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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of the Netherlands

and delivering a Council opinion on the 2015 Stability Programme of the Netherlands

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission[3],

Having regard to the resolutions of the European Parliament[4],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission’s proposal to launch a new strategy for growth and jobs, *Europe 2020,* based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe’s potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council, on the basis of the Commission’s proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. Together these form

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2015) 268.
4 P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(1) On 8 July 2014, the Council adopted a Recommendation on the Netherlands' National Reform Programme for 2014 and delivered its opinion on the Netherlands' updated Stability Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013[5], the Commission presented its opinion on the Netherlands' draft budgetary plan for 2015[6].

(2) On 28 November 2014, the Commission adopted the Annual Growth Survey[7], marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[8], in which it identified the Netherlands as one of the Member States for which an in-depth review would be carried out.

(3) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(4) On 26 February 2015, the Commission published its 2015 country report for the Netherlands[9]. This assessed the Netherlands' progress in addressing the country-specific recommendations adopted on 8 July 2014. The country report also includes the results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that the Netherlands is experiencing macroeconomic imbalances which require policy action and monitoring. Risks stemming from the high level of private debt persist and merit attention, even if recent measures support a recovery in the housing market and will help to curb mortgage growth. While the high current account surplus partly reflects structural features of the economy, the structure of the pension and tax systems may potentially be a source of inefficient allocation of capital.

(5) On 30 April 2015, the Netherlands submitted its 2015 National Reform Programme and its 2015 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(6) The Netherlands is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2015 Stability Programme, the government plans a gradual improvement of the headline deficit to 1.8 % of GDP in 2015 and further to 0.7% of GDP in 2018. The government plans to meet the medium-term objective – a structural deficit of 0.5% of GDP – throughout the programme period. According to the Stability Programme, the government debt-to-GDP ratio is expected to peak at 68.8% in 2015 and to gradually decline to 66.1% in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible. The Commission's 2015 spring forecast expects the structural balance to meet the medium-term objective and to reach -0.3% of GDP in 2015 and -0.4% of GDP in 2016. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that the Netherlands is expected to comply with the provisions of the Stability and Growth

5 OJ L 140, 27.5.2013, p. 11.
6 C(2014) 8810.
7 COM(2014) 902.
8 COM(2014) 904.
9 SWD(2015) 38.

Pact. At 0.84% of GDP in 2013, public expenditure on research and development is low in view of the educational attainment, academic achievement and the level of economic development of the Netherlands. Government expenditure in this area is on a declining trend since 2014, while private R&D spending remains low. Shifting public expenditure towards innovation and research, in particular fundamental research, and implementing framework policies to unlock private investment in R&D would help enhance the long-term growth potential of the Dutch economy.

(7) A key challenge lies in the housing market, where rigidities and distortive incentives that have built up over decades shape house financing and sectoral savings patterns. Households' tendency to leverage up gross mortgage debt against housing wealth largely reflects long-standing fiscal incentives, in particular the full tax deductibility of mortgage interest. Since 2012, a series of measures have been implemented to partly address these incentives. Some of these involve adjustments to the fiscal treatment of housing finance. The gradual move to limit mortgage interest tax deductibility and increase the incentive to amortise is warranted. However, this measure is being phased in too slowly to significantly influence amortising behaviour and a sizeable tax incentive to invest in unproductive assets will persist. The loan to-value ratio of 100 %, to be reached in 2018, is still high. The rental market is constrained by regulation and the existence of a very large social housing sector that also has to cope with long waiting lists. The introduction of more income-based rent differentiation in the social housing sector is a step in the right direction, but its impact is limited. Under a new law, housing corporations will have to separate activities of general economic interest (i.e. social housing) from other activities. It remains to be seen whether this leads to the intended redirection of social housing towards people in need and ensures that social housing is available to disadvantaged people unable to obtain housing at market conditions.

(8) The long-term sustainability of the pension system has been improved. In addition to gradually increasing the first-pillar statutory retirement age from 65 in 2012 to 67 in 2023 and linking it to life expectancy thereafter, the Netherlands has adopted comprehensive reforms of the privately funded pillar of the pension system and in the long-term care system. The financial supervision of pension funds has been improved and the system made more resilient to financial shocks. This has been complemented by successful reforms encouraging older workers to work longer. Long-term care reforms have shifted responsibilities to municipalities, bringing a reduction in overall expenditure and a focus on efficiency gains. The quality and accessibility of long-term care needs to be monitored.

(9) Remaining challenges include an appropriate intra- and inter-generational distribution of costs and risks beyond the adopted rules on indexation and financial buffers (financial assessment framework), in particular by lowering contributions by younger people. Improving the actuarial fairness of the contributions to the second pension pillar would help households to allocate their financial means in more growth-friendly ways.

(10) The comprehensive reform of employment protection legislation enacted in 2014 aims at increasing labour market participation and mobility. Fiscal disincentives to work have been reduced. Legislation adopted by the Parliament will set a quota for employers to hire people with disabilities. The impact of these measures can only be fully assessed once implemented. Further measures are needed to improve the integration of people on the margins of the labour market, including those with a migrant background.

(11) Taking into account compulsory non-tax payments, the tax wedge in the Netherlands is significantly higher than the EU average and there is scope to shift taxation to factors less detrimental to growth. The envisaged tax reform would contribute to increasing labour market participation. Once adopted, its impact needs to be closely monitored.

(12) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the Netherlands' economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to the Netherlands in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in the Netherlands but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 3 below.

(13) In the light of this assessment, the Council has examined the Netherlands' Stability Programme, and is of the opinion[10] that the Netherlands complies with the Stability and Growth Pact.

(14) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation 1 to 3 below.

(15) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations for the Member States whose currency is the euro. The Netherlands should also ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that the Netherlands take action in 2015 and 2016 to:

1. Shift public expenditure towards supporting investment in R&D and work on framework conditions for improving private R&D expenditure in order to counter the declining trend in public R&D expenditure and increase the potential for economic growth.

2. Accelerate the decrease in mortgage interest tax deductibility so that tax incentives to invest in unproductive assets are reduced. Provide for a more market-oriented pricing mechanism in the rental market and further relate rents to household income in the social housing sector.

3. Reduce the level of contributions to the second pillar of the pension system for those in the early years of working life.

Done at Brussels,

For the Council
The President

[10] Under Article 5(2) of Council Regulation (EC) No 1466/97.