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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

European Commission

The Netherlands

In-Depth Review 2024

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 – 2024 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 2024.

Contents

1. INTRODUCTION

This In-Depth Review (IDR) analyses the evolution of the Netherland's vulnerabilities related to high private debt levels and a large current account surplus, which has cross-border relevance, and possibly newly emerging risks. This year's IDR, which follows the 2024 Alert Mechanism Report (AMR) published in November 2023, assesses the persistence or unwinding of the vulnerabilities identified last year, potentially newly emerging risks, and relevant policy progress and policy options that could be considered going forward ([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 slowdown of domestic demand and tightened financial conditions ([2]). Following strong growth in the post-pandemic years, the Dutch economy contracted in the first three quarters of 2023. The impact of high inflation rates on households' disposable incomes resulted in a significant decrease in private consumption spending. At the same time, export volumes decreased. However, the labour market remained strong, with the unemployment rate still at a historically low level and with significant increases in wage growth. Nominal wages grew by 6.2% in 2023, leading to a recovery in real wages. The Dutch labour market continues to be tight, with vacancies exceeding the number of unemployed persons, and several sectors experiencing labour shortages. Overall, GDP growth in 2023 is estimated at 0.2%. HICP inflation has come down significantly from 11.6% in 2022 to 4.1% in 2023. According to the Commission Winter 2024 interim Forecast, GDP growth is forecast at 0.4% in 2024 and is expected to pick up to 1.6% in 2025. That upswing is expected to be driven by a further recovery in private consumption and an improved outlook for trade. Private consumption is set to recover somewhat in 2024, as real wages pick up due to decreasing inflation rates and strong nominal wage growth. Private investment is forecast to remain weak due to labour shortages and tightening of financial conditions. The main uncertainty with regard to the economic outlook concerns a further worsening of that nexus.

High integration with Germany and non-EU partners makes Netherlands prone to spillovers resulting from economic developments in these economies ([3]). The Dutch economy is highly dependent on imports of German and Belgian goods and services ([4]), while Germany and Belgium are major destinations for Netherlands' exports. However, dependency on exports to Germany and

([1]) European Commission (2023), Alert Mechanism Report 2024, COM(2023) 902 final; and European Commission (2023), Alert Mechanism Report 2024, SWD(2023) 901 final.

([2]) Forecast figures for GDP growth and inflation come from the Commission Winter 2024 interim Forecast (European Economy, Institutional Paper 268). All other forecast data used in the IDR come from the Commission Autumn 2023 Forecast (European Economy, Institutional Paper 258), unless stated otherwise, and all calculations are done using these data to ensure the coherence of their various components. The cut-off date for the data for the preparation of this IDR was 20 February 2024. Actual outturn data that have become available after the Autumn and Winter interim Forecasts, and before the cut-off date for the IDR, are used and supersede figures from those forecasts.

([3]) In the context of the multiple disrupting shocks that affected the world economy and the EU in the past few years, Commission Services have run an exercise to estimate the spillovers and the degree of exposures of Member States' economies to various partners and industries, in terms of nominal trade, value-added trade, inflation and financial assets. See European Commission Institutional Paper 2024 (forthcoming) - Economic spillovers and exposures in the EU.

([4]) Germany and Belgium account for 18.7% and 11.7% of Netherlands' imports, while Germany and Belgium account for 27.6% and 12.6% of Dutch exports, respectively.

Belgium has dropped over time as the Netherlands has diversified in terms of export markets. When it comes to external demand, the largest shares of total value added in the Dutch economy are generated to satisfy domestic demand in Germany and France, while Dutch domestic demand is mostly satisfied by value added generated in Germany and the US. Cross border Dutch banking interlinkages are particularly high with Germany, France, the US and UK. As Netherlands' exposures, directly or indirectly, to non-EU partners are high, geopolitical and trade tensions appear to pose a non-negligeable risk to its economy.

2. ASSESSMENT OF MACROECONOMIC VULNERABILITIES

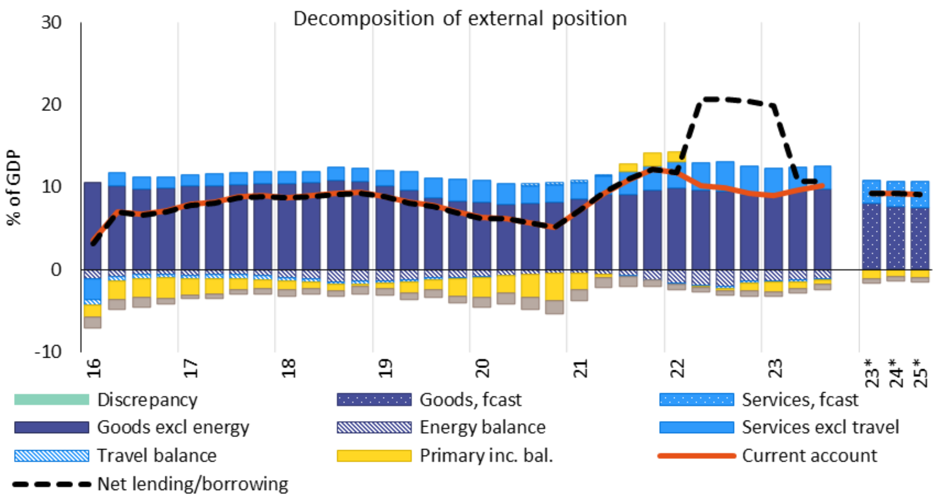
For many years, the Netherlands has been marked by high private debt levels and a large current account surplus. The sizeable current account surplus is to some degree reflective of the role of the Netherlands as an attractive location for multinationals but also of relatively low domestic investment of some sectors of the economy. Its persistence has hindered rebalancing at the euro area level. A high level of household debt has made households and the economy vulnerable to economic shocks – including to interest rate rises – and has been related to an overvalued housing market. The corporate debt-to-GDP ratio has been declining but has remained high, although a large share of intra-group debt of multinationals has mitigated the associated risks.

Assessment of gravity, evolution and prospects of macroeconomic vulnerabilities

Current account surplus

The Netherlands' current account surplus continues to be among the highest in the euro area. The current account stood at 9.3% of GDP at the end of 2022, below the historically high level recorded in 2021 at 12.1% but significantly above the level suggested by fundamentals which stood at 1.8% of GDP in 2022 and 2023 (Table 2.2). In 2023, the surplus recorded a small increase, coming in at 10.1% of GDP at the end of the third quarter. The high surplus is largely driven by a consistently high trade surplus of between 10% and 11% of GDP over recent years, and unlike most other EU countries, was largely unaffected by worsening terms of trade in 2022 (Graph 2.1). While the physical goods balance dropped throughout 2022, the headline surplus was supported by increasing net exports in merchanting and services. In the third quarter of 2023, the goods balance accounted for 8.6 percentage points of the surplus, while net services exports contributed 2.6 percentage points. Since 2015, there has been an upward trend in net services exports, driven mainly by manufacturing services, transport, telecommunication, as well as a decline in the net imports of travel services. Primary incomes have dropped back into deficit territory after driving the strong increase in the current account balance over 2021.

Graph 2.1: **Evolution of external position**



Source: Eurostat, Ameco, ECB and European Commission services calculations

Unit labour costs in the Netherlands have outgrown those in the EU and the euro area in 2023 and are expected to do so again in 2024. Nominal unit labour costs have grown by 7.2% in the Netherlands in 2023 according to the Commission's Autumn forecast 2023, compared to a rate of 6.4% in the EU and 6.0% in the euro area. Based on wage negotiations, they are expected to stay above EU and euro area averages in 2024 before returning to the EU and euro area growth rates in 2025. However, as nominal wages are only reacting sluggishly to the inflationary shock in 2022, the Netherlands' real effective exchange rate based on unit labour costs appreciated less strongly than those of other EU economies, like Belgium, France or Germany. A substantial drop in competitiveness of Dutch exports compared to peer economies is therefore not expected.

