DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.

GRAY/14/3551

December 1, 2014

Statement by Mr. Yambaye and Mr. Sidi Bouna on Kingdom of the Netherlands - Netherlands
(Preliminary)
Executive Board Meeting
December 3, 2014

The Netherlands' economy continues to slowly recover from the previous two years' recessions. While rising exports are driving the recovery, consumption has continued to contract, holding back aggregate demand, as indebted homeowners maintain high levels of savings to repay their debt. We note that investment growth is also projected to remain moderate amidst weak domestic demand and lackluster euro area growth.

While we welcome the comprehensive reform of the housing market enacted by the authorities, as outlined in the informative Buff of Mr. Snell and Ms. Lint, we also agree with staff that the Netherlands' large household debt represents a significant medium-term downside risk to the country's growth outlook, and that addressing household debt is essential to securing a robust recovery as house prices are an important driver of private consumption. As underscored in the report, the influence of house prices on household consumption —compared to other advanced countries— is particularly strong in the Netherlands.

To facilitate an orderly adjustment of house prices and debt, we agree that a comprehensive strategy to raise household surpluses to pay down debt and to alleviate debt burden among the young, including through intergenerational transfers is needed. Younger households —contrary to the older generation—, remain heavily in debt as they purchased their homes at a time when the market was at its highest.

We commend the Dutch authorities for the steps taken to mitigate housing risks including by encouraging the reprofiling of underwater mortgages and increasing intergenerational transfers. More specifically, we concur that the authorities' policies to gradually reduce loan-to-value ratios on new mortgages to 100 percent by 2018 —from 106 percent in 2013— and allow mortgage interest deductibility only for new fully amortizing loans have contributed the stabilization of house prices. The introduction of a temporary tax exemption for monetary gifts and the associated increase in transfers between generations of up to 100,000 euros to repay mortgage debt is also welcome as it has also contributed to the revival in the housing sector.

We share the view expressed in the report that in order to support growth during deleveraging, fiscal policy should focus on maintaining a structural balance over the medium-term while targeting headline balances thereby avoiding a tightening that could potentially harm the recovery. We also share the staff's recommendation regarding the need for further reform of the tax system which would make it more pro-growth, and we are pleased to note the decision of the authorities to engage in discussion on this issue in 2015. At the same time we welcome the recent steps taken to increase the pension age, which should help to make the pension system more sustainable.

We note that Dutch banks also remain overleveraged with a large mortgage portfolio, making them vulnerable to a growth shock. Thus, we welcome the efforts by the Dutch banking system to strengthen capital bases, as banks continue to face pressures from the weak economy. We agree, in particular, that stronger capital and liquidity buffers would ensure that banks have the capacity to support the recovery and reduce the risks from the housing sector.