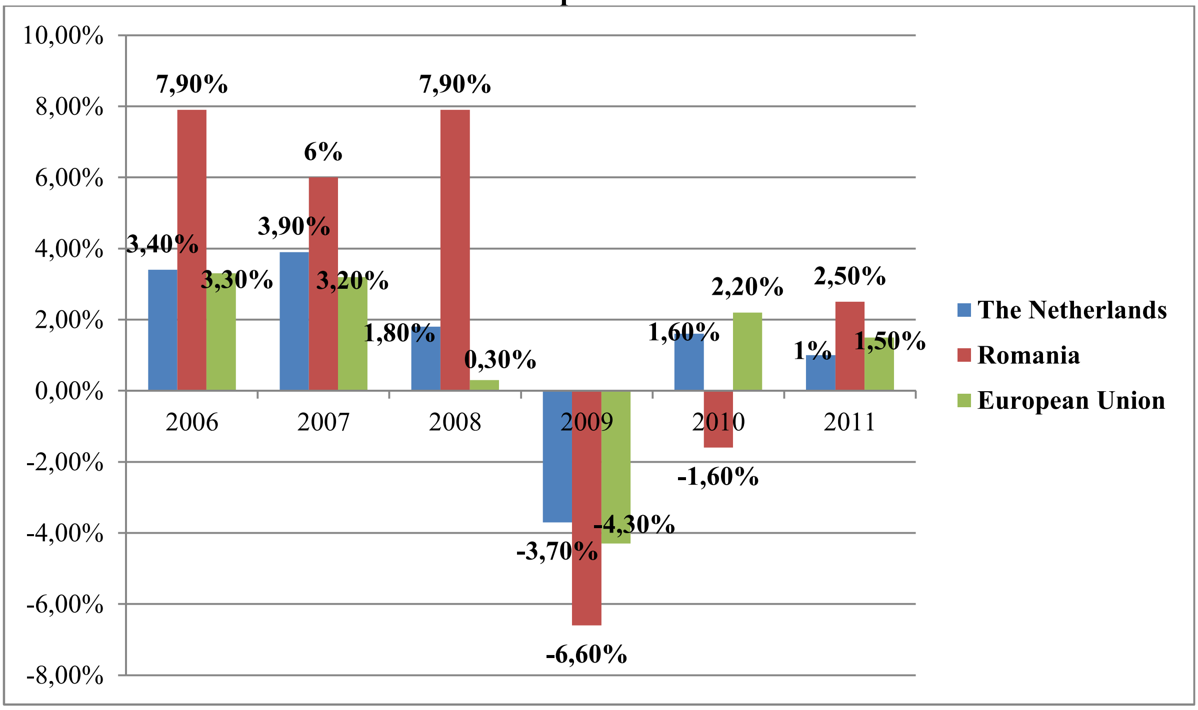
According to some estimates, the Dutch economy could have suffered a decline of about 3.5% in 2009, as forecast by the Bureau of Statistics of Netherlands in February 2008. Furthermore, the prediction for the year 2010 was not optimistic; the general opinion was that the economy will suffer a fall of about 0.25%. The most pessimistic provisions were about the unemployment. It was estimated that this rate would be 5.5% in 2009 and 8.75% in 2010. This forecasts meant that 425.000 people would not have a job in 2009 and in the following year, 2010, the number would reach the level of 675 000.

The situation in question was due to a slowdown in the economic recovery process, the trend growth of the real economy being estimated at about 1,5% per year because of several factors, such as eliminating the effect of the „build-up inventory", which contributed with about 1% to the economic growth that was registered in 2010.

[*] Răzvan Hagimă is an PhD Student at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iași, Romania, e-mail: razvan.hagima"gmail.com.

1. THE INFLUENCE OF THE ECONOMIC CRISIS ON THE KEY ECONOMIC INDICATORS OF THE NETHERLANDS

Figure 1 – Comparison between the GDP growth rate from the Netherlands, Romania and the European Union



Source: World Bank statistics database, http://databank.worldbank.org/data/views/reports/tableview.aspx?isshared=true&ispopular=series&pid=1#.

The Netherlands recorded in the last two years a quite significant growth rate of about 1.3% per year. The cause of the economic recovery was the revival of the exports which contributed to approximately 80% of GDP (a more detailed analysis will be performed in figure 6).

