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COMMISSION STAFF WORKING DOCUMENT

In-depth review for the Netherlands

Prepared under Regulation 1176/2011 on the prevention and correction of macroeconomic imbalances

EN EN

European Commission

The Netherlands

In-Depth Review 2025

This in-depth review presents the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for The Netherlands for the purposes of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. It provides technical input to the Commission for the Communication "European Semester – 2025 Spring Package" that will set out the Commission's assessment as to the existence of imbalances or excessive imbalances in The Netherlands. That Communication will be published in June 2025.

CONTENTS

1. INTRODUCTION

This in-depth review (IDR) analyses the evolution of the Netherlands' vulnerabilities related to the high current account surplus, household debt and house prices. This year's IDR, which follows the 2025 Alert Mechanism Report (AMR) published in December 2024, assesses the persistence or unwinding of the vulnerabilities identified last year, potential emerging risks, and relevant policy progress and policy options that could be considered for the future[(1)]. Given the size of the Dutch economy and its interlinkages with the other EU Member States, these vulnerabilities carry cross-border relevance.

The vulnerabilities in the Netherlands are analysed in the context of a return to modest economic growth. Following economic stagnation in 2023, real GDP growth picked up to 0.9% in 2024, and is projected to reach 1.6% in 2025 and 1.5% in 2026[(2)]. Private consumption is expected to be one of the main drivers of GDP growth going forward, as strong wage growth, decreasing inflation and personal income tax cuts support households' real disposable incomes. The estimated foreign demand contribution to the cumulated 8.4% GDP growth over 2019-2024 amounted to 0.5 pps., mostly coming from outside the EU. Conversely, Dutch domestic demand contributed little to EU growth[(3)]. The labour market remains strong, with a very low unemployment rate (3.6%). Going forward, growth in the labour force is expected to exceed the weak employment growth, which is set to result in a marginal pick up in unemployment. Inflation rekindled in mid-2024 due to higher food and services inflation. While annual HICP inflation in 2024 came down compared to 2023, HICP inflation re-accelerated in the second half of 2024, from around 3% in the first half of the year to 3.9% in December. Notably, strong nominal wage growth and the adjustment of rents to higher price levels drove the increase in services inflation while an increase in excise duties on tobacco led to a surge in processed food price inflation. Going forward, inflation is projected to come down gradually to 2.4% in 2025 and 1.9% in 2026. Core inflation came in at 3.2% in 2024 as a whole and is forecast to reach 2.8% and 2.1% in 2025 and 2026, respectively, which points to the continuation of readings in excess of the euro area average seen over this decade[(4)].

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(1) European Commission (2024), Alert Mechanism Report 2025, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, COM(2024) 702 final; and European Commission (2024), Alert Mechanism Report 2025, Staff Working Document, SWD(2024) 700 final.

(2) All forecast data used in the IDR come from the Commission Autumn 2024 Forecast (European Economy, Institutional Paper 296), unless stated otherwise, in order to ensure the coherence of the various figures and calculations. The cut-off date for the data for the preparation of this IDR was 20 February 2025. Actual outturn data that have become available after the Autumn Forecast, and before the cut-off date for the IDR, are mentioned.

(3) See European Commission Institutional Paper 2025 (forthcoming) – "Economic spillovers and financial linkages in the EU".

(4) Over the period 2019-2024, imported value-added inflation accounted for 0.4 pps. of the 24.7% cumulated inflation in the Netherlands. See European Commission Institutional Paper 2025 (forthcoming) – "Economic spillovers and financial linkages in the EU".

2. ASSESSMENT OF MACROECONOMIC IMBALANCES

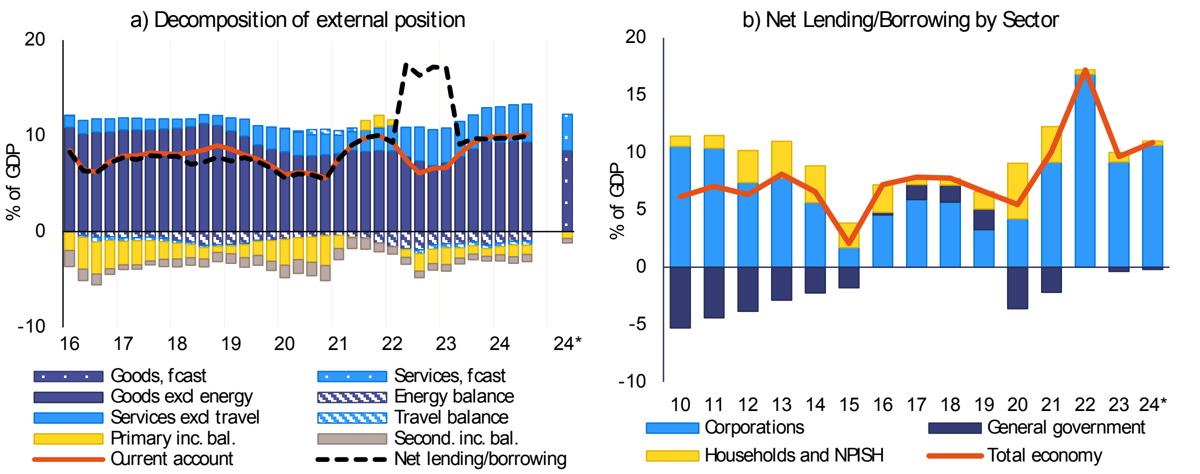
In recent years, the Netherlands has been marked by large current account surpluses, and a high but receding household debt. The current account surplus has rebounded after its moderation in 2022 to around 10% of GDP recently. The surplus is driven by a trade surplus in goods and services and, from a sectoral perspective, high savings of corporations in the Netherlands. Household debt is on a downward path but remains one of the highest in the EU. It is fuelled by tax incentives for debt-financed home ownership and strongly increasing house prices in a supply-constrained market.

2.1. EXTERNAL SECTOR

Assessment of gravity, evolution and prospects of vulnerabilities

The Netherlands' current account surplus remains one of the highest in the euro area. At the end of 2023, the current account was 9.9% of GDP, a roughly 3 percentage point increase from 2022 and well above the 1.7% of GDP level justified by fundamentals (Table 2.1). In the first three quarters of 2024 the surplus stayed nearly unchanged. According to the Commission's 2024 Autumn forecast, it is expected to reach 11.1% of GDP at the end of 2024.

Graph 2.1: **Current account balance and net lending/borrowing**



Source: Eurostat and European Commission forecasts.

The surplus is primarily due to a consistently high trade surplus. Net exports of goods and services rose to nearly 12% of GDP in the third quarter of 2024, up from 8.8% in 2022 (Graph 2.1.a). While the surplus in goods trade rebounded from 5.5% of GDP in 2022 to 8.4% in the third quarter of 2024, it remained well below levels of around 10% recorded between 2015 and 2018. The surplus in services trade is trending upwards and reached 3.5% in the third quarter of 2024. Primary incomes continued to show a small deficit in 2024. Due to large swings, they have strongly affected the dynamics of the Dutch current account balance in recent years. This is mainly the result of the Netherlands' role as a corporate financial centre. The deficit in primary incomes reflects a net outflow of investment incomes, with reinvested earnings to foreign parent companies compensating for the large inflow of investment income from Dutch firms' subsidiaries abroad.

A substantial part of the surplus in goods trade can be explained by the Netherlands' status as a worldwide trade hub through the port of Rotterdam. The share of re-exports in Dutch total goods exports stood at 55% in 2023 (5). As re-exports only undergo limited processing in the Netherlands, value added per euro of re-export is much lower than that of exports of goods of Dutch origin. In 2022, re-exporters earned on average about 11 cents per euro of export while producers of domestic goods earned 51 cents per euro of export (6). Nonetheless, due to the large quantity of re-exports, they added about 3.7% of GDP to the current account balance in 2022, with little variation since 2015. Re-exports are therefore an important explanation for the high surplus but do not affect the dynamics of the balance due to the counteracting effects of the downward trend in earnings per euro re-exported and the upward trend in total value of re-exports.

