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May 27, 1964

Recent Economic Developments in the Netherlands,
February to April 1964

20 pages

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Summary

The signing of outstanding major wage contracts (in implementation of the general wage-adjustment agreement of last October) and the conclusion of the legislative phase of the Government's anti-inflation program were focal developments in the Dutch economy during the past three months. Thus far, price and wage adjustments have produced more substantial advances in the wholesale and retail price indexes than in the export value index. The growth in industrial output continues to be in line with the official estimate of a 6 per cent advance in 1964 (4 per cent in 1963). The trade deficit in the first quarter showed no further deterioration over the fourth quarter level.

Assessments of the impact of the current wage round have become more firmly grounded now that the wage contract for the construction industry (the most touchy sector, both politically and economically) has been finally approved. The Dutch authorities now expect wage costs per worker to rise by 16 per cent in 1964 (8 per cent in 1963) and prices of final products by 7 per cent.

Demand is expected to grow rapidly during the course of 1964: consumer demand by 6.5 per cent (with the higher wage levels); investment spending by 13 per cent (the mild winter favored the strongly expanding building sector and large investments are scheduled for exploitation of natural gas deposits); and foreign demand by 5 per cent.

At this time, the authorities continue to expect the balance of payments to absorb a large part of the discrepancy between supply availabilities and internal claims on resources. Thus, an 11 per cent expansion in imports is expected for 1964.

As a result, it is estimated that the current account will shift by nearly fl 2 billion during the year from a surplus of nearly fl 1 billion in 1963 to a deficit of fl 1 billion in 1964. However, recent developments in the trade balance do not provide grounds for expecting a year-to-year deterioration of this magnitude. The trade balance in the first quarter did not worsen further. Because imports grew more slowly and exports more rapidly, in fact, the first-quarter trade deficit was slightly below the deficit for the last quarter of 1963.

Both prices and wages began to reflect the adjustments to the wage round in the past few months. The wage rate index advanced by 10 per cent during the first quarter of 1964, wholesale prices rose by 4 per cent in the fourth quarter of 1963 and by a further 2 per cent in January and manufactured goods prices were up 2 per cent in the fourth quarter and 3 per cent in January. But the indexes cannot adequately reflect the extent of demand and cost pressures: the price indexes reflect, in part, government imposed anti-inflationary fiscal measures and the wage rate index reflects the legalization of black wages, which has no counterpart in the movement of actual wage payments.

These recent trends still do not provide a sufficient basis for judging whether adjustments yet to take place during 1964 will be held within the limits considered acceptable by the authorities. At the moment, the Government is primarily concerned to prevent price developments from reaching magnitudes which might set off a new wage round in the fall.

A wide range of relatively minor fiscal measures have been put into effect to complement the monetary measures taken earlier to support the stabilization effort.[1/] In the monetary field, interest rates have been rising and the

1/ See "Recent Economic Developments in the Netherlands, October 1963 - January 1964" dated February 26, 1964.

long-term rate now is about 4.75 per cent as compared with 4.33 per cent last year. Banks, through March, have continued to exceed the ceilings on private credits imposed by the Netherlands Bank and accordingly, have had to put up close to fl 100 million of "penalty" deposits with the central bank.

Because rising costs are expected to cause a decline in total profits, fears have been expressed by some observers that the financing of investment may become more difficult as domestic liquidity continues to contract. If this should occur, they fear, investment demand could well taper off towards the end of the year. However, business activity, thus far, is advancing more rapidly than in 1963 and none of the principal economic indicators as yet provide support for such a pessimistic hypothesis Furthermore, rising labor costs may bring about an increasing concentration of investment in labor-saving equipment--a structural change which would be very advantageous in a country like the Netherlands where, because of relatively low labor costs, such investments had tended to be perhaps less capital-intensive than in neighboring European countries

Output continues to expand

Industrial output, which had begun to rise at a growing rate in the last half of 1963, continued to grow steadily. The newly revised index of industrial production registered year-to-year increases of an average 10 per cent in the three months period December 1963 to February 1964. (See Table 1.)2/ Part of this large increase reflects the bad weather last winter but the acceleration in the cyclical expansion which has been apparent since the fall of 1963 has been more important. The current expansion seems to be in line with the 6 per cent official estimate of industrial expansion in 1964 compared with only 4 per cent in 1963

2/ Seasonally adjusted data have not been released as yet.