Another detail shown in the figure above refers to Romania. Between 2007/2008 and in 2011, it recorded a higher growth rate than in the Netherlands, but also a more significant collapse of this indicator during the analysed period. The situation can be explained by the fact that the economic development of Netherlands is based, mainly, on exports, which were greatly affected by the global economic downturn. When it comes to Romania, the economic development registered in 2011 especially, was the result of the agricultural production because this sector benefited from a favourable weather. Either this kind of progress cannot be sustainable because the reason is a more favourable environment due to weather.

However, the export, which are the engine of the economic development of Netherlands, are responsible for the slow pace of the growth rate compared to the EU, partner countries encountering, in turn, economic issues.

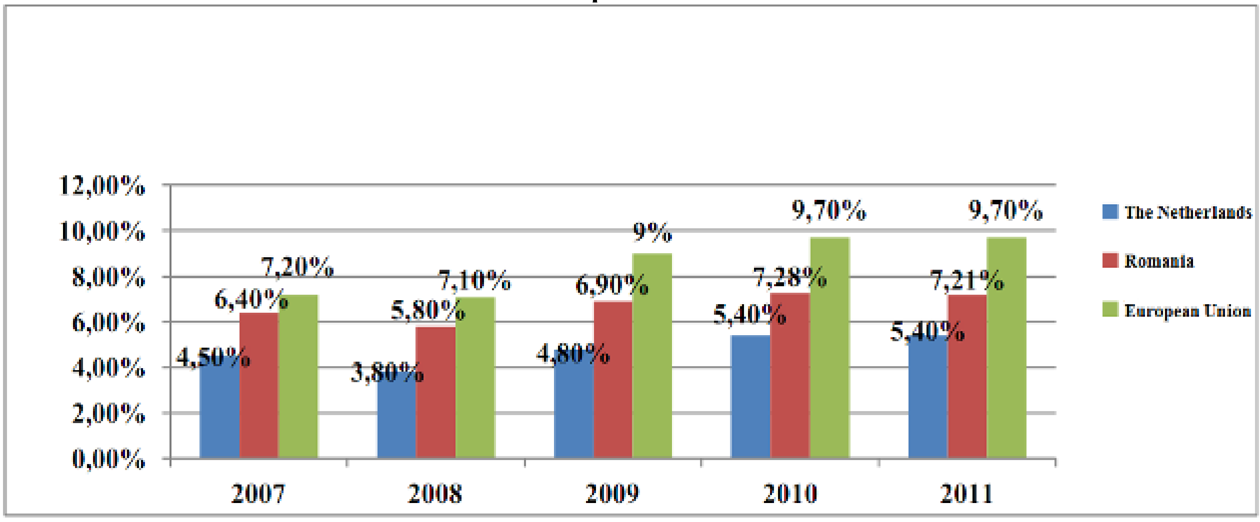
Regarding unemployment, when the financial crisis began, following the bankruptcy of Lehman Brothers, the Dutch labour market was overheated, with certain deficiencies in several sectors of the economy. In a few months the international trade collapsed and the Dutch economy, which was and still is highly dependent on foreign trade, contracted, in 2009, with about 4% of the GDP.

Due to the past experiences accumulated it was though that the unemployment rate, which stood at 3.8% in 2008, could climb up to 7% or 8% thereafter. The Director of the Netherlands Central Planning Bureau (CPB) has compiled a bleak forecast at the beginning of the crisis, suggesting that this rate could reach 10% of the total workforce. In reality, it only reached a value of 5.4% in 2010 and 2011 (Janssen, 2011).

A simple explanation of the low level of unemployment during the recession is the following: the companies' vane not abandoned their own employees. Aware of the shortcomings which existed before, many companies have decided to keep their workers despite of the lower production. Especially people with flexible contracts have retained their jobs. The companies' motivation was the following: the dismissal of the workers and then finding new staff could take a lot of time, effort and money. But in all of this was a negative part: because the companies kept on the payroll more employees than it needed, their productivity began to decline and the same number of workers began to product a smaller quantity of goods.

Another justification is the rapid increase in the number of self-employed workers. They acted as a buffer in the labour market, adapting to a lower demand by accepting lower payments for their work. However, another reason could be that the influx of foreign workers originating from the Eastern Europe fell due to the recession.

