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

We thank staff for an interesting set of papers and Mr. Snel and Ms. De Lint for their insightful buff statement. The Netherlands is one of the strong performers in Europe with sound fundamentals, strong institutional underpinnings and the authorities having undertaken a comprehensive set of reforms. However, a number of challenges need to be further addressed, including but not limited to the household debt overhang and overcoming balance sheet recession. We associate ourselves with Mr. Cottarelli's statement and offer the following points for emphasis.

We welcome the authorities' commitment to the European budgetary rules and commend them for the progress made in meeting fiscal targets that have allowed for a timely exit from the European Excessive Deficit Procedure. While we see some merit in staff's suggestion to increase fiscal flexibility by moving towards a medium-term budget framework with a more prominent role for automatic stabilizers, any changes to a well established and smoothly functioning fiscal framework need to be well justified. Retaining tight expenditure ceilings may be a preferred option looking from an operational perspective. In any case, changes to the Dutch fiscal framework, if supported by a well articulated cost-benefit analysis, need to comply with the European budgetary framework.

Housing market policies should be forward-looking and set the right incentives to avoid accumulation of excesses in future housing cycles. The authorities' move to reduce loan to value (LTV) ratios on new mortgages to 100 percent and to limit mortgage interest deductibility (MID) for only fully amortizing loans is a welcome step. However, more is needed and we encourage the authorities to explore options for further reducing LTV ratio below 100 percent and to further limit MID for new mortgages. The latter would also address the debt bias without introducing staff's advised Allowance for Corporate Equity, which we do not support. Removing distortions and developing private rental markets should remain among the key priorities, and the authorities should also explore further ways to shift to the risk-based pricing and lowering the maximum guarantee thresholds of the National Mortgage Guarantee scