Stagnating profitability for third year in a row

Dutch Economy Chart Book
Introduction

A visual snapshot of the Dutch economy
In more than a hundred charts, the ING Dutch Economy Chart Book provides an overview of recent economic developments in the Netherlands as well as insights in structural characteristics of the Dutch economy. Our chart book covers a wide range of economics topics divided over eight chapters. This version mainly focuses on the chapters export and non-financial business, providing a visual snapshot for a broad audience.

Our updating cycle
To keep the publication up-to-date, we release a new version about every four months. Each time, a selected number of chapters – including our forecasts – is updated. In this chart book the chapters on GDP, exports, nonfinancial businesses and government are updated (cut-off date June 24th 2019). For the remaining chapters about consumers, inflation, labour market and the housing market, both the data and conclusions will be updated in the releases later this year.

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* Chapters updated on June 24th. The bulk of the other chapters updated on January 18th 2019.
Highlights

- Dutch export volumes of domestically produced goods fell considerably in the last quarter of 2018 and the first of 2019. This happened despite the fact that the price competitiveness of the Netherlands was roughly stable in the past six months. The slowdown in growth (prospects) of the eurozone, which contains The Netherlands’ most important European trading partners, may be at the root of this. Re-exports performed better than domestically produced exports in the last two quarters.

- Despite the fact that the contribution of re-exports (3.8%) to GDP has nearly doubled in twenty years, the contribution of domestically produced goods (16.6%) is still four times as large. If this recently disappointing development of domestically produced goods’ exports continues, GDP-growth may slow down considerably in the period ahead.

- So far, Dutch exporters are still rather neutral about their export outlook. However, our projections for world trade for 2019 haven’t been this bleak since the financial crisis. In addition, labour costs are projected to rise faster because of further tightening in the labour market. This may worsen price competitiveness of Dutch exporters. Accordingly, we project total exports to expand by a meagre 1.4% in 2019. To compare: between 1996-2018 export growth was 4.7% on average.

- The share of the oil and gas industry has halved since 2012. For many years, this industry represented almost 3% of the Dutch economy (similar to the current share of temporary job agencies). With the gradual reduction of gas production in the Northern Province of Groningen, the share of oil and gas in total value added fell to 1.3% in 2018. This means that this industry now has a similar share in value added as the automotive sector.

- Last year the Netherlands, for the first time, imported more natural gas than it exported. This meant an end to a long history of being a net gas exporter. When Dutch gas production is limited further in the years to come, the share of the oil and gas industry will yet again be halved.
## Forecast table – The Netherlands

<table>
<thead>
<tr>
<th>per cent change unless otherwise noted</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
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<tbody>
<tr>
<td><strong>Demand and output</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross domestic product</td>
<td>1.5</td>
<td>-1.0</td>
<td>-0.1</td>
<td>1.4</td>
<td>2.0</td>
<td>2.2</td>
<td>2.9</td>
<td>2.6</td>
<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Private consumption</td>
<td>0.1</td>
<td>-1.1</td>
<td>-1.0</td>
<td>0.4</td>
<td>2.0</td>
<td>1.1</td>
<td>2.1</td>
<td>2.3</td>
<td>1.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Government spending</td>
<td>-0.4</td>
<td>-1.2</td>
<td>0.0</td>
<td>0.6</td>
<td>-0.1</td>
<td>1.3</td>
<td>0.9</td>
<td>1.6</td>
<td>2.0</td>
<td>2.7</td>
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<tr>
<td>Investment</td>
<td>4.9</td>
<td>-6.3</td>
<td>-1.6</td>
<td>-2.4</td>
<td>29.2</td>
<td>-7.3</td>
<td>4.2</td>
<td>3.2</td>
<td>6.0</td>
<td>2.7</td>
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<tr>
<td>of which private</td>
<td>6.5</td>
<td>-5.9</td>
<td>-1.1</td>
<td>-2.2</td>
<td>35.3</td>
<td>-8.8</td>
<td>4.8</td>
<td>4.1</td>
<td>5.9</td>
<td>2.7</td>
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<tr>
<td>Net exports (%-point contribution to GDP)</td>
<td>1.2</td>
<td>1.0</td>
<td>0.4</td>
<td>1.3</td>
<td>-3.9</td>
<td>2.9</td>
<td>0.9</td>
<td>0.7</td>
<td>-0.8</td>
<td>-0.2</td>
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<tr>
<td><strong>Labour and housing market</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Employment (in hours worked)</td>
<td>0.7</td>
<td>-0.6</td>
<td>-0.6</td>
<td>0.4</td>
<td>1.2</td>
<td>2.2</td>
<td>2.3</td>
<td>2.2</td>
<td>2.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Unemployment (% of labour force)</td>
<td>5.0</td>
<td>5.8</td>
<td>7.3</td>
<td>7.4</td>
<td>6.9</td>
<td>6.0</td>
<td>4.9</td>
<td>3.8</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>House prices</td>
<td>-2.4</td>
<td>-6.5</td>
<td>-6.6</td>
<td>0.9</td>
<td>2.9</td>
<td>5.0</td>
<td>7.6</td>
<td>9.0</td>
<td>6.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Existing home sales (in 000s)</td>
<td>121</td>
<td>117</td>
<td>110</td>
<td>154</td>
<td>178</td>
<td>215</td>
<td>242</td>
<td>218</td>
<td>212</td>
<td>196</td>
</tr>
<tr>
<td><strong>Government finances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government budget (% of GDP)</td>
<td>-4.2</td>
<td>-3.8</td>
<td>-2.3</td>
<td>-2.2</td>
<td>-2.0</td>
<td>0.4</td>
<td>1.1</td>
<td>0.8</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Government debt (% of GDP)</td>
<td>60.9</td>
<td>65.5</td>
<td>67.0</td>
<td>67.1</td>
<td>64.0</td>
<td>61.3</td>
<td>56.4</td>
<td>53.1</td>
<td>50.3</td>
<td>47.3</td>
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<tr>
<td><strong>Prices and rates</strong></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Inflation (HICP)</td>
<td>2.5</td>
<td>2.8</td>
<td>2.6</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
<td>1.3</td>
<td>1.6</td>
<td>2.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Euribor, 3 month (% eop)</td>
<td>1.4</td>
<td>0.2</td>
<td>0.3</td>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.4</td>
<td>-0.4</td>
<td>-0.4</td>
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<tr>
<td>Dutch gov't bond yield, 10yr (% eop)</td>
<td>2.2</td>
<td>1.5</td>
<td>2.2</td>
<td>0.7</td>
<td>0.8</td>
<td>0.4</td>
<td>0.5</td>
<td>0.4</td>
<td>0.2</td>
<td>0.3</td>
</tr>
</tbody>
</table>

* Not adjusted for working days.

