CPB Netherlands Bureau for Economic Policy Analysis

Reflects international investment risks

*Eurozone trade imbalances a concern*

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# Causes and policy implications of the Dutch current account surplus

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# Summary

The Netherlands has experienced a persistent and relatively large current account surplus since the 1970s. In recent years the surplus has increased, reaching a historically high level of 8.5% of GDP in 2013.

The Dutch current account surplus is mainly explained by structural factors, of which two stand out: the relatively high savings and foreign investments by multinational enterprises and pension funds, and the internationalisation of the Dutch economy (including Eurozone membership).

The savings and investment behaviour of multinational enterprises and pension funds does not point directly to market or policy failures that must be addressed by economic policy. The current account surplus, therefore, does not seem to be a problem in itself, although it might signal underlying problems. For example, large household savings are related to pension funds and housing market imperfections, which in their own right may merit policy action.

The main cause for concern for the Dutch government are the valuation risks associated with a large gross and net international investment position (NIIP). The accumulated stock of foreign assets is vulnerable to valuation losses due to fluctuations in international financial markets and exchange rate risks. In the past, these factors have generated significant losses — a feature that was labelled as the Dutch "black hole".

The large Dutch surplus can be directly associated with diverging intra-Eurozone trade patterns since the 2000s. From a European perspective, the increasing bilateral trade imbalances — generated by the dynamics of a fixed nominal exchange rate, joint monetary policy through the ECB and the lack of effective adjustment mechanisms — represent an important economic policy concern. This issue, however, can only be addressed effectively by the Dutch government in coordination with other Eurozone members.

# 1 Introduction

Although current account (CA) *deficits* are usually considered as a clear sign of domestic macroeconomic problems, a relatively large and persistent *surplus* could also signal a policy concern. This is the case if the factors behind the surplus point to market failures or policy imperfections, or if the surplus underscores macroeconomic and financial risks.[1]

The persistent and large Dutch current account surplus is mainly explained by long-term structural factors associated with relatively high savings rates by pension funds and multinationals, which are increasingly invested abroad. These factors do not point to either market failures or clear-cut policy imperfections that must be addressed. However, the Dutch surplus does provide two policy concerns.

First, the accumulation of current account surpluses in a large net international investment position makes the Dutch economy vulnerable to valuation shocks, similar to those in the past. The large stock of foreign assets makes the Dutch economy vulnerable to international investment risks (i.e. international market fluctuations and exchange rate volatility) — which could result in significant valuation losses. As the Dutch experience with the "black hole" shows (see Box below), these risks can be sizeable: in the period between 1993 and 2002, the average yearly valuation losses were around five percentage points of GDP. Although in theory these valuation changes should affect both the gross international assets and liabilities similarly, the historical record indicates a clear bias. The US and the UK had persistent CA deficits and positive valuation changes, while countries with persistent CA surpluses — Germany, Japan, Russia and China— have had negative valuation changes.[2] The Netherlands clearly belongs to the second group. The sheer size of these valuation losses points to potentially high negative impacts on overall wealth and welfare levels.[3]

Secondly, the intra-Eurozone current account surplus in the Netherlands, combined with deficits in other countries, is an important element of the macroeconomic imbalances in the Eurozone. Since the Eurozone is the main trading partner and an important source of growth for the Netherlands, this is of great political and economic importance for the Dutch government. These diverging trade and investment patterns were generated first by large private capital flows until 2007 and later by the lack of effective intra-Eurozone adjustment mechanisms to deal with the asymmetric shocks from the 2008 financial crisis.[4]

There is limited policy scope to adjust these intra-Eurozone CA imbalances in the short term, given the intra-Eurozone fixed nominal exchange rate, joint monetary policy through the ECB and the lack of effective adjustment mechanisms. These supranational issues are not dealt with efficiently by individual national governments, and should be tackled jointly at the

[1] Blanchard and Milesi-Ferretti, 2011; Obstfeld, 2011, 2012.
[2] Gourinchas and Rey, 2014.
[3] Vandevyvere, 2012.
[4] These elements indirectly point to a misalignment of the Dutch real effective exchange rate, mainly related to bilateral real exchange rate misalignments with other Eurozone members, and possibly also with third-countries. Typically, in countries with bilateral floating exchange rates we do not expect such large imbalances to last for long periods without an exchange rate correction.

Eurozone level.[5] Addressing these international imbalances requires a separate comprehensive analysis of the Eurozone history, conditions and recent developments, which is beyond the scope of this policy brief, but will be analysed in a separate CPB study.

