Council of the
European Union

Brussels, 15 June 2018
(OR. en)

9445/18

ECOFIN 529
UEM 207
SOC 342
EMPL 276
COMPET 399
ENV 382
EDUC 231
RECH 254
ENER 205
JAI 543

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9207/18 - COM(2018) 418 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2018 National Reform Programme of the Netherlands and delivering a Council opinion on the 2018 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(2018) 418 final.

COUNCIL RECOMMENDATION

of …

on the 2018 National Reform Programme of the Netherlands

and delivering a Council opinion on the 2018 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,

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

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 22 November 2017, the Commission adopted the Annual Growth Survey, marking the start of the 2018 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 22 March 2018. On 22 November 2017, on the basis of Regulation (EU) No 1176/2011, the Commission also 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 22 March 2018. On 14 May 2018, the Council adopted the Recommendation on the economic policy of the euro area[3] ('Recommendation for the euro area').

(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 Recommendation for the euro area, as reflected in recommendations (1) to (2) below.

[3] OJ C 179, 25.5 2018, p. 1.

(3) The 2018 country report for the Netherlands was published on 7 March 2018. It assessed some progress in addressing the country-specific recommendations adopted by the Council on 11 July 2017[4], 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 7 March 2018. The Commission's analysis led it to conclude that the Netherlands is experiencing macroeconomic imbalances. In particular, 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. Private debt is high, specifically the stock of household mortgages and multinational enterprises' debt. The long household balance sheets increase the vulnerability to financial shocks.

(4) The Netherlands submitted its 2018 National Reform Programme on 30 April 2018 and its 2018 Stability Programme on 26 April 2018. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

[4] OJ C 261, 9.8.2017, p. 1.

(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[5], 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 the effectiveness of the ESI Funds to sound economic governance.

(6) The Netherlands is currently in the preventive arm of the Stability and Growth Pact. In its 2018 Stability Programme, the Government plans a decrease in the general government surplus from 1,1 % of GDP in 2017 to 0,3 % of GDP in 2021. The medium-term budgetary objective — a structural deficit of 0,5 % of GDP — continues to be met throughout the programme period. According to the 2018 Stability Programme, the government debt-to-GDP ratio is projected to fall to 44,0 % of GDP in 2021. The macroeconomic scenario underpinning those budgetary projections is plausible. Based on the Commission 2018 spring forecast, the structural balance is projected to decline from a surplus of 0,5 % of GDP in 2017 to a deficit of 0,1 % of GDP in 2018 and 0,3 % of GDP in 2019, above the medium-term budgetary objective. General government debt is forecast to remain on a firm downward path and below the Treaty reference value. Overall, the Council is of the opinion that the Netherlands is projected to comply with the provisions of the Stability and Growth Pact in 2018 and 2019. At the same time, while respecting the medium-term objective, there remains scope to use fiscal and structural policies to raise public and private investment in research, development and innovation.

---

5 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).

(7) The Netherlands has an efficient research and development sector and the country's high-performing education system and scientific base provide a sound basis for boosting innovation and growth capacity through education and research and development activities. Substantial additional investment has been announced which could help to stabilise public and private research and development intensity. Whether the Netherlands will reach its Europe 2020 targets, in particular on investment in research and development and renewable energy, remains uncertain.

(8) A key challenge in addressing high household indebtedness lies in the housing market, where the rigidities and distortive incentives that have built up over decades shape the patterns of housing financing and sectoral savings. Since 2012, a series of measures has been implemented that partly address this. In 2017, the Government announced plans to accelerate the reduction in mortgage interest tax deductibility starting in 2020. Yet, the lack of a well-functioning middle segment on the rental market encourages households to buy rather than rent, leading to high debt-to-income ratios and financial vulnerability at a young age. The social housing sector is one of the largest in the Union, but housing is not always occupied by those really in need. High-income households stay in social housing, given that social housing corporations do not increase rents as fast as they legally could. While the Government has announced its intention to support the supply of affordable housing on the private rental market, concrete plans for such support have not been communicated yet.

