Focus

In recent years, house prices have increased significantly in the Netherlands. As the graph shows, over the past five years average house prices increased by 15% in the eurozone and by 25% in the Netherlands. Historically low interest rates are often cited as the cause. But are the historically low interest rates the only cause of the current significant increase in house prices in the Netherlands?

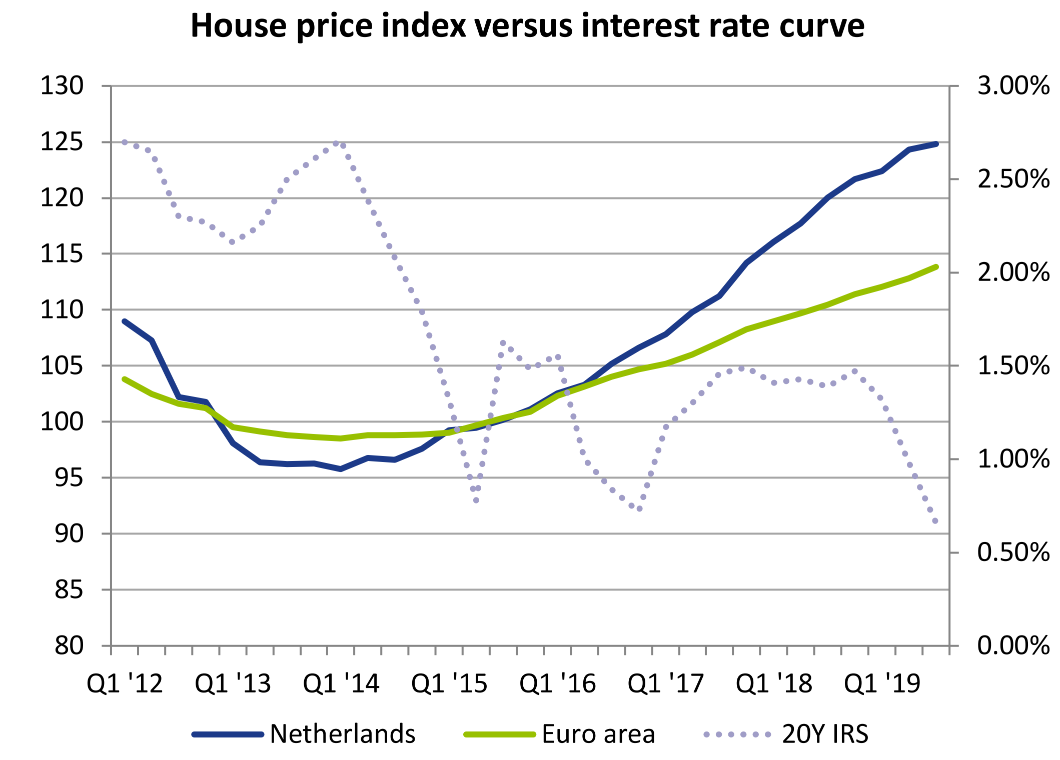
With the current historically low interest rates, banks can raise funds at relatively low rates. Due to these banks can also lower mortgage interest rates. These low mortgage interest rates make it more attractive for people to get a mortgage, as monthly mortgage costs are relatively low and they are able to borrow more. As a result, the demand for houses has risen, and in response house prices.

