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December 1, 2014

Statement by Mr. McGrath and Mr. Parent on Kingdom of the Netherlands - Netherlands
(Preliminary)
Executive Board Meeting
December 3, 2014

We thank Mr. Snel and Ms. De Lint for their helpful Buff statement which provides an excellent addition to the informative staff report on the Kingdom of the Netherlands.

We welcome the ambitious reform agenda put in place by the Dutch authorities, notably in the housing and labor markets as well as the pension system. The challenging macroeconomic outlook and the risks facing the Netherlands' economy underscore the need for further reforms and we note positively that discussions on a comprehensive tax reform will take place next year. Further structural reforms are also critical to raise potential growth and facilitate the necessary balance sheet adjustment. Building a more flexible housing market is also critical to address long term vulnerabilities.

As highlighted by staff, macroprudential policies face the tradeoff between safeguarding financial stability and supporting the housing recovery. The authorities' recent macroprudential measures have helped reduce mortgage risks. The LTV ratio for new mortgages was reduced to 106 percent in 2013, and authorities are targeting a reduction of the LTV ratio to 100 percent by 2018. **The authorities should clarify the LTV path after 2018 by announcing a faster pace of LTV reduction which would enhance regulatory certainty.**

We agree that that the size of the social housing sector should be scaled back to focus on its social mandate and allow the development of the private rental market. In that regard, the recent measures undertaken by the authorities to expand the private rental market are welcome.

Dutch banks raised €8.5 billion in capital since the end of 2013 and passed the ECB comprehensive assessment. These banks, however, still need to raise an additional €20

billion in capital by 2019 to meet Basel requirements. **The supervisor should encourage the development of plans to ensure that banks are prepared for the transition to Basel III and have adequate capital to support lending in the recovery.**

We welcome the inclusion of Box 1, which provides details on the Netherlands' current account surplus, the highest in the euro area when expressed as a share of GDP. Weak domestic demand has been a key driver of the increase in the current account surplus. **Progress in repairing household balance sheets and the banking system should be a priority to support domestic demand and help the necessary rebalancing across the monetary union. Policies to increase access to financing, especially for SMEs, would also be particularly helpful given the currently weak investment level in the country.**

The Netherlands's major structural fiscal adjustment achieved in recent years has improved long-term fiscal sustainability and we note the authorities' ongoing commitment regarding budgetary rules. The budget deficit dropped below 3 percent last year, allowing for an exit from the excessive deficit procedure in June. **We agree with staff that for next year, the authorities should avoid an overly restrictive fiscal policy that could further impede already low growth,** especially in light of risks from weaker-than-expected euro area growth.