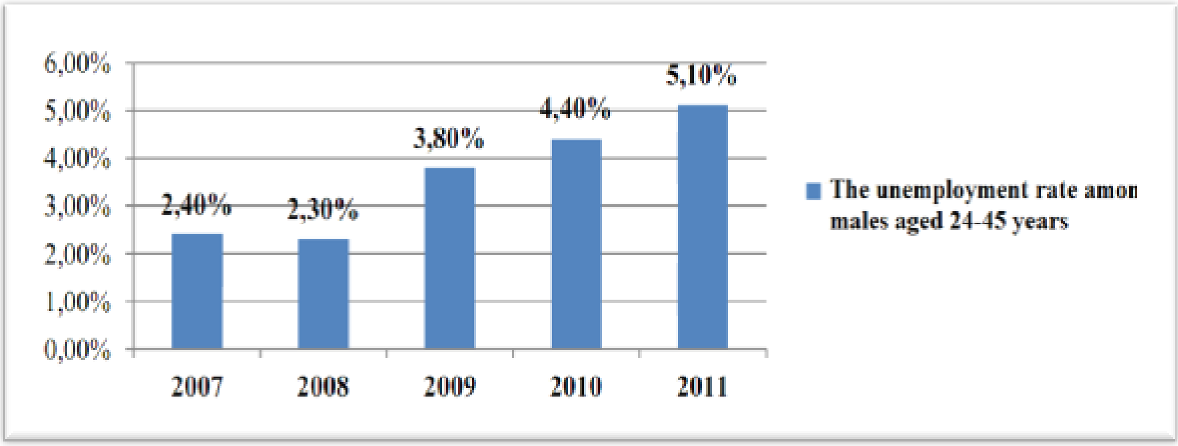
Figure 2 – Comparison between the unemployment rate from the Netherlands, Romania and the European Union



Source: Statistical bureau of the Netherlands, www.cbs.nl; European Union database, http://epp.eurostat.ec.europa.eu; National Institute of Statistics of Romania, http://www.insse.ro/cms/files/Web_IDD_BD_ro/index.htm.

In order to highlight the low unemployment rate in Netherlands it is necessary to compare it with the one existing in Romania and in the European Union. In this respect, it can be seen that, the Dutch economy excels in this matter. The main fault of the high value of unemployment rate in Romania compared to the one which exists in Netherlands lies with the. Moreover, the level of FDI in Romania, in the period 2007-2010, was insignificant. Because of this reason, the country did not benefit by the positive effects that comes along with the foreign investment that could have helped keeping the unemployment rate under control.

