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# Getting to the bottom of the Dutch savings surplus

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*Central bank and prudential supervisor of financial institutions*

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Jurriaan Eggelte, Rini Hillebrand, Thomas Kooiman and Guido Schotten<sup>1</sup>

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<sup>1</sup> We are indebted to Paul Mul, Peter Keus and Gerrit van den Dool.



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# Summary

The Dutch savings surplus has increased strongly in recent decades. The current account surplus (the key indicator for the savings surplus) stood at 10.2% of gross domestic product in 2013, its highest ever level. This study analyses the high savings surplus, with particular focus on the corporate sector ('non-financial corporations') and households. In addition to undergoing major changes over the years, these are sectors in which the greatest differences are to be found between the Netherlands and other European countries.

Net lending by the corporate sector, which is the yardstick for savings in the corporate sector, has risen sharply since the late 1990s. This rise is a reflection of lower domestic investment and higher retained earnings. During the past decade, corporate profits were driven by the earnings of foreign subsidiaries to a much greater extent than had previously been the case. At corporations with directors/majority shareholders, earnings are retained for tax reasons. More generally, in addition to funding domestic investment, the corporate sector uses retained earnings for repurchasing shares, strengthening balance sheets and funding foreign investment. This last aspect is of particular importance when interpreting the saving of multinationals.

If the substantial non-domestic investments of Dutch multinationals are taken into consideration, the Dutch corporate sector's high level of net lending is easier to understand. In the Netherlands and other countries where the corporate sector has major investments abroad, the corporate sector tends to save more than it does in countries where such investments are minor. According to statistical conventions, the earnings generated by subsidiaries are assigned in full to the parent company. This applies even if they are retained locally to fund investments. In this way, investments in the country of the subsidiary are funded by saving in the country of the parent company. In the Netherlands, earnings from non-domestic

investments mainly flow to listed enterprises, which are largely in foreign hands. To the extent that these earnings are paid out in the form of dividends, they largely flow to foreign investors, whereas if earnings are retained, they contribute to a higher Dutch savings surplus.

By contrast, from the early 1990s up to the financial crisis, there was a sharp drop in net lending by the Dutch household sector. The financial crisis, however, brought about a reversal in this trend, and net lending has increased slightly owing to lower investments in housing. Nevertheless, net lending is still well below the levels commonly seen in the 1980s. The most significant explanation for lower net lending in the household sector is the fall in individual savings by the household sector, which is primarily due to the release of home equity. At the same time, collective savings for their pensions have come down, even though pension contributions have risen faster than benefits. This decrease is a consequence of lower investment income at pension funds, which count towards collective savings. It should be noted, however, that the investment income of pension funds is distorted downwards by retained earnings of corporations in which pension funds hold shares. As these include foreign companies, retained earnings of this kind keep the Dutch savings surplus down.

The Dutch financial and economic structure is exceptional. Households have long balance sheets as a result of tax incentives encouraging mortgage borrowing and pension asset accumulation. The Netherlands has substantial pension assets relative to the size of its economy and has therefore largely invested these assets abroad. In addition, the country has historically been home to a relatively large number of multinationals. Coupled with growing trade and income flows in an increasingly globalised economy, these circumstances impede an unambiguous interpretation of the current account balance.



Does the high current account balance effectively give rise to concerns about macroeconomic imbalances? The answer is mixed. No one will argue that the Netherlands should have fewer multinationals. Furthermore, a breakdown of the savings surplus reveals that it is not simply a matter of 'underspending'. The high current account balance rather reflects an imbalance of a different nature: the Netherlands' unique financial and economic structure. It would be advisable to gradually normalise this structure. The first steps in that direction have been taken.

Bearing this in mind, the European Commission does well to use the current account balance only as a starting point for further analysis and to look closely at the underlying developments before drawing policy conclusions from the mere size of the balance.



# 1. Introduction

The national savings balance has been the subject of a great deal of attention since the crisis. It has become clear that the persistent imbalances in the euro area created major vulnerabilities. In order to preclude them in future, the European Commission has introduced a Macroeconomic Imbalance Procedure (EC 2011). It uses a scoreboard of macroeconomic indicators to identify imbalances. One of the most important indicators is the current account balance, which is the key indicator for the national savings balance. In this procedure, the three-year average of the current account balance is subject to a lower limit of -4% of gross domestic product (GDP) and an upper limit of +6% of GDP. The thinking is that a current account surplus and a current account deficit can both be imbalances. A persistent deficit is an indication of overspending, while a persistent surplus is an indication of underspending.

In 2013, the Dutch current account balance stood at 10.2% of GDP, its highest ever level. With an average of 9.2% for the past three years, the surplus is well above the 6% upper limit set by the European Commission. During the past decade, the surplus was within the limit in only two years, 2008 and 2009. Why is the surplus so high? In an effort to answer this question, this study analyses the savings surplus.

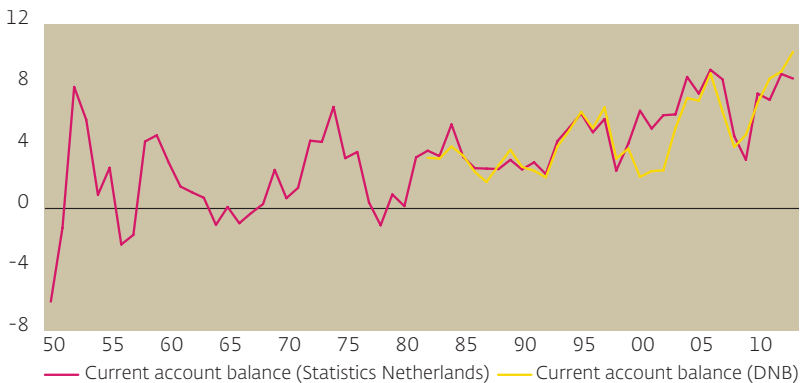
In the remainder of this chapter, we introduce two perspectives on the savings balance (the current account balance and net lending) and explain the two main reasons why this study focuses on the corporate and household sectors. These sectors have seen major changes in recent decades, and it is in these sectors that developments in the Netherlands have differed the most from developments in the rest of the euro area. The savings balance of the corporate sector is discussed in Chapter 2, while Chapter 3 looks at the role of multinationals in more detail. In Chapter 4, the savings balance of the household sector is subjected to an analysis. The final chapter calls into question the extent to which the current account balance is a useful policy indicator. Definitions of the terms used in this study are provided in the appendix.

## The current account balance and net lending

The current account of the balance of payments offers us one perspective on the savings surplus. Although DNB and Statistics Netherlands use different definitions, the figures of both organisations have shown the same upward trend in recent years and are above the European Commission's upper limit of +6% of GDP (Chart 1). The differences between the figures have become smaller following the national accounts revision in June 2014. They were not very great in recent years, with the exception of 2013, when DNB's figure was over 1.5 percentage points higher than the

### Chart 1 Current account balance 1950-2013

As a percentage of GDP



Note: The figures for 2010 and subsequent years from Statistics Netherlands are based on revised national account figures. The figures for 2001 and subsequent years from DNB are expressed in terms of revised GDP.

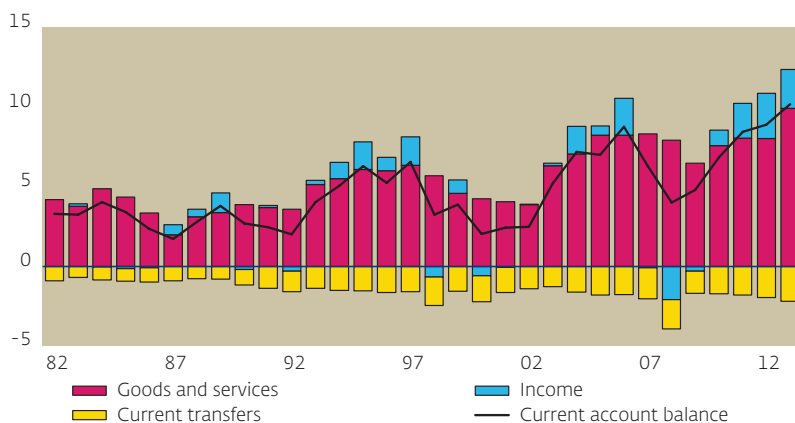
Source: Statistics Netherlands and DNB.

figure published by Statistics Netherlands.<sup>2</sup> DNBs figures take precedence in the Macroeconomic Imbalance Procedure (MIP).

Chart 2 shows developments in the current account, broken down into components. The Netherlands has had a trade surplus (positive balance of imports and exports of goods and services) for many decades. It has,

## Chart 2 Breakdown of current account 1980-2013

As a percentage of GDP



Source: DNB.

2 DNB publishes data on the current external balance in view of its responsibility for the balance of payments, while Statistics Netherlands publishes data as the compiler of the national accounts. The figures of Statistics Netherlands and DNB differ owing to methodological differences, differences in the timing of revisions and the use of different source materials. For example, DNB always uses the latest statistics available for services, whereas Statistics Netherlands makes adjustments to ensure continuity and integration with other figures in the national accounts. Statistics Netherlands and DNB collaborate closely in an effort to reduce differences, and this includes using the same sources of information to an increasing extent. DNB will revise the figures in September 2014 owing to the switch to the IMF's new rules for balance of payments reporting.

however, also had a persistent deficit in the current transfers balance. The third component, the balance in the income account, has made a positive contribution to the savings surplus in most years, although there have been large fluctuations.

