Council of the
European Union

Brussels, 13 June 2016
(OR. en)

9222/16

ECOFIN 462
UEM 208
SOC 326
EMPL 222
COMPET 296
ENV 341
EDUC 197
RECH 188
ENER 204
JAI 452

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9136/16 ECOFIN 427 UEM 177 SOC 291 EMPL 187 COMPET 264 ENV 308 EDUC 164 RECH 156 ENER 169 JAI 414 - COM(2016) 339 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2016 national reform programme of the Netherlands and delivering a Council opinion on the 2016 stability programme of the Netherlands

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2016) 339 final.

COUNCIL RECOMMENDATION

of …

on the 2016 National Reform Programme of the Netherlands

and delivering a Council opinion on the 2016 Stability Programme of the Netherlands

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,

---

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.

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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, 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 day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016[3]. As a country 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 Recommendation.

(2) The 2016 country report for the Netherlands was published on 26 February 2016. It assessed the Netherlands' progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and the Netherlands' progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review.The Commission’s analysis leads it to conclude that the Netherlands is experiencing macroeconomic imbalances. It is crucial to address the very large stock of household debt. The large and persistent current account surplus, which reflects structural features of the economy and policy setting as regards non-financial corporations, remains a challenge, also in view of spillovers to other euro-area Member States.

[3] OJ C 96, 11.3.2016, p. 1.

(3) On 28 April 2016, the Netherlands submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[4], 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 this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance.

---

4 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).

(5) The Netherlands is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2016 Stability Programme, the Government plans a gradual improvement in its headline balance to 0,1 % of GDP in 2019. At the same time, the Government plans a deterioration of the recalculated structural balance[5] in 2016 to -1,4 % of GDP and an improvement thereafter. The medium-term budgetary objective - a structural deficit of 0,5 % of GDP – is planned to be reached in 2019. However, based on the recalculated structural balance, the medium-term budgetary objective would already be met as from 2018. According to the Stability Programme, the government debt-to-GDP ratio is expected to reach 65,4 % in 2016 and then to gradually decrease to 58,9 % in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible. Based on the Commission 2016 spring forecast, the Netherlands is at risk of some deviation from the requirements of the preventive arm in 2016 and over 2016 and 2017 taken together under unchanged policies. The Netherlands is forecast to comply with the transitional debt rule in 2016 and, following the end of the transition period, with the debt reduction benchmark in 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that the Netherlands is expected to broadly comply with the provisions of the Stability and Growth Pact. Nevertheless, further measures will be needed to ensure compliance in both 2016 and 2017.

[5] The structural balance as recalculated by the Commission based on the information in the Stability Programme, following the commonly agreed methodology.

(6) The recent growth in employment can be fully attributed to an increase in the number of people employed on temporary contracts and the number of self-employed. Although the Netherlands has taken measures to address the issue, a more comprehensive approach is needed. Low transition rates from temporary to permanent contracts still pose a risk of labour market segmentation. The high and increasing percentage of temporary contracts is observed in the context of great differences in employment protection provisions on temporary contracts, on the one hand, and permanent contracts, on the other. Self-employed people without employees are more often under-insured against disability, unemployment and old age, which could affect the sustainability of the social security system in the long run. Several measures were introduced that reduced the differences between permanent and temporary contracts. Favourable tax arrangements and the absence of obligations to pay certain social security contributions still provide financial incentives for self-employment.

(7) A key challenge in addressing high household indebtedness lies in the housing market, where rigidities and distortive incentives that have built up over decades shape housing 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 tax deductibility of mortgage interest. Since 2012, a series of measures has been implemented to address this partly, but these have not been stepped up in line with the 2015 Council Recommendation. The development of a well-functioning private rental market is constrained by subsidies in the other housing subsectors. The social housing sector is one of the largest in the Union but housing is not always allocated efficiently to those really in need. More income-based rent differentiation has been introduced in the social housing sector. Housing corporations will have to separate activities of general economic interest (i.e. social housing) from other activities. Given that some distortive incentives relating rents to income in the social housing market have been addressed, it is appropriate to shift this part of the 2015 Council Recommendation to monitoring of the situation. At the same time, the housing market remains significantly distorted and continues to create a debt bias for households. Further progress is needed on these issues.

(8) In addition to housing market distortions, compulsory non-tax contributions to the second pillar of the pension system weigh on households' disposable income. The second-pillar pension system performs well in terms of quality and adequacy, but has drawbacks in terms of inter-generational fairness, transparency and resilience to economic shocks. In recent years, the sustainability of the pension system has been improved by raising the pensionable age to 67 by 2021 and linking it to life expectancy thereafter. On average, pension contributions have been lowered since the maximum tax exempted accrual rate was reduced. An appropriate intra- and inter-generational distribution of costs and risks beyond the rules adopted on indexation and financial buffers (the financial assessment framework) would help households to allocate their financial means in more growth-friendly ways. The Government announced its intention to reform the second pension pillar substantially with the involvement of social partners in order to create a more transparent and actuarially fairer system.

(9) Investment fell markedly during the economic crisis and has recovered only partially since. The weakness in economy-wide investment appears to have a strong cyclical character. It was driven by a downturn in the housing market and fiscal consolidation choices. While barriers to investment seem to be minor, low investment in the construction sector and in renewable energy appears to be linked to market uncertainty and regulatory factors. In spite of improving credit conditions, risks to new lending are heightened in the current financial environment. Government expenditure on R&D has been falling since 2014, while private R&D spending remains low. In 2015, the Council therefore recommended that the Netherlands shift public expenditure towards supporting investment in R&D and work on improving private R&D expenditure. Public and private expenditure on R&D is low in relation to the level of educational attainment, academic achievement and economic development.

(10) 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 2016 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 EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(11) In the light of this assessment, the Council has examined the Stability Programme, and its opinion[6] is reflected in particular in recommendation (1) below.

(12) 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 (3) below.

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

HEREBY RECOMMENDS that the Netherlands take action in 2016 and 2017 to:

1. Limit the deviation from the medium-term budgetary objective in 2016 and achieve an annual fiscal adjustment of 0,6 % of GDP in 2017. Prioritise public expenditure towards supporting more investment in research and development.

2. Tackle remaining barriers to hiring staff on permanent contracts and facilitate the transition from temporary to permanent contracts. Address the high increase in 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.

3. Take measures to make the second pillar of the pension system more transparent, inter-generationally fairer and more resilient to shocks. 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.

Done at Brussels,

For the Council
The President