

**Oranjestad, August 30, 2013** - You don't have to know the Netherlands well to be familiar with the story of Hans Brinker, the little Dutch boy who saved a nation from the sea in Mary Mapes Dodge's novel by plugging a leaking dyke with his finger.

The tale may be fictional but it is symbolic of one tiny country's struggle against erstwhile indomitable elements and it is told the world over as an example of how the smallest of deeds -- or fingers in this case -- can have a huge impact on the lives of many.

The low countries may have won their battle against the tide centuries ago but these days they face another fickle enemy: a housing crash so sharp it has left millions of homes financially high and dry with mortgages, as they would say in Dutch "onder water."

And now, just as Europe's southern states appear to have overcome the worst, a recession in one of the region's "core" countries could jeopardize a fragile recovery still very much in its infancy.

As the eurozone's fifth largest economy, Holland and its surrounding provinces are hardly the bloc's economic engine but they are a key ally for Berlin in its push for stricter spending across the region.

Through their finance minister Jeroen Dijsselbloem, the Dutch sit at the helm of the Eurogroup, the very body charged with steering member states' fiscal policy, exerting influence over larger neighbors like France and Italy.

True, austerity has already cost the Dutch dear in the form of one collapsed government but this is a country which is under pressure to set an example.

### **Going Dutch**

As we all know, the Netherlands isn't just famous for its clogs and windmills. Its inhabitants have always been astute financiers and careful with costs.

The expression to "go Dutch" is employed the world over when splitting a bill.

And indeed it may seem ironic that a nation famous for its monetary prudence should find itself at the center of a debt storm.

### **So how did this happen?**

Sadly, like Brinker's story it's a familiar -- if predictable -- tale: An overheated housing market, inflated by readily available 100% mortgage offers, loans at five times salary and, worst of all, generous tax deductions on repayments, combined to create an incentive to buy, buy, buy.

With property prices now plunging around 10% a year, a growing number of Dutchmen and women have become trapped in a negative equity spiral, littering their banks' books with bad loans.

The country's financial institutions have already had 95 billion euros worth of aid since the 2008 crisis, but it's estimated they still hold 650 billion euros worth of property financing on their balance sheets. That's bigger than the Netherlands' GDP.

If that doesn't raise eyebrows it may surprise you to learn that the Dutch have now won the dubious accolade of being the most indebted people in Europe, with outstanding consumer borrowings amounting 250% of available income. At 125%, Spain's figures pale in comparison-- ditto for other housing bingers like Ireland and Portugal.

So much for the Dutch image of being Europe's great savers.

Yet, as we have seen so often throughout this eurozone crisis, the act of saving when applied too late can often exacerbate an economy's decline.

As such, the Netherlands' current predicament offers a textbook example of the pitfalls of the "slump-then-save" mentality.

With households tightening their belts to service mortgages, consumers' spending has plunged, prompting businesses to scale back on investments and shed staff.

In just a few years the Netherlands has seen its jobless rate soar from an enviably low 5.5% at the start of last year to almost 9% in June. With unemployment rising month after month, the famously generous benefits system has become a luxury the country can ill-afford.

### **Memories of a tulip bubble**

Now a year into its recession, economists aren't forecasting a recovery for the Netherlands until 2014 at the earliest, and even then predictions are of a measly 0.4% growth.

But don't be fooled: the Netherlands' economic landscape may be flat but it's not entirely bleak. Besides, the Dutch have been here before.

While private sector debt may have been the country's undoing, sovereign bond investors have largely shrugged off the Netherlands' domestic woes -- giving the government breathing room on its borrowing costs.

Dutch industry is competitive and flexible. The workforce is highly educated and polyglot, with the entrepreneurial streak reminiscent of a nation of merchant traders.

In fact Holland and its neighboring counties have seen their fair share of boom and bust cycles.

Its bubble in the tulip trade is a lesson taught in business schools across the globe as an example of how to spot an overvalued asset class.

Just like those once precious blubs, the Dutch economy will bloom again one day, though its flowers will appear later this cycle.

Mind you, they will last longer if the lessons have been learned.

Source:

<http://edition.cnn.com/2013/08/29/business/netherlands-nation-under-water/index.html?hpt=ibuc1>