**Forecasts** as of 24 June 2019
Between 2013 and now, the Dutch economy has become the growth leader in comparison to euro area core economies, especially during the years when the fiscal drag faded and the housing market recovered. From 2008-2013, Netherlands was the growth laggard in comparison to Belgium, Germany and France due to its severe housing market dip, large fiscal consolidation and the funded pension system.

But now, Dutch GDP is 11% above the level seen in 2008 and GDP per capita 5%. The economy is in state of overheating, but compared to previous booms the extent is limited and translates only into moderate wage and price pressures. Growth is currently still slightly above potential, but quickly normalising from its peak in 2017 and 2018.

In recent years, both private and public domestic demand were the main growth drivers and are expected to continue to be so in 2019 and 2020. We project a slowdown of GDP-growth from 2.6% in 2018 to 1.7% in 2019 and 1.6% in 2020.

Chapter updated on June 24th
A positive output gap, but limited overheating

Recently, the Dutch growth rate is higher than “normal”...

Growth of GDP, year-on-year

...which caused overheating of limited extent

Difference between actual and potential GDP level, in % of potential GDP

* ‘Normal growth’ refers to model estimates of potential growth, which is the sustainable speed at which the economy can growth using labour and capital efficiently at the current level of technological development. This is consistent with a state of constant inflation. In the medium term, actual GDP converges to potential GDP. In the short run, it may deviate either positively or negatively.

Source: CBS via Macrobond, CPB, ING forecasts
Private domestic demand is currently the key growth engine

Government stimulus in 2008 and 2009
Contribution of government expenditures to GDP growth, in percentage points

Net export delivered a positive contribution from 2010
Contribution of net exports (exports - imports)* to GDP growth, in percentage points

Private domestic demand taking over from 2017
Contribution of private domestic demand** to GDP growth, in percentage points*

*Extreme deviations in private investment and net exports in 2015 and 2016 are caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector

**Private consumption + private investment including inventories

Source: CBS via Macrobond, CPB, ING forecasts
Domestic demand was the main growth engine in recent years and is forecast to remain so in the next years

GDP-volume growth (in %) and contributions to GDP-volume growth (in %-points)

*Extreme deviations in private investment and net exports in 2015 and 2016 are caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector

Source: CBS via Macrobond, CPB, ING forecasts
GDP per capita left pre-crisis level behind

**GDP almost 11% above 2008 level**
GDP (index, 2008 = 100, seasonally-adjusted)

**While population grew by 5% since 2008**
Population size

Source: CBS via Macrobond
Dutch economy outpaced euro area ‘core’ in recent years

The Netherlands from growth laggard to leader
Average annual change of GDP (in constant prices, year-on-year, based on seasonally adjusted quarterly data)

<table>
<thead>
<tr>
<th>Year</th>
<th>Germany</th>
<th>Belgium</th>
<th>France</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-2013</td>
<td>0,6%</td>
<td>0,5%</td>
<td>0,4%</td>
<td>-0,4%</td>
</tr>
<tr>
<td>2013-now</td>
<td>2,3%</td>
<td>1,9%</td>
<td>1,6%</td>
<td>1,5%</td>
</tr>
</tbody>
</table>

Source: CBS via Macrobond

GDP development since 2008 of the Netherlands is catching up to the neighbours
GDP (index, 2008 = 100, in constant prices, seasonally adjusted)

Source: Eurostat and CBS via Macrobond
Three factors contributed to second dip in economic growth and lag with peers

**Factor 1: fewer home sales in 2009-2013**
Existing housing sales in thousands

**Factor 2: fiscal drag especially in 2013-2015**
Net fiscal expansion* as share of GDP

**Factor 3: higher net pension contribution in 2010-2014**
Net pension contributions as share of GDP

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* Actual spending/revenue-to-GDP ratio – counter factual with constant spending/revenue-to-GDP ratio

Source: CBS via Macrobond

Source: CPB (Van Es, Lukkezen & Van Tilburg, 2016)

Source: CBS
Three factors contributing to catch up in GDP-development

**Factor 1: more home sales from 2014**
Existing home sales in thousands

- **Source:** CBS via Macrobond

**Factor 2: fiscal expansion in each year in 2018-2021**
Net fiscal expansion of current coalition agreement, with respect to existing baseline, as share of GDP

- **Source:** CPB (2017) *Actualisatie middellangetermijnverkenning 2018-2021* (verwerking Regeerakkoord)

**Factor 3: lower net pension contribution from 2014**
Net pension contributions as share of GDP

- **Source:** CBS via Macrobond
The Netherlands remains growth leader among euro area core in 2019

Projections of change of GDP in 2019 (in volumes, year-on-year)

- Netherlands: 1.7%
- Germany: 1.3%
- France: 1.1%
- Belgium: 1.0%

The Netherlands’ growth rate will be taken over by Germany in 2020

Projections of change of GDP in 2020 (in volumes, year-on-year)

- Germany: 2.2%
- Netherlands: 1.6%
- Belgium: 1.2%
- France: 1.2%

Source: ING Monthly Economic Update / ING Forecasts
A strong setback to trade growth at the end of 2018 and the damage from the trade war will make 2019 the worst year for world trade since the financial crisis, with only 0.4% growth projected by ING.

The Netherlands mainly exports services and high-tech goods. As a result, and due to geographical proximity, exports from the Netherlands are mainly focused onto developed markets in Europe and the US. Given that European trading partners have shown a slowdown in growth (prospects), this has resulted in Dutch export volumes of domestically produced goods falling in recent quarters.

Price competitiveness of the Netherlands was roughly stable in the last six months. In nominal terms, the export growth was a bit better than volume growth. While chemical and energy export were weak in recent months, agro, high- and medium tech were the better performing goods in terms of export growth.

About one third of the Dutch economy depends on foreign demand, either directly or via inputs in the exports of other economies. Hence, the bleak world trade outlook worsened the export outlook for the Netherlands. Export order positions worsened, but on average businesses are still moderately optimistic for further growth in the coming months. Industry, however, judges order books to signal export stagnation rather than growth.

For 2019, we forecast total Dutch export volume growth to be just 1.4%, far below historical averages. The main risk for the Dutch market is still a hard Brexit and an escalating trade war, especially if the US turns its attention to EU trade. This is partly incorporated in our projections. In fact, the depreciation of the Sterling has already affected Dutch nominal export to the UK considerably in the past two years. In value added terms, the UK accounts for 8% of Dutch exports and more than 3% of Dutch GDP. So, a further slowdown of the British economy won't go unnoticed. At the same time, demand from the US accounts for a small 4% of Dutch GDP.