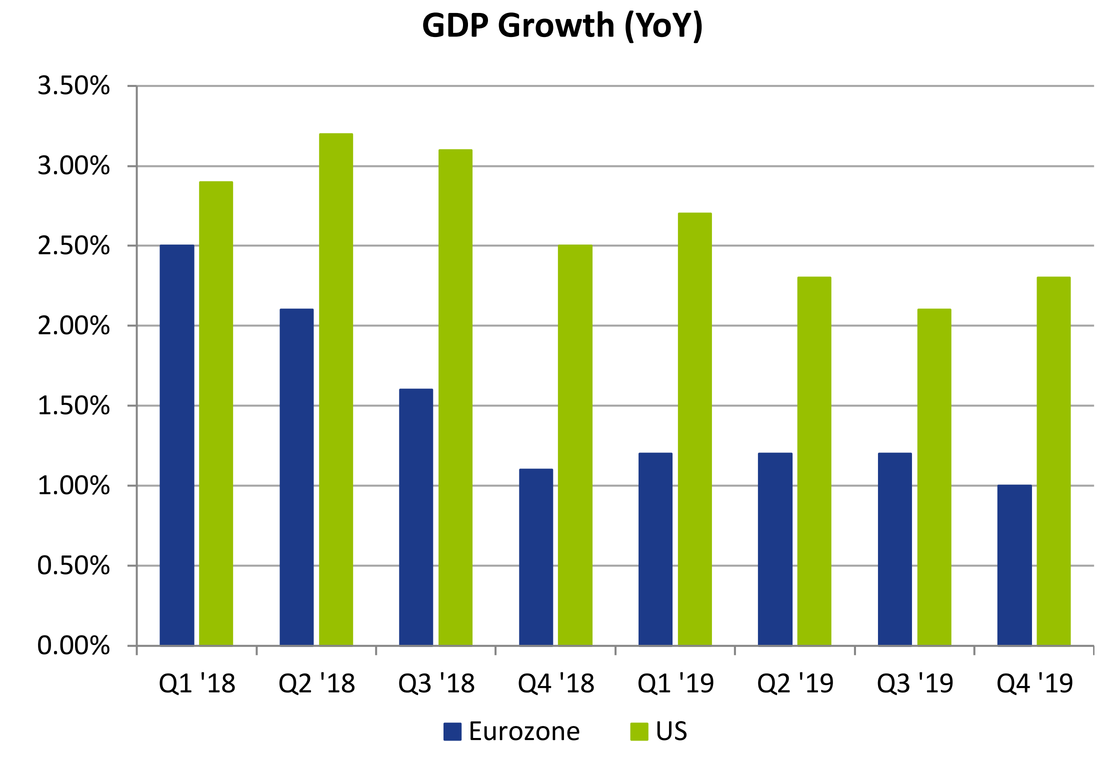
However, low interest rates are not the only explanation for the increased house prices. An important factor is the shortage of supply. Figures from Statistics Netherlands show that in 2014, production of new houses reached its lowest level in more than half a century. As a result, the size of the construction sector decreased and not enough construction projects were realized in recent years to keep up with current population growth and demand. This shortage of housing has pushed house prices up.

