**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 4 June 2014
(OR. en)**

10500/14

**UEM 175
ECOFIN 553
SOC 424
COMPET 330
ENV 518
EDUC 168
RECH 226
ENER 228
JAI 408**

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	3 June 2014
To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2014) 420 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the Netherlands' 2014 national reform programme and delivering a Council opinion on the Netherlands’ 2014 stability programme

Delegations will find attached document COM(2014) 420 final.

Encl.: COM(2014) 420 final

EUROPEAN
COMMISSION

Brussels, 2.6.2014
COM(2014) 420 final

Recommendation for a

COUNCIL RECOMMENDATION

on the Netherlands' 2014 national reform programme

and delivering a Council opinion on the Netherlands' 2014 stability programme

{SWD(2014) 420 final}

EN EN

Recommendation for a

COUNCIL RECOMMENDATION

on the Netherlands' 2014 national reform programme

and delivering a Council opinion on the Netherlands’ 2014 stability programme

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

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] COM(2014) 420 final.
[4] P7_TA(2014)0128 and P7_TA(2014)0129.

coordination of economic policies, which will focus 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, adopted a decision on guidelines for the employment policies of the Member States, which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

(4) On 9 July 2013, the Council adopted a recommendation on the Netherland's national reform programme for 2013 and delivered its opinion on the Netherlands' updated stability programme for 2012-2017. On 15 November 2013, in line with Regulation (EU) No 473/2013[5], the Commission presented its opinion on the Netherlands' draft budgetary plan for 2014[6].

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey[7], marking the start of the 2014 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.

(6) On 20 December 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 5 March 2014, the Commission published the results of its in-depth review for the Netherlands[9], under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that the Netherlands continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, macroeconomic developments regarding private sector debt and ongoing deleveraging, coupled with remaining inefficiencies in the housing market, deserve attention. Although the large current account surplus does not pose risks similar to large deficits, and is partly linked to the need for deleveraging, the Commission will follow current account developments in the Netherlands in the context of the European Semester.

5 OJ L 140, 27.5.2013, p.11.
6 C(2013) 8008 final
7 COM(2013) 800 final.
8 COM(2013) 790 final.
9 SWD(2014) 87 final.

(8) On 29 April 2014, the Netherlands submitted its 2014 national reform programme and on 30 April 2014 its 2014 stability programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to ensure that the correction of the excessive deficit in 2013 is sustainable, and to reach a budgetary position close to the medium-term objective by 2015. The medium-term objective is a structural deficit of no more than 0.5% of GDP, reflecting the requirements of the Stability and Growth Pact. Additional sizeable fiscal measures were implemented, but the (recalculated) structural balance in 2014 is planned to remain constant compared to 2013, which points to a significant deviation from the required minimum adjustment of 0.5% of GDP. In 2015, the (recalculated) structural balance is planned to improve by 0.3 pp. of GDP. Expenditure would grow at a pace consistent with the expenditure benchmark both in 2014 and 2015. Following an overall assessment of the Netherland's budgetary strategy, the adjustment path towards the medium-term objective is partly in line with the requirements of the Stability and Growth Pact. According to the Stability Programme, general government gross debt is stabilising in 2015 and decreasing thereafter. The macroeconomic scenario underpinning the budgetary projections in the programme is plausible, and was prepared by the independent Netherlands Bureau for Economic Policy Analysis. Risks to the budgetary targets appear to be sizeable but broadly balanced. The Commission 2014 spring forecast expects a stabilisation of the structural balance in 2014 and an improvement of 0.5% of GDP in 2015. According to the Commission forecast, the Netherlands would comply with the expenditure benchmark in 2014, but not in 2015. In order to enhance the growth potential of the Netherlands, it is of paramount importance that the required consolidation safeguards growth-enhancing expenditure, such as innovation and research, including fundamental research, education and training. Based on its assessment of the programme and the Commission forecast, pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the Netherlands has brought its general government deficit sustainably below 3% of GDP in 2013, but is at risk of significantly deviating from the requirements of the preventive arm as from 2014.