# 2 Explaining the persistent Dutch surplus: savings and investment[6]

The Netherlands has experienced a gradually increasing current account surplus since the 1980s. The surplus has expanded from about 3% of GDP in the 1980s to 6% on average in the first decade of this century (see Figure 1). This figure also includes a trend line (based on the series before the System of National Accounts SNA-2008 revision), which indicates the persistence of the CA surplus.

**Figure 1 The Dutch current account balance has been positive and increasing**

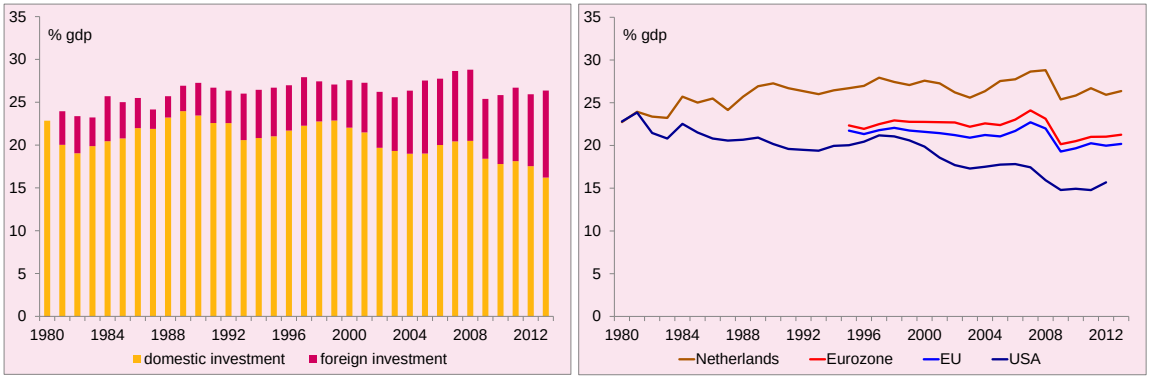

Description: Current account balance, before and after revision (left), and including a trend (right). This figure includes the CA balance of Statistics Netherlands, both before and after revision. The new revisions follow the implementation of the new national accounts methodology (SNA-2008). Although the new series has some punctual changes, the overall pattern and level remain qualitatively similar. The same applies for the DNB current account series (see Jansen and Rojas-Romagosa, 2015). In the rest of this document we use the old historical time series for all of the analysis.
Source: CBS Statistics Netherlands and own estimations for trend using an HP filter.

This CA surplus is the result of a high and stable domestic savings rate and a gradually declining domestic investment rate. In a simplified form, the CA balance equals the share of domestic savings that is invested in foreign international assets.[7] As such, the overall savings rates and the public and private decisions to invest domestically or abroad jointly determine the CA balance. Figure 2 presents the overall Dutch savings rates and the allocation of savings to domestic and foreign investment. The total savings rate has been relatively high and persistent. In an international comparison, the savings rate stands out. The Dutch savings rate is about 5 %-points higher than in the Eurozone and the European Union, while the gap with the United States has been widening to about 10 %-points in 2012. Relatively high savings rates are a structural element of the Dutch economy that reflects a combination

[5] Currently, the goal of the Macroeconomic Imbalance Procedure (MIP) is "to prevent and correct macroeconomic imbalances" (as per Regulation 1176/2011). It aims to correct imbalances through analysis, recommendations and monitoring. In case of excessive imbalances a corrective mechanism can be activated, which steps up pressure on the implementation of reforms by member states to address imbalances. However, the introduction of the MIP has not induced convergence of the CA imbalances so far.
6 Jansen and Rojas-Romagosa (2015) provide background material for sections 2 and 3.
7 Technically, the CA balance equals domestic savings minus domestic investment plus the net primary and secondary income (NI). The latter component of net income is quite small on average (see Jansen and Rojas-Romagosa, 2015).

of private agents' savings preferences, mandatory savings in pension funds, demographic factors, and the commitment of the Dutch government to sustainable public finances.[8] Moreover, these high savings rates stem from export-oriented multinational enterprises with strong foreign investment positions.

**Figure 2 Dutch total savings have been stable but high by international standards**




Description: Dutch total savings is the sum of foreign and domestic investments (left) and total savings in different regions (right).
Source: Own calculations using OECD Stat data.

The division of savings between domestic and foreign investment has gradually changed, with an increasing share of foreign investment— and therefore an increasing CA surplus. The Dutch ratio of foreign to total investment is high when compared internationally. This large share of foreign outward investments reflects a long tradition of international integration in financial markets and in international trade networks. On the other hand, domestic investment has experienced a steady relative decline in recent years that reflects in part a decline in the price of investment goods and the relatively higher expected returns on foreign assets.

This reduction in the share of domestic investment might seem worrisome. However, Jansen and Ligthart (2014) found that, when corrected for price changes (dominated by declining ICT prices), the decrease is less pronounced.[9] Moreover, despite the decrease in domestic investment, there has been an ongoing increase in productivity. The decline in domestic investment has not led yet to clear negative developments in relative capital stocks, innovation and competitiveness.

