

Dutch Economy Chart Book

Solid growth and no sign of overheating yet

ING Economics Department

Amsterdam • January 2017

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In short

- The [Dutch economy](#) has continued to steam ahead. Despite stagnating world trade growth and Brexit uncertainty, GDP rose a hefty 0.8%QoQ in the third quarter (0.7% in Q1 and Q2). After 2% growth in 2015, the economy is on track for even slightly higher growth in 2016, thereby again outpacing the Eurozone average. Since the trough of 2013, the economy has expanded by about 6.5%. The pick-up of the [housing market](#) explains at least a quarter of this recovery.
- Next year, economic growth is [forecast](#) by ING to slow a bit, from 2.2% in 2016 to 1.6% in 2017. Excluding the leap-year effect, the slowdown is less pronounced (2.1% to 1.7%). Housing remains an important growth engine, but it will shift a gear down. Furthermore, the [export](#) growth engine could start to cough a little in 2017. The main Dutch export markets show little vigour. Moreover, the maximum allowed gas production will again be lowered.
- Profits of [non-financial businesses](#) are rising and the number of bankruptcies is falling towards pre-crisis levels. With business investment back at 2008 levels, the pace of investment growth is likely to decelerate.
- While the housing market and exports throttle back a bit, households are set to increase their spending at a faster pace. Confidence is at its highest since 2007. This will help [consumers](#) to start spending more of their increased income.
- [Government](#) finances are improving rapidly. A balanced budget is within sight. Debt drops below the 60% target. The international appeal for increased government spending is unlikely to be met by the Dutch.
- Despite solid growth rates, the economy is not yet running at full potential. Not all sectors have recovered to 2008 levels. Unemployment is falling rapidly, but there is still slack in the [labour market](#). The decline in the labour participation rate points to extra potential labour supply of about 300,000 people.
- [Inflation](#) rises, mainly due to higher energy prices. Meanwhile, the still negative output gap keeps a lid on the rise in core inflation.

ING forecast table – The Netherlands

per cent change unless otherwise noted	2011	2012	2013	2014	2015	2016	2017	2018
Demand and output*								
Gross domestic product	1.7	-1.1	-0.2	1.4	2.0	2.2	1.6	1.9
Private consumption	0.2	-1.2	-1.0	0.3	1.8	1.7	1.9	1.9
Government spending	-0.2	-1.3	-0.1	0.3	0.2	0.9	0.6	1.0
Investment	5.6	-6.3	-4.2	2.3	9.9	6.3	2.5	3.2
of which private	7.7	-6.2	-4.6	3.4	11.6	7.4	2.6	3.6
Net exports (%-point contribution to GDP)	1.0	1.1	1.0	0.7	0.0	0.1	-0.1	0.1
Labour and housing market								
Employment (in hours worked)	1.0	-0.9	-0.9	0.5	0.5	1.6	1.2	1.1
Unemployment (% of labour force)	5.0	5.8	7.3	7.4	6.9	6.0	5.2	4.9
House prices	-2.4	-6.5	-6.6	0.9	2.8	5.0	4.6	3.1
Existing home sales (in 000s)	121	117	110	154	178	212	223	230
Government finances								
Government budget (% of GDP)	-4.3	-3.9	-2.4	-2.3	-1.9	-0.5	0.0	0.3
Government debt (% of GDP)	61.6	66.4	67.7	67.9	65.1	62.7	59.9	58.0
Prices and rates								
Inflation (HICP)	2.5	2.8	2.6	0.3	0.2	0.1	0.8	1.3
Euribor, 3 month (% eop)	1.4	0.2	0.3	0.0	0.0	-0.3	-0.3	-0.2
Dutch gov't bond yield, 10yr (% eop)	2.2	1.5	2.2	0.0	0.0	0.5	0.8	1.1

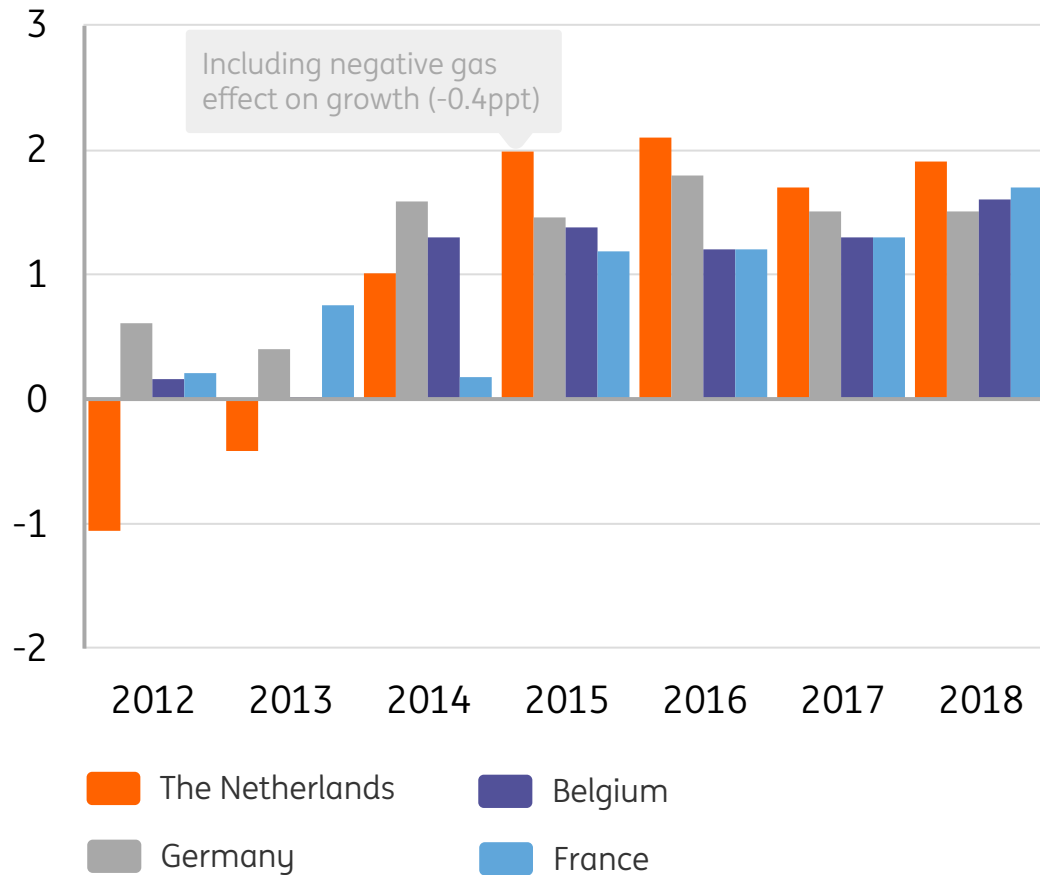
* Not adjusted for working days

Forecasts as of December 23, 2016 (interest rates as of December 12, 2016)

Dutch economy continues to outpace Euro area 'core'

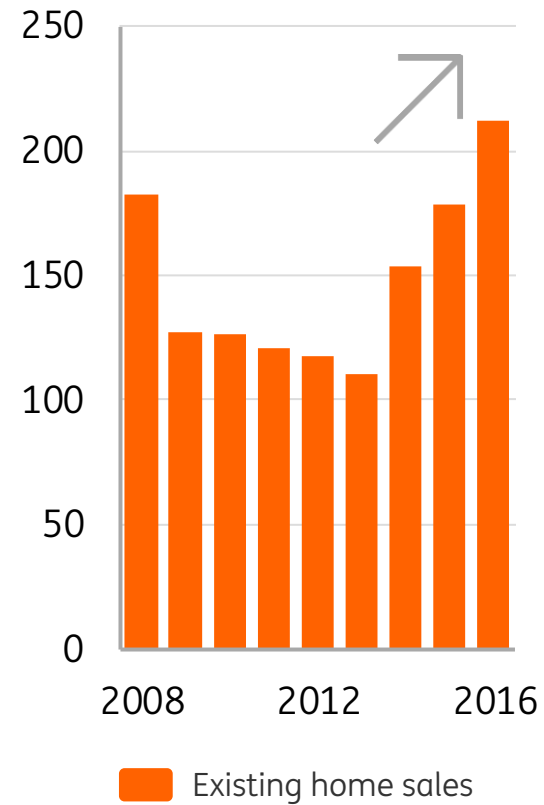
From growth laggard to leader

Gross domestic product, volume, change year-on-year, in %



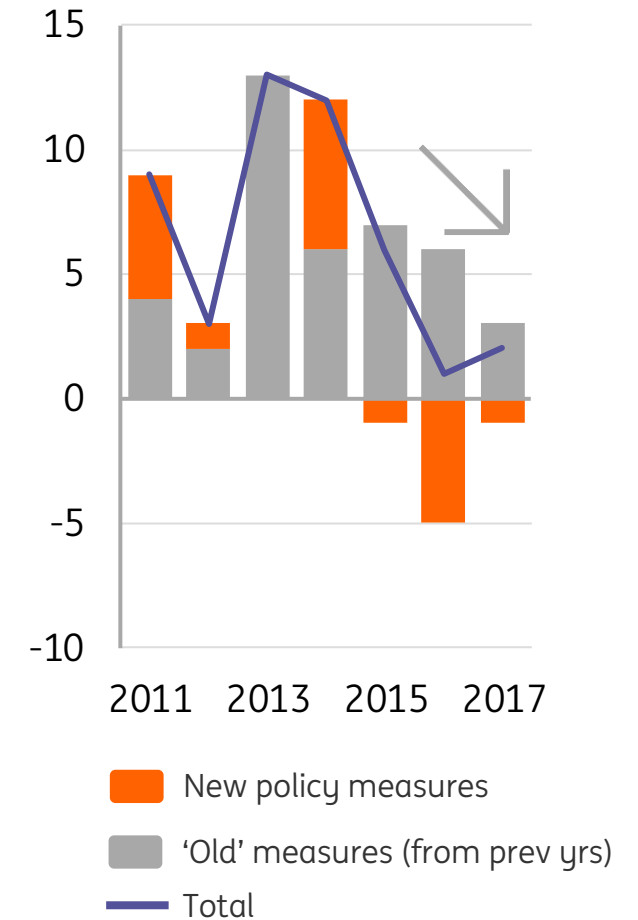
The drag from weak housing

In 000s



...and austerity has faded

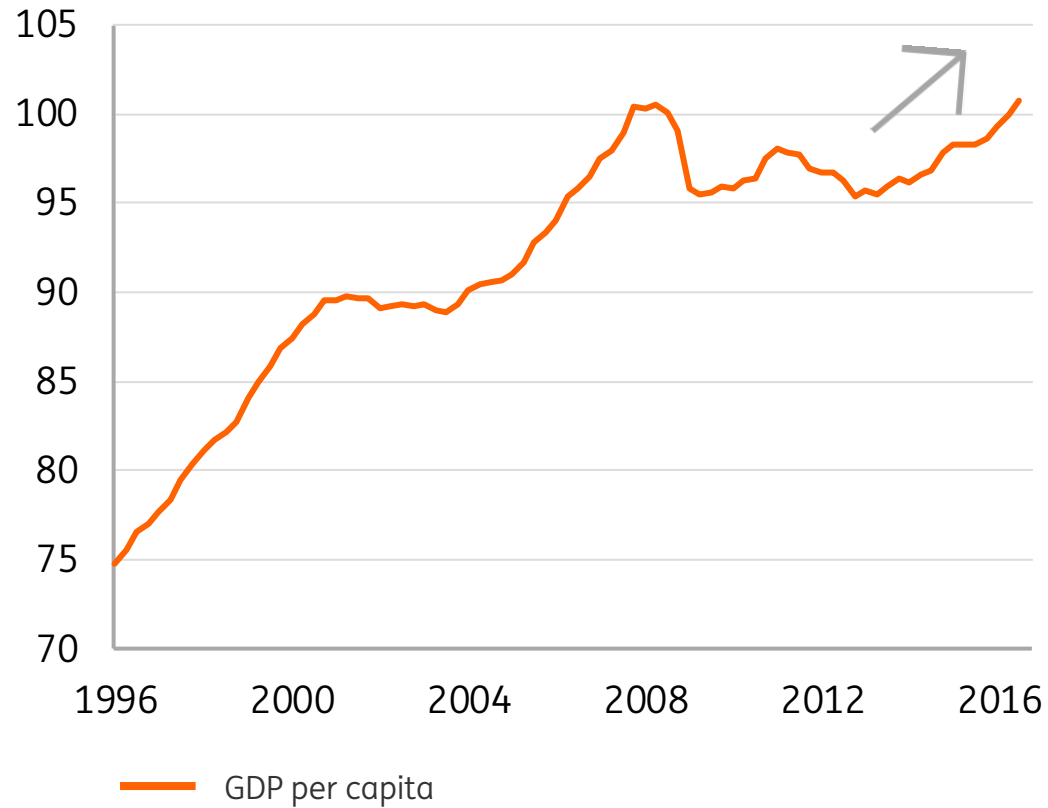
Budget effect, in € billions



Domestic demand is driving growth

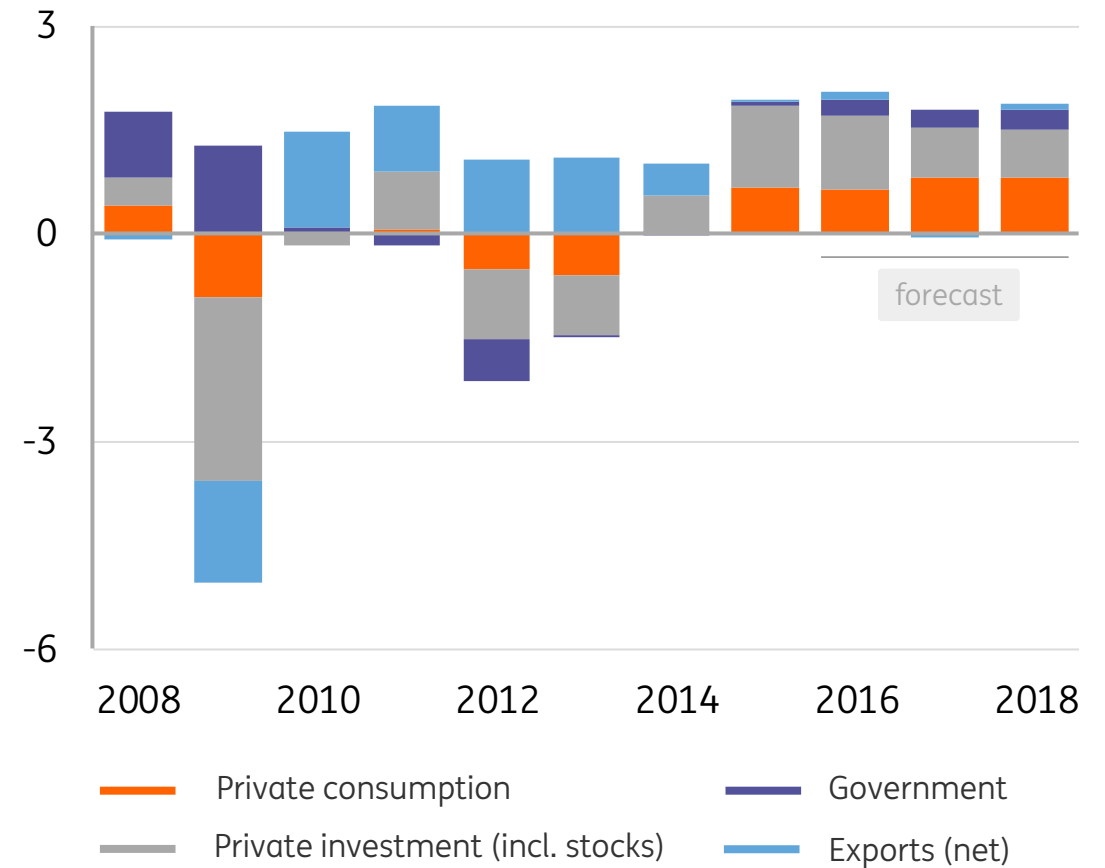
Strong growth trend in GDP per capita

Index, 2008 = 100



Domestic demand has taken over as main growth engine

Contribution to GDP growth, in percent points

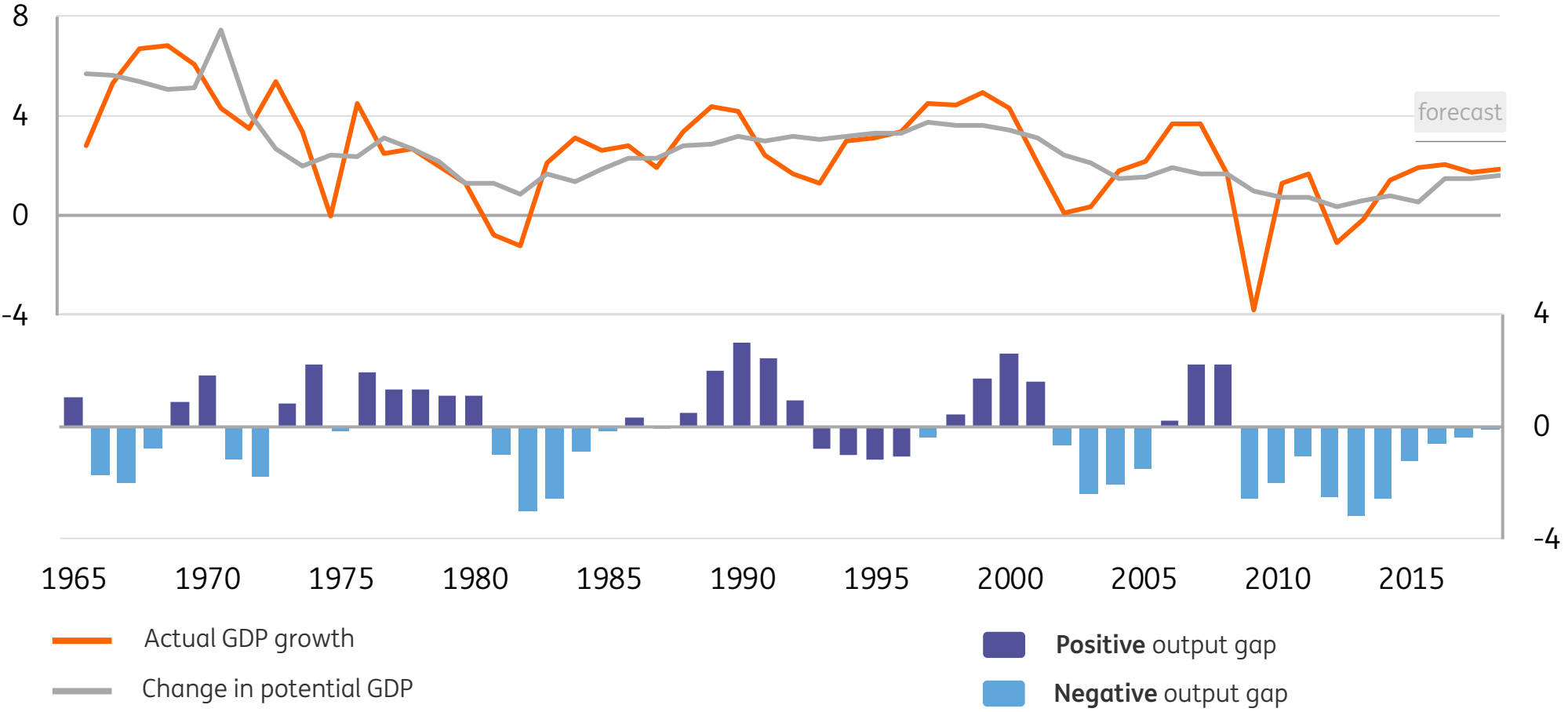


Growth is above trend, but output gap is not yet closed

Output gap is still slightly negative, which means the economy is not running at full potential

Change year-on-year, in % (lhs)

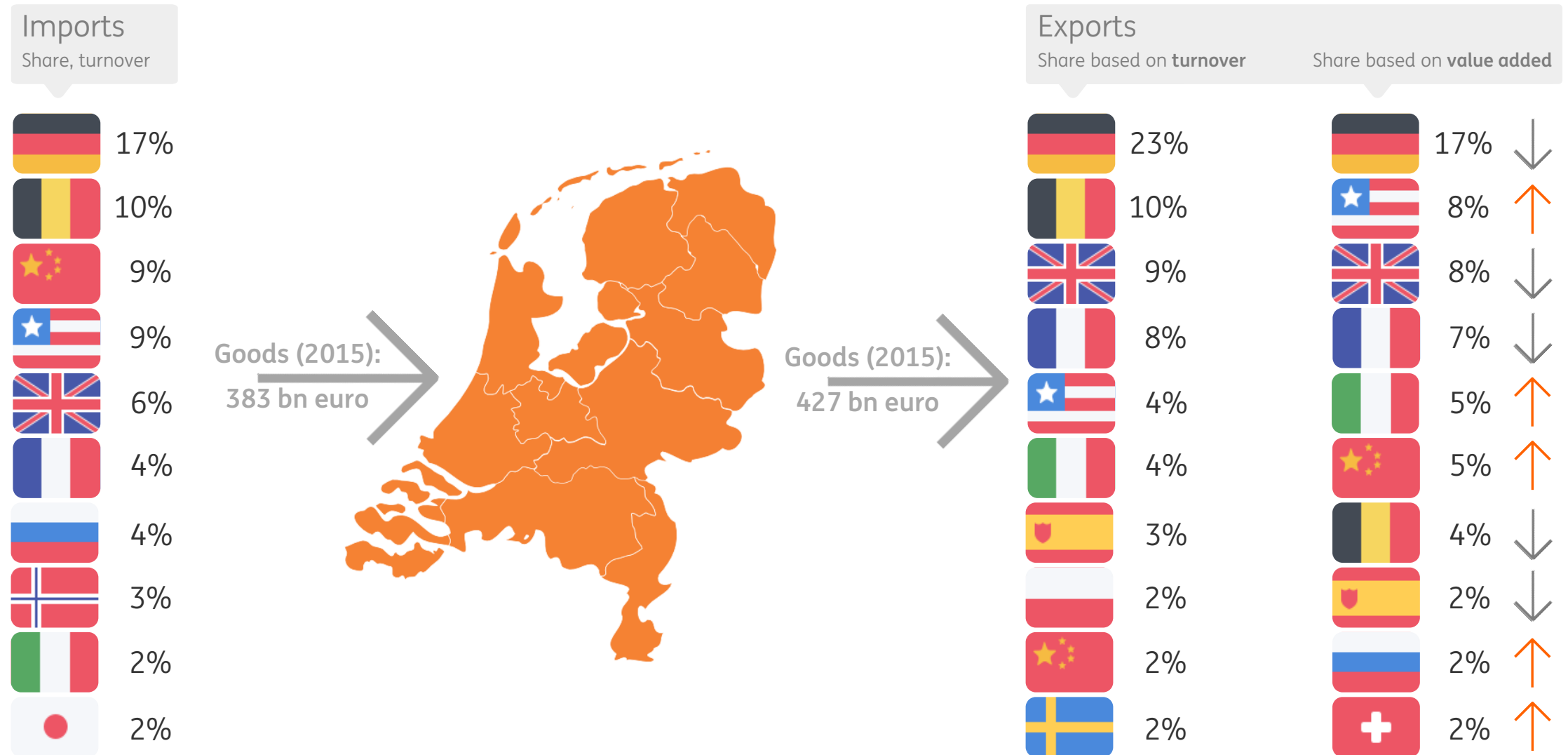
Difference between actual and potential GDP level, in % of potential GDP (rhs)



Exports

- Despite stagnating world trade growth, the volume of Dutch exports has continued to increase in recent quarters. The weakness in world trade is largely driven by emerging markets, but the Netherlands is heavily focused on developed markets.
- Re-exports have posted the strongest growth, but exports of domestically-produced goods have expanded too. Strong order positions point to further growth in the coming months.
- During 2017, the export growth engine could start to cough a little. The main Dutch exports markets show little vigour. In value added terms, the UK accounts for 8% of Dutch exports. So, a slowdown of the British economy – or possibly a short-lived contraction in the first half of 2017 – will not go unnoticed. Meanwhile, growth in the euro area (almost half of Dutch exports) is expected to be lower than in 2016. Higher growth in the US (also 8% of Dutch exports) could bring some compensation, but it will probably not be enough to offset the weakness in European markets.
- Additional pressure on Dutch exports comes from the government's decision to further lower the maximum allowed gas production in the Northern Province Groningen. Unless 2017 turns out to be a very hot year, the 10% reduction in production leaves less gas for foreign markets.
- Although in volume terms Dutch exports have increased, the *value* of exports has been stable since late 2012. This is largely the result of the fall in commodity prices. Dutch exports of energy products has declined by roughly 50%. Meanwhile, exports of high-tech products has surged.
- The decline in oil prices has pushed down the current account surplus from record high levels. Internationally, the surplus remains high.

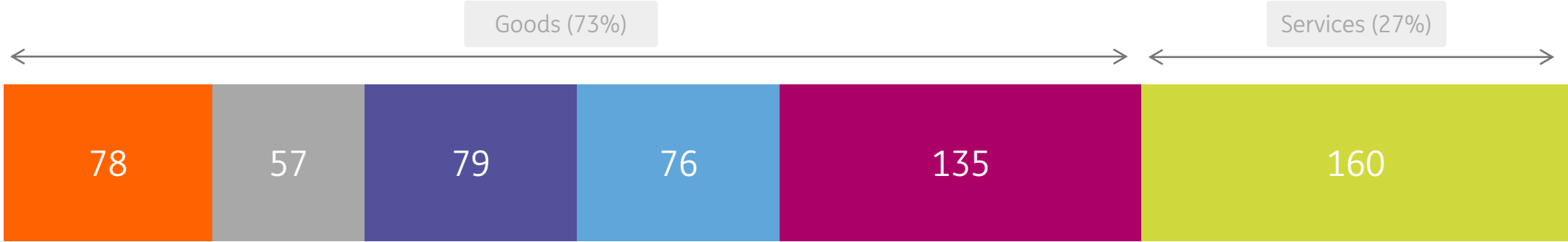
Main trading partners of the Netherlands (2015)



Almost €600 billion of Dutch exports in 2015

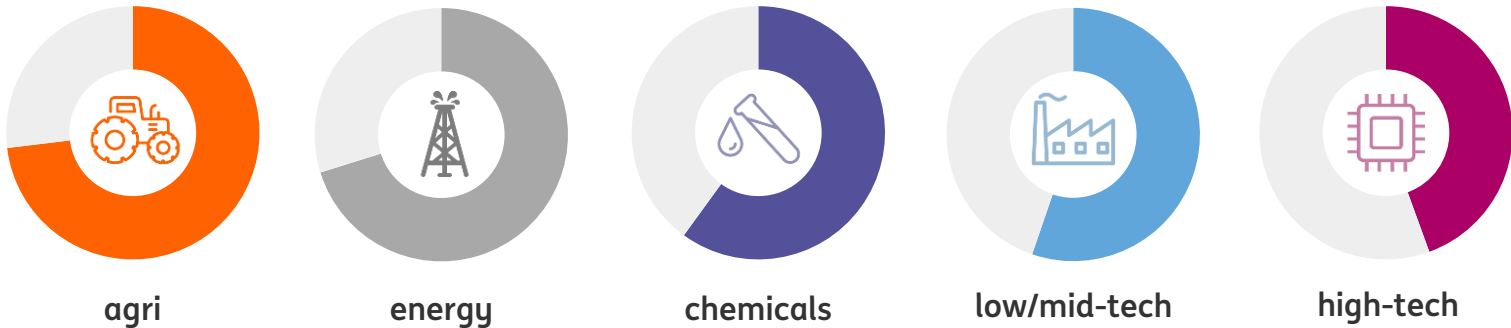
Mostly goods, but over a quarter now consists of services

In billions of euro



Agri exports are dominated by domestically produced goods, high-tech is mostly re-exports

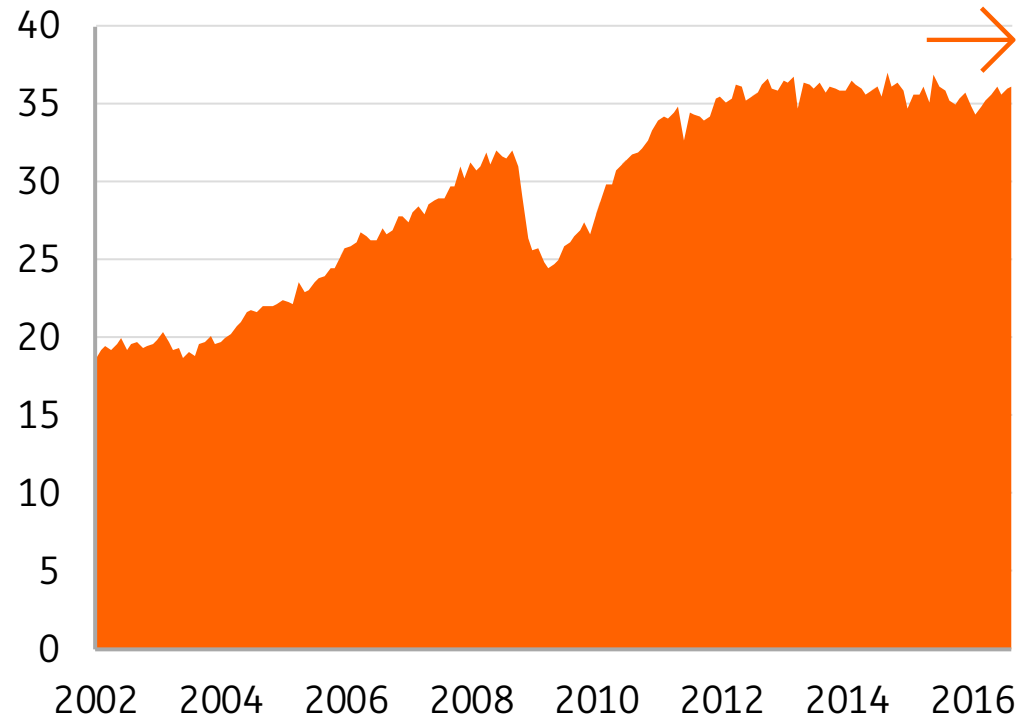
Share of domestically produced goods in exports, per category



Export value stable, largely due to fall in energy exports

No growth in exports since late 2012

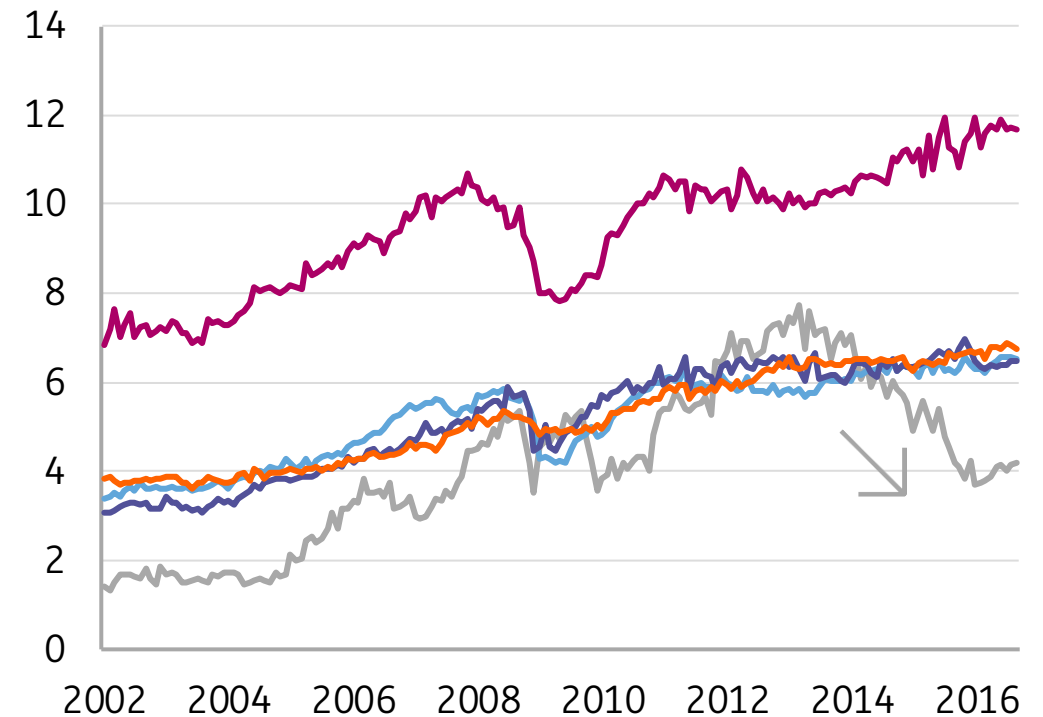
Per month, in € billions, seasonally-adjusted



— Total monthly exports, goods

Lower energy exports, but strong increase in high-tech

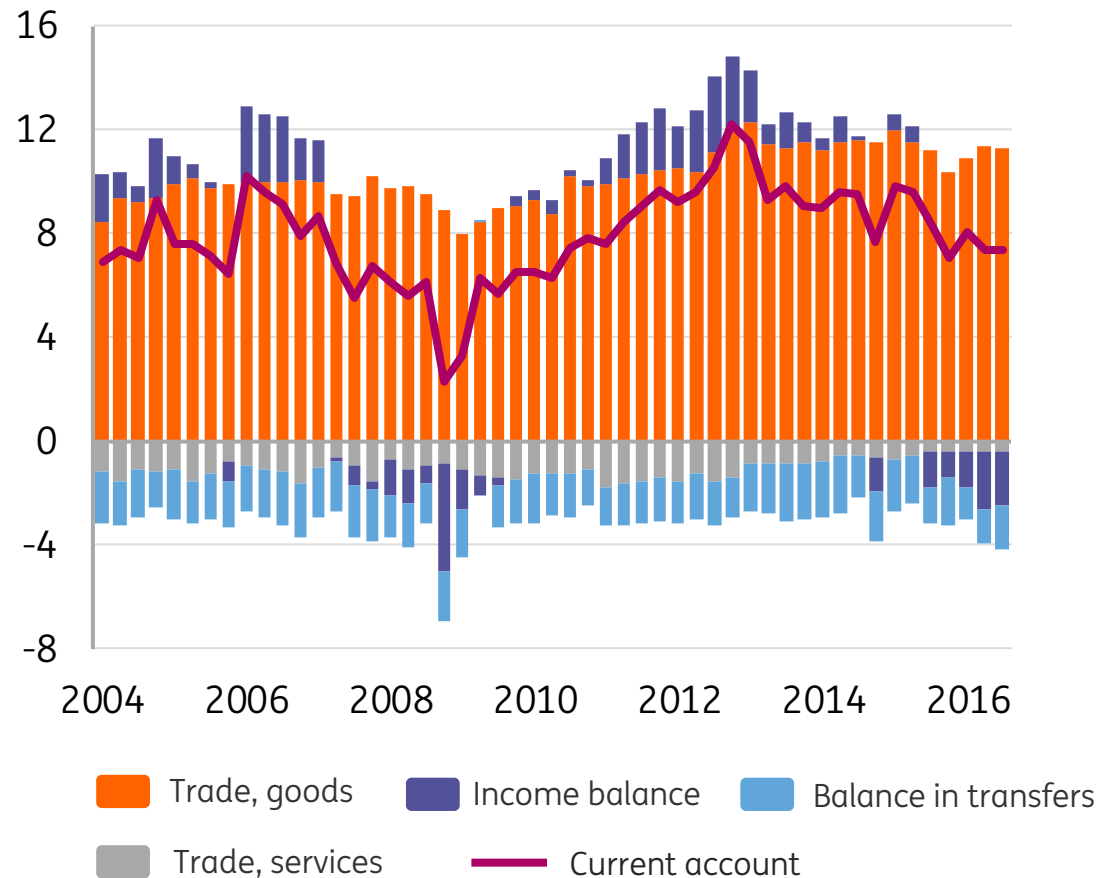
Per month, in € billions, seasonally-adjusted



