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

**We thank the staff for its careful analysis and Mr. Snel and Ms. De Lint for its insightful buff statement. We associate ourselves with the statement from Mr. Cottarelli and concur with the thrust of staff's appraisal.**

**Following two years of negative growth, a modest recovery is about to take hold in the Netherlands, although still rising unemployment rates and pronounced downside risks give no room for complacency. In particular, the authorities would be well-advised to push ahead with measures to address the large debt overhang among households which remains one of the major challenges to the Dutch economy.**

**Regarding fiscal policy, we take positive note of the country's exit from the EDP.** However, the shift to a neutral fiscal stance implies a persisting albeit moderate primary deficit and a rising debt ratio. Focusing on structural targets is appropriate, although we underline that this should go hand in hand with a bias towards prudent policies, given the uncertainties involved in estimating output gaps and structural balances. Nevertheless, we acknowledge the authorities' view that strict expenditure ceilings may be effective to ensure fiscal sustainability. Furthermore, we concur on the merits of a medium-term budget framework.

**At the same time, the debt to GDP ratio remains on an upward sloping trajectory and does not appear set for reversal in the near future given a still elevated budget deficit, low GDP growth, and declining inflation.** Unfortunately, the reports fall somewhat short of an assessment of the interaction of these factors, which would have allowed for a more comprehensive appraisal. One of the few references to this issue is the claim that "the significant consolidation has weighed on growth" although it seems difficult to establish such

a causal link from the presented set of charts. In our view the analysis would have benefitted from a discussion of optimal fiscal policy in the wake of a balance sheet recession, given that the poor performance of the Dutch economy over the past years is hardly attributable to household debt overhang alone. *Staff's comments would be welcome.* .

**We agree with staff on the desirability to reduce the high tax wedge on labor and exemptions with regard to the VAT and to conduct labor market reforms.** At the same time, the recommendations aimed at supporting SMEs such as the increased use of alternative forms of financing appear somewhat over-zealous. We rather tend to associate ourselves with the authorities' view that SME difficulties are mainly attributable to weak domestic demand.

We appreciate the careful analysis undertaken by staff on household debt and deleveraging as it constitutes a key impediment to economic growth in the Netherlands. **Due to the skewed distribution of household debt with a high concentration of debt among young households with low wealth, the link between housing prices and consumption is particularly pronounced in the Netherlands** as staff accurately points out. Since intergenerational imbalances exacerbate the adverse macroeconomic implications of large household debt overhang, we appreciate planned and ongoing efforts by the authorities to alleviate these imbalances. Bringing currently disproportionately high pension contributions of young households in line with actuarially fair accrual rates would allow for a sizable reduction of their debt to income ratios.

**We share staff's view that more may be needed to curb existing excessive household debt and disincentivize similar developments in the future.** In this vein, consideration should be given to measures such as lower LTV targets, reprofiling of underwater mortgages, attaching higher risk-weights to interest-only loans, the reduction of mortgage guarantees, and fewer possibilities for - or even complete abolition of - mortgage interest deductibility. However, regarding the reduction of stigma attached with bankruptcy it does not seem straightforward to us how such a heavily culture-dependent factor could be significantly altered by means of policy, at least in the short to medium run.

**We appreciate staff's discussion of the underlying factors that may explain the Netherlands' high current account surplus.** We would, however, add that it is difficult to disentangle which of these are of a more fundamental nature and which factors reflect cyclical developments or distortions. More generally, when comparing Article IV reports of advanced economies with current account surpluses, staff seems to be arriving at quite different results in terms of the current account "norms" without always providing transparent analyses that would allow these differences to be fully understood. Furthermore, in light of the finding that the Dutch current account surplus has been driven largely by the

corporate surpluses of multinational companies, which have chosen the Netherlands as a global trade hub and who are benefitting from a favourable tax treatment of profits, it may be worth exploring how ongoing efforts of the international community to address tax avoidance, base erosion, and profit shifting, might affect the external (and fiscal) position in the years to come.

**Risks to financial stability seem to be contained at present, although we agree with staff that equity ratios are too low and should therefore be brought up** in a timely manner to meet Basel III requirements and build buffers against adverse shocks such as an increase of non-performing loans in the housing sector. In order to induce banks to retain earnings and utilize private sources to raise new capital instead of restricting their lending activities, it might be useful to consider appropriate regulatory measures to this end.