The Netherlands

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IN A NUTSHELL

- → Real GDP rose 3.2% in 2017, highest economic growth since 2007.
- → Unemployment rate declined to 4.9%.
- → Mortgage debt increased to EUR 672 bn (+1.2%).
- → Mortgage interest rates stable at low level.

MACROECONOMIC OVERVIEW

In 2017, the economy expanded at the highest rate since 2007. According to data from Statistics Netherlands (CBS), real GDP rose by 3.2%. The increase was primarily driven by domestic demand. Helped by a stronger labour market, private consumption increased by 1.9% compared to the previous year. Gross fixed capital formation surged 5.6%, largely on the back of residential investment (+13%). Investment by businesses rose by 3.2%, while public investment increased with 4.8%. Public consumption increased by 1.2%, the same growth rate as in 2016. Next to domestic factors, net exports contributed positively too, adding 1.2 pps to GDP growth.

In terms of sectors, commercial services was the main growth driver. Particularly trade and temporary employment agencies provided a strong growth stimulus. Manufacturing, especially firms producing machinery, transport equipment and electronics, and construction output strongly rose too, but the energy sector was negatively impacted by the government's decision to further lower the maximum allowed gas production. The decline in energy production shaved off almost 0.2 pps of GDP in 2017, similar to 2016.

Rising output levels induced businesses to hire more people. Employment (total hours worked) expanded by 1.7% in 2017. The unemployment rate declined from 6.0% at the start of the year to 4.9% at year-end. Wage growth picked up too, but still modestly, preventing a strong acceleration of prices. In fact, core inflation fell from 0.8% to 0.6%. Nevertheless, the headline inflation rate (as measured by the Consumer Price Index) rose from 0.1% in 2016 to 1.3% in 2017, primarily as the result of higher prices for food and energy & fuel. Industrial producer prices rose 5.5%, after a decline of 3.4% in 2016.

The government budget balance remains in surplus. From 0.4% in 2016, the fiscal balance improved to 1.1% in 2017. Increased economic activity boosted tax income. Excluding interest payments, the surplus was 2.3%. Falling gas revenues prevented the primary deficit from improving further. Government debt was 56.7% of GDP at the end of 2017.

HOUSING AND MORTGAGE MARKETS

HOUSING MARKET

In 2017 a new record of 241,860 homes were sold, an increase of 12.6%. The number of sales decreases or rises less rapidly in the big cities than outside. For the second consecutive year the number of sales in Amsterdam declined (-9%) and for the first year after the end of the crisis, less homes were sold in Utrecht (-3%). The Hague and Rotterdam are growing, but lag behind the average Dutch growth. In North and South Netherlands the number of sales increased by more than 18%. This is a turnover, as in particular in recent years, the number of sales in the cities increased and urban areas lagged behind.

This development seems to be related to house price development. Housing prices rose on average 7.5% in 2017. We see large differences between the urban and rural that are mirrored by the development of sales. House prices in the big cities as Amsterdam (14%), Rotterdam (13%), Utrecht (12%) and The Hague (11%) rose twice as fast as in rural areas (around 6%). This price development reflects the desire of living in a city. At the same time, we see that more city dwellers are moving to the rural areas. Partly because the lack of suitable homes in the urban areas, and partly because they can sell their city dwelling with a good profit and thereby move to a cheap rural home.

According to the Dutch Land Registry, a total of 59,210 new homes were delivered. That is an increase of 5% compared to 2016. In Amsterdam 7,160 homes (+ 53% compared to 2016) more homes were realised. Nearly half (44%) are homes up to 50 m^2. Both smaller and larger new homes were delivered. The average surface area of newly built homes has increased by 0.3 m^2 to 112.5 m^2.

MORTGAGE MARKET

The residential mortgage market faced a strong year in 2017. Mainly driven by a high transaction volume on the housing market, total new mortgage originations amounted to EUR 101 bn, according to the Land Registry. This was an increase of 24.7% compared to 2016 and the origination volume was highest since the financial crisis. According to Statistics Netherlands, total outstanding mortgage increased to EUR 672 bn in 2017, the highest amount ever recorded. Despite these strong numbers, developments on the mortgage market still lagged developments on the housing market and broader economy. The increase of the mortgage volume lagged the strong appreciation of house prices, resulting that the average LTV at origination actually declined. Strict legal underwriting criteria, mainly concerning the debt-to-income (DTI), are increasingly resulting in relatively less debt taking when purchasing a home. Indeed, the usage of own funds is on the rise, especially in the bigger cities where the house price appreciation has been the strongest.