The current account surplus reflects large net savings by domestic entities. Net lending of both financial and non-financial corporations has trended upwards since 2020 (Graph 2.1.b). Non-financial corporations accounted for net lending of 5.8% of GDP in the second quarter of 2024, up from 2.5% at the end of 2019(7). Financial corporations' net lending stood at 2.5% in the second quarter of 2024 up from 0.8% in 2019. Increased net lending of the corporate sector reflects strongly growing corporate profits in the aftermath of the pandemic (8). The high level of corporate savings is a combination of several factors which are described in detail in the annex of this in-depth review on the corporate sector's contribution to the current account surplus. An important factor is the high density of multinational firms in the Netherlands, both domestic and foreign owned, leading to profits from worldwide operations being recorded as corporate savings in the Netherlands. Lastly, Dutch small and medium-sized enterprises (SMEs) have a structural savings surplus. This is linked to their role as a vehicle to accumulate private capital income under favourable tax conditions. Additionally, loan conditions for SMEs in the Netherlands tend to be worse than for firms with similar financial health in other EU countries. The annex on the corporate sector explains these factors in more detail.

The contribution of households and the government to the country's net lending has been small in recent years. Net lending by households has fallen to levels below those recorded before 2020. At the end of 2023, net lending by households was at 0.8% of GDP, compared to 1.5% at the end of 2019. In the first two quarters of 2024 this figure rose to 1.2%. This is below the euro area average of 3.8% in the same period. High inflation and strongly growing house prices have put pressure on households' net lending. The general government continues to run small deficits of below 0.5% of GDP and is expected to continue doing so throughout 2024.

Consumption and investment growth were key drivers of the economic recovery from the pandemic in the Netherlands. The Netherlands has outperformed the rest of the euro

(5) Re-exports are defined as goods that are first imported, then processed only to a limited degree and finally exported again to other countries.

(6) Dutch Trade in Facts and Figures, 2024. Statistics Netherlands

(7) In 2022, net lending by the non-financial corporation (NFC) sector increased strongly to over 13% due to an unusually high transaction related to the sale of intellectual property by a Dutch business unit of a foreign multinational to a foreign subsidiary of the same multinational in the second quarter. This transaction is recorded in the capital account, therefore not contributing to the current account surplus.

(8) Deinum et al., 2022. De economische activiteit van besloten vennootschappen

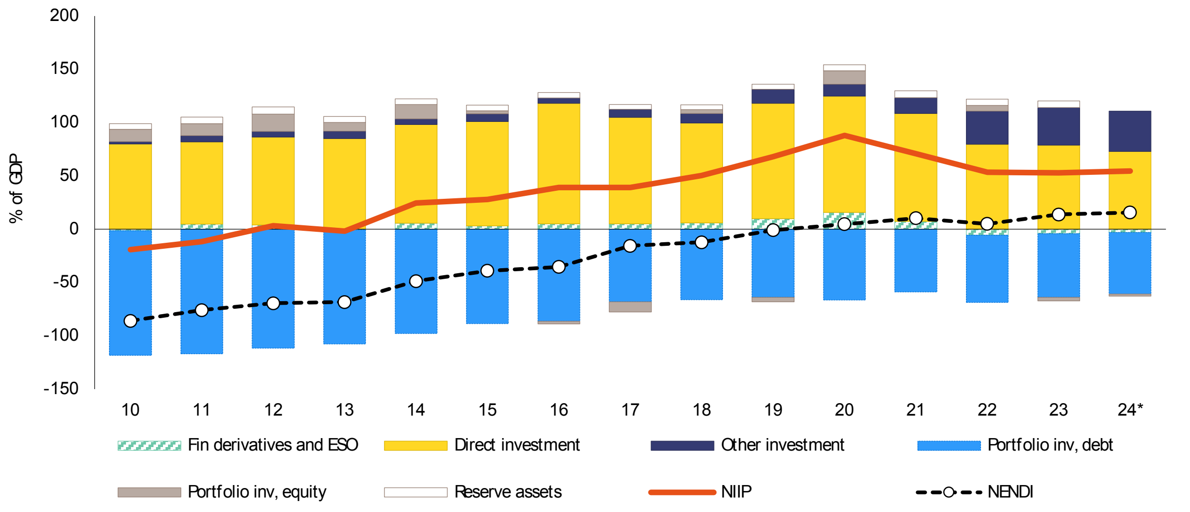
area in terms of consumption and investment growth in recent years (Graph 2.4.a). While private consumption is forecast to stand 6.1% above its 2019 level in the Netherlands in 2024, the same figure stands at 2.8% for the euro area as a whole. Similarly, gross fixed capital formation is forecast at 3.1% above its 2019 level in the Netherlands in 2024, while it is even slightly below its 2019 level for the euro area as a whole.

At the same time, the Netherlands is lagging the euro area in terms of the *level* of corporate and public investments. Gross fixed capital formation in many industries is lower than in the rest of the euro area (Graph 2.4.b). For example, in the manufacturing sector, investment as a share of value added in the Netherlands is about 6 percentage points lower than in the euro area. In the information and communication sector the gap stands at about 3 percentage points. The same finding emerges when comparing gross fixed capital formation by the non-financial corporate sector economy-wide. In the Netherlands this figure has stagnated at around 10% of GDP since 2010, while it increased in the euro area from just above 10% in 2010 to about 12% in 2023. A closing of the investment gaps would contribute to a smaller domestic savings surplus in the corporate sector. Gross fixed capital formation of the government has fallen from 4.3% of GDP in 2010, well above the euro area average at the time, to just above 3% in 2023, below the euro area average of 3.5%.

Despite consecutive current account surpluses, the Netherlands' NIIP has fallen further but is expected to increase significantly again. The NIIP went from its peak of 88% of GDP in 2020 to 55% in the third quarter of 2024 (Graph 2.2). This is still significantly above the level justified by fundamentals, which stands at 36% of GDP in 2024. The reduction since 2020 is largely the result of high nominal GDP growth and valuation effects. Part of the reduction is due to the strength of the Dutch stock market relative to the rest of Europe, increasing the value of foreign investors' holdings in the Netherlands relative to Dutch residents' investments abroad [9]. Similarly, direct investment positions were also impacted by valuation effects. Foreign firms' direct investment positions increased strongly since 2020, even though transaction effects were negative. This implies positive valuation effects on inward direct investments. This was not the case for investments abroad by Dutch firms, where the valuation increases were much smaller. Overall, the net negative impact of valuation effects is significantly smaller in 2024 than in the two previous years. The expected current account surpluses in 2025 and 2026 will put upward pressure on the NIIP. In case valuation effects continue to shrink, the NIIP is expected to increase significantly again.

(9) Saldo lopende rekening stabiel, wel groter exportoverschot | De Nederlandsche Bank

Graph 2.2: **Decomposition of Net International Investment Position (NIIP) by instrument**



Source: Eurostat and European Commission forecasts.

Assessment of MIP relevant policies

Policy action regarding high corporate savings has moved in different directions. In 2024, the government set up a sizeable investment package supporting research and housing conditions in the region of Eindhoven to ensure further expansions of the chip machine manufacturer ASML in the Netherlands. As the analysis of multinationals' retained earnings in the Netherlands shows (see Annex), ASML alone contributes about 0.5% of GDP to the country's net lending figure. Higher investments in the Netherlands by ASML could thus have a non-negligible impact on the overall net lending figure. At the same time, the new government has scrapped the planned taxation of share buybacks at equal rates to dividends as of 2025. This measure could have reduced incentives for multinationals to distribute their profits to shareholders through buybacks instead of dividends. This would have impacted the recorded amount of retained earnings in the Netherlands, and thus net lending by the corporate sector. The government has also decided to increase deductibility of interest payments from corporate income tax from 20% to 24.5% as of 2025. An increase in the deductibility threshold could make external financing for investments more attractive for some firms. Taken together, these measures do not seem sufficient to substantially increase the corporate sector's investments and thus reduce its large savings.