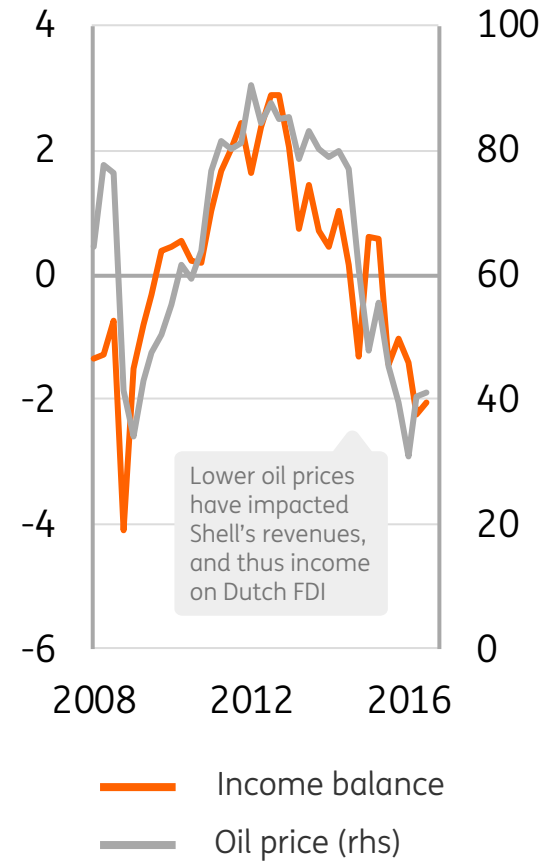
— Agri — Chemical — High-tech
— Energy — Low-/mid-tech

Oil pushes current account surplus down from record high

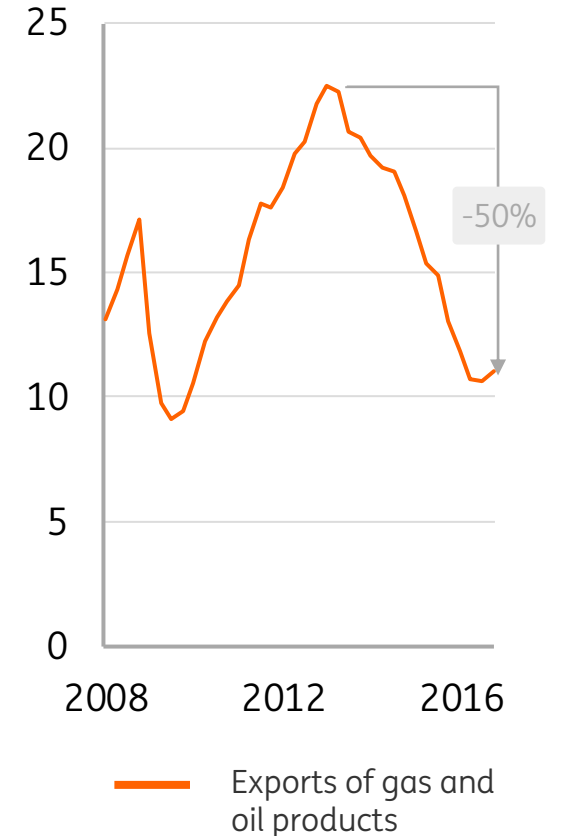
Current account down from record level, but still high
% of GDP, seasonally-adjusted



Income: the "Shell-effect"?
% of GDP €/barrel



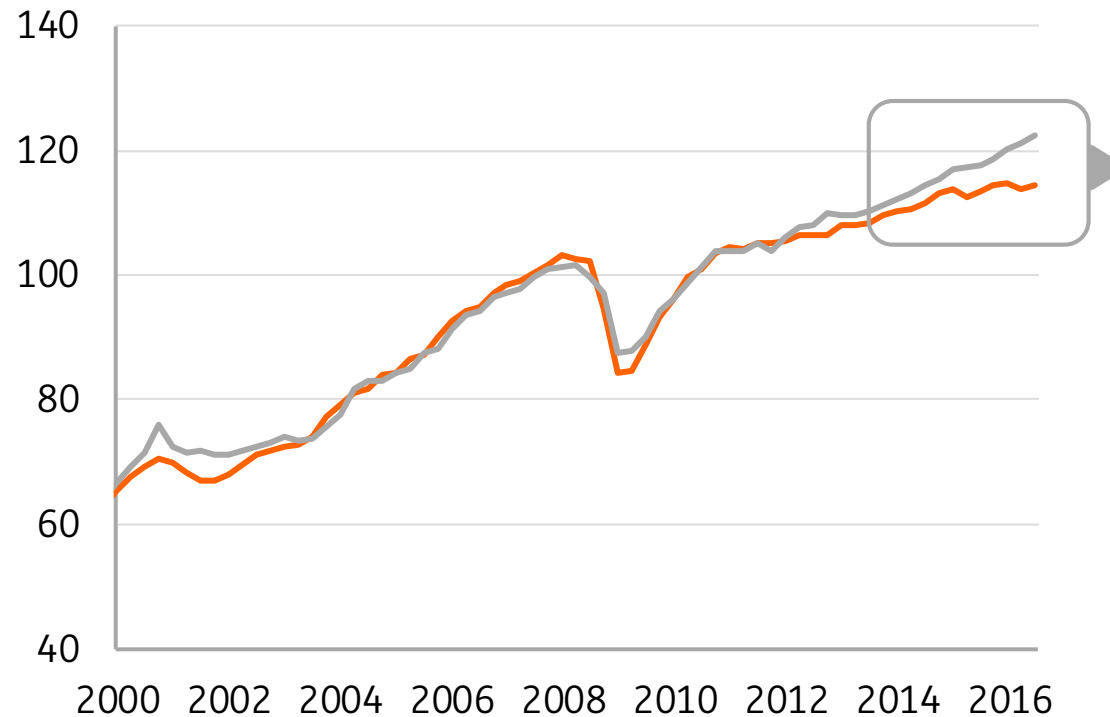
Trade: drop in energy exports
€ billions



In volume terms, Dutch exports have outpaced world trade

World trade has stagnated, but Dutch exports are still rising

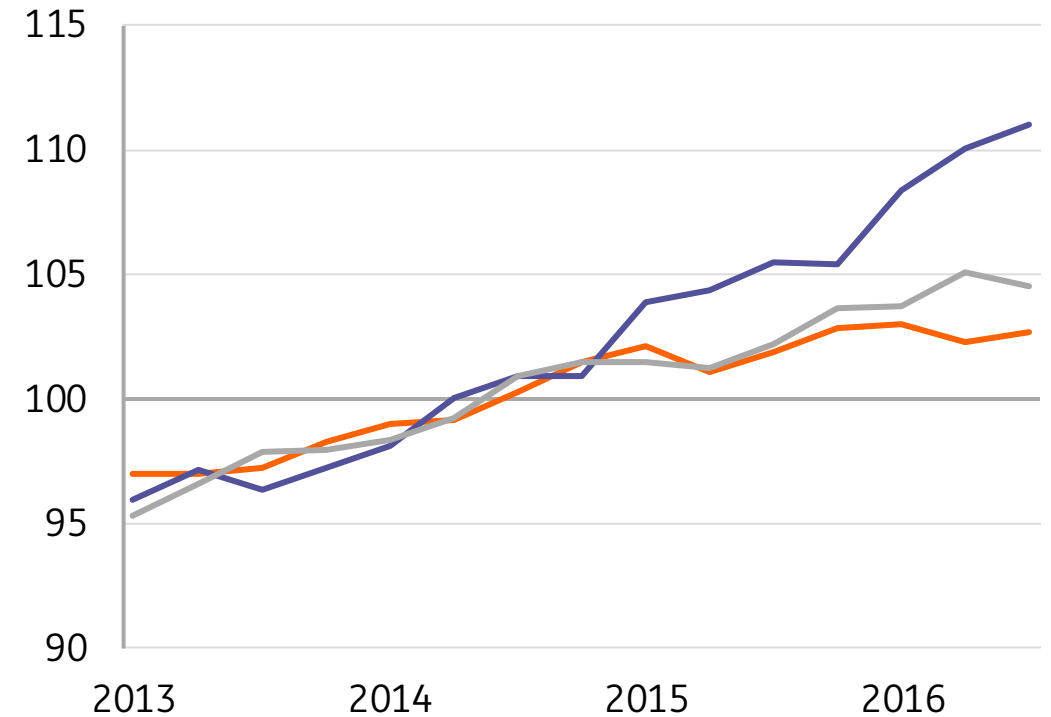
Index, 2010 = 100



- World trade volume
- Exports of goods, constant prices, Netherlands

Sharp rise re-exports, but export 'made in NL' higher too

Index, 2014 = 100

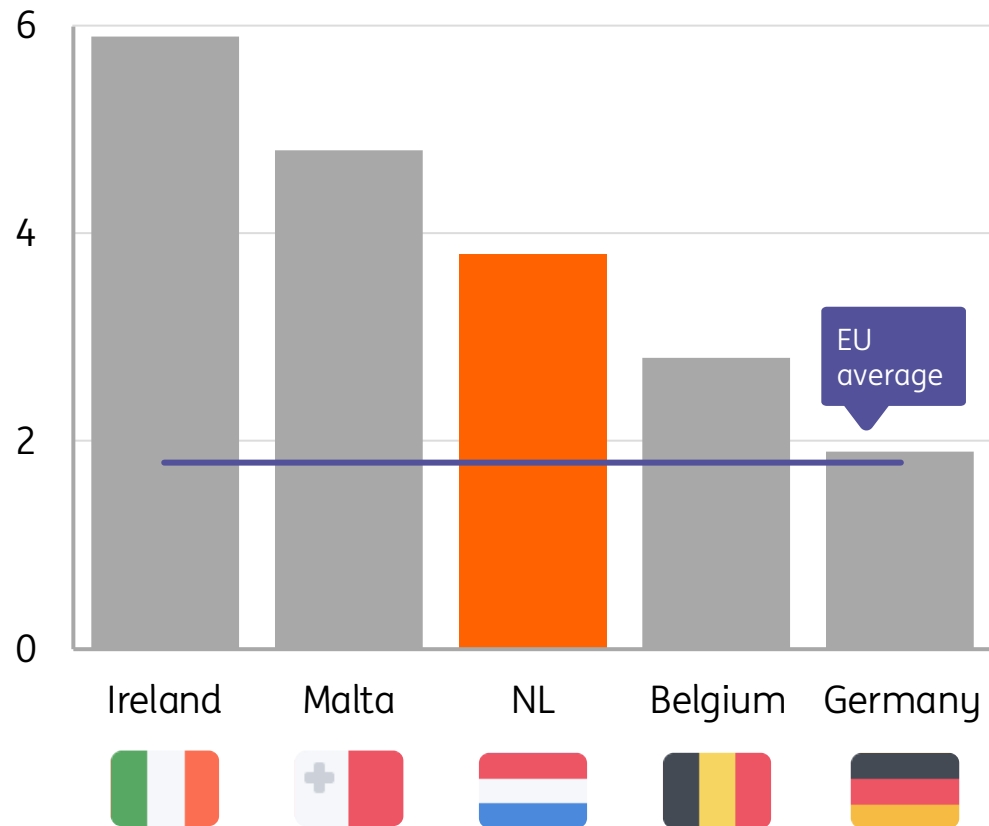


- World trade volume
- Domestically-produced exports, the Netherlands
- Re-exports, the Netherlands

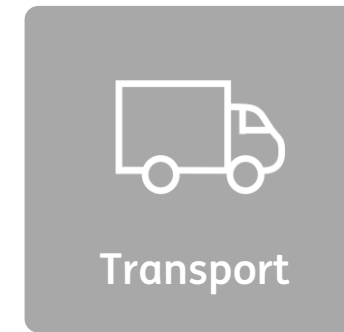
Risk: if Brexit fears materialize, NL will be hit relatively hard

Sensitivity to UK: NL ranks third within EU

% of total added value dependant on demand from UK



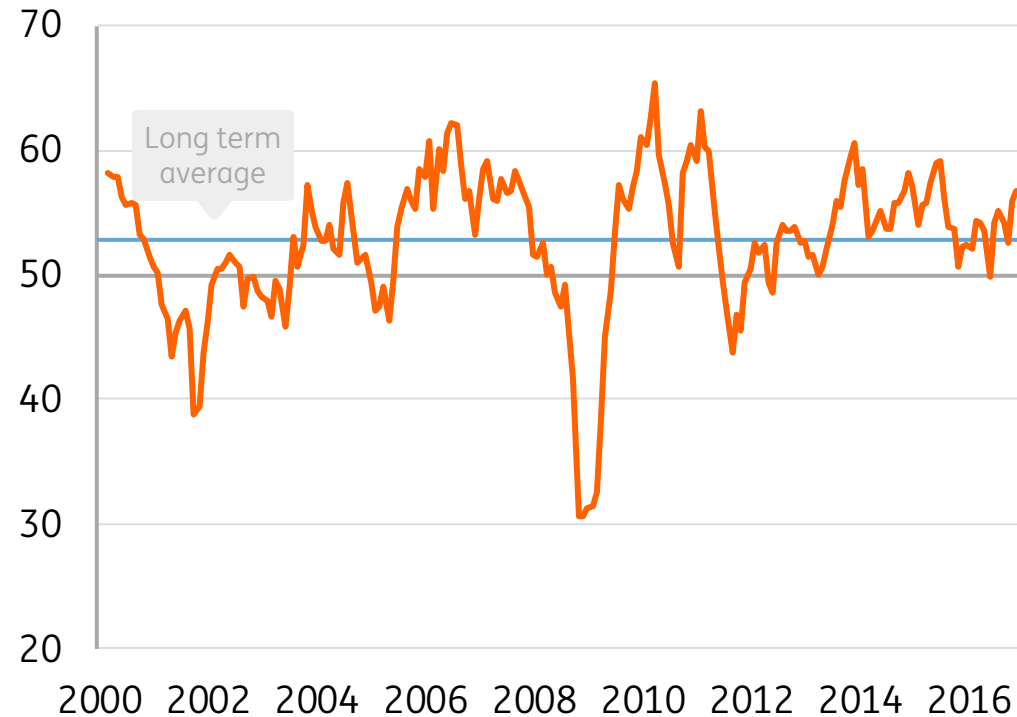
Dutch sectors that are most exposed to the UK



For now, exporters are still positive on outlook

Industrial export order books are filling up

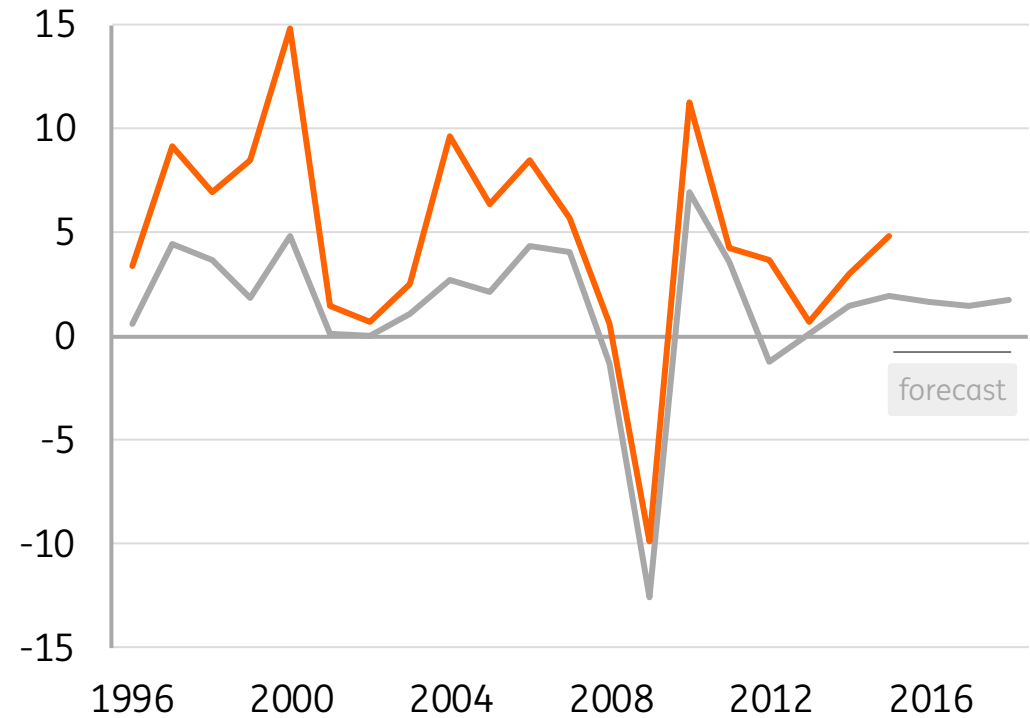
Index



— NEVI/Purchasing Managers' Index - export orders

Base case: steady growth in main export markets

Change year-on-year, constant prices, in %



— Merchandise exports, the Netherlands

— Industrial production in main Dutch export markets*

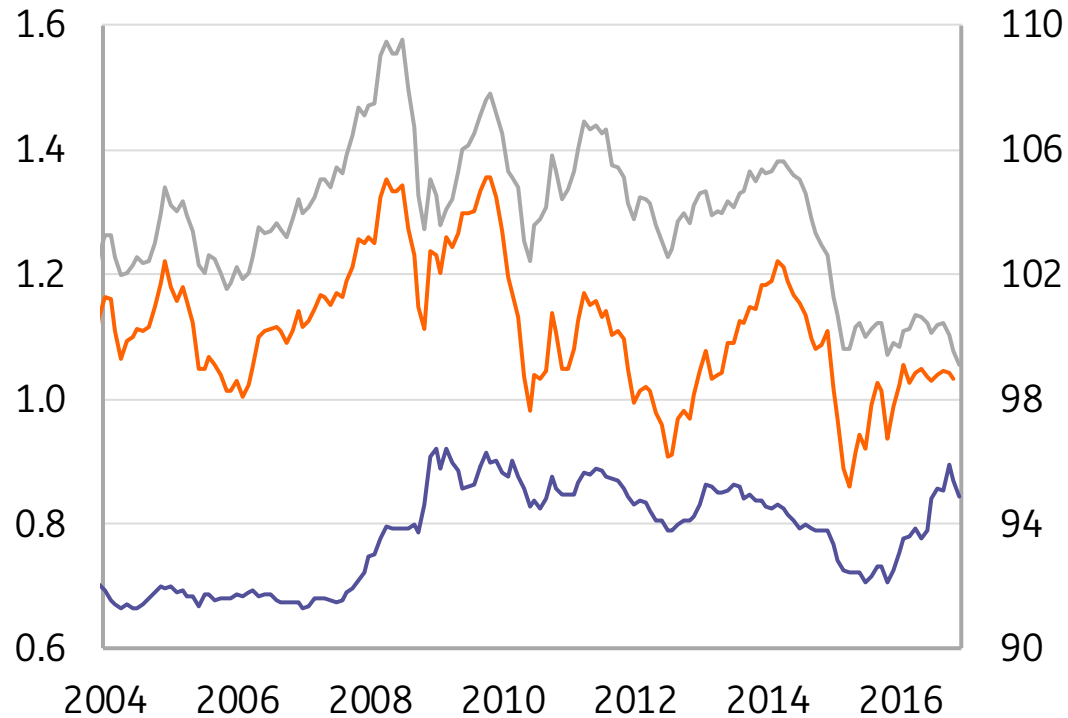
* Proxied by Eurozone, UK, US and China. Share in Dutch exports used as weights

International competitive position has improved

GBP has weakened against euro, USD has strengthened

Currency per euro

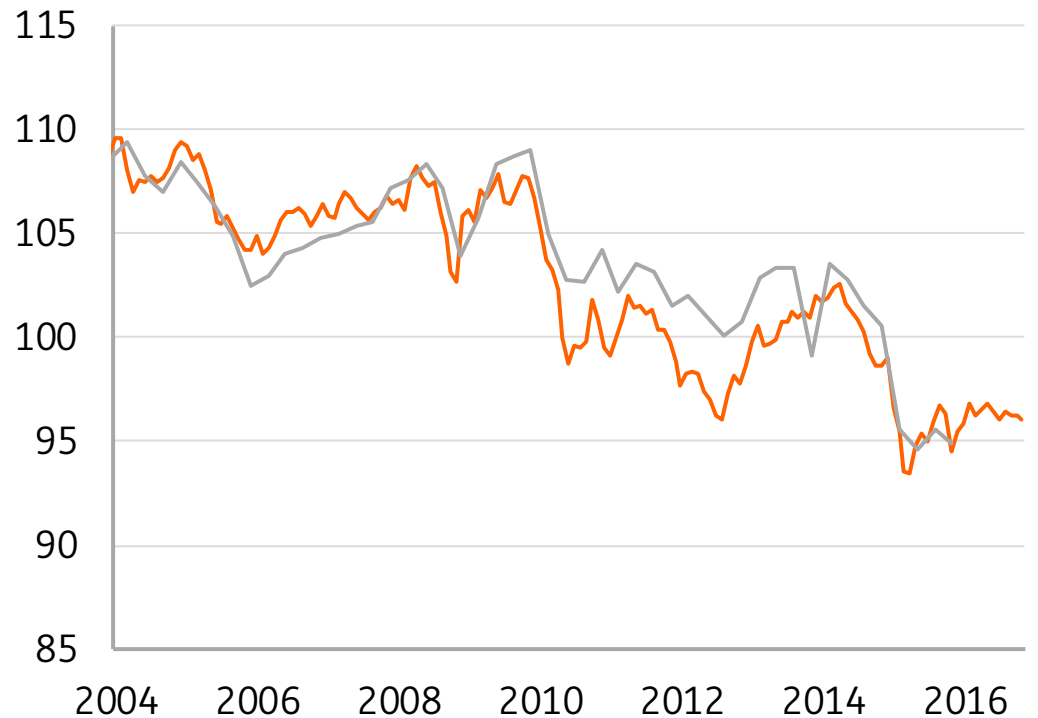
index, 2010 = 100



- Nominal trade-weighted euro, Netherlands (right)
- USD per euro
- GBP per euro

Dutch competitiveness has, on balance, improved since 2008

Index, Q1 1999 = 100



- ECB Harmonized Competitiveness Index, based on CPI
- ECB Harmonized Competitiveness Index, based on unit labour cost

A very competitive economy: Dutch are ranking high

WEF Global competitiveness Index



Global Innovation Index



Network Readiness



Global Enabling Trade Report



Logistics Performance Index



Ease of Doing Business



Corruption Perceptions



Human Development



Prosperity Index



 Position in 2010

2016: WEF Global competitiveness, Global Innovation, Logistics Performance Index, Ease of Doing Business, Network Readiness
 2015: Corruption Perceptions, Human Development, Prosperity Index
 2014: Global Enabling Trade Report 2014

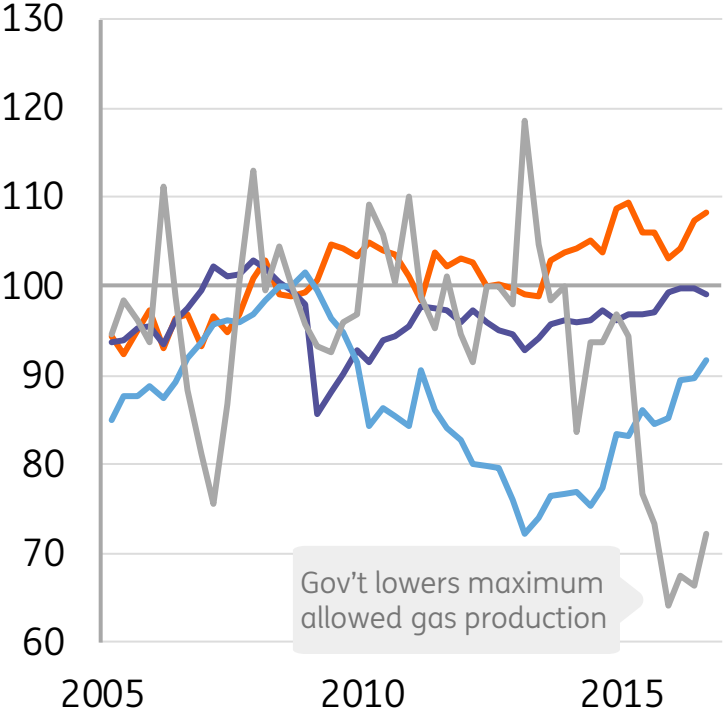
Non-financial businesses

- In 2016, all major market sectors, barring automotive and gas extraction, increased their production levels. In 2017, the market sector is forecast to further increase output.
- Most sectors have recovered to pre-crisis levels. Main exception is the construction sector, which is still some 8% smaller than in 2008. In terms of value added, hospitality has also not fully recovered. The gas sector (-30%) was hit by the decision to lower the maximum allowed production in 2015 (in 'gas year' 2016-2017, the production will be lowered further).
- The financial situation of companies is improving. Profits are rising and the number of corporate bankruptcies is falling back rapidly towards levels last seen in 2008. Indicators show that the economic recovery is gaining a firm foothold among SMEs. Smaller firms now also report, on balance, higher profitability.
- Investment levels have increased strongly in recent years. Private investment excluding dwellings (as a percentage of GDP) is above the long-term average. Including dwellings, the investment level is still significantly below previous peaks.
- The combination of higher output levels and rising profits induces companies to continue to step up investment, but at a slower pace than in previous years. Spending on vehicles and machines once again equals the 2008 level, while ICT-related investment is even some 20% higher. Investment growth in the commercial services sectors has started to normalize.
- After a sharp drop in 2008-2013, residential construction rebounded very strongly; in 2015, by almost 30% and in 2016 by a near 20%. This year, residential investment is expected to increase further, but the pace of growth is set to slow to around 10%.

Most, but not all, sectors have recovered to 2008 levels

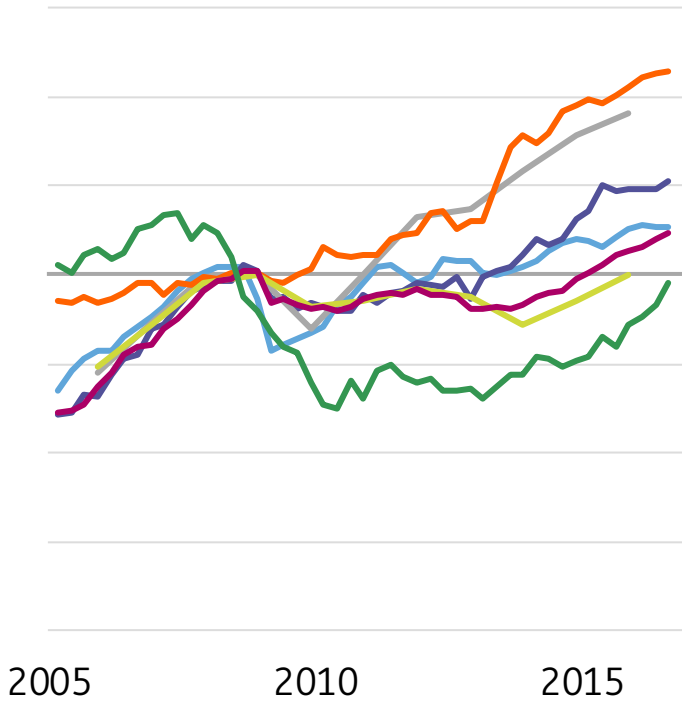
Goods-producing sectors: mixed picture

Output, index, 2008 = 100



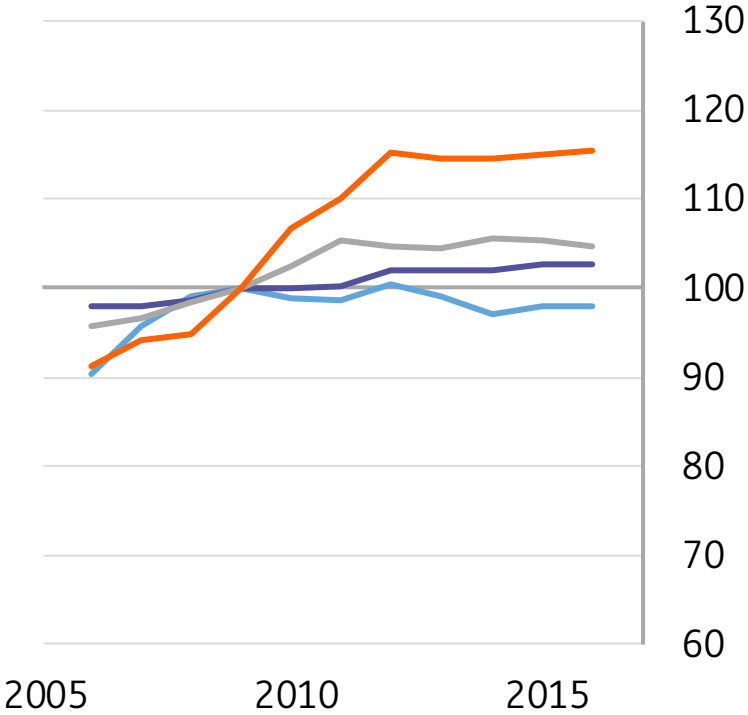
- Agriculture
- Manufacturing
- Mining/gas
- Construction

Commercial services: trending up



- Real estate
- Wholesale
- Hospitality
- Wholesale*
- Other
- Retail*
- ICT

Public services: stable



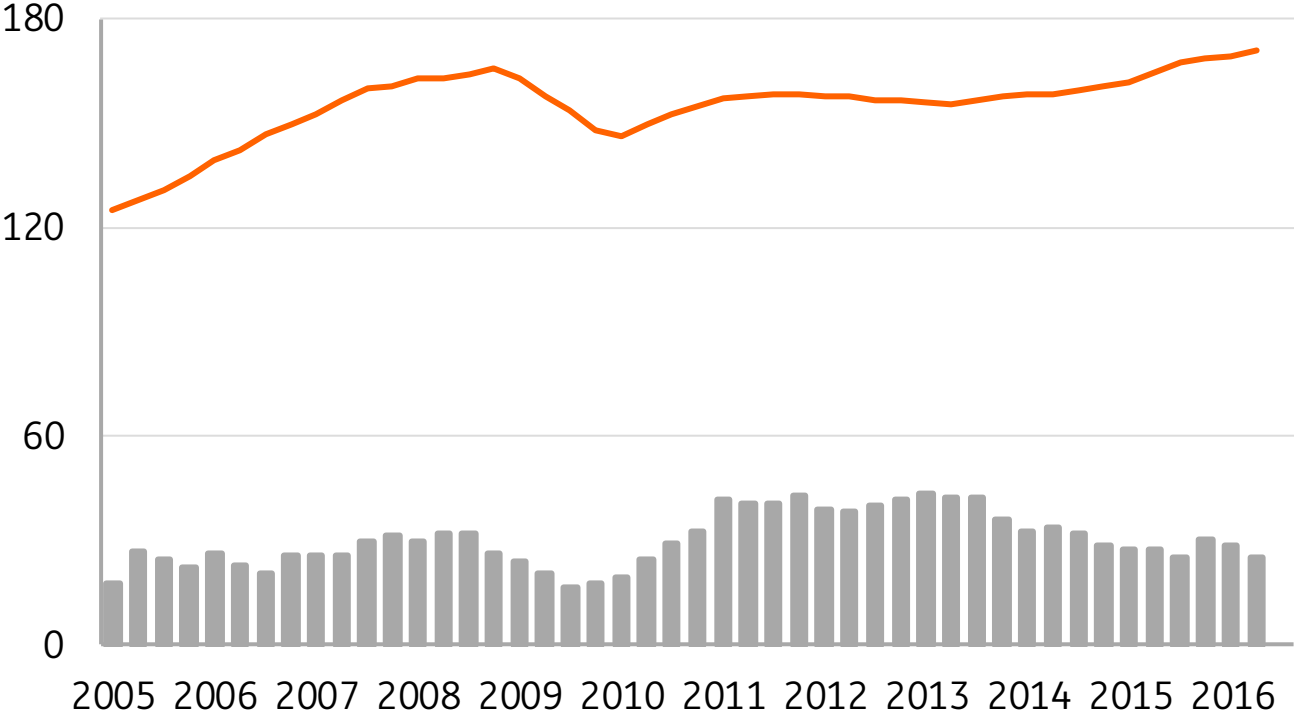
- Government*
- Health care*
- Education*
- Culture, sport & recreation*

* No quarterly data available

Higher profits for non-financial companies

In euros, profits from domestic activity are back at pre-crisis levels

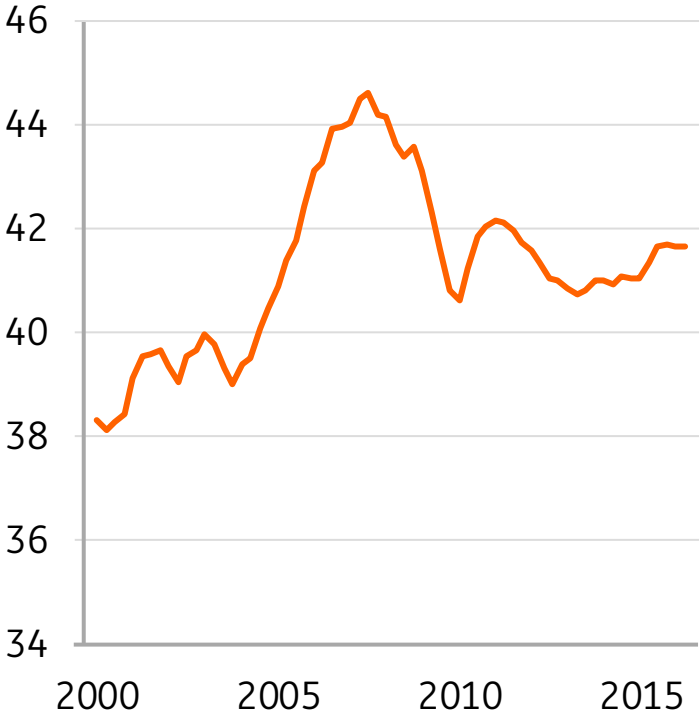
4Q sum, in euro billions



— Gross operating surplus, **domestic** activity
 Profits of **foreign** affiliates of Dutch non-financial companies