When a country saves more than it invests within its borders, this results in an external claim. The current account balance is therefore more or less the same as national net lending.<sup>3</sup> This is the second perspective to be discussed. Net lending, which Statistics Netherlands calculates as part of the national accounts,<sup>4</sup> may be presented as a net amount or a gross amount. The difference comprises consumption of fixed capital. This is irrelevant for the purpose of net lending, which is the sum of the two components (see the Appendix). Both methods of presentation are covered in this study. Gross figures are more common in international comparisons, while analyses of trends in the Netherlands tend to use net figures.

Chart 3 presents a breakdown of net lending by sector. In the 1980s households were particularly strong savers, with an average balance just under 6% of GDP. However, the corporate sector took over this role in the second half of the 1990s. Since the year 2000, corporate sector net lending has amounted to more than 6.5% of GDP. Net lending by the financial sector, despite a recent increase, has always been relatively low as a percentage of GDP. There have been sharp fluctuations in net lending/borrowing by the government, and the government has mostly been a net borrower.

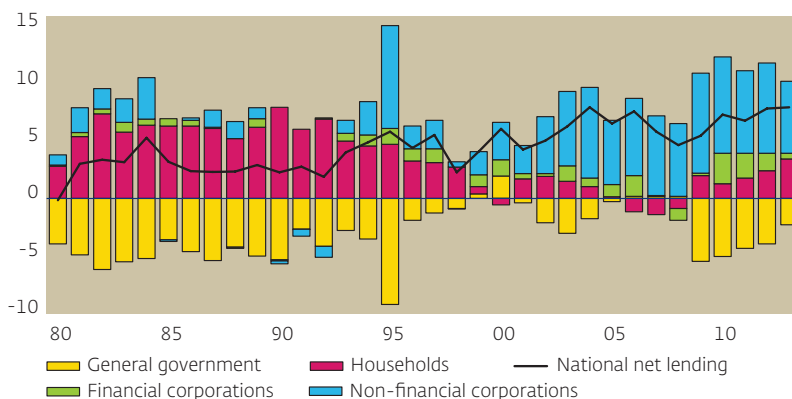
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3 The 'capital transfers' item leads to a small difference between net lending and the current account balance (see the Appendix).

4 Revisions of the national accounts usually have a substantial impact on the figures. Wherever possible, this study uses figures obtained after the recent revision carried out by Statistics Netherlands in June 2014. In many cases new figures going back a long way are not yet available, and where relevant we have therefore also presented old figures.

## Chart 3 Net lending/borrowing by sector 1980-2013

As a percentage of GDP



Figures for 2001 and subsequent years are revised national account figures. The outlier in 1995 was due to the privatisation of housing associations, when the government provided compensation for future subsidies that had been cancelled. This was recorded in the national accounts as a capital transfer of EUR 14.9 billion from the government to the corporate sector.

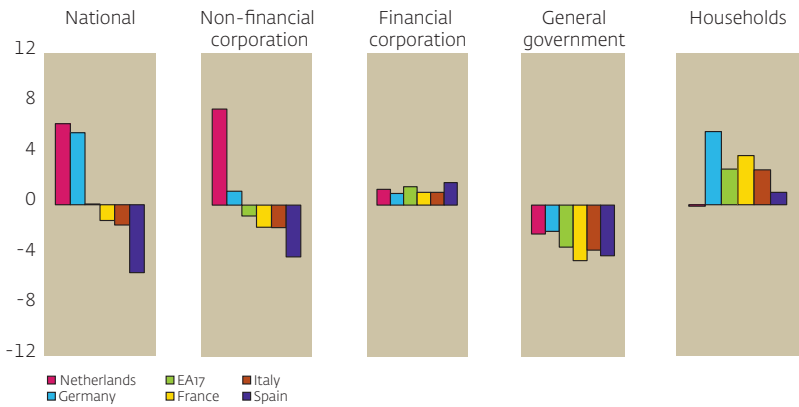
Source: Statistics Netherlands.

## A European comparison

During the past decade the Netherlands has stood out from other countries in the euro area owing to its high level of net lending (Chart 4). The only major country in the euro area that comes close is Germany. The makeup of Dutch net lending is also atypical. In other European countries, the household sector usually saves more than the corporate sector, but in the Netherlands these roles have been reversed for the past ten years. Despite the high level of collective savings, net lending by the household sector is in fact considerably lower in the Netherlands than it is in most other countries in the euro area. The Netherlands' high savings surplus is entirely attributable to the corporate sector. If the corporate sector is

## Chart 4 International comparison of net lending/borrowing 2003-2012

As a percentage of GDP, average



The figures for the Netherlands are the figures prior to the revision of the national accounts. *Source: Eurostat.*

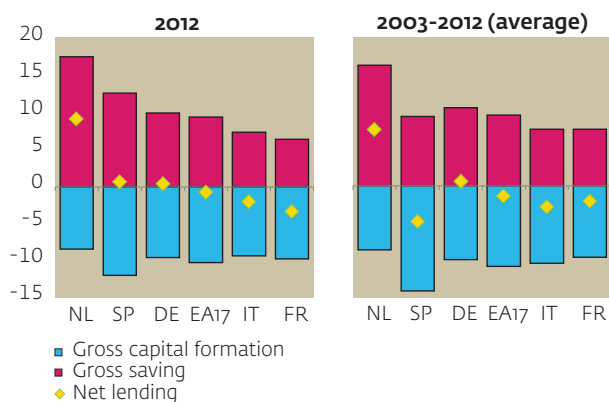
excluded, the Netherlands actually saves less than other countries in the euro area.

Chart 5 shows how this difference can be traced back to underlying levels of gross saving and gross capital formation. In 2012, gross saving in the Netherlands exceeded the figure for the euro area by more than 8 percentage points of GDP, while gross capital formation was almost 2 percentage points lower. The Dutch corporate sector also had relatively high levels of gross saving and low levels of gross capital formation during the past ten years. Net lending by the Dutch corporate sector is considered in greater detail in the next chapter.



## Chart 5 International comparison of net lending by non-financial corporations

As a percentage of GDP



The figures for the Netherlands are the figures prior to the revision of the national accounts.

Source: Eurostat.



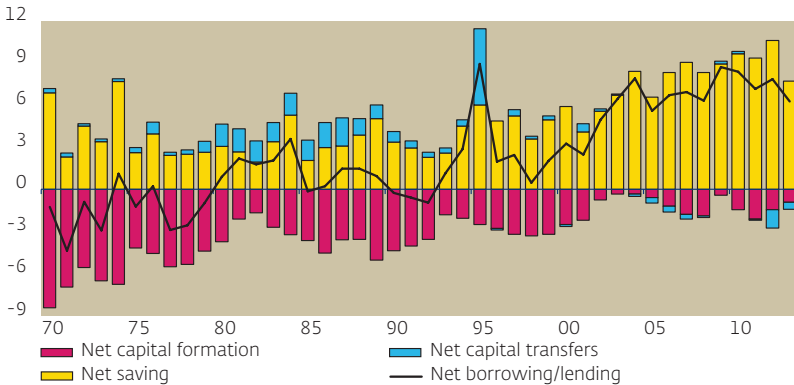
## 2. Net lending by the Dutch corporate sector

There has been a sharp increase in net lending by the corporate sector since the end of the 1990s, to 6.3% of GDP in 2013 (Chart 6).<sup>5</sup> The breakdown of net lending shows that the contribution to the high level of net lending made by net capital formation was smaller than that made by net saving.

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### Chart 6 Net borrowing/lending by non-financial corporations 1970-2013

As a percentage of GDP



Revised national account figures have been used for 2001 and subsequent years.

Source: Statistics Netherlands.

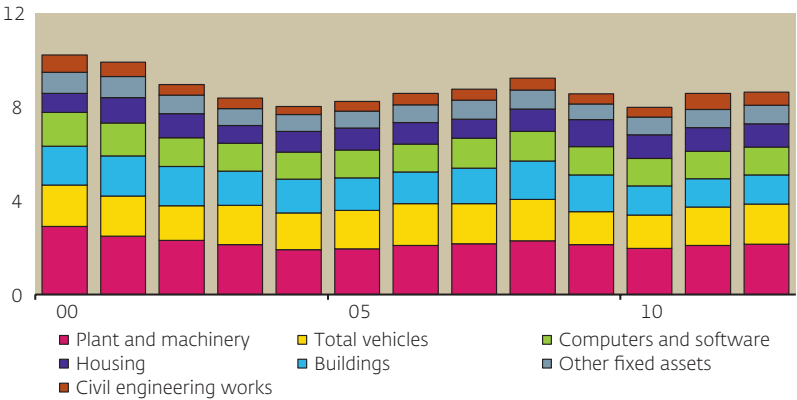
5 A similarly high level was reached only once prior to 2000. This was attributable to a one-off capital transfer to housing associations in 1995. Housing associations are counted as part of the corporate sector in the classification system used for the national accounts.