The Netherlands has recently become a natural net gas importer from a net gas exporter. However the current account surplus is still expected to remain around 10% of GDP in the coming years. Imports (2.7% growth) are likely to outpace exports in 2019. All in all, we project the net contribution of foreign trade to be substantially negative this year.
Dutch economy ranks consistently high on competitiveness

Dutch economy ranks high on competitiveness
Dutch economy rank on nine leading competitiveness indicators, among the first 100 economies

<table>
<thead>
<tr>
<th>Competitiveness</th>
<th>2010 Position</th>
<th>2018 Position</th>
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</thead>
<tbody>
<tr>
<td>WEF Global competitiveness Index</td>
<td>6</td>
<td>30</td>
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<tr>
<td>Global Innovation Index</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Network Readiness</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Global Enabling Trade Report</td>
<td>6</td>
<td>36</td>
</tr>
<tr>
<td>Logistics Performance Index</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Ease of Doing Business</td>
<td>6</td>
<td>30</td>
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<tr>
<td>Corruption Perceptions Index</td>
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</table>

Well being

<table>
<thead>
<tr>
<th>Competitiveness</th>
<th>2010 Position</th>
<th>2018 Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Development Index</td>
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<td></td>
</tr>
<tr>
<td>Prosperity Index</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

Sources: World Economic Forum, Global Innovation Index, World Bank, Transparency International, Human Development Index, The Legatum Prosperity Index
Goods: Germany main trading partner in two directions

### Goods

**Good imports mainly from neighbouring countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Dutch imports of goods (based on turnover)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>17.6%</td>
</tr>
<tr>
<td>Belgium</td>
<td>10.0%</td>
</tr>
<tr>
<td>China</td>
<td>8.9%</td>
</tr>
<tr>
<td>United States</td>
<td>7.7%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>3.9%</td>
</tr>
<tr>
<td>France</td>
<td>3.7%</td>
</tr>
<tr>
<td>Norway</td>
<td>3.2%</td>
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<tr>
<td>Italy</td>
<td>2.4%</td>
</tr>
<tr>
<td>Spain</td>
<td>2.0%</td>
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</table>

**Germany most important export partner goods**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Dutch exports of goods (based on turnover)</th>
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</thead>
<tbody>
<tr>
<td>Germany</td>
<td>22.8%</td>
</tr>
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<td>Belgium</td>
<td>10.1%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>8.0%</td>
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<tr>
<td>France</td>
<td>7.9%</td>
</tr>
<tr>
<td>United States</td>
<td>4.8%</td>
</tr>
<tr>
<td>Italy</td>
<td>4.1%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.0%</td>
</tr>
<tr>
<td>Poland</td>
<td>2.6%</td>
</tr>
<tr>
<td>China</td>
<td>2.1%</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

### Services

**Service imports from all over the globe**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Dutch imports of services (based on turnover)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bermuda</td>
<td>11.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>11.7%</td>
</tr>
<tr>
<td>United States</td>
<td>10.9%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10.0%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>6.9%</td>
</tr>
<tr>
<td>Belgium</td>
<td>5.4%</td>
</tr>
<tr>
<td>France</td>
<td>4.7%</td>
</tr>
<tr>
<td>Ireland</td>
<td>4.2%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.3%</td>
</tr>
<tr>
<td>Italy</td>
<td>2.5%</td>
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</tbody>
</table>

**Germany most important export partner services**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Dutch exports of services (based on turnover)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>13.2%</td>
</tr>
<tr>
<td>Ireland</td>
<td>12.5%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>11.5%</td>
</tr>
<tr>
<td>United States</td>
<td>7.5%</td>
</tr>
<tr>
<td>Belgium</td>
<td>5.9%</td>
</tr>
<tr>
<td>France</td>
<td>5.2%</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.1%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3.4%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2.5%</td>
</tr>
<tr>
<td>Spain</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Source: CBS
Total exports: Value added view makes Belgium less important while US and China more

If we move from a traditional perspective on the importance of trade partners to a modern view, especially Belgium is less important for the Netherlands while the US and China become more relevant.

Source: CBS, WIOD

Based on turnover

1. Germany 20,0%
2. United Kingdom 9,0%
3. Belgium 8,9%
4. France 7,1%
5. United States 5,6%
6. Ireland 4,3%
7. Italy 3,6%
8. Spain 2,8%

13. China 1,8%

Based on value added

1. Germany 17,4%
2. United States 8,1%
3. United Kingdom 8,0%
4. France 7,4%
5. Italy 4,6%
6. China 4,5%
7. Belgium 3,7%
8. Spain 2,2%

Source: CBS, WIOD
Dutch exports are mainly services and high tech goods

Most Dutch exports are services and hightech goods
Nominal export turnover in 2018, in billions of euro (based on seasonally adjusted monthly (goods) and quarterly (services) data)

Source: CBS
Services: exports and imports look alike

Composition of Dutch service exports and imports quite similar

Dutch export and import of services in 2018, in billions of euro

<table>
<thead>
<tr>
<th>Category</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial services</td>
<td>61</td>
<td>64</td>
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<tr>
<td>Intellectual property</td>
<td>48</td>
<td>50</td>
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<tr>
<td>Transport</td>
<td>51</td>
<td>44</td>
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<tr>
<td>ICT</td>
<td>23</td>
<td>15</td>
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<tr>
<td>Financial services</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Other*</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>€207 billion</strong></td>
<td><strong>€194 billion</strong></td>
</tr>
</tbody>
</table>

* Other (e.g. government services, construction, industry)

Source: CBS
High-tech most important export good, but much is re-exports

High-tech with 162 billion turnover largest share in Dutch goods export
Dutch export turnover in 2018, in billions of euro (based on seasonally adjusted monthly data)

Agricultural exports are dominated by domestically produced goods, while high-tech exports are mostly re-exports
Share in Dutch goods export turnover, 2018

Source: CBS
One third of the Dutch economy depends on exports

One third of the Dutch economy depends on exports, of which domestically produced goods are still most important

Share of Dutch value added originating from foreign final demand, 2015

- Export: 31.6%
- Export of goods: 20.5%
- Export of domestically produced goods: 16.6%
- Export of services: 11.2%
- Domestic demand: 68.4%
- Re-export of goods: 3.8%

Source: CBS
Dutch exports are falling stronger than world trade

Dutch goods exports stopped growing faster than world trade volume
Index, 2010 = 100, seasonally-adjusted