Profit quote is still below 2008 level

Gross operating surplus as percentage of gross value added

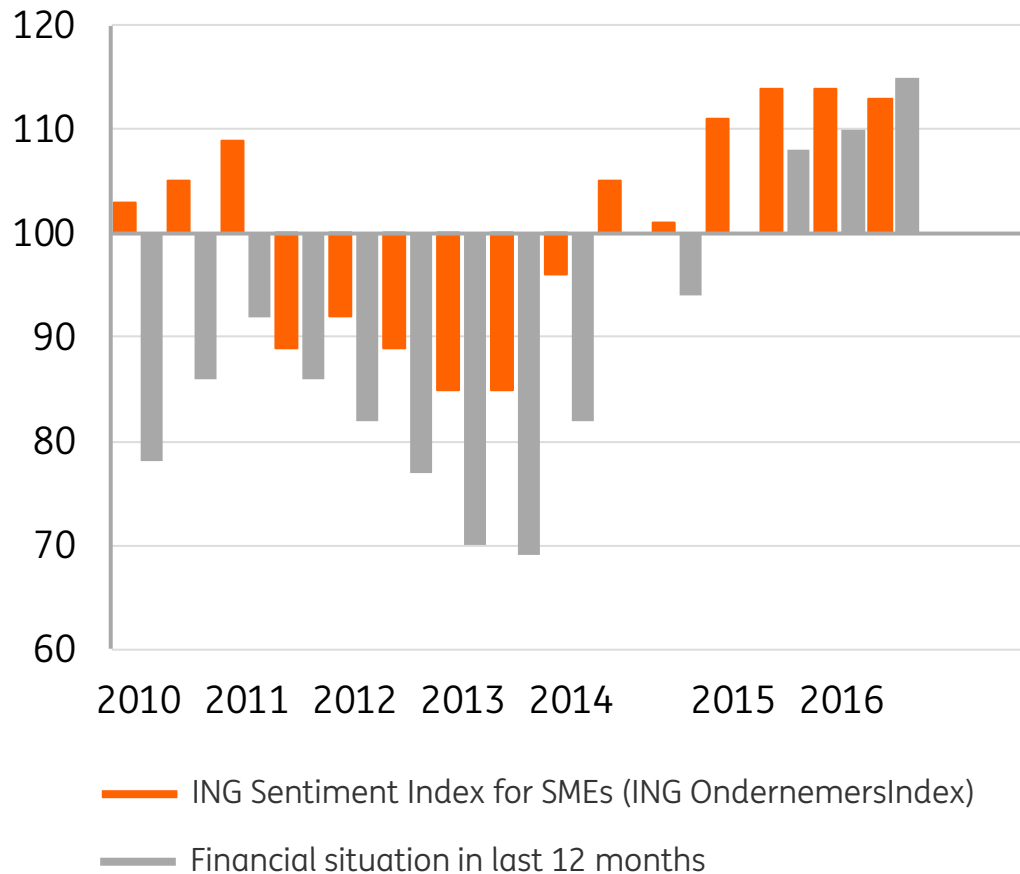


— Profit quote, non-financial companies

Recovery is filtering through to smaller firms

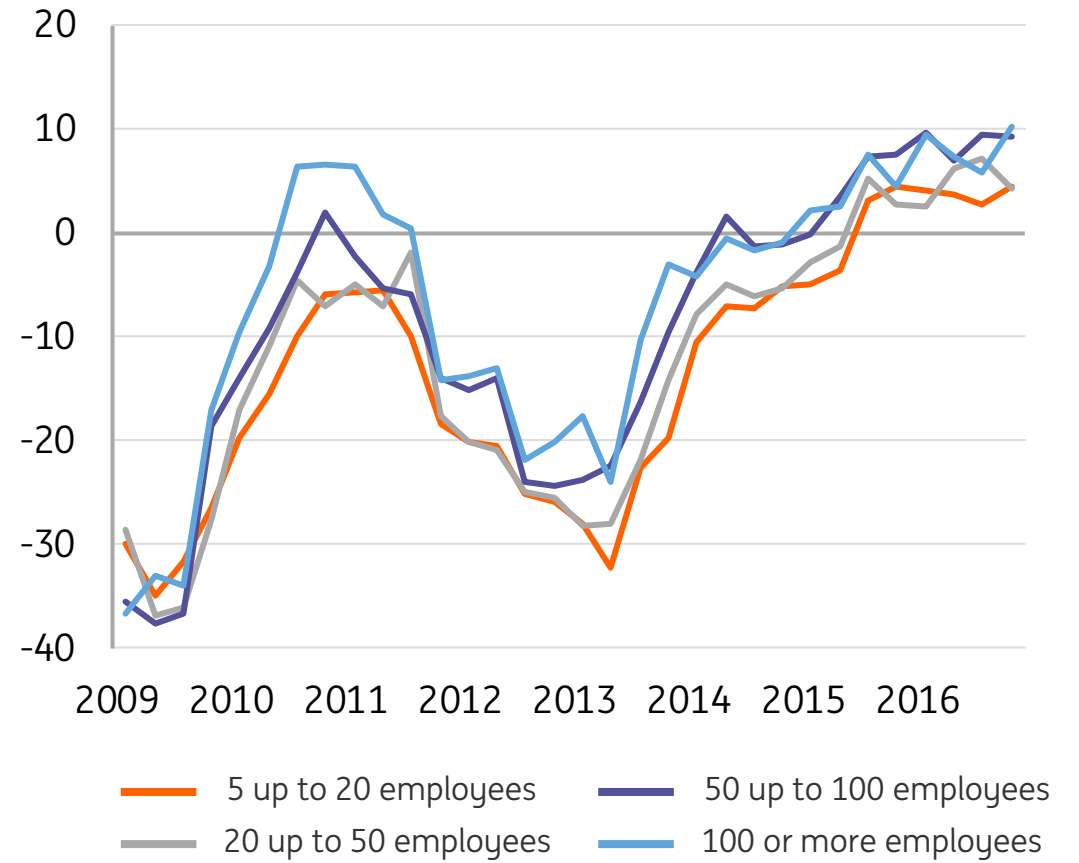
SMEs: more confidence and improved finances

Net % of firms reporting improvement (+) or deterioration (-)



Positive trend in profitability

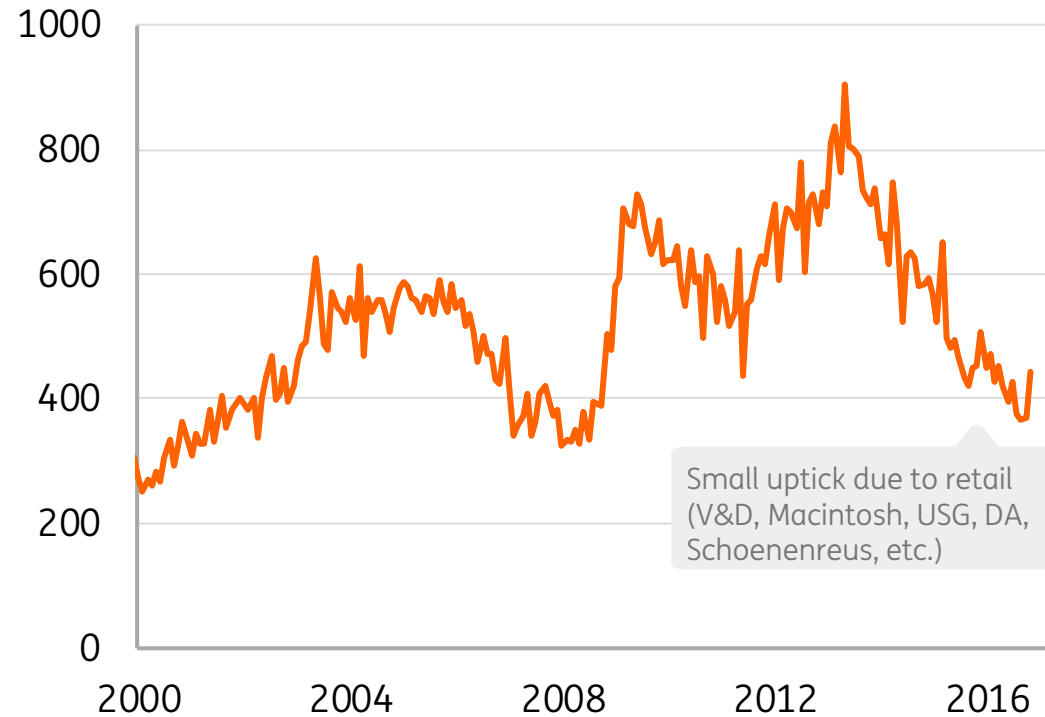
Net % of firms reporting higher (+) or lower (-) profitability in last 3 months



Fewer bankruptcies

Number of bankruptcies heading towards pre-crisis levels

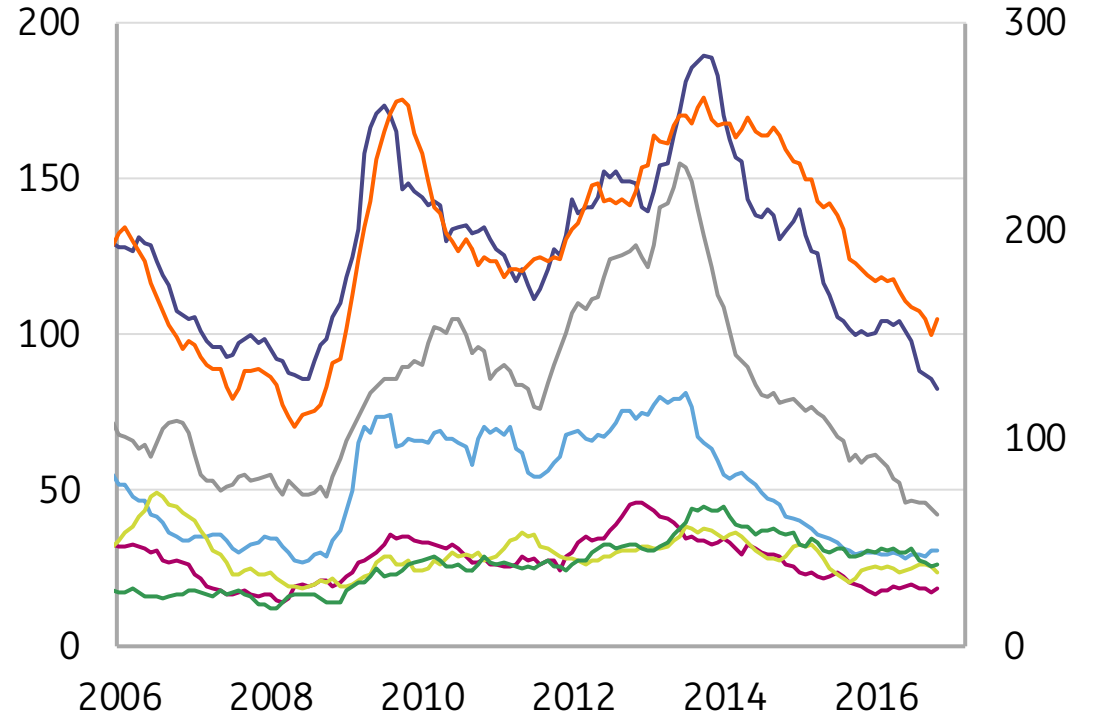
Actual numbers, seasonally-adjusted



Bankruptcies per month

Declines in all sectors

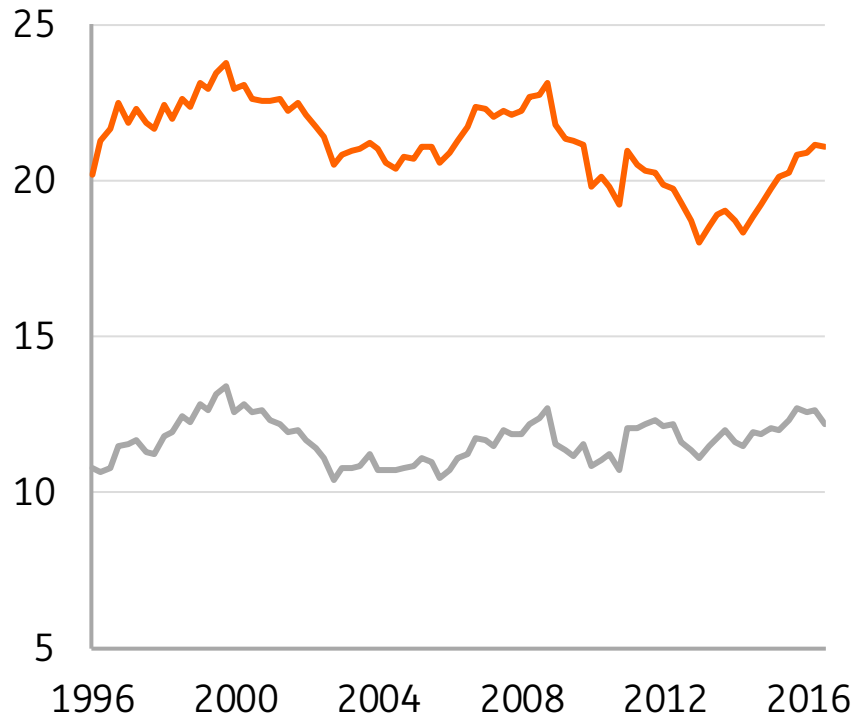
Bankruptcies per month, 6M moving average



Business investment has recovered, construction not yet

Investment rate is below pre-crisis peaks...

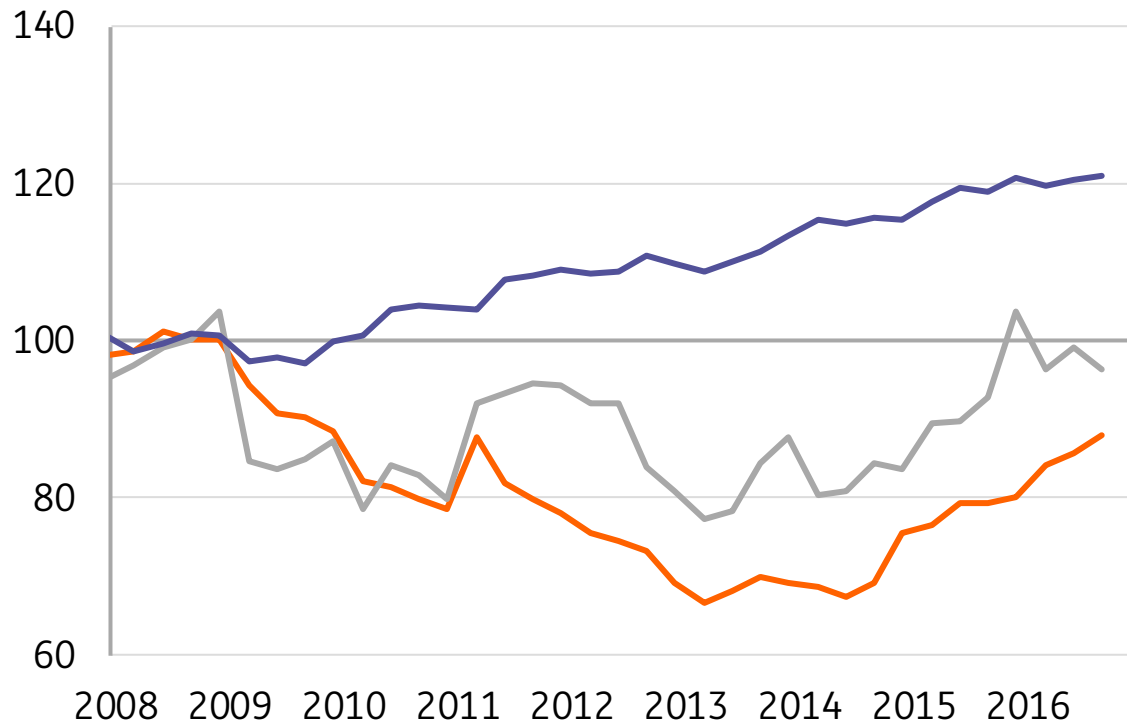
As % of GDP



- Total investment (private + public)
- Private investment, excluding dwellings

...due to dwellings, while ICT investments show steady uptrend

Index, 2008 = 100



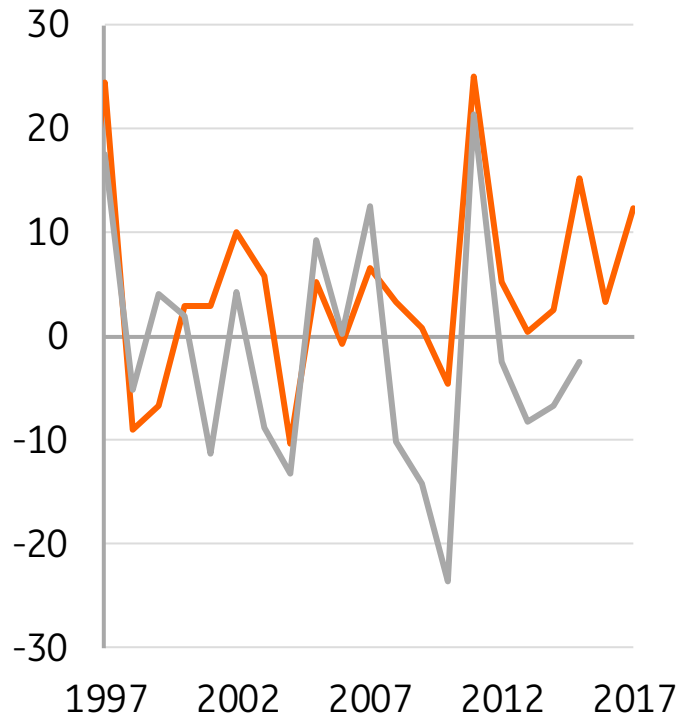
- Dwellings and other buildings (including roads, waterways, etc.)
- Transport vehicles and machines
- Software, computers and R&D



Further investment growth, but at slower rate

Industry expects to invest more...

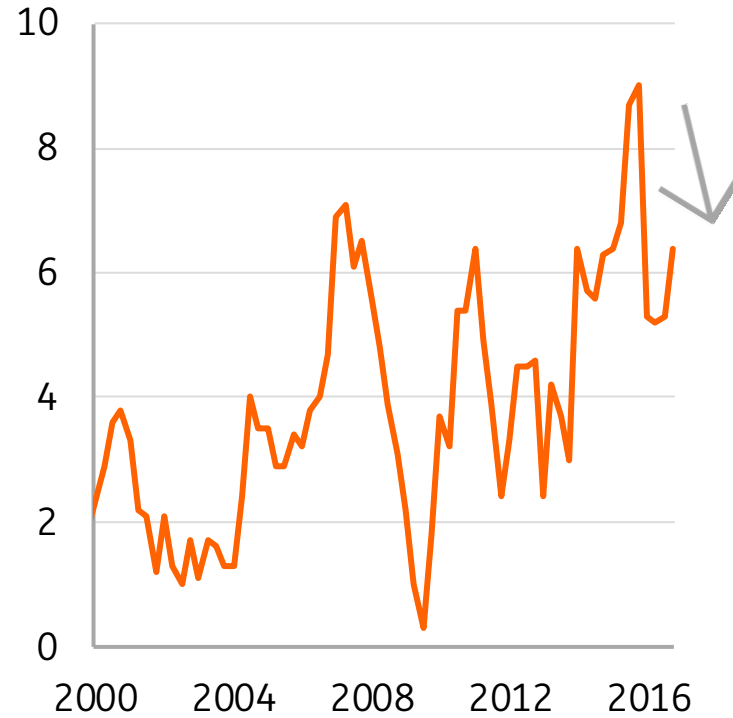
% of firms



— **Expected** increase in investment
— Actual

...but need for extra capacity has eased

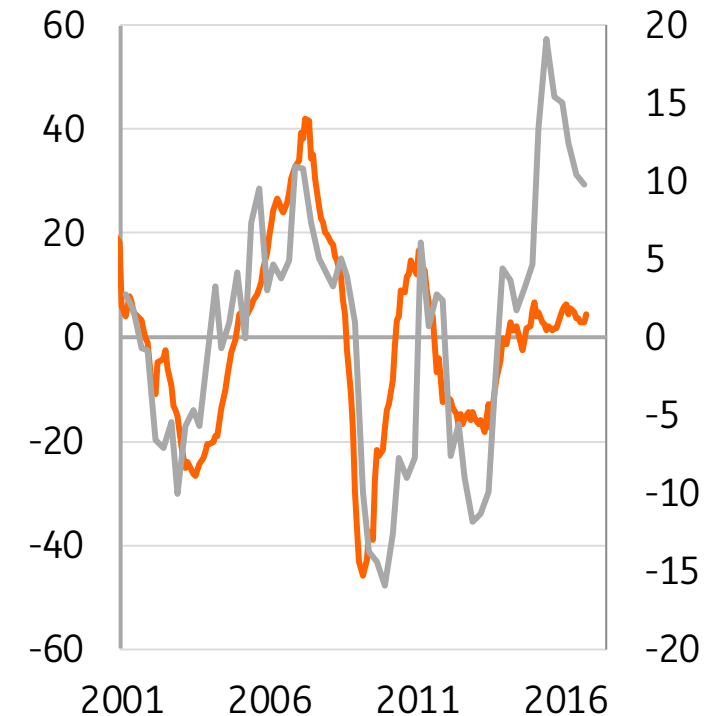
Change year-on-year, in %



— Factors Limiting Production, shortage of materials & equipment

Growth in comm. services normalizes

Index, dev. from LT-average Change YoY, in %

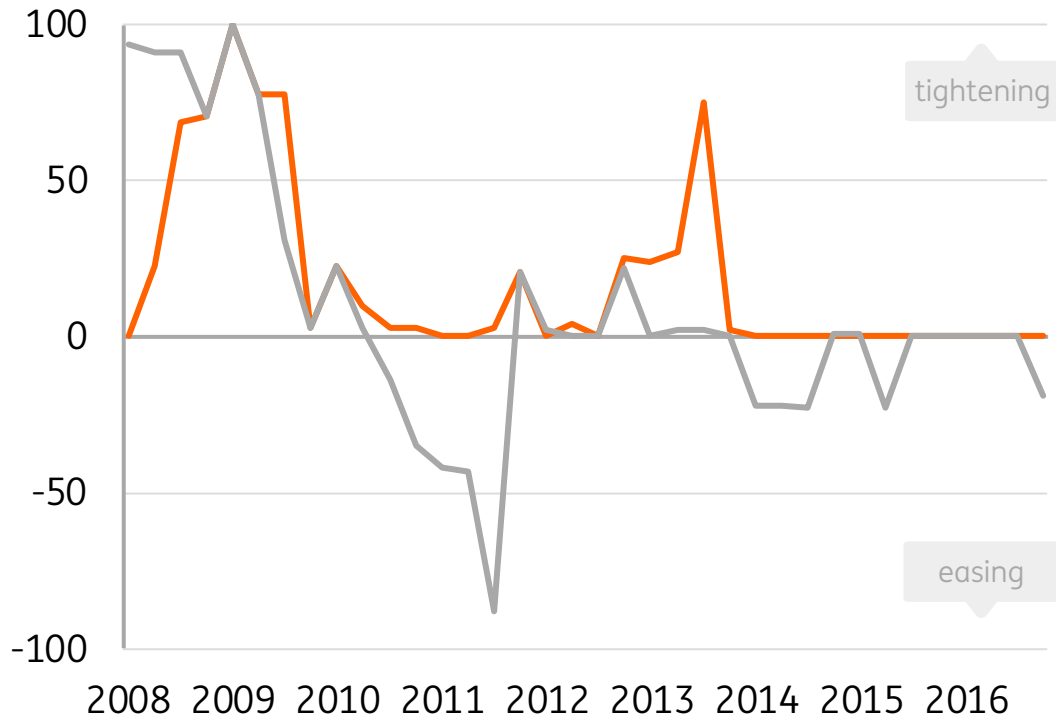


— Business confidence (left)
— Investment volume (right)

Stronger demand for bank credit

Credit standards have been eased slightly for large firms

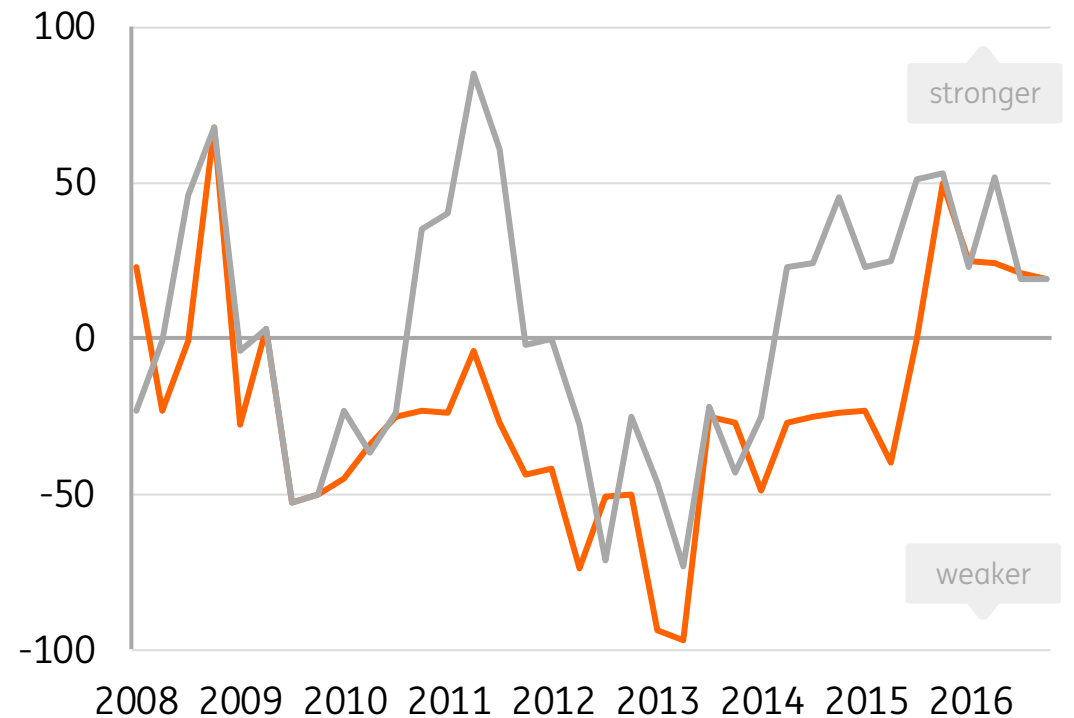
Net percentage of banks reporting tighter (+) or eased (-) standards



— SMEs
— Large firms

Credit demand from SMEs is also picking up

Net percentage of banks reporting stronger (+) or weaker (-) demand



— SMEs
— Large firms

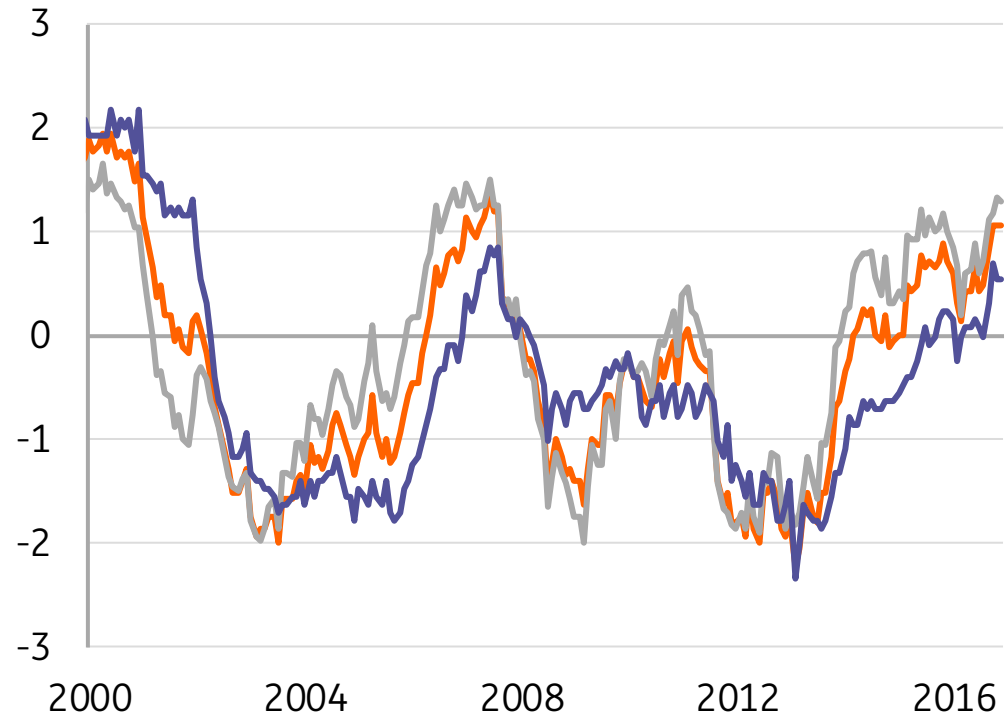
Consumers

- Spending power has risen strongly in the past two years, helped by more jobs, higher wages, near-zero inflation and tax cuts. However, households did not react by boosting their spending at an equal rate. A significant share of the income increase was put aside or used to pay down on mortgages.
- Debt is still rising, but at a much lower rate than previously. Households are deleveraging the 'soft' way (also see slide 57).
- With confidence now the highest since 2007, this is changing. Households are stepping up their spending pace. In the third quarter of 2016, spending by households was even the main driver of GDP growth.
- Spending on both goods and services is rising. Within the goods category, electronics are the standout. In line with the recovery in home sales, housing-related spending is also picking up. The recovery in clothing and cars has remained muted.
- Consumers are above-average optimistic about the general economic climate and willingness-to-buy is now also above the long-term average. The increase in confidence is largely driven by younger people.

Consumers shake off bad news

Consumer confidence highest in 9 years

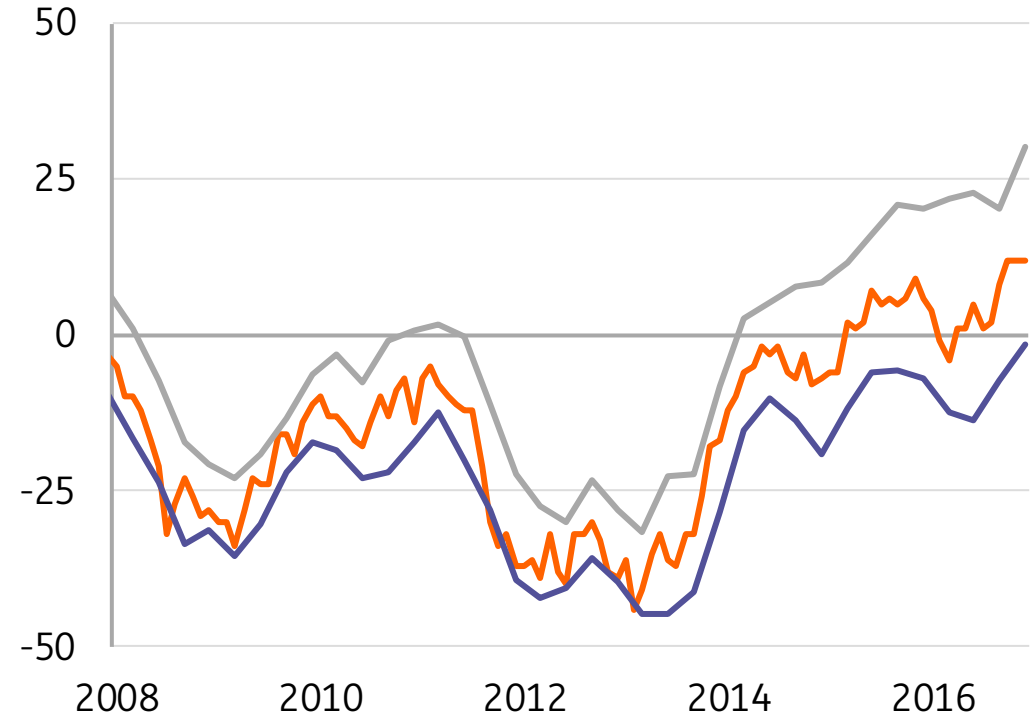
Standardized index



- Consumer confidence index
- Economic climate
- Willingness to buy

Especially younger people are full of confidence

Consumer confidence, index

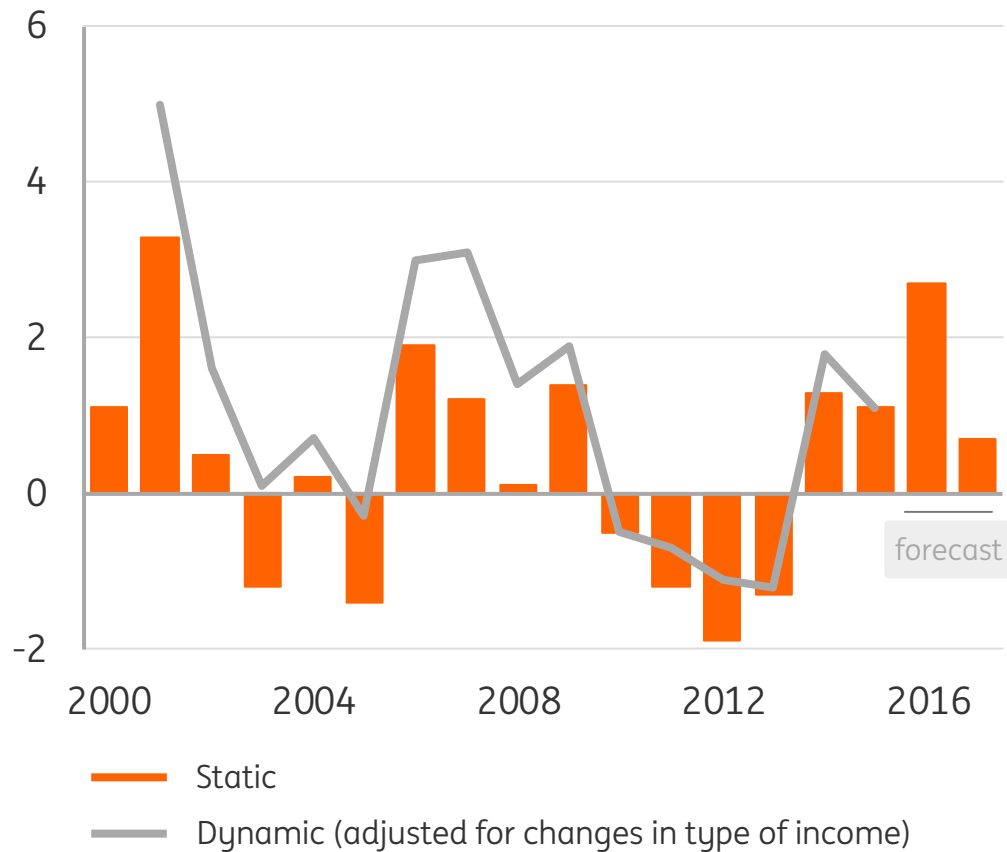


- All ages
- 18-45 years
- 65+

More spending power

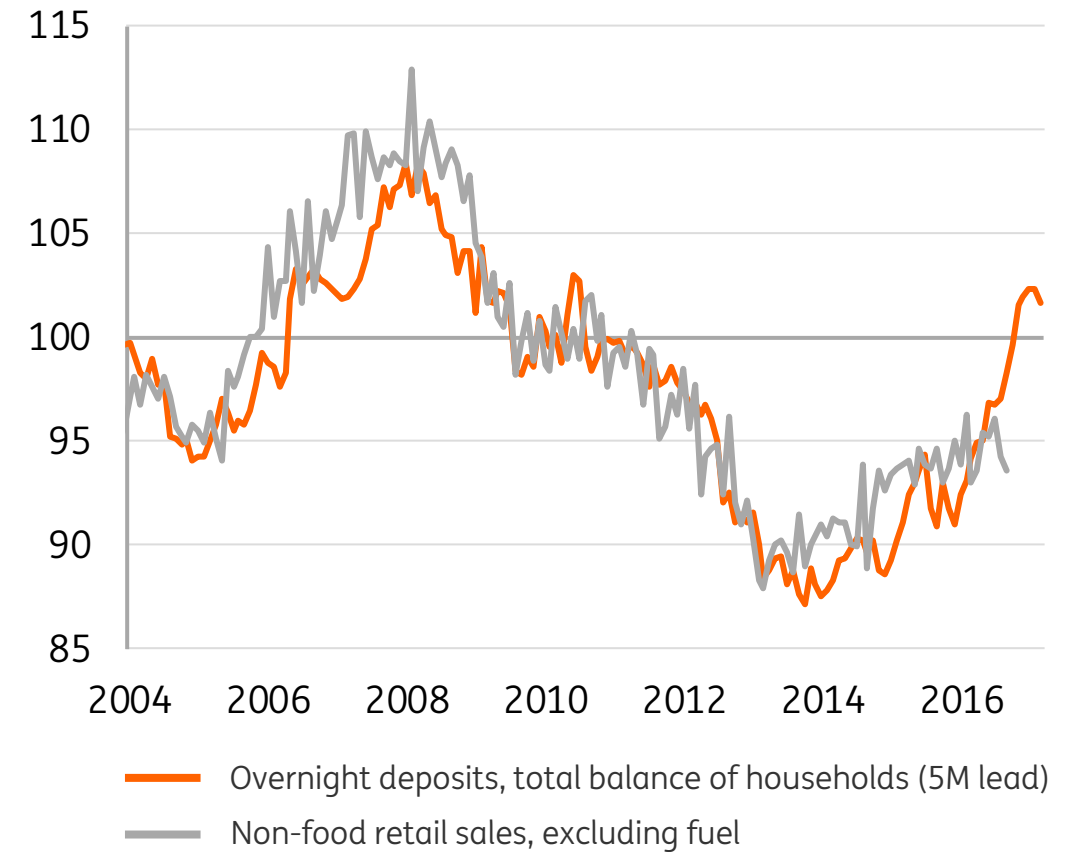
After 4 yrs of decline, 4 yrs of higher purchasing power