## Lower corporate investments

Since 2000, net capital formation has failed to maintain pre-2000 levels.<sup>6</sup> Chart 7 provides further information on underlying trends in the form of a breakdown of gross capital formation by type.<sup>7</sup> Whereas the decline seen in the years following the credit crunch can be traced back to lower levels of investment in buildings, the decline in the early 2000s was largely connected to lower levels of investment in plant and machinery.

### Chart 7 Gross corporate capital formation by type 2000-2012

As a percentage of GDP



Figures are stated prior to the national accounts revision of June 2014.

Source: Statistics Netherlands.

6 In the chart, investments according to the old definition have been used up to 2000. A broader definition of the term 'investment' was introduced as part of the recent revision of the national accounts. This includes the introduction of the definition of a new type of investment, i.e. investment in research and development. As a consequence, the net capital formation figures from 2001 and subsequent years have increased.

7 Net figures are not available for investments by type. The chart contains a breakdown based on the figures prior to the latest revision of the national accounts as new figures covering a long period are not yet available.

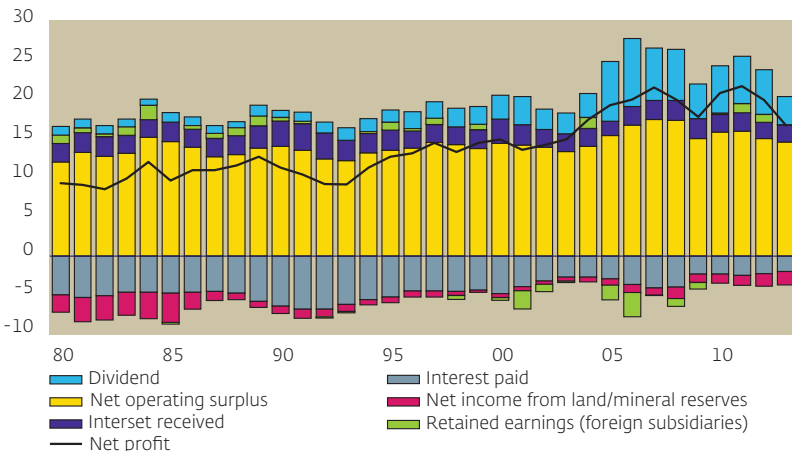
This decline coincided with lower levels of investment in manufacturing. Over the longer term, there has been a slight fall in investments in computers and software as a proportion of GDP. In that context, it is important to remember that the prices of ICT capital goods have fallen drastically. This has led to expensive capital goods, such as machinery, being substituted by cheap ICT equipment (Jansen and Ligthart 2014).

### Improved profitability

The main cause of the higher level of net lending by the corporate sector is, however, the level of net saving. The increase in net saving seen since the end of the 1990s (Chart 6) is largely due to higher levels of profitability. This is reflected in the two yardsticks shown in Chart 8: net profit and net operating surplus. Net profit is the net operating surplus after various

### Chart 8 Breakdown of net profit 1980-2013

As a percentage of GDP



Revised national account figures have been used for 2001 and subsequent years.

Source: Statistics Netherlands.

20 financial income and expenses have been taken into consideration. These include the balance of income from land and mineral reserves,<sup>8</sup> received dividends (90% of which are from foreign subsidiaries),<sup>9</sup> retained earnings of foreign subsidiaries,<sup>10</sup> and interest income and expenses.

In contrast to the situation that existed at the end of the 20th century, since 2000 net profit has exceeded net operating surplus. Although partly attributable to lower interest expenses, this is chiefly due to higher levels of income from abroad (dividends, interest received on loans to foreign subsidiaries and retained earnings). During the past decade, corporate profits were driven by the earnings of foreign subsidiaries to a greater extent than had previously been the case. The difference in development between the two yardsticks since the crisis primarily reflects the volatile contributions to earnings made by foreign subsidiaries. This contribution to earnings recovered in 2009/2010 (as indicated by higher dividends), but recently it has fallen again. Most income from abroad accrues to a small number of large enterprises. In 2010, only 1% of SMEs made investments abroad (CBS 2013).

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8 These are oil and gas exploitation rights. The Netherlands has a higher gross operating surplus than other countries in the euro area owing to the extraction of minerals. The difference in gross profit levels between the Netherlands and the rest of the euro area is smaller, partly because of the payment of exploitation rights, and partly because of the dividend that the State, as co-shareholder, receives from the gas extraction and distribution concessionaires.

9 Most of the remainder comes from other Dutch corporations. In other countries in the euro area, cross-holdings are more common in the domestic corporate sectors and therefore more dividend is obtained from within the country.

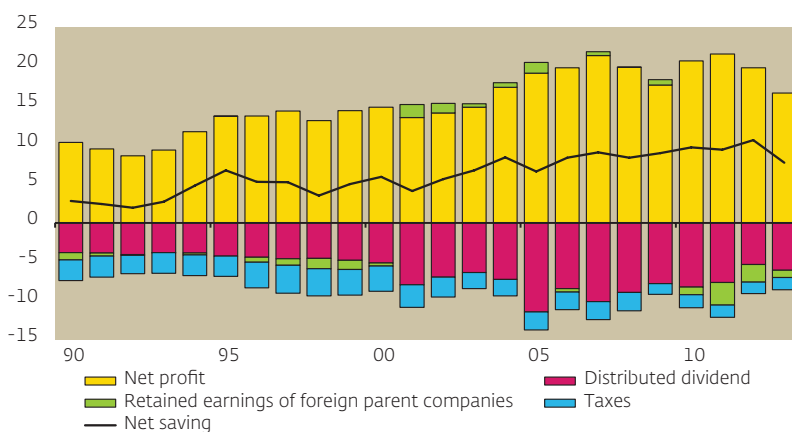
10 Subsidiaries that pay more in dividend than they generate in profits have negative retained earnings.

## Higher retained earnings

Higher net profit translates into a high level of net saving as, after paying taxes, the corporate sector distributes relatively low dividends to shareholders. According to data contained in the national accounts, in recent decades the Dutch corporate sector distributed 30%-40% of net profit. The percentage for the euro area as a whole was approximately twice as high, according to Eurostat figures.<sup>11</sup> In Chart 9, net profit is broken down into taxes, dividend taxes, retained earnings of subsidiaries of foreign parent companies and the remainder, i.e. net saving.

### Chart 9 Breakdown of net saving 1990-2013

As a percentage of GDP



Revised national account figures have been used for 2001 and subsequent years.

Source: Statistics Netherlands.

<sup>11</sup> The percentage of net profit distributed in the euro area as a whole was slightly less than 70% during the past decade. Italy stands out, with 85% of net profit being distributed.

While net profit as a percentage of GDP has increased, there has been a slight fall in the taxes item (especially corporation tax and dividend tax). Expressed as a percentage of net profit, this item has fallen from more than 20% of net profit in the 1980s and 1990s to approximately 10% in recent years. This decrease is due to several factors. While the corporation tax base has been expanded, tax rates have been lowered (Jansen and Ligthart 2014). In addition, the share of profit attributable to foreign income has increased. Under the equity holding exemption, no corporation tax is due on dividend received from foreign subsidiaries (to avoid double taxation). As a consequence, when foreign income accounts for a greater share of net profit, taxes account for a smaller share of net profit.

The role played by Dutch subsidiaries of foreign parent companies deserves to be explained in further detail. These enterprises also form part of the Dutch corporate sector. Their earnings from activities in the Netherlands and from their own foreign subsidiaries<sup>12</sup> count towards the net profit of the Dutch corporate sector. However, the dividend pay-out ratio of these subsidiaries is irrelevant for the net saving of the Dutch corporate sector. The subsidiaries do not contribute to the net saving of the Dutch corporate sector by definition, because their profits are assigned in full to their foreign parent companies. In Chart 9, profits that are actually paid out are included under 'distributed dividend'; the remaining profits are included under 'retained earnings of foreign parent companies'.

## Reasons for retaining earnings

In the case of companies with directors/majority shareholders, earnings are partly retained for tax reasons. More generally, in addition to funding

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<sup>12</sup> According to information on the finances of large enterprises published by Statistics Netherlands ('Financiën grote ondernemingen'), approximately 40% of foreign holdings are included in the balance sheets of subsidiaries of non-Dutch parent companies.



domestic investment, the corporate sector also uses retained earnings for repurchasing shares, strengthening balance sheets and funding foreign investment. These reasons are discussed below.

From a tax perspective, it is advantageous for directors/majority shareholders to pay themselves little in the way of salary and dividends, and to retain earnings within their business. This is because they do not pay any wealth tax on retained earnings, and pension provisions may be formed within the business. Directors/majority shareholders only distribute a quarter of their profit after tax as dividend (Van Dijkhuizen Committee, 2013).<sup>13</sup> As a consequence of this, some of the wealth belonging to the household sector is included in corporate balance sheets.<sup>14</sup> There is probably some selection bias at play here. The rapid growth in the number of small enterprises in the Netherlands leads us to suspect that many entrepreneurs have opted not to be self-employed (which would make them part of the household sector), and have instead chosen a different legal form, as a result of which they are now classified as directors/majority shareholders (Jansen and Ligthart 2014). Successful entrepreneurs are the most likely to take such a step.