(9) As indicated in Recommendation for the euro area, the fight against aggressive tax planning strategies is essential to impede distortions of competition between firms, provide fair treatment of taxpayers and safeguard public finances. Spill-over effects of taxpayer's aggressive planning strategies between Member States call for a coordinated action of national policies to complement Union legislation. The high level of dividend, royalty and interest payments made via the Netherlands suggests that the country's tax rules are used by companies that engage in aggressive tax planning. A large proportion of the foreign direct investment stock is held by 'special purpose entities'. The absence of withholding taxes on outbound (i.e. from Union residents to third-country residents) royalties and interest payments may lead to those payments escaping tax altogether, if they are also not subject to tax in the recipient jurisdiction. The lack of some anti-abuse rules, especially in the case of hybrid entities, may also facilitate aggressive tax planning. The Commission acknowledges the Netherland's commitment to fight aggressive tax planning as set out in the reform agenda on taxation, including withholding taxes on royalty, interest and dividend payments in case of abuse or payments to low-tax jurisdictions, is a positive step to decrease aggressive tax planning and should be implemented swiftly and monitored closely. Based on recent exchanges with the Dutch authorities, the Commission will continue its constructive dialogue to fight against taxpayers aggressive planning strategies.

(10) Despite low unemployment and high job vacancy rates, nominal wage growth was moderate at 1,5 % in 2017. This is below the level that could be expected based on inflation, productivity and unemployment. Moderate wage growth can be partly linked to slow increases in productivity, remaining labour market slack and increased labour market segmentation. In 2017, the Government adopted several fiscal measures, which reduce the tax burden on labour and aim at increasing the net disposable household income of those who work. Further boosting net disposable household income by creating the conditions to promote wage growth and reforming the second pillar of the pension system to make it more transparent, inter-generationally fairer and more resilient to shocks would support domestic demand and contribute to euro area rebalancing.

(11) 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 and additional ones have recently been announced, some of these factors still create financial incentives for employees to start working as self-employed or favour hiring them under a temporary contract. In addition, the enforcement of measures to tackle bogus self-employment has been suspended until 2020. 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.

(12) Despite a labour market that performs well overall, there is still untapped labour potential. In particular the high number of part-time working women and the employment situation of people with a migrant background remain an important challenge. The employment rate for non-EU-born migrants is 20,6 percentage points lower than for people born in the Netherlands with an even larger gap for non-EU-born women.

(13) 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 has confirmed 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. With respect to fiscal sustainability, the 2018 Ageing Report points to a medium risk to fiscal sustainability in the long term, as long-term care expenditures are projected to increase from 3,5 % to 6,0 % of GDP by 2070.

(14) In the context of the 2018 European Semester, the Commission has carried out a comprehensive analysis of the Netherlands' economic policy and published it in the 2018 country report. It has also assessed the 2018 Stability Programme, the 2018 National Reform Programme and the follow-up given to the recommendations addressed to the Netherlands in previous years. The Commission has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the Netherlands but also the extent to which they comply 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.

(15) In the light of this assessment, the Council has examined the 2018 Stability Programme and is of the opinion[6] that the Netherlands is expected to comply with the Stability and Growth Pact.

(16) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2018 National Reform Programme and the 2018 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (2) below,

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

HEREBY RECOMMENDS that the Netherlands take action in 2018 and 2019 to:

1. While respecting the medium-term objective, use fiscal and structural policies to raise public and private investment in research, development and innovation. Take measures to reduce the debt bias for households and the remaining distortions in the housing market, in particular by supporting the development of the private rental sector.

2. Reduce the incentives to use temporary contracts and self-employed without employees, while promoting adequate social protection for the self-employed, and tackle bogus self-employment. Create conditions to promote higher wage growth, respecting the role of the social partners. Ensure that the second pillar of the pension system is more transparent, inter-generationally fairer and more resilient to shocks.

Done at Brussels,

For the Council

The President