After two years of net borrowing, the general government achieved a balanced budget in 2022. Net lending by the government continued to stay close to zero in the first three quarters of 2023. The government deficit is projected to increase to 1.8% in 2024 and 2% in 2025. Government investments as a share of GDP are on a slow downward trend, decreasing from 4.2% in 2010 to 3.1% in the second quarter of 2023. This contrasts with the ambitious public investment plans of the outgoing government that have not been fully implemented. In 2022, about EUR 6 billion (about 0.6% of GDP) of planned expenditure in the budget was not spent.

Net lending by the corporate and household sector fell since the end of 2021. The drop in net lending by the corporate sector from 8.9% of GDP at the end of 2021 to 7.3% of GDP in the third quarter of 2023 was largely driven by a 1.8 percentage point drop in net lending by non-financial corporations. In contrast, net lending by financial corporations has significantly increased since 2020 and is stable at around 3.4% since the end of 2021. Like corporations, households are consistently saving more than they invest, although Dutch households only have marginally higher net savings than EU and euro area countries on average. As in other Member States, household savings have reached record highs in 2020 and 2021 linked to the COVID-19 pandemic. While these have come down in the Netherlands, net lending by households is still somewhat above pre-COVID levels. Relatively high pension contributions, also supported by tax incentives, are a structural driver of household savings in the Netherlands. These savings are then predominantly invested abroad by pension funds. While the Dutch pension system performs very well in providing adequate incomes to households after retirement, the relatively high mandatory contributions, in combination with tax incentives in favour of debt-financed homeownership, limit the ability of many households to smoothen income shocks due to insufficient liquid assets and could increase their vulnerability to such shocks ([5]). Household investments on the other hand, have been moderately increasing since 2015, mostly driven by strong price increases on the housing market.

Corporate as well as government investments have been held back, among other factors, by severe labour shortages, congested electricity grids as well as investment bottlenecks created by the need to reduce excessive nitrogen deposits. This particularly impacts investments into residential construction as well as the green transition. Labour shortage indicators suggest that shortages in services and in professions related to the green transition are particularly pressing and slow down necessary investments ([6]). The congested electricity grid delays residential construction as well as investments in renewable energy as waiting times for new connections to the grid have increased strongly ([7]). Permitting procedures for residential construction became lengthier and costlier due to increased requirements to limit nitrogen emissions after a court ruling in 2022. There is evidence that this limited the expansion of housing supply in some regions ([8]).

Domestic Dutch multinationals are the largest contributor to the NFC sector's savings surplus, which reached 5.5% in 2021 and fell to 4% in the second quarter of 2023 ([9]). Among non-financial corporations (NFCs), Dutch multinationals are structurally the biggest contributors, while the size of their contribution has been volatile, likely linked to the impact of oil prices on Shell's balance sheet prior to the company's relocation in 2021.

Net savings by foreign multinationals in the Netherlands are on an upward trend but are to a large degree the result of the statistical treatment of their retained earnings. The economic activities of these multinationals largely take place within subsidiaries that are located outside the Netherlands but owned by the Dutch holding company. According to internationally agreed standards for balance of payment statistics, their profits are recorded as an inflow of income on direct investments in the Dutch primary incomes balance. Only a part of these profits flows out of the Netherlands to shareholders in the rest of the world through the distribution of dividends. Any retained earnings of these holding companies therefore contribute to the savings of the Dutch corporate sector, even though they do not accrue to Dutch residents in an economic sense – the shareholders of these firms are often dispersed across the globe. The most recent figures show that foreign multinationals contributed about 1.2% of GDP to the savings surplus of the Netherlands in 2021. In the hypothetical

([5]) Ciurila et. al. (2020), Are the savings of Dutch households optimal?

([6]) ABN AMRO (2023), Personeelstekort energietransitie rond recordniveau

([7]) Bouwend Nederland (2023), Bouwprojecten vertraagd door netcongestie, wat te doen?

([8]) Buijs (2023), Nederland mist 23 000 woningen door stikstofuitspraak.

([9]) Net lending by the NFC sector increased strongly to over 13% in 2022 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.

case that balance of payment statistics were to assign these retained earnings to the ultimate owners of the holding company, net savings by the Dutch corporate sector would be somewhat lower. However, fully accounting for the ultimate beneficiaries of retained earnings would, at the same time, increase Dutch households' net savings, as large parts of their pension wealth are invested in foreign firms. Analyses suggest that doing so would therefore mainly shift the savings surplus from corporates to households without large impacts on the headline balance ([10]).

The high level of savings by multinationals (both domestic and foreign) can also be explained by those firms' activities abroad, which involve substantial direct investments in foreign countries. Roughly 70% of the NFC sector's direct investments abroad are outside the EU. Additionally, both foreign and domestic firms listed in the Netherlands have tax incentives to prioritise share buybacks over other uses of their retained earnings or the distribution of dividends (see also assessment of MIP relevant policies below). While share buybacks contribute positively to the savings surplus recorded in the Netherlands, using these profits to finance investments or to pay out dividends would result in lower savings.

Savings by small and medium enterprises are, to some extent, supported by the tax system which incentivises owners of closely held companies to retain earnings. In 2021, SMEs contributed with about 1.8% of GDP to the economy's net savings. Through closely held companies, owners can postpone tax payments by borrowing money from their own firm instead of distributing profits through salary or dividend payments – which would be subject to income taxation at the time of payment or distribution. This possibility for tax arbitrage can distort economic decision making and the allocation of capital ([11]). While recent legislation aims to curb these incentives, exemptions remain (see also policy section below). However, this is unlikely to fully explain the substantially higher savings surplus of Dutch SMEs with respect to those in other Euro area countries. Compared to the Euro area average, Dutch SMEs make less use of external financing, in particular of bank loans, and, provided they do use external financing, are less likely to do so for the purpose of fixed investments ([12]). Additionally, interest rates for small loans extended to SMEs in the Netherlands tend to be higher than for similar loans in the rest of the EU, despite comparable financial health of Dutch SMEs (see also policy section below) ([13]).

Statistics on the Dutch current account have been subject to substantial revisions in the past years. In 2023, data on the primary income balance and net exports have been revised for 2021 and 2022, increasing the headline surplus upwards from 7.3% to 12.1% of GDP in 2021 and from 4.4% to 9.3% of GDP in 2022 ([14]). This brings the surplus well above the MIP threshold of 6% of GDP. Revisions to net exports are due to higher-than-expected net exports in the merchanting, chemical and automobile sectors in 2021. The upward revision to goods exports in 2022 is largely a base effect of the upward revision in 2021. Primary incomes were revised mainly due to higher-than-expected profits of listed financial holding corporations located in the Netherlands in 2021 and 2022.

([10]) See Suyker & Wagteveld, 2019; Adler, Garcia-Macia & Krogstrup, 2019.

([11]) Jacobs (2019), ESB, Fundamentele hervorming van belastingen op kapitaalinkomen.

([12]) ECB, Survey on Access to Finance of Enterprises.

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

([14]) DNB, [Netherlands' current account surplus revised upwards (dnb.nl)]

These are typically holding companies of large multinationals that do not necessarily have economic activity in the Netherlands. Non-distributed profits recorded by these corporations were EUR 23 billion higher than estimated in 2021 and EUR 30 billion higher in 2022 ([15]).