Statistical information published by Statistics Netherlands on transactions by non-financial corporations reveals that these corporations have used available funds (i.e. those still remaining after funding foreign investment)

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13 If enterprises with a director/majority shareholder who is the sole shareholder were to have the same payout ratio as enterprises without a director/majority shareholder, there would be a fall of approximately 0.5% of GDP in annual saving by these enterprises (and a corresponding increase in saving by the household sector).

This increases to more than 2% of GDP if, instead of applying the same payout ratio, these businesses were to distribute all their earnings as dividend.

14 In 2010, the amount of wealth held by directors/majority shareholders in their enterprises amounted to more than € 140 billion, of which approximately one quarter related to pension provisions (Van Dijkhuizen Committee 2013).

to improve their liquidity position. To a certain extent, this is due to foreign multinationals 'parking' liquid assets in the balance sheets of their Dutch subsidiaries. At the same time, statistical information published by Statistics Netherlands on the finances of all enterprises (*Financiën van alle ondernemingen*) also reveals that other types of enterprises have also improved their liquidity positions. In addition, growth in corporate debt has slowed down sharply since 2000. This is connected with efforts to repair the damage that was done to balance sheets following the bursting of the dotcom bubble (Vandevyvere 2012, Jansen and Ligthart 2014). The reaction of the corporate sector was to borrow less.

One of the main reasons why listed enterprises retain earnings is to fund share repurchases. As in the case of dividend, this is effectively a distribution from the company to its shareholders, as the number of shares outstanding is reduced. Nevertheless, transactions of this kind do not affect net lending by the corporate sector. This is because, from an accounting perspective, they are classified as a capital transaction, because they lead to a fall in the number of shares outstanding on the liabilities side of the balance sheet and a reduction in liquid assets on the assets side. Between 2006 and 2008 share repurchases by the corporate sector exceeded share issues on balance, as a result of which the value of exchange-listed shares in issue fell by € 13 billion on average each year.<sup>15</sup> Share repurchases are relatively popular in the Netherlands compared to other countries. Calculations based on figures published by Dealogic reveal that during the past decade share repurchases by Dutch enterprises with an exchange listing were in excess of 1% of GDP, or approximately double the figure for other European countries.

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15 Another factor is that a number of Dutch companies were delisted during the same period.

Finally, available funds have been used by the Dutch corporate sector to fund investments outside the Netherlands. Figures published by DNB on foreign direct investments (FDI) by the Dutch corporate sector reveal that the net flow (i.e. the difference between FDI by the Netherlands and FDI in the Netherlands from abroad) has averaged 1% of GDP a year since 2000.<sup>16</sup> Given the importance of FDI for net lending by the corporate sector, the role of multinationals is considered in further detail in the next chapter.

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<sup>16</sup> This excludes a one-off outlier in 2005. In that year, financial transactions by the corporate sector were largely driven by changes in the organisational structure of Shell (see Chapter 3).



### 3. The role of multinationals in the savings surplus

Globalisation has led to strong growth in worldwide trade and income flows and to multinationals playing a greater role in the global economy. The Netherlands is home to relatively large multinationals. Dutch enterprises such as Shell, Unilever and Philips were among the first to start operating internationally by taking over foreign enterprises and opening new branches. In the mid 1980s, the Netherlands was the world's third largest investor, after the United States and the United Kingdom (Van Nieuwkerk and Sparling 1985). Conversely, in recent decades there has been an increase in the number of multinationals with operations in the Netherlands. For foreign enterprises, the Netherlands is an appealing market and a favourable location for their global or European headquarters. At the same time, the Netherlands acts as a key link in the funding strategy of multinationals.

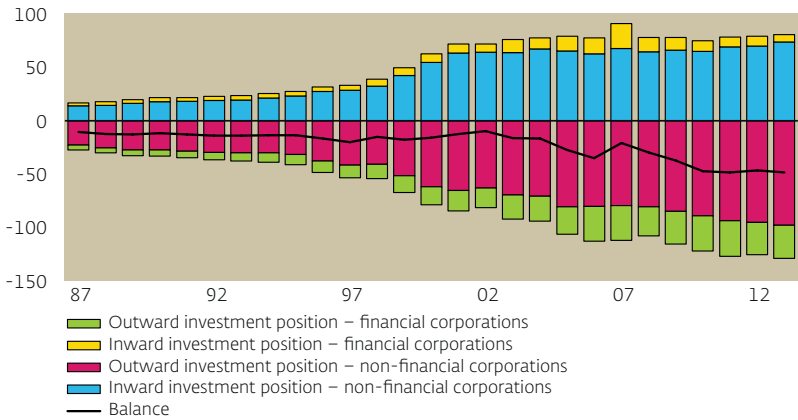
Dutch non-domestic investments and foreign investments in the Netherlands are recorded as outward and inward direct investment positions. The Netherlands has seen sharp increases in both positions as a percentage of GDP since the mid 1990s (Chart 10).<sup>17</sup> On balance, the Netherlands has been a net investor in recent decades: the investment position of the Netherlands in the rest of the world is larger than the investment position of foreign investors in the Netherlands. This net direct investment position may grow either because foreign investors reduce their equity investments in the Netherlands or, as has been the case, because Dutch investors increase their equity investments in the rest of the world. The increase in Dutch equity investments is not just due to the international orientation of the Dutch financial sector; even excluding that

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17 These figures are exclusive of special financial institutions. If these entities are included, the total Dutch outward direct investment position in 2013 was over 550% of GDP, while the inward investment position was just under 460% of GDP. The reason why the net direct investment position is greater including than excluding special financial institutions is that these entities use securities for some of their funding. See also box 1.

## Chart 10 Direct investment position of Netherlands 1987-2013

As a percentage of GDP



Source: DNB.

sector, the net direct investment position of the Netherlands has always been positive, except for a brief period in 2002/2003.

### Impact of multinationals on trade and income flows

Producing easily interpreted, reliable statistics for the current account balance and national income is made more difficult by the transactions that multinationals carry out as part of their efforts to organise activities in the most cost-effective way possible (Unece 2011). For example, trading by multinationals involves goods and services traded between group entities at transfer prices that may differ from market prices. However, it is unlikely that in the Netherlands such transfer pricing significantly distorts the trade surplus. There are few tax incentives for this, as Dutch corporation tax rates are quite similar to those found in other countries.

A more important factor in terms of its impact on the Netherlands is the strategy multinationals have adopted of transferring intellectual property to subsidiaries in countries where income from such property enjoys favourable tax treatment. The Netherlands is one such country that acts as a channel for income from licences and royalties. This has led to a small upward distortion of the services component of the Dutch current account. However, since the resulting earnings are also recorded as outward income, on balance it does not have any impact on the Dutch current account balance.

Another factor affecting the Netherlands is the strategy multinationals have adopted of channelling direct investment flows through various countries to their final destination in order to benefit as much as possible from the specific features of national tax regimes. Multinationals channel many flows through the Netherlands in order to benefit from the equity holding exemption and the large number of tax treaties concluded between the Netherlands and other countries (Lejour and Van 't Riet 2013). As part of this, multinationals make use of subsidiaries that also have business operations in the Netherlands (see Chapter 2) as well as special financial institutions (see Box 1). In principle, such financial flows do not have any impact on the current account balance. However, the situation changes when a multinational changes its ownership structure and in doing so changes its residency.<sup>18</sup> One of the Dutch multinationals that has done so in the past is Shell (this is discussed further on in this chapter).

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18 The figures for Ireland's savings balance, for example, are highly distorted due to the relocation of finance companies to that country (FitzGerald 2013). Although finance companies receive dividend, they do not distribute dividend themselves owing to tax considerations. This leads in effect to an artificial increase in Ireland's national income and a higher current account balance.

## Box 1. The role of special financial institutions

Special financial institutions (SFIs) are entities set up in the Netherlands by foreign multinationals in order to optimise their global group structure and financial flows. SFIs do not carry on any business operations and often only have a correspondence address (Broos et al., 2013). SFIs raise large amounts of funding on the liabilities side of the balance sheet, usually in the form of direct investment and sometimes by issuing securities in the Netherlands. On the assets side of the balance sheet, the funds raised by the aforementioned operations are used on a wide scale for loans, primarily to foreign group companies (subsidiaries and parent companies). These financial flows and positions are substantial. In 2013, the balance sheet total of this sector was over € 3,000 billion.

In spite of the larger financial flows being channelled through them, SFIs do not normally contribute much to the current account balance. This is because inward income flows (dividend, interest payments, and retained earnings) are offset by outward income flows to foreign direct investors. Given this, DNB has determined that SFIs have made an annual contribution of € 1.5 billion to the income account since 2004, based on the reasoning that SFIs spend all of this income balance on taxes, wages and purchased services. This simple approach is to be replaced by a new, more accurate method of calculation in September 2014.