Because domestically produced goods exports fell strongly
Index, 2017 = 100, seasonally-adjusted

Source: CPB World Trade Monitor, CBS, Macrobond
Nominal exports growing with ups and minor downs

Nominal export growth continuing upward trajectory with ups and downs
Nominal goods exports turnover per month, in billions of euro, seasonally-adjusted

... but some weakness in exports of chemicals and energy in recent months
Nominal goods export per month, in billions of euro, seasonally-adjusted

Source: CBS
Service trade is becoming more important with continuing growth

**Upward trend in service trade**
Dutch service import and export turnover (index, 2014 Q1 = 100, seasonally adjusted)

**Share of services in export turnover increasing**
Share of services in Dutch export turnover

*Extreme deviation in import of services in 2Q2015 is caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector
Source: CBS
Large current account increasing due to services and income balance

Current account surplus larger and larger...
Share of GDP, seasonally-adjusted

... because of increase in service trade and rising income balance
Share of GDP, seasonally-adjusted volumes

*Extreme spike in current account in 2015 is caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector.
Source: CBS via Macrobond, DNB...
For now, exporters are still moderately positive on outlook

**Industrial export order books are continuing to grow, but at slow pace**

NEVI/Purchasing Managers’ Index – new industrial export orders

**Businesses less optimistic about export orders in nearby future**

Judgement about export orders next 3 months, net % non-financial businesses (excluding utilities) reporting increase minus decrease

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Source: NEVI PMI

Source: CBS, EIB, KvK, MKB Nederland and VNO-NCW, (COEN survey)
Despite slightly weaker euro, price competitiveness recently stable

Slight depreciation of trade weighted euro
Nominal trade-weighted euro index for the Netherlands, 2010 = 100

Dutch price competitiveness stable
Real ECB Harmonised Competitiveness Index** for the Netherlands (1999 Q1 = 100)

*The indicator weights nominal euro exchange rates with Dutch export and import weights, where the time-varying weights are derived from manufacturing trade flows and capture both direct bilateral trade and third-market competition.

Source: BIS via Macrobond

**The indicators use a similar methodology as the BIS nominal trade weighted index but add deflating by either the CPI or unit labour cost, in order to reflect a real competitiveness.

Source: ECB via Macrobond
Businesses less confident about export position outside the EU

Non-financial businesses indicate more optimism about their competitiveness with respect to the EU than outside EU

Net % non-financial businesses (excluding utilities) reporting improvement minus worsening with respect to competitiveness

Source: CBS, EIB, KvK, MKB Nederland and VNO-NCW, (COEN survey)
Risk: NL could be hit relatively hard by Brexit

Sensitivity to UK: NL ranks third within EU
Share of total added value dependent on demand from UK

![Graph showing sensitivity to UK: NL ranks third within EU.]

Risk: NL could be hit relatively hard by Brexit

Sensitivity to UK: NL ranks third within EU
Share of total added value dependent on demand from UK

![Graph showing sensitivity to UK: NL ranks third within EU.]

Growth in Dutch exports to UK is lagging behind
Growth in turnover of Dutch exports, 2018 compared to 2016

<table>
<thead>
<tr>
<th>Goods</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Europe**</td>
<td>17%</td>
<td>20%</td>
</tr>
<tr>
<td>To UK</td>
<td>2%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: CBS, ** excluding UK

Brexit already had a substantial effect on export turnover via sterling deprecation
Turnover of direct exports of goods and services from the Netherlands to the UK, in billions of euro

![Graph showing the effect of Brexit on export turnover.]

Brexit already had a substantial effect on export turnover via sterling deprecation
Turnover of direct exports of goods and services from the Netherlands to the UK, in billions of euro

![Graph showing the effect of Brexit on export turnover.]

Agriculture, transport and industry are the Dutch sectors most exposed to the UK

1. Agriculture
2. Industry
3. Transport

Source: CBS, EIB, KvK, MKB Nederland and VNO-NCW, (COEN survey)
Non-financial businesses

Throughout 2018, all major Dutch market sectors increased their production levels further. Especially construction, industry and retail were growing at a fast speed in 2018. Most sectors are currently above pre-crisis levels but some policy-sensitive sectors lag in value added. Consequently, the number of bankruptcies is close to record lows.

Multiple earthquakes in the north of the Netherlands induced the Dutch government to phase out gas production at one of the largest gas fields of Europe by 2030, significantly reducing last years’ mining/gas sector output. The maximum production for gas year 2018/2019 is set for 19.4 billion cubic meters compared to the recent maximum of 53 billion cubic meters in 2012/2013. As a result, the Netherlands turned from a structural net exporter of natural gas into a net importer in 2018.

The financial situation of non-financial businesses is nominally still improving, but firms lowered their sentiment concerning future profits. While domestic nominal pre-tax profits of non-financial companies recently hit a record high in the first quarter of 2019, their total profit fell from a record high in the fourth quarter of 2018 due to lower profits from foreign affiliates. An alternative macro indicator for profitability, more related to production, is gross operating surplus as a percentage of valued added. This indicator has been stable in the last few quarters and is far below the boom levels seen in 2006-2008.

Investment as a percentage of GDP is nearing the level seen in 2007-2008. The business investment rate is above the pre-crisis boom level. Given that we are into the late business cycle, investment in commercial property is accelerating. Investment in ICT & intangibles remains popular regardless of the phase of the business cycle.
Size of almost all sectors back on pre-crisis level

**Goods: construction catching up**
Value added (index, 2008 = 100, in volumes, at basic prices, seasonally adjusted)

**Commercial services: all trending up**
Value added (index, 2008 = 100, in volumes, at basic prices, seasonally adjusted)

**Public services: cultural services still below 2008 level**
Value added (index, 2008 = 100, in volumes, at basic prices, seasonally adjusted)

Source: CBS via Macrobond
Netherlands became net gas importer because production fell hard

Gas production fell considerably
Value added mining* (index, 2008 = 100, in volumes, at basic prices, seasonally adjusted)

As a result, gas share in economy is much lower
Share of mining industry in value added (at basic prices, seasonally adjusted volumes)

After years of being a net exporter of gas, the Netherlands has become a net gas importer in 2018
Gas trade in billion m³ (both natural gas and lng)

*Mining includes production of oil and gas and the provision of related services. Quantitatively it mainly concerns gas production.
Source: CBS via Macrobond

Source: CBS via Macrobond
Source: CBS
Profitability of non-financial companies stagnating at moderate level

While total nominal profits fell back from record level, domestic profits are currently at all time high

Nominal pre-tax profits of Dutch non-financial companies, in billion euros, seasonally adjusted