Change year on year, in %



Increase in overnight deposits points to higher spending

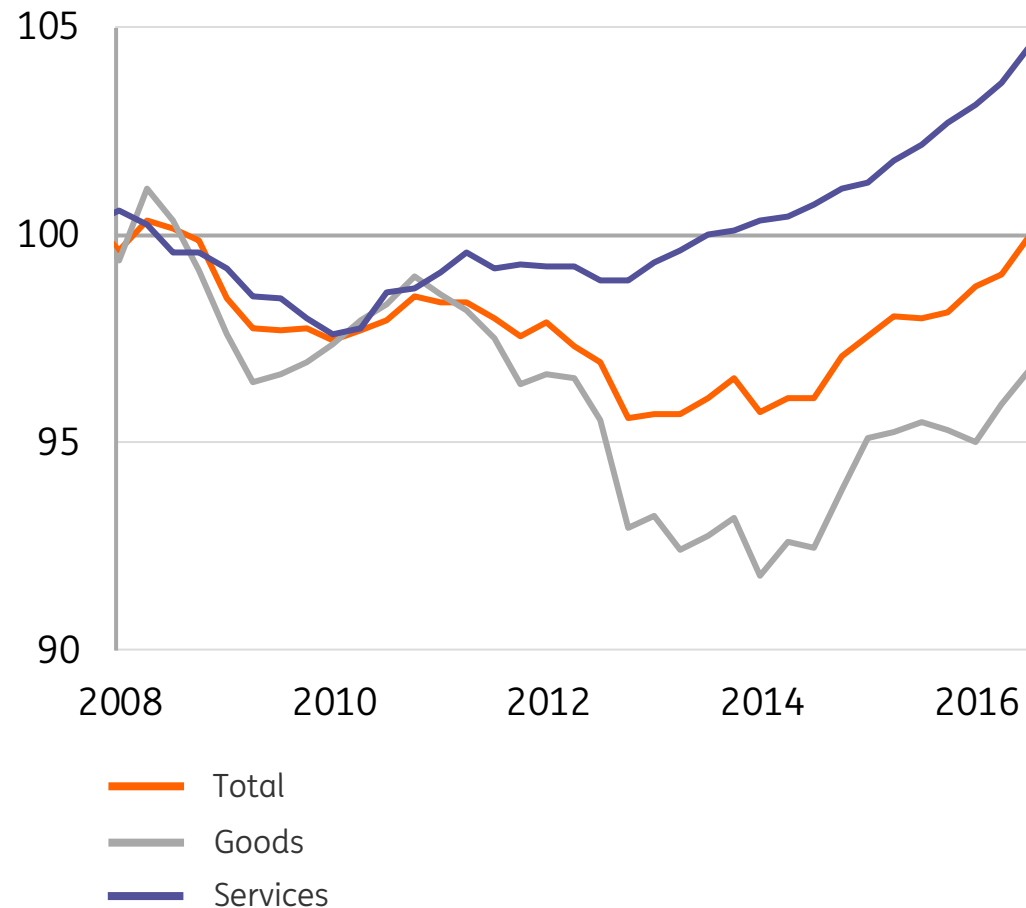
Inflation-adjusted index, 2010 = 100



Private consumption growth is gaining traction

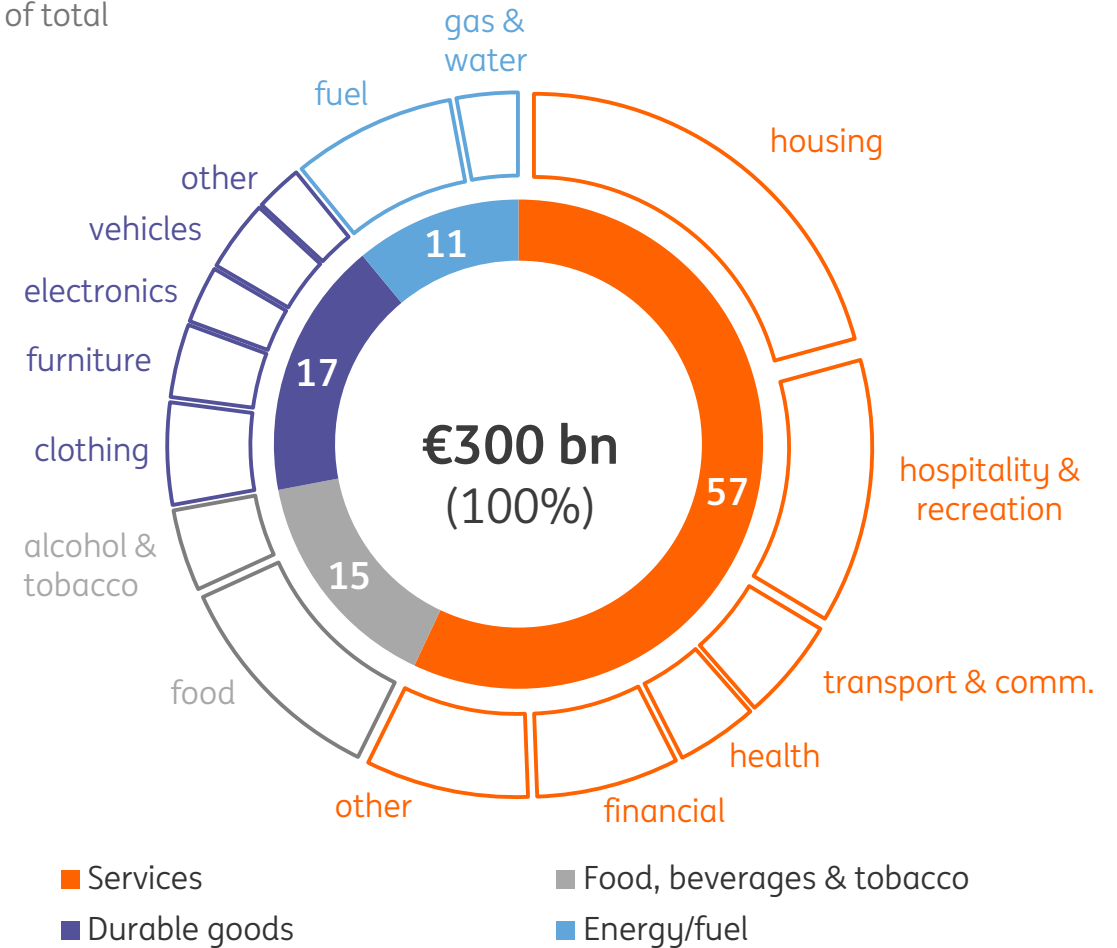
Increased spending on both goods and services

Private consumption by type, volume index, 2008 = 100



Breakdown of consumer spending, 2015

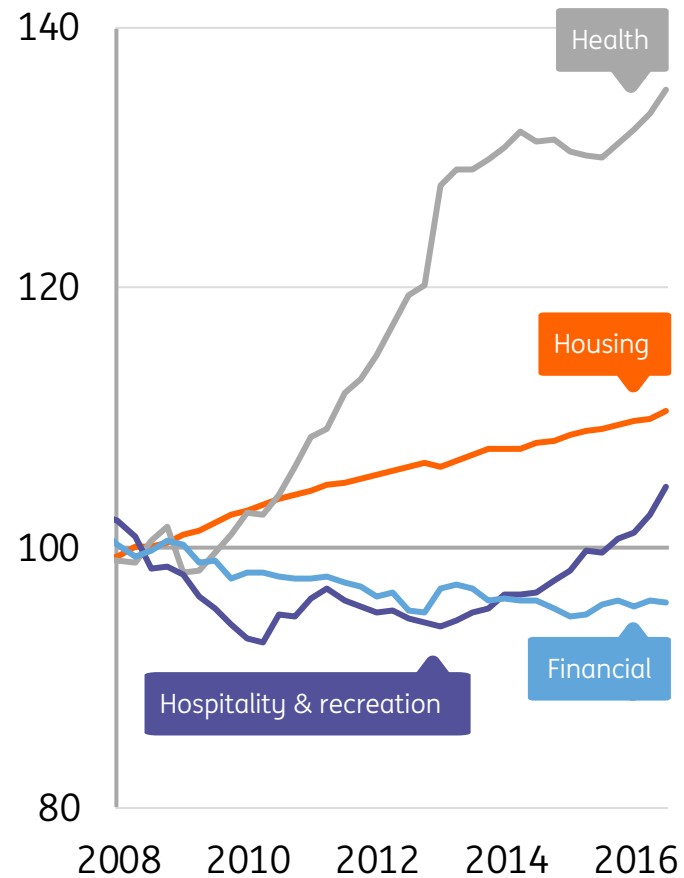
% of total



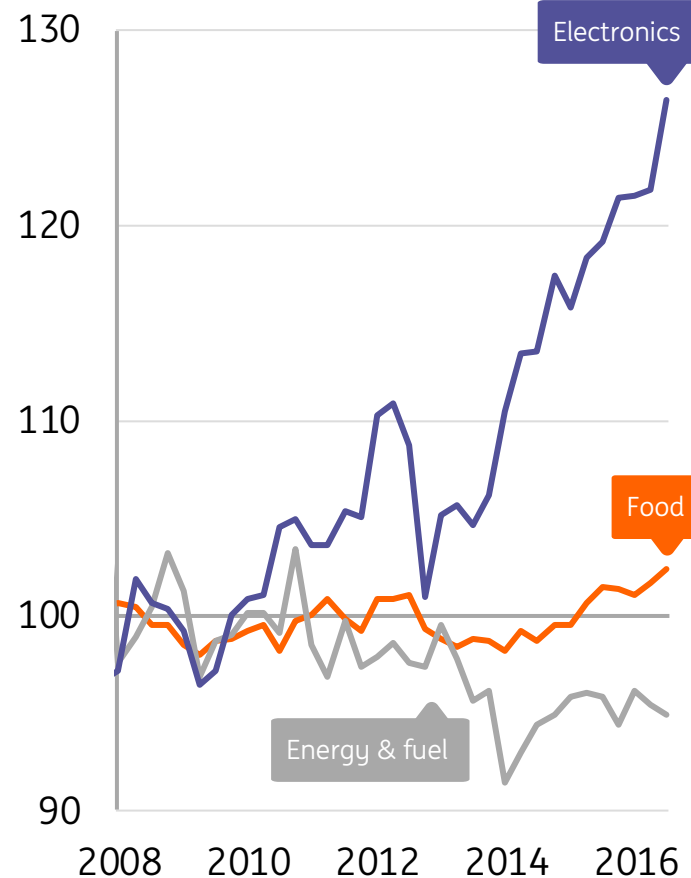
Consumer spending trends

Services: more on housing and health

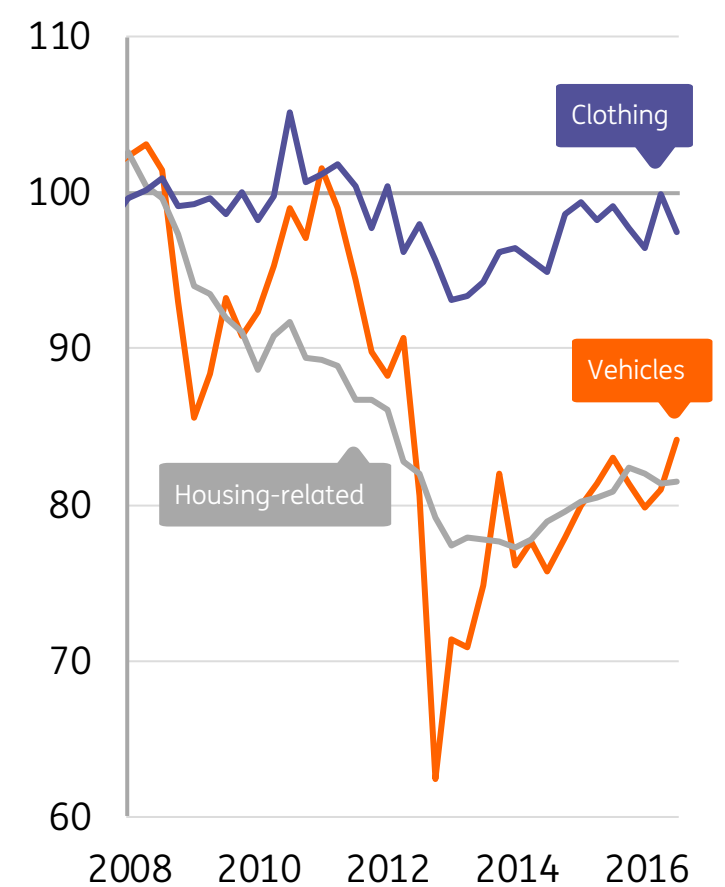
Index, constant prices, 2008 = 100



Electronics surge, energy trending down



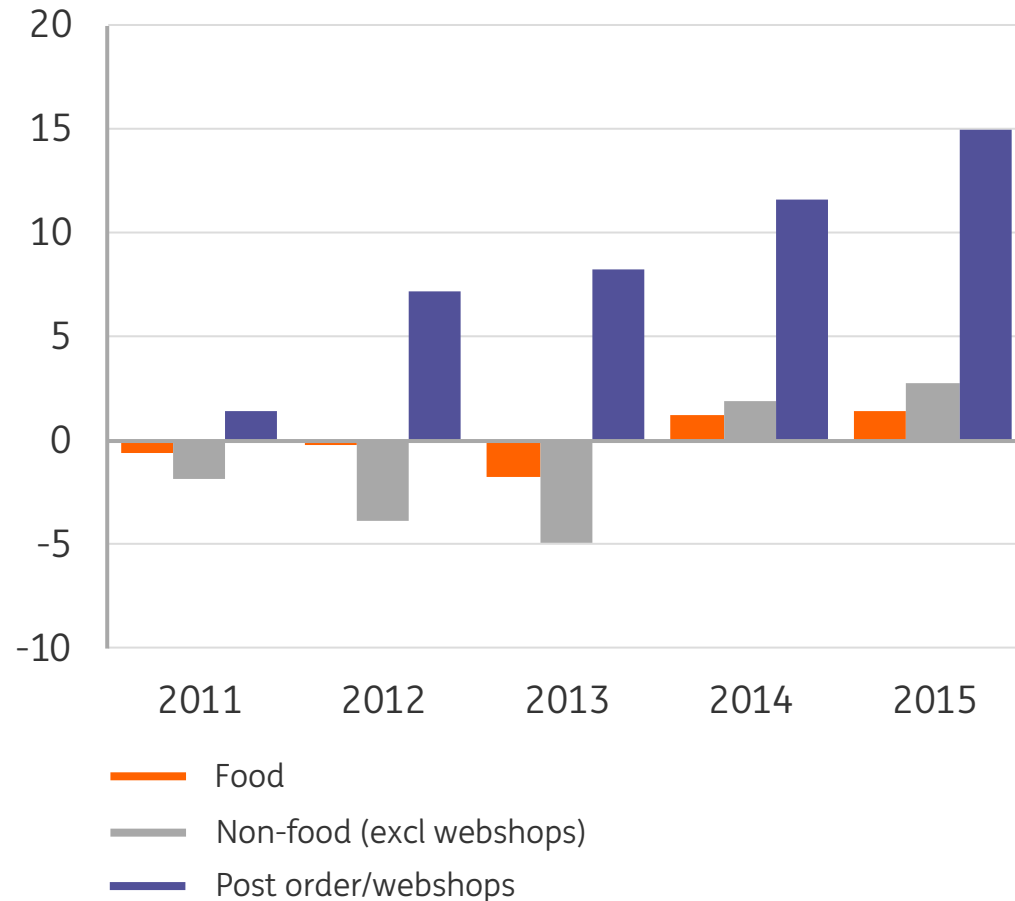
Durables: cyclically-driven pick-up



More and more online

Double-digit rise in online sales volumes

Retail sales volume, change year-on-year, in %



Number of web shops up, traditional stores down

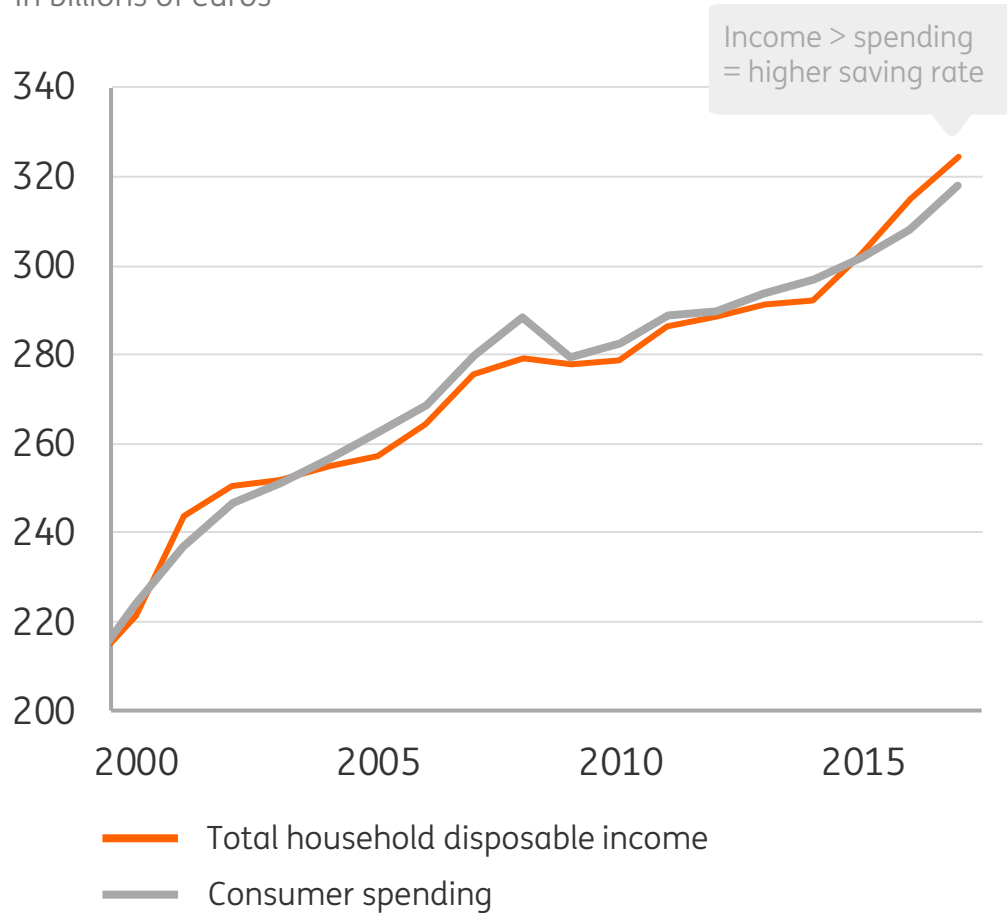
In thousands



Income has increased faster than spending

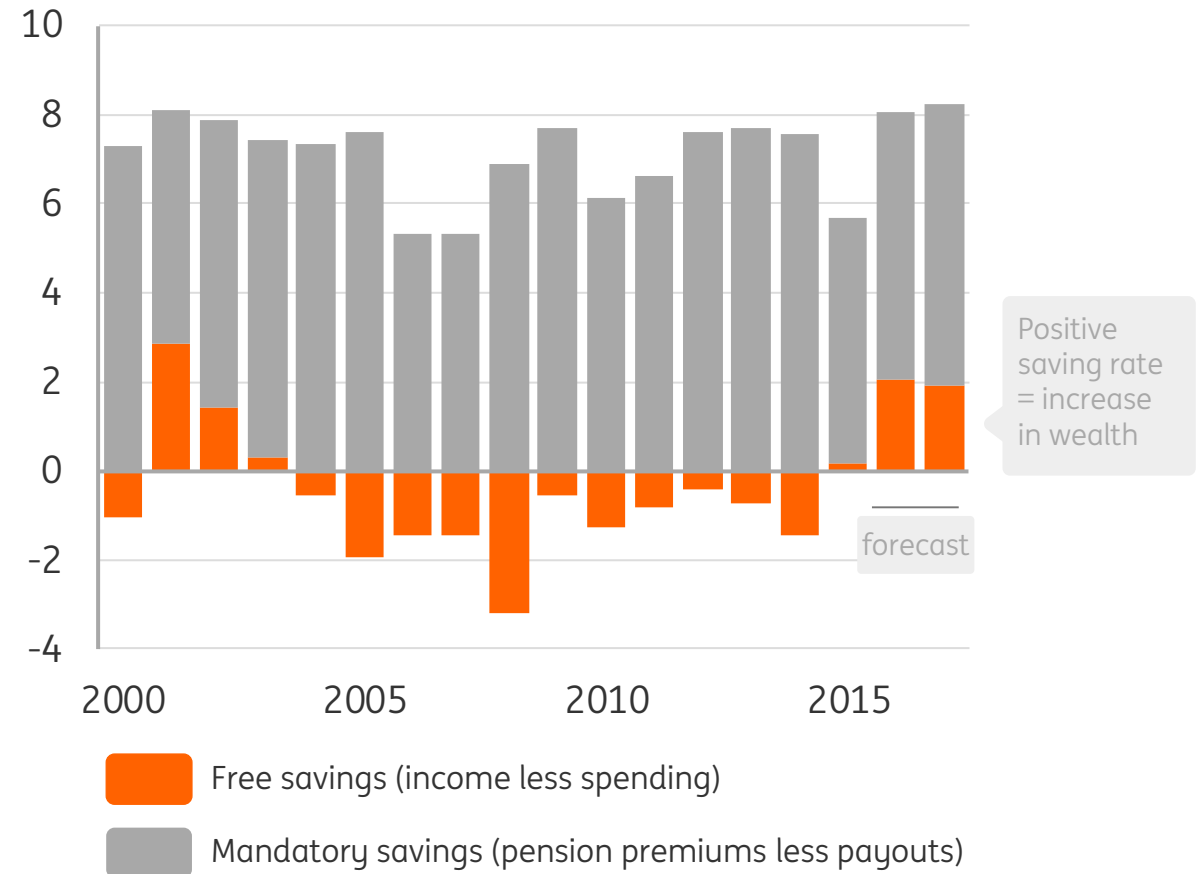
Households are not spending full increase in income...

In billions of euros



...pushing 'free' savings rate back into positive territory

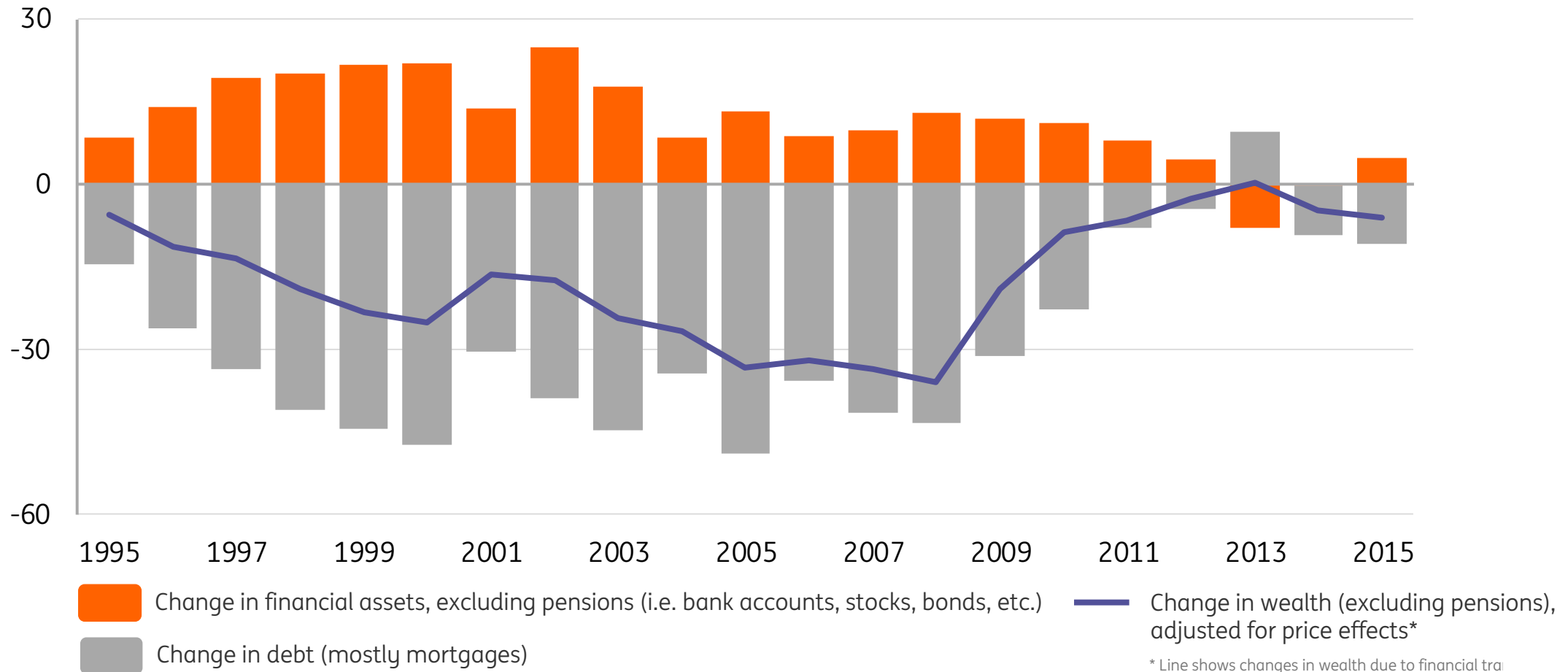
% of disposable income



Households are taking up much less debt

For a long period, debt increased much faster than liquid assets, but that has changed

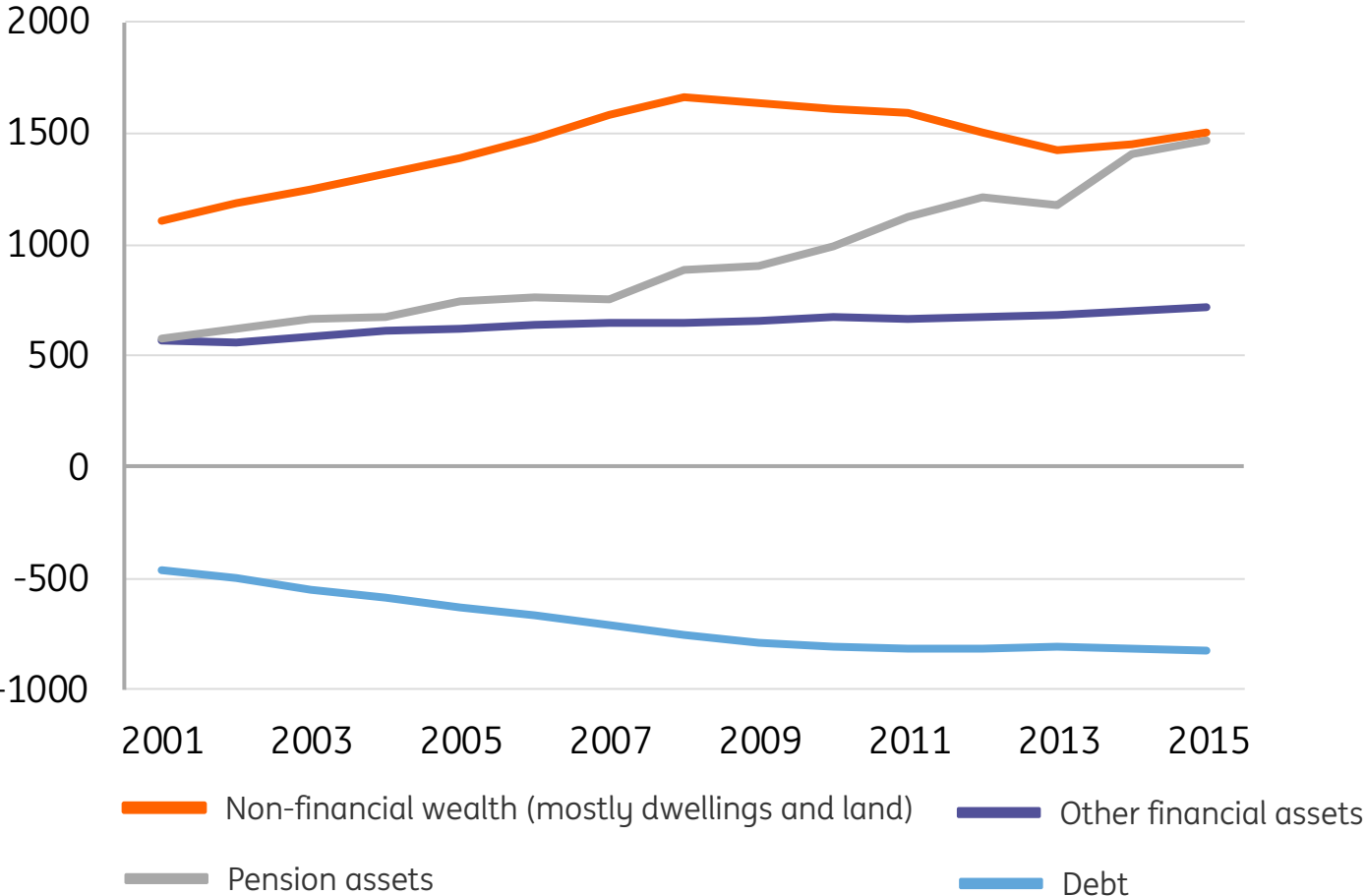
In billions of euros



Total net wealth increased further during crisis

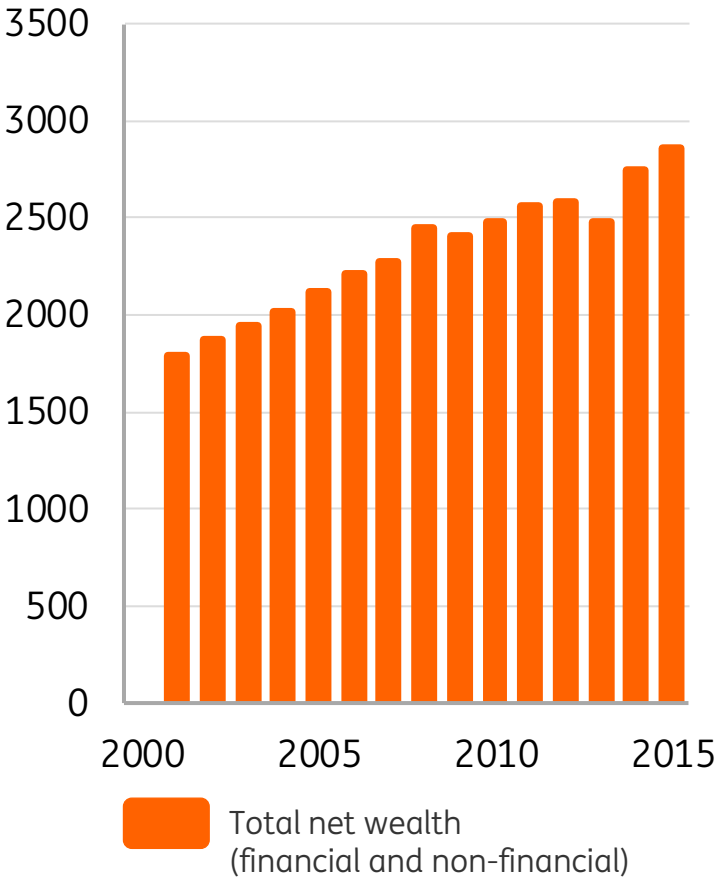
Increase in pension assets has offset temporary decline in housing wealth

In billions of euros



Total net wealth at record high

In billions of euros

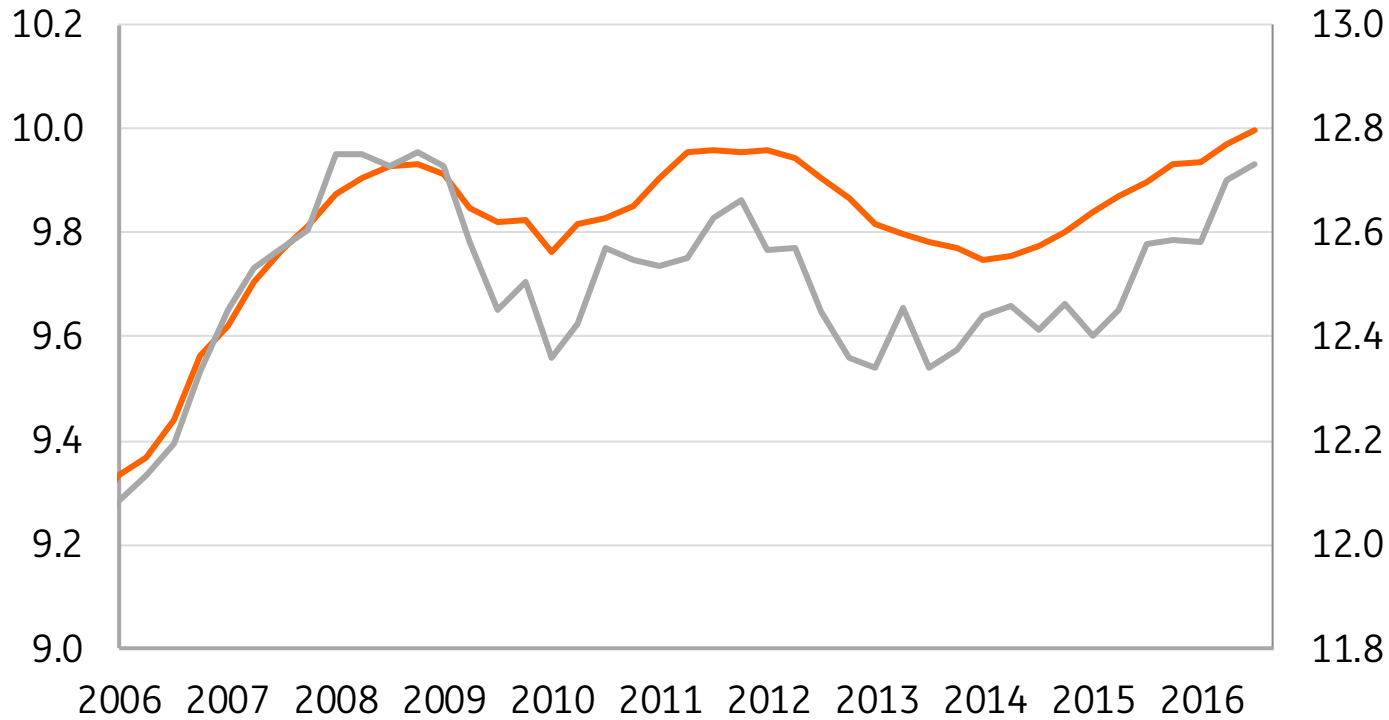


Labour market

- Employment growth has accelerated in recent quarters. The number of jobs is now higher than it was when the crisis hit the economy in 2008. In terms of total hours worked, the recovery has been slightly less strong.
- Leading indicators point to further growth. The number of unfilled vacancies is the highest since early 2009.
- Sector-wise, temporary job agencies have been the driving force behind the increase in jobs. This reflects the strong rise of flex workers in the workforce.
- The drag from the public sector (incl health) on the labour market – the result of austerity – has come to an end.
- The unemployment rate is falling rapidly and is now below the long-term average. All age groups show a decline.
- Despite the strong improvement, there is no sign of overheating. Wage growth is moderate and there is more slack in the labour market than unemployment data suggest.
- Since the start of the crisis, the gross participation rate has declined from 71% to 70%. Before the crisis, there was a very strong uptrend. In addition to the near 500k unemployed, there appears to be potential labour supply of about 300k men and women.
- The decline in labour market participation has been strongest amongst males of 25 to 45 years old.