Another country where multinationals have a major impact on trade and income flows is Switzerland. This country is home to large multinationals such as Glencore, Nestlé and Novartis, and it therefore has a high level of income from its net direct investment position. In 2012, its balance for this



component of the income account amounted to approximately 5% of GDP. Over the years, multinationals have retained a large amount of earnings for the purpose of reinvestment in the rest of the world, which has contributed to a higher current account surplus (IMF 2012). As a consequence, the net direct investment position has doubled since the mid 1990s, and stood at over 60% of GDP in 2012. Most Swiss multinationals are owned by foreign investors (IMF 2012). If these multinationals were to distribute more dividend, this would lead to a substantial reduction of the Swiss current account surplus.

## Link between multinationals and saving by the corporate sector

The high level of net lending by the Dutch corporate sector is easier to understand if the major role played by multinationals is taken into consideration. Chart 11 shows that countries with a high net direct investment position (such as the Netherlands) tend to have a corporate sector that saves more.<sup>19</sup> The Dutch corporate sector may have a high level of net lending, but at the same time the Dutch net direct investment position is unusually large. It is no surprise that the major role played by multinationals has resulted in a higher level of net lending by the corporate sector. Investments by multinationals are recorded in the country where the subsidiary is resident, but savings to fund these investments are recorded in the parent's country of residence. This can be explained using a simple example.

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<sup>19</sup> In this chart, the net direct investment position of the economy as a whole (including the financial sector) is used as a proxy for the net direct investment position of the corporate sector. This has been done because there is no internationally comparable data on the corporate sector. Luxembourg has been omitted because the financial sector accounts for a high proportion of direct foreign investment in this country.

### Chart 11 Multinationals and net borrowing/lending by non-financial corporations

As a percentage of GDP (average for 2003-2012)



Figures for the Netherlands exclude SFIs.

Source: OECD.

Imagine a parent company in the Netherlands (a country with a positive net position) that has a subsidiary in Portugal (a country with a negative net position). From an accounting perspective, the earnings generated by the Portuguese subsidiary are assigned in full to the Dutch parent company. Imagine this Portuguese subsidiary retains its earnings on its balance sheet in order to fund business expansion investment. Statistical rules prescribe that this must be recorded as retained earnings of the Dutch parent company, leading to an increase in net lending by the Dutch corporate sector and a higher Dutch current account surplus. The opposite effect is seen in Portugal. While the subsidiary's business expansion investments form part of Portuguese corporate sector investment, its funding does not form part of Portuguese corporate saving. As a result, the subsidiary's

business expansion investment leads to a reduction in net borrowing/lending by the Portuguese corporate sector and reduces Portugal's current account balance.

The effect is amplified in the Netherlands. Many large Dutch multinationals operate in capital-intensive sectors and retain a large portion of their earnings in order to fund investment in the rest of the world. Analysis of the annual reports of the largest listed enterprises (as measured by market capitalisation) reveals that the retention ratio of these multinationals was approximately 40% of earnings in 2013.<sup>20</sup> In recent years, Shell's retained earnings have averaged around €10 billion a year. Moreover, according to statistical information published by Statistics Netherlands on the finances of all enterprises ('Financiën van alle ondernemingen') the chemical industry accounts for a large share of total retained earnings. It has been responsible for more than 30% of total retained earnings of the Dutch corporate sector in most years since the mid 2000s. The Dutch chemical industry is also the subsector with the highest level of on-balance sheet foreign investments (approximately 35% of the national total). Other industries that are characterised by high retained earnings, such as the wholesale trade and the food and pharmaceutical industries, also hold a relatively high level of foreign investments.

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20 Retained earnings fluctuate from year to year because multinationals tend to want dividend distributions to be stable while earnings vary from one year to the next. It should be noted that the concept of earnings as used in national accounts is different from the concept used for financial reporting purposes. Only the operational result counts towards earnings in national accounts. This item does not include common components of earnings for financial reporting purposes, such as impairment of subsidiaries or capital gains and losses on the disposal of assets.

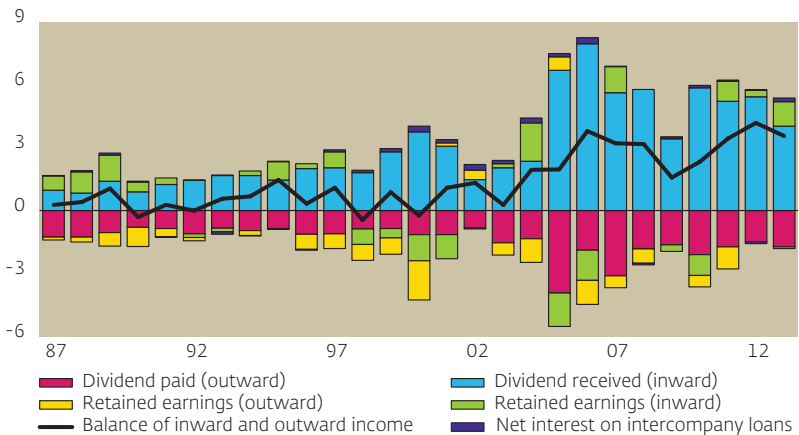
## Higher income from direct foreign investment

The Netherlands' higher inward and outward investment positions are reflected in larger flows from subsidiaries to parent companies in the income account (Chart 12). These flows consist of interest on intercompany loans, distributed dividend and retained earnings. Whereas the direct investment income balance showed a small surplus prior to 2000, it increased sharply in the subsequent decade. Since 2006, the surplus has fluctuated around the level of 3% of GDP.

Compared to other European countries, the Netherlands has a relatively high balance on this component of the income account. According to figures published by Eurostat, the Netherlands had an average surplus of 2.9% of GDP during the period 2002-2011. By way of comparison, Belgium had a

### Chart 12 Income of non-financial corporations from direct foreign investment 1987-2013

As a percentage of GDP



Source: DNB.

deficit corresponding to 1.7% of GDP during the same period, while Austria, Germany and France had surpluses of 0.3%, 0.7% and 1.3% of GDP, respectively. The only country with a surplus that is comparable in size to that of the Netherlands is the United Kingdom (3.1% of GDP), which also has a high net direct investment position.

In the inward flows shown in Chart 12, the sharp structural rise in dividend received since 2005 stands out. This increase is linked to a change to Shell's organisational structure made in 2005, following which the two parent companies in the Netherlands and the United Kingdom (Koninklijke Olie and Shell Transport and Trading) became subsidiaries of a newly-formed holding company, Royal Dutch Shell plc, which is allocated to the Dutch corporate sector in full. Prior to 2005, 40% of dividend received and undistributed earnings of foreign subsidiaries went to the United Kingdom, or, in other words, bypassed the Netherlands. Since 2005, Shell's global earnings (long-term average of approximately 3% of GDP) have been assigned in full to the Netherlands, irrespective of whether these earnings are actually distributed to the parent company.

As it is, only a small part of the Dutch corporate sector receives foreign income. Business reporting to DNB during the period 2003-2013 reveals that 60%-70% of total annual income from direct foreign investment went to just ten non-financial corporations. The largest 30 non-financial corporations receive 80%-85% between them. This is a logical consequence of the fact that half of the outward direct investment position is to be found on the balance sheets of just 15 non-financial corporations, most of which are listed multinationals, although they also include subsidiaries of non-Dutch parent companies.

## Dividend policy of large listed enterprises

The extent to which the foreign income of listed multinationals results in a higher national savings surplus depends largely on their dividend policy. While dividend policy does not affect the assignment of earnings in the case of direct investment, it does have an impact in the case of portfolio investment (see appendix). According to the IMF guidelines, in the case of portfolio investment, retained earnings are to be assigned to the enterprise in question, and not the shareholders. This arrangement has a major impact on the national savings surplus in the Netherlands because many foreign parties invest in Dutch listed enterprises. Chart 13 shows the proportion of foreign shareholdings at the largest listed enterprises in the Netherlands (measured by market capitalisation).<sup>21</sup>

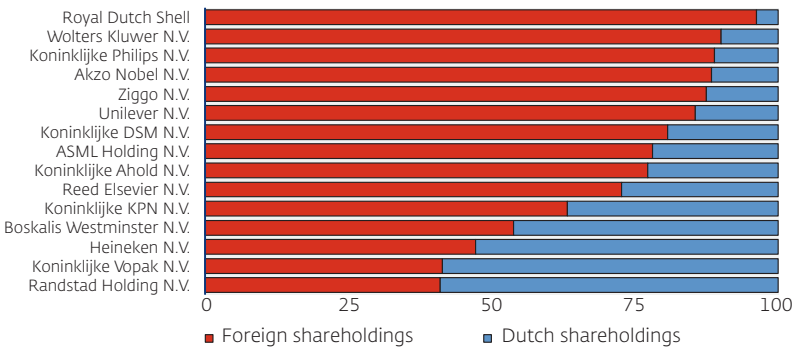
When earnings are distributed in the form of dividend, instead of being retained, a large proportion flows through the income account directly to foreign shareholders in the form of securities income. Calculations show that if all Dutch listed enterprises distributed their earnings in full, the Dutch current account surplus in 2013 would have been reduced by approximately 2.5% of GDP in 2013. Since the mid 2000s, the average impact has been over 3% of GDP. For a small country such as the Netherlands, the dividend policy of major listed enterprises is a relatively important factor. Measured in terms of market capitalisation, an estimated 75% of the shares of Dutch listed multinationals are held by foreign investors, which corresponds to 55% of GDP. According to information published by the IMF, this figure is lower in Belgium (22% of GDP), France (27% of GDP), Germany (20% of GDP) and the United States (18%).