Profit ratio remains moderate

Gross operating surplus as percentage of gross value added at basic prices*, seasonally adjusted

*Macro profitability indicator, non-financial corporations (excluding small unincorporated businesses)

Source: CBS
Firms still optimistic about profitability, but gradually less

Decreasing trend in sentiment about profitability...
Net % of all firms with 5 or more employees reporting higher (+) or lower (-) profitability in last 3 months, seasonally adjusted

...visible among small, medium and large enterprises
Net % of firms reporting higher (+) or lower (-) profitability in last 3 months, seasonally adjusted
Investment rate only slightly below pre-crisis level due to businesses

Total investment rate at considerable level...
Total investments as share of GDP, seasonally adjusted volumes

...thanks to strong business investment...
Business investment (private excluding dwellings) as share of GDP, seasonally adjusted volumes

...while public investment is below pre-crisis levels
Public investment as share of GDP, seasonally adjusted volumes

*Extreme spikes in investments in 2015 and 2016 are caused by a large one-off purchase of foreign intellectual property (and divestment) by a Dutch multinational in the commercial service sector
Source: CBS via Macrobond
Investment in commercial property accelerating, ICT & intangibles popular throughout the cycle

ICT & intangibles stubbornly continued growing during the crisis and seems nowhere done
Gross investment in ICT, R&D and other intellectual property

Housing investment only recently recovered back to pre-crisis level
Gross investment (index, 2008 = 100, in volumes, seasonally adjusted)

Machinery and transport equipment back at pre-crisis level after long period of flatness
Gross investment in machines and transport vehicles, (index, 2008 = 100, in volumes, seasonally adjusted)

*Extreme spikes in investments in 2015 are caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector
Source: CBS via Macrobond
Further investment growth expected in industry and com. services

Because industry more often reports capacity constraints…
Share of industrial firms reporting shortage of materials and/or equipment as main factor limiting production, seasonally adjusted

...we expect investment in industry to continue to grow moderately
Gross investment in industry at 2015 prices, seasonally adjusted

Because confidence is still solid in commercial service…
Confidence indicator of commercial services as deviation from LT-average

...we expect decent investment growth in commercial service
Gross investment in commercial services at 2015 prices, seasonally adjusted

Source: DG ECFIN via Macrobond
Source: CBS via Macrobond
Source: DG ECFIN via Macrobond
Source: CBS via Macrobond
Number of bankruptcies bottomed out

Number of bankruptcies per month, six month moving average, seasonally-adjusted and adjusted for number of court days

Bankruptcies declined in many sectors, most in commercial services and trade

Number of bankruptcies per month, six month moving average, seasonally-adjusted and adjusted for number of court days

Source: CBS

Source: CBS
Demand for bank credit is increasing further

Credit standards have eased for both SMEs and large firms
Net percentage of banks reporting tighter (+) or eased (-) standards

Credit demand from both large firms and SMEs are continuing to grow
Net percentage of banks reporting stronger (+) or weaker (-) demand

Source: DNB via Macrobond
Consumers

During 2008-2018, household consumption development in the Netherlands fell behind other eurozone economies, but Dutch households are now in the process of catching up.

During this period, service consumption developed more positively than consumption of goods. Last year, goods consumption increased faster than the consumption of services, especially durable goods.

Overall household consumption increased by 2.3% in 2018 - the highest pace since 2000. Electronics did particularly well, with volumes increasing by almost 10%. Consumption benefitted from strong employment growth, high confidence and low inflation (which offset the weakness of wage growth) in 2018.

While static purchasing power was close to stable in 2017 and 2018 for the median household, it is increasing considerably in 2019 and 2020 due to accelerating wages and fiscal stimulus. The improvement is widespread: more than nine out of ten households are expected to experience an improvement in purchasing power in the years ahead.

Confidence among consumers has fallen considerably since mid-2018, although sentiment currently seems to be stabilising. So far, the fall in confidence has not yet translated into a surge in precautionary savings: the (free) savings rate has remain rather stable between 2017 and 2018. The level of consumer confidence is still only slightly below historical averages, supporting more moderate yet still positive growth in household consumption (1.3%) in 2019.

Household debt is rising again, but at a much lower rate than before the crisis. Total net wealth of households hit the highest level ever recorded in 2017. Most of the increase comes from illiquid housing and funded pension wealth. Accumulated pension wealth has never been higher. Due to the lower interest rate environment, some pension funds are still struggling with their coverage ratios, which may affect current and/or future disposable income in some occupations.

Bulk of chapter updated on January 18th 2019
Consumer confidence fell strongly to normal level

Consumer confidence has declined strongly, but is still around long-term average
Standardised index with 0 = long term average, net % of positive and negative answers, seasonally adjusted

Younger people still decently confident, elderly much less
Consumer confidence index, net % of positive and negative answers, seasonally adjusted*

*Time series contains a structural break in 2017 Q1

Source: CBS via Macrobond

Economic climate
Consumer confidence index
Willingness to buy

Source: CBS via Macrobond

18-45 years
All ages
65+

ING Economics Department
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Consumption development lagged, but the Netherlands is catching up

Dutch consumption growth since 2008 is lagging behind, but slowly catching up
Actual individual consumption of households, seasonally adjusted volume index, 2008 = 100

Total consumption as share of GDP is still falling
Consumption of households and government as share of GDP, seasonally adjusted volumes

Source: CBS and Eurostat via Macrobond

Source: CBS via Macrobond
More spending power on the back of recovery and public spending

Purchasing power is rising due to economic growth and policy
Change year on year in purchasing power of households, in %

Share of households with increase in static purchasing power expected above 90%
Share of households with change in purchasing power in %

Source: CPB, CBS
* takes into account changes in type of income and household composition

Source: CPB
Hourly income of self-employed is outpacing employee income

Hourly income of self-employed more volatile than income of employees and rising faster in recent years

Average gross remuneration per hour worked (mixed income for self-employed, seasonally adjusted index, 2008 = 100

Source: CBS, ING
Volume in checking deposit accounts at record high

Increase in overnight deposits points to higher spending by households
CPI-inflation-adjusted index overnight deposit balance of households and volume index for retail, both 2010 = 100 and seasonally adjusted

Source: DNB, Eurostat via Macrobond, ING calculations
Increased household consumption of both goods and services
Private consumption by type, seasonally adjusted volume index, 2008 = 100

Breakdown of consumer spending in 2016: mostly housing
% of total

- Increased household consumption of both goods and services

Private consumption of services is continuing growth trajectory

Source: CBS via Macrobond

* Total deviates from the sum of goods and services due to the seasonal adjustment
Consumer spending trends: more electronics and more services