Figure 3 – The unemployment rate among males aged 24-45 years in the Netherlands

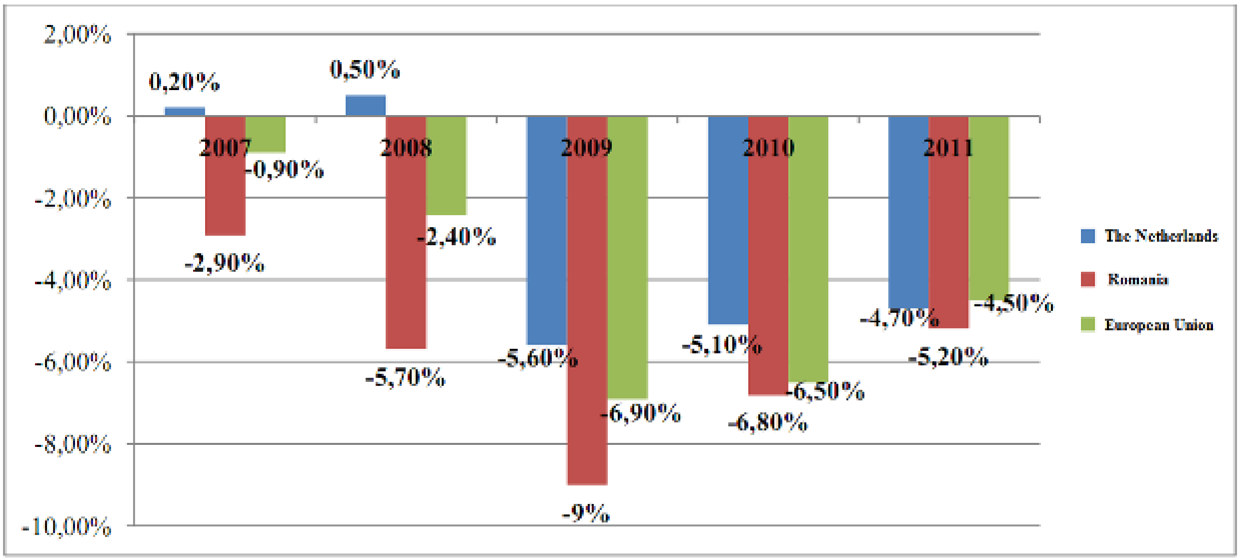


Source: Statistical bureau of the Netherlands, www.cbs.nl.

The unemployment rate among men aged 25-45 years in the Netherlands has doubled in the period 2008-2011. If in 2008 only 2.3% of them were unemployed, in 2011 this indicator has exploded, reaching a level of 5,1%. With the regard of their position in the labour market, these subjects were most affected.

The unemployment rate of this group is determined by the creation of more jobs in the health sector than in manufacturing and construction. It is known that the biggest part of the employees in the health sector is represented by women. Due to this fact, the increasing number of men unemployed is caused by the sectorial issues. Approximately 200.000 people who have worked in manufacturing, constructions, agriculture and commerce lost their jobs since the second quarter of 2008. At the same time, the employment rate in the health sector began to grow rapidly (Statistics Netherlands, 2011).

Figure 4 – The evolution of the budget deficit / surplus of the Netherlands, Romania and the European Union



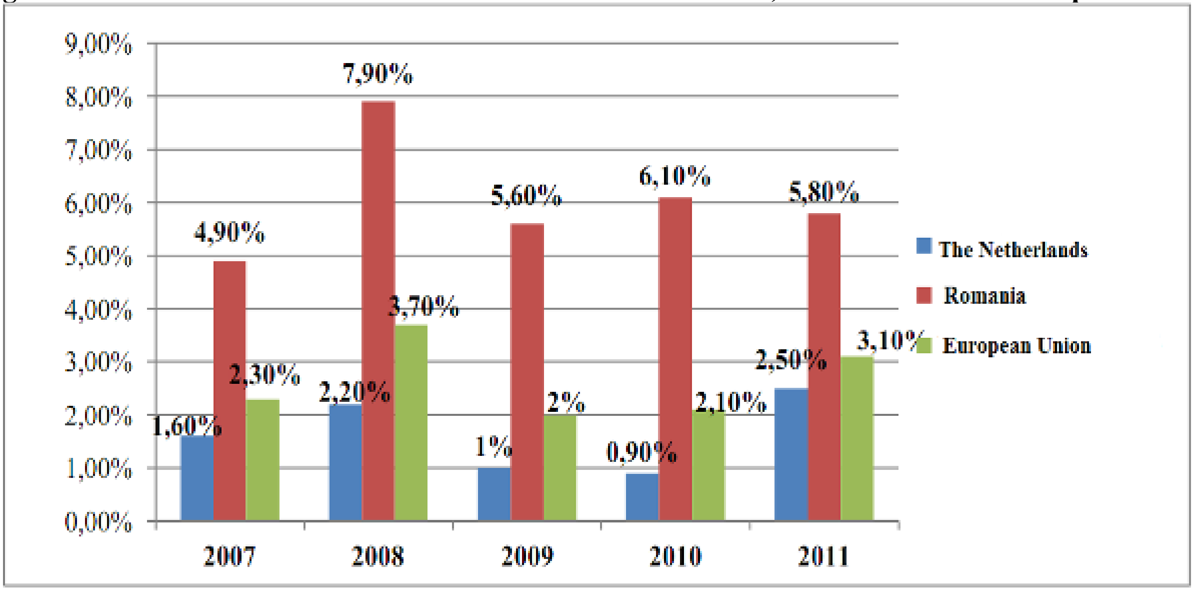
Source: European Union database, http://epp.eurostat.ec.europa.eu.

Before the financial downturn, the Dutch public finances were in good shape. Even before the crisis that affected the Lehman bank it was predicted that there will be a balanced budget for 2009, as it was in 2007 and 2008. However, the economic and the financial events that took place have changed that estimation. The impact on the public finances was dramatic. For example, in 2009 the budget deficit reached 5.6% of GDP. The situation improved somewhat in the subsequent years, reaching a level of about 5.1% in 2010 and 4.7% in 2011.