Further improving access to and the uptake of external finance by SMEs would support investment activities. As of 2024, the government has reduced the degree to which owners of closely held firms can take out loans from their own company, thereby circumventing tax payments on returns from their savings to loans up to EUR 500 000. Loans for the purpose of purchasing a house remain exempted though. A further tightening could contribute to lower savings accumulated in SMEs in the Netherlands. A policy response to the low uptake of external finance should aim at reducing information asymmetries between SMEs and banks, such as the introduction of a central credit registry for SMEs. Additionally, policy could aim at improving the negotiating position of SMEs vis-à-vis their banks, for example by simplifying transitions from one bank to another. This could lower the cost of external finance for those firms and improve profitability of investments [10].

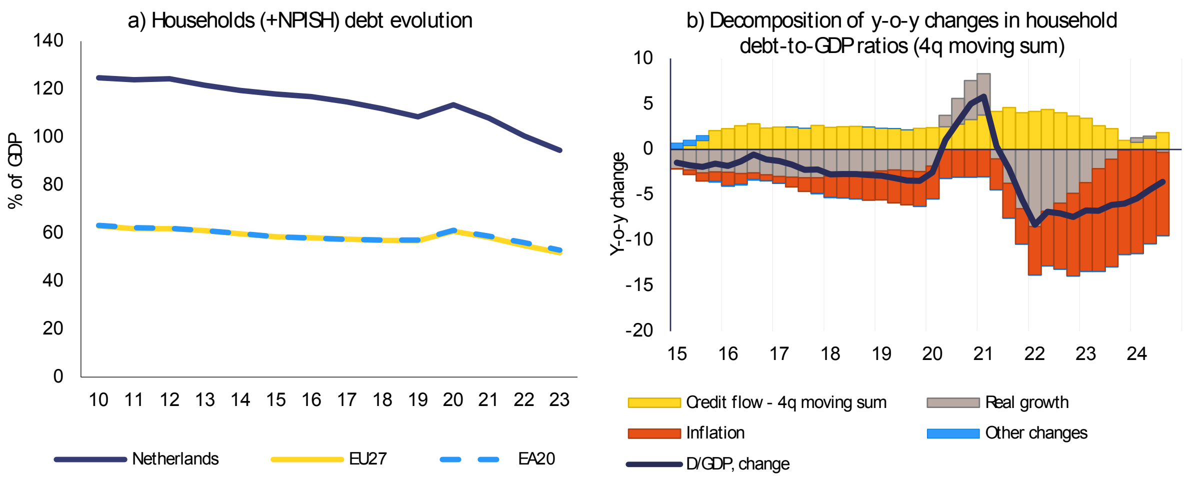
(10) IBO Bedrijfsfinanciering (2024)

2.2. HOUSEHOLD DEBT AND HOUSING MARKETS

Assessment of gravity, evolution and prospects of vulnerabilities

The high household debt-to-GDP ratio is expected to decrease only marginally going forward, following increasing net credit flows to households. Bank loans to households picked up strongly in 2024, possibly linked to the rebound in house price growth and the tightness of the rental market (see further below). At the same time, the household debt-to-GDP ratio continued its downward trend (albeit at a slower pace) as elevated inflation counteracted the effect of recovering net credit flows, while real GDP growth had a negligible impact (Graph 2.3.b). Household debt is estimated to have fallen from 95% of GDP in 2023 to 92% in 2024, significantly below the 2010 peak of 125% (Graph 2.3.a)[(11)]. However, the household debt-to-GDP ratio continues to be the highest in the EU and remains both above its fundamental benchmark of 71% and prudential benchmark of 48%. When expressed as a percentage of household gross disposable income, the debt ratio is particularly high, standing at 144% in 2024. Mortgages account for approximately 90% of household debt. As inflation rates are expected to decline and net credit flows keep increasing, smaller decreases in household debt are anticipated going forward (Box 2.1).

Graph 2.3: **Evolution of debt**



Source: ECB, Eurostat and European Commission calculations.

Pressure on indebted households increased since 2022 due to higher interest rates, yet this has not led to a material increase in financial difficulties. Although interest rates on new home loans peaked at 4.3% before decreasing to 3.7% in December 2024, the impact on households has been muted due to the prevalence of fixed-rate mortgages and strong nominal wage growth [(12)]. Consequently, only 9% of the mortgages faced increased interest costs in the period December 2021 – February 2024 [(13)] and payment delays have

(11) Following a benchmark revision by Statistics Netherlands (CBS), the household debt-to-GDP was revised upwards (e.g. from 87% to 95% in 2023). The persisting declining trend remains however valid.

(12) CBS (2024). Cao-lonen stegen in 2023 tweemaal zo hard als in 2022. Collective labour agreement wages increased by 6.8% in 2024, on the back of a 6.6% increase in 2023.

(13) DNB (2024). Overzicht financiele stabiliteit. Voorjaar 2024.

remained small [14]. The average interest rate on outstanding mortgages increased only modestly from 2.3% in July 2022 to 2.7% in December 2024, remaining historically low (Graph 2.4.d).

The Dutch housing market rebounded strongly in 2024 with house prices expected to continue growing rapidly. Wage growth in 2023 had been insufficient to offset the increase in mortgage interest rates, resulting in decreased demand for new mortgages and causing a drop in house prices. In 2024 house prices once again started increasing, due to slowly declining interest rates [15], rising wages, and continued supply shortages. Between the fourth quarter of 2023 and the fourth quarter of 2024, nominal house prices rose by 9.6% (Graph 2.4.e) and sales increased by around 19% [16]. The upward trend in house prices is evident across the whole country, with the highest increases recorded in the province of Utrecht. According to the Commission's model-based estimations, housing market overvaluation remains, but dropped to 9.8% in 2024, down from 14.2% in 2023. The range of external estimates foresee an increase in house prices between 7-9% for 2025 [17]. This anticipated growth is driven by the same combination of supportive factors as in 2024, including positive wage growth, lower interest rates and supply shortages.

The estimated housing shortage increased to an estimated 401 000 dwellings in 2024, putting even more upward pressure on housing prices. The demand for housing recovered quickly in 2024 driven by structural demographic changes, which include fast population growth and a widening mismatch between large dwellings and smaller households. The supply of new dwellings remains relatively unresponsive to price changes. The number of new dwellings constructed decreased by 5% in 2024, following a previous decline of 6% in 2023, resulting in only 64 000 delivered new dwellings in 2024 [18]. The number of new residential building permits issued in 2024 was slightly higher than the dip in permits recorded in 2023 (Graph 2.4.f). There are multiple bottlenecks that hamper the supply of new dwellings, including the complex planning and permitting procedures, high costs and lack of available land, elevated interest rates, labour shortages, and challenges related to the green transition, such as restrictions related to excessive nitrogen deposition and electricity grid congestion.

The private rental market is characterised by high costs and limited options, posing significant affordability challenges for low- and middle-income households as well as pushing for home ownership. In contrast to homeowners, who enjoy various tax benefits, and social rental sector households, who pay below-market rents, private renters do not receive comparable public support. As a result, the private rental market offers limited and expensive choices. Consequently, households are incentivised to opt for debt-financed homeownership as they lack viable alternatives. This poses an obstacle for well-functioning labour mobility within the Netherlands [19].

Assessment of MIP relevant policies

Despite previous reforms, policy settings remain lenient towards debt-financed homeownership, particularly in the face of supply shortages. The tax system continues

(14) NHG (2024). Woonlastenmonitor. Oktober 2024. Only around 1% of mortgage holders had a payment delay of 2 months or more in the second half of 2024.

(15) The average 10-year fixed-interest rate for new mortgages decreased to around 3.2% in November 2024, down from its peak of 3.71% in June 2023.

(16) NVM (2025). Meer woningaanbod en vlotte verkoop in 4e kwartaal 2024.