**Services: all above pre-crisis peak, especially health care and even financials**
Consumption by type, seasonally adjusted volumes, index 2008 = 100

**Electronics surge, while energy and fuel consumption is lower**
Consumption by type, seasonally adjusted volumes, index 2008 = 100

**Durables: vehicles still 25% below previous peak**
Consumption by type, seasonally adjusted volumes, index 2008 = 100

Source: CBS via Macrobond
More and more online shopping

Double-digit rise in online sales volumes
Retail sales volume, change year-on-year, in %

High growth in the number of online shops at the expense of main street
Number of shops in thousands, at 1st of January

Source: Eurostat via Macrobond

Source: CBS
Savings stable at considerable level

Household income higher than consumption
In billions of euros

‘Free’ and mandatory of households savings rate stable and positive
% of net disposable income of households (including pension premiums less pay-outs)

Source: CBS via Macrobond
Households are taking up a bit more debt again

Debt of households increased faster than liquid assets again, but not yet at pre-crisis rates
Changes due to financial transactions (price and evaluation effects are excluded) of households, in billions of euros

Source: CBS
Total net wealth increased further

**Total net wealth at record high**
Financial and non-financial assets, in billions of euro

Source: CBS

**Most substantial increases in pension and housing assets**
Wealth and debt components in billions of euros

Source: CBS
Labour market

- Employment growth has maintained a surprisingly high pace in recent quarters, sometimes at the expense of (negative) productivity growth. The number of people employed has never been higher. In terms of total hours worked, the labour market has bounced up even further above the 2008 level.

- The unemployment rate has dropped near record lows. It has been stable at 3.3% between March and May 2019 because the labour participation rate increased, among discouraged workers and the elderly, who face a higher pension age than before the reforms. All age groups experienced a decline towards very low unemployment rates, although youth unemployment remains structurally higher than average.

- Sector-wise, temporary job agencies are no longer providing the most additional job. The public sector (especially health care) and commercial services have taken over this role. In contrast with a weaker production outlook, industry is also still providing an increasing number of jobs.

- Clearly, most segments of the labour market are quite tight. Unfilled vacancies now at record high level 278,000 in the first quarter of 2019, also when compared to the number of unemployed (1.1 in the first quarter of 2019, while 7 in 2013).

- The share of businesses reporting a shortage of workers as factor limiting activity has started to increase. A quarter (26%) of Dutch non-financial companies indicate that it is difficult to find sufficient suitable employees, resulting in limits to production. The shortages are particularly high in transportation, construction and in IT.

- As a result, wages are accelerating, but given the current stage of the business cycle, wage growth is considered moderate. More bargaining power for workers also translated into the share of fixed contracts growing for nine quarters consecutively up to the first quarter of 2019.

Bulk of chapter updated on January 18th 2019
Employment continues to rise

Number of jobs and hours worked are strongly increasing

Total of employees and self-employed, in millions, seasonally adjusted

- In total hours worked
- In total people

Breakdown of jobs by sector: since 1995 more jobs in services

Share in total employment (hours worked), in %

- Agriculture
- Industry (incl. energy)
- Construction
- Trade
- Comm. Services
- Public services

Source: CBS
More work in permanent contracts

Permanent contracts largest contributor again to growth in employed labour force
Contribution to quarterly change in employed labour force, in percentage (points), seasonally adjusted

Job growth driven by commercial, but also public services again
Contribution to year-on-year change in employment, in percentage points, seasonally adjusted

Source: CBS, ING

Source: CBS

ING Economics Department
Leading indicators point to slightly weaker job growth

Consumers and firms have bit less positive labour market expectations
Index, standardized with long term average=0

Number of unfilled vacancies still growing
Change quarter-on-quarter, in % seasonally adjusted

Unfilled vacancies now at record high level
Number of unfilled vacancies, in thousands, seasonally adjusted

Consumers' unemployment expectations
Businesses' employment expectations*

Source: DG ECFIN, Macrobond
* Weighted average of manufacturing, construction, retail and services

Source: CBS

Unfilled vacancies now at record high level

Source: CBS

Source: CBS
Unemployment drop slows down; level below long term average

Unemployment is nearing previous lows
Share of unemployed (15-74yr) in labour force, in %, seasonally adjusted

Unemployment low in most age groups, while recently slightly rising among 45+
Share of unemployed in labour force, in percentage, seasonally adjusted

Source: CBS via Macrobond
In very tight labour market, over 25% of firms struggle to fill vacancies

Number of unemployed persons per open vacancy has hit new low
Ratio of number of unemployed persons and number of unfilled vacancies

Source: CBS via Macrobond

Share of Dutch companies struggling to find suitable employees has risen quickly
% of non-financial companies in the market sector indicating labour shortages as a factor limiting production, seasonally adjusted

Source: CBS, EIB, KvK, MKB Nederland and VNO-NCW, (COEN survey)
Labour shortages increasing across the board

Shortage of labour is limiting production in more and more industries
Percentage of firms reporting shortage of workers, seasonally adjusted

Source: CBS and European Commission DG ECFIN, Macrobond
Potential to work more hours not fully-utilised

While the number of hours worked per employed person recovered and stabilised...

Average number of hours worked per worker, seasonally-adjusted

...there is still potential for more hours to be worked among more than 150K workers

Number of workers who want to work more hours as share of the total population of 15-74yrs, seasonally-adjusted

Source: CBS
Development of actual labour force has almost caught up with potential labour force.

Index, 2009 Q1 = 100

Potential labour force (total population aged 15-74)

Actual labour force

Participation rate is getting close to pre-crisis record.

Actual labour force as percentage of potential labour force aged 15-74

Source: CBS via Macrobond

Participation suggests limited cyclical potential in labour supply
Getting back to upward trend in participation unlocks 210k people

**Male participation rate rising but still far from peak**
Actual labour force as percentage of potential labour force aged 15-74

- Pre-crisis, participation rate was here highest.
- Difference: 111K extra men if participation returned to high level of 77%.
- Number of males active (and potential) on the labour market, in millions.

**Upward trend in female participation rate resumed**
Actual labour force as percentage of potential labour force aged 15-74

- Assuming part. rate constant at (77%).
- Assuming part. rate rose 1.5%-point faster.
- Difference: 99K extra females if participation rises 1.5%-points.
- Number of females active (and potential) on the labour market, in millions.

