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GRAY/14/3578

December 1, 2014

**Statement by Mr. Jimenez Latorre and Ms. Sanchez Rodriguez on Kingdom of the Netherlands - Netherlands  
(Preliminary)  
Executive Board Meeting  
December 3, 2014**

We thank staff for their thorough documents as well as Mr. Snel and Mr. De Lint for their candid assessment on the Dutch economy.

We broadly share the macroeconomic assessment and outlook for growth presented by staff depicting a moderate recovery in the medium term. The recovery is being helped by the Dutch authorities' resolve to implement structural reforms and address weaknesses in domestic demand. The effects of these reforms (housing, labor market, pension system, and taxation) are starting to play out, and it is expected that in 2015 domestic demand will make a positive contribution to growth. That being said, there is still a high imbalance that has not been addressed, which is a source of concern. Current **account surplus is excessive, and we do not see a clear strategy or commitment to correct it. *We would appreciate further staff's analysis and recommendations on this issue.*** The weakness in domestic demand is largely attributed by staff to household indebtedness. However, **the impact of household indebtedness on consumption has not been sufficiently established**, particularly if we are to consider that Dutch households have substantial assets. Likewise, **we would welcome a more thorough analysis regarding the evolution of wages and productivity. *We kindly ask staff to provide empirical evidence on the impact of household indebtedness on consumption as well as to analyze the evolution of wages and productivity, and its impact on domestic demand and the external sector.***

We welcome the measures taken by the Dutch authorities to improve the functioning of the housing market and we support intergenerational transfers and reprofiling of mortgages, as well as measures to reduce pension contributions from the young. These measures will support household deleveraging and the recovery of disposable income.

As for the upcoming tax reform announced by the Dutch authorities for 2015, we wonder whether, in the face of the large current account surplus and substandard consumption levels, increasing VAT rates could be beneficial for the rebalancing of the Dutch economy and the Euro area as a whole. *We kindly ask staff to **consider recommending tax reforms directed to improving disposable income** while preserving budgetary stability.*

On the fiscal stance, after several years of consolidation, the Netherlands has returned to a neutral position and exited the corrective arm of the Excessive Deficit Procedure. The debt ratio is significantly below the euro area and is stabilizing. In this context, we agree with staff that **in order to support growth during deleveraging, fiscal policy should focus on structural targets**. The Netherlands should maintain a structural balance over the medium term and avoid targeting headline balances in response to adverse shocks, while at the same time abiding by the rules of the Excessive Deficit Procedure.