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Recommendation for a

COUNCIL RECOMMENDATION

on the Netherlands' 2013 national reform programme

and delivering a Council opinion on the Netherlands' stability programme for 2012-2017

{SWD(2013) 369 final}

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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,

After consulting the Economic and Financial 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, 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, on the basis of the Commission's proposals, the Council 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[5], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] COM(2013) 369 final .
[4] P7_TA(2013)0052 and P7_TA(2013)0053.
[5] Council Decision 2013/208/EU of 22 April 2013.

(3) On 29 June 2012, 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 6 July 2012, the Council adopted a recommendation on the Netherlands' national reform programme for 2012 and delivered its opinion on the Netherlands' updated stability programme for 2011-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey[6], marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances, adopted the Alert Mechanism Report[7], in which it identified the Netherlands as one of the Member States for which an in-depth review would be carried out.

(6) On 14 March 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 10 April 2013, the Commission published the results of its in-depth review[8] for the Netherlands, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that the Netherlands is experiencing macroeconomic imbalances, although these are not excessive.

(8) On 29 April 2013, the Netherlands submitted its 2013 stability programme covering the period 2012-2017 and its 2013 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) Based on the assessment of the 2013 stability programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the Netherlands implemented sizeable consolidation measures over 2011-2013, but that the fiscal effort is likely not to be sufficient to correct the excessive deficit by 2013, mainly in light of worse than expected economic developments. The macroeconomic scenario underpinning the budgetary projections in the programme is broadly plausible. For 2013 and 2014, the Stability Programme projects real economic growth of -0.4% and 1.1%, respectively, which is fairly close to the Commission's Spring 2013 forecast of -0.8% and 0.9%. The stated objective of the programme is to reduce the headline deficit to below 3% of GDP from 2014 in a sustainable manner. The programme does not contain an explicit reference to the medium-term objective (MTO), suggesting that the MTO of -0.5%, as communicated in last year's Stability Programme, is confirmed. The MTO is in line with the requirements of the Stability and Growth Pact. In addition, whilst in 2015 the programme plans a reduction in the structural balance of 0.5% of GDP in structural terms, in line with the minimum annual structural requirement, in

6 COM(2012) 750 final.
7 COM(2012) 751 final.
8 SWD(2013) 121 final.

2016 the structural balance is expected to deteriorate by 0.4% of GDP and to improve by 0.1% of GDP in 2017, thereby falling short from the appropriate adjustment path. Based on the Commission Spring forecast, the average annual fiscal effort of around 0.7% of GDP over the period 2010-2013 is in line with the structural effort of ¾% of GDP recommended by the Council. The budgetary adjustment in 2011 and 2012 was predominantly geared to the expenditure side, yet in 2013 relied largely on revenue measures. The planned headline deficit set by the Stability Programme is consistent with a correction of the excessive deficit by 2014, one year after the deadline set by the Council under the excessive deficit procedure in late 2009. The Council considers that the fiscal effort envisaged by the authorities is not compatible with an actual correction of the excessive deficit by 2014. Possible additional consolidation measures specified in the Stability Programme have been temporarily withdrawn and at any rate would not be sufficient. The Netherlands needs to define additional measures to bring the headline general government deficit below the 3% of GDP threshold in 2014 in a sustainable manner. According to the 2013 Stability Programme, the debt-to-GDP ratio is expected to rise further in 2013, to 74% of GDP and to increase slightly further to 75% of GDP in 2014. The debt ratio is thus projected to remain well above the 60% reference value. For 2015, the programme expects the debt ratio to decline to 71.4% of GDP and to decline slightly thereafter, reaching 70.8% in 2017. This decline in the debt ratio after 2014, however, is insufficiently underpinned by policy measures.

(10) In order to enhance the future growth potential of the Netherlands, it is of paramount importance that the required consolidation, to ensure a sustainable correction of the excessive deficit and achieving the MTO in the short to medium-term, safeguards growth-enhancing expenditure. In particular, efforts to promote innovation and research, including fundamental research, education and training, will be key to a balanced adjustment. This would not only help to support the economic recovery, but could also help buttress innovation and human capital, improve competitiveness and the medium- and long-term growth prospects.

