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GRAY/14/3526

December 1, 2014

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

- 1. We welcome the focus of the Article IV Consultation and Selected Issues Papers on the challenges faced by the authorities to address the household debt overhang.** We take positive note of Mr. Snel and Ms. De Lint's reassurances, in their helpful Buff statement, on the authorities' commitment to undertake politically contentious policies to tackle the problems in the housing market. The housing bubble burst in the Netherlands leaving substantial economic and social consequences, not only for the short term, but it also has the potential of hurting the country's medium-term outlook. Debt-to-income ratios are around 300 percent; according to the staff report, the loss of housing wealth has been at about 60 percent of GDP; Chapter I of the Selected Issues notes that house prices strongly influence consumption, even more than other developed countries' cases; non-performing loans increased from the level shown a year ago, while the capital-asset ratio and loan-to-deposit ratio exhibit further complexities for Dutch banks; and low inflation or deflation—a non-negligible risk—would exacerbate the above-referred developments. *How could the Netherlands exit from this cycle of high debt, low consumption, anemic investment, deterioration of financial indicators, and increasing unemployment? How could the country interrupt the upsurge of inequality among population?*
- 2. How was the Fund's surveillance on the Netherlands at the peak of the boom?** In 2007, the staff report rightly underscored that “the lack of progress in reforming the housing market stands in sharp contrast with the Netherlands' willingness to tackle other difficult areas”; however, at the same time, it underlined that “the stability of the financial sector is continuing to benefit from the macroeconomic upswing as well as improvements in supervision and risk management”. The current staff report clearly demonstrates the critical need to strengthen the financial sector, including the resolution for risk management and resolution.

3. **Inequality and its detrimental effects on social and economic sides are important issues going forward.** As noted in the staff report, the burden of the large debt overhang is also unevenly distributed across generations. Although aggregate household wealth is high, this indicator does not allow us to observe the fact that net housing wealth of young homeowners is nearly zero and most of them are under water, as indicated in Chapter 1 of the Selected Issues. *Could these issues promote emigration and a negative impact on the country's human capital?*
4. **Box 3 of the staff report provides persuasive arguments on the need to improve governance and transparency of the social housing corporations (SHCs).** However, we would be cautious in suggesting continuing shrinking social housing. For similar reasons, we find merit in the authorities' position on the proposed measures on the National Mortgage Guarantee, considering that it could undermine the institution mandate to promote affordable housing. *Could the staff further elaborate on the eventual political and social support of these measures?*
5. **The chapter on small and medium enterprises in the Netherlands presents an excellent perspective of the importance of SMEs in the economy, particularly in the country's labor market.** The document provides a number of suggestions that could increase banking credit to Dutch SMEs. At the same time, the study notes that non-bank finance has failed to offset the decline in bank finance and that a large part of SMEs do not see issuance of debt securities or equity as a relevant source of financing; this should be an area to further explore in future reviews since it could indicate an important bottleneck for the country.
6. Finally, the puzzle of the Netherlands' current account surplus (reaching 10 percent in 2013) could merit a more in-depth study.

With these comments, we wish the Netherlands and its people every success in their future endeavors.