(17) 7.0% by ABN AMRO (2025), 7.5% by DNB (2024), 9.2% by Rabobank (2024) .

(18) Economisch Instituut voor de Bouw (2025). Verwachtingen bouwproductie en werkgelegenheid 2025.

(19) DNB (2022). Huurders in gereguleerde markt verhuizen minder vaak.

to incentivise debt-financed homeownership, given the existence of generous mortgage interest deductibility and a low imputed rent tax on owner-occupied homes (also in comparison to other investment classes, such as bonds and stocks) [20]. Furthermore, loan-to-value (LTV) borrowing limits in the Netherlands remain high by European standards (100% of property value). Interest-only mortgages are also still allowed to account for up to 50% of new mortgages, which is one of the highest values in the EU. The European Systemic Risk Board assessed macroprudential policies by the Netherlands to address residential real estate vulnerabilities as appropriate but only partially sufficient [21].

Addressing the significant structural challenges could alleviate the housing shortage. Comprehensive efforts will be critical in achieving the government's target of constructing 100,000 new dwellings annually, which would be a significant increase from recent trends. While some progress has been made, notably through measures outlined in the Dutch Recovery and Resilience Plan, including those part of the proposal of a Housing Management Enhancement Act ('Wet versterking regie volkshuisvesting') aimed at streamlining the planning process, permit issuance, and legal procedures, fast implementation is now key. The allocation of EUR 5 billion (approximately 0.5% of GDP in 2024) over a five-year period for new dwelling construction is also a positive step, but additional financial support may be needed to meet the target. Furthermore, measures supporting densification, such as amending zoning laws to permit more residential construction outside built-up areas, could increase supply of buildable land. Last but not least, addressing labour shortages in construction companies and at municipalities through re- and upskilling is crucial. See Table A for policies taken in 2024 by the Netherlands addressing the large household debt and high house prices.

The recently approved expansion of rent price controls in the private sector poses a risk to the already scarce supply of rental properties. Under the new regulation, effective since July 2024, private rental properties with a monthly rent of up to EUR 1,157 (as determined by a scoring system) will be subject to rent controls. This will gradually affect approximately 300,000 dwellings, primarily located in the larger cities of the Randstad area [22]. Initial indications suggest that more private landlords have been selling their properties in 2024, while commercial landlords continue to rent out their (more expensive) properties [23]. Although some renters may benefit from lower rents, the overall effect is likely to be a further reduction in the availability of small affordable rental properties. Ultimately, this could force private renters to take on mortgage debt to purchase a property, leading to additional household debt accumulation. In order to facilitate the expansion of the private rental sector, a more equal playing field in terms of tax incentives between homeowners and renters is necessary. This would also help lowering the (mortgage) debt level of households.

(20) See also Commission assessment of Netherland's medium-term fiscal-structural plan (2024).

(21) ESRB (2024). Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries. The ESRB recommends tightening LTV limits, adjust the methodology for setting debt-service-to-income) limits with financial stability objectives in mind, and continue with policy actions that go beyond the macroprudential remit.

(22) The introduction of a new law in July 2024 making open-ended rental contracts the norm, with only few exceptions for temporary contracts, as well as the increase in interest rates in recent years, are likely to have also contributed to a reduction in rental properties.

(23) Het kadaster (2024). Investeerders 3e kwartaal 2024: Investeerders verkochten meer woningen

Table A: **Main policies increasing or reducing risks of imbalances considered in this IDR**		
Vulnerability	**Policies**	**Implementation status**
External sector	*Investment package for ASML in Eindhoven* The government has set up *Operation Beethoven* in 2024. This set of actions to improve housing, education, transportation and the electricity grid in the region of Eindhoven to ensure that future expansions by ASML can take place. The government plans to invest EUR 2.5 bn.	Announced in March 2024 Implementation of housing improvements foreseen by 2030
Household debt and housing	*Proposal for a Housing Management Enhancement Act (Wet versterking regie volkshuisvesting)* The act aims to improve coordination between the different levels of government (with more steering from the central government, speeding up of appeal procedures and allowing more constructions outside of already built-up areas). Partly in the RRP.	Proposal of act was sent to parliament in March 2024. Unclear adoption date.
	Proposal for a zoning tax Levy on the land surplus, to reduce speculation	Announced as part of the government programme in September 2024. Research is going on regarding various implementation options.
	Increase to 2% of the countercyclical capital buffer (CCyB) for banks on outstanding loans The Dutch Central Bank (DNB) sets the CCyB to increase banks' resilience when cyclical risks build up.	The DNB announced the increase of the CCyB to 2% in May 2023, which subsequently entered into force in May 2024. The DNB decided to maintain the CCyB at 2% in December 2024.
	Extension of the minimum average risk weight for the calculation of regulatory capital requirements applicable to exposures to natural persons secured by mortgages on residential property The DNB temporarily extended the *minimum average risk weight as* the systemic risk in the housing market remains at a persistently high level.	The DNB introduced the minimum average risk weight in January 2022 and extended it in October 2024 until 30 November 2026.
	Extension of rent price controls & Fixed rental contracts Private rental properties with a monthly rent of up to EUR 1,157, as determined by a scoring system, will be subject to rent controls. In addition, fixed rental contracts have become the norm, with only few exceptions for temporary contracts.	In force since July 2024
	Reduction in transfer tax on non-primary residence dwellings The transfer tax on non-primary residence dwellings will be reduced from 10.4% to 8%	Announced as part of the government programme in September 2024. Wil be in force from 2026 onwards

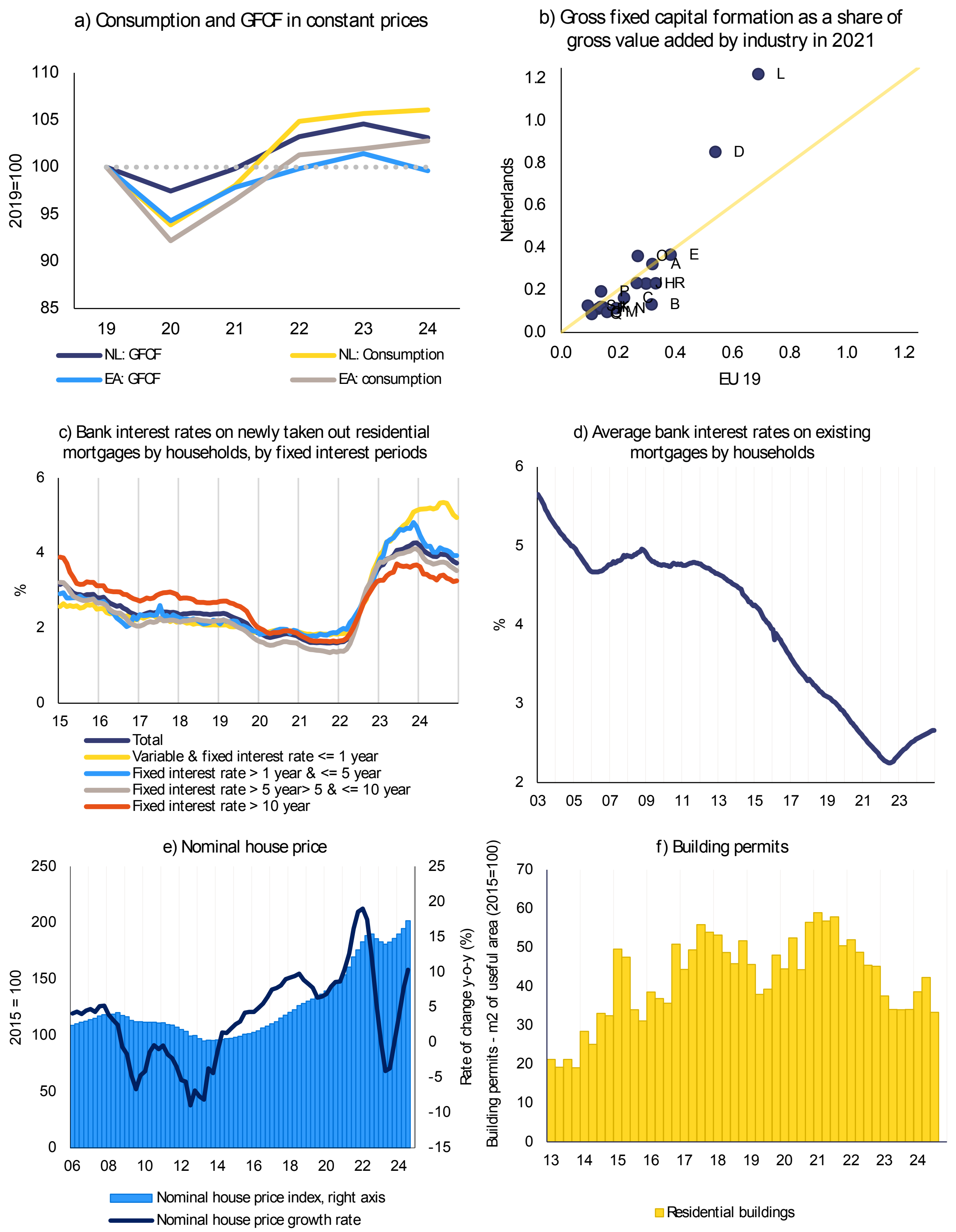
Note: This table lists the main measures that may increase or reduce the risks of macroeconomic imbalances. The measures are described more at length and reviewed in the text of this IDR.