Despite consecutive current account surpluses, the Netherlands' net international investment position (NIIP) has fallen from 113% of GDP in 2020 to 68.5% in the second quarter of 2023. While real GDP growth and high inflation explain part of the decrease in the ratio throughout 2022 and 2023, Dutch net foreign assets also decreased in nominal terms. Net direct investments fell by roughly 110 billion EUR between the end of 2021 and the third quarter of 2023 (Graph 2.4), driven by exchange rate movements and valuation changes. Part of the contemporaneous movement of net other investments and net portfolio investments in opposite directions can be explained by pension funds' asset sales to meet margin obligations in 2022. Additionally, the rise in interest rates and falling stock market prices reduced the value of net portfolio investments. Other investments also increased as a result of an increase of about 100 billion EUR over the course of 2022 in the Netherlands' TARGET2 balance ([16]).

The current account surplus is expected to remain elevated. The Commission's 2023 Autumn forecast projects a surplus of 9.2% in 2024 and 9.1% of GDP in 2025, as the structural drivers of the surplus, such as weak domestic investments, retained earnings by multinationals as well as tax incentives for private savings remain in place. Obstacles to domestic investments, related to labour shortages, the electricity grid as well as environmental regulations to curb excessive nitrogen deposits, are also expected to persist.

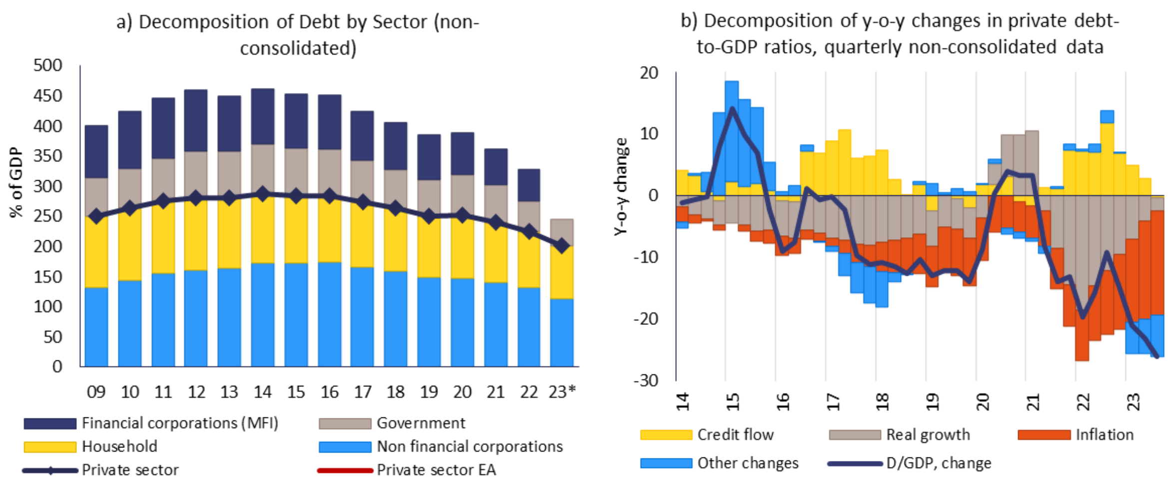
Private debt

Private debt in the Netherlands, decreased strongly between 2022 and 2023, continuing the declining trend since its peak in 2014. Private debt is estimated to have fallen from 210% of GDP in 2022 to 193% in 2023, marking a further reduction from its peak of 268% in 2014. The private debt-to-GDP ratio remains above the fundamental benchmark and prudential threshold, as well as EU and euro area averages. The notable reduction in private debt-to-GDP in 2023 was mainly driven by elevated inflation which increases the denominator and low net credit growth. Unlike in 2022, real GDP growth was low, contributing little to the decrease in the ratio. Looking ahead to 2024, the expectation is for a more gradual decline, given lower inflation rates. Both corporate debt and household debt remain substantial in the Netherlands (Graph 2.2).

([15]) For a detailed description of revisions to net exports and primary earnings, see CBS (2023), Revisions to GDP and GNI in 2021 and 2022 (cbs.nl)

([16]) DNBB (2022), Current account surplus dips below 6% standard (dnb.nl)

Graph 2.2: **Evolution of debt**



Source: Eurostat, Ameco, ECB and European Commission services calculations

The corporate debt-to-GDP ratio in the Netherlands remains among the highest in the EU but is on a downward trajectory. NFC debt has fallen from its peak of 153% of GDP in 2014 to 104% in 2023. This includes a decline by 14 percentage points compared to 2022. The decline in 2022 mainly reflects denominator effects due to real growth and inflation as credit flows still contributed positively to the ratio with 4.3 percentage points. The picture changed over the course of 2023 with high interest rates leading to a contraction of credit flows, contributing to the drop in the ratio with 1.4 percentage points in the third quarter of 2023. The NFC debt-to-GDP ratio remained above its prudential threshold but is close to its fundamental benchmark in 2023 (see Graph 2.2).

Bankruptcies started to increase, and profits started to decrease after having grown strongly in recent years. With some delay after the end of the government's programmes to support firms during the pandemic, bankruptcies increased to pre-pandemic levels at the end of 2023. These levels are, however, still significantly lower than those observed in the early 2010s. Bankruptcies increased particularly strongly in wholesale and retail trade as well as accommodation and food services, two sectors that were particularly reliant on government support in 2020 and 2021. Gross profits before taxes by non-financial corporations have been growing more strongly than GDP in 2021 and 2022 ([17]). Since their peak in the third quarter of 2022 at 36% of GDP, they have fallen to 32% of GDP in the third quarter of 2023, only somewhat below levels observed prior to the pandemic.

Overall, vulnerabilities related to the high corporate debt to GDP ratio are limited and are mitigated by several factors. Corporate debt is dominated by activities of multinational enterprises located in the Netherlands, which account for around 60% of total NFC debt, with that stock largely consisting of intra-group debt. When excluding multinationals' debt levels, corporate debt levels in the Netherlands are not particularly high by international standards. The limited risks emanating from the high headline debt level is also reflected by low non-performing-loan ratios. In line with the

([17]) Gross profits before taxes are defined as gross operating surplus plus property income received net of interest and rent paid.

relatively limited importance of external financing, the sharp increase in interest rates seems to have had only a limited effect on corporate solvency up to now.

Household debt in the Netherlands, as a percentage of GDP, remains high but is on a downward trend. The household debt-to-GDP has continuously decreased since its peak of 118% in 2012, with a notable acceleration in 2023, dropping from 92% in 2022 to 87%. However, it remains the highest in the EU, and above its fundamental (70%) and prudential (47%) benchmarks (see Graph 2.2). When expressed as a share of household gross disposable income, the debt ratio is particularly high, at 182% of GDI in 2022 (173% in 2023-Q2). The high debt primarily reflects a high level of debt-financed homeownership and large mortgages. Approximately 90% of household debt in the Netherlands is comprised of mortgage debt ([18]). Although only 57% of the population owns a house (below the euro area average), 47% of the population holds a mortgage, the highest among all euro area Member States ([19]). The high prevalence of mortgages is a consequence of significant subsidies provided by the tax system incentivising debt-financed homeownership, particularly the tax deductibility of mortgage interest rates. This, combined with large mortgages as allowed by the generous borrowing standards of up to 100% of the house value and a historically high number of interest-only mortgages, has led to increased house prices and high household debt ([20]) ([21]).

The decline in household debt over the last decade can be attributed to several factors. Stricter macroprudential policies were implemented in the aftermath of the Global Financial Crisis. These included tighter rules governing interest-only mortgages, stricter borrowing standards for new mortgages, and lower mortgage interest rate deductibility. Overall, policies remain however lenient. More recently, macroeconomic conditions (real growth in 2021 and 2022, high inflation in 2022 and 2023) reinforced passive deleveraging.