[8] Van Ewijk *et al.*, 2013 and Smid *et al.*, 2014.
[9] In addition, following the most recent data revision from CBS (i.e. using the SNA-2008), the decline in domestic investment is also diminished.

# 3 Dutch multinationals and pension funds

Two special features of the Dutch economy, the relatively large number of multinationals and the size of the funded pension system, contribute significantly to the large and persistent current account surplus. These special features are generally not taken into account in international empirical studies on CA imbalances, which therefore fail to fully explain the CA surplus in the Netherlands.

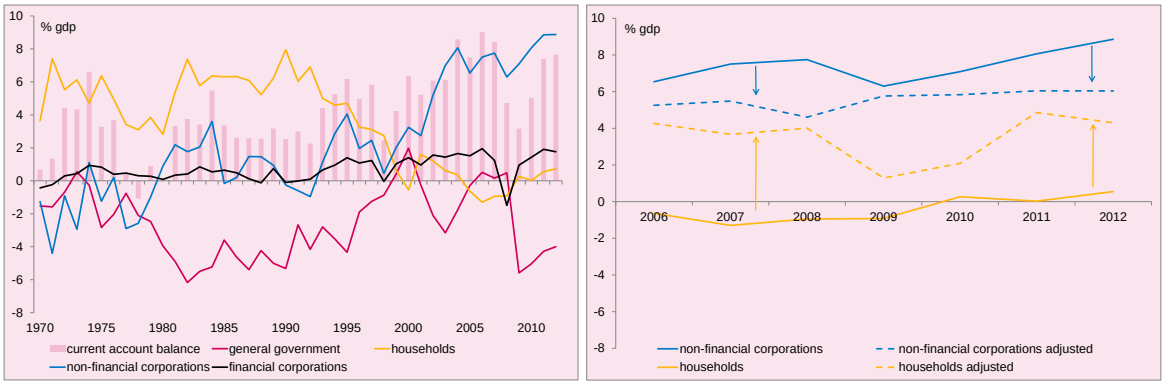
Most of the surplus is attributed to the foreign investments of non-financial corporations, which have surged in the 2000s.[10] This follows from the decomposition in Figure 3 (left) of the CA surplus into the saving and investment decisions of specific economic agents. Multinational enterprises (MNEs) are known for being —by a large margin— the main contributors to exports (at least 75% of total Dutch exports were carried out by MNEs)[11] and as such, also provide the largest share of net exports to the CA balance. In addition, MNEs are the source of foreign direct investment (FDI) and are also involved in other types of foreign investment. The Netherlands has a relatively large number of MNEs — including both Dutch firms and foreign corporations headquartered in the Netherlands — which results in a high ratio of net FDI to GDP.

The figure also shows that the net savings of households have decreased since the 1990s — although Figure 3 (left-hand side) likely overestimates this decline. For instance, when correcting for statistical issues related to unpaid dividends, the net lending of households changes from close to zero to about 4% of GDP, and that of non-financial corporations decreases by about 2 %-points (see Figure 3, right).[12] Finally, the government has had mainly negative savings and the contribution of financial corporations has been modest overall.

A structural factor behind the location of MNEs is that the Netherlands has a competitive international corporate tax system (Van 't Riet and Lejour, 2014). This does not imply, however, that multinationals locate in the Netherlands based on fiscal reasons. The literature indicates that there is a variety of motives for location decisions, with the tax system being one of the least relevant motives. The main reasons for MNE location include market size, agglomeration and clustering effects, business climate, institutional quality, socio-political stability and labour force characteristics.[13]

[10] See Jansen and Ligthart (2014). Eggelte *et al.* (2014) also analyse the importance of NFCs and MNEs, and find similar conclusions regarding the significant role of MNEs to explain the Dutch surplus.
[11] Using firm-level Dutch data, Kox and Rojas-Romagosa (2010) calculate this percentage (although it could be higher because some MNEs may not have been identified as such in the database). At the international level, the top decile of largest exporter firms (most of which are MNEs) represents around 80 to 90% of total exports (Helpman *et al.*, 2004; Bernard *et al.,* 2007; Mayer and Ottaviano, 2007).
[12] DNB (2013) corrects for unassigned retained profits to MNEs and pension funds; this leads to only small changes on the overall CA balance, but does change the composition of the surplus.
[13] See Markusen (2002), Braconier *et al.* (2005), and Antràs and Yeaple (2014) for an international overview. Jagersma (1993) presents evidence regarding the Netherlands.