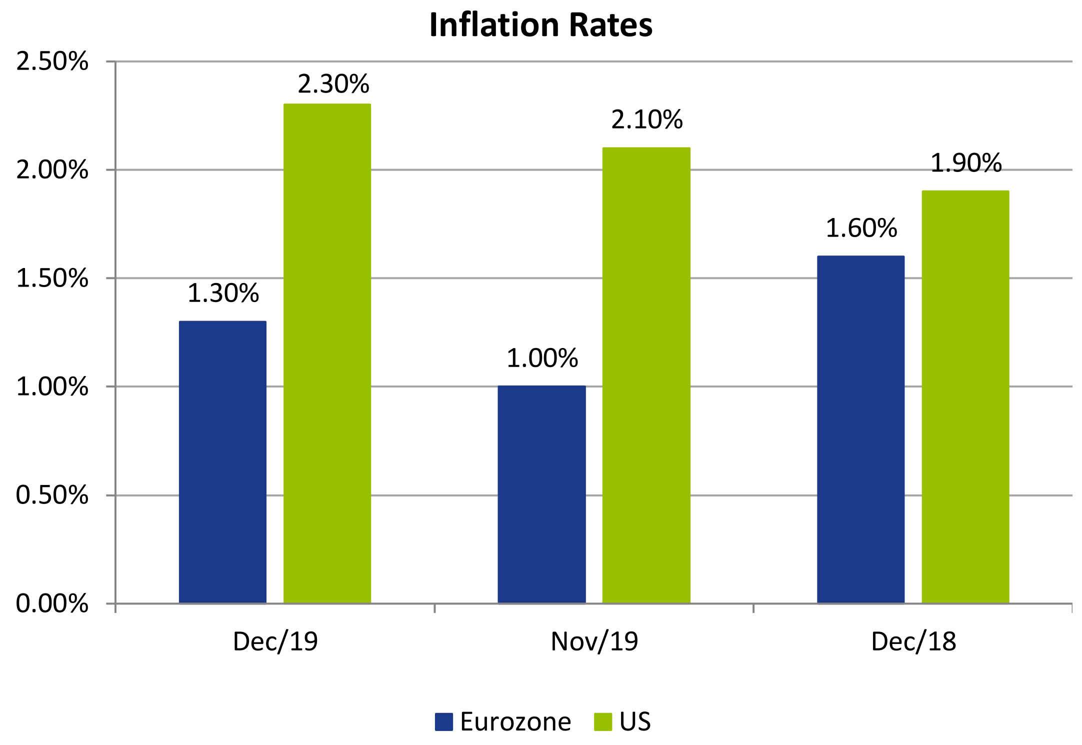
In addition, renting in the commercial sector has become less interesting for consumers. According to economists, the commercial rental sector used to play an important role in dampening the demand for owner-occupied houses by offering an alternative to buying. Currently, however, this dampening effect is limited by the declining availability in the commercial sector. Klaas Knot, the president of the Dutch Central Bank, argued in a speech at Capital Value on 11 February 2019 that just after the Second World War, the housing stock still consisted of 60% commercial rent, while this is less than 10% in 2019. Without a sufficient availability of affordable commercial rental as an alternative, the demand for owner-occupied houses will remain relatively high and so do house prices.

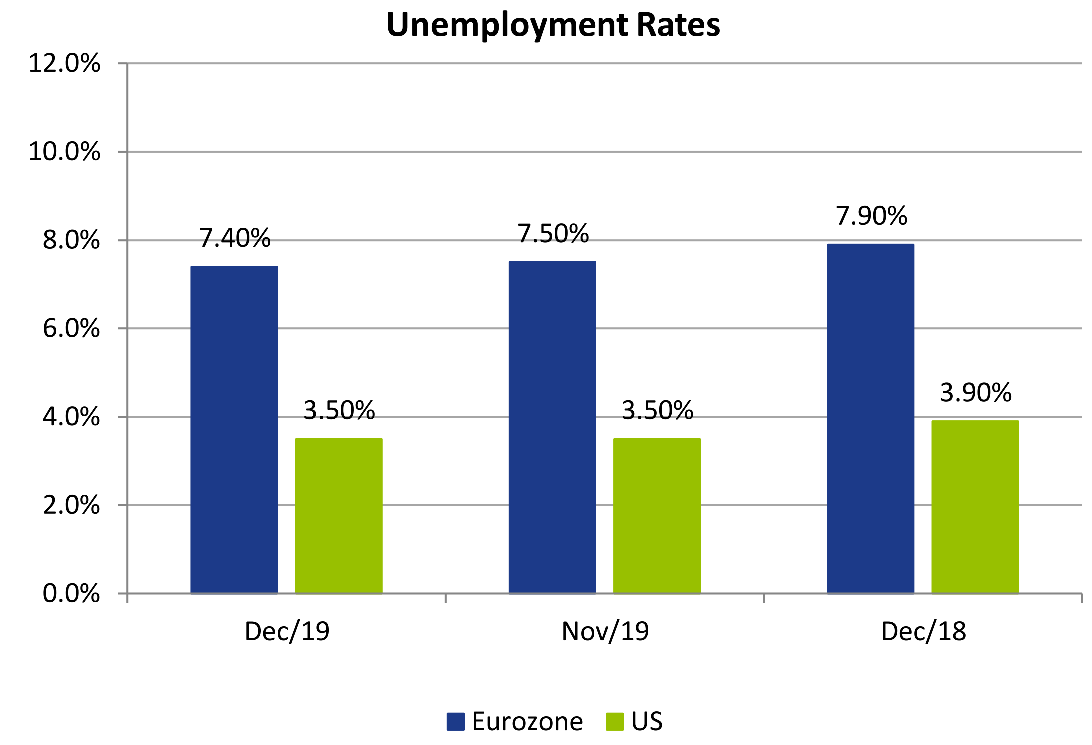
It is also important to realize is that house prices fluctuate with the economy. Economic factors such as income and confidence in the economy have a major influence on the supply and demand of houses and therefore on house prices. For example, Netherlands Bureau for Economic Policy Analysis (CPB) uses income as one of the main drivers for owner-occupied house demand. If the economy flourishes, demand for owner-occupied houses will generally increase too.