Source all charts: CBS, Macrobond, ING.
Downward trend in labour productivity growth, but important growth driver going forward

Steady labour productivity growth in coming years, after declining trend in recent decades
Change in GDP volume per hour* year-on-year, in %

Source: CPB

*GDP-volume per hour equals labour productivity growth
Inflation

- Headline consumer price inflation (CPI) jumped, as the result of an increase of the reduced VAT rate and higher energy taxes, from a moderate 1.7% (year-on-year) in 2018 to a significant 2.4% in April 2019.

- Wage growth and the corresponding inflationary pressure has been on the rise but is still rather moderate for the maturity of the business cycle. Hourly wage costs in commercial services, which historically is important indicator for labour induced inflationary pressure, only slowly increased to (year-on-year) in the first quarter of 2019. The nationwide average hourly wage rate is expected to accelerate from 2.0% in 2018 to more than 3% in 2019.

- Among businesses, inflation expectations for the next three months have fallen after the increase in the low-VAT rate from 6% to 9% in January 2019, but still remain at a considerable higher level than before. The same holds for consumers’ price expectations in the twelve months ahead.

- We forecast headline consumer price to rise to 2.5% in 2019, and expect it to fall back to 1.7% in 2020 due to the base effect of the VAT-hike. Food, housing, hospitality services and energy are responsible for the bulk of the increase in 2019. We forecast core CPI inflation (excluding volatile energy and food prices) to increase from a subdued 1.0% in 2018 to a very moderate 1.4% in 2019.

Chapter updated on May 28th 2019
Inflation much higher due to policy

Consumer price inflation above 2%, partly driven by higher core inflation
Consumer price inflation % year-on-year according to national definition

Most consumers expect inflation to stay high after VAT-hike, while businesses less often expect prices to increase further
Net % of respondents expecting higher prices

Source: CBS
Source: DG ECCFIN via Macrobond
* weighed average of industry, retail and services sector
Inflationary pressure is modestly building up via wage cost

Hourly wage costs rising at increasing pace, but still modestly
Change, year-on-year, in %

Commodity prices could put downward pressure on inflation in 2019
Change, year-on-year, in %

Source: CBS via Macrobond

Source: Worldbank via Macrobond
Consumer price inflation months above 2.5% for first time in over 5 years

Rising core inflation pushes headline inflation above 2.5%, while VAT-affected energy and food also contribute positively

Contribution to consumer price inflation, in percentage points

Source: CBS via Macrobond
Housing market

- The housing market has been an important driver of economic growth in recent years. The housing market catch-up explains over a quarter of the GDP growth between the third quarter of 2017 and the fourth of 2018. Investment in dwellings has surged, benefitting builders, industry and DIY stores. Increasing home sales have also favoured people like estate agents, surveyors and lenders.

- However, home buying volumes are currently stagnating, after normalising to 218k sales in 2018 from a record high sales of 242k in 2017. ING expects home sales to come down to 210k in 2019 and 195k in 2020. Since 2013, households with postponed moving plans have pushed up home sales. Six years later, we expect this catching-up effect to be marginal. Tight supply of homes will also push home sales further downwards.

- Overall, we expect house prices to increase on average by 6.5% in 2019 (9% in 2018). House price rises are persisting in response to a tight supply of homes. Growth of the housing stock is expected to fall short of household growth until 2020. And despite the easing of housing market supply after this year, the housing market will remain tight in the next decade. Omitting catching-up demand will flatten price increases somewhat compared to previous years.

- Despite the similarity of steep price increases, today’s housing market differs from that of 2008. Housing affordability is on average still better, partly explained by low interest rates. Although prices in the last five years have increased significantly, the stock of mortgage debt has grown at a much lower pace. The house price to income ratio is still below 2008 level.

- Regional differences are large. Nationwide, house prices have passed pre-crisis level (8% above in May 2019). In the four major cities (Amsterdam, Rotterdam, Utrecht and The Hague) prices have increased much faster. In Amsterdam, the average price is already tens percentage points above the previous peak, but here the foundation for further significant price increases is eroding. In most, mainly peripheral provinces, house prices only just recently recovered to the pre-crisis level.

- Individual investors are increasing the difference between major cities and the rest of the Netherlands. In the top three cities, the share of individual investors is above 20% of transactions (11% nationwide). Tighter credit measures introduced in 2013 are putting home movers and investors ahead of first-time buyers.

Bulk of chapter updated on January 18th 2019
House prices are increasing, pushing down home sales further in 2019

House price increase expected to slow down
Average house price, change year-on-year (%)

Sales are declining further, after record high home sales in 2017
Homes sales in thousands, seasonally-adjusted

Source: CBS, ING forecasts

Source: Kadaster, NVB-Bouw, ING forecasts
Supply of homes is becoming tighter

Unsold existing home supply at record low
Supply divided by monthly number of sales

New supply has picked up from record lows
Building permits for dwellings, in thousands

Source: Huizenzoeker.nl, CBS, ING

Source: CBS
In short term, housing supply is getting tighter

Growth in number of households will exceed housing stock growth until 2020...
Change per 5-year period, in thousands

...causing the housing market strain* to rise in the short term
Difference between estimated number of households* and housing stock, in thousands

Source: ABF Research, Primos prognosis 2017

* Estimates based on, among other things trend analysis over the years 2009 – 2016 and population projections by CBS.

*This takes into account that a share of the stock is not suitable for living and that a particular vacancy rate is needed for a well-functioning housing market.
Home buyers opt for long-term fixed rate mortgages

**Mortgage rates at historic low levels**

In %

**Mortgage rates by fixed interest duration**

In %

- >10yr
- >5 and <=10yr
- >1 and <=5yr
- <=1yr

Average mortgage rate (all durations)

Source: DNB

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**Home buyers choose long-term fixed interest rate periods**

Mortgage production (banks only) per fixed interest rate period, share in total

- Variable and <=1yr
- >1 and <=5yr
- >5 and <=10yr
- >10yr

Source: DNB
Affordability has started to weaken, but is still better than in 2008

Housing affordability has deteriorated somewhat
After-tax mortgage cost as % of income, directly after purchase*

Housing market sentiment is beyond the peak
Index, 2008 = 100

* Using average house price and average household income. Since 2013, interest on new mortgages is only tax deductible for amortising mortgages.