**Figure 3** **Non-financial corporations and households (adjusted for retained profits) account for most of the current account surplus**




Description: Current account balance by institutional composition (left panel), non-financial corporations and households adjusted for retained profits (right panel).
Source: Own elaboration using CBS data (left), and own elaboration using DNB data (right, data only available for 2006-2012).

Only special-purpose entities (SPEs)[14] are typically located in the Netherlands in order to reap the tax benefits — but they have a very minor impact on the CA surplus. These entities hardly report profits in the Netherlands, because the incoming funds are again transferred to other countries, which is the primary role of SPEs. Because the inflows and outflows are of similar size, they have hardly any impact on the CA balance. According to the Dutch Central Bank (DNB), the economic contribution that SPEs make to the Dutch CA surplus can be estimated at about 1.5 billion euros: just around 0.2% of GDP.[15]

The second country-specific element that partly explains the large and persistent Dutch CA surplus is the importance of pension funds. Most household savings are collective savings channelled through pension funds (cf. Jansen and Rojas-Romagosa, 2015). Compared to other developed countries, the Netherlands has relatively large pension funds that invest a major part of their assets abroad. Dutch residents' foreign equity investments in 2011 ran to around 75% of GDP, while the corresponding figure was 20% in Germany and 30% in the USA (DNB, 2013). Currently, pension funds still accumulate wealth, as the contributions and asset returns exceed pension benefit pay-outs. One might expect, however, that in the next decades the household savings surplus (including pension fund reserves) will diminish gradually —as accumulation of wealth will show a reversed trend, given the ageing of the population and maturating pension funds.[16]

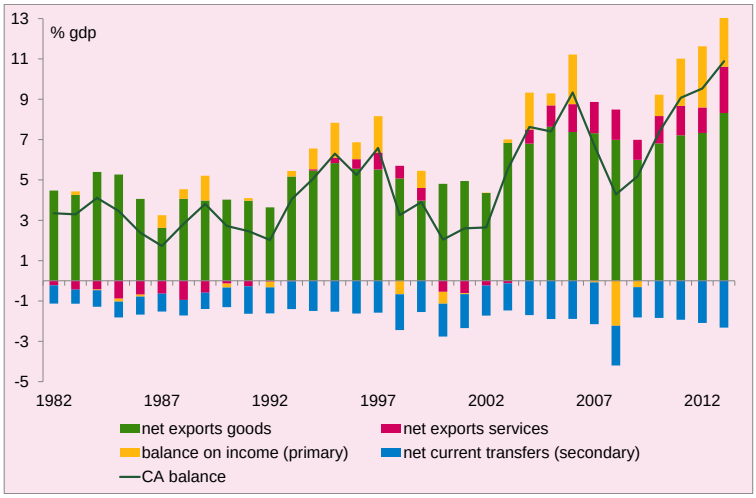
The other important way pension funds contribute to the CA surplus is through their investment behaviour: only about half of the pension wealth is invested in the Netherlands (CBS, 2014). The investment portfolio of pension funds is designed to optimise the return on pension wealth, not to raise investments in the Netherlands. Only if domestic investments become more attractive — i.e. yield higher or less risky returns —may pension funds begin to find it optimal to redirect their portfolios.

[14] The SPEs are holdings of foreign companies where the earnings and equity transactions have hardly any relation with their productive activity in the Netherlands. These subsidiaries are often called 'shell' or 'letterbox' companies.
[15] Lejour and Van 't Riet (2013), Eggelte *et al*. (2014).
[16] In addition, several policy changes, such as the reduction of the fiscal benefits for private pensions (restricted Witteveen framework), have reduced (or will further reduce) pension fund savings.

# 4 International trade and the intra-Eurozone bilateral balances

The current account can also be decomposed using international trade and income accounts.[17] Figure 4 shows that the trade balance (i.e. the net exports of goods and services) is the most important factor explaining the Dutch surplus. The balances on primary income (rents and profits from foreign assets) and secondary income (mainly by government transfers to abroad) almost cancel out.

**Figure 4 The trade balance is responsible for most of the current account surplus**




Description: Netherlands, trade and net income perspective on the current account.
Source: DNB Balance of Payment Statistics.

The increase in the Dutch trade surplus that started at the beginning of the 2000s can be largely explained by a corresponding rise in the intra-Eurozone bilateral surpluses (see Figure 5). This sharp increase in the Dutch intra-Eurozone trade surplus in the last decade coincides with the introduction of the euro. Given the multiple factors that interact with the trade surplus, it is difficult to assign a precise weight to the impact of the euro on the Dutch surplus, but the impact is significant. Empirically, Berger and Nitsch (2010) and Chen *et al.* (2012) find that the introduction of the euro increased the intra-Eurozone current account imbalances, while Barnes *et al.* (2010) show that Eurozone membership had an impact on current account balances.