Conclusions

The Netherlands is facing vulnerabilities relating to a large current account surplus and high household debt and house prices. The current account surplus is decreasing but stands above 10% of GDP and is expected to remain high, on the back of a substantial surplus of trade in goods and services. From a net savings perspective, all sectors of the economy are contributing to the savings surplus. The corporate sector's surplus is to a significant degree driven by the non-financial corporate sector's activities abroad and the contribution of multinationals' retained earnings. At the same time, investments by SMEs may be held back by the low uptake of and relatively expensive access to external finance. Additionally, tax distortions encourage SMEs and households to save. The household debt-to-GDP has decreased significantly but remains elevated compared to fundamental levels and is among the highest in the EU. The elevated debt levels render households susceptible to economic downturns, particularly in the context of an overvalued housing market, even though immediate risks appear under control. House prices are expected to increase strongly as well in 2025 with significant structural challenges remaining unaddressed, while the private rental market is expected to shrink further as (mostly private) landlords sell their properties.

Policy progress has been limited. The government has managed to facilitate further domestic investments by the chip machine manufacturer ASML, which contributes around 0.5% of GDP to the country's net lending. Deductibility of interest payments from corporate income tax could make it more attractive for firms to invest. The overall impact of these policy changes is not expected to decrease the current account surplus significantly. To help decrease household borrowing, beneficial policy options include reforming the tax system to reduce incentives for debt-financed homeownership, implementing more stringent loan-to-value ratios for new mortgages, and promoting the development of the private rental market. Streamlining of planning and permitting processes, addressing labour shortages, and improving access to affordable residential construction could help address the supply-side constraints that contribute to high house prices.

Graph 2.4: **Selected graphs, the Netherlands**



Source: DNB, ECB, Eurostat, EU KLEMS and European Commission calculations.

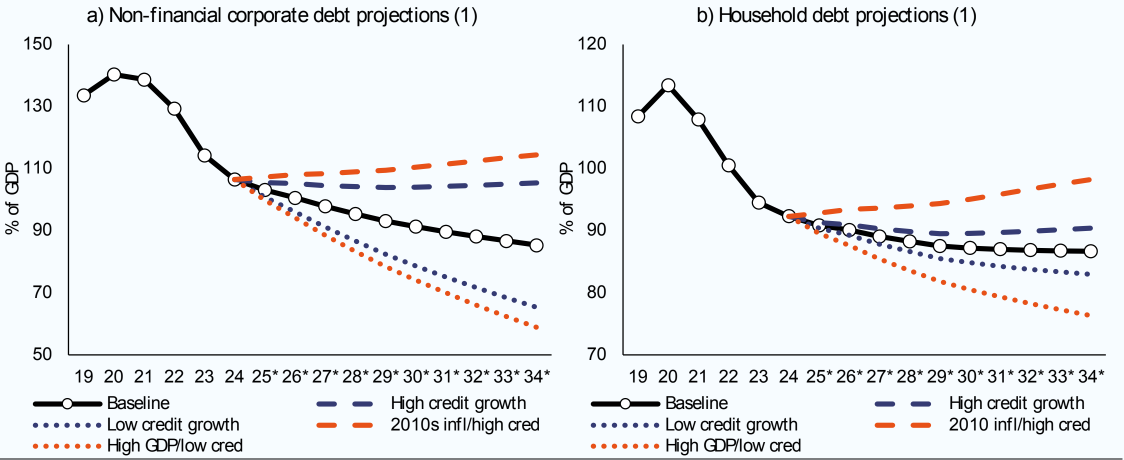
Box 2.1: **Medium-term household and non-financial corporate debt projections**

This Box summarises household and non-financial corporate debt-to-GDP projections for the Netherlands over the next decade, based on scenario analysis to take into account different underlying assumptions.

The corporate debt-to-GDP ratio is projected to continue to decline over the next decade under the baseline scenario. The baseline scenario takes the 2024 nowcast as a starting point and foresees an average real GDP growth of 1.4% per year, average annual inflation rate of 2.2%, and annual corporate credit flows of 1.3% of GDP (below the debt-stabilising[1] NFC credit-to-GDP of 3.9%). In the baseline scenario, the NFC debt-to-GDP ratio is projected to decrease by more than 20 pps reaching 85.3% by 2034 (Graph 1 a). Under an adverse scenario of high corporate credit flows over the entire projection horizon, this ratio would remain broadly stable over the projection horizon. If in addition to high credit flows, annual inflation is assumed to be on average 1 pp below the baseline (assuming an annual average inflation rate of 1.2%), the NFC debt-to-GDP ratio would increase to about 115%.

The household debt-to-GDP ratio is projected to continue declining somewhat before plateauing at still high levels until 2034. The baseline scenario takes the 2024 nowcast as a starting point and foresees an average real GDP growth rate of 1.4%, an average inflation rate of 2.2% and credit flows of 2.6% of GDP (solidly below the debt-stabilising credit-to-GDP ratio of 3.4%) for the years 2025 until year 2034. As a result, the household debt-to-GDP ratio would drop by about 6 pps to around 87% and remain stable around that level until 2034 (Graph 1 b). Under an adverse scenario of credit flows being higher for the entire period under consideration, the household debt-to-GDP ratio would start increasing again as of 2030 and reach 90% by 2034. If in addition to high credit flows, annual inflation is assumed to be on average 1 pp below the baseline, the debt ratio would already start increasing as of 2025 and reach 98% by 2034.

Graph 1: **Private debt projections based on scenario analysis for the Netherlands**



(1) Both for the NFC and HH debt projections, the baseline refers to the country-specific median annual credit flow to GDP ratio over 2015-24. The high/low credit scenario assumes a higher/lower credit flow to GDP ratio, with the difference to the baseline calculated as half the intertercile range of the annual credit flow to GDP ratios over 2015-24. The high GDP growth scenario reflects a permanent 1 pp increase in GDP growth relative to the baseline scenario. The low inflation scenario reflects an inflation rate that is set to the country-specific average inflation rate observed over the 2010s.
Source: Eurostat and European Commission forecasts and calculations.

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(1) The debt stabilising credit-to-GDP ratio refers to the credit ratio between 2025 and 2034 that would stabilise the debt-to-GDP ratio at its 2024 level.