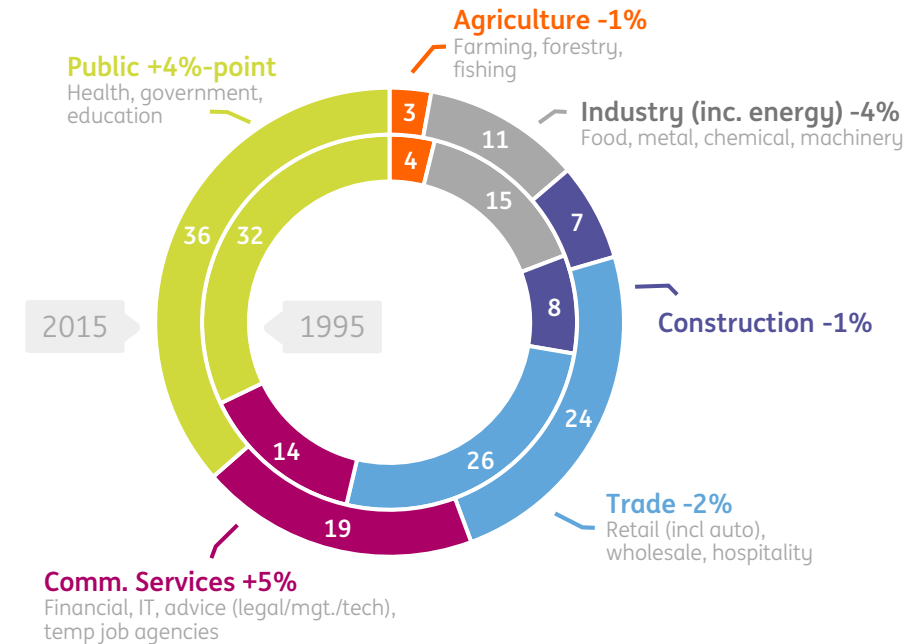
Employment is rising

Number of jobs above pre-crisis level, total hours worked back at par
Millions



- Total employment, number of employees and self-employed people (left axis)
- Employment in total hours worked (right axis)

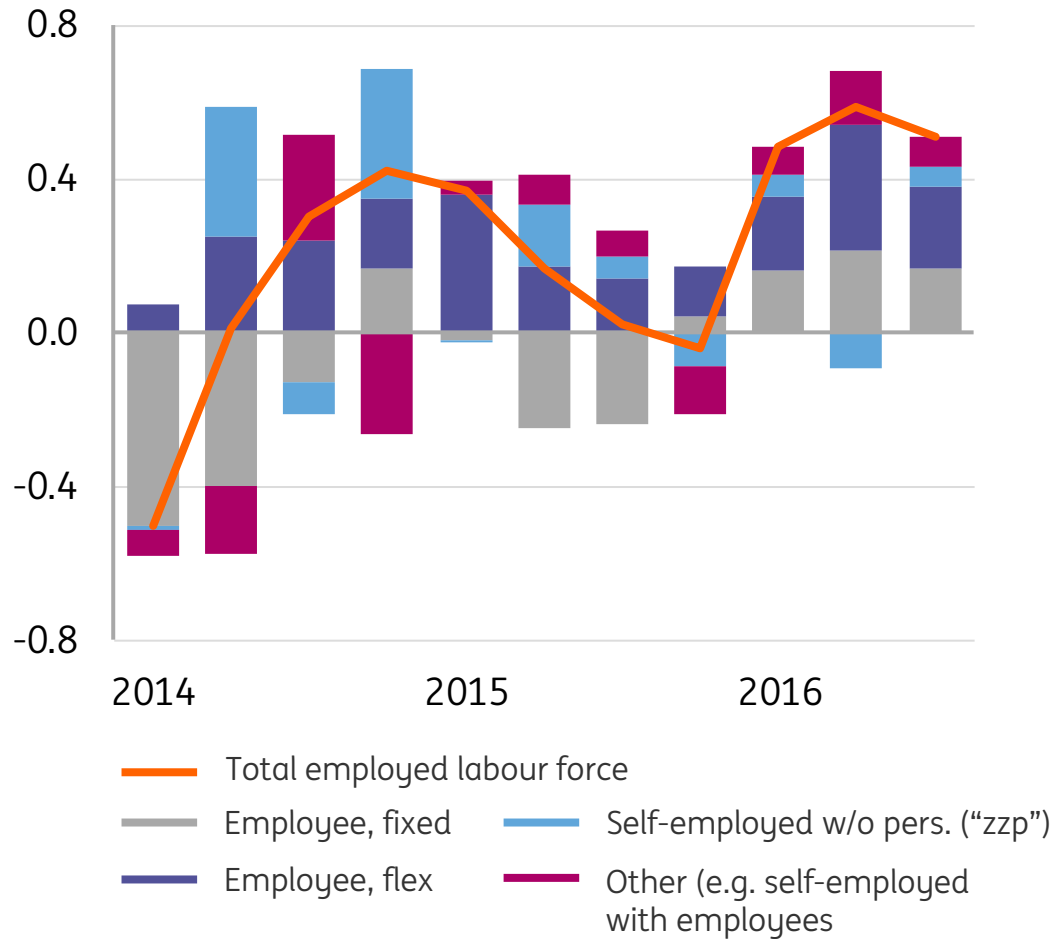
1995 vs 2015: more jobs in services
Share in total employment, in %



More work, mostly flex

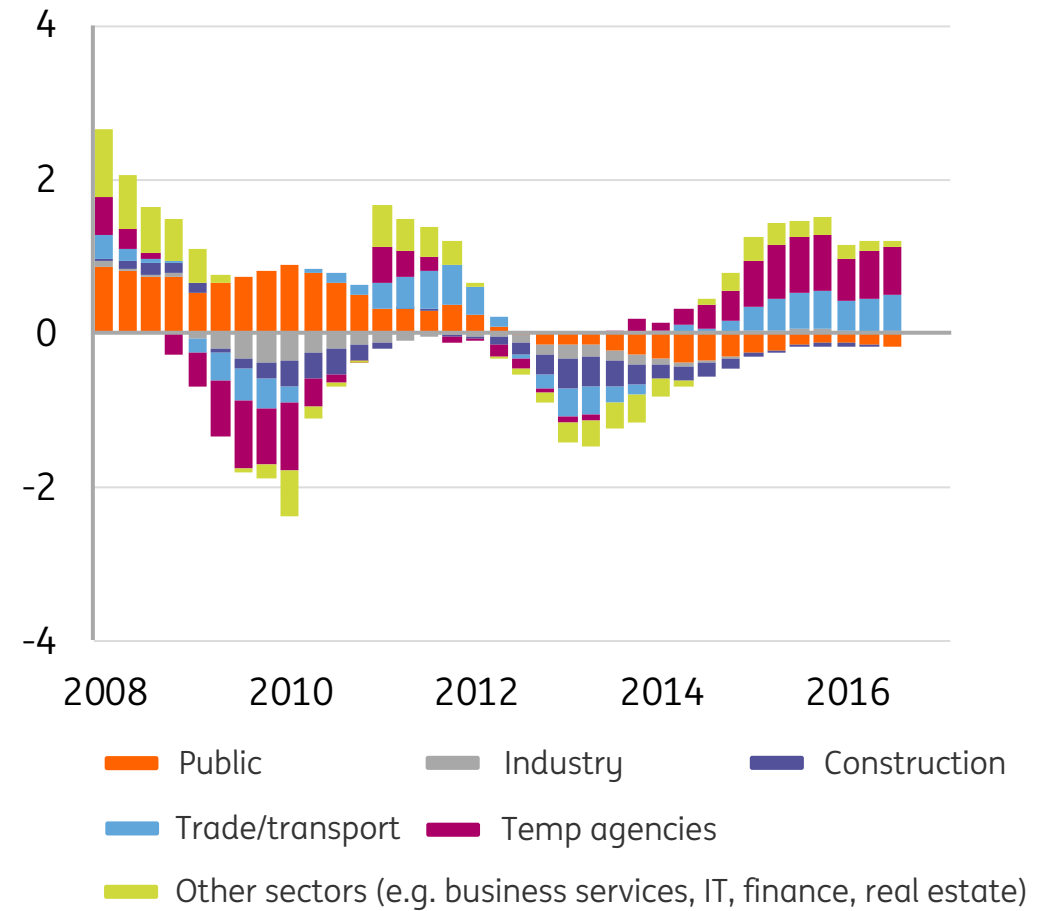
Number of fixed and flexible contracts is increasing

Contribution to quarterly change in labour force, in percentage points



Job growth driven by commercial services

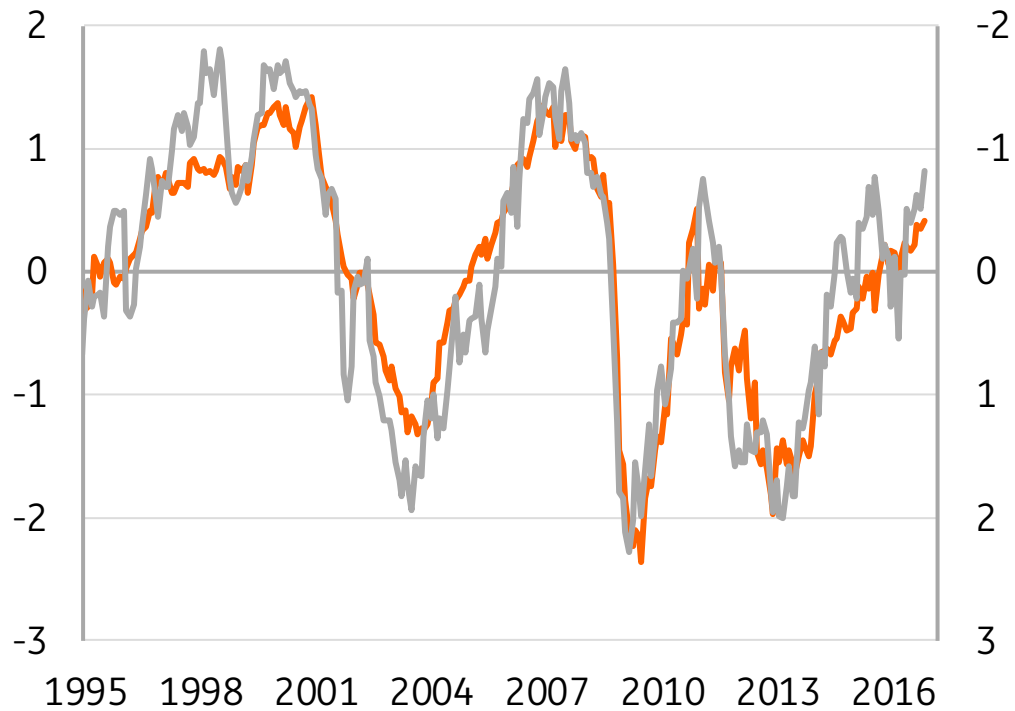
Contribution to yearly change in employment, in percentage points



Leading indicators point to further job growth

Consumers and firms have positive expectations

Index, standardized



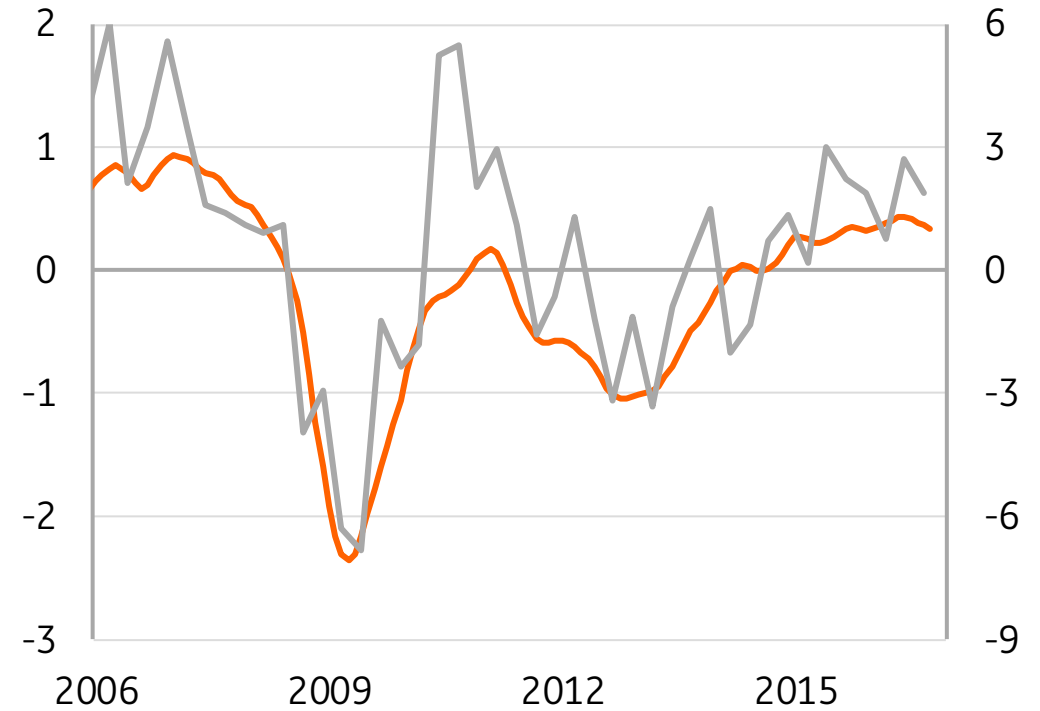
- Businesses' **employment** expectations*
- Consumers' **unemployment** expectations (right axis, inverted)

* Weighted average of manufacturing, construction, retail and services

Vacancies and temp hours are still rising

Index

Quarterly change, in %



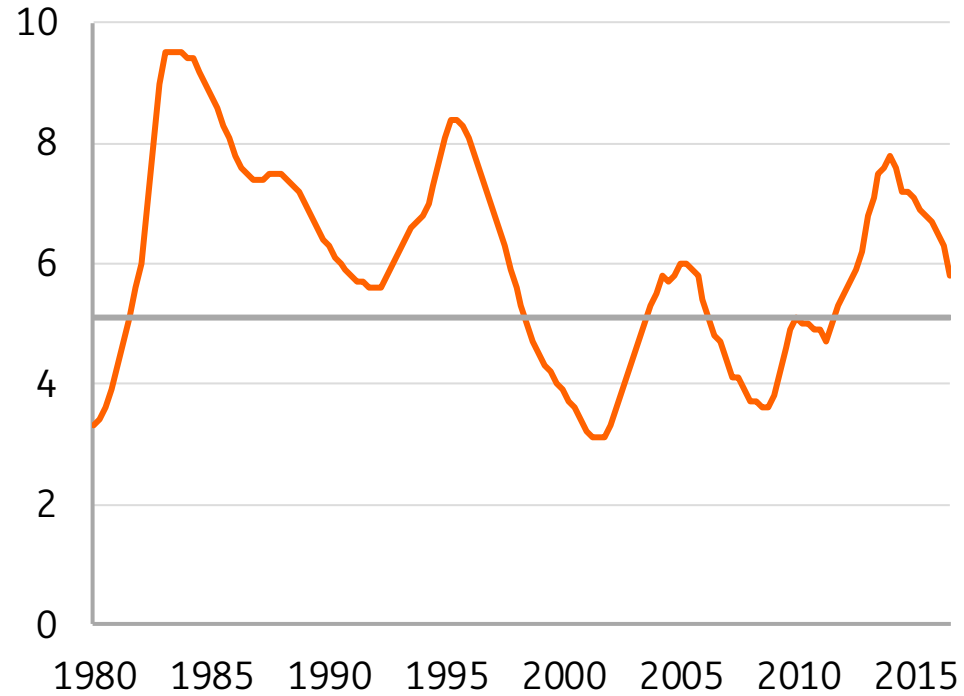
- Vacancy indicator (left)
- Temp hours worked, phase A* (right)

* Phase A refers to the period up to 78 weeks. It is the most flexible. 'No wor'

Steady drop in unemployment

Unemployment has fallen and is still above LT-average

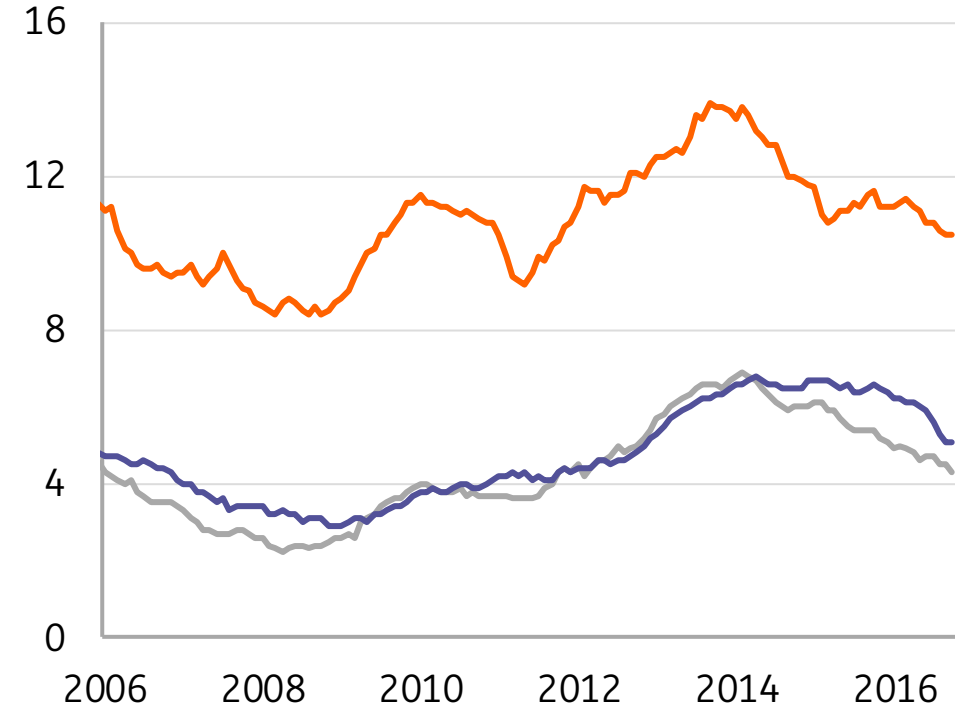
As percentage of labour force



- Unemployment rate (harmonized)
- Long-term average (1970-2015)

Lower unemployment in all age groups

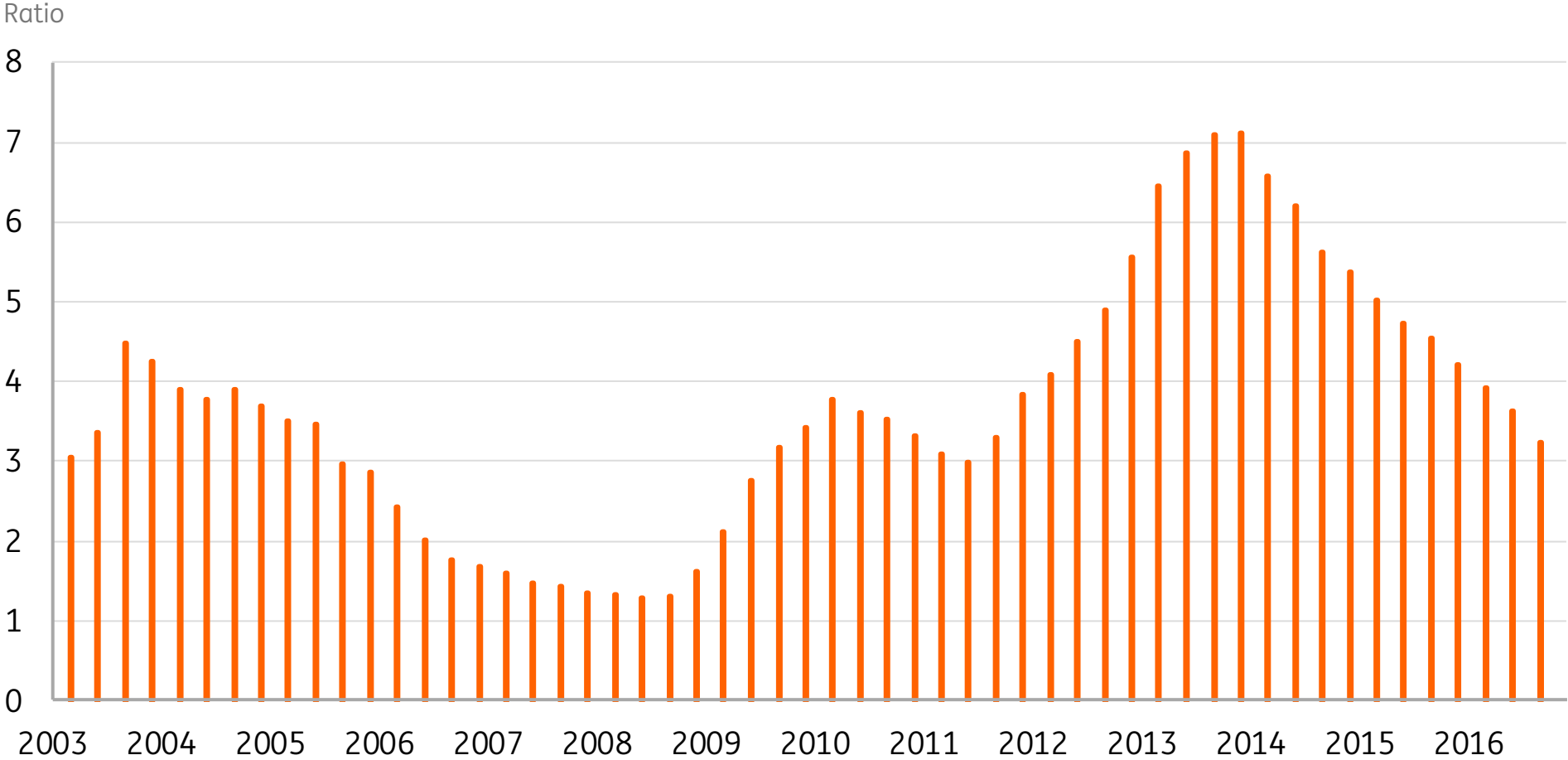
Number of unemployment as percentage of labour force



- Aged 15-25
- Aged 25-45
- Aged 45+

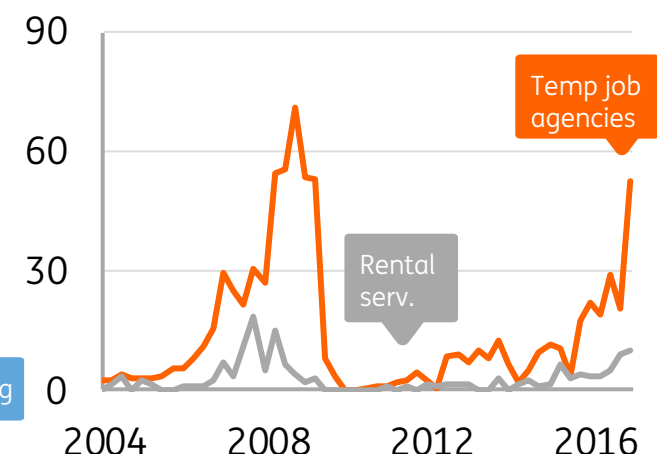
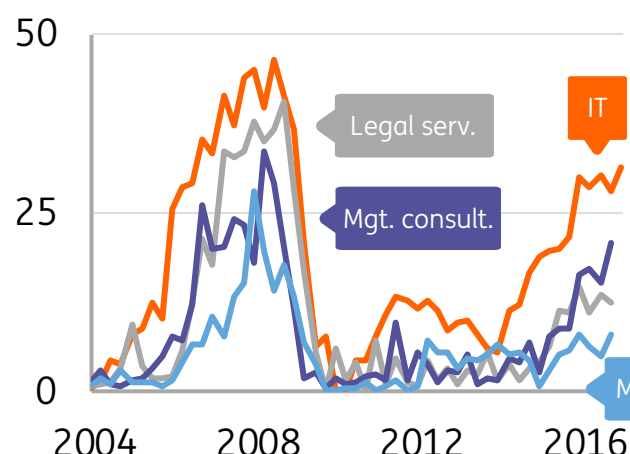
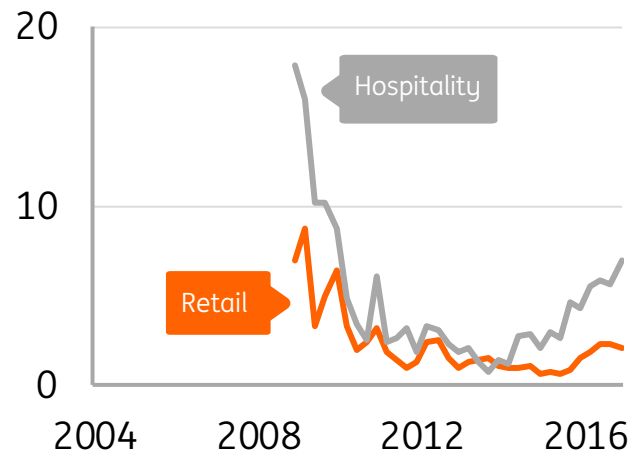
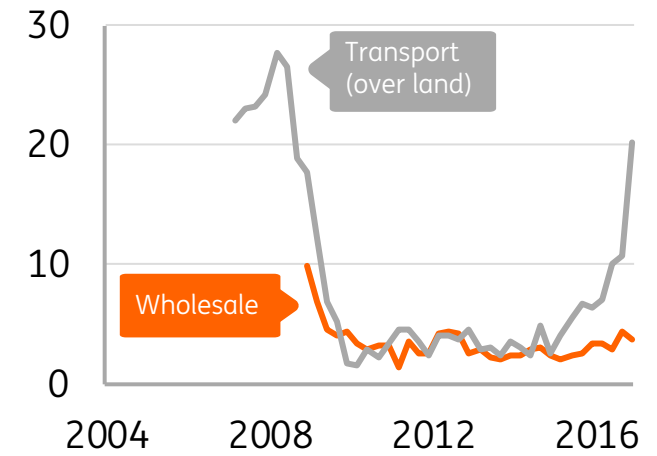
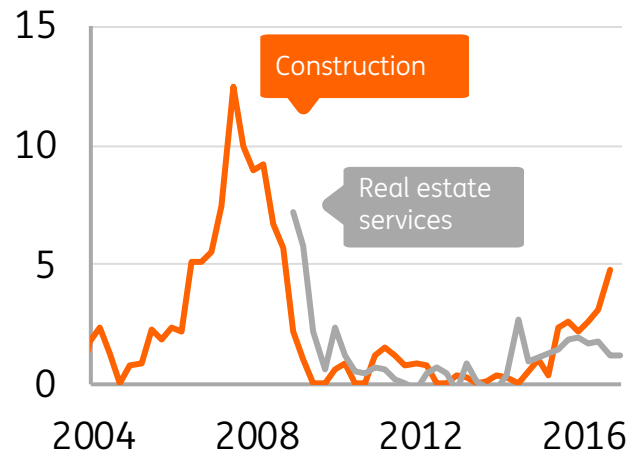
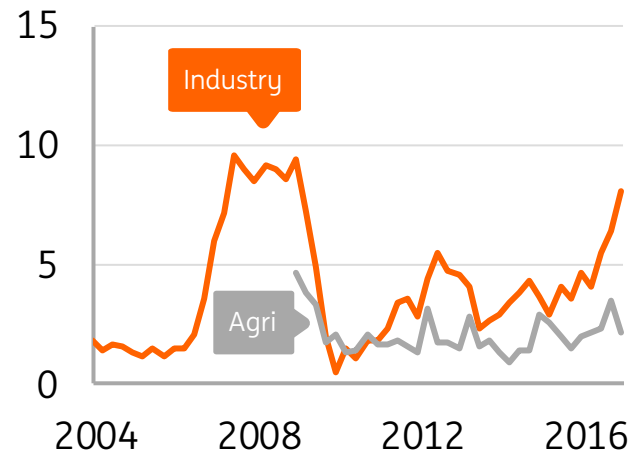
Labour market is slower getting tighter

Number of unemployed persons per open vacancy has fallen significantly, but not yet as low as in 2008



In most sectors, labour shortage not yet as acute as in 2008

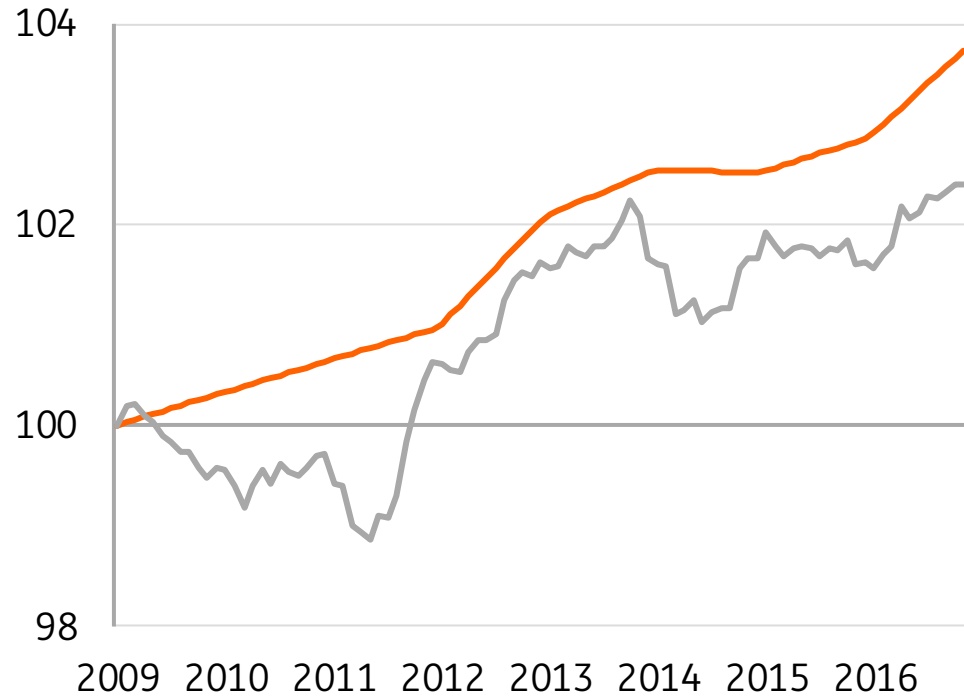
Percentage of firms reporting shortage of workers (note: charts do not have same axes)



Lower labour participation points to 'hidden' potential supply

Potential labour force has outpaced actual labour force

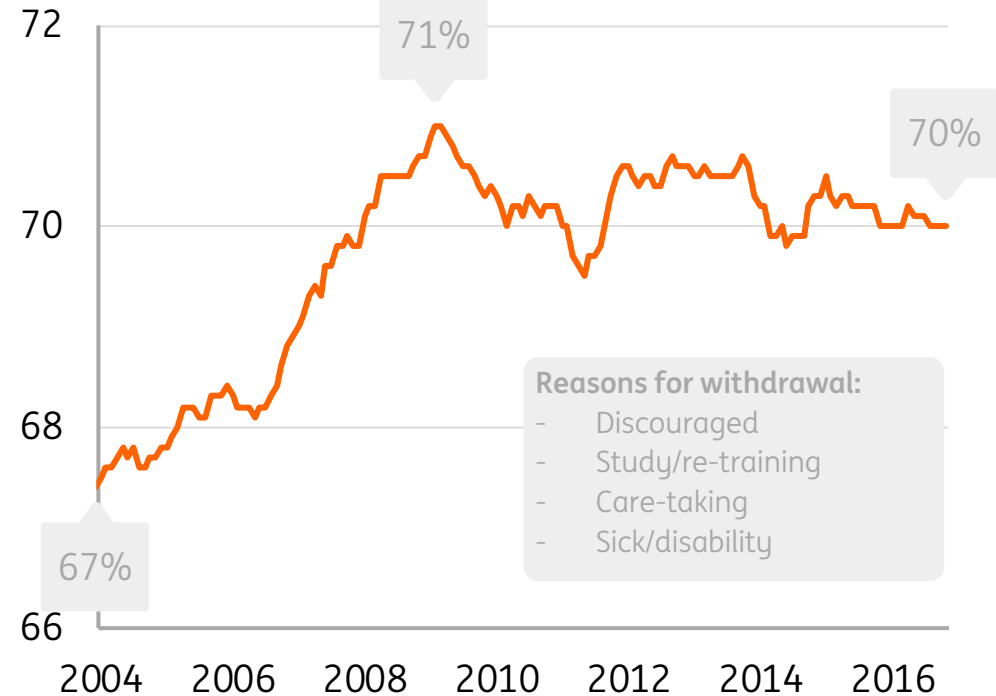
Index, 2009 = 100



- Potential labour force (aged 15-74)
- Actual labour force (aged 15-74)