The following analysis of the trade balance was carried out on the basis of value-added trade statistics, instead of the standard gross trade statistics (see text box).

[17] Technically, the savings surplus equals the trade balance (exports minus imports). Therefore, the current account balance can also be defined as the trade balance plus net primary and secondary incomes.

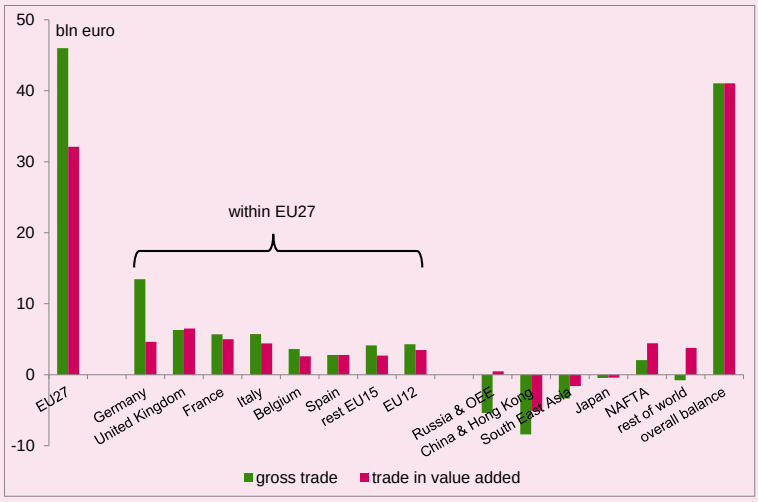
## Current account and trade in value-added

Traditionally, gross trade statistics are used to decompose bilateral trade flows. The recent literature on trade in value-added, however, shows that traditional gross trade statistics can present a misleading picture of international trade relations, particularly for countries that are as highly integrated in global supply chains as the Netherlands (Johnson and Noguera, 2012; Koopman *et al*., 2014; Lejour *et al*., 2014). The internationalisation of supply chains into global value chains (GVC) has diminished the relevance of traditional trade statistics. When intermediate inputs cross borders more than once, there is a double-counting issue with traditional gross trade statistics; and the value-added composition of final exports does not reflect domestic value-added.

The bilateral balances for the main trading partners show that the gross trade surplus is highly concentrated with EU partners (see figure below). This still holds for trade in value-added, but to a lesser degree. For instance, the bilateral trade balance surplus with Germany is reduced to one-third when estimating the balance in value-added terms instead of gross terms. This is hardly surprising in view of the large amount of intermediate inputs (with relatively small Dutch value-added) that go through the port of Rotterdam to Germany.

Although some of the Dutch bilateral trade balances diverge significantly between gross and value-added terms (e.g. Germany, China, NAFTA countries, Russia), in value-added terms intra-EU bilateral surpluses still represent around 70-80% of the total trade surplus.[a]

**The overall trade balance of the Netherlands is mainly explained by bilateral surpluses with other EU partners**




Description: Bilateral trade balances of the Netherlands by main trading partners in 2007.
Source: Own calculations using the GTAP database. OEE is other East European countries and NAFTA is Canada, Mexico and the USA.

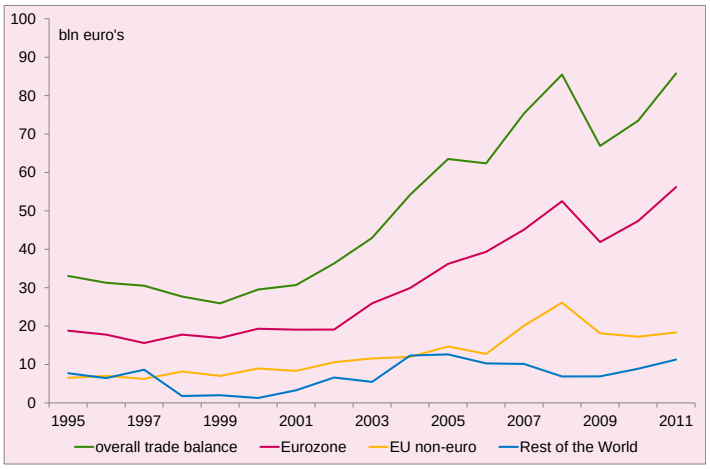
[a] Rojas-Romagosa (2015) explains the technical definitions and how trade in value-added is estimated.