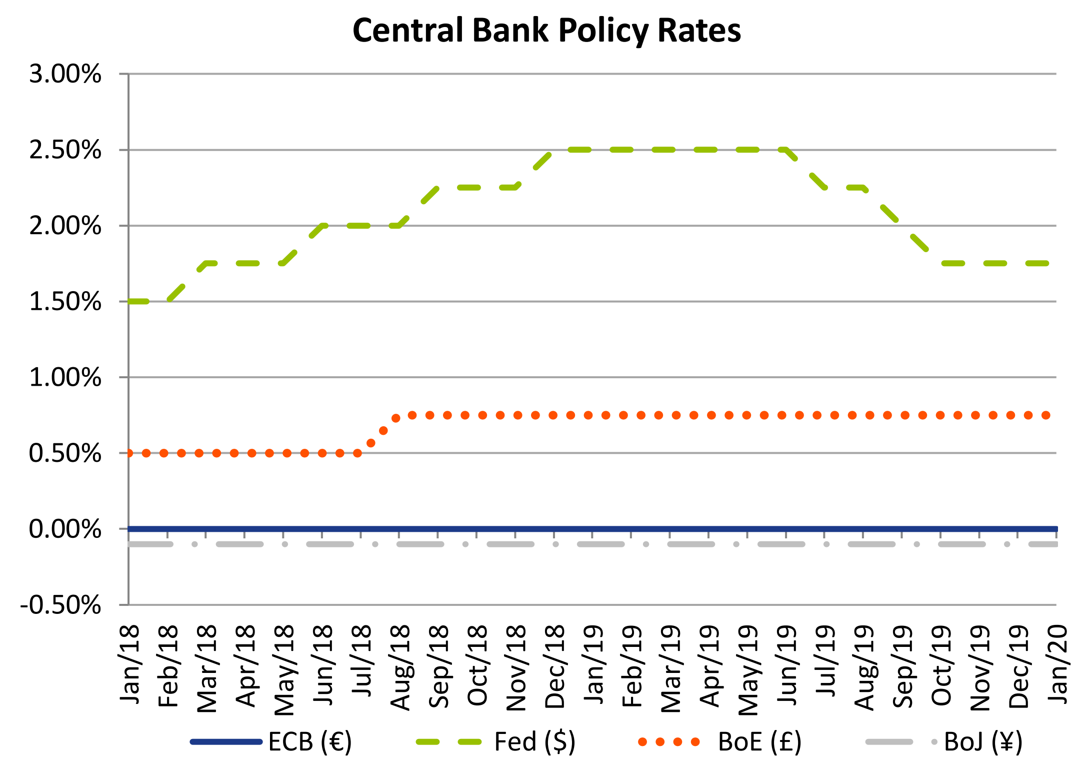
The historically low interest rates certainly have an impact on house prices in the Netherlands. However, there are many other factors that also influence house prices. The above-mentioned factors explain only a part of the increased house prices in recent years. The so-called housing crisis is therefore complex one.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa2	AA
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Review

Statistics Netherlands has reported that the average inflation rate in the Netherlands amounted to 2.6% in 2019. This is the highest level since 2002. The strong increase was largely caused by the increase of the VAT rate (from 6% to 9%) and the increase in the energy tax rate. Measured by the harmonized European method, the inflation rate for the Netherlands in 2019 was 2.7%. This means that the Netherlands had the second highest inflation rate in the Eurozone, after Slovakia.

