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GRAY/14/3543

December 1, 2014

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

We thank staff for a well-focused report organized in an innovative format and for a useful Selected Issues Paper. We also thank Mr. Snel and Ms. De Lint for their informative Buff statement. We broadly share staff conclusions and policy recommendations and would limit our remarks to a few issues.

The Dutch economy is slowly recovering, supported by stabilizing housing prices and a pickup in transactions. We are also encouraged that, under ECB's Comprehensive Assessment, Dutch banks were found not to have a capital shortfall. Looking ahead, risks to the economic outlook are mainly on the downside, as outlined in the RAM. In this context, we echo staff recommendations to build on the recent reforms to reduce household indebtedness, enhance the resilience of the financial system, and improve the efficiency of the housing market, building on the conclusions and recommendations of the cluster report on Housing Recoveries, while pursuing supportive macro and structural policies to safeguard the recovery.

Box 1 of the report highlights the importance of a favorable tax environment in support of the Netherlands' role as a center for trade and FDI. We especially note that a number of tax provisions, including a large network of tax treaties, advance tax rulings, and reduced taxes on intangibles, are aimed at supporting trade and FDI. *Here, we wonder whether staff has studied the likely impact of the ongoing G20/OECD work on the Base Erosion and Profit Shifting (BEPS) to modernize international tax rules on the future tax environment in the Netherlands. In particular, whether the current favorable tax environment that supports trade and FDI is likely to continue? Staff comments would be welcome.*

It is evident that high household debt, with debt to income ratios around 300 percent, almost double the levels in the early 2000s is at the center of the weak recovery. It is also worrisome

to note that nearly two-thirds of mortgages related to younger households are underwater. We therefore see considerable merit in staff recommendation for encouraging reprofiling of underwater mortgages, increasing intergenerational transfers, and reducing pension contributions for the young to support a more robust and sustained recovery and also help reduce intergenerational imbalances.

Finally, while more ambitious medium-term targets for reducing loan-to-value (LTV) ratios and mortgage interest deductibility would help reduce housing risks, we support the authorities' cautious approach to protect the fragile housing recovery. In this connection, we welcome the indication by Mr. Snel and Ms. De Lint that discussions on housing-related macroprudential measures will continue in the Financial Stability Committee in the coming months.

With these remarks, we wish the authorities further success.