(10) A key challenge lies in the housing market, where rigidities and distortive incentives have built up over decades to shape house financing and sectoral savings patterns. Households' tendency to leverage up gross mortgage debt against housing wealth largely reflects long-standing fiscal incentives, notably the full tax deductibility of mortgage interest. Since April 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, but the phasing-in of this measure is too slow to significantly influence amortising behaviour. The loan-to-value ratio of 100%, to be reached in 2018, is still high. The rental market is restrained by regulation and the presence of a very large social housing sector that also has to cope with long waiting lists. The recent introduction of more income-based rent differentiation in the social housing sector is a step in the right direction, but its impact is limited. Social housing corporations are still allowed to build dwellings with a monthly rent above the social rent ceiling. Even though the 2013 recommendations called for a focus on support for households most in need, this redirection has not taken place. Therefore, while the proposed measures are steps in

the right direction, the overall pace of reforms is slow in addressing underlying problems and thus needs to be stepped up, while continuing to ensure that social housing is available to disadvantaged citizens unable to obtain housing at market conditions, including in high demand locations. The 2013 recommendations suggested that the stepping-up of the housing market measures should be subject to overall economic developments. As the economy and the housing market are expected to continue recovering, consideration should be given to speeding up the pace of reforms.

(11) The long-term sustainability of the pension system has been improved through the gradual increase in the statutory retirement age from 65 years in 2012 to 67 in 2023. The Netherlands has initiated comprehensive reforms in the public- and private-funded pillars of the pension system and in the long-term care system. This is complemented by reforms encouraging older workers to work longer and increase labour market mobility. Long-term care reforms shifted responsibilities to municipalities, with a reduction in overall expenditure and a focus on efficiency gains. Parts of these substantial reforms still have to be adopted. Remaining challenges include an appropriate intra- and inter-generational distribution of costs and risks, and the quality and accessibility of long-term care needs to be monitored. Implementation of the plans to reform long-term care would help curb the fast-rising costs of ageing and thus support the sustainability of public finances. In this regard, the quality and accessibility of long-term care should be maintained at an adequate level.

(12) The labour market reforms proposed by the government aim to increase labour market participation and mobility. The Participation Act aims at boosting labour market participation. However, the reforms are not yet enshrined in law. In addition, further measures are needed to reduce fiscal disincentives to work and to improve the employability of people at the margin of the labour market, including women, people with a migrant background, people with a disability and the elderly. The Netherlands has announced reforms to the unemployment benefit scheme and its relatively strict employment protection legislation, including a tax incentive to increase participation. However, while these measures point in the right direction, they cannot be fully assessed until actually implemented. Accelerating the removal of remaining disincentives for second earners to increase the number of hours worked has the potential of further alleviating future labour supply shortages. Finally, making better use of existing flexibility in the institutional framework for more differentiated wage increases can support overall household income and thus domestic demand without hurting competitiveness.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the Netherlands' economic policy. It has assessed the stability programme and the national reform programme. 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 reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (4) below.

(14) In the light of this assessment, the Council has examined the Netherlands' stability programme, and its opinion[10] is reflected in particular in recommendation (1) below.

(15) 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 recommendations (2)and (4) below.

(16) 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 within the period 2014-2015 to:

1. Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.5% of GDP based on the Commission 2014 spring forecast, pointing to a risk of significant deviation relative to the Stability and Growth Pact requirements. In 2015, significantly strengthen the budgetary strategy to ensure reaching the medium-term objective and maintain it thereafter, and ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path. Protect expenditure in areas directly relevant for growth such as education, innovation and research.

2. Step up efforts to reform the housing market by accelerating the reduction in mortgage interest tax deductibility, by providing for a more market-oriented pricing mechanism in the rental market, and by further relating rents to household income in the social housing sector. Monitor the effects of the social housing reforms in terms of accessibility and affordability for low-income households. Continue efforts to refocus social housing policies to support households most in need.

3. Implement reforms of the second pillar of the pension system, ensuring an appropriate intra- and inter-generational distribution of costs and risks. Underpin the gradual increase of the statutory retirement age with measures to improve the employability of older workers. Implement the envisaged reform in the area of long-term care with a view to ensure sustainability, while ensuring fair access and the quality of services and monitor its effects.

4. Take further measures to enhance labour market participation particularly among people at the margin of the labour market and to reduce tax disincentives on labour. Implement reforms of employment protection legislation and the unemployment benefit system, and further address labour market rigidities. In consultation with the social partners and in accordance with national practice, allow for more differentiated wage increases by making full use of the existing institutional framework.

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

Done at Brussels,

For the Council
The President