It is necessarily to consider the ratio between the budget deficit of the Netherlands and the one recorded in the European Union. If EU deficit during 2007-2010 was significantly higher than the one registered in the Netherlands, in 2011 this indicator had a lower value of about 4.7% compared to 4.7% as the one recorded in the analysed country.

The size of the budget deficit of Netherlands in 2011 is important for the European Union because its level, along with the size of the government debt of about 65.2% of GDP, violate the EU requirements regarding the size of the two variables. However, although the Dutch economy felt the negative consequences of the financial crisis, it managed to maintain a stable inflation rate.

Figure 4 – The evolution of the inflation rate of the Netherlands, Romania and the European Union



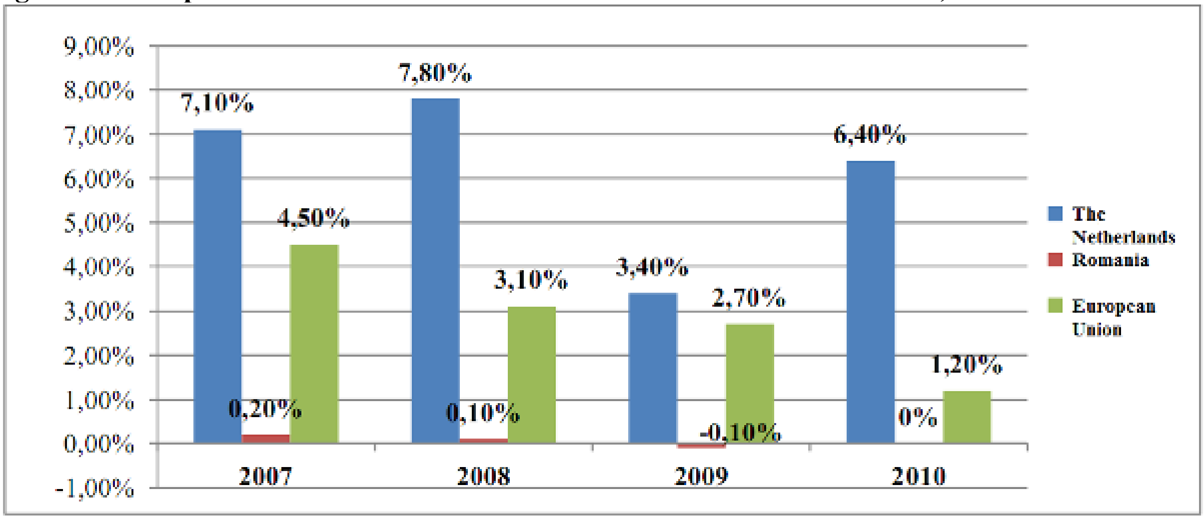
Source: European Union database, http://epp.eurostat.ec.europa.eu.

If during the crisis the fiscal measures in Netherlands had a relatively small effect on the price of the energy, in other areas of the EU, including Romania, they weighed a lot. Excise tax rate changes and different fiscal provisions have increased the prices of those goods by about 0.7 percentage points, while in Romania, for example, they weighed even more, overreaching one percentage point.

Netherlands had one of the lowest inflation rates in Europe even during the crisis. This continues to be a positive fact for those companies who are operating in this area because there is a high degree of certainty that is powered by the stable prices. Moreover, the interest rates are kept low and this fact reduces the cost of capital.

The financial crisis has also affected the foreign direct investment flows as it influenced the value of other economic indicators such as inflation, unemployment and GDP growth.

Figure 5 – Comparison between the share of FDI in GDP in the Netherlands, Romania and the EU



Source: European Union database, http://epp.eurostat.ec.europa.eu.