Pressure on indebted households has recently increased due to a strong increase in interest rates. Interest rates on new loans for house purchase rose from 1.6% in December 2021 to more than 4.3% by the December 2023. Coupled with a rising share of mortgages having a loan-to-income ratio close to the maximum limit due to the recent high growth in house prices, the heightened interest rates could put households with variable and short-term interest rate mortgages, which is however a relatively small group, under debt service stress. In particular interest-only mortgages could be concerned, as they are more sensitive to interest rate fluctuations. Dutch banks are also more strongly exposed to household mortgages than in other EA countries, potentially putting banks under strain in the case of substantial credit losses from loan defaults (Graph 2.4) ([22]).

([18]) DNB (2024). Woninghypotheken verstrekt aan huishoudens naar sector.

([19]) ECB (2023). The Household Finance and Consumption Survey

([20]) In most countries, loan-to-value (LTV) ratios tend to be limited to 80-90% of the house value. Given the high LTV ratio, house price corrections could increase the proportion of underwater mortgages, which have in the past reduced consumption by affected households. See e.g. https://esb.nu/nederlandse-hypothecaire-leenruimte-hoog-maar-binnen-europese-kaders/

([21]) DNB (2022). Overzicht Financiële Stabiliteit. The interest-only portion makes up 44% of total mortgage debt in Q4-2021.

([22]) ESRB (2022) Assessment of the Dutch notification in accordance with Article 458 of Regulation (EU) No 575/2013 concerning application of a stricter national measure for residential mortgage lending.

Despite the vulnerabilities mentioned above, there are a number of mitigating factors. Most mortgages in the Netherlands do not carry variable interest rates. Between 2015 and mid-2022, around 11% of newly issued mortgages had variable interest rates, while 44% had interest rates fixed for more than 10 years ([23]). Consequently, the average interest rate on outstanding loans to households for house purchase increased modestly from 2.3% in July 2022 to 2.6% in December 2023, remaining historically low ([24]). Another mitigating factor is that nominal wages have grown substantially (with collective labour agreement wages going up by 6.1% in 2023) ([25]). This wage growth is, however, insufficient to fully counteract the impact for mortgage holders subject to the increased interest rates (and for new mortgage holders), even though the interest rate increase is partially mitigated by the mortgage interest rate deductibility. As such, aggregate interest payments increased from around 4.5% of gross disposable income in 2022-Q2 to 6.0% by 2023-Q1 ([26]). Net interest payments (paid-received) by households (as a % of gross disposable income) rose from 4.2% to 5.1% over the same period but started to come down again in 2023 on the back of strong growth in interest ([27]). Looking ahead, only 13% of the mortgage debt will expire in 2024-2025 or is subject to a revision in the interest ([28]). As a result, a relatively limited number of households will experience an increase in the interest burden.

Indebted households in the bottom income quintile are the most vulnerable to increasing interest rates, especially in view of recent increases in the broader cost of living. Around 47% of households in the bottom quintile of the income distribution hold debt in the Netherlands, with a median debt-service-to-income ratio as high as 41%. These households, which make up around 9% of all households in the Netherlands, are particularly exposed to potential financial difficulties stemming from increased interest rates. It should be noted however that only around 34% of households in the bottom income quintile own a house (with or without a mortgage), which is the second lowest in the euro area ([29]), as the majority of low-income households are in the social rental sector, implying that a sizeable part of the households holds other debts than mortgage debt. Next to this, when looking at households in the lowest wealth decile, data suggests that in contrast with all other deciles, the debt-to-asset ratio has been increasing since 2021 to 194% (compared to 156% EA average ([30])), following a period of decline in 2018-2020. These observations point at pockets of vulnerability. Therefore, while the overall risk from the household sector to financial stability remains contained, it deserves continued monitoring going forward.

([23]) In reaction to monetary policy tightening, the use of floating interest rate (or with a fixed period less than one year) gained more popularity, increasing to 21% of newly issued mortgages in 2023. DNB (2024). Deposito's en leningen van MFI's aan huishoudens.

([24]) ECB data on outstanding amounts of loans to euro area residents

([25]) CBS (2024). Cao-lonen stegen in 2023 tweemaal zo hard als in 2022.

([26]) ECB Quarterly Sector Accounts: D41G: Interests received by households, before FISIM allocation

([27]) These averages conceal a lot of variation across households, as they include households without debt and interest payments.

([28]) DNB (2023). Overzicht financiële stabiliteit (Najaar 2023). Mortgages subject to a revision in the interest rate include mortgages with variable-interest or short-term fixed-interest rates.

([29]) ECB (2023). The Household Finance and Consumption Survey

([30]) ECB’s distributional wealth accounts

Housing market

The elevated interest rates have slowed down the Dutch housing market in late 2022 and throughout 2023. As discussed in the previous section, the increase in wages could not fully compensate for the increase in interest rates on new mortgages, resulting in a reduction of the maximum borrowing capacity of households and lowering the demand by households for buying houses with mortgages. This development halted the upward trend in house prices, which had persisted for over a decade and almost doubled house prices**.** Between 2022-Q3 and 2023-Q3, nominal house prices experienced a decrease of 3.8% (Graph 2.4). This, together with the increase in wages, has slightly lowered the overvaluation of the housing market. According to the Commission's model-based estimations, the housing market remains however overvalued by 17.0% in 2023, down from 23.6% in the previous year. Simultaneously, the number of transactions on the housing market in 2023 reached its lowest point since 2015.

However, increasing housing shortages continue to support prices in the housing market. The estimated housing shortage increased from 315.000 to 390.000 dwellings in 2023. On the demand side, there has been a stronger than expected rise in the population size, pushing the demand for housing, and the mismatch in dwelling and household sizes continues to expand, as households become smaller and elderly live longer in their larger homes. On the supply side, the supply of new dwellings remains very inelastic to price changes. The number of new residential building permits issued in 2023 reached its lowest level since 2015. The primary bottleneck is limited availability and affordability of locations for residential constructions. Few greenfield locations within cities for new constructions remain available as the most suitable spots have already been utilised, following the focus on densification. Consequently, the creation of new dwellings often involves the renovation and conversion of brownfield locations, which entails more complicated regulatory requirements as well as elevated costs. In addition, there are several other factors that contribute to further delay or diminish the profitability of new constructions. These include limited centralised planning to address the housing shortages, the current high interest rates rendering some projects unaffordable for potential buyers, the high cost of building materials, labour shortages, and challenges related to the green transition, such as the ruling on excessive nitrogen deposition limiting the issuance of new building permits ([31]) and congestion on the electricity grids.

The private rental market is small and expensive, raising affordability issues for some lower income households. Unlike (debt-financed) homeowners, who benefit from various tax incentives, or households in the social rental sector, who pay rents below the market price and of which many are eligible for housing allowances, households in the private rental market do not receive equivalent support. The result is expensive and limited private rental options. The private rental sector represents only 14.4% of the total housing stock, a significantly smaller portion compared to homeowners (57.0%) or households in the social rental sector (28.5%). There are long waiting lists for social rental houses, resulting in some lower income households not being able to find affordable housing, while some middle-income households have no viable alternative than to choose for debt-financed homeownership.

([31]) Raad van State (2019). ECLI:NL:RVS:2019:1603

House prices are expected to gradually pick up in 2024 amid housing shortages and the expectation that interest rates have reached their peak. The average +10-year fixed-interest rate for new mortgages has been stabilising since June 2023 around 3.6-3.7%. Simultaneously, the housing market has been tightening in the latter half of 2023, with more homes being sold than listed and faster sales times ([32]). Looking ahead, the range of external estimates foresee an increase in house prices between 0.4% ([33]) and 4.5% for 2024 ([34]).