Table 2.1: **Key economic and financial indicators, The Netherlands**

	average 2017-2019	average 2020-2022	2023	2024 +	forecast 2025	forecast 2026
Output and Prices						
Real GDP (1 year % change)	2.5	2.4	0.1	0.9	1.6	1.5
Real GDP per capita (1 year % change)	1.8	1.7	-0.9	0.3	1.0	1.0
GDP deflator (1 year % change)	2.3	3.8	7.3	5.1	3.0	2.3
Harmonised index of consumer prices (1 year % change)	1.9	5.1	4.1	3.2	2.4	1.9
Core inflation (HICP excluding energy, food, alcohol and tobacco) (1 year % change)	1.2	2.8	6.4	3.2	2.8	2.1
External position						
Current account balance, balance of payments (% GDP, 3y average)	**7.6**	**7.3**	**8.8**	**9.2**	**10.7**	**11.1**
Current account balance, balance of payments (% of GDP)	8.0	7.4	9.9	11.1	11.1	11.0
of which: trade balance (% GDP)	10.4	9.6	11.2			
of which: income balance (% GDP)	-2.4	-2.2	-1.3			
Current account norm (% of GDP) (1)	2.1	2.0	1.7	1.6	1.4	1.3
Current account req. to reach fund. NIIP (% of GDP) (2)	0.3	-0.2	-0.6	-0.8		
Net international investment position (% of GDP)	**52.6**	**70.7**	**52.9**	**47.9**	**57.0**	**66.2**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)	-9.5	6.7	13.8			
Net lending-borrowing (% of GDP)	7.4	10.9	9.6			
Competitiveness						
Nominal unit labour cost index per hour worked (3y % change)	**4.0**	**9.3**	**7.6**	**16.8**	**17.6**	**11.9**
Nominal unit labour cost index per hour worked (1 year % change)	2.1	2.4	7.7	5.6	3.4	2.5
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**1.4**	**3.1**	**2.4**	**3.3**	**-1.0**	**0.7**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)	0.8	1.1	1.0	0.9	0.1	0.0
Export performance against advanced economies (3y % change)	**3.3**	**5.0**	**-2.0**	**-4.4**	**-3.7**	**-1.8**
Export performance against advanced economies (1 year % change)	1.6	1.2	0.4	-1.8	0.4	-0.5
Core inflation differential vis-à-vis the euro area (pps.)	0.2	0.8	1.4	0.3	0.4	0.1
Corporations						
Non-financial corporate (NFCs) debt, consolidated (% of GDP) (3)	**139.3**	**136.1**	**114.3***	**106.5***		
NFCs debt fundamental benchmark (% of GDP) (4)	94.2	102.6	107.0	109.0		
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	0.1	5.2	-1.2	-1.8		
Households and housing market						
Household debt, consolidated (% of GDP) (3)	**111.7**	**107.3**	**94.5***	**92.3***		
Household debt fundamental benchmark (% of GDP) (4)	59.9	66.7	69.5	70.5		
Household debt, consolidated (% of Households' GDI)	170.9	159.4	143.8	143.8		
Household credit flow, consolidated (% debt stock t-1)	**2.3**	**3.6**	**1.1**	**3.6**		
Household gross saving rate (&)	14.4	18.5	14.6			
House price index, nominal (1 year % change)	**8.2**	**11.9**	**-1.9**			
House prices over/undervaluation gap (5)	-1.8	14.5	14.2			
Standardized price-to-income ratio	94.7	109.6	106.8			
Building permits (m2 per 1000 inh)	670.4	694.6	464.3			
Government						
General government gross debt (% of GDP)	**51.7**	**50.7**	**45.1**	**43.3**	**44.3**	**46.6**
General government balance (% of GDP)	1.5	-1.9	-0.4	-0.2	-1.9	-2.4
Banking sector						
Return on equity of banks (%)	8.2	6.4	10.9			
Tier-1 capital ratio banking sector (% risk-weighted assets)	18.9	19.2	18.6			
Gross non-performing loans, domestic and foreign entities (% gross loans)	1.9	1.5	1.3	1.3		
Cost of borrowing for households for house purchase (%)	2.4	2.0	3.8	3.9		
Cost of borrowing for NFCs (%)	1.3	1.2	4.0	4.2		
Labour market						
Unemployment rate (% labour force Y15-74)	**5.1**	**4.2**	**3.6**	**3.7**	**3.8**	**3.9**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**0.8**	**2.8**	**4.5**			

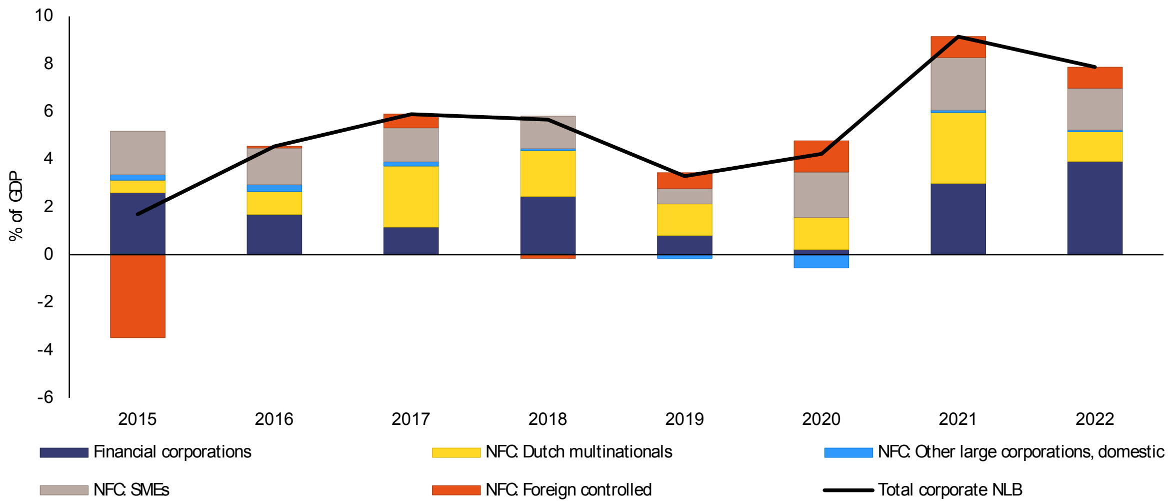
+ If actual data were unavailable at the cut-off date, forecast or nowcast data are presented instead; * Denotes values above prudential thresholds;
(1) Current accounts in line with fundamentals (current account norms): derived from reduced form regressions capturing the main determinant of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See Coutinho, Turrini and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission.
(2) Current account required to reach the prudential level of the NIIP over 10 years: calculations make use of Commission's T+10 projections. See Coutinho, Turrini and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission.
(3) Prudential threshold for non-financial corporate and household debt-to-GDP ratio: corresponds to the level above which banking crises become more likely. It is derived from regressions minimising the probability of missed crises and that of false alerts. See Bricongne et al. (2020), "Is Private Debt Excessive?, Open Economies Review, 31:471-512.
(4) Fundamentals-based benchmarks for non-financial corporate and household debt-to-GDP ratios: assesses private debt from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. See Bricongne et al. (2020), "Is Private Debt Excessive?, Open Economies Review, 31:471-512.
(5) House prices over/undervaluation gap: is the simple average of the price-to-income, price-to-rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables: total population, real housing stock, real disposable income per capita, real long-term interest rate and price deflator of final consumption expenditure. Based on Philiponnet, N., Turrini, A. (2017), "Assessing House Price Developments in the EU", European Economy - Discussion Papers 2015 - 048, DG ECFIN, European Commission.

Source: Eurostat and ECB where available; European Commission for forecast figures (Autumn Forecast 2024).

ANNEX - IMPACT OF THE CORPORATE SECTOR ON THE CURRENT ACCOUNT SURPLUS

The current account surplus of the Netherlands in large part reflects net savings by the corporate sector. The corporate sector can be broadly split into three main contributors (Graph A.1): financial corporations, small and medium-sized enterprises (SMEs) as well as multinationals. Variations in the contribution of financial corporations are largely determined by holdings of foreign multinationals registered in the Netherlands. Within the non-financial corporation (NFC) sector the savings by SMEs seem to be driven by tax-incentives and a lack of external financing. The high savings by Dutch multinationals are analysed using estimates of firm-specific contributions to the surplus, based on Commission calculations, showing the importance of retained earnings.