(11) 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. The tendency of households to leverage up gross mortgage debt against housing wealth to a large extent reflects long-standing fiscal incentives, notably full mortgage interest tax deductibility. Since April 2012, a series of measures have been partly implemented. Some of these concern adjusting 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 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 some differentiation of rents in the social housing sector based on income is a step in the right direction, but its impact is limited. Therefore, while the measures proposed are steps in the right direction, the overall pace of reforms is slow in addressing underlying problems and thus needs to be stepped up, whilst at the same time continuing to ensure that social housing is available to disadvantaged citizens, who are unable to obtain housing at market conditions, including in high demand locations.

(12) The long-term sustainability of the pension system has been strengthened through the gradual increase in the statutory retirement age from 65 years in 2012 to 67 in 2023. Hence, the Netherlands has fully addressed that part of the 2012 recommendation on increasing the statutory retirement age and linking it to life expectancy, for both the

first and the second pension pillar. Remaining challenges include an appropriate intra- and inter-generational division of costs and risks. Moreover, an overhaul of the governance of the second-pillar pension funds is overdue in order to help underpin resilience to ageing. Implementation of the plans to reform long-term care would help curb the fast-rising costs of ageing and would thus support the sustainability of public finances. In this regard, the quality and accessibility of long-term care has to be maintained at an adequate level.

(13) The labour market reforms proposed by the government aim to increase labour market participation and mobility. The Participation Act reform is ambitious and relevant to boost labour market participation. However, the reforms are not yet enshrined in law and the time span for implementation seems rather short. In addition, further measures are needed 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. These reforms, in combination with a mobility tax credit ('mobiliteitsbonus') for employers to hire social security beneficiaries aged 50 or above or people with a labour disability, are well targeted at the lower participation end of the labour market. However, while these measures point in the right direction, they can only be fully assessed once adopted. Finally, accelerating the removal of remaining disincentives for second earners to increase the number of hours worked would have the potential of further alleviating future labour supply shortages.

(14) Substantial progress has been made on the 2012 recommendation on innovation and science/business links. The enterprise policy 'To the Top', including its sectoral approach for public-private partnerships in the area of research, innovation and education ('top sector') is now in the implementation phase. Apart from sectoral innovation policies, it is important to pursue horizontal research and innovation policies and to preserve an adequate level of public funding for not-earmarked fundamental research.

(15) 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 national reform programme, and presented an in-depth review. 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.

(16) In the light of this assessment, the Council has examined the Netherlands' stability programme, and its opinion[9] is reflected in particular in recommendation (1) below.

(17) In the light of the Commission's in-depth review and this assessment, the Council has examined the Netherlands' national reform programme and the stability programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances are reflected in recommendation (2) below.

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

(18) 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 this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro. The Netherlands also should ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that the Netherlands should take action within the period 2013-2014 to:

1. Reinforce and implement the budgetary strategy, supported by sufficiently specified measures, for the year 2014 and beyond to ensure a timely correction of the excessive deficit by 2014 in a sustainable manner and achieve the structural adjustment effort specified in the Council recommendations under the EDP. Protect expenditure in areas directly relevant for growth such as education, innovation and research. After the correction of the excessive deficit, pursue the structural adjustment effort that will enable the Netherlands reaching the medium-term objective by 2015.

2. Step up efforts to gradually reform the housing market by accelerating the planned reduction in mortgage interest tax deductibility and 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. Refocus social housing corporations to support households most in need.

3. Adjust the second pension pillar, in consultation with social partners, to ensure an appropriate intra- and inter-generational division of costs and risks. Underpin the gradual increase of the statutory retirement age with measures to increase the employability of older workers. Implement the planned reform of the long-term care system to ensure its cost-effectiveness and complement it with further measures to contain the increase in costs, with a view to ensure sustainability.

4. Take further measures to enhance participation in the labour market, particularly of people at the margin of the labour market. Continue to reduce tax disincentives on labour, including by a faster phasing-out of transferable tax credits for second income earners. Foster labour market transitions and address labour market rigidities, including by accelerating the reform of employment protection legislation and the unemployment benefit system.

Done at Brussels,

For the Council
The President