Besides residential real estate (RRE), the Dutch financial sector has a large exposure to commercial real estate (CRE). In previous years, the investment transaction volumes of CRE in the Netherlands were among the highest in the EU (above 1% of GDP annually) ([35]). While banks had the highest total exposure to CRE in 2023, amounting to EUR 360 billion (CRE loans make up around 7% of their balance sheet) ([36]), the size of real estate funds (REITs) was also substantial, at EUR 136 billion (16% of the total assets of Dutch investment funds). In addition, Dutch pension funds and insurance companies are exposed indirectly to CRE through holding major parts of the REITs. Industrial facilities represent the main part of the Dutch CRE investment transaction volumes, as opposed to offices dominating in many other EU Member States.

While CRE and RRE followed a similar increasing price trend for a decade, since the pandemic, CRE prices experienced a significant downward correction ([37]). Exacerbated by the stark increase in interest rates over the last year, the decreasing prices have been undermining the interest coverage ratio of Dutch CRE companies. While this increases risks for CRE companies, banks are in a better position thanks to relatively low LTV ratios of their CRE loans (around 60%). Instead, insurance companies and pension funds are exposed to losses due to changes in the market value of CRE ([38]). Future prospects are expected to be differentiated across CRE sub-sectors, with retail and non-prime offices continuing their price correction.

Box 1: The Netherlands – Medium-term household and non-financial corporate debt projections.

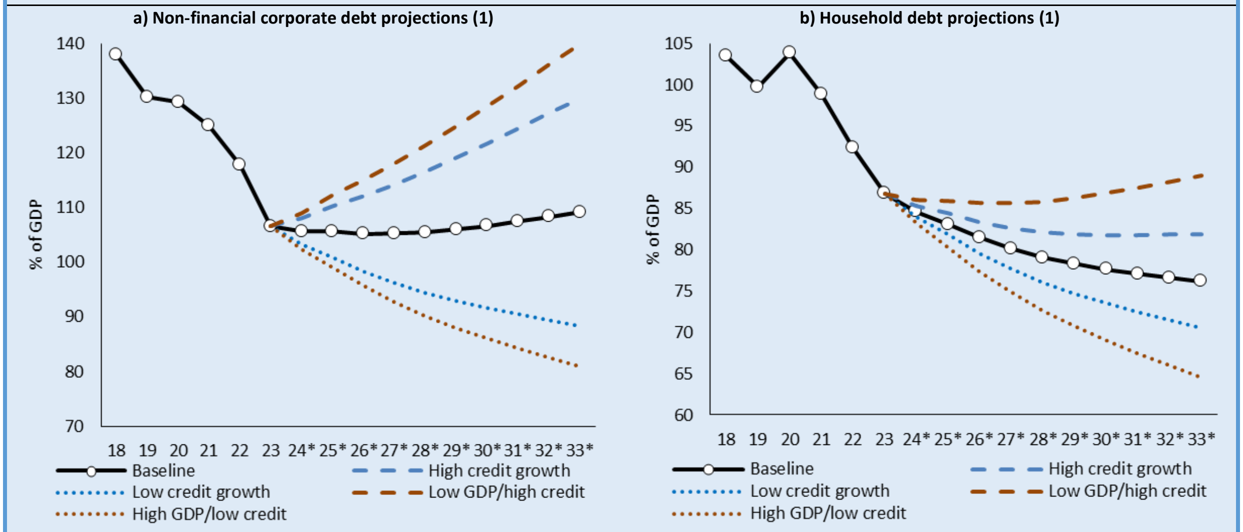
([32]) NVM (2023). Woningmarkt veert op.
([33]) DNB (2023). DNB Najaarsraming
([34]) 4.0% by ABN AMRO (2024) & 4.5% by Rabobank (2023). &
([35]) ESRB (2023); Vulnerabilities in the EEA commercial real estate sector, January.
([36]) Opposed to 28% related to housing market exposures. de Nederlandsche Bank (2023): Financial Stability Report, Autumn 2023.
([37]) Dutch REIT index declined between Feb 2020 and July 2020 over 50%.
([38]) Despite the predominant open-ended structure of Dutch real estate funds, the redemption conditions are relatively restrictive, which seem to have supported ongoing inflow to the real estate funds in the Netherlands.

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 increase under the baseline scenario by 3 percentage points until 2033, to 109%. The baseline scenario takes the 2023 forecasts as a starting point and foresees an average real GDP growth of 1.3%, in line with Commission projections, and credit flows of 4% of GDP until 2033 (Graph 2.3). In this scenario, credit flows would be above the credit-to-GDP ratio that would stabilise NFC debt over the projection horizon, at 3.9%. Under an adverse scenario of credit flows being 2.4% of GDP higher – corresponding to half the intertercile range of the annualised quarterly credit flow to GDP ratio over 2018-2023 – the NFC debt-to-GDP ratio would be 21 percentage points higher. A permanent negative 1% GDP growth shock would increase the NFC debt-to-GDP ratio by another 10 percentage points.

The household debt-to-GDP ratio is projected to gradually decrease over the next decade under the baseline scenario. The baseline scenario takes the 2023 forecast of 87% as a starting point, and assumes as determining parameters an average real GDP growth of 1.3% and credit flows of 1.8% of GDP (solidly below the debt-stabilizing credit-to-GDP ratio of 3.1%) for the period 2024-2033. It projects the household debt ratio will gradually decline, at a rate of around 1 ppt a year, to reach 76% by 2033 (Graph 2.3). Depending on how interest rates and other economic conditions evolve, credit flows could also behave differently. Graph 2.3 considers alternative scenarios on credit flows, that account for observed country-specific variabilty in credit flows since 2018, and permanent GDP shocks of 1 ppt above or below the baseline scenario. Under the most adverse scenario considered (high credit flows and low GDP growth), the debt ratio would rise to 89% by 2033, still solidly below the pre-pandemic level (100%).

Graph 2.3: **Household and non-financial corporate 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 2018-2023. 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 annualised quarterly credit flow to GDP ratio over 2018Q1-2023Q3. The latter is based on the moving sum of quarterly GDP. The high (low) GDP shock scenario reflects a permanent 1 percentage point increase (decrease) in GDP growth.
Source: Eurostat, Ameco, Commission services calculations.

Assessment of MIP relevant policies

Current account balance

Recent policy actions have to some extent affected structural drivers of the current account surplus, but their impact is likely to remain limited. With regard to the corporate sector, a tax reform by which loans from firms extended to directors of the same firm who are also major shareholders are taxed like dividends, has been in force since January 2023 and is becoming stricter as of January 2024. The reform is a concrete step to limit the incentives for small and medium-sized businesses to retain earnings within their own company and increase incentives for investments, but it remains to be seen whether this would mostly shift part of small companies' savings surplus to the household sector. Recent policy progress has been limited, as negotiations on the formation of a new government are still ongoing.

The Dutch Parliament adopted a reform that foresees taxation of share buybacks at equal rates to dividends starting in 2025. It is expected to reduce incentives for multinationals to distribute their profits to shareholders through buybacks instead of dividends, which could reduce the amount of retained earnings, and thus net lending by the corporate sector recorded in the Netherlands. It is, however, unlikely that this would raise domestic investments of the firms affected.