Source: CBS via Macrobond, DNB, ING

Source: VEH (homeowners’ association), Google, ING

* Using average house price and average household income. Since 2013, interest on new mortgages is only tax deductible for amortising mortgages.
Measures have been taken to curtail mortgage debt growth

- Households are only allowed to deduct interest payments on the mortgage up to a maximum period of 30 years.
- Interest payments resulting from mortgage equity withdrawal cannot be included in the tax deduction.
- Introduction code of conduct (cost of living ratios, reference rate for mortgage with interest rate <10yr).
- Max. interest deductibility will be reduced in steps of 3%-points from 49.0% in 2019 to 37.05% in 2023.
- Tightening code of conduct (max 50% interest-only).
- For new contracts, interest is tax deductible for amortizing mortgage loans only (annuity/linear).
- Max loan-to-value gradually lowered from 106% to 100% in 2018.
- For the higher income tax bracket, tax deduction will be gradually reduced from 52% to 38% in 2041.

Measures taken:
- 2001: Introduction code of conduct (cost of living ratios, reference rate for mortgage with interest rate <10yr).
- 2004: Tightening code of conduct (max 50% interest-only).
- 2007: Max loan-to-value gradually lowered from 106% to 100% in 2018.
- 2011: For new contracts, interest is tax deductible for amortizing mortgage loans only (annuity/linear).
- 2013: For the higher income tax bracket, tax deduction will be gradually reduced from 52% to 38% in 2041.
- 2014: Max. interest deductibility will be reduced in steps of 3%-points from 49.0% in 2019 to 37.05% in 2023.
Previous sharp increase in house prices strongly credit-driven, but in the last five years, higher house prices accompanied by hardly any increase in mortgage debt
Mortgage debt stock and house prices, index, 1999 = 100

In major cities, private investors are pushing up house prices
Estimated buy to let transactions, share in total house sales

Source: CBS, DNB, ING

Source: Kadaster, Dynamis, ING
Housing market characterised by major regional differences

House prices rose fast in ‘Randstad’ area, where four biggest cities are located
Median transaction price, difference between 2017Q2 – 2018Q2

- more than 15% growth
- 10% growth - 15% growth
- 5% growth - 10% growth
- 0% - 5% growth
- 5% - 0% decline

Outside four major cities, average house price just above 2008 peak
House price difference compared with peak in 2008

- Amsterdam +44%
- Rotterdam +35%
- Utrecht +33%
- Den Haag +22%
- The Netherlands (excl. 4 major cities) +7%
- The Netherlands +2%

Source: NVM, ING calculations

2008
Q1 2019

Source: CBS, ING
Large cities lead house price recovery

North & East: except for Flevoland and Friesland, prices still below 2008 levels
House price index for existing properties, 2008 = 100, Dutch provinces

West & South: vast price increases in highly urbanised Randstad area...

Higher prices in Randstad mainly driven by substantial increases in major cities

Source: CBS via Macrobond
Drying up of supply is pushing down home sales

North & East: Upward trend in home sales has turned
Homes sales index, 2013 = 100

South & West: sales in Utrecht and N-Holland (Amsterdam) far below peak, others are following
Home sales index, 2013 = 100

Source: CBS
Average age of homebuyer is increasing, since first-time buyers find it harder to buy due to stricter LTV-policies

Gradual decrease in maximum allowed loan-to-value (LTV)
Maximum mortgage amount as share of purchase price (including expenses to be paid for by buyer)

Resultingly, the share of homes bought by young people is declining
% of total home sales, per age group

Source: Rijksoverheid.nl
Source: Kadaster
House price-to-income ratio increasing again

Price-to-income in Sweden far above long-term average, in UK, NL and Denmark somewhat

House price-to-income, deviation from long-term average, 1980-2016 = 100

Source: OECD via Macrobond
Dutch public finances are healthy. In fact, the fiscal surplus turned out somewhat higher than expected. In 2018, the government failed to execute its spending plans, in part because of the challenges in finding personnel and delays with infrastructure projects. This will be a risk for spending in 2019 again, both to the downside and upside.

Labour income taxes were lowered at the start of 2019, while the VAT-rate, energy taxes and healthcare premiums rose, with a net positive effect for a large majority of households. Also 2020 brings income tax relief for households. For businesses taxes are raised in 2019 mainly as a results from higher unemployment premiums and energy taxes and the broadening of the corporate income tax base.

We forecast the government budget balances hovering around 1% GDP during the entire term of the third government with Mark Rutte at the helm. This is despite the fact that the government is using some of the cyclical tax revenues for additional spending on defence, education, R&D, civil service and infrastructure, as well as on tax cuts. The structural fiscal balance will decrease from 0.8 % GDP in 2018 to 0.4% in 2020.

Dutch government debt stood at 51% of GDP in the first quarter of 2019, clearly below the European norm of 60% GDP. We forecast the drop of the debt ratio to continue to something below 50% by 2020, as a result of cumulating surpluses and the continuation of the sale of the bank ABN AMRO.

While the interest rate differential with Germany faced by the Dutch government is at a normal limited level, the actual yield on ten year government bonds is negative and at historical lows. As a result, the share of expenditures spend on interest payment is low.

Public finances are more or less robust in light of population ageing: when looking at the net present value of future revenues and expenditures, however, a minor sustainability surplus of 0.1% GDP remains. This does not take into account some adjustments to the state pension from 2020 onwards, which should have a minor downward effect on future projection of the sustainability balance by the Netherlands Bureau of Economic Policy Analysis (CPB).
Historically record low Dutch government bond yield
Average yield*, per year

Bond yield currently negative at record lows
Yield on Dutch 10 year government bonds, monthly average

Yield spread versus Germany at normal level
Difference between yield on Dutch and German 10 year government bond, in %-points monthly average

Source: CBS via Macrobond

Source: Macrobond

Source: Macrobond
Continuing budget surplus

Government revenues are exceeding expenditures since 2016...
In billions of euro, per quarter, seasonally-adjusted

... which brought the fiscal balance in positive territory
Actual government budget balance (EMU-definition), share of GDP

Source: CBS via Macrobond
Compliant with the European rules

Headline balance safely above European target
Headline balance, share of GDP

Structural balance also above target
Headline balance adjusted for economic cycle and one-off effects, share of GDP

Government debt moving further below 60%-target
Government debt, share of GDP

Source: CBS via Macrobond, ING forecasts

* Medium Term Objective (MTO)
Long-term government finances close to sustainable

Present value of government expenditures and revenues close to zero
Sustainability balance* as share of GDP at moment of publication

*The sustainability balance shows how much policy measures need to be taken (in % of GDP) to ensure that future generations can benefit to a similar degree from public services at a constant tax burden (as a percentage of GDP) as is faced by present generations. This balance shows whether future tax revenues are sufficient to cover future government expenditures. The current modest sustainability surplus means that the debt level will stabilise under the assumption of consistent arrangements.

** The June 2019 figure is our own estimate, consisting of the sustainability balance as reported by CPB in October 2017 plus the estimated impact of new labour supply projections.
Source: CPB