The Chinese economy grew by 6.1% in 2019 compared to 2018. This is the lowest growth rate in 29 years. The slow growth is mainly a result of the trade tensions between the United States and China. Also, increasing debt and weakening domestic demand played a role in the low growth rate. However, industrial production in China and retail sales increased more than expected in December 2019.

Outlook

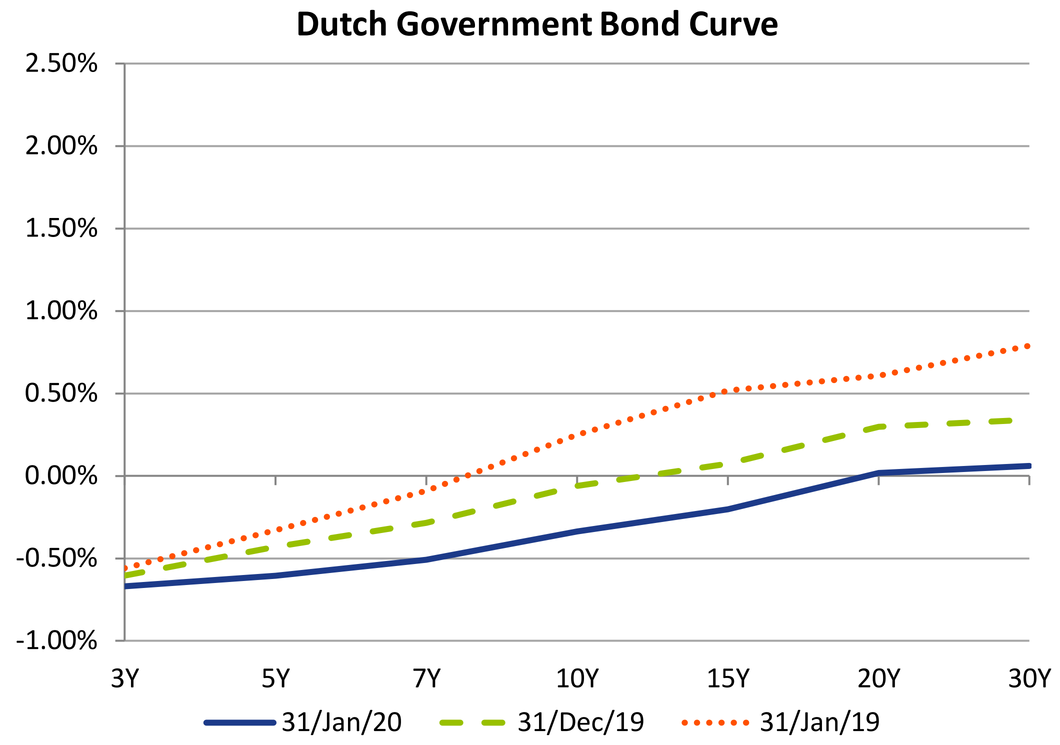
The International Monetary Fund (IMF) has further lowered its growth forecasts for the world economy compared to the latest estimates in October 2019. Despite the eased trade tensions between the United States and China and progress in the Brexit process, the economic picture in India has deteriorated to such an extent that the IMF decided to adjust its forecasts. India's economy performed worse than the IMF expected last year, partly due to weaker domestic demand. For the global economy, the IMF is forecasting a growth of 3.3% this year, which is 0.1% lower than previously estimated. For 2021, the IMF has adjusted the growth rate to 3.4%. This is 0.2% lower than the previous forecast.