Past efforts to limit the possibilities for firms to make use of the Netherlands as a hub for tax avoidance strategies have been effective. As a result of these efforts, royalty payments flowing through the Netherlands to low-tax jurisdictions have dropped to close to zero and transparency regarding advance tax rulings of the Dutch tax authorities has improved ([39]). The conditional withholding tax on dividends that entered into force in January 2024 is expected to further limit the attractiveness of the Netherlands as a conduit country for profit flows. The effects of legislation curbing aggressive tax planning activities in the Netherlands may thus reduce retained earnings by foreign or domestic multinationals somewhat. However, the conduit country status of the Netherlands does not fully explain the country's attractiveness to multinational companies. Other factors, such as the stable business and regulatory environment as well as the openness of the Dutch economy will continue to provide incentives for multinationals to choose the Netherlands as a location for their headquarters.

Further improving access to and uptake of external finance by SMEs could improve that sector's investment activities. Interest rates for small loans extended to SMEs in the Netherlands tend to be higher than for similar loans in the rest of the EU, despite comparable financial health of Dutch SMEs ([40]). Explanations brought forward for these patterns are high market concentration in the Dutch banking sector, relatively lower risks for banks in the Dutch mortgage market than for loans to SMEs and information asymmetries regarding SMEs' financial health ([41]). Access to finance of SMEs could be improved through policies aimed at reducing information asymmetries between firms and banks, such as the introduction of a central credit registry for SMEs. Efforts to improve the negotiating position of SMEs vis-à-vis their banks, for example by simplifying transitions from one bank to another, could also lower the cost of external finance for those firms and improve profitability of investments.

([39]) Ministry of Finance (2022), Tax avoidance via the Netherlands significantly reduced thanks to measures

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

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

Obstacles to the implementation of domestic investments remain. In past years, the government found it increasingly difficult to spend budgeted funds earmarked for investments in infrastructure, climate change mitigation and defence with underspending reaching 1.2 billion EUR in 2022. As described earlier, investments in residential housing and the expansion of the congested electricity grid are particularly pressing. However, such and other efforts in the area of public and private investments continue to be held back by severe labour shortages, a congested electricity grid and restrictions on construction due to excessive nitrogen deposits. These obstacles are unlikely to be addressed soon, with nitrogen deposits remaining an environmental and legal concern and since new initiatives under discussion may reduce the attractivity of Netherlands for foreign labour force that could help reduce domestic shortages.

Private debt and housing market

Previous reforms on new mortgages have been of importance in reducing household debt over the past decade. Among other measures, in 2013, rules on interest-only mortgages were tightened, as the interest-only portion of a new mortgage was limited to maximum 50% and interest payments were no longer tax deductible. A statutory limit on the loan-to-value ratio was also introduced, gradually decreasing from 106% in 2013 to 100% in 2018. Simultaneously, more stringent rules were established guiding the debt service-to-income (DSTI) ratio of new mortgages. Furthermore, the interest rate deductibility of mortgage interest payments was lowered from 52% in 2014 to 33% in 2023, which, however, will not decrease further in the coming years. Despite these efforts, policies remain overall lenient.

More recent policy actions to address the structural drivers of high private debt have been limited. As included in the Dutch Recovery and Resilience Plan, the possibility for a tax-free gift of EUR 100.000 to individuals aged 18 to 40 to buy a house was reduced by nearly three quarters in 2023. Also, the introduction of the positive cycle neutral countercyclical capital buffer (CCyB) for banks on outstanding loans, which is set to increase further to 2% by 31 May 2024, and a minimum average risk weight for the calculation of regulatory capital requirements applicable to exposures to natural persons secured by mortgages on residential property located in the Netherlands, which is in force from 1 January 2022 until 1 December 2024, are likely to lower mortgage lending. But overall progress in addressing structural issues linked to reducing incentives for debt-financed homeownership, along with tackling the demand and supply side issues in the housing market, remained limited. In fact, the reduction in household debt in 2023 can largely be attributed to denominator effects resulting from high inflation.

Some features of the tax system continue incentivising debt-financed homeownership, exerting upward pressure on house prices amid significant supply shortages. The overall tax system remains supportive of debt-financed ownership, particularly due to the mortgage interest rate deductibility and the comparatively low taxation on owner-occupied private homes when compared to other investment classes ([42]). A more equal playing field in terms of tax incentives between homeowners and renters in the private sector would facilitate the expansion of the private rental sector, lowering

([42]) The property tax (eigenwoningforfait) falls under Box 1 of the Dutch Tax system, while other types of wealth are taxed at a higher rate under Box 3.

the (mortgage) debt level of households. However, at the same time, the planned expansion of rent controls in the private sector by the government and increasing possibilities for municipalities to ban buy-to-let purchases, may lead to a decreased supply and higher rents in this segment of the housing market ([43]). Finally, loan-to-value (LTV) borrowing standards remain high by European standards and still up to 50% of new mortgages can be interest-only ([44]). The European Systematic Risk Board (ESRB) assessed macroprudential policies by the Netherlands to address residential real estate vulnerabilities as appropriate but partially sufficient ([45]). It recommends that the Netherlands should tighten LTV limits, adjust the methodology for setting debt-service-to-income (DSTI) limits with financial stability objectives in mind, and continue with policy actions beyond macroprudential remit ([46]).

Considerable structural issues remain to be addressed to alleviate the housing shortage. Future actions will be crucial to ultimately achieve the government's goal of 900.000 new dwellings by 2030. Some progress was made by a measure that is part of the Dutch Recovery and Resilience Plan related to addressing bottlenecks in the planning process, permit issuances and legal procedures. In addition, EUR 300 million in extra support ("Startbouwimpuls") was made available to constructions in an advanced planning phase that were threatened to come to a standstill due to the deterioration in economic circumstances (e.g. increased interest rates, high cost of building materials). However, other initiatives were still in the planning phase at the time general elections were called, including efforts to assign a more prominent role to the central government in planning new constructions. This is intended to make more land available to ensure a more responsive housing supply. Moving forward, a broader focus beyond densification could be considered**,** by amending zoning laws to allow more residential constructions also outside build-up areas and/or provide increased support to new projects to mitigate the higher associated costs of building within cities.

Policy action to boost investment and housing supply and address high household debt can support the reduction of long-standing vulnerabilities. High house prices are related to a muted expansion in housing supply relative to demand and are tied to high household debt; at the same time insufficient investment relative to savings contributes to the high current account. Removing obstacles, such as excessive nitrogen emissions and congestion on the electricity grid (which might take years to solve), are partly covered by commitments in the RRP. Additional steps to remove these bottlenecks could unlock investment in residential construction and renewable energy by making additional permits available, help address the savings-investment gap and increase housing supply. Increasing the access to and uptake of external finance by SMEs could boost these firms' investment activities. Information asymmetries between SMEs and banks could be reduced through a central credit register for SMEs. With regard to the corporate sector, remaining incentives for directors of small firms to postpone tax payments are likely to keep corporate savings high, despite recent policy progress. To reduce the high household debt, tax incentives for debt-financed homeownership (including the mortgage interest rate deductibility) could be lowered and the statutory loan-to-value ratios could be tightened. Housing supply can benefit from additional

([43]) Wetsvoorstel betaalbare huur
([44]) ESB (2023). Nederlandse hypothecaire leenruimte hoog, maar binnen Europese kaders
([45]) ESRB (2024). Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries.

([46]) ESRB (2024). Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries.

financial support to new building projects, as also partly included in the RRP, and an increase in available and affordable locations for residential constructions. Moreover, further developing the private rental market could be conducive of housing affordability.