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21 All major listed Dutch enterprises are multinationals, with the exception of Ziggo N.V..

## Chart 13 Foreign shareholdings of large listed Dutch enterprises at year-end 2013

As percentages (excluding financial corporations)



Source: DNB.

In the case of portfolio investment, retained earnings are not assigned to shareholders as 'income'. The rise in the share price due to retained earnings, on the other hand, is assigned to shareholders, and this weakens the relationship between the savings surplus and the net international investment position (Box 2).

## Box 2. Relationship between savings surplus and net international investment position

The net international investment position of a country represents the difference between the foreign assets of all domestic sectors and their foreign liabilities. It is often assumed that a national savings surplus improves net international investment position owing to the increase in foreign assets. However, a national savings surplus does not necessarily result in a change in the net international investment position.

Imagine that a foreign subsidiary of a listed enterprise, Holland N.V., has unexpectedly high earnings (100), which are placed on deposit locally. This would lead to a corresponding increase of 100 in Dutch corporate saving because Holland N.V. is a Dutch resident. The market capitalisation of Holland N.V. also increases by the same amount (since the enterprise is worth 100 more than before). If 95% of the shares are held by foreign investors, this also creates a foreign liability of 95 for the Netherlands. In this example, the increase in Dutch external assets is only 5 whereas the increase in the savings surplus is 100.

There is a long-standing awareness in the Netherlands of the considerable difference that exists between external assets and the cumulative current account balance. Referred to as the 'black hole', this difference is often attributed to the poor performance of Dutch direct investment and portfolio investment abroad (Boonstra 2008). The mechanism described above provides an additional, statistical explanation for the black hole.

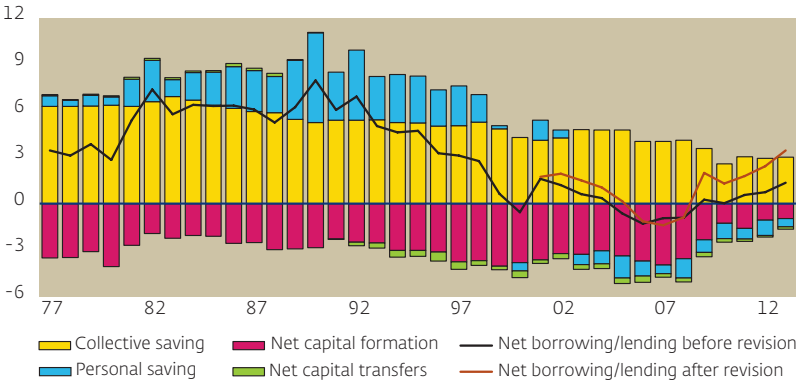


# 4. Net lending/ borrowing by the household sector

The trend in saving seen in the household sector is diametrically opposed to that seen in the corporate sector. Rather than increasing, net lending by the household sector has fallen since the start of the 1990s (Chart 14). There has, however, been a reversal in this trend since the financial crisis. In 2013, net lending by the household sector increased to 3.4%. This is the highest level seen for ten years, although it is still below the levels that were common in the 1980s and early 1990s.<sup>22</sup>

**Chart 14 Net lending/borrowing by household sector  
1977-2013**

As a percentage of GDP



Breakdown based on figures prior to revision of national accounts.

Source: Statistics Netherlands.

<sup>22</sup> The June 2014 revision of the national accounts resulted in a 1.6 percentage point rise in net lending by the household sector during the period 2009-2013, to an average 2.2% of GDP.

## Higher residential investments until shortly before the crisis

During the 1990s there was a sharp rise in net investment by households compared to previous decades, as Chart 14 shows.<sup>23</sup> This was primarily a reflection of the strong growth in the owner-occupied housing stock and the increased costs associated with higher numbers of housing transactions (property transfer tax, estate agent fees and legal fees are recorded as capital formation). During the first decade of the new millennium net investment remained at a higher level. Since the crisis, however, there has been a sharp drop in the construction of new housing, and the transaction costs have also fallen significantly due to the lower transaction volume and the reduction of the property transfer tax rate for housing. As a consequence, net capital formation hit a long-term low in 2013, and this has led to a steady increase in net lending in the past few years.

## Different concepts of saving

When analysing household savings, it is customary to make a distinction between individual savings and collective savings and to express these variables as a percentage of disposable income (individual and collective saving ratios). Individual savings relates to funds held by households on their own balance sheet (e.g. deposits, life insurance policies and savings products) while collective savings relates to funds held collectively for pension purposes. Before discussing trends in both savings ratios, it is worth considering the macroeconomic meaning of the term 'saving'.

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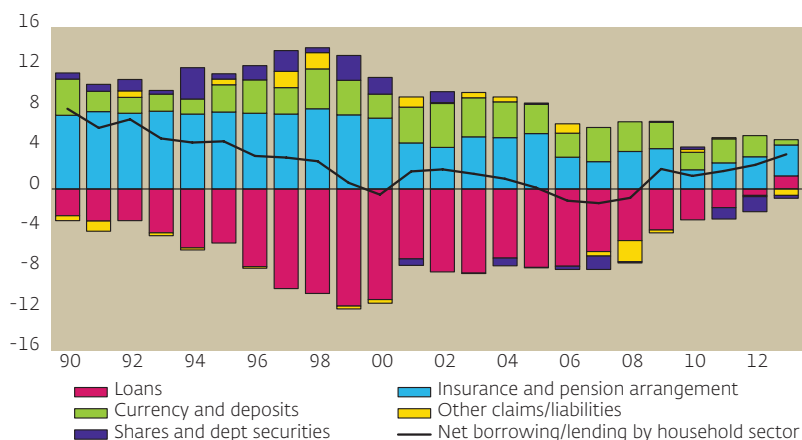
23 The vast majority of investment by households relates to new-build housing. Home improvements started to be recorded as investments following the June 2014 revision. Investments by households also include business investments by self-employed persons.

Misunderstandings sometimes arise out of confusion between stocks and flows. The term 'saving' is commonly associated with the deposits held by households in bank accounts. These savings deposits are, however, a stock, not a flow, as they form part of the wealth built up by households over time. Savings deposits grew strongly for many years, and so Dutch households appear to be diligent savers. In reality, however, they are not. In its macro-economic sense, 'saving' relates to net lending by the household sector. This flow depends not only on changes in savings account balances but also on transactions in other claims and liabilities.

Chart 15 shows how net lending by the household sector consists of different types of transactions. This breakdown reveals that while deposits have grown in every year, borrowings (especially mortgages) have increased

## Chart 15 Financial transactions by the household sector 1990-2013

Changes as a percentage of GDP, net financial transactions by financial instrument



Revised national account figures have been used for 2001 and subsequent years.

Source: Statistics Netherlands.

sharply for a long time. Last year saw loans being repaid for the first time in many years, with repayments probably being funded in part by deposits, given the fall in deposits in 2013. The household sector has usually been a net lender in recent decades, and this is chiefly due to collective savings ('insurance and pension arrangements').

### Fall in personal saving

During the 1990s there was a fall in individual savings by households (Chart 16). Until the recent revision of the national accounts, the individual savings ratio for the past ten years was negative, which means that during that period households consumed more than they had in the way of disposable income. As part of the revision, consumption related to the maintenance of owner-occupied housing has been classified as investment and other revisions have been introduced, as a result of which the individual

#### Chart 16 Personal savings ratio 1970-2013

As a percentage of disposable income (including adjustment change in pension entitlements)



Source: Statistics Netherlands.

savings ratio has increased by more than two percentage points and has since fallen below zero in only a small number of years.

Entrepreneurs have started to save more through the balance sheets of their business (see Chapter 2), and this has kept the individual savings ratio down. The lower level is also related to the sharp increase in Dutch mortgage debt, which has been used to fund new housing and to withdraw home equity (the difference between the home's value and the outstanding mortgage debt) that had built up during the years of rising house prices (DNB 2013a).

Many home owners took out additional loans, particularly in the second half of the 1990s. Sometimes these loans were for home improvements, but often they were used to fund consumption. In addition, since 2000 there has been a steady increase in the number of homes sold whose mortgages have been mostly or fully paid off, and this has also resulted in home equity withdrawal. If a person entering the housing market takes out a mortgage to buy an existing property, the home assets and mortgage debt on that person's balance sheet increase. At the same time, there is a decrease in home assets on the balance sheet of the seller of the property and (following repayment of the residual debt) an increase in the seller's savings deposits. The size of that residual debt determines the extent of the increase in the savings deposit on the seller's balance sheet. Where there is no home equity the entire price paid is used to pay off the residual debt, whereas in cases where there is a high level of home equity the savings deposit rises sharply. If these additional savings deposits are subsequently used for consumption, this suppresses the individual saving rate.