Table 1. Netherlands: Industrial Production, 1963 - February 1964

(Index numbers, 1953 = 100 and percentage changes)

		Index	Percentage change from preceding year			Index	Percentage change from preceding year
1963	Year	178	+4.5	1963	July	180	+9.4
					Aug.	172	+1.5
1963	Jan.	168	+0.8		Sept.	177	+7.8
	Feb.	157	+0.8				
	March	172	+0.7		Oct.	203	+6.7
					Nov.	192	+3.4
	April	176	+10.4		Dec.	183	+11.6
	May	186	+5.8				
	June	169	+0.8	1964	Jan.	186	+10.7
					Feb.	171	+8.9

Note: The industrial production index has been revised, seasonally adjusted data have not yet been released.
Source: OECD

The rise in output was accompanied by a continued active foreign and domestic demand and industrial order books have continued to lengthen. According to a survey conducted by the Central Bureau of Statistics, order backlogs in the consumer goods sector remained high in January and February and they rose in the investment goods sector. (See Table 2.)

Table 2. Netherlands: Order backlog, 1962 - February 1964[1/]

(Orders in terms of months of production, January 1961 = 100)

End of month	All industries, excl chemical industry			Consumer goods sector			Investment goods and all other		
	1962	1963	1964	1962	1963	1964	1962	1963	1964
January	109	100	96	106	100	107	110	100	94
February	107	99	100	103	97	107	107	100	99
May	104	98		102	104		105	97	
August	100	95		96	99		101	94	
November	103	96		105	108		102	94	
December	100	98		101	109		100	96	

1/ Based on sample survey
Source: Centraal Bureau voor de Stastistiek

The business expansion has put added pressure upon supply availabilities. The labor market tightened even further during the first quarter of 1964 when job offers exceeded the number of unemployed by almost five to one. (See Table 3.) Despite labor shortages, however, the industrial capacities have proved to be more elastic than expected because of continuing advances in productivity. Consequently, prices remained comparatively stable during most of 1963.

Table 3. Netherlands: Labor Market 1962 - March 1964
(in thousands, monthly averages or month, seasonally adjusted)

	Unemployment	Vacancies
1962		
I	27	125
II	31	124
III	32	121
IV	33	118
1963		
I	37	115
II	31	121
III	30	123
IV	28	126
1964		
I	27	128

	Unemployment	Vacancies
1963		
July	30	124
August	30	123
September	29	123
October	29	124
November	28	126
December	28	128
1964		
January	27	128
February	26	130
March	28	127

Source: OECD

Price increases become effective

The October agreements to permit a general rise in wages and prices have begun to be reflected in the indexes. In fact, prices started to move upwards along a broad front, even before the wage increases became effective.3/ Wholesale prices increased by 4 per cent in the last quarter of 1963 and manufactured goods prices by 2 per cent. In January, 1964 wholesale prices rose a further 2 per cent and manufactured goods prices 3 per cent. (See Table 4.) These increases reflected in part the adjustment to the higher wage level--up to 5 percentage points of the

3/ See "Recent Economic Developments in the Netherlands, May to October 1963" dated February 26, 1964.

increased wage cost are allowed to be passed on in price increases--and in part higher import prices for raw materials. Both import and export prices rose by 2 per cent during the first two months of 1964.

Table 4. Netherlands: Selected Wage and Price Indices, 1962 - March 1964

(Index numbers, 1958 = 100, monthly averages and month)

	Hourly Wage Rates	Wholesale Prices	Manufactured Product Prices	Cost of Living	Export Prices	Import Prices
1962						
I	124	98	100	107	97	95
II	127	100	100	109	99	95
III	129	97	100	109	95	94
IV	133	98	102	109	97	93
1963						
I	137	100	102	112	100	95
II	139	99	102	114	98	96
III	140	100	102	112	99	97
IV	140	104	104	113	99	97
1964						
I	151			116		
Jan.	149	106	107	116	101	98
Feb.	150	n.a.	n.a.	116	101	[illegible]9
March	154	n.a.	n.a.	117	n.a.	n.a.