Table 2.1: **MIP relevant policies progress in the Netherlands:**

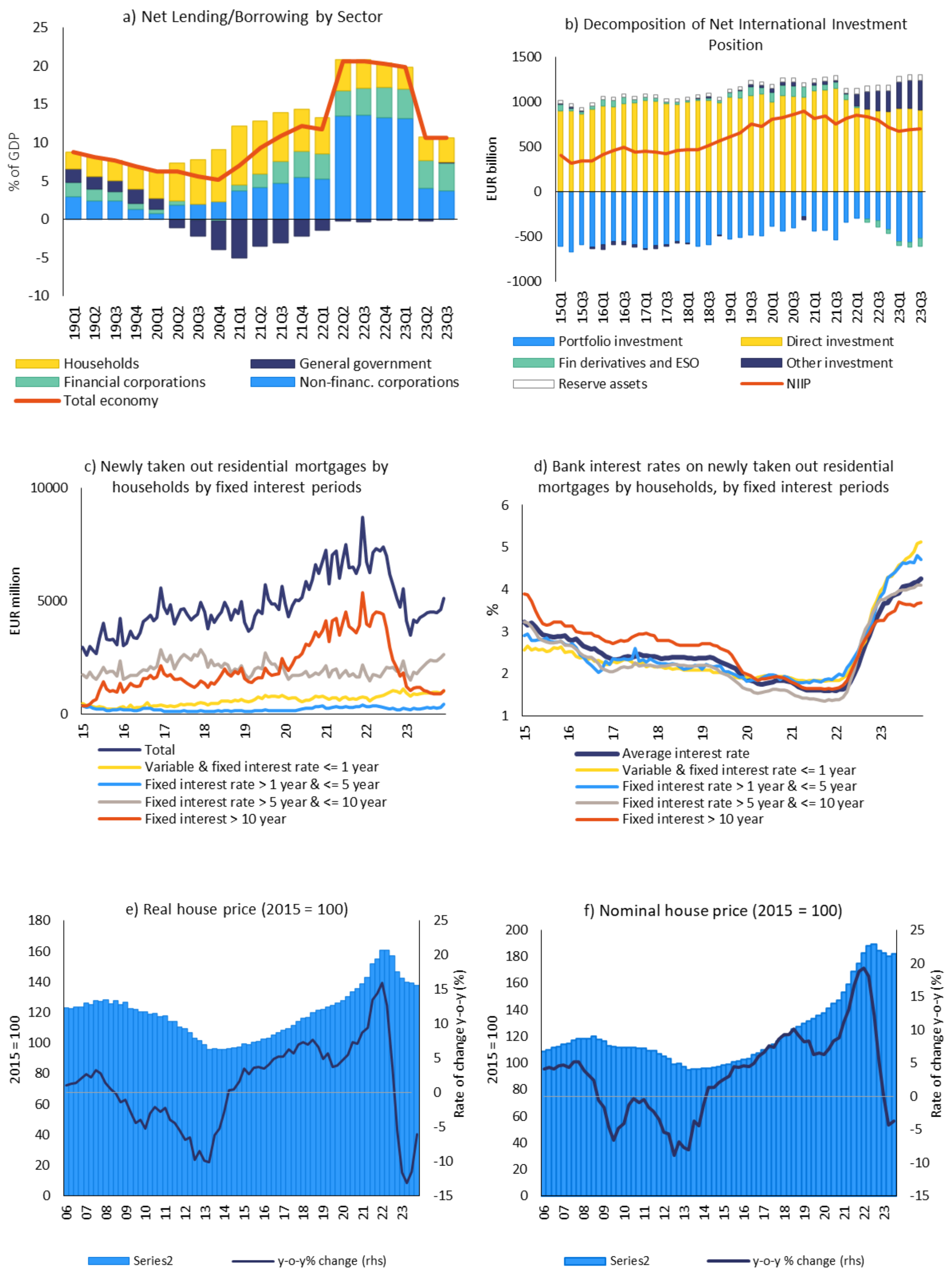
Vulnerability	Policies enacted since 01.2023	Policies in progress since 01.2023
Current account surplus	Taxation of share buybacks at the same rate as dividends	Taxation of loans from enterprises to directors/majority shareholders has become stricter Dividends paid out to low-tax jurisdictions aresubject to a withholding tax in the Netherlands.
Private debt, in particular household debt, and housing		Continued reduction of the maximum mortgage interest deductibility Reduction in tax-free gift to individuals aged 18 to 40 to buy home Financial support to constructions in an advanced planning phase (“Startbouwimpuls”) Government working on removing bottlenecks in planning processes and permit issuances

Conclusion

The Netherlands’ high private debt levels and the large current account surplus persist. The current account surplus stands close to 10% of GDP and is expected to remain elevated, on the back of a substantial surplus in goods and services trade. There has been an upward trend in net services exports since 2015, driven by services, transport, telecommunication as well as a decline in the net imports of travel services. From a net savings perspective, all sectors of the economy contribute to the savings surplus. While investment bottlenecks contribute to the surplus throughout the economy, there are also sector-specific factors at play. The corporate sector’s surplus is to a significant degree driven by the NFC sector’s activities abroad and the contribution of multinationals’ retained earnings. At the same time, investments by SMEs may be held back by low uptake of and relatively expensive access to external finance. Additionally, tax distortions incentivise savings among SMEs and households. Private debt relative to GDP declined considerably but remains above fundamentals and is among one of the highest in the EU. The high level of household debt makes households vulnerable to economic shocks, especially given the overvalued housing market, even though immediate risks remain thus far contained. Moreover, the increase in interest rates has triggered a correction in the over-valuation of housing prices. The continuous progress in reducing household debt over the past decade is expected to continue (Box 1), even if debt levels are likely to remain elevated compared to other Member States due to enduring distortions incentivising debt-financed homeownership. High corporate debt levels present a lower risk than the headline numbers suggests, as it is driven to a large degree by intra-group debt of multinationals.

Policy progress has been limited. Policy action with a potential impact on the high current account surplus was mainly focused at limiting incentives for (multinational) corporations to retain earnings. These policies could lower the corporate sector's contribution to the economy's net lending. At the same time, the impact on domestic investment and on the headline current account surplus is expected to be small and policy action aiming at increasing domestic investment has not been successful. Regarding household debt, the statutory loan-to-value ceiling and the mortgage interest rate deductibility remain generous despite recent efforts to reduce them. Policy options in context of the ongoing housing shortages that could be considered include reducing tax incentives for debt-financed homeownership; stricter loan-to-value ratios for new mortgages; more financial support to new building projects; and increasing available and affordable locations for residential constructions. Moreover, measures to develop the private rental market could be beneficial. Investments in the expansion of the electricity transmission and distribution grids could unlock additional investments in low-carbon, residential construction.