Since start of crisis, participation rate has, on balance, fallen

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

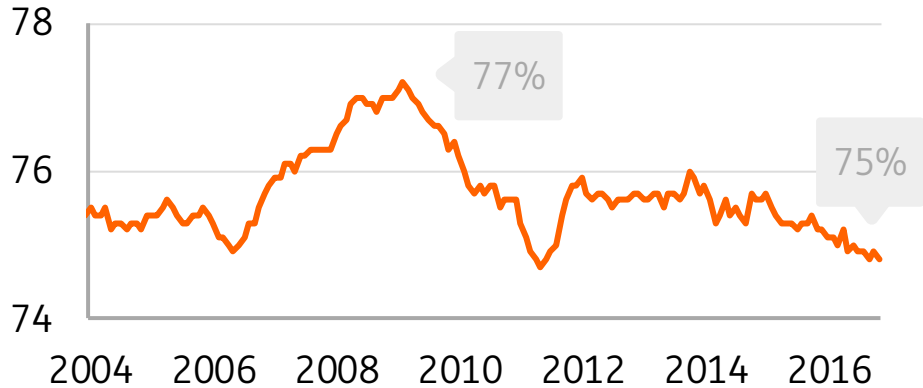


- Gross labour participation rate, aged 15-74

Extra potential labour supply of around 300k people

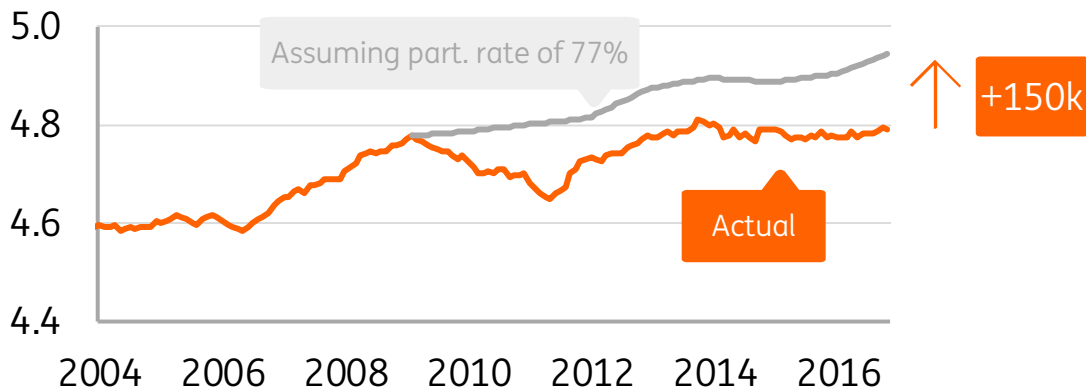
Male participation rate has dropped

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



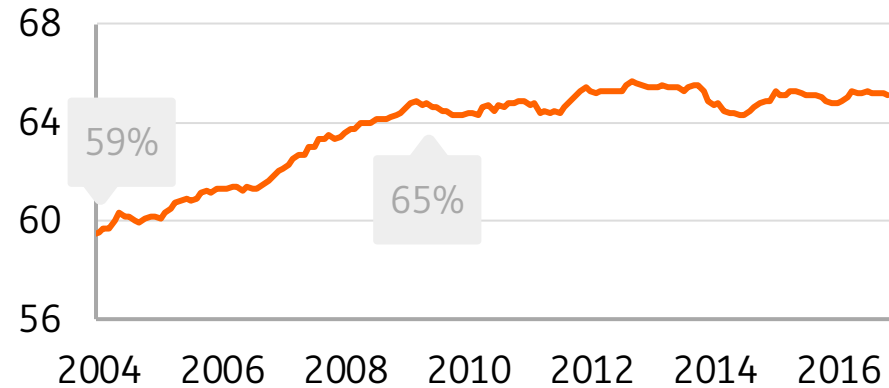
150K extra men if participation returns to 77%

Number of males active on the labour market, in millions



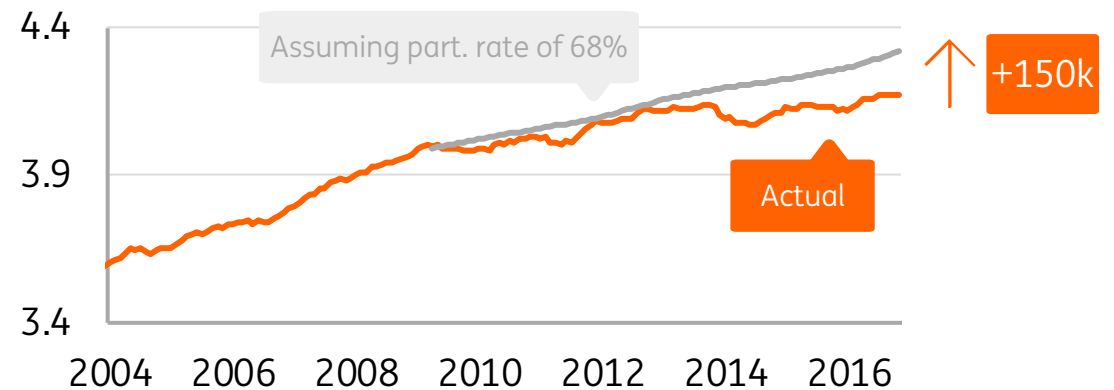
Strong upward trend in female participation rate stalled

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



150K extra female if participation rose to 67%

Number of females active on the labour market, in millions



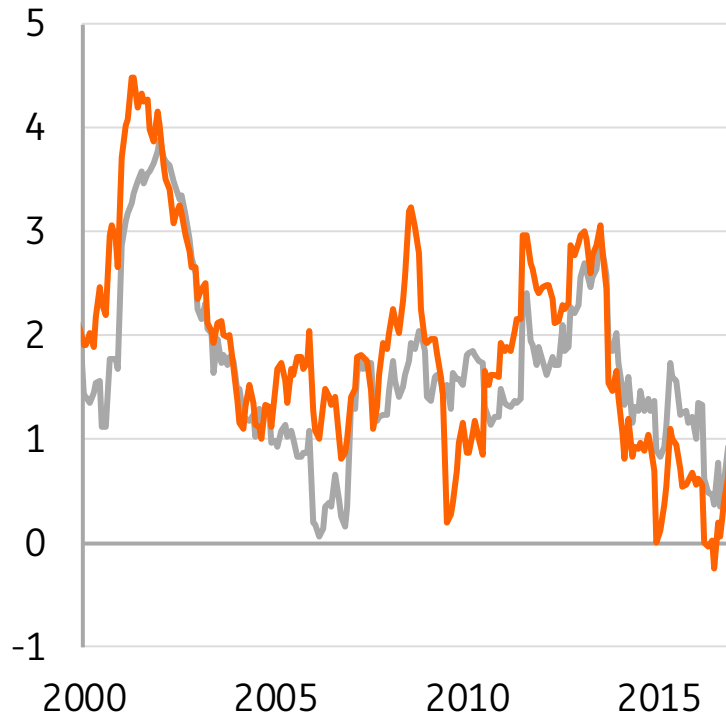
Inflation

- Consumer price inflation has started to creep up in recent months, from 0% YoY in 2Q16 to 1.0% in December. In the same period, the European, harmonized inflation measure (HICP) rose from -0.2% to 0.7%. The HICP excludes the cost of owning a home, which currently rises faster than the average inflation.
- After, on average, 0.3% in 2016, full year inflation is set to rise to just above 1% in 2017. HICP is forecast to rise from 0.1% to 1.0%.
- The increase is largely due to higher commodity prices feeding through into retail prices. In addition, higher wages are slowly pushing up services prices.
- According to surveys, inflation expectations are very slowly rising, but consumers and businesses do not expect hefty increases.
- Underutilization of the economy keeps a lid on the increase in core inflation. Inflation excluding food and energy is expected to remain below 1% in 2017.
- Rents, accounting for about 20% of total consumer price inflation, are linked to the previous year's headline inflation rate. As a result, near zero percent inflation in 2016 helps to keep the 2017 rate low.

Inflation expectations are still muted

Inflation is creeping higher from low levels...

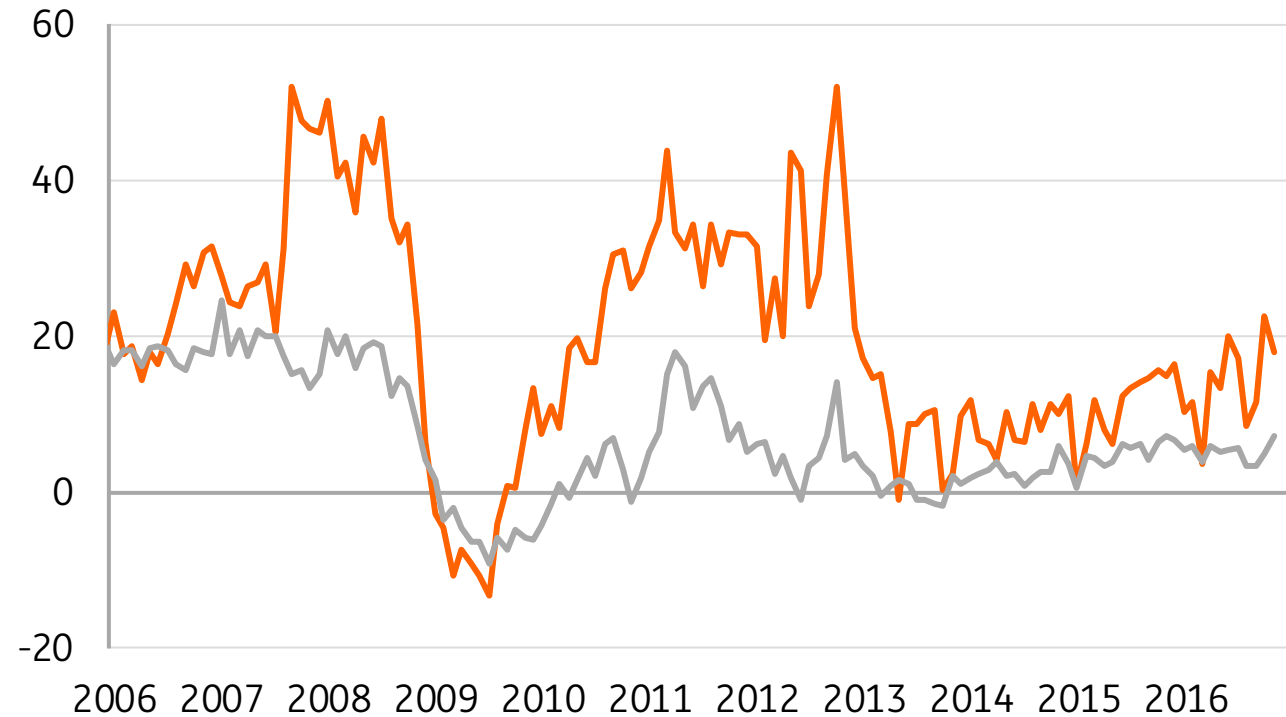
% year-on-year



— Headline consumer price inflation
— Core inflation

...and consumers and business do not appear to expect a strong rise

Net % of respondents

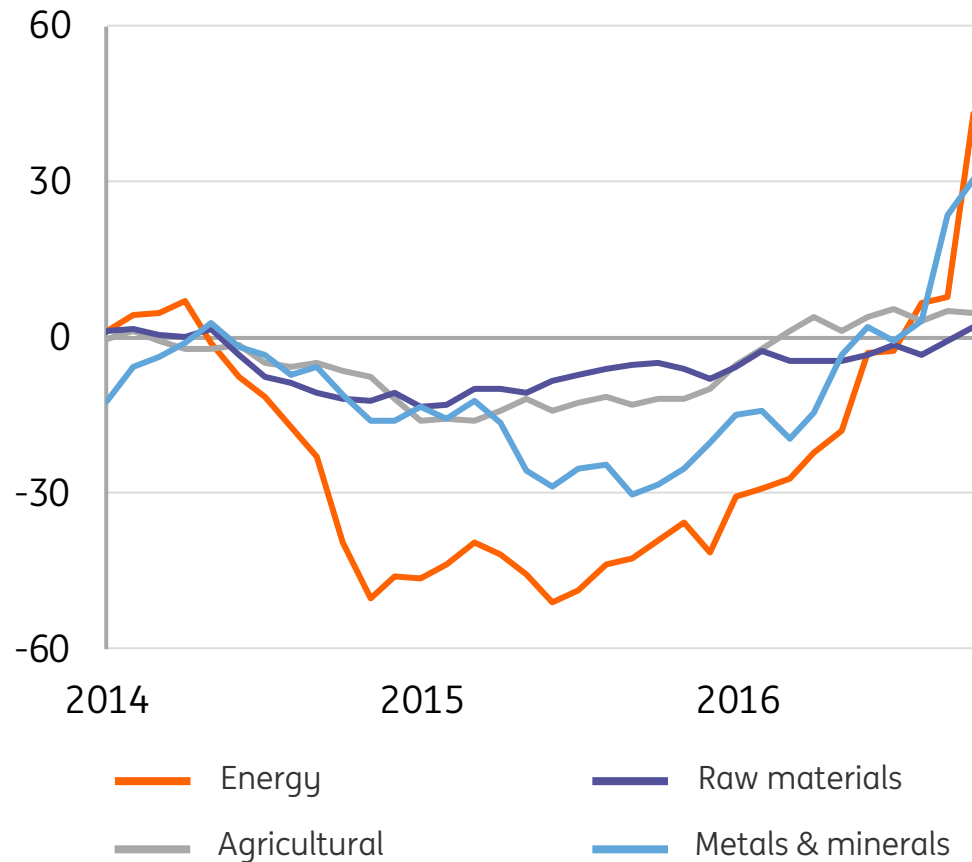


— Consumer price expectations for next 12 months
— Companies' selling price expectations for next 3 months (weighed average of industry, retail and services sector)

Inflationary pressures are building

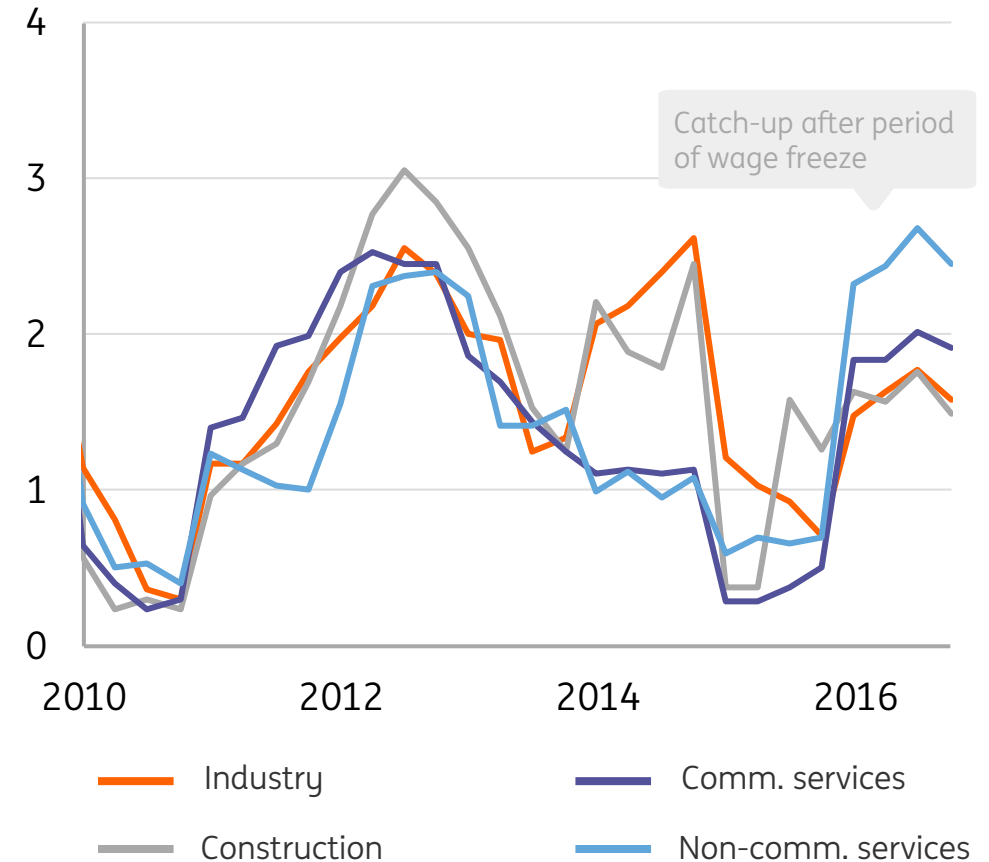
Commodity prices are recovering...

Change year-on-year, in %



...and wage costs are rising

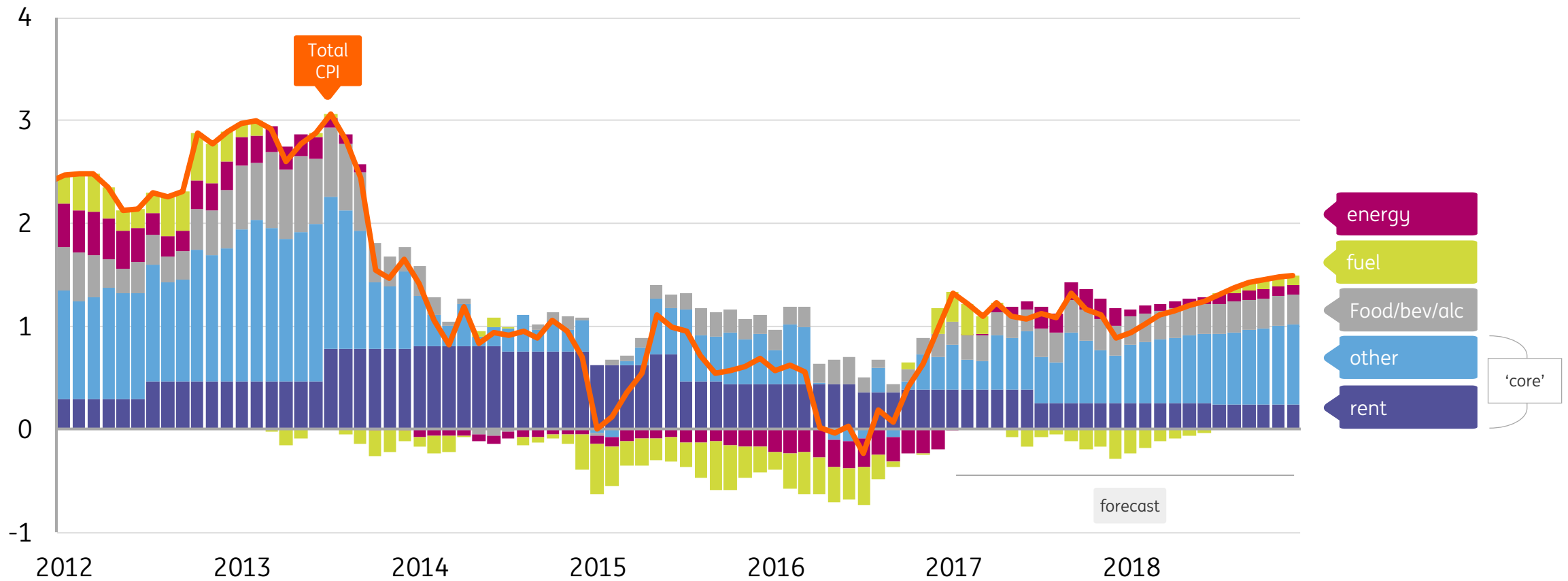
Change year-on-year, in %



Inflation increases as negative energy effect fades

Headline inflation rises slowly

Contribution to consumer price inflation, in percentage points



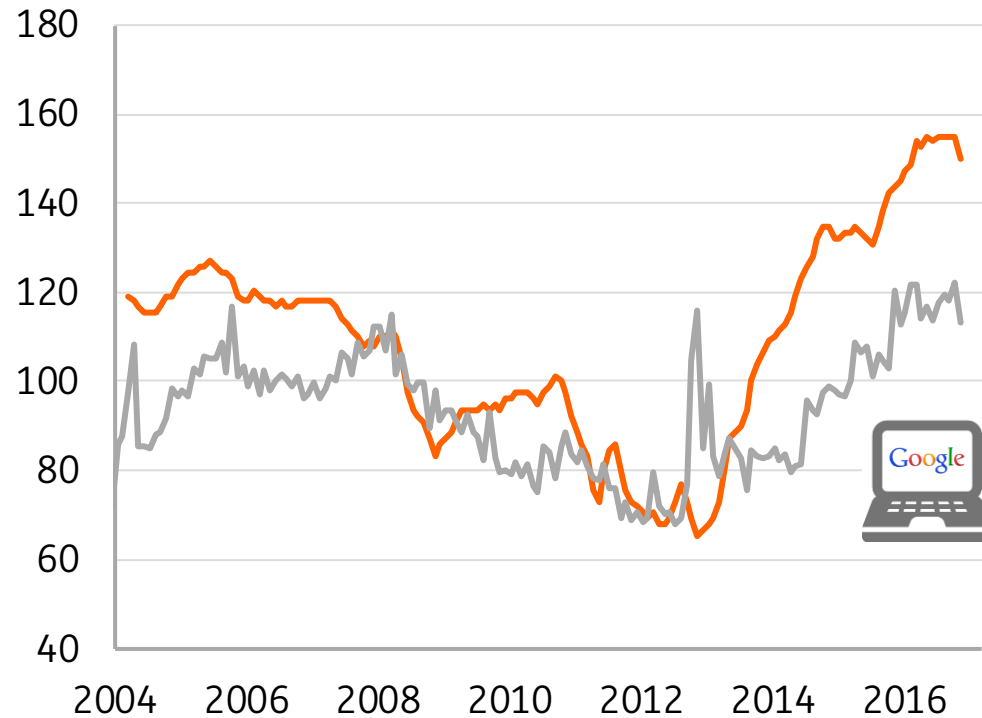
Housing market

- Since the trough of 2013, the economy has expanded by about 6.5%. The pick-up of the housing market explains at least a quarter of this recovery. Investment in dwellings has surged 70%, benefitting builders, industry and DIY stores. The number of home sales has even doubled and is now pushing for a new record high. Estate agents, surveyors, notaries, lenders, mortgage advisors and furniture shops reap the benefits of this.
- In 2017, housing remains an important growth engine, but it will shift a gear down. The low number of new building permits is the main bottleneck. Too few building locations, low capacity with developers and less active housing corporations will cause investment in housing to expand at a lower rate.
- With home buying activity at fresh record high levels, the number of home sales will rise less rapidly too, most certainly if mortgage rates start to creep higher increase.
- Regionally, all provinces have shown double-digit increases in home sales since the low point of 2013. Zeeland, Limburg, Groningen and Drenthe have been lagging a bit behind. This is most likely partly due to ageing.
- Unsold supply has fallen back towards pre-crisis levels. The median asking price per square metre has increased 3.5% since mid-2013.
- In most regions, house prices still have ample room to increase. Prices are expected to increase on average by some 5% next year. This still leaves valuations 8% below the peak of 2008.
- Large cities remain in the lead. In Amsterdam, house prices have on average risen by 35% since the trough, leaving them over 10% above the previous peak (2008).

Home buying activity at record levels

Housing market sentiment has improved strongly...

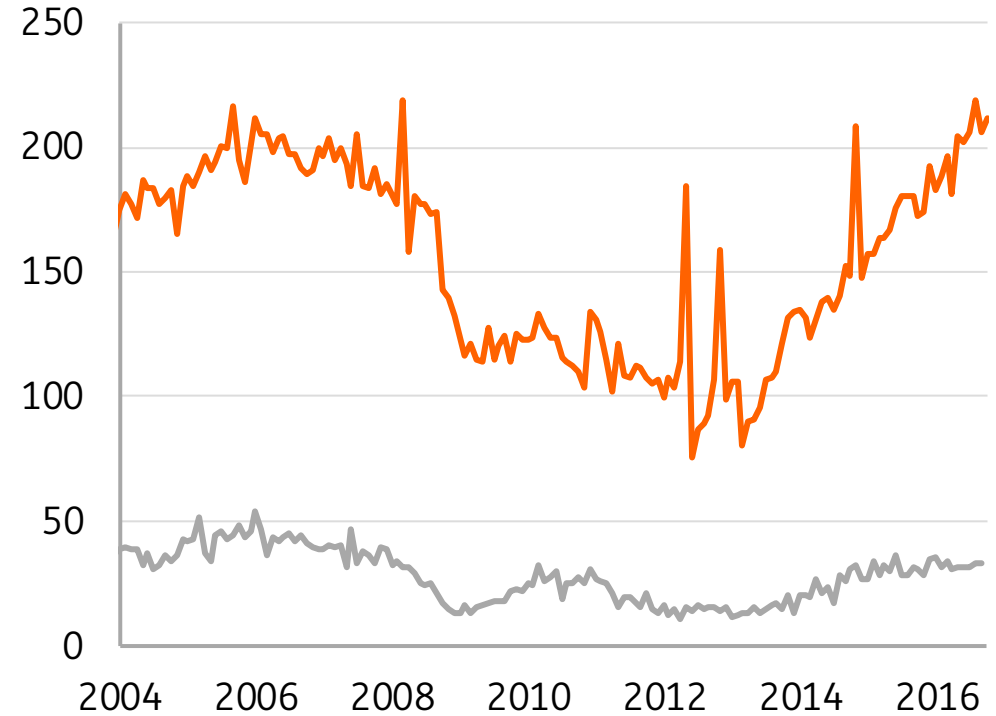
Index, 2008 = 100



- Housing Market Indicator VEH (homeowners' association)
- Google searches for 'hypotheek' (= mortgage)

...pushing homes sales to record high levels

Monthly sales, seasonally-adjusted, annual rate, in thousands

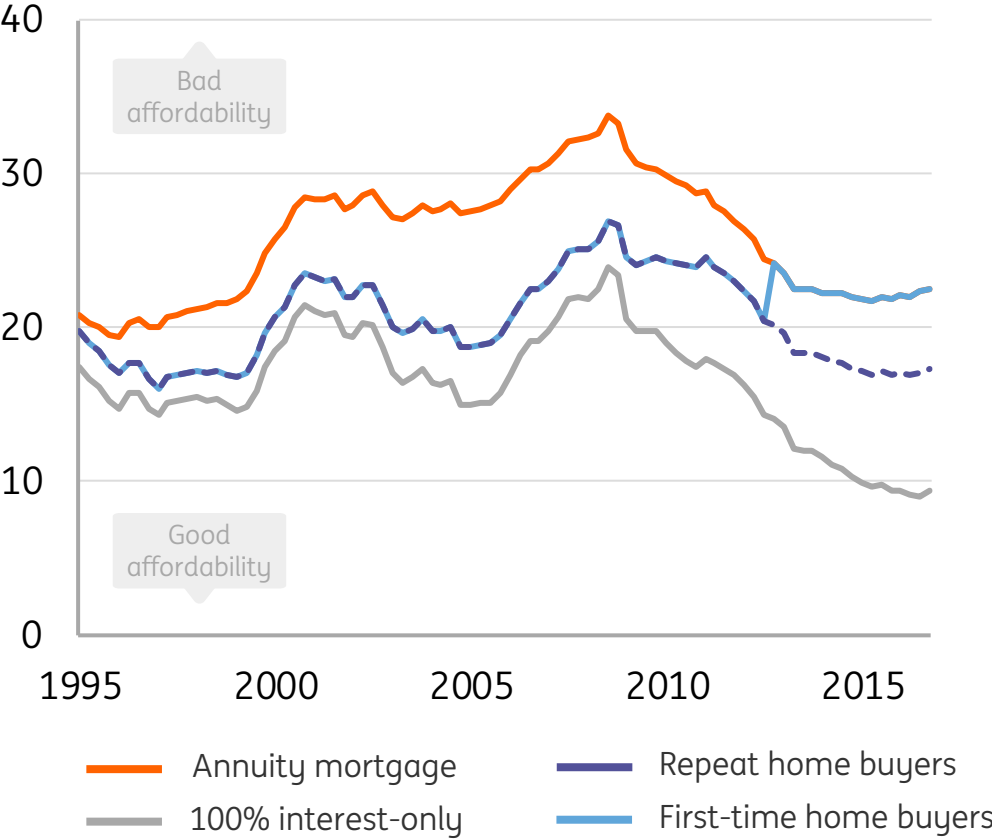


- Existing homes
- New homes

Affordability has improved significantly since 2008

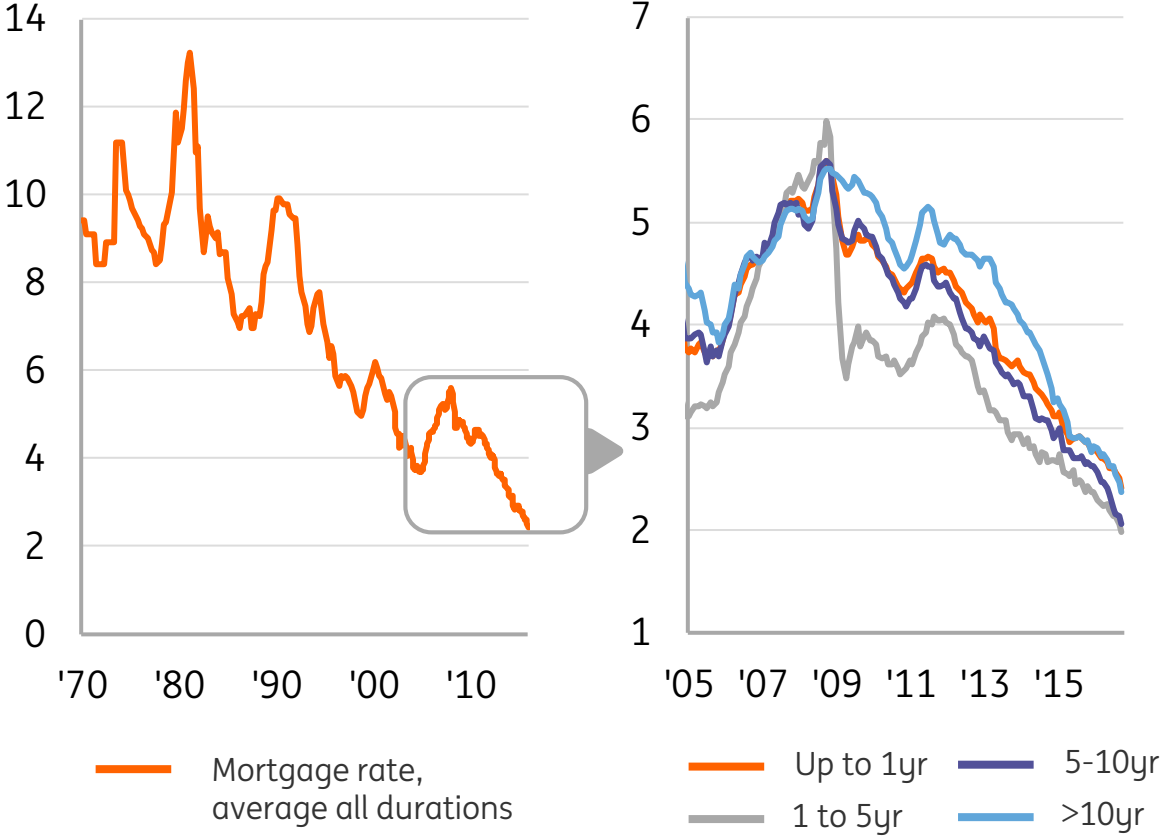
Improved affordability, especially for repeat home buyers

After-tax mortgage cost as % of income, directly after purchase*



Mortgages have dropped to historically low levels

In %, by fixed interest duration

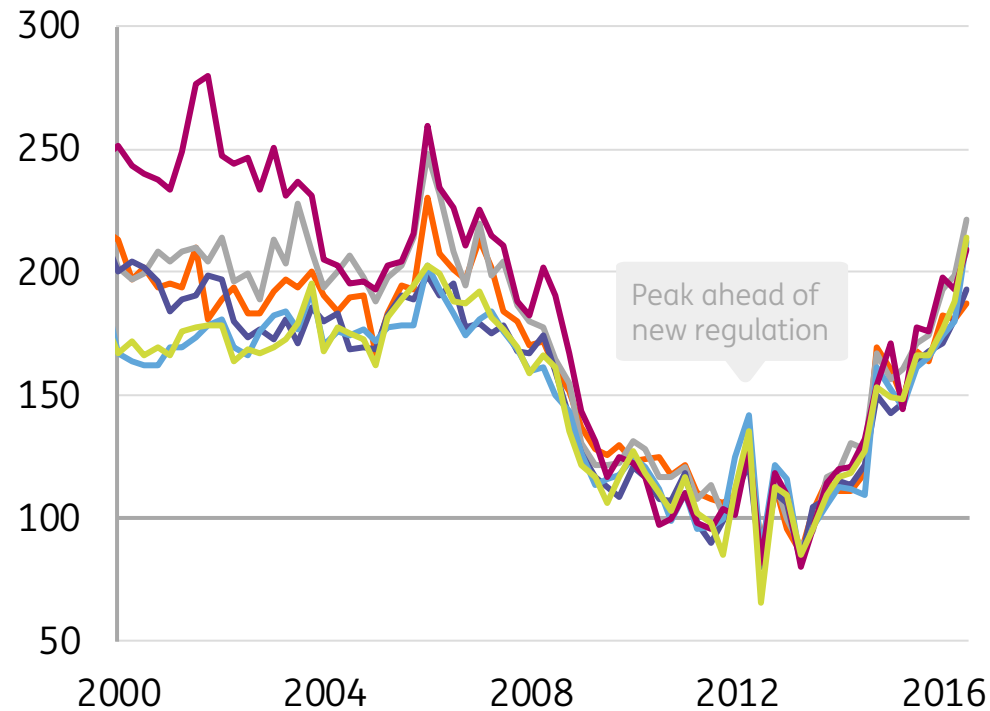


* Using average house price and average household income. Since 2013, interest on new mortgages is only tax deductible for amortising mortgages.