This diverging pattern of intra-EU trade follows the theoretical expectations of the currency union: following the reduction of cross-border barriers and the introduction of a common monetary policy and a nominally fixed exchange rate, capital flows more easily and trade is expected to increase. This was the main trend before the 2008 financial crisis. The ongoing increase in the intra-Eurozone trade imbalances[18] after the crisis is the result of the lack of macroeconomic balancing mechanisms within the monetary union. In an institutional setting with a nominal fixed exchange rate, relatively low labour mobility and a lack of transfer mechanisms, only diverging intra-Eurozone inflation rates (i.e. internal devaluation) and/or

[18] Note that the EC's definition of imbalances – trends giving rise to developments which adversely affect the functioning of the economy – differs from the economic meaning referring to a situation with (trade or CA) surpluses and deficits.

structural adjustments can restore macroeconomic balances. However, both of these adjustment mechanisms have worked slowly — and in any case are effective only in the medium to long run. Based on this analysis, it is clear that the impact of Eurozone trade imbalances since the 2000s has been one of the main contributing factors in the recent increase in the CA surplus to an average value of around 6% of GDP (see Figure 1).

**Figure 5 The increase in the Dutch trade balance is dominated by intra-Eurozone trade**




Description: Netherlands, trade balance by selected regions in value-added terms.
Source: Own calculations using the WIOD data.

Finally, one can also link the Dutch intra-Eurozone trade surplus with MNE activities. MNEs are responsible for the majority of exports— and these are concentrated by proximity, in countries that are close-by, physically and culturally (Eaton *et al.*, 2011). In the case of the Netherlands, MNEs have a higher share of exports to other EU countries.[19]

# 5 Additional current account determinants[20]

Until this point, the analysis has focused on specific factors that are important in explaining the relatively large and persistent Dutch surplus: relatively high savings rates with an increasing share of foreign investment, relatively large MNEs with both positive net exports and outgoing FDI, relatively large pension funds that invest heavily abroad and a trade balance that is driven by intra-Eurozone imbalances.

However, these are not the only factors at play. Several other factors contribute to the current account, although it is difficult to assign specific weights to any one of these factors. The CA surplus can be explained by structural factors (e.g. demographic trends, internationalization of the economy, trade infrastructure and linkage to global value chains, natural gas, the role as a financial centre, differences in economic development, changes in the international financial climate), by Eurozone dynamics (large bilateral intra-Eurozone trade surpluses, downhill capital flows, lack of effective adjustment mechanisms) and, to a lesser extent, by cyclical factors (business cycle, housing market and fiscal stance).

[19] Creusen and Lejour (2011), and Lejour (2013).
[20] Ciocyte and Rojas-Romagosa (2015) provide background material for this section.

Regarding additional structural determinants, Barnes *et al.* (2010) show that demographic factors increase the CA surplus in the Netherlands relative to other OECD countries. Compared to the situation in other OECD countries, the share of the Dutch working-age population is relatively large and the share of retirees is small. The working-age population is saving for retirement, whereas pensioners dis-save (if only via their pension benefits).

Trade openness has a positive effect on the size of the CA balances.[21] This empirical finding may reflect that countries that are more integrated into international markets have access to foreign currency that can be used to invest abroad or domestically. This finding points again to the importance of multinational enterprises in contributing to the CA surplus in the Netherlands. Moreover, the port of Rotterdam, with a high volume of gross trade through re-exports (around 40% of total Dutch trade) and its associated value-added in services embedded in the port activities, also contributes to the trade surplus. Natural gas exports are a decreasing but still important factor that adds around 1 %-point to the trade surplus.[22]

The literature is ambiguous on precisely how differences in economic development affect the current account. Capital likely flows from rich to poor countries— but also towards countries with high productivity. Empirically, IMF (2013) shows that international differences in economic development cannot explain why the Netherlands has a persistent CA surplus.

Among the key financial factors contributing to the CA surplus is the stock of net foreign assets. The returns to these assets contribute to the CA surplus through the primary income account. However, in the Netherlands —aside from the last three years—the primary income account has not been a major contributor to the CA surplus.[23] Moreover, valuation effects on the Net International Investment Position (NIIP) have been substantial since the 1990s. This phenomenon was named the "Dutch black hole" (see text box). Depending on the measurement method, the NIIP is about 40-60% of GDP in 2012, whereas accumulated CA surpluses amount to nearly 100% of GDP. The text box also shows that this gap mainly originates from the 1990s. Starting in 2002, accumulated CA surpluses are almost equal to the increase in the NIIP.[24]

[21] Both for deficit and surplus countries (Barnes *et al.*, 2010; Gruber and Kamin, 2005).
[22] See Vandevyvere (2012).
[23] This can partly be explained by negative valuation changes (Barnes *et al.*, 2010) — but it also reflects the fact that MNEs headquartered in the Netherlands are partially owned by foreigners, and this is translated into an outflow of profits (Jansen and Ligthart, 2014).
[24] The introduction of the euro might have played a role in this development, as the intra-Eurozone investments are no longer affected by exchange rate risks.