Graph A.1: **Net lending/borrowing by type of corporation in the Netherlands (corrected for large capital account transaction in 2022)**



(1) Net lending in 2022 is corrected for an unusually large transaction between a foreign multinational and its Dutch affiliate that is recorded in the capital account and thus not contributing to the current account surplus.
Source: Statistics Netherlands.

SMEs have consistently contributed between 1.5 and 2% of GDP to the corporate sector's savings surplus since 2015. The pattern can partially be explained by features of the Dutch tax system but may also be influenced by SMEs' lack of access to external finance. Owners of closely held companies [24] can postpone tax payments by borrowing money from their own firm instead of reducing or distributing profits through salary or dividend payments – which would be subject to income taxation at the time of payment or distribution. Such firms can be set up for the sole purpose of harbouring investments and to minimise tax payments on their returns [25]. Absent the tax advantages due to such constructions, these savings would therefore likely accrue to the household sector instead. While legislation entering into force in 2024 and 2025 aims to curb these incentives, exemptions remain.

Dutch SMEs tend to rely less on external financing, especially bank loans, than their euro area peers, and continue to reduce their exposure to them [26]. For much of the last decade, the share of SMEs that did not apply for external finance out of fear of rejection by the bank was higher than in the euro area on average. Interest rates for loans below EUR 1 million in the Netherlands have been significantly higher than in the euro rea on average in

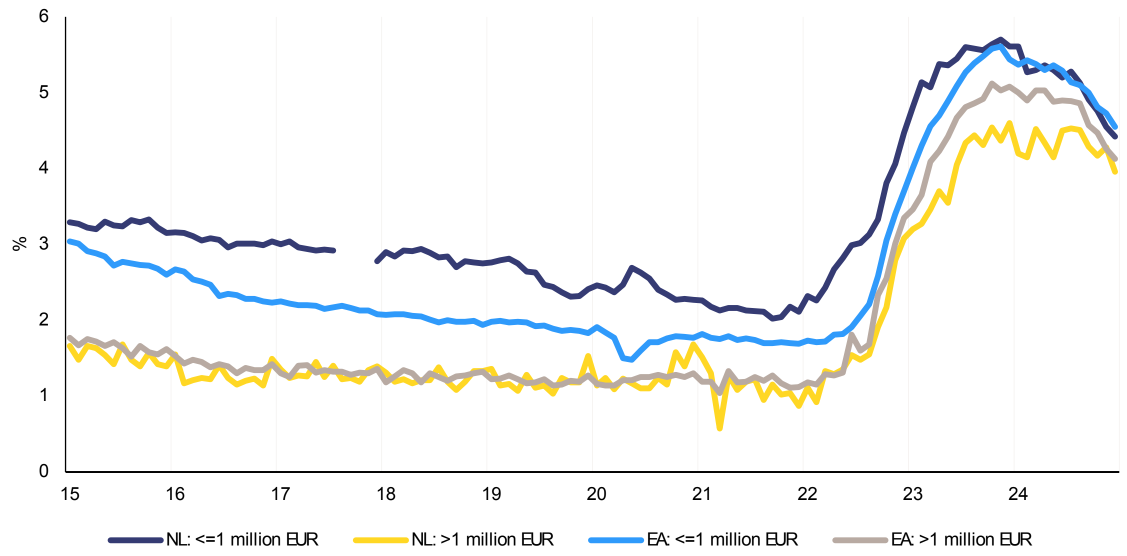
(24) Companies that are owned by a small group of shareholders

(25) Jacobs (2019), ESB, Fundamentele hervorming van belastingen op kapitaalinkomen.

(26) ECB, Survey on Access to Finance of Enterprises.

the past ten years, even though Dutch SMEs have comparable or better financial health (Graph A.2). Rates have been at roughly equal levels only since the end of 2023 [(27)]. Explanations brought forward for these patterns are i) high market concentration in the Dutch banking sector, ii) relatively lower risks for banks in the large Dutch mortgage market than in the market for highly firm-specific loans to SMEs and iii) information asymmetries regarding SMEs' financial health [(28)].

Graph A.2: **Interest rates on loans below and above EUR 1 million in the Netherlands and the euro area**



Source: ECB.

The Netherlands is an attractive location for multinational enterprises (MNEs) [(29)]. Reasons for the attractiveness are a stable business environment, its geographical position and role as a global trade hub and, to a lesser degree due to recent legislation, favourable tax treaties. Multinationals make use of these features of the Dutch economy in different ways. Some are headquartered in the Netherlands and listed on the Dutch stock exchange. These are categorised as non-financial corporations and referred to in the following as Dutch multinationals. Other foreign multinationals register holding companies in the Netherlands which stand between the owners of the company and the holding company's affiliates in other countries. These are recorded as captive financial institutions and part of the sector of financial corporations.

Captive financial institutions drive the volatility of the financial sector's net lending. There are a small number of listed financial holdings of foreign-controlled multinationals that collect profits from all over the world in their parent holding in the Netherlands, which contribute substantially to Dutch net lending. Balance of payments statistics record these profits in the Netherlands, as only few of their shareholders have stakes of more than 10%. Undistributed profits are therefore assumed to accrue to the Dutch-registered parent company even though the beneficiaries of these profits are dispersed around the world as shareholders. One way to reward these shareholders, while avoiding the taxed income stream of dividends, are share buybacks. This increases net lending recorded in the

(27) Brouwer et a. (2023), ESB, Midden- en kleinbedrijf betaalt een hogere rente en duidt op marktfalen.

(28) Van der Wiel et al., 2019. Dutch SME bank financing from a European perspective. CPB Policy Brief

(29) Suyker & Wagteveld, 2019. A fresh look at the Dutch current account surplus and its driving forces. CPB background document

Netherlands. Overall, this effect has been estimated to be non-negligible regarding Dutch corporate liabilities, but also affects Dutch external assets, notably those of pension funds [30]. Net lending by captive financial institutions has varied from -0.9% of GDP in 2020 to over 2% in 2022 and stood at 1.2% at the end of 2023. This is also reflected in the sector's total contribution, decreasing from 3.9% in 2022 to 3.4% in 2023.

Dutch multinationals, due to their comparably large number and size relative to the Dutch economy, have historically contributed a large portion to Dutch net lending. These multinationals contribute about 12% to Dutch GDP [31]. They receive dividends from their affiliates abroad, which are mostly used for direct investments abroad, contributing to a relatively low investment ratio in the Netherlands and high net lending by the non-financial corporate sector [32].

Data on profit and dividend streams contained in financial statements in published Annual Reports can be used to quantify the contribution of these listed Dutch MNEs on the net savings position of the Dutch corporate sector. These globally active listed companies have recurrent reporting requirements, all publicly available. First, the basis for calculating retained profits is "net income" per year from the consolidated income statement. In line with Balance of Payment conventions, only operational profits are considered while valuation effects and non-recurrent income is disregarded as much as possible. Second, reported dividend flows from the "changes in equity" statement are considered. Deducting dividend flows from net income yields a proxy for 'net saving' per Dutch MNE and year, i.e. the share of yearly earnings which is not paid out as a dividend. This is done for the ten largest firms (per year and by market capitalization) that are part of the AEX (Amsterdam Exchange Index) for the period 2014-2023.

The aggregate position for the considered listed Dutch multinationals is inferred by aggregating the firm-level net savings. The following MNEs are included in the analysis: Shell, ASML, Prosus, Philips, Heineken, Unilever, Ahold Delhaize, Akzo Nobel, UMG, Wolters Kluwer, DSM, KPN and ASM International. Going further than these biggest firms yields individual net savings positions which are no longer macro-economically relevant.

