Economic View

October 2021

Focus

In the recently presented Budget Memorandum, the Dutch government unveiled plans to address the tightness in the housing market. An estimated 900,000 new affordable homes are needed to meet demand through 2030. To achieve this, EUR 1 billion will be made available for the next ten years. What aspects play a role in the current housing shortage? And are these proposed investments sufficient to address this need in the medium term?

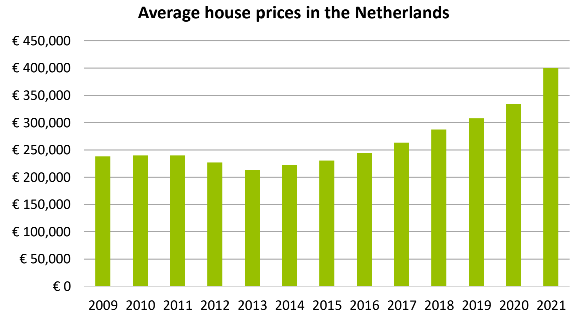
With current house prices averaging EUR 400,000, it is made difficult for seekers in the housing market to purchase a home. Due to the high demand, overbidding on owner-occupied homes is the rule rather than the exception. One of the drivers of the rising demand for homes are the low interest rates, which means that homebuyers can borrow more and therefore bid more. Combined with the fact that supply does not keep up with demand, house prices continue to increase. In addition, until recently investors were able to take advantage of the low property transfer tax. As a result, many homes have been purchased as investment objects. Another driver of the increasing house prices is that the capacity of the construction sector is still below pre-credit crisis levels, and the nitrogen crisis is causing further delays in construction projects. Lastly, the shortage is partly demographic in nature; the rising population growth simply results in an increased demand for housing. Combined with the fact that the elderly tend to live longer in relatively larger houses, this contributes to further imbalances.

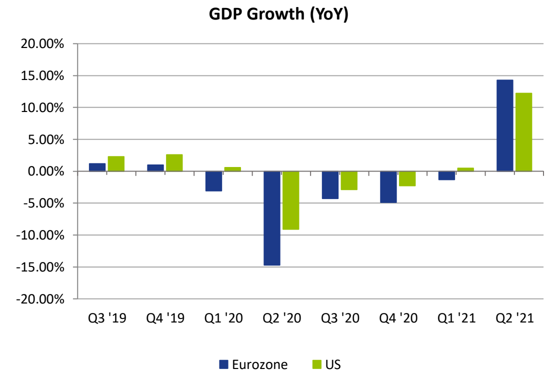
To address the shortage, the government is therefore allocating EUR 1 billion to build additional homes for the coming ten years. The money is also intended to realize the infrastructure around these new housing projects. Critics argue that the amount of investment made available is far too limited to carry out the required investments. In addition, the provision of liquid assets alone is not enough: a specific plan of action will have to be put forward that also looks at policy-related innovations.

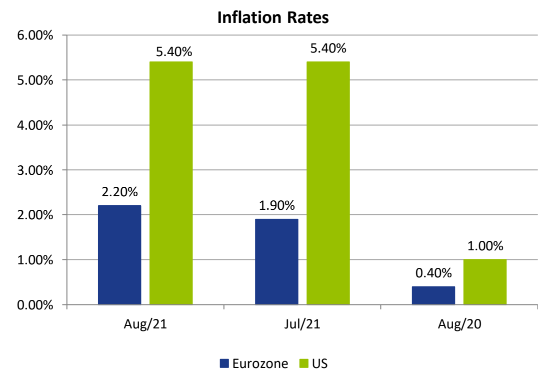
What policy innovations are appropriate in the current housing crisis? Critics argue that homes should be made less attractive as investment objects. The government has already taken steps in this direction by increasing the property transfer tax. The introduction of the owner-occupied home obligation could also contribute to this. Basically, the policy should be reformed to reduce the attactiveness of investing in real estate. For example, by adding extra tax on the capital used to purchase a home or by extra tax on the rental income for a landlord. This is not only necessary to reduce the gap between renters and owners of owner-occupied housing, but also to stabilize housing price increases in the medium term.