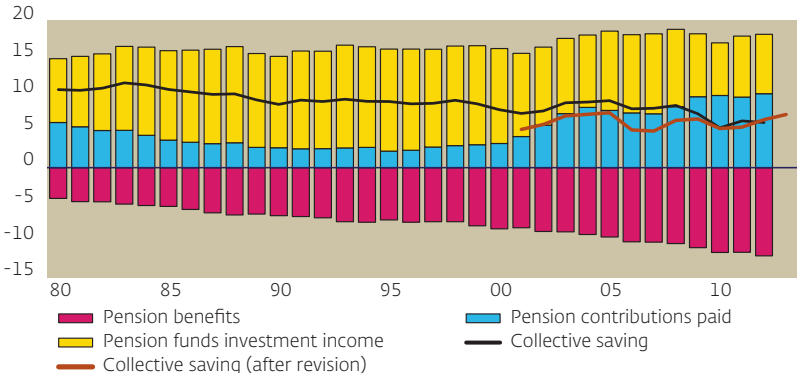
## Reduced collective saving

Another reason for the fall in net saving is a reduced collective savings ratio, Chart 17 shows that there is less collective saving than there used to be. The collective savings ratio reached a peak of 11.5% in 1983, but by 2013 it was 7.2%. This decline seems strange because employees have paid substantially higher pension contributions since 2000. On the other hand, pension funds have also spent more on benefits as the number of pensioners is gradually rising. However, as the breakdown in Chart 17 shows, the main reason for the lower collective savings ratio is the fall in pension funds' investment income. This is chiefly because pension funds have received less interest income each year due to lower interest rates.

The investment return reported by pension funds and life insurers is not the same as investment income according to the national accounts definition. This is because capital gains and losses on their portfolio investments are

### Chart 17 Collective saving by household sector 1970-2013

As a percentage of disposable income



Breakdown based on figures prior to revision of national accounts.

Source: Statistics Netherlands.

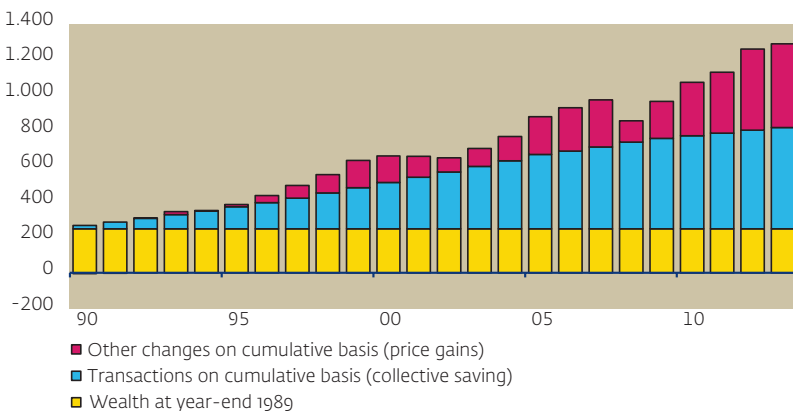
not included in investment income. Chart 18 shows that other changes (which include capital gains) have been a key factor in the wealth of the pension fund and life insurer sector since the early 1990s. Large capital losses were sustained in 2001/2002 and 2008. The change in wealth was also due to collective savings; this net balance of benefits, contributions and investment income is included under 'transactions'.

## Distortion of investment income

In order to gain a proper understanding of the investment income of pension funds, households and other investors, it is important to take a close look at the statistical rules that exist in that area. The definition of investment income affects the income of the household, corporate and other sectors, and therefore also affects the savings balances of individual

### Chart 18 Wealth of pension funds and life insurers 1990-2013

EUR billion



Figures used are figures prior to revision of national accounts.

Source: Statistics Netherlands.

46 sectors, national income and, therefore, the national savings surplus. The definition is explained in Box 3.

Owing to the sizable foreign financial claims on the Netherlands and Dutch claims on foreign investors, the definition of investment income has a relatively major impact on the flows in the income account of the

### Box 3. Defining investment income

Statistical agencies apply strict guidelines for calculating the investment income of households, pension funds and other investors.

- In principle, investment income consists only of regular dividend and interest payments. Capital gains and losses on shares and bonds are not included under investment income (instead they are recorded as a revaluation of wealth).
- Only dividend distributions based on operational profits count as investment income. Other distributions to investors, such as share repurchases or the one-off distribution of a very high dividend (superdividend), are not covered by the definition.
- Interest income is defined solely in terms of cash flows. If an investor purchases a bond that was issued ten years ago, the yield to maturity will be less than the coupon rate, since market interest rates have declined sharply in the meantime. This means the coupon rate will be much higher than the yield to maturity. Nevertheless, investment income is determined by the coupon rate. The statistical perspective and the investment perspective therefore differ.



Netherlands and hence on the national saving surplus. There has been a sharp rise in foreign financial assets held by Dutch investors, which is chiefly attributable to fact that assets managed by pension funds and insurers for households have grown strongly and have been increasingly invested abroad.<sup>24</sup> Whereas in the mid 1990s Dutch pension funds used to invest only some 23% of their assets abroad (total figure includes approximately 15 percentage points in shares and 6 percentage points in fixed-income securities), this figure has now increased to around 81% (of which 35 percentage points relates to shares and 40 percentage points to fixed-income securities). The investment portfolios of insurers have also become much more internationally oriented than in the past.

The magnitude of the Netherlands' foreign equity portfolio means that fluctuations in the level of retained earnings by the foreign companies in that portfolio have a relatively heavy impact on the Dutch current account balance. The total impact of this on all Dutch sectors is estimated at 2.5% of GDP for the period since the mid 2000s. The figure for 2013 was just above this level. Retained earnings of foreign enterprises result most notably in a downward distortion of net lending by the household sector because this sector has by far the largest holdings of foreign shares on its balance sheet (these are usually held indirectly, through pension funds and investment funds). This factor is more significant in the Netherlands than it is in most other countries. Foreign equity investment by the Netherlands corresponded to almost 90% of GDP at the end of 2013. The figure for Germany was approximately 25% of GDP, while for the United States it was some 40% of GDP.

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24 The definition also has an impact through the liabilities side of the balance sheet, where foreign financial liabilities are stated. These include shares held by foreign investors in Dutch enterprises (see Chapter 3). A large proportion of Dutch government debt is also in foreign hands.



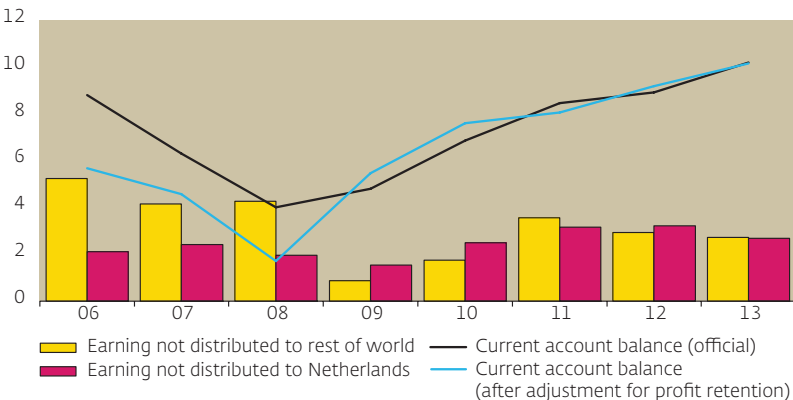
# 5. Conclusion

The financial and economic structure of the Netherlands is exceptional. Households have long balance sheets as a result of tax incentives encouraging mortgage borrowing and pension asset accumulation. Pension assets in the Netherlands are very substantial relative to the size of the economy and have therefore been largely invested abroad. In addition, the country has historically been home to a relatively large number of multinationals. Coupled with growing trade and income flows in an increasingly globalised economy, these circumstances have made unambiguous interpretation of the current account balance difficult.

This is shown in Chart 19, which includes adjustments for earnings not paid out to the rest of the world (by multinationals) and earnings not paid out to the Netherlands (regarding pension assets). The effects combined drove up the current account balance considerably in the years before the crisis. Although these effects have virtually cancelled each other out in recent years, the balance is distorted by other specific factors including the procyclical effects of the pension system and the housing market.

### Chart 19 Current account balance and profit retention

As a percentage of GDP



Source: DNB.

50 This illustrates first and foremost that the Dutch current account balance must be interpreted with caution.

Does the high current account balance effectively give rise to concerns about macroeconomic imbalances? The answer is mixed. In the policy debate, the high level of the Dutch savings surplus is usually considered to reflect 'underspending', usually in reference to saving by the corporate sector (Witteveen 2014). However, a breakdown of the savings surplus reveals that it is not simply a matter of 'underspending'. In addition, any interpretation of the savings surplus needs to take account of the existence of natural resources (IMF 2013). In the Netherlands these have a significant role in the form of substantial gas reserves. Moreover, the part played by multinationals in saving by non-financial corporations continues to grow. However, no one will argue that the Netherlands should have fewer multinationals.

Rather, the high current account balance reflects an imbalance of a different nature: the Netherlands' unique financial and economic structure. Gradually normalising this structure, as argued in last year's SER report 'Dutch economy in calmer waters' (SER 2013), is advisable. The first steps in that direction have already been taken. Bearing this in mind, the European Commission does well to use the current account balance only as a starting point for further analysis and to look closely at the underlying developments instead of drawing policy conclusions directly from the mere size of the balance.