Source: *International Financial Statistics*; Centraal Bureau voor de Statistiek

Consumer prices also have been moving up broadly. The cost of living index rose by 2 per cent between December 1963 and March 1964. Prices were increased for a large number of food items (including butter, milk, coffee, sugar and beer). The government raised railway rates for passengers and goods by an average of 6 - 8 per cent on March 1, 1964; in addition, on March 6 the retail price for cigarettes was raised 25 per cent and for gasoline 15 per cent because of tax increases. Because changes in the retail price index also reflect anti-inflationary fiscal measures designed to syphon off some of the increase in spendable incomes following the wage increases, the index cannot be accepted as an unqualified indicator of demand pressures.

The consumer price index will again rise substantially in July when the government's proposed 10 - 12-1/2 per cent rent increase for dwellings built before 1957 becomes effective; but this increase will be compensated for by an increase in wages of 1.3 per cent. The Netherlands Bank was particularly critical of this offsetting action in its Annual Report. Since the Netherlands does not have general wage escalation, the Bank maintains that there is no reason for wage escalation in the field of rents, particularly in view of the large current (and past) increases in real wages. On the other hand, compensation for rent increases is a delicate political subject; in addition, the Government also fears that too large an increase in the cost of living will merely lead to added wage demands in the fall of this year.

To hold down retail price increases, the authorities decreed, over the protests of manufacturers and retailers, the abolition of collective resale price maintenance agreements as of June 15, 1964. At the beginning of March, the Lower House also passed an amendment to the Price Law of 1960 which empowers the Minister of Economic Affairs to move against individual firms, rather than only against entire branches of industry, in matters of price control. In what seem to be rollbacks where increases were too large, new price ceilings were announced for automobile repairs, restaurants, coffins and driving lessons. Furthermore, the Government has launched a joint union-government consumer education program encouraging consumers to be more price-conscious.

Major wage negotiations concluded

Wage agreements have by now been signed and approved for almost all the major industries. Negotiations for the construction industry (the most difficult in that payment of black wages there was most prevalent) were finally completed on

March 12 with surprising ease. The contract provides for a 16 per cent increase in basic wage rates, a differential up to 5 per cent for individual firms, productivity bonuses of up to 35 per cent, two extra vacation days and some other fringe benefits. It is estimated that the efficient firms could grant increases up to 56 per cent, which may be just sufficient to legalize black wages in the big-city--high-shortage areas. Workers in these areas will receive little more than they receive effectively now but it is hoped that the contract will end the black wage problem. To help enforce the new contract, the Federation of Building Employers has blacklisted striking workers in Amsterdam; in addition, the wage control service of the Ministry of Social Affairs is checking contractors' payrolls on a large scale.

As a result of the wage contracts concluded so far, the wage rate index rose by 10 per cent during the first quarter of 1964. It is tentatively estimated that wage increases, excluding social insurance, averaged 13.5 per cent through the beginning of April. But, because of the black wage element, it is difficult to estimate by how much actual wage payments went up and how much of the increase was absorbed by legalization of black wages.

Trade balance improves slightly in first quarter

Contrary to expectations, the Dutch trade position improved slightly in the first quarter of 1964. (See Table 5.) The trade deficit, seasonally adjusted, ran at a monthly average of $109 million for the first quarter compared with $125 million in the last quarter of 1963 and a deficit of $75 million in the first quarter of 1963.

Imports were 7 per cent higher in the first quarter than in the preceding quarter, to some extent because of rising prices but mainly because expanding industrial demand gave rise to increases in raw materials and investment goods purchases. Inventory demand also continued to rise, partly in line with increasing economic activity and partly because of anticipatory buying in expectation of further price increases.

