GRAY/14/3581

December 1, 2014

Statement by Mr. Santoso, Mr. Marcelo, and Mr. Chea on Kingdom of the Netherlands - Netherlands
(Preliminary)
Executive Board Meeting
December 3, 2014

We thank staff for the completion of the report on Article IV consultation discussion which focused on household debt leverage in the context of the recovery of the Dutch economy. We note that the risks to the economic outlook continue to be from euro area weakness and an emerging risk from geopolitical tensions. We commend the authorities on their comprehensive reform agenda on expenditure and structural reforms in the housing and labor markets, including the health care sector as outlined by Mr. Snel and Ms De Lint in their informative Buff statement. These reforms will be helpful in promoting growth and easing unemployment. The authorities have likewise shown commitment to further fiscal consolidation. We broadly share the thrust of the report and would like to offer comments on the following specific areas.

Addressing household debt leverage is important to further strengthen the economic recovery of the Netherlands. The authorities may wish to further explore more regulatory measures aimed at reducing household debt. We note that a majority of young households with mortgage debt have negative home equity, due partly to falling house prices and high loans. Moreover, many borrowers have “interest-only” mortgages for which the repayment of the principal amount only occurs upon loan maturity. Efforts to provide incentives towards amortization are worthwhile pursuing once the housing market recovery sets in. The staff has also recommended that the maximum loan-to-value ratio (LTV) of new loans be set lower than the value of the property. We welcome the authorities' gradualist and nuanced approach to reduce LTVs in the medium-term. We also support the authorities’ other policy initiatives to assist borrowers through the reduction in the property transfer tax and tax exemption for the donations received and applied to the mortgage payments, among others. The authorities have so far been proactive in addressing the vulnerabilities associated with high household debt levels, and problem loan levels remain low.

In pursuing reforms in the social housing sector, a small step in the right direction has gradually been put in place in the Netherlands. We note that the authorities have introduced a

means-testing element, where higher income households will face higher rent increases. In addition, we see merit in the authorities' efforts in limiting the deductibility of mortgage interest. This will contribute to reducing housing market distortions which has held up the development of residential housing. We also support the other policy initiatives of the authorities to subsidize the rents of low-income households.

Promote further SMEs development. Small and medium enterprises (SMEs), which play an important role in the Dutch economy, were hit hardly by the crisis. As a result, banks have tightened its credit conditions and few alternative sources of financing are available. At the same time, not all public guarantees for loans are being used. To address the slowdown in SME lending, we urge the authorities to continue to evaluate policy instruments supporting access to finance and, if needed, ensure broader access to those instruments and in particular public loan guarantees. We seek staff's comments on the alternate strategies to provide SMEs more excess to finance and technical know-how.