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# Appendix. Terms and definitions

## Saving and investment; gross versus net

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Saving and investment may be presented on either a gross or net basis (i.e. before or after deducting consumption of fixed capital). Figures presented on a net basis result in the same level of net lending as figures presented on a gross basis (see Tables 2a and 2b) as saving and direct investment are reduced by the same amount. In many cases, it is conceptually better to take account of consumption of fixed capital, which reflects the costs of using capital. At the same time, it can be argued that net saving underestimates available funds, as consumption of fixed capital is not accompanied by any actual payments. In any event net saving takes precedence in analyses of the savings behaviour of households in the Netherlands. However, analyses of investment are usually performed using gross figures. In international comparisons, too, gross figures are more common, partly because consumption of fixed capital is sometimes calculated in a different way in different countries (or not calculated at all).

## Distinction between portfolio investment and direct investment

According to the guidelines issued by the IMF (2009), a direct investment exists when an enterprise has an equity investment of more than 10% in a foreign enterprise. In the case of direct investment, earnings that are distributed as dividend as well as undistributed earnings are attributed to the parent company, and recorded in the income account of the balance of payments, in proportion to its equity share. In other words, if the parent company has an equity investment of 30% in a foreign subsidiary, 30% of that subsidiary's distributed and undistributed earnings are recorded in the income account. In the case of portfolio investment a different rule applies, and only the distributed dividend is recorded in the income account. Changes in ownership can therefore have an impact on net lending by the corporate sector. For instance, in mid 2012 Douwe Egberts was spun off by

a foreign direct investor and floated on the Amsterdam stock market. Prior to this time, Douwe Egberts' distributed and undistributed earnings were allocated to other countries. However, once Douwe Egberts was in the hands of ordinary investors, only the earnings that were distributed to foreign investors were recorded in the income account. Douwe Egberts has since been delisted again and taken over by a foreign direct investor, which means that all of its retained and distributed earnings are again fully allocated to another country.

## Residency

The IMF defines a resident as a legal entity whose centre of economic interest is located within the relevant country. For legal entities that do not engage in significant economic activities, such as SFIs, the criterion is the place where the entity is established. An enterprise that has an exchange listing in the Netherlands is not necessarily a resident of the Netherlands. For example, Air France-KLM has an exchange listing in the Netherlands but the issuing legal entity is not a resident of the Netherlands.

## Definition of the household sector, corporate sector and special financial institutions

The household sector is the largest sector in the Netherlands in terms of its share of disposable income. This sector also includes self-employed persons. By contrast, the non-financial corporations sector (also referred to as the corporate sector in the study) has only a modest share of net national income, but in terms of value added it is the most important sector by far. This sector consists of corporations whose main activity is the production of goods and non-financial services, and includes housing associations and some state-owned enterprises that operate in a market. Special financial institutions are a subcategory of other financial institutions, which in turn is a subsector of the financial sector. Hardly any international guidelines are



available for the classification of entities as special financial institutions (SFIs) and so DNB uses its own criteria. The most important criterion is that at least 90% of assets and liabilities are situated abroad, and at least 90% of the shares are held by foreign investors. Most SFIs are owned by direct investors, although some have an exchange listing.

## Current account balance

All transactions between the residents of a country and the rest of the world are recorded in the current account of the balance of payments. In Table 1 the current account of the Netherlands in 2013 is broken down into its components: goods, services, income and current transfers. A current account surplus results in a claim against foreign countries and is recorded as an increase in claims (or decrease in liabilities) in the financial account, in the form of direct foreign investment, portfolio investment, financial derivatives or official reserves.

## Table 1 Breakdown of current account in 2013

As a percentage of GDP

	CBS	DNB
Goods	11.6	7.8
Services	-1.3	2.1
Primary income	0.2	2.4
Current transfers	-2.0	-2.2
Adjustment for change in pension entitlements	-0.1	n.a.
<b>Current account balance</b>	8.5	10.2
Net capital transfers	-0.5	-0.1
<b>National net lending</b>	7.9	10.1
Statistical discrepancy	-0.5	-1.3
<b>Financial account balance</b>	8.4	8.9

The figures from Statistics Netherlands are the restated figures following the revision of the national accounts, while the figures supplied by DNB are stated prior to revision in September 2014.

*Source: Statistics Netherlands and DNB.*

## National net lending

Net lending offers a perspective on the savings surplus of a country based on domestic saving and investment. A breakdown of national net lending based on net figures is contained in Table 2a, while the breakdown in Table 2b is based on gross figures.

## Table 2a National net lending in 2013 (based on net figures)

As a percentage of GDP

<b>Net domestic product</b>	83.1
Net primary income from rest of world	0.2
Net current transfers from rest of world	-2.0
	<hr/>
<b>Net disposable national income</b>	81.3
Final consumption expenditure	71.4
Adjustment for change in pension entitlements	-0.1
	<hr/>
<b>Net national saving</b>	9.9
Net capital formation	1.4
	<hr/>
<b>National savings surplus</b>	8.5
Net capital transfers from rest of world	-0.5
	<hr/>
<b>National net lending</b>	7.9
Statistical discrepancy	-0.5
	<hr/>
<b>Change in financial wealth</b>	8.4

Source: Statistics Netherlands.

## Table 2b National net lending in 2013 (based on gross figures)

As a percentage of GDP

<b>Gross domestic product</b>	100.0
Net primary income from rest of world	0.2
Net current transfers from rest of world	-2.0
<b>Gross disposable national income</b>	98.2
Final consumption expenditure	71.4
Adjustment for change in pension entitlements	-0.1
<b>Gross national saving</b>	26.8
Net capital formation	18.3
<b>National savings surplus</b>	8.5
Net capital transfers from rest of world	-0.5
<b>National net lending</b>	7.9
Statistical discrepancy	-0.5
<b>Change in financial wealth</b>	8.4

Source: Statistics Netherlands.

## Net lending by the household sector

Table 3 shows how net lending by the household sector is calculated on the basis of disposable income, consumption and investment. The most important source of income is wages, although households also receive income in the form of benefits, profits and investment income. Taxes and contributions (including contributions paid into collective pension schemes)

### Table 3 Net lending by household sector in 2013

As a percentage of GDP unless otherwise indicated

Compensation of employees	49.7
Other primary income	11.3
Social benefits	18.7
Other current transfers	3.6
	<hr/>
<b>Total funds</b>	<b>83.5</b>
	<hr/>
Taxes on income and wealth	-7.9
Pension contributions paid	-9.3
	<hr/>
Other contributions (WIA, WGA, ZVW, etc)	-16.9
Other current transfers	-4.0
	<hr/>
<b>Net disposable income</b>	<b>45.3</b>
Final consumption expenditure	45.0
	<hr/>
<b>Personal savings</b>	<b>0.3</b>
Collective savings	3.5
<i>Personal savings ratio as percentage of disposable income</i>	0.6
<i>Collective savings ratio as percentage of disposable income</i>	7.2
	<hr/>
<b>Net saving</b>	<b>3.8</b>
Net capital formation	0.4
Net capital transfers	0.0
	<hr/>
<b>Net lending</b>	<b>3.4</b>

Source: Statistics Netherlands.

60 are deducted from income. If compulsory pension savings were not taken into account, this would seriously skew the figures on household net lending compared to the rest of the world.

## Net lending by the corporate sector

Table 4 provides a breakdown of net lending by the corporate sector. The net operating surplus is in fact earnings generated by domestic production. If other financial flows, such as dividends, retained earnings and net interest are taken into account, the result is called net profit. The definition of profit in this context is different from the usual definition used in business economics. Income and expenses that are not connected to day-to-day operations are not taken to the income statement. As the corporate sector does not have any consumption expenditure (in contrast to households), its disposable income is equal to its savings. Insofar as these savings are not used for investment (or for capital transfers), the corporate sector is a net lender. In this context, only domestic direct investment (i.e. capital formation in fixed assets and current assets) is taken into account, as foreign investment is treated as part of direct foreign investment (which is recorded in the financial account).

## Table 4 Net lending by non-financial corporations in 2013

As a percentage of GDP

Gross value added	58.9
Wages (-)	35.5
Indirect taxes less subsidies (+)	0.1
Consumption of fixed capital (-)	9.0
	<hr/>
<b>Net operating surplus</b>	14.5
Net interest (-)	-0.2
Dividend (+)	3.6
Net income from land and mineral reserves (-)	1.8
Retained earnings from direct foreign investment (+)	0.1
	<hr/>
<b>Net profit before taxes</b>	16.6
Dividend and other profit distributions (-)	6.1
Retained earnings from direct foreign investment (-)	0.9
Current taxes on income and wealth (-)	1.5
Net other current transfers (+)	-0.4
	<hr/>
<b>Net saving (net disposable income)</b>	7.7
Net capital transfers (+)	0.1
<b>Net capital formation (-)</b>	1.6
	<hr/>
<b>Net lending</b>	6.3

Source: Statistics Netherlands.





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