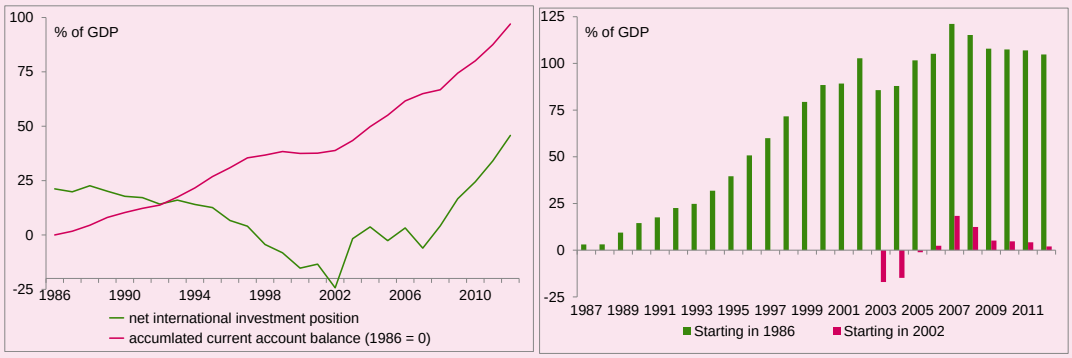
## The “Dutch black hole”

The net international investment position (NIIP) is a stock variable that accounts for all foreign assets and liabilities of the country in a given year. The changes in the NIIP are driven by two main effects: the yearly changes in foreign and domestic assets directly associated with the current account balance (i.e. composition effect); and the valuation changes of these gross external assets and liabilities (i.e. asset revaluations and other value changes).

These valuation changes are influenced by international financial markets, exchange rate fluctuations, and statistical measurement issues. They account, furthermore, for an important and increasing part of the dynamics of the net foreign asset positions of countries — where valuation losses are biased toward CA surplus countries and valuation gains are concentrated in the international financial centres: the US and the UK (Gourinchas and Rey, 2014).

Since the 1990s these valuation effects have been substantial for the Netherlands, up to the point where they were named the “Dutch black hole” (Boonstra, 2008, 2009; Mellens, 2009). The NIIP valuation changes were consistently negative and large for over a decade. This created a “black hole” between the flow of foreign assets implicit in the CA surplus and the actual NIIP. These accumulated valuation losses reached as much as 100% of nominal GDP in 2002, after which the valuation changes have stabilised (see right-hand panel). Even though part of these recorded losses can be attributed to statistical issues — i.e. differences between the book- and market values of foreign assets — the valuation losses associated with foreign asset negative valuation changes are still significant (Vandevyvere, 2012).

**The “Dutch black hole” was a phenomenon of the 1990s, but not the 2000s**




Description: Netherlands, NIIP and accumulated CA balances (left panel) and accumulated valuation losses (right panel) (different scales).
Source: Own elaboration using DNB data.

In addition to these structural factors, the CA balance also depends on temporary factors. These relate mainly to the changes in the current account associated with the business cycle, and how private consumption and the government finances adjust to these and other cyclical fluctuations.[25] However, empirical studies for the Netherlands find that these temporary and cyclical factors only explain, for some specific years, at most 2 %-points of the CA surplus. In general, the empirical studies that analyse the Dutch surplus together with other countries have found that the Dutch CA surplus can only partly be explained by this broad set of common economic determinants.[26] In these studies, the Netherlands stands out as an outlier.

[25] In particular, the effect of negative housing-market developments on Dutch private consumption was analysed in van Es and Kranendonk (2014) and Gelauff *et al.* (2014).
[26] Cf. Barnes *et al.* (2010), Jaumotte and Sodsriwiboon (2010), IMF (2013, 2014a,b), and European Commission (2014a,b).

# 6 Dutch economic policy implications

The previous sections show that the current account surplus in the Netherlands has been historically driven by structural factors related to the decisions of private agents and to sustainable fiscal policies that are broadly consistent with economic fundamentals.[27] The persistently high savings rate of the Dutch economy originates from not only the sizable funded pension system but also non-financial corporations — in particular, multinational enterprises. The large share of savings that is invested abroad reflects the internationalization of the Dutch economy, with a relatively large presence of multinational enterprises and a strong integration into global markets through international trade and finance. Since the 1970s, these structural factors explain a CA surplus of around 3 %-points of GDP. Since the 2000s, the impact of Eurozone imbalances has contributed to the increase in the surplus, to around 6% of GDP on average.

From a narrow Dutch perspective, these structural factors do not point directly to market or policy failures that must be addressed by economic policy. Nevertheless, the current account surplus might signal underlying problems related to overall savings, wage determination, investment orientation, fiscal policy and the business cycle. Each of these will be discussed in turn.