This approach is underpinned by several simplifying assumptions. First, for the purpose of calculating net lending/borrowing by the Dutch MNEs, the financial statements do not include data that is fully equivalent with the macroeconomic concept of "gross capital formation" in national accounts. The net income concept is based on profits after various expenses, including an item called 'capital expenditure'. However, the estimation of depreciation and amortization of capital in national accounts can vary significantly from the approach to amortization of fixed assets in companies' financial statements. Theoretically, if the capital stock of a company is broadly constant over time compared to its value-added, conceptual differences in treating amortization and depreciation should cancel out over the medium term. Second, time lags with respect to announcements of dividend payments and the actual transaction may exist. While financial statements may take into account when dividends accrue, national account statistics may record them at the time of the actual payout to shareholders. However, if dividends are broadly stable over time, such timing discrepancies should cancel out even in the short term. Third, the country of 'economic

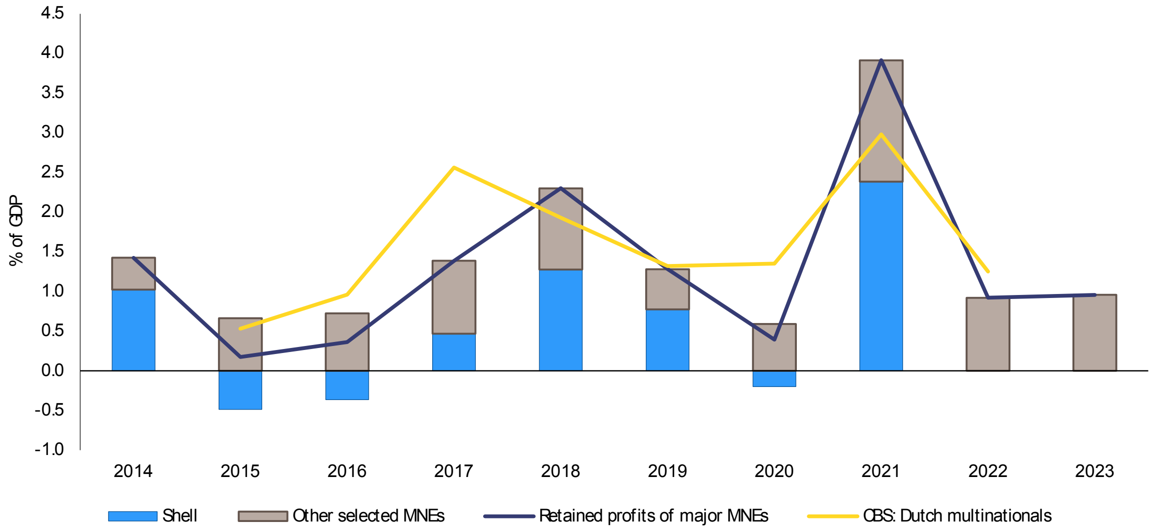
(30) Overschot lopende rekening opwaarts bijgesteld | De Nederlandsche Bank

(31) Aandeel Nederlandse multinationals in economie afgenomen | CBS

(32) Multinationals in de Nederlandse economie | CBS

residence' of the MNE group is not always clear. A good example is Unilever, with a 50% Dutch / 50% British structure [33].

Graph A.3: **Retained profits by major MNEs and net lending by Dutch multinationals**



Source: Statistics Netherlands, MNE financial statements and European Commission calculations.

Dutch multinationals account for a substantial portion of the NFCs net lending, but they do not fully explain the surplus. In years with high profits by Shell, such as 2018, the selected MNEs explained about half of the gap between NFC net lending in the Netherlands' and the EU. The vast majority of Dutch multinationals retains substantial profits, constituting a "floor" for the Dutch net lending position: the surplus of profits versus distributed dividends of the considered MNEs increased the net lending position of Dutch NFCs on average by 1.3% of GDP over the period 2014-2023 (Graph A.3). Since the relocation of Shell to the United Kingdom, the surplus of the ten largest multinationals has been relatively stable at 0.9% and 1.0% of GDP in 2022 and 2023. It should also be noted that the difference between retained profits per year by the ten selected MNEs and overall net lending by Dutch multinationals is relatively small in most years except for the period 2017-2020 [34]. The caveats described in the paragraph above as well as the inclusion of smaller MNEs are likely to explain the remaining discrepancies.

A few firms contribute significantly to the volatility of Dutch multinational's net lending. There is substantial variance in the annual contribution, ranging from 0.2% (2015) to 3.9% (2021). Shell, due to its size and dependence on the volatile oil price, largely drives this volatility, as Graph A.3 shows. Besides Shell, some other MNEs also contributed to the dynamics of MNEs retained profits, although to a lesser extent (Graph A.4.a). This is the case for Philips, which saw large swings in retained profits in 2021 and 2022. The gradually increasing retained profits of ASML are a result of the company's growing importance as a

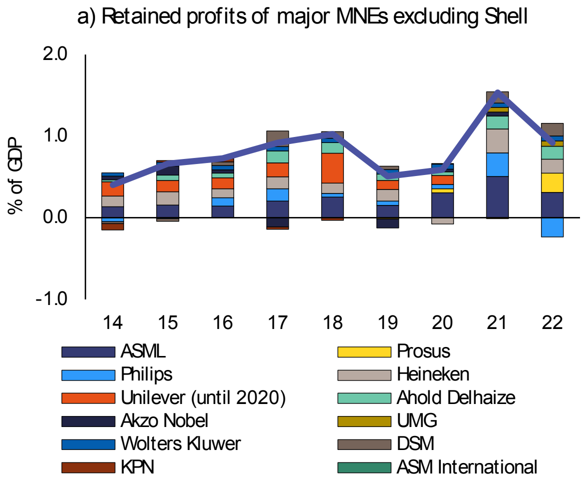
(33) We only allot the net savings and dividend payments of the Dutch Unilever listing, Unilever NV, to the Dutch net lending position. We halve the net income after dividend payments figures (Unilever NV constitutes 50% of Unilever Group) for each year up to 2020 (last year before Unilever merged into one UK company). This is in line with Eurostat guidance, which points to the strong resemblance with SAS, which is partially owned by the governments of Sweden and Denmark.

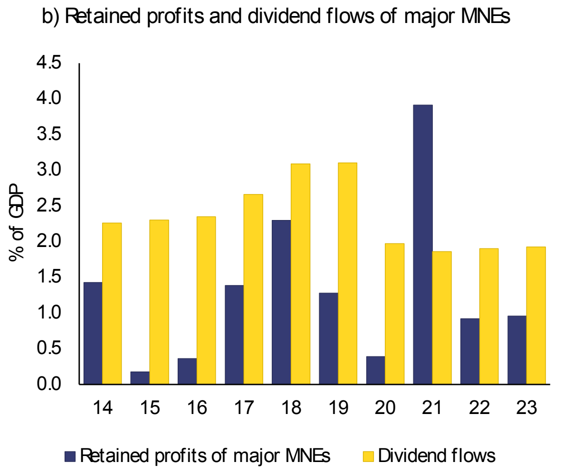
(34) See for comparison the yellow line in Graph A.3 showing net lending of all Dutch multinationals, as published by Statistics Netherlands

supplier of machines for chip production. However, in none of these cases, are the swings in retained profits as large and volatile as those of Shell prior to 2022. Nonetheless, retained profits also grew strongly for the remaining MNEs in 2021.

The data also shows that distribution of dividends by the selected MNEs has been relatively stable. During the period of growing profits between 2015 and 2018, dividend payments have increased only to a much more limited degree (Graph A.4.b). The reaction to structurally lower profits since 2019 (excluding the year 2021) has been more pronounced with a reduction of dividends of almost 1% of GDP (Graph A.4b). The relatively smooth development of dividends shows that spikes in profits of multinationals due to external factors that are not firm-specific, such as in 2021, are likely to be the driver of volatility of MNE net savings going forward.

Graph A.4: **Selection of graphs on retained profits and dividend flows of major MNEs**





Source: MNE financial statements and European Commission calculations.