Table 5. Netherlands: Merchandise Trade, 1962 - March 1964

(Million U.S. dollars, monthly averages, seasonally adjusted)

		Exports f.o.b.	Imports c.i.f.	Balance	Exports as % of Imports
1962	I	375	450	-75	83.3
	II	389	443	-54	87.8
	III	381	448	-68	85.0
	IV	386	444	-58	86.9
1963	I	386	461	-75	83.7
	II	438	496	-59	88.3
	III	426	502	-76	84.9
	IV	407	532	-125	76.5
1964	I	460	569	-109	80.8
	Jan.	463	553	-90	83.7
	Feb.	478	600	-123	79.7
	March 1/	440	555	-115	79.3

1/ Estimate
Source: OECD

But exports, which had fallen off in the last quarter of 1964, rose by 13 per cent in the first quarter, managing to exceed their second quarter 1963 peak by 5 per cent. Continued strong demand from France and Italy and increased demand from Germany and the United Kingdom were mainly responsible for this unexpected gain. The percentage of imports covered by exports accordingly recovered from 76.5 per cent in the fourth quarter, 1963 to 80.8 per cent in the first quarter of this year. This compared with a cover percentage of 83.7 per cent in the first quarter of 1963.

Balance of payments surplus for fourth quarter and for 1963

The fourth-quarter balance of payments, on a cash basis, showed a surplus of fl 134 million, about twice the small fl 60 million surplus recorded in the last quarter of 1962. (See Table 6.) Thus Dutch foreign transactions continued to record a year-to-year improvement, despite the worsening of the trade balance.

Table 6. Netherlands: Balance of Payments, 1962 - 1963[1]

(million Dutch guilders)

	Year		1963			
	1962	1963[a]	I	II	III	IV[a]
Goods and Services						
Merchandise	-1,504	-1,296	-218	-310	-339	-429
Investment income	367	626	214	-155	229	338
Other services	1,408	1,594	254	407	463	470
Total	271	924	250	-58	353	379
Private Capital						
Transactions in domestic securities	747	516	199	194	163	-40
Transactions in foreign securities	-374	-198	8	-59	-74	-73
Direct investment	-184	-241	-159	22	-13	-91
Long-term credits	-186	-101	-74	89	-90	-26
Other	-58	77	141	41	55	-160
Total	-55	53	115	287	41	-390
Commercial Banks Capital						
Long-term	-90	-17	-6	-51	12	28
Short-term	39	-136	-304	-76	75	16[illegible]
Total	-51	-153	-310	-127	87	1[illegible]
Official Payments						
Debt repayments	-88	-49	-1	-27	-1	-20
Other	-90	-18	-31	-19	64	-32
Total	-178	-67	-32	-46	63	-52
Surplus or Deficit (-)	-13	757	23	56	544	134
Financed by:						
Special transactions						
Debt prepayments	-108	-253	-	-	-253	-
Commercial banks						
Foreign exchange, net (increase -)	52	100	25	208	-247	114
Central bank						
Drawing rights on IMF (increase -)	145	-	-	18	-18	-
Consolidated credits (receipts -)	18	12	4	1	5	2
Gold & foreign exchange (increase -)	-94	-616	-52	-283	-31	-250
Total	69	-604	-48	-264	-44	-248
Total financing	13	-757	-23	-56	-544	-134

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

The fourth-quarter trade balance was in considerably larger deficit than in 1962. But the service balance, particularly investment income, was in substantially larger surplus. As a result, a slightly larger current-account surplus emerged than in the preceding year: fl 379 million as compared with fl 352 million in 1962. On capital account, there was also a somewhat smaller outflow than in the last quarter of 1962.

The outcome for the year 1963 as a whole was much more favorable than had been expected: the over-all surplus of fl 757 million (excluding official debt-prepayments) constituted a substantial improvement over the small fl 13 million deficit recorded in 1962. In particular, the rise in the current account surplus (from fl 271 million to fl 924 million) ~~substantially~~ exceeded earlier Government estimates.[4/] The main factors in this improvement were the decline in the trade deficit by fl 200 million and the improvements in investment income (fl 250 million) and in other services (fl 200 million).

On capital account, there was a somewhat smaller outflow than in the preceding year. Commercial banks put substantially more short-term funds abroad than in 1962. A decline in foreign purchases of Dutch securities was offset by a reduction in Dutch investment in foreign securities; similarly, an increase in Dutch direct investment abroad was offset by a decrease in long-term credits granted to foreigners. The surplus on private capital account was brought about by an inflow of short-term funds.