The statutory underwriting norms changed only slightly in 2017. As planned, the maximum LTV was lowered to 101% at the beginning of the year, followed by the final decrease to 100% as of 1 January 2018. The new government coalition has agreed not to lower this legal LTV limit further. The DTI norms hardly changed in 2017, even though double-income households were allowed to borrow slightly more mortgage debt. The new government took an important further step to decrease the deductibility of interest payments from taxable income. Currently, the highest deduction rate decreases by 0.5 pps per annum (2017: maximum of 50%). From 2019, this reduction speed will be increased, to 3 pps per annum. As of 2023, the maximum deduction rate will remain stable at 36.9%, which should be equal to the second-highest marginal tax bracket by then. The effects of this change are expected to remain moderate, as the decrease in tax subsidies will be accompanied by a general decrease in income tax tariffs.

Mortgage interest rates stabilised at low levels in 2017. According to DNB, the average mortgage interest on new originations was 2.41%, which was 18 bps lower than in 2016. The average interest rate on outstanding mortgages was 3.4%, down by 34 bps compared to 2016. The interest rate term fixings shifted to longer tenors. Especially 10-year and increasingly also 20-years fixings were popular amongst mortgage borrowers. On the back of the mortgage reforms in 2013, the majority of new originations is amortising (i.e. full annuity or linear loans). About 1/3 of new originations consists of interest-only loan (parts), of which the favourable tax treatment is still possible for borrowers who had a mortgage pre-2013. These tax benefits are still grandfathered in case of refinancing and/or relocation.

MORTGAGE FUNDING

The rise of non-bank lenders continued in 2017, even though banks were able to regain some market share at the end of year. On the basis of Land Registry data, the markets share of banks averaged 57% in 2017. On a relative basis, insurers were less active in new originations and held an average market share of 19%. Third-party originators, mainly acting on behalf of domestic pension funds but increasingly also for foreign parties, were responsible for approximately 24% of all new mortgage originations. From the funding side, whole-loan transfers or mandates continue to dominate, especially on the non-bank side. Banks increasingly opted for the issuance of covered bonds instead of securitisations (RMBS), not only because of more favourable funding conditions in the latter market, but also to have to opportunity to raise long-term funding.

	NETHERLANDS 2016	NETHERLANDS 2017	EU 28 2017
Real GDP growth (%) (1)	2.2	3.2	2.4
Unemployment Rate (LSF), annual average (%) (1)	6.0	4.9	7.6
HICP inflation (%) (1)	0.1	1.3	1.7
Outstanding Residential Loans (mn EUR) (2)	664,416	672,235	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	48,989	49,149	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	197.1	193.4	73.8*
Gross residential lending, annual growth (%) (2)	27.6	24.7	3.5
Typical mortgage rate, annual average (%) (2)	2.6	2.4	2.4**
Owner occupation rate (%) (1)	69.0	n/a	66.4*
Nominal house price growth (%) (2)	5.0	7.5	6.0

* The aggregate EU figure is from 2016.
** Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

NETHERLANDS FACT TABLE

Entities which can issue mortgage loans:	Mortgages are mostly being issued by banks and insurance companies. But also the government, municipalities, companies in general and private persons may issue mortgages. However, for professional issuing of mortgages a company needs a licence from the Netherlands Authority for the Financial Markets. There are strict regulations for licence holders to protect the consumer.
The market share of the mortgage issuances:	Not available
Proportion of outstanding mortgage loans of the mortgage issuances:	Not available
Typical LTV ratio on residential mortgage loans:	Unknown; max LTV in 2018 is 100%.
Any distinction made between residential and non-residential loans:	A mortgage is registered at the Kadaster (Land Registry and Mapping Agency). There is registered whether a piece of land or object is meant for residential purposes.
Most common mortgage product(s):	Annuity and interest-only
Typical maturity of a mortgage:	30 years
Most common way to fund mortgage lending:	Not available
Level of costs associated with a house purchase:	2% taxes; 4% other transaction cost (i.e. notary; real estate agent; taxation).
The level (if any) of government subsidies for house purchases:	There is a guarantee fund, the Nationale Hypotheek Garantie (NHG). For mortgages lower than EUR 265.000 and under certain conditions, the NHG guarantees the payback of the remaining mortgage debt in case of foreclosure (again at certain conditions).