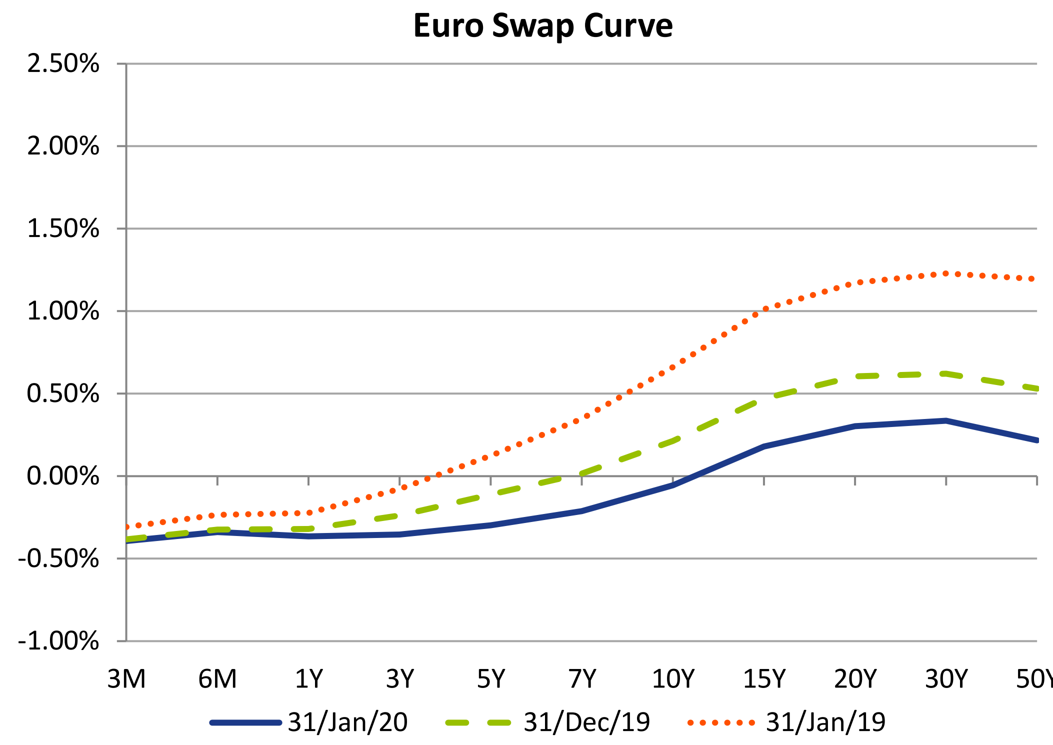
In addition to the IMF forecasts, the World Bank also expects the global economy to grow at a lower rate in 2020 than previously expected. The growth forecast for 2020 was adjusted from 2.7% to 2.5%. However, the growth rate of 2020 expected to be stronger than in 2019 (2.4%). World trade is expected to grow by 1.9%, compared to 1.4% in 2019.

In contrast, the Organisation for Economic Cooperation and Development (OECD) expects economic growth in most major economies to remain stable over the next six to nine months. According to the OECD, economic indicators indicate that there will be stable growth in the coming period in Japan, Canada, the Eurozone, China, the United States and Russia.

Upcoming publications of macroeconomic indicators

07 February 2020	Unemployment rates US
11 February 2020	Gross Domestic Product UK
13 February 2020	Consumer price index US





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	AA-
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A+
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	A1	A-

Currencies	31/Jan/20	31/Dec/19	31/Jan/19
EUR/USD	1.109	1.121	1.145
EUR/GBP	0.840	0.846	0.873
EUR/CHF	1.069	1.086	1.138
EUR/JPY	120.165	121.765	124.650
EUR/DKK	7.473	7.471	7.466
EUR/SEK	10.674	10.501	10.357
EUR/CAD	1.468	1.457	1.502
EUR/AUD	1.658	1.597	1.574
EUR/CNY	7.666	7.807	7.670