Regionally, broad-based surge in home sales

North & east: closely together on way up

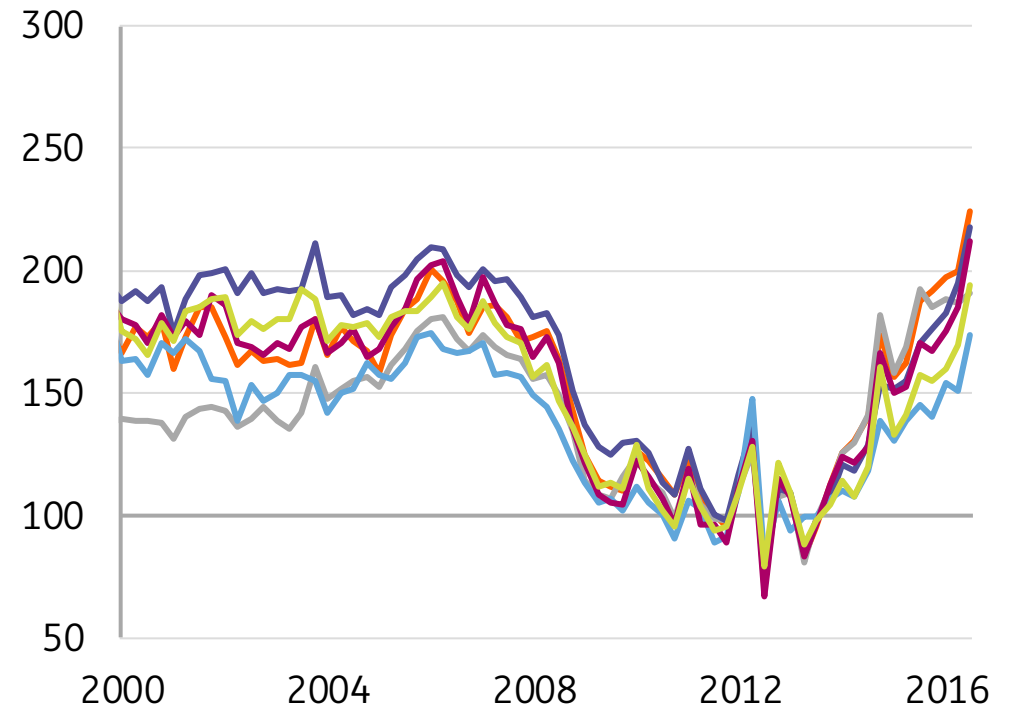
Index, 2013 = 100



- Groningen
- Friesland
- Drenthe
- Overijssel
- Flevoland
- Gelderland

South & west: ageing areas fall a bit behind

Index, 2013 = 100

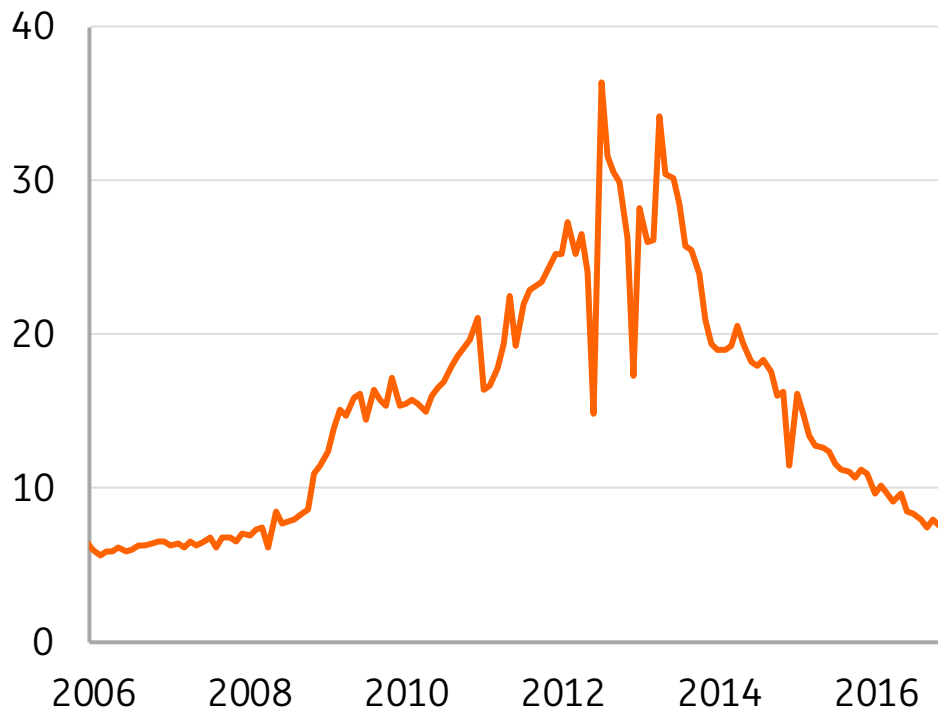


- Utrecht
- N-Holland
- Z-Holland
- Zeeland
- N-Brabant
- Limburg

Supply is becoming tighter

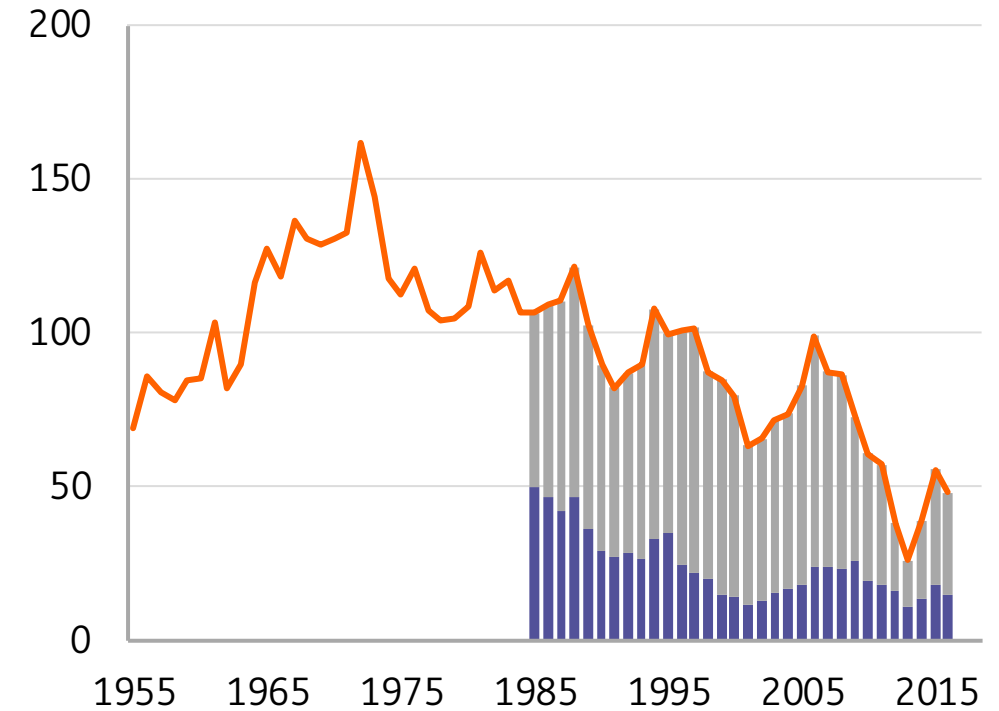
Unsold existing supply near pre-crisis level...

Available housing supply versus monthly rate of sales, in months



...while new supply is still historically low

Index, 2008 = 100

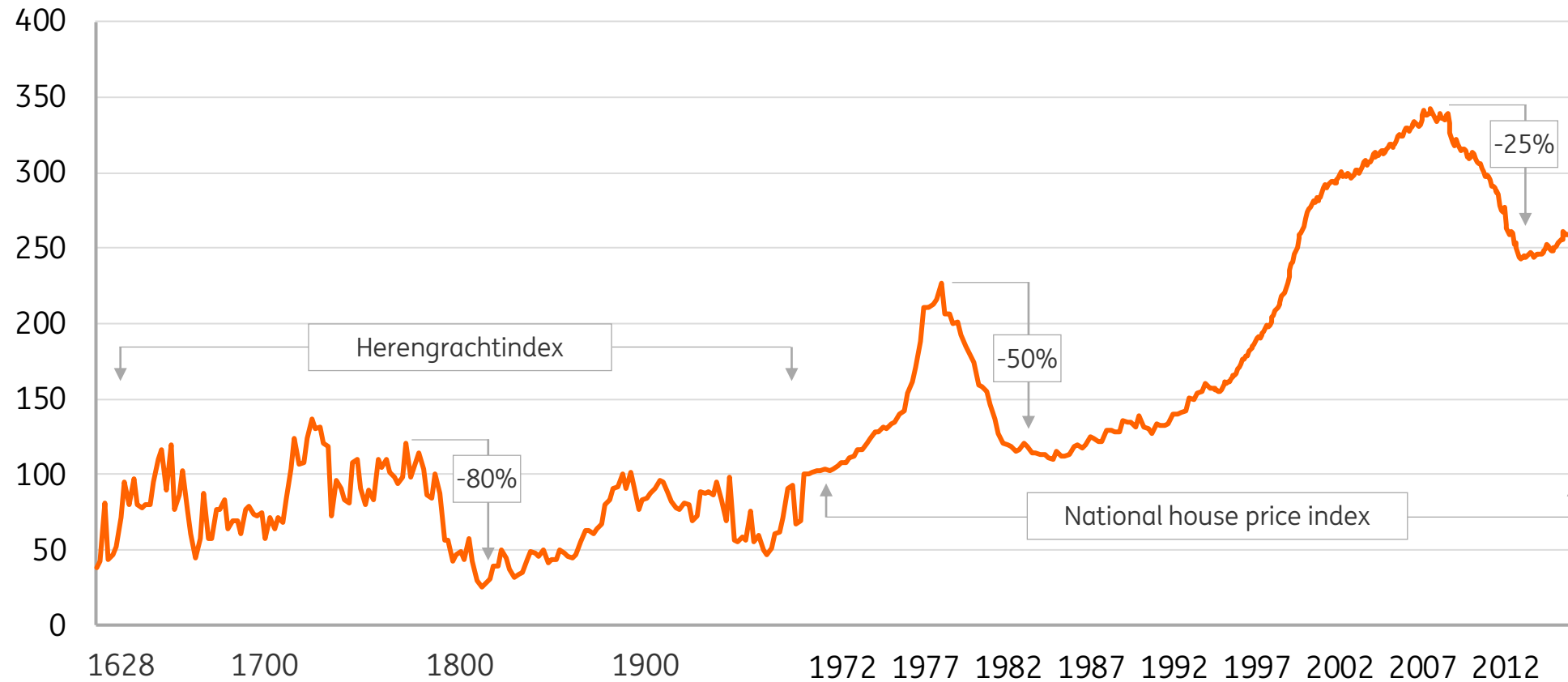


- Total building permits
- Homes for sale
- Rental homes

Historical house price trends

In real terms, Dutch house price are still significantly below the peak

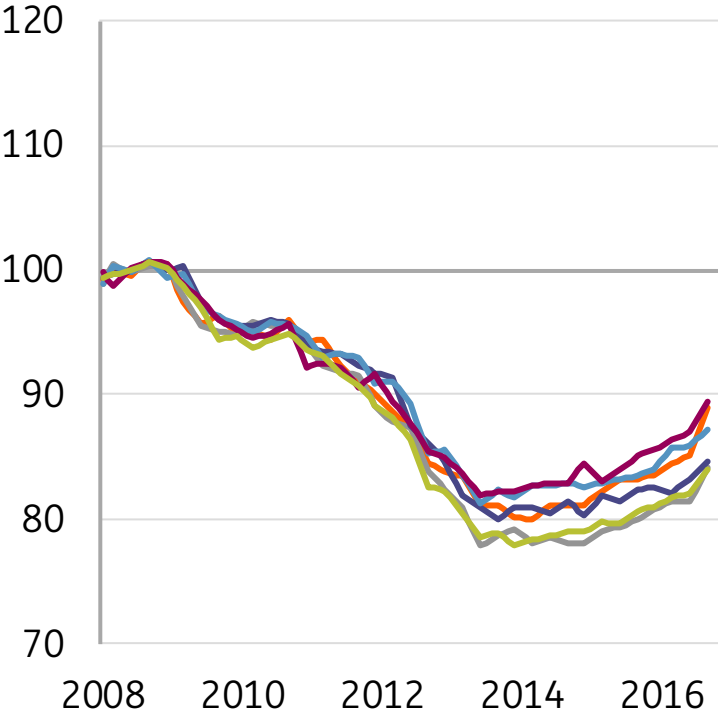
Index, adjusted for consumer price inflation, 1970 = 100



Large cities lead house price recovery

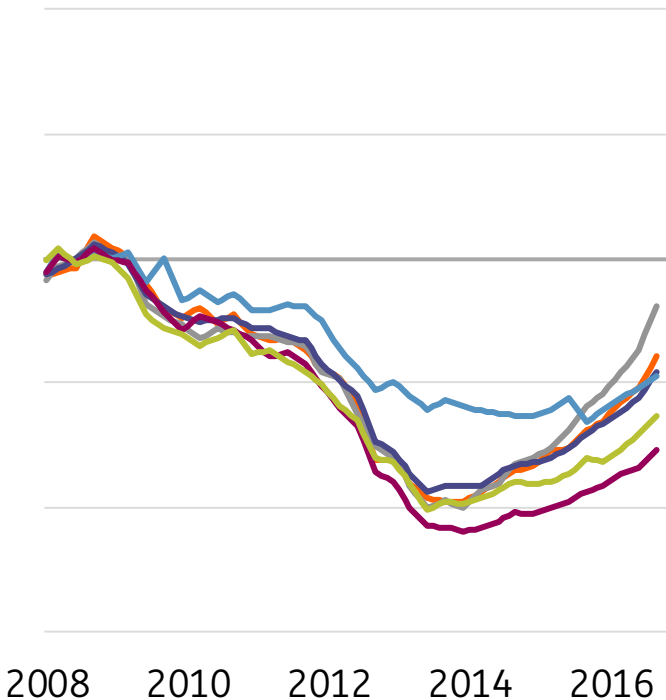
Northern & eastern provinces

Index, 2008 = 100



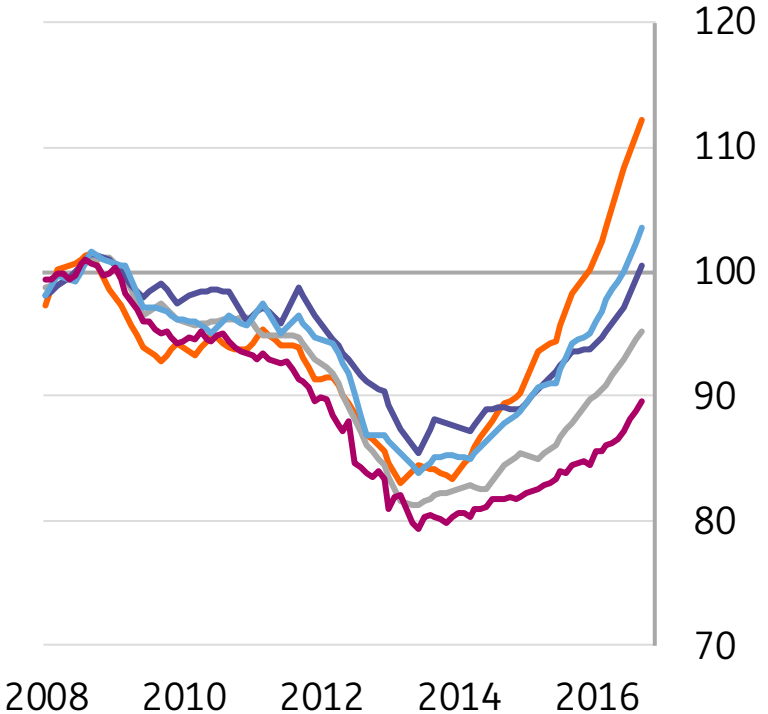
- Groningen
- Friesland
- Drenthe
- Overijssel
- Flevoland
- Gelderland

Western & southern provinces



- Utrecht
- N-Holland
- Z-Holland
- Zeeland
- N-Brabant
- Limburg

Largest cities

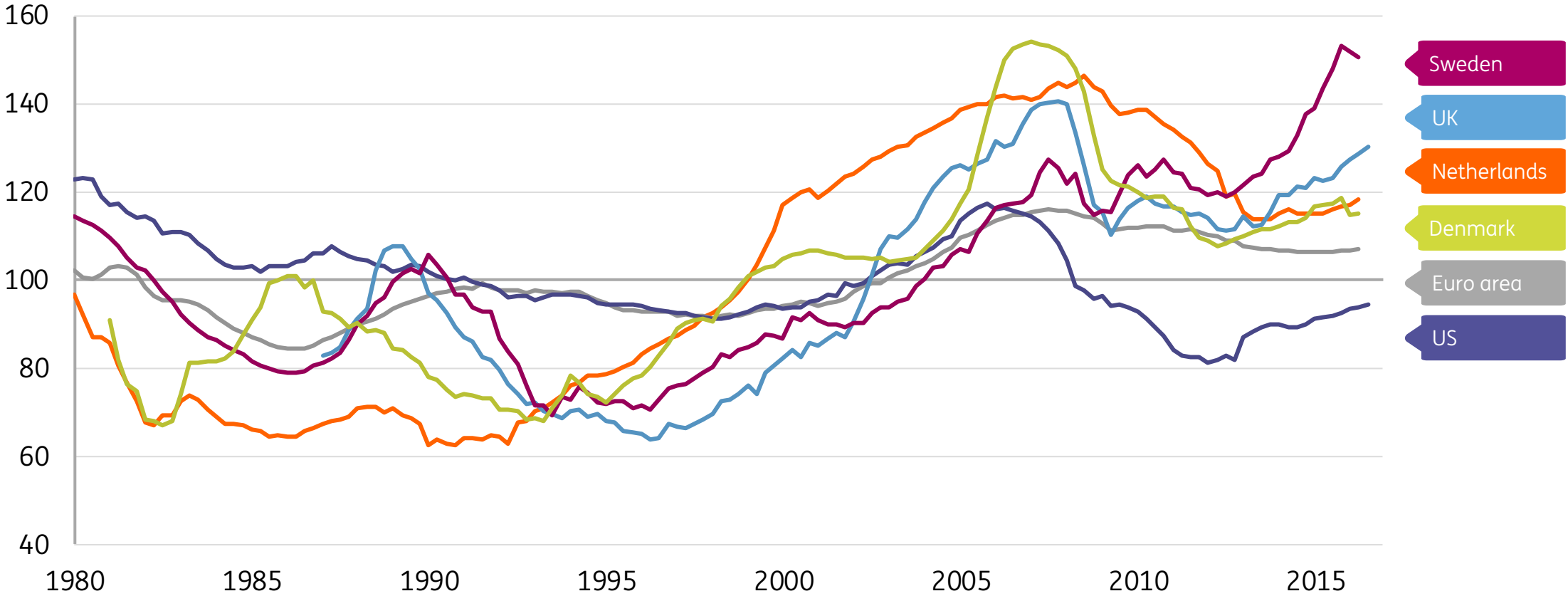


- Amsterdam
- The Hague
- Rotterdam
- Utrecht
- National average

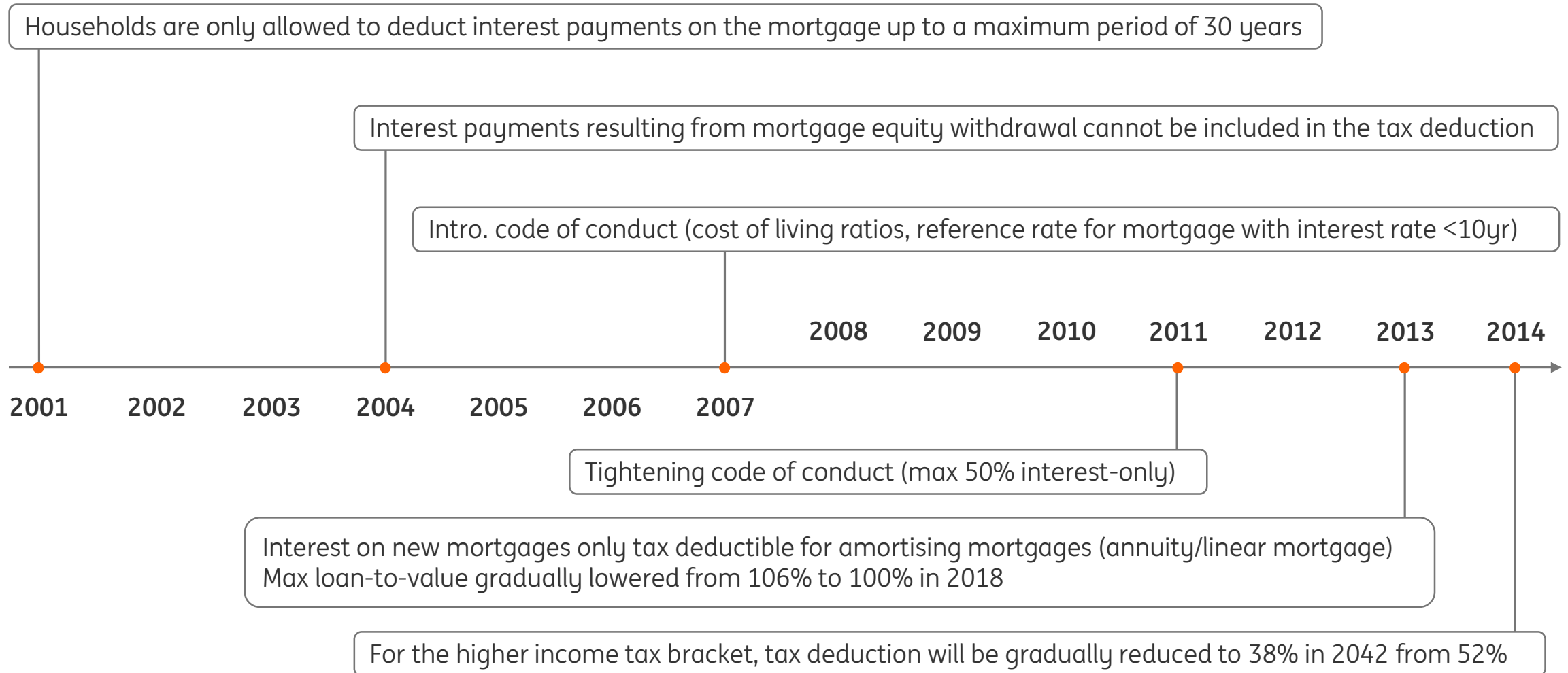
Sharply lower price-to-income in NL

Price-to-income in Sweden and UK far above long-term average, NL and Denmark not so much

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



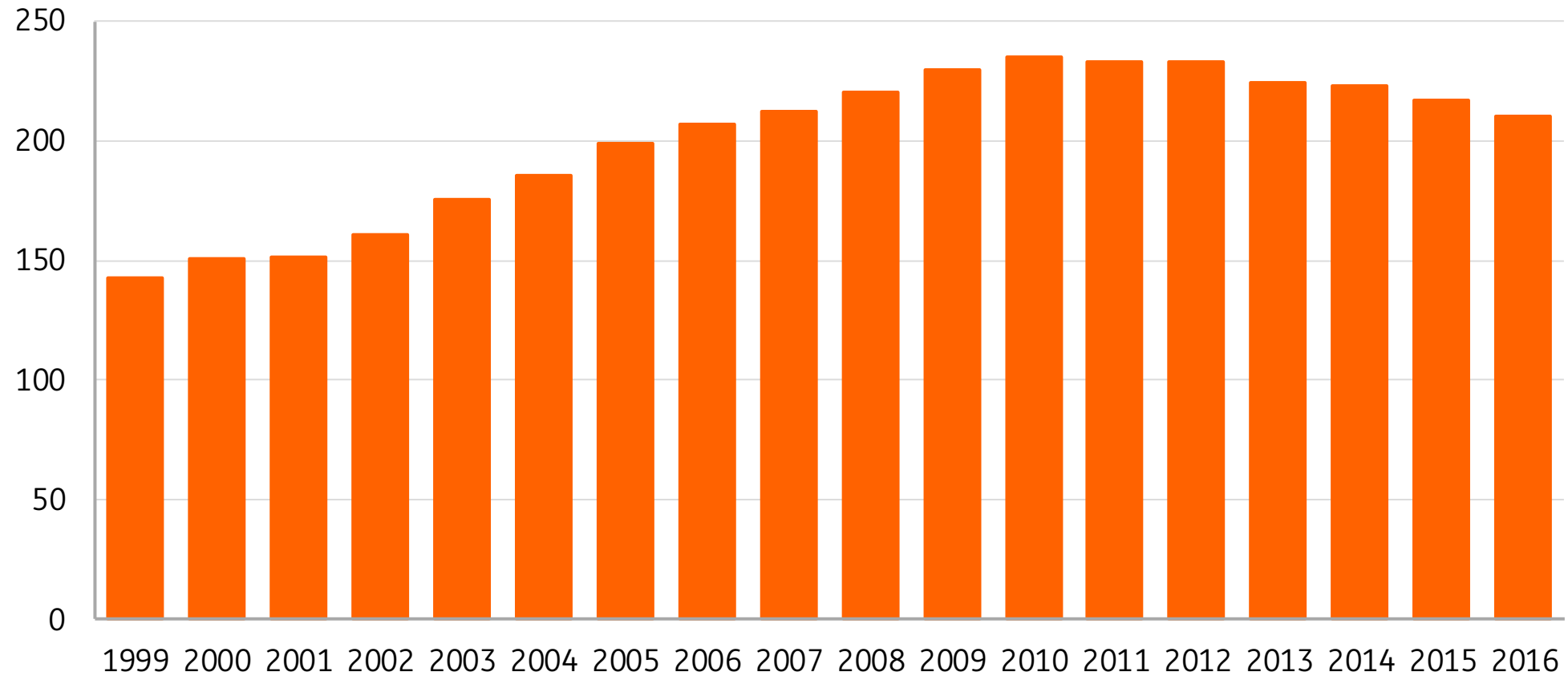
Measures have been taken to curtail mortgage debt growth



Mortgage debt is falling, in relative terms

Debt levels are falling as income rises and households have increased pre-payments

Mortgage debt as % of GDP



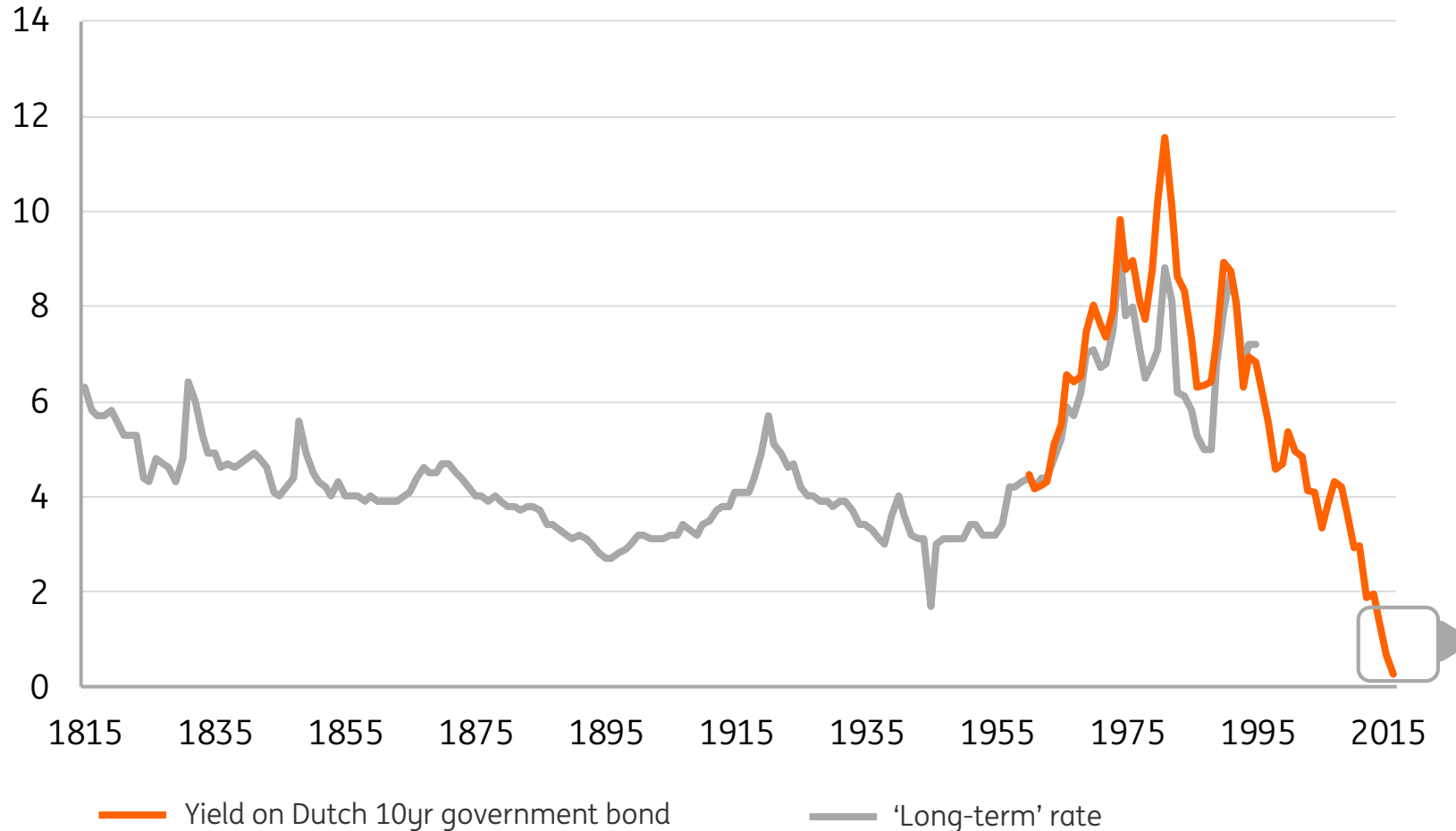
Government

- Government finances are improving rapidly. After another windfall tax gain (mostly income and corporate tax and VAT), the CPB now expects a deficit of only 0.5% of GDP in 2016 (was -1.1%) and a balanced budget next year. 2018 should see a surplus; the first in ten years. In the forecasts, debt drops below the 60% target.
- As a result of major reforms in recent years, the long-term sustainability of the government finances appears favourable.
- International organizations such as the European Commission, the IMF, the OECD and the European Central Bank have encouraged the Dutch government to increase spending. Despite ample fiscal room to do so, the appeals are unlikely to be met with great enthusiasm from the Dutch. “First priority is to rebuild buffers” was the initial reaction. Extra spending by the Dutch could be seen by other countries as a token of goodwill towards Europe.
- Policy is complicated by a heavily fragmented political landscape, which is likely to persist after the March 2017 elections. In the polls, Geert Wilders’ PVV is still the largest, with about 35 seats, but with few parties showing willingness to form a coalition, the PVV is still way off an absolute majority (76 seats). At this point, the most likely outcome of the elections is a coalition of 4 or 5 centre-right and centre-left parties.
- The Dutch government probably is only willing to significantly boost spending when economic growth slows down much more than is currently being forecast. In that case, the Netherlands appears to have much more fiscal room to keep the economy afloat than most other European countries. Against this backdrop, the Dutch economy should be able to continue to outperform the Eurozone average.

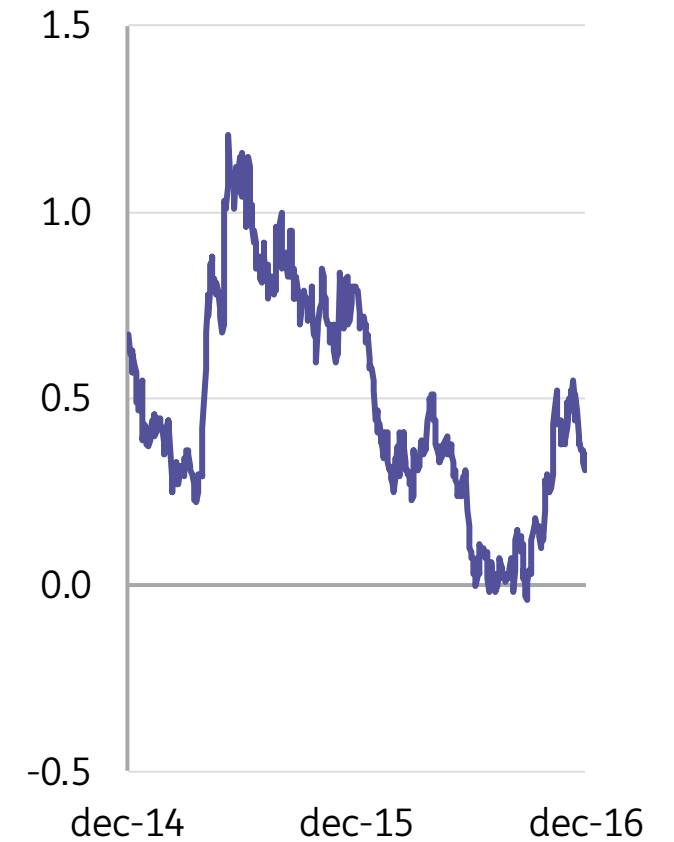
Dutch government bond yield at historically low levels

Yield on Dutch 10-yr government are still very low...