The unexpectedly favorable payments results for the fourth quarter and the absence of further deterioration in the trade balance for the first quarter raise real question whether the official forecast of a current account deficit of fl 1 billion in 1964 will not prove to be on the pessimistic side.

4/ The first estimate had been fl 650 million, but was scaled down to fl 450 million because of the deterioration in the trade balance.

Official reserves decline during 1964

During 1963, the balance of payments surplus was primarily reflected in a $156 million rise in the central bank's holdings of gold and foreign exchange. In 1964, official reserve holdings declined by $66 million in the first quarter and they are estimated to have gone down a further $23 million in April. (See Table 7.) The stoppage of inflows of speculative funds after it became clear that the Government had decided against revaluation as an anti-inflationary weapon partly accounts for the shift in reserve trends. Furthermore, the Netherlands Bank is encouraging the commercial banks not to bring back foreign balances so as to keep domestic liquidity tight and it is thought that the trade deficit is being financed by the drawing down of official reserves. Some $20 million of the first-quarter decline can be explained by the Italian drawing of Dutch guilders at the IMF in March.

Table 7. Netherlands: Changes in Official Reserve Position 1962 - April 1964
(in millions of U.S. dollars, end of period figures)

	Gold	Foreign Exchange	Total
Annual Change:			
1962	-	28	28
1963	20	136	156
Quarterly Change:			
1963 I	-	7	7
II	-	88	88
III	-	15	15
IV	20	26	46
1964 I	-	- 66	- 66
Monthly Change:			
1964 Jan.	-	- 39	- 39
Feb.	-	- 20	- 20
March	-	- 7	- 7
April	-	- 23 e	- 23 e
Actual Amounts April 1964	1,601	209 e	1,810 e

e = Estimate.
Source: International Financial Statistics; Netherlands Bank.

Dutch guilder weakens in exchange market

Since the discount rate increase, at the beginning of January 1964, demand for the guilder has been weakening in foreign exchange markets. The spot guilder has drifted steadily downward from 27.790 U.S. cents on January 6 (when the discount rate was raised) to 27.667 cents on May 8. (See Table 8.) Both the end of speculative inflows and the financing of the trade deficit probably account for the weakening of the guilder. The narrowing of the forward premium from 0.8 per cent per annum in February to 0.5 per cent per annum in April, concurrent with the weakening of the spot rate, would also suggest a moderation of speculative influences.

Table 8. Netherlands: Exchange Rate in U.S. cents per guilder[1/]
July 1963 - May 1964

Par Value	27.624
Lower Limit	27.42
Upper Limit	27.84

		Monthly Average				End of Week
1963	July	27.755	1964	February	7	27.728
	August	27.712			14	27.739
	September	27.721			21	27.740
	October	27.749			28	27.725
	November	27.765		March	6	27.720
	December	27.765			13	27.727
1964	January	27.753			20	27.740
	February	27.733			27	27.737
	March	27.731		April	3	27.725
	April	27.711			10	27.721
					17	27.717
					24	27.702
					30	27.681
				May	8	27.667

1/ Noon buying rates.
Source: Federal Reserve Board

Interest rates rise and liquidity tightens

Interest rates. The end of capital inflows, the moves of the authorities to curtail credit expansion and the increase in the pace of business activity contributed to further upward pressure on the interest rate level. The three-months Treasury bill rate rose from 2.31 per cent per annum just after the discount rate increase in January to 3.00 per cent in April. (See Table 9.) The official call money rate, except for some short periods of seasonal ease or tightness, has averaged about 2.50 per cent since March as compared with 1.67 per cent at the beginning of the year and just over 1.00 per cent in April of last year. The government bond yield appears to be firmly established at the 4.75 per cent rate reached late last year, compared with 4.33 per cent in early 1963. With the higher level of interest rates, banks have raised by 1/4 per cent the interest paid on savings deposits.