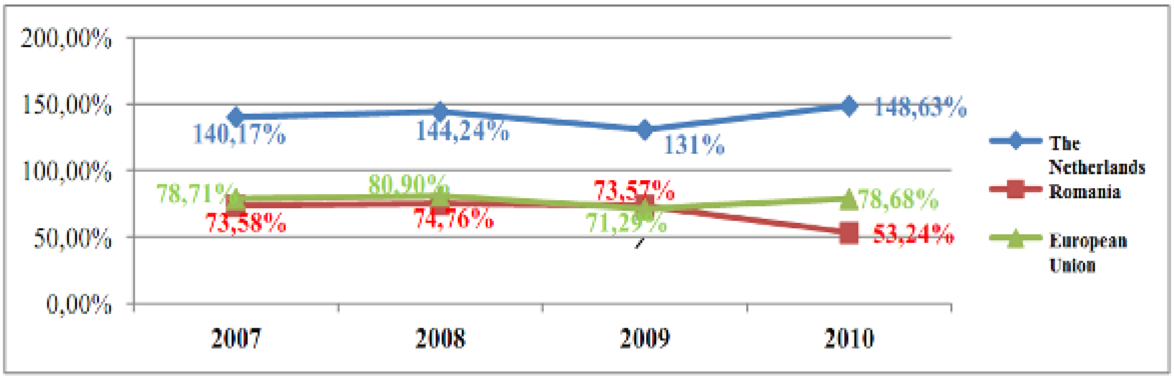
As can be seen in Figure 5, the FDI in the Netherlands began to follow a downward trend between 2008 and 2009. Moreover, in 2009 it reached only a half of the size in the previous period. An important issue that led to the sudden drop was the acquisition by the government of the Dutch company Fortis in October 2008 (Statistics Netherlands, 2010). This action led to a significant decrease of the Belgium investments in this country.

Another cause of the decline of the FDI in the Netherlands is the cost of labour. As previously mentioned, at the beginning of the crisis, the Dutch companies have decided to keep the most of their employees. This situation led to a decrease of the productivity. However, the cost of the labour has not significantly changed being among the highest in Europe. Because of this fact many foreign investors have decided not to carry on their business in this state (Global trade).

As shown in figure 5, in 2010, the FDI flows began to increase considerably. This situation was caused by the government's decision to lower the taxes imposed on companies by about 25.5% which placed the Netherlands far below the EU average in this matter.

To highlight the effects of the economic crisis on FDI it can be analysed the figure above. If in both countries and in the EU the size of the FDO has suffered a sharp decline, in the Netherlands, in 2010, an improvement regarding this aspect can be observed. While in Netherlands, in 2010, the foreign direct investment grew by about 53.12% compared to the previous year, in the EU they felt by about 55.55%, while in Romania they were practically inexistent.

Figure 6 – Comparison between the share of foreign trade in GDP in the Netherlands, Romania and the EU



Source: The database of the World Bank, http://data.worldbank.org/data-catalog.

In figure 6 it can be seen the importance of the foreign trade for the economy of the Netherlands. If in European Union and in Romania the international trade represents just over 70% of GDP, in Netherlands this indicator exceeds the GDP. Moreover, in some cases the foreign trade is bigger than the gross domestic product by almost 50%.

However, as it can be seen, the economic downturn has led to a decrease in value of trade as well. The cause of the decrease is mainly given by the defining feature of the Dutch economy, an open one and highly vulnerable to environmental changes. Moreover, the situation of the economic environment of the partner countries played a big part of this downturn. Among the most important trading partners are the US and the EU, areas that have been affected by the financial crisis too. Maybe, a reason of the decrease of the foreign trade that is not taken into account is the increase of the fuel prices in the EU. Although the Netherlands hasn't significantly increased the energy prices, the exports have been more expensive in 2009 than in the previous year with about 5-7% and the imports, in turn, by 10%.

CONCLUSIONS

The openness of the Dutch economy played, again, an overwhelming role in the propagation of the economic downturn. Its consequences could not be avoided because such a feature can't be changed within a few months, even years. But the country's government adopted several positions that helped to minimize the damage. The recent positive economic trend indicates that Netherlands has rather passed the economic downturn. A decrease of GDP has been encountered only in 2009 (-3,5%). During the following years the growth rates have been positive, 1,7% in 2010 and 1,2% in

2011. Perhaps the most interesting decision was related to the unemployment rate where companies played an important role: they decided to maintain its level by a temporary reduction in labour productivity.

By analysing the most important economic indicators of Netherlands it can be said that the country mentioned is one of the most efficient in Europe. Although the economic crisis has infiltrated in its economy, it managed to reduce the negative effects in different ways like adopting a low fiscally rate and promoting a healthy business environment.

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