Yearly average, %

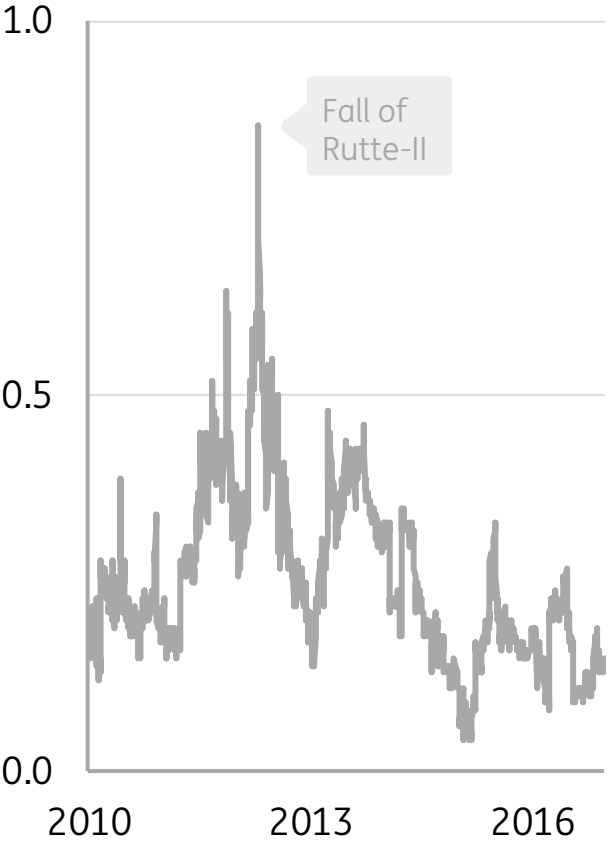
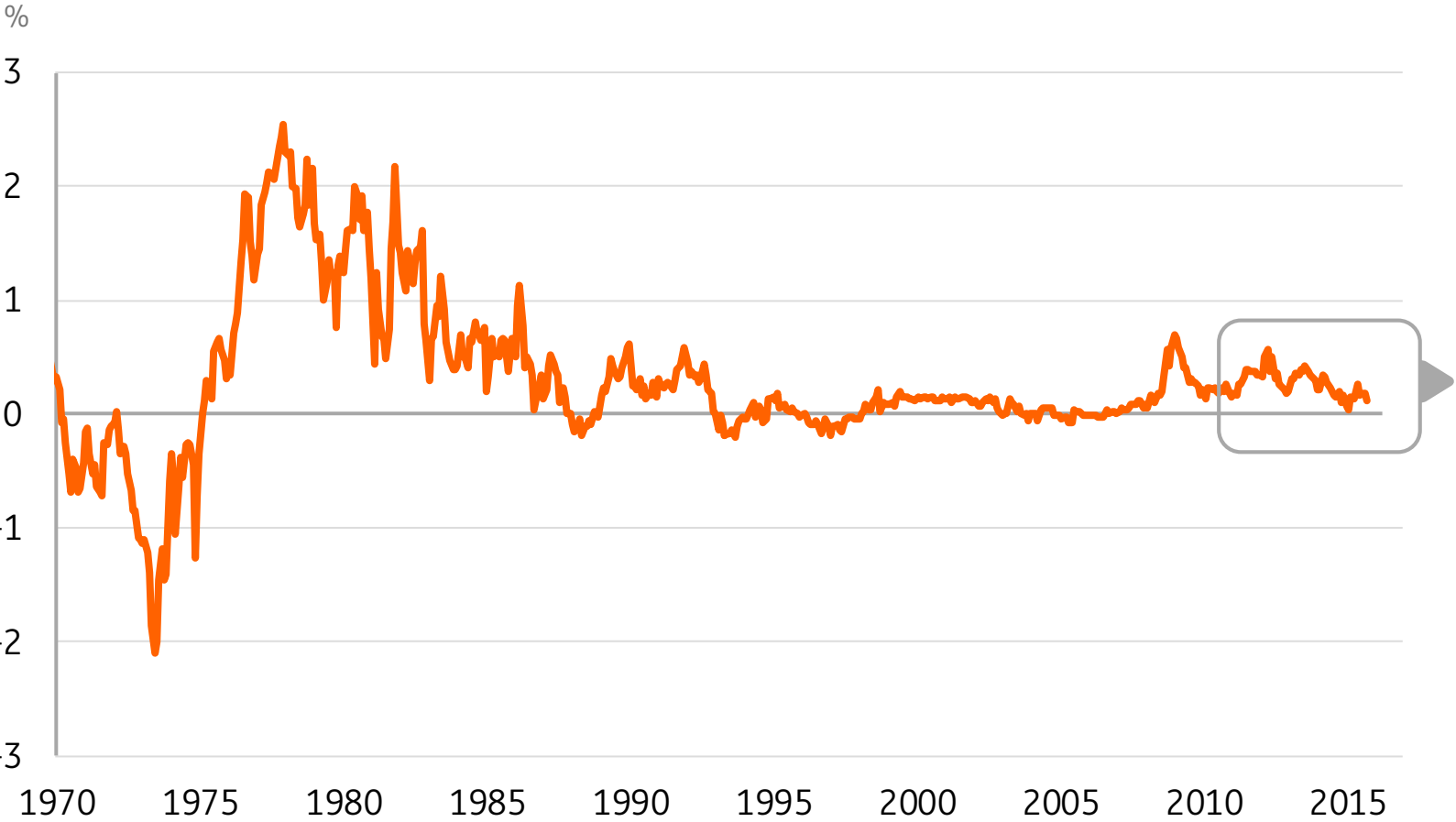


...despite a recent pick-up



Low spread versus Germany

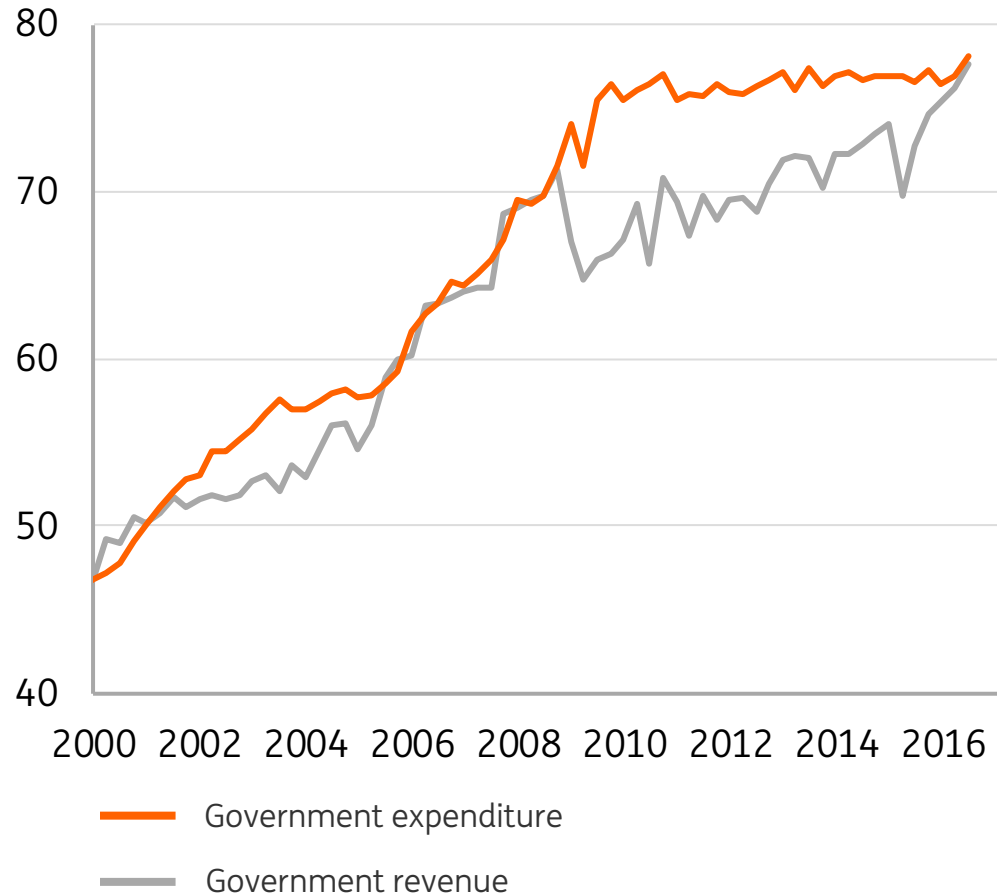
Yield spread with Germany back at low levels



Balanced budget in sight

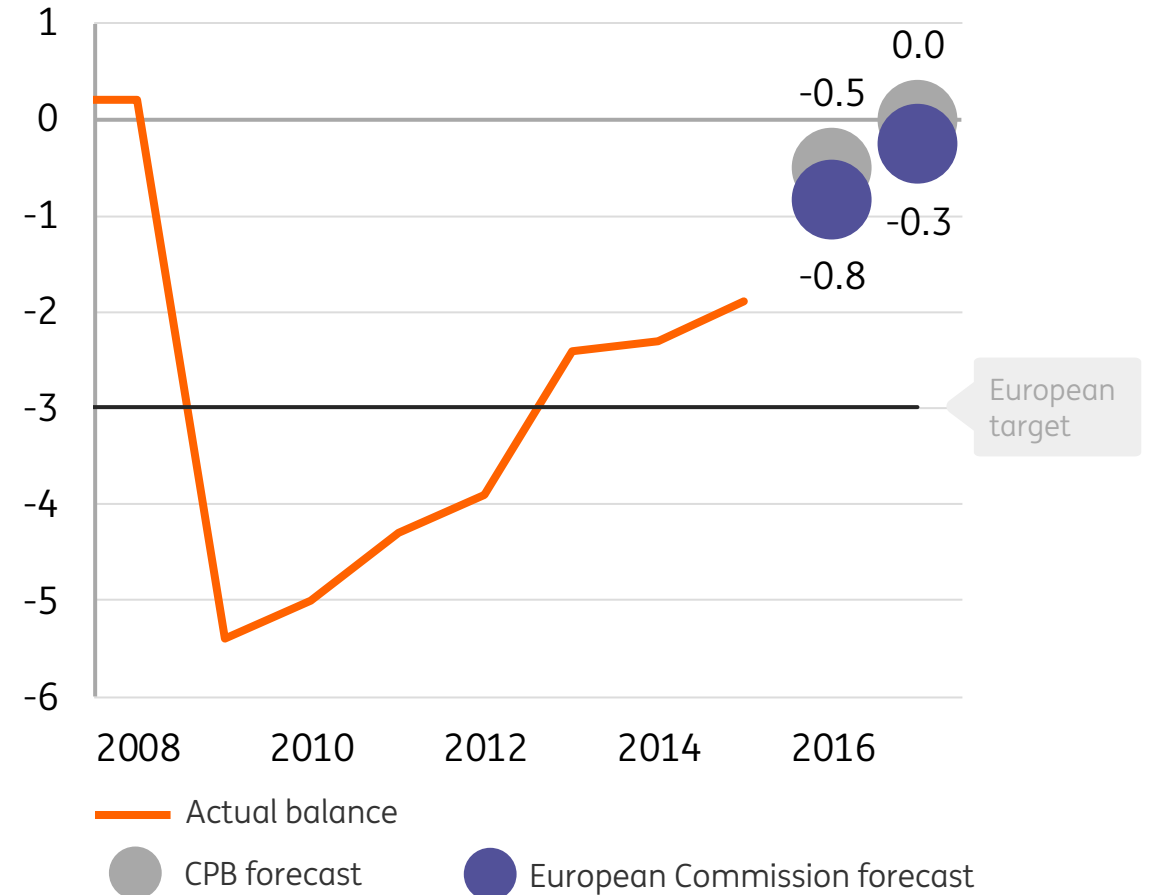
Stable expenditures and surging income...

In euro billions, seasonally-adjusted



...are pushing fiscal balance back toward positive territory

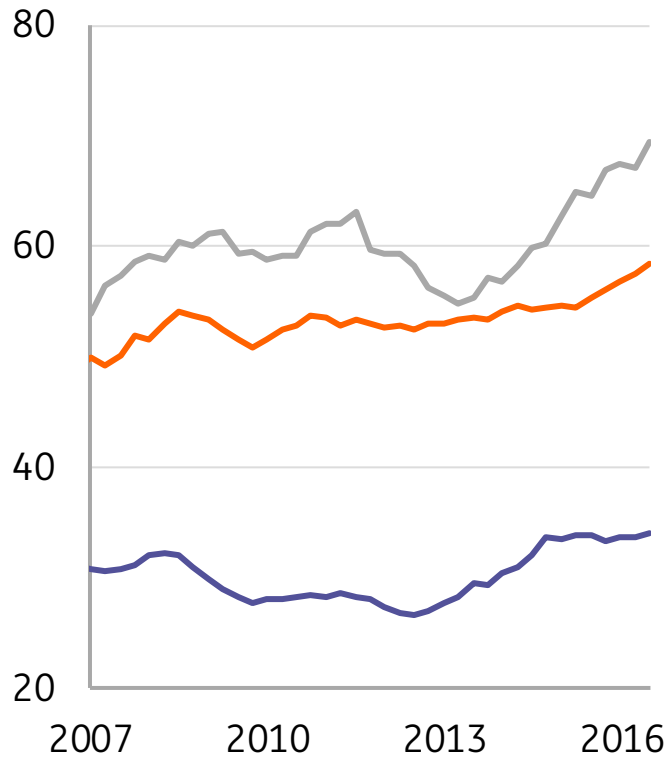
As % of GDP, seasonally-adjusted



Revenues have increased

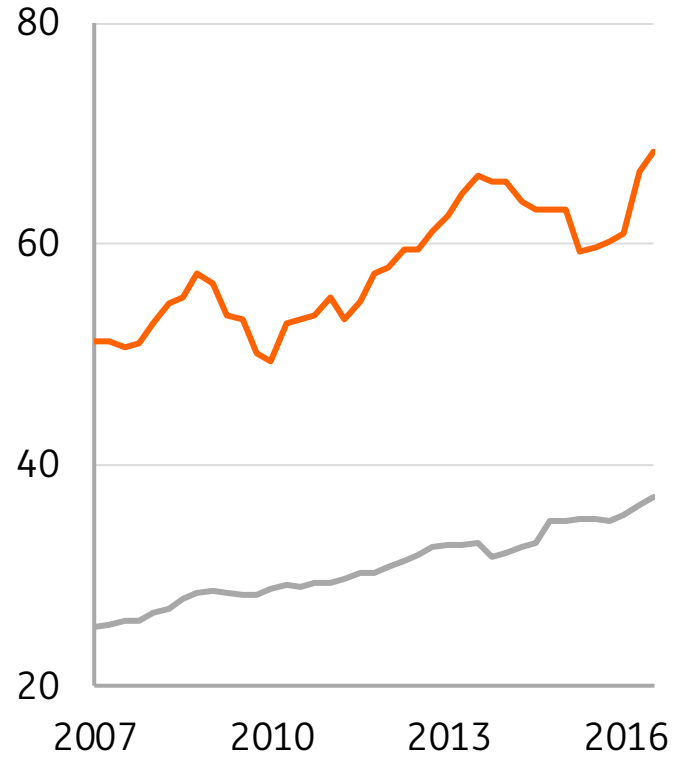
Income & company taxes are surging...

4Q sum, in billion euros



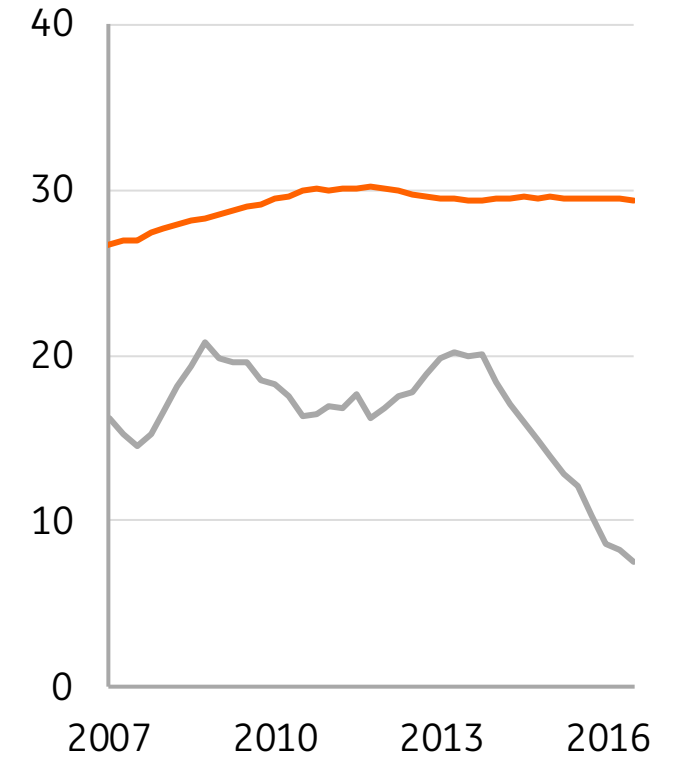
- VAT/excises
- Income and company tax
- Other taxes

...as are social contributions...



- Contributions, employees etc.
- Contributions, employers

...but gas revenues have plunged

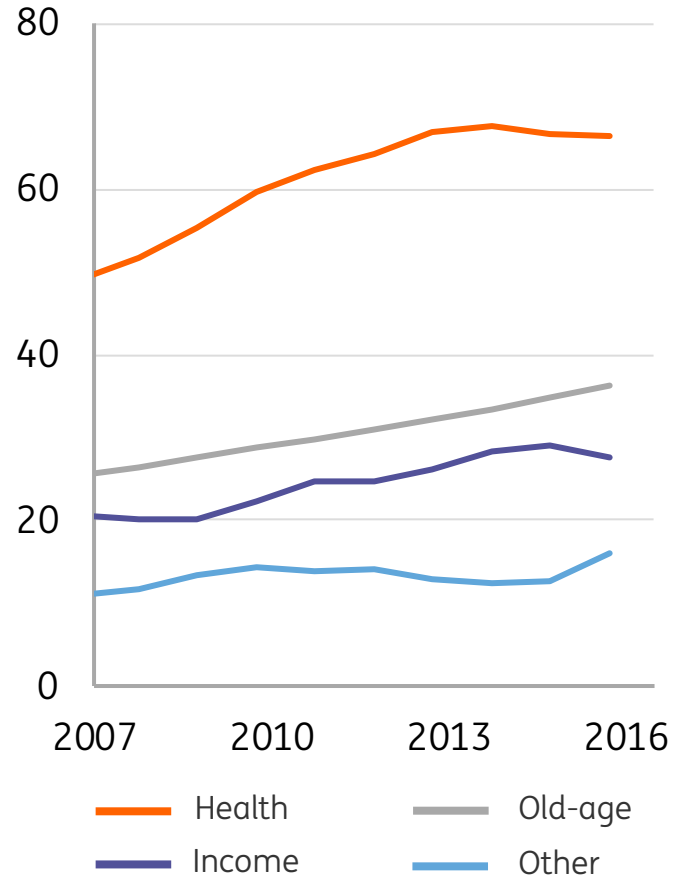


- Sale of products and other income
- Income on wealth (mainly gas revenues)

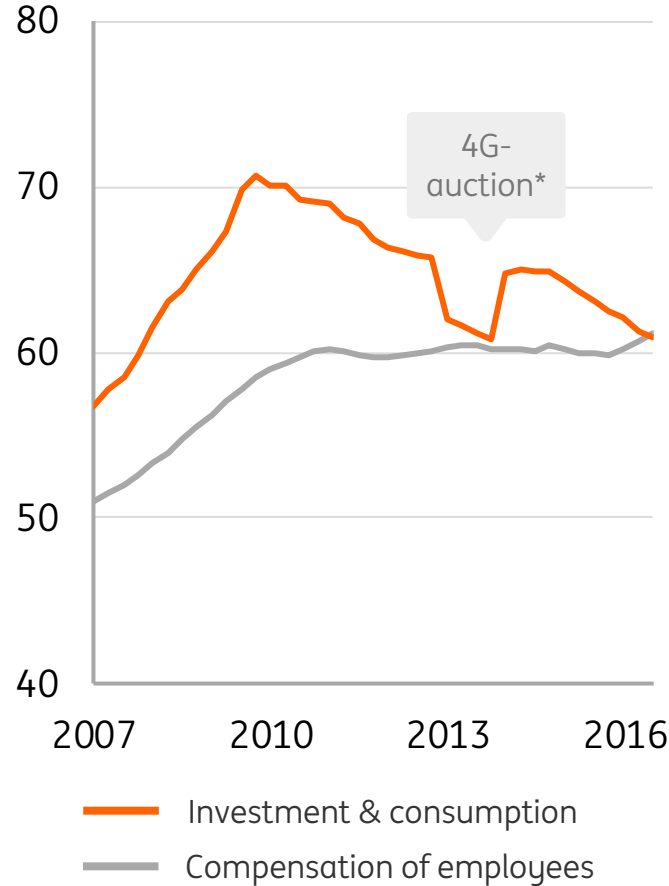
Government expenditures have, on balance, been stable

Social security cost are rising...

4Q sum, in billion euros

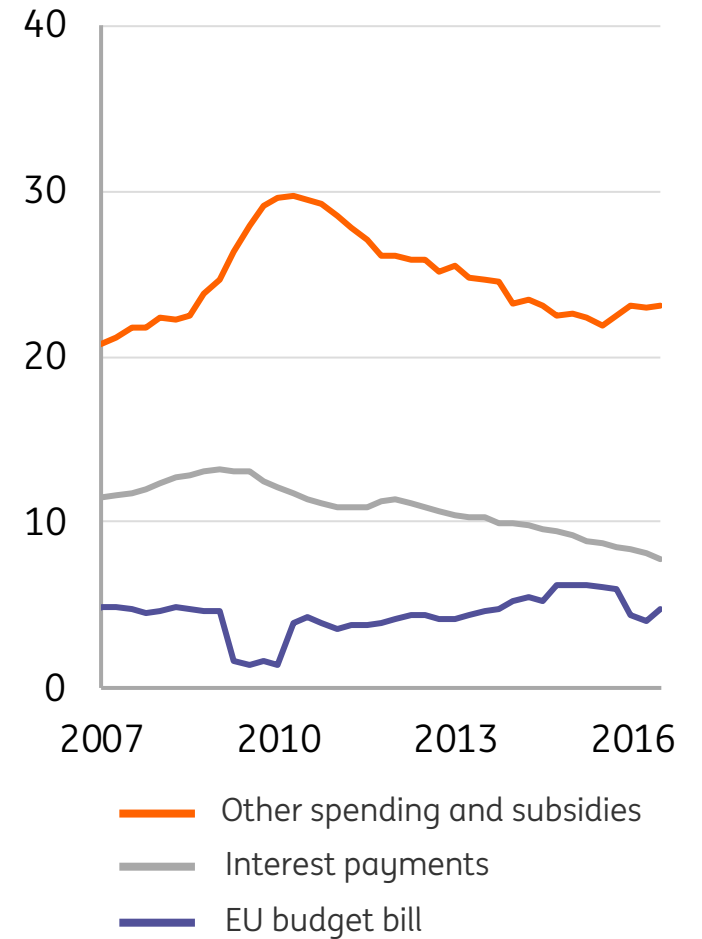


...while civil servant wages have stabilized...



* Proceeds are booked as negative expenditure

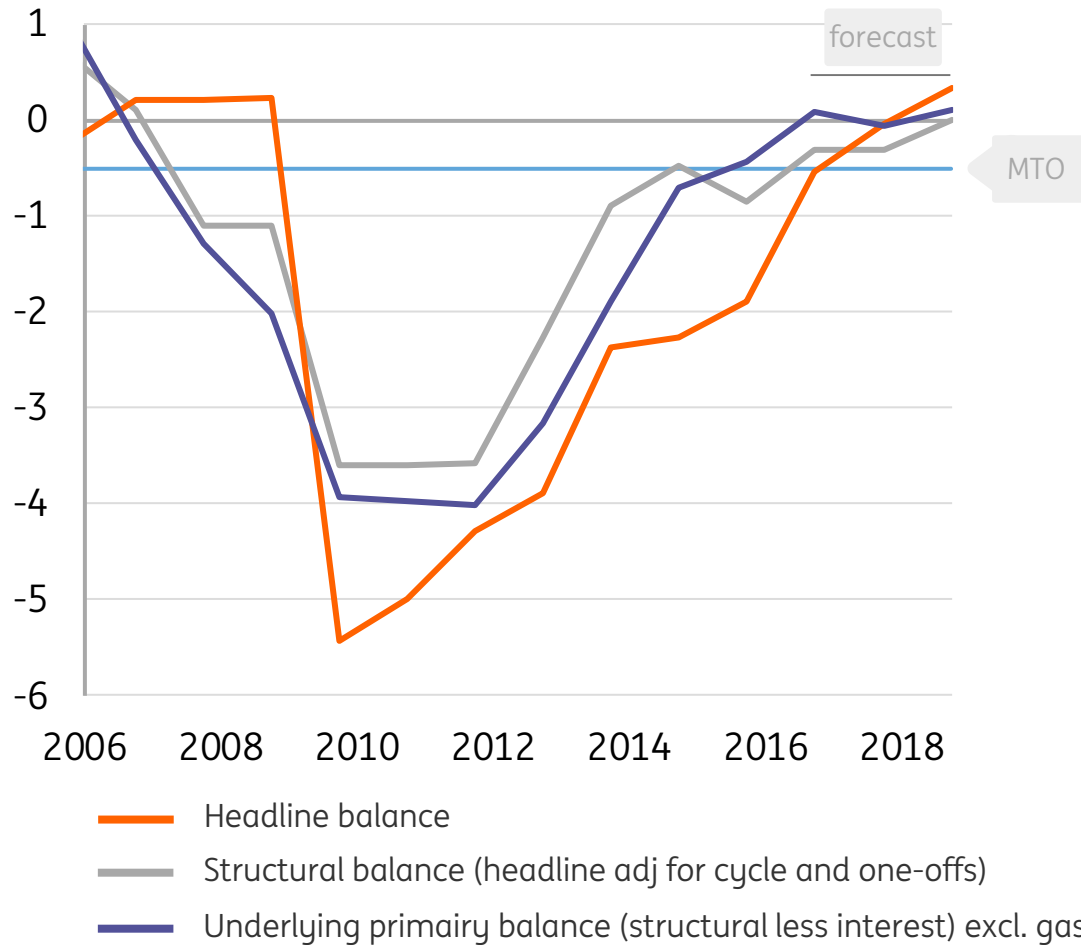
...and interest payments are in decline



Compliant with the rules of the Stability and Growth Pact

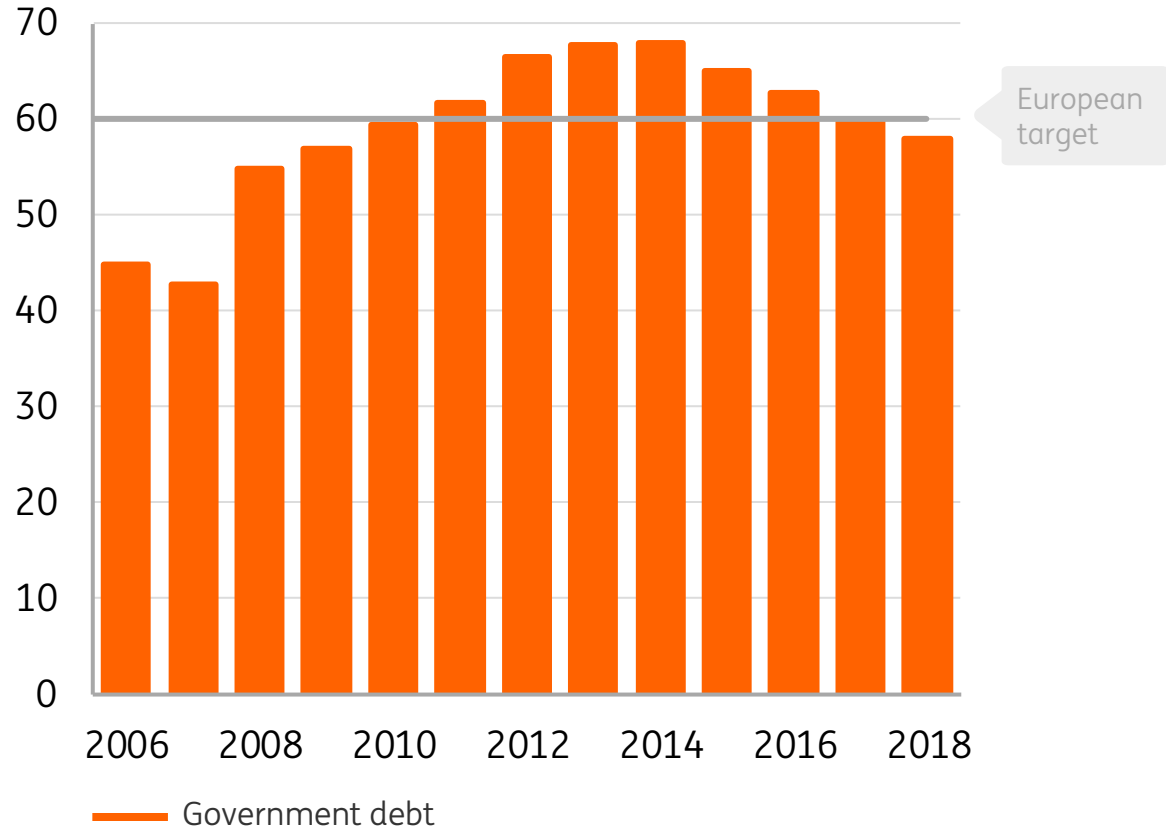
Structural balance above Medium Term Objective...

As % of GDP



...and government debt drops back below 60%

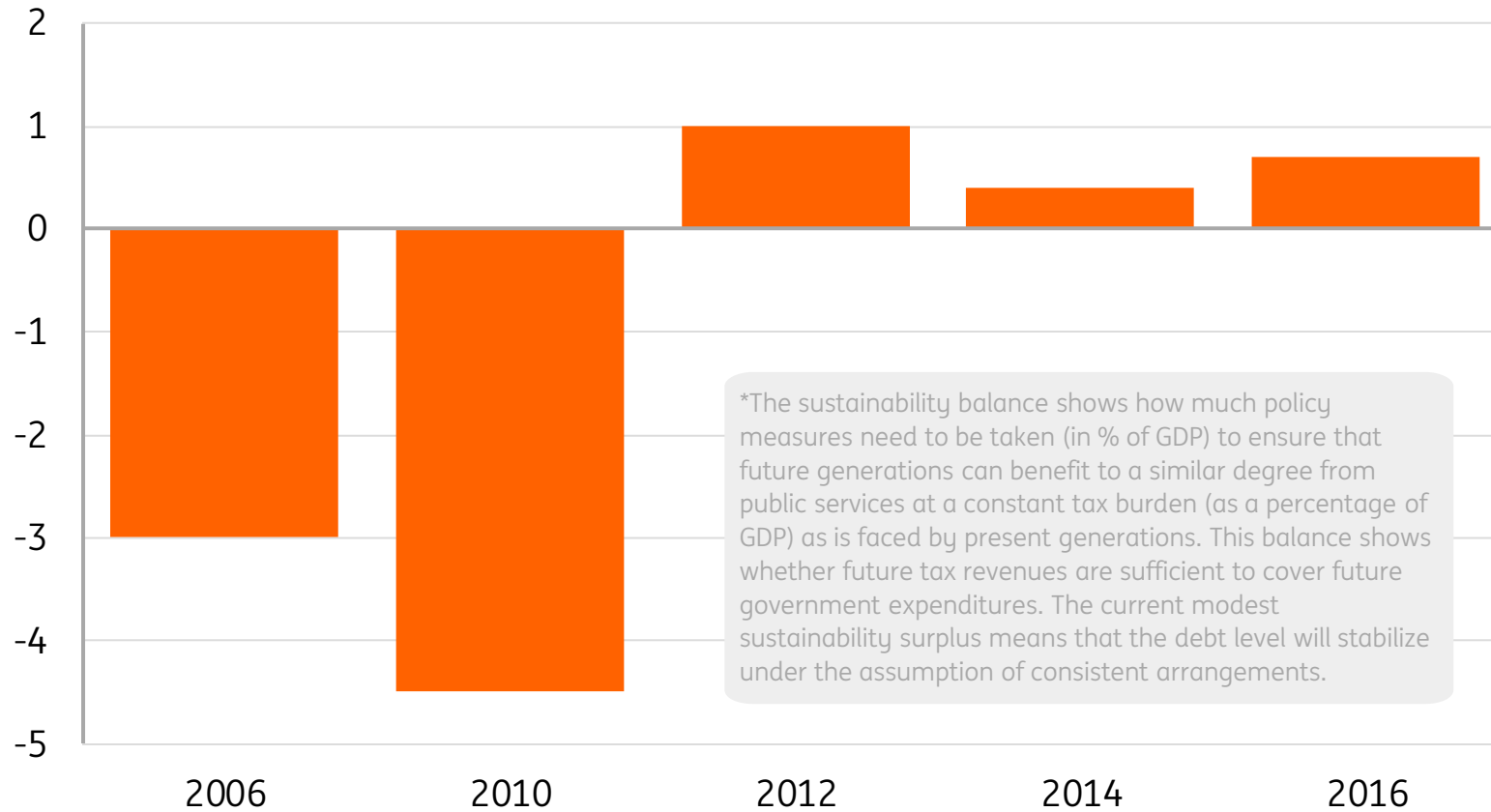
As % of GDP



Favourable long-term sustainability of government finances

Reforms have turned a long-term deficit into a long-term fiscal surplus

As % of GDP

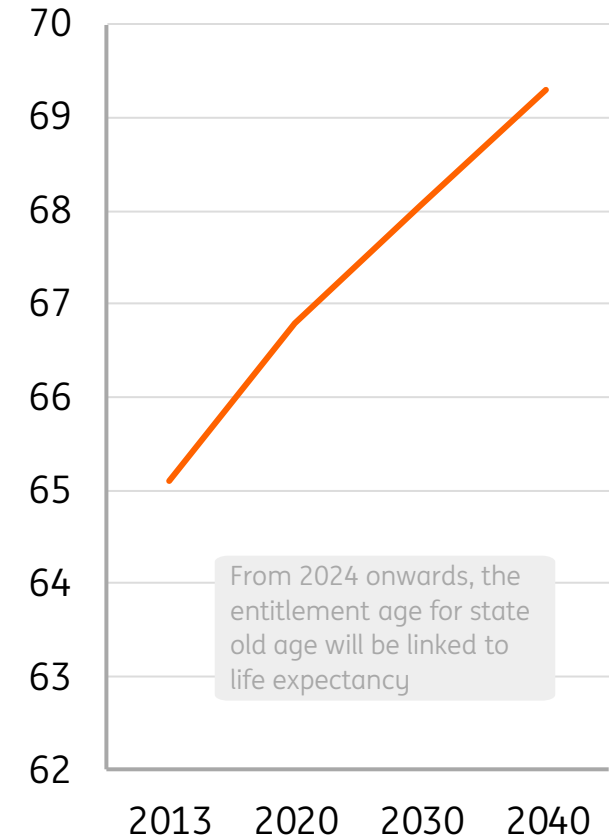


*The sustainability balance shows how much policy measures need to be taken (in % of GDP) to ensure that future generations can benefit to a similar degree from public services at a constant tax burden (as a percentage of GDP) as is faced by present generations. This balance shows whether future tax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

— Sustainability balance*

Strong increase in pension age

In years



From 2024 onwards, the entitlement age for state old age will be linked to life expectancy

Data sources

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4	ING Forecasts
5	[1] Macrobond, ING Forecasts,[2] CBS [3] CPB
6	[1] CBS [2] CBS, ING Forecasts
7	[1] CBS, EC [2] ING calculations
9	CBS, WIOD, ING calculations
10	CBS, ING calculations
11	CBS, ING calculations
12	[1] DNB, ING cal. [2] DNB, Macrobond [3] CBS, ING calculations
13	[1] CPB, CBS [2] CBS, ING calculations
14	WIOD, ING calculations
15	[1] NEVI/PMI [2] CBS, ING calculations/forecasts
16	[1] Macrobond [2] ECB
17	See notes on slide
19	CBS, ING calculations
20	CBS
21	[1] ING [2] CBS
22	CBS, ING calculations

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23	CBS, ING calculations
24	[1] DG ECFIN [2] CBS [3] DG ECFIN, CBS, ING calculations
25	DNB Bank Lending Survey
27	CBS, ING calculations
28	[1] CBS, CPB [2] Eurostat, DNB, ING calculations
29	CBS, ING calculations
30	CBS, ING calculations
31	CBS
32	CBS, ING calculations
33	CBS, ING calculations
34	CBS, ING calculations
36	[1] CBS [2] CBS, ING calculations
37	CBS, ING calculations
38	[1] CBS, DG ECFIN, ING calculations [2] CBS
39	[1] Eurostat [2] CBS
40	CBS, ING calculations
41	CBS, DG ECFIN, ING calculations

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42	[1] CBS, ING calculations [2] CBS
43	CBS, ING calculations
45	DG ECFIN, CBS
46	[1] Macrobond [2] CBS
47	CBS, ING calculations/forecasts
49	[1] VEH, Google Trends, ING calc. [2] Land registry, NVB
50	[1] CBS, DNB, ING calculations [2] [3] Macrobond, DNB
51	CBS
52	[1] Huizenzoeker, CBS, ING calculation [2] CBS
53	Eichholtz, CBS, ING calculations
54	CBS
55	OECD
57	[1] CBS, ING calculations [2] CBS, CPB, EC
58	CBS, ING calculations
59	CBS, ING calculations
60	[1] CBS, CPB, ING forecasts [2] CBS
61	CPB

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