Liquidity developments. Market factors, as well as government policy, are beginning to have a tightening effect on the domestic liquidity position. In 1963, the liquid assets of the banks were expanded both by the inflow of foreign exchange and the suspension of the cash reserve requirement by the Netherlands Bank [5/] (See Table 10.) Government transactions on the other hand had a restrictive effect. On balance, the banks' liquidity increased by fl 100 million. Since the beginning of the year, the foreign exchange transactions of the Netherlands Bank have withdrawn liquidity from the market and the re-imposition of credit ceilings (with penalty deposits for violations) have put the banks under added pressures. In fact, banks have continually exceeded the ceilings and their penalty deposits have continued to grow.

5/ The cash reserve ratio was lowered to zero in the latter half of 1963 and has remained unchanged since.

Table 9. Netherlands: Selected Interest Rates, July 1963 - April 1964
(per cent per year)

Monthly average		Official Call Money Rate	Three Month Treasury Bill Rate	Government Bond Yield
1963	January	1.66	1.93	4.37
	April	1.06	1.78	4.32
	September	1.24	1.89	4.33
	October	1.11	1.95	4.43
	November	1.14	2.10	4.61
	December	1.56	2.25	4.77
1964	January	1.67	2.31	4.83
Week ending				
	February 7	1.75	2.31	4.77
	14	2.00	2.31	4.75
	21	1.75	2.31	4.69
	28	2.50	2.50	4.69
	March 6	2.50	2.75	4.67
	13	3.00	3.00	4.67
	20	2.00	3.00	4.67
	27	2.75	3.00	4.68
	April 3	2.50	3.00	4.69
	10	1.75	3.00	4.69
	17	2.75	3.00	4.72
	24	3.00	3.00	4.75
	30	2.50	3.00	4.74

Source: Netherlands Bank

Table 10. Netherlands: Factors increasing (+) or decreasing (-) money market liquidity
(million Dutch guilders; change over cash-reserve periods)

	Jan. 1962 to Jan. 1963	Jan. 1963 to Jan. 1964	1963 Jan. to Feb.	1963 Feb. to July	1963 July to Sept.	1963 Sept. to Nov.	1963 Nov. to Jan. 1964
1. Market factors							
Notes in circulation	-520	-480	170	-530	80	20	-220
Government transactions excl. money market	250	-770	360	-260	290	-1,030	-130
Government money market transactions	140	230	-180	30	-180	370	190
Central bank foreign exchange transactions	20	860	-20	310	30	480	60
Other	-30	-90	-60	10	-30	-	-10
Total	-140	-250	270	-440	190	-160	-110
2. Policy factors:							
Penalty deposits	-	-10	-	-	-	-	-10
Cash reserve policy	190	430	-50	170	-	310	-
Open market policy	-30	-70	-140	140	-140	-	70
Total	160	350	-190	310	-140	310	60
Overall effect on liquidity (1 + 2)	20	100	80	-130	50	150	-50

Source: Netherlands Bank, Annual Report 1963

In addition, government transactions are expected to continue to be restrictive. Revised budget estimates show that the increase in tax revenues (from the expected income expansion and from the increase in taxes on tobacco and gasoline) combined with the savings derived from the curtailing of government investment expenditures and the suspension of accelerated depreciation privileges will be large enough to more than offset the rise in government expenditures resulting from wage increases for government employees. As a result, the budgetary deficit for 1964 is now expected to be reduced by about one-third (from the original estimate of fl 1,628 million to about fl 1,054 million). Need for borrowing from the capital market for the financing of the deficit is estimated to have been reduced from about fl 1 billion to fl 400 million.

The reduction in financing requirements comes at a time when the financing would have to be at an unexpectedly high level of interest rates. In March, the Ministry of Finance floated two loans, one a 10-year 4.5 per cent bond at 99 and the other a 30-year 5 per cent bond at 100. The loans were largely designed to convert the 3 per cent 1962-64 State loan which was due on June 1. The amounts of the loans were fixed after subscription to provide the Government with fl 245 million of new money. The 5 per cent loan in particular was heavily oversubscribed and allotments came to only 12 per cent of subscriptions. Foreign participation was reported to have been heavy and, in financial circles, was related to the German measures to restrict capital flows into Germany.