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



Source: Eurostat, Ameco, ECB and European Commission services calculations

Table 2.2: **Selected economic and financial indicators (Part 1), The Netherlands**

all variables y-o-y % change, unless otherwise stated								forecast	
	2003-07	2008-12	2013-19	2020	2021	2022	2023	2024	2025
Real GDP	2.3	0.0	2.1	-3.9	6.2	4.3	0.1	1.1	1.7
p.m.: Real GDP (Winter 2024 interim Forecast)							*0.2*	*0.4*	*1.6*
Contribution to GDP growth:									
Domestic demand	1.9	-0.7	1.9	-2.9	3.8	3.5	1.3	1.0	1.5
Inventories	0.0	0.0	0.1	-0.8	0.4	-0.2	-0.7	0.1	0.0
Net exports	0.3	0.8	0.0	-0.1	2.0	1.0	-0.6	0.0	0.3
Output gap (2)	-0.8	-1.1	-0.3	-4.4	-0.3	1.7	0.1	-0.8	-1.0
Unemployment rate	5.7	5.8	6.4	4.9	4.2	3.5	3.6	3.9	3.9
Harmonised index of consumer prices (HICP)	1.7	1.9	1.0	1.1	2.8	11.6	4.1	3.7	2.0
p.m.: HICP (Winter 2024 interim Forecast)								*2.6*	*2.0*
HICP excluding energy and unprocessed food (y-o-y)	1.2	1.7	1.1	2.1	1.6	5.5	7.4	3.6	2.3
GDP deflator	2.0	1.0	2.1	1.9	2.9	5.5	7.6	3.7	2.3
External position									
Current account balance (% of GDP), balance of payments	7.7	7.2	7.7	5.1	12.1	9.3	9.2	9.2	9.2
Trade balance (% of GDP), balance of payments	8.5	8.4	9.9	10.1	11.3	10.8	.	.	.
Primary income balance (% of GDP)	1.0	0.4	-1.3	-3.3	1.6	-0.9	.	.	.
Secondary income balance (% of GDP)	-1.8	-1.6	-1.0	-1.7	-0.7	-0.6	.	.	.
Current account explained by fundamentals (CA norm, % of GDP) (3)	2.2	2.8	2.3	2.1	1.9	1.8	1.8	1.6	1.6
Required current account to stabilise NIIP above -35% of GDP over 20Y (% of GDP) (4)	-0.1	0.4	2.8	5.2	3.9	2.6	2.3	2.4	0.0
Capital account balance (% of GDP)	-0.4	-0.3	-0.1	0.0	0.1	11.1	.	.	.
Net international investment position (% of GDP)	-5.2	10.3	64.1	113.0	93.3	75.2	.	.	.
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)	-67.4	-73.2	-28.4	10.3	21.4	18.5	.	.	.
Net FDI flows (% of GDP)	4.6	5.8	4.3	-8.6	14.2	13.6	.	.	.
Competitiveness									
Unit labour costs (ULC, whole economy)	0.8	2.3	1.7	8.1	-2.0	3.6	7.2	5.0	2.5
Nominal compensation per employee	2.3	2.2	1.4	4.3	2.1	4.0	5.7	5.5	3.9
Labour productivity (real, hours worked)	1.6	0.2	0.2	0.1	2.8	0.4	-1.5	0.2	1.0
Real effective exchange rate (ULC)	-0.2	0.3	-0.3	3.5	-2.2	-0.1	0.4	0.9	-0.1
Real effective exchange rate (HICP)	0.6	-0.5	0.8	1.4	0.2	1.9	.	.	.
Export performance vs. advanced countries (% change over 5 years)	.	-1.0	-3.3	6.9	7.6	3.7	.	.	.
Private sector debt									
Private sector debt, consolidated (% of GDP)	228.5	243.3	250.7	233.1	223.7	210.1	193.3	.	.
Household debt, consolidated (% of GDP)	106.6	116.6	107.3	103.8	98.9	92.4	86.8	.	.
Household debt, fundamental benchmark (% of GDP) (6)	49.1	51.0	58.9	65.5	66.8	67.9	69.5	.	.
Household debt, prudential threshold (% of GDP) (6)	40.2	45.0	49.8	51.1	48.6	47.3	47.2	.	.
Non-financial corporate debt, consolidated (% of GDP)	121.9	126.7	143.3	129.3	124.9	117.7	106.6	.	.
Corporate debt, fundamental benchmark (% of GDP) (6)	106.7	96.0	94.7	101.0	102.6	104.2	107.0	.	.
Corporate debt, prudential threshold (% of GDP) (6)	62.3	68.0	76.3	81.8	76.1	74.1	75.0	.	.
Private credit flow, consolidated (% of GDP)	11.8	7.6	2.7	-0.7	9.6	6.9	6.2e	.	.
Household credit flow, consolidated (% of credit stock)	6.8	2.5	1.0	2.0	4.0	2.8	.	.	.
Non-financial corporate credit flow, consolidated (% of credit stock)	9.1	11.9	2.9	-4.2	8.5	6.4	.	.	.
Net savings rate of households (% of net disposable income)	3.4	6.9	10.4	18.8	17.0	12.7	.	.	.

(e) estimate based on ECB quarterly data
(1) Potential output is the highest level of production that an economy can reach without generating inflationary pressures. The methodology to compute the potential output is based on K. Havik, K. Mc Morrow, F. Orlandi, C. Planas, R. Raciborski, W. Roeger, A. Rossi, A. Thum-Thysen, V. Vandermeulen, The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps, COM, European Economy, Economic Papers 535, November 2014.
(2) Deviation of actual output from potential output as % of potential GDP.
(3) Current accounts in line with fundamentals ("current account norms") are derived from reduced-form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See L. Coutinho et al. (2018), "Methodologies for the assessment of current account benchmarks", European Economy, Discussion Paper 86/2018, for details.
(4) This benchmark is defined as the average current account required to reach and stabilise the NIIP at -35% of GDP over the next 20 years. Calculations make use of Commission's T+10 projections.
(5) NENDI is a subset of the NIIP that abstracts from its pure equity-related components, i.e. foreign direct investment (FDI) equity and equity shares, and from intracompany cross-border FDI debt, and represents the NIIP excluding instruments that cannot be subject to default.
(6) Fundamental benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds identify a threshold above which banking crises become more likely. The fundamentals-based and the prudential benchmarks are calculated following Bricongne, J. C., Coutinho, L., Turrini, A., Zeugner, S. (2019), "Is Private Debt Excessive?", Open Economies Review, 1- 42.

Source: Eurostat and ECB as of 2024-02-20, where available; European Commission for forecast figures (Autumn forecast 2023)

Table 2.2: **Selected economic and financial indicators (Part 2), The Netherlands**

all variables y-o-y % change, unless otherwise stated	2003-07	2008-12	2013-19	2020	2021	2022	2023	forecast 2024	2025
Housing market									
House price index, nominal	4.1	-2.6	5.6	7.6	15.0	13.4	.	.	.
House price index, deflated	2.0	-3.7	4.2	6.2	11.6	6.1	.	.	.
Overvaluation gap (%) (7)	12.8	7.9	-6.5	7.0	16.7	23.6	17.0	.	.
Price-to-income overvaluation gap (%) (8)	11.5	4.9	-4.9	8.5	18.7	24.6	11.9	.	.
Residential investment (% of GDP)	5.9	4.8	4.2	5.4	5.5	5.4	5.1	.	.
Government debt									
General government balance (% of GDP)	-1.1	-3.8	0.1	-3.7	-2.2	-0.1	-0.5	-1.8	-2.0
General government gross debt (% of GDP)	47.7	59.7	58.7	54.7	51.7	50.1	47.1	46.6	46.8
Banking sector									
Return on equity (%)	.	1.4	7.3	3.2	8.7	7.9	.	.	.
Common Equity Tier 1 ratio	.	11.5	17.5	19.3	19.3	18.0	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (9)	.	2.4	2.1	1.7	1.3	1.2	.	.	.
Gross non-performing loans (% of gross loans) (9)	.	.	2.4	1.9	1.4	1.3	1.3	.	.
Cost of borrowing for corporations (%)	4.3	3.1	1.5	1.3	0.8	3.0	4.5	.	.
Cost of borrowing for households for house purchase (%)	4.4	4.6	2.5	1.8	1.7	3.4	4.1	.	.

(7) Unweighted average of 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, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission. Price-to-income and price-to-rent gaps are measured as the deviation to the long term average (from 1995 to the latest available year).
(8) Price-to-income overvaluation gap measured as the deviation to the long term average (from 1995 to the latest available year).
(9) Domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.

Source: Eurostat and ECB as of 2024-02-20, where available; European Commission for forecast figures (Autumn forecast 2023)