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December 1, 2014

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

We thank staff for the comprehensive set of papers and Mr. Snel and Ms. De Lint for the helpful Buff statement. We broadly agree with the thrust of staff's analysis, and would like to offer the following comments.

Nascent recovery in the Dutch economy continues as the authorities have taken strong supportive measures, and progress in implementing its comprehensive reform agenda is being made. While recent data point to modest expansion in the short term, uncertainties over the outlook remain and the economy is especially vulnerable to risks from a slowdown in the euro area—which could weigh on the economy's exports—and from the legacy problem of household indebtedness—which continues to be a drag on consumption. In this context, further efforts, particularly to promote a fast and orderly deleveraging process, will be critical in fending off both external and internal risks. Efforts at the euro area level to contain deflationary risks and support growth will also be important.

Reducing household indebtedness remains the key. We appreciate staff's analysis on the impact of high household debt on the different sectors of the economy. In this respect, we support the comprehensive approach to handle the problem, addressing both flow and stock issues of household debt. We note that the uneven debt distribution concentrating on younger households is an extra drag on consumption. We therefore welcome a further reduction in the annual pension accrual rate to reduce the burden on the younger households, and encourage the authorities to consider additional measures, including increasing the limit for tax-free transfers and more efficient reprofiling of underwater mortgage.

Although no significant capital shortfall was revealed by the recent Comprehensive Assessment, further capital increases are desirable to enable banks to reduce the high leverage as they adopt the Basel III requirements, and more capital would be useful to enhance banks' ability to support recovery. We share the authorities' positive assessment on

the benefits of transition to the banking union, and encourage the authorities to complete relevant national arrangements, including a national backstop plan in line with the Single Supervisory Mechanism.

Further progress in removing housing market distortions is needed. We note that actions have been taken to foster the development of the private rental market while reforming the social housing sector, by increasing rents for higher income dwellers and making the rent-setting more market-based. While streamlining the social housing sector is necessary to focus on the core social mandate, the process needs to be carefully handled so that the vulnerable groups are adequately protected. In this regard, we are encouraged that the lower income dwellers are supported by targeted rent subsidies, as noted in the Buff statement.

Given the growth outlook, macro policies should be supportive of recovery, and continued structural reforms are essential to raise growth potential. We concur that reforms are needed to remove the distortions in VAT exemptions and to reduce the high degree of duality in the labor market. Ensuring financing to small- and medium-sized enterprises, which account for the majority of the economy's exports, will support employment and recovery, and we encourage the authorities to consider facilitating more credit flows to SMEs by establishing a public credit registry and to develop alternative sources of financing for SMEs.