Prospects for 1964

With adjustments to the new wage agreements progressing rapidly, observers (such as the EEC Commission, the Central Planning Bureau and the Netherlands Bank) now are primarily concerned about the strength of inflationary pressures that may develop later in 1964. The big question will be the impact of further price advances on wage negotiations in the fall. Cost increases can only be partially passed on as price increases, and if turnover does not rise sufficiently to compensate for them, profits may come under downward pressure. Such a development could dampen the expansion of investment towards the end of 1964. But the authorities are well aware of this danger and might be able to moderate restrictive policies, at that time if appropriate.

For the immediate future, the fact that current policies will contribute only little to a relaxation of strains on the labor market has been a matter of concern and criticism by the Netherlands Bank. Domestic availabilities will thus continue to depend primarily on productivity gains, with the result that the labor shortage should give further stimulus to capital-deepening investment and business mergers leading to economies of scale. Because labor has been relatively cheap in the Netherlands, investment thus far has generally not emphasized labor-saving objectives.

The Central Planning Bureau has revised its estimates for 1964 in the light of the recent wage and price developments. It is now expected that GNP will grow by 5 per cent (in real terms) in 1964, slightly faster than in 1963.[6/] (See Table 11.) Industrial output is expected to grow somewhat faster: 6 per cent as compared with 4 per cent in 1963. Wage incomes are estimated to rise by 16 per cent, twice as fast as in the preceding year, and to result in a large 6.5 per cent increase in the volume of private consumption. Fixed investment by enterprises also is expected to grow at double the rate achieved in 1963, i.e., by 13 per cent. In line with the Government's cooling-off policy on the other hand public consumption and investment are expected to rise less than in 1963. Because

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6/ The Bureau's earlier estimate, which was made before the wage explosion, was for a 5.5 per cent increase in GNP in 1964.

of some worsening of the Netherlands competitive position, exports are to grow by 5 per cent as compared with 7 per cent in 1963. The French and Italian stabilization efforts are expected to hold down the growth of import demand from these countries, but the Planning Bureau foresees further growth in demand from the United Kingdom and Germany. The recent announcement of German unilateral tariff reductions to come into effect this summer should aid this shift.

Table 11. Netherlands: Changes in Gross National Product and Selected Components 1962 - 1964
(in real terms, percentage change from preceding year)

	1962	1963	1964
Private consumption	4.2	6.0	6.5
Public consumption	6.3	3.0	1.0
Gross fixed investment	4.2	6.0	11.3
Enterprises	2.6	6.5	13.0
Government	11.8	4.5	4.0
Exports	6.6	7.0	5.0
Less Imports	6.6	9.0	11.0
Total GNP	2.7	4.5	5.0

Source: Central Planning Bureau: *Centraal Economisch Plan, 1964*.

With total demand exceeding domestic supply availabilities, imports of goods and services are expected to grow even faster than in 1963, thus diverting much of the excess demand to the balance of payments. With imports growing by 11 per cent, the current account is expected to swing into a fl 1 billion deficit; this would represent a deterioration of approximately fl 2 billion from the 1963 results. Dutch reserves are certainly adequate to support such a drain temporarily. However, first-quarter results suggest that further deterioration expected for 1964 has not yet become visible.

As a result of the excessive demand pressures, prices are expected to rise by around 7 per cent; but prices of investment goods are to rise by only

4 per cent and those for export goods by 1 per cent. Price pressures should be mitigated by any further gain in productivity realized: a gain of 4.5 per cent is expected in 1964 compared with one of 2.5 per cent in 1963.

The restrictive measures of the government (including the temporary postponement of tax reductions to which the current Government still remains committed) and the turn-around in the balance of payments position will tighten domestic liquidity progressively. The Planning Bureau estimates that the liquidity ratio[7/] will tighten further; it had moved from 45.1 per cent in 1962 to 44.5 per cent in 1963 and may decline to 40.0 per cent in 1964.

The liquidity squeeze and rising costs could well lead to a relaxation of demand pressures in 1965, according to the Planning Bureau, depending upon government policies, but this is a matter for the more distant future.

7/ Notes and currency in circulation plus time deposits plus short-term claims on the government sector as a percentage of national income.