# COUNCIL RECOMMENDATION

## of 11 July 2017

## on the 2017 National Reform Programme of the Netherlands and delivering a Council opinion on the 2017 Stability Programme of the Netherlands

(2017/C 261/18)

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,

Having regard to the resolutions of the European Parliament,

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 16 November 2016, the Commission adopted the Annual Growth Survey, marking the start of the 2017 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 9-10 March 2017. On 16 November 2016, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which it identified the Netherlands as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area, which was endorsed by the European Council on 9-10 March 2017. On 21 March 2017, the Council adopted the Recommendation on the economic policy of the euro area ('Recommendation for the euro area') ([3]).

(2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, the Netherlands should ensure the full and timely implementation of the Recommendations for the euro area, as reflected in recommendations (1) and (2) below.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.
([3]) OJ C 92, 24.3.2017, p. 1.

(3) The 2017 country report for the Netherlands was published on 22 February 2017. It assessed the Netherlands' progress in addressing the country-specific recommendations adopted by the Council on 12 July 2016, the follow-up given to the country-specific recommendations adopted in previous years and the Netherlands' progress towards its national Europe 2020 targets. It also included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 22 February 2017. The Commission's analysis led it to conclude that the Netherlands is experiencing macroeconomic imbalances. The Netherlands shows the largest three-year average current-account surplus in terms of GDP among euro-area Member States. The surplus suggests a suboptimal allocation of resources, leaving opportunities for increased growth and welfare. The disposable income of households is hampered by a high compulsory payment wedge. Private debt is high, specifically the stock of household mortgage debt. The long household balance sheets increase the vulnerability to financial shocks. The need for action to reduce the risk of adverse effects on the Dutch economy and, given its size and cross-border relevance, on the economic and monetary union, is particularly important.

(4) On 26 April 2017, the Netherlands submitted its 2017 National Reform Programme and its 2017 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds (ESI Funds) for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council [1], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking effectiveness of the ESI Funds to sound economic governance.

(6) The Netherlands is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2017 Stability Programme, the Government plans an increase in the general government surplus from 0,5 % of GDP in 2017 to 1,3 % of GDP in 2020. The medium-term budgetary objective — a structural deficit of 0,5 % of GDP — continues to be met with a margin throughout the programme period. According to the 2017 Stability Programme, the government debt-to-GDP ratio is projected to fall to 58,5 % in 2017, below the 60 %-of-GDP Treaty reference value. The Government plans a further decline in the government debt ratio to 49,3 % of GDP in 2020. The macroeconomic scenario underpinning those budgetary projections is plausible. Based on the Commission 2017 spring forecast, the structural balance is projected to increase from a surplus of 0,2 % of GDP in 2017 to 0,4 % of GDP in 2018, above the medium-term budgetary objective. General government debt is forecast to remain on a firm downward path beyond the requirements of the debt rule. Overall, the Council is of the opinion that the Netherlands is projected to comply with the provisions of the Stability and Growth Pact in 2017 and 2018. At the same time, while respecting the medium-term objective, there remains scope to support potential growth and domestic demand by using fiscal and structural policies, including investment in research and development, and by creating conditions for higher real wage growth, also in the context of persistent external imbalances.

(7) The recent growth in employment can be largely attributed to an increase in the number of people employed on temporary contracts and of the self-employed. The high and increasing percentage of temporary contracts as well as the rapid increase in self-employment without employees is observed in the context of great differences in applicable labour regulations, labour protection, as well as differences in tax and social security legislation. Although some measures have been taken, some of these factors still create a financial incentive for employees to start working as self-employed or favours hiring them under a temporary contract. This may have particularly distortive effects at the margin of the labour market and may have contributed to the observed moderation in aggregate real wage growth. Self-employed are more often under-insured against disability, unemployment and old age. This could affect the sustainability of the social security system in the long run. The enforcement of measures to tackle bogus self-

(1) Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

employment is suspended until 2018. The employment situation of people with a migrant background remains an important challenge. The employment rate for non-EU-born migrants is 20 percentage points lower than for people born in the Netherlands, only a small part of which is explained by differences in age and educational achievement.

(8) The rise in recent years in the household saving rate was partly due to higher saving in the second pillar of the pension system (mandatory supplementary private schemes), to which the regulatory environment contributed. An appropriate intra- and inter-generational distribution of costs and risks beyond the adopted rules on indexation and financial buffers (financial assessment framework) would help households to allocate their financial means in more growth-friendly ways. The Government announced its intention to substantially reform the second pension pillar in order to improve the coverage and to create a more transparent, more flexible and actuarially fairer system.

(9) 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. Despite the strengthening of the economic recovery, no further measures have been taken to address this since 2012.

(10) Investment declined strongly during the crisis and has recovered only partially since. The weakness in economy-wide investment appears to have a strong cyclical character, and was driven by a downturn in the housing market as well as fiscal consolidation choices. While barriers to investment seem to be minor, procedures to obtain building permits are relatively lengthy. Low investment in renewable energy appears linked to past market dynamics, market uncertainty and regulatory factors. Public and private expenditure on R & D is low given the educational attainment, academic achievement and the level of economic development compared to the top performing Member States. Government expenditure in this area has stagnated since 2014, while private R & D spending remains low. No progress has been made on the related 2016 Council Recommendation.

(11) In the context of the 2017 European Semester, the Commission has carried out a comprehensive analysis of the Netherlands' economic policy and published it in the 2017 country report. It has also assessed the 2017 Stability Programme, the 2017 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 socioeconomic policy in the Netherlands, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(12) In the light of this assessment, the Council has examined the 2017 Stability Programme and is of the opinion ([1]) that the Netherlands is expected to comply with the Stability and Growth Pact.

(13) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2017 National Reform Programme and the 2017 Stability Programme. Its recommendations made under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (2) to the Netherlands below,

HEREBY RECOMMENDS that the Netherlands take action in 2017 and 2018 to:

1. While respecting the medium-term objective, use fiscal and structural policies to support potential growth and domestic demand, including investment in research and development. Take measures to reduce the remaining distortions in the housing market and the debt bias for households, in particular by decreasing mortgage interest tax deductibility.

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

2. Tackle remaining barriers to hiring staff on permanent contracts. Address the high increase in the self-employed without employees, including by reducing tax distortions favouring self-employment, without compromising entrepreneurship, and by promoting access of the self-employed to affordable social protection. Based on the broad preparatory process already launched, make the second pillar of the pension system more transparent, inter-generationally fairer and more resilient to shocks. Create conditions to promote higher real wage growth, respecting the role of the social partners.

Done at Brussels, 11 July 2017.

*For the Council*

*The President*

T. TÕNISTE