First, the government may want to limit the overall high savings in the Dutch economy. Household savings are partially related to the characteristics of the pension funds and housing market policies. Pension saving and mortgage debt in the Netherlands are deemed to be relatively high— probably higher than optimal.[28] Recent policy measures have reduced the fiscal subsidies of second-pillar pensions, and additional pension reforms are currently under debate.[29] Fixing housing market imperfections is a desirable policy objective in its own right, and as long as policy effectively stimulates future private consumption levels it will help reduce the current account surplus. Nonetheless, in the last decade, non-financial corporations have generated most of the savings surplus. Since these are competitive and efficient firms, it is hard to justify any direct policy action to reduce their savings or affect their foreign direct investment. The exception might be that the savings surplus points to tax distortions related to corporate taxation in the European Union. However, the presence of a large number of MNEs headquartered in the Netherlands is a longstanding characteristic of the Dutch economy primarily associated with its international orientation and its benign investment climate — rather than being the result of a favourable tax system. The impact of changes to corporate taxation on MNE investment and location decisions is therefore expected to be limited. Such tax changes might, however, affect the location of special purpose entities — but their relevance for the overall CA surplus is small.

Second, one might argue that the savings surplus of non-financial corporations could be reduced by raising wages. However, it is not clear that a policy intervention is either feasible or desirable: the government has limited influence on private wages, and wage policies should be motivated from labour market failures rather than the CA surplus. The impact of

[27] Similar conclusions are reached by IMF (2014b) and European Commission (2014a,b).
[28] Lukkezen and Elbourne (2015) and DNB (2015).
[29] Van Ewijk *et al.* (2014) and SER (2015).

higher wages on the CA surplus is questionable for several reasons. First, higher private wages might be saved rather than consumed, thereby shifting the saving surplus from non-financial corporations to households without reducing the CA surplus. Moreover, many non-financial corporations are highly integrated in world markets and can easily shift activities between subsidiaries. Higher wages likely have a limited effect on the worldwide profitability of MNEs (and therefore on their savings), but might reduce their investments in the Netherlands. Finally, it may be the case that wages in the Netherlands are lower than is required from the perspective of international competitiveness. In technical terms, the CA surplus might signal that the real effective exchange rate in the Netherlands is too low. The adjustment of relative international wages is not effectively dealt with at the national level but requires international adjustments and policy coordination.[30]

Third, the government may want to stimulate investment in the Netherlands. Although stimulating investment likely contributes to economic growth, this policy cannot be convincingly motivated from a current account perspective. First, investment prices have declined relative to GDP prices, which implies that the real investment ratio has been relatively stable since 2000.[31] Moreover, the investment share in GDP has declined not only in the Netherlands, but also in many other European economies. At the same time, this slowdown in relative investment does not seem to have created negative economic impact: there has been an increase in productivity, while relative capital stocks, innovation and competitiveness have not been negatively affected. Therefore, stimulating private investments— for example, by MNEs or pension funds— cannot be motivated from the perspective that a lack of investments is depressing productivity. In addition, public investment has remained positive and stable for many years, and cost-benefit analyses for the Netherlands have identified few public investment projects with positive returns.

Fourth, the government may also directly affect the savings surplus through fiscal policy. Usually, the main concern about imbalances is the link between fiscal deficits financed through foreign debt that result in unsustainable CA deficits. This is not the case, however, for the Netherlands, where the persistent CA surplus is driven by private savings and the investment behaviour of multinational enterprises and pension funds. Moreover, the public debt levels in the Netherlands have been evaluated as sustainable in the medium- and long run.

Fifth, countercyclical fiscal policy may curb temporary current account fluctuations, even though cyclical elements are of minor importance in explaining the overall surplus. Nevertheless, there are cyclical policy issues that might be addressed in their own right. These include the temporary factors associated with public spending decisions, relatively slow growth and high unemployment, and the problems related to private debt overhang. Stimulating the growth perspective of the Dutch economy — through anti-cyclical fiscal policy and/or structural reforms — may also stimulate private domestic investment and may therefore reduce the CA surplus. In addition, policies directed towards the private debt overhang may also affect the short-term Dutch CA surplus, as they have positive effects on domestic private consumption. The bottom line is, however, that the implications for the CA

[30] These international imbalances will be analysed in a separate study.
[31] Jansen and Ligthart (2014); Jansen and Rojas-Romagosa (2015).

balance are a side effect and should not be the main motivation for these short-term policy options.

To sum up, the structural factors that explain the Dutch current account surplus do not require economic policy actions to eventually reduce the surplus. However, some of these factors may require policy attention in their own right.

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