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**Statement by Mr. Field and Mr. Meads on Kingdom of the Netherlands - Netherlands  
(Preliminary)  
Executive Board Meeting  
December 3, 2014**

The Netherlands faces the challenge of reinvigorating and rebalancing economic growth while struggling with domestic legacies from the financial crisis such as private sector debt overhangs in addition to persistently low euro area growth and inflation. We agree with the thrust of the staff appraisal and broadly associate ourselves with the comments of Mr. Cottarelli. Reflecting that, we only have a few additional comments.

**Ensuring orderly household sector deleveraging and mitigating risks posed by the housing market will be required to support durable medium-term growth and ensure financial stability.** Appropriately those issues receive a lot of attention in the report. Nonetheless, further discussion of other risks (such as geopolitical risks and a protracted euro area slowdown on such an open economy) and broader policy priorities may have been warranted. For example, while a structural current account surplus is consistent with the characteristics of the Dutch economy, the external position remains stronger than the level consistent with fundamentals and desirable policy settings. It would, therefore, have been useful to have a fuller discussion as to whether that gap is expected to persist and structural policy options (beyond tackling the household debt overhang) which could durably boost domestic demand and aid the necessary external adjustment both within and outside the euro area.

**We also think that there was scope to draw out the risks – both to the upside and downside – from house prices and low inflation more clearly.** While the RAM highlighted the channels through which such risks can operate, the scale of those risks is difficult to interpret, especially when it is not clear how far house prices are assessed to be from equilibrium. Undertaking plausible scenario analysis – highlighting macro-financial linkages – and deepening the discussion of distributional impacts would, therefore, have been welcomed.

**We agree that the features of the housing market contributed to the debt overhang and welcome the authorities' initial efforts to address such distortions.** We note, however, that those efforts need to be forward-looking (such as developing private rental markets) and address supply-side restrictions as well as demand side distortions (where it is important that risks are appropriately priced and internalized by the borrower). Many of these sort of structural issues are complex, quite political, and the subject of long-standing debates within countries themselves. Policy advice, therefore, needs to be framed within that context in order that staff can best contribute to debates and add-value. Reflecting that, having a long-list of very specific measures (in this case to contain housing market vulnerabilities or smooth balance sheet adjustment) without sufficient explanation may not be the best approach to gain traction with authorities. Instead, greater focus may be warranted around the analysis of the underlying problems and on the direction of reforms. *For example, it is not clear why loan-to-value ratios on new mortgages should be reduced to 80%, what the impact of extending tax exemptions to increase transfers between generations would realistically be, or what impact further changes to MID could have on housing market dynamics?*