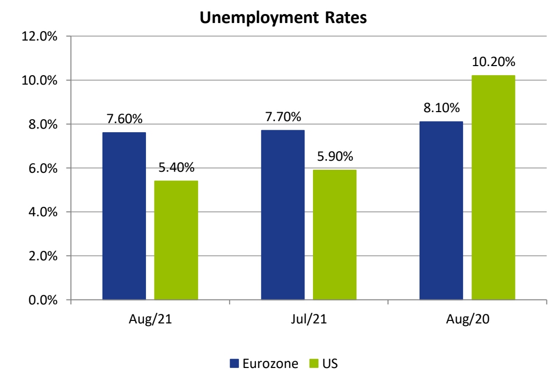
In addition, the proposed investments should be combined with regulation of affordability in the private housing sector. For example, the abolition of the landlord levy for housing associations could contribute to this affordability. The system that was created to ensure a reasonable relationship between the rent and the quality of a home, so called “puntensysteem”, can also be further improved. For example, it can be expanded and/or better regulated. This gives housing associations the space to build affordable housing and tackles abuses in the private housing sector.

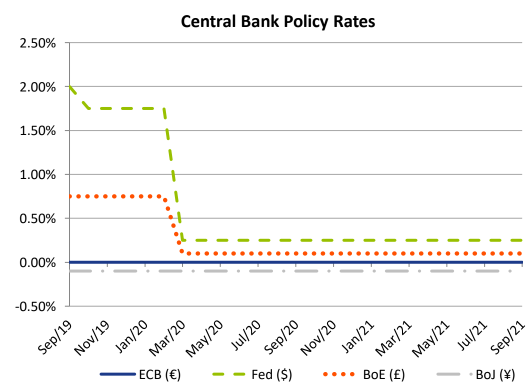
With the EUR 1 billion for the next 10 years, the government is taking only small steps to address the housing shortage. First, the proposed investments fall short of what is needed. Second, the government needs to revise its public housing policy, and combine these investments with a targeted plan for both the owner-occupied and rental sector. This is necessary to tackle the housing shortage in the short term and prevent structural problems in the future. In this way, supply and demand can be better matched.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa3	AA-
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

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Review & preview

On September 9, the European Central Bank (ECB) announced that it will leave its policy rate unchanged for the time being. Therefore, it will remain at 0.0%. The pace at which bonds will be purchased will be adjusted downwards. This concerns only the pace of the corona emergency fund, approximately EUR 80 billion per month, and not the regular purchase program of EUR 20 billion. ECB President Christine Lagarde emphasized that these decisions do not mean that the economy has fully recovered. Next December the ECB will meet again to decide whether further tapering of monetary policy is desirable.

On September 16 the Financial Times reported that the ECB may raise its deposit rate as early as 2 years from now, a year earlier than most economists had predicted. ECB chief economist Philip Lane is said to have made these statements internally at ECB, basing them on unpublished ECB models. Currently, the deposit rate still stands at -0.5%. Lane also indicated that inflation in the Eurozone is expected to return to around 2% by the end of 2023. Previously, the ECB predicted an inflation rate of 1.5% in 2023.

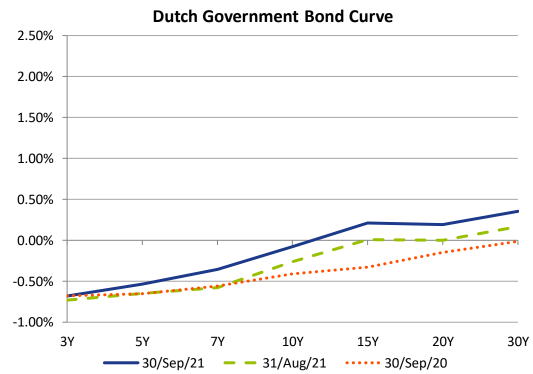
The Federal Reserve (Fed) announced on the 22nd of September that it kept the benchmark interest rate anchored near zero. The federal funds rate remained as expected at 0.00% to 0.25%. The discount rate was maintained at 0.25%. Fed Chairman Jerome Powell indicated that the phasing out of the monetary support program could begin as early as November 2021.

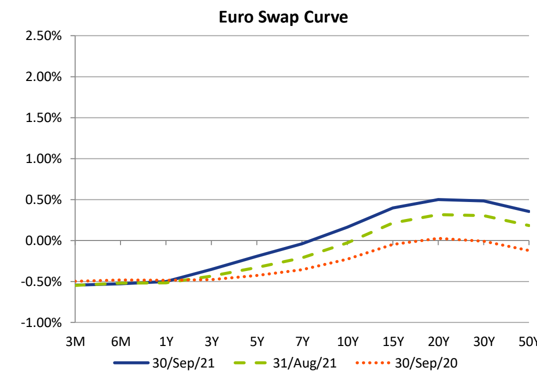
The People's Bank of China has injected a total of CNY 530 billion (around USD 82 billion) into the Chinese financial system in recent weeks. The system is under pressure due to the debt crisis at China's second largest property developer, Evergrande. The company has an outstanding debt approximately USD 300 billion, making it the highest indebted company in the world. For comparison, the second most indebted company is Volkswagen Group with around USD 192 billion in debt. The Chinese real estate giant failed to make two coupon payments this month and is currently in the process of trying to sell a USD 1.5 billion stake in Shengjing Bank to a state-owned company.

The European Commission plans to enter the capital markets with green bonds starting October. The proceeds of this emissions are allocated to finance projects that comply with the European ESG (Environmental, Social & Governance) criteria. Until the end of 2026, the executive board of the European Union aims to issue up to EUR 250 billion of green bonds. This would make the EU the world's largest issuer of green bonds. The proceeds will be allocated to the EUR 800 billion EU recovery fund.

Agenda

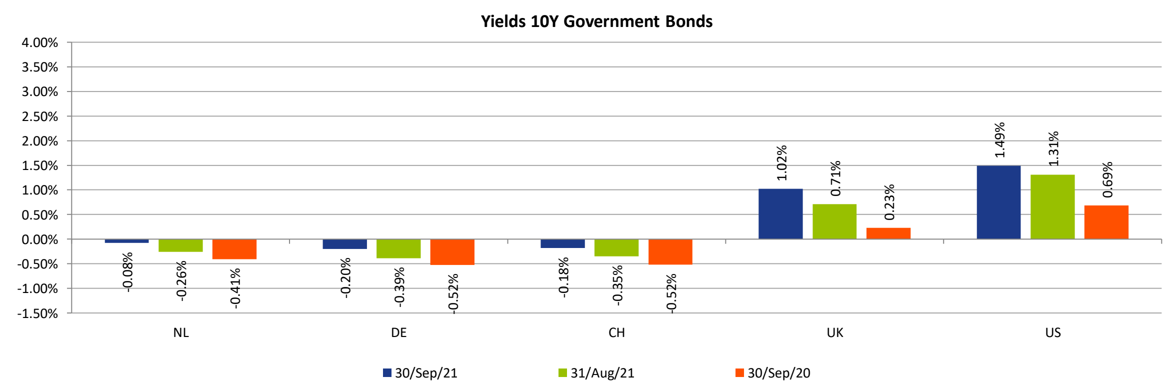
October 12	Unemployment figures United Kingdom
October 12	Inflation figures United States
October 20	Inflation figures United Kingdom
October 27	GDP figures United States
October 28	Interest rate decision European Central bank
October 29	Inflation figures Eurozone
October 29	GDP figures Eurozone





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa2	A+
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A2	BBB+
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	A1	A

Currencies	30/Sep/21	31/Aug/21	30/Sep/20
EUR/USD	1.158	1.181	1.172
EUR/GBP	0.859	0.859	0.907
EUR/CHF	1.079	1.081	1.079
EUR/JPY	128.880	129.920	123.655
EUR/DKK	7.437	7.437	7.445
EUR/SEK	10.144	10.184	10.498
EUR/CAD	1.468	1.490	1.561
EUR/AUD	1.602	1.614	1.636
EUR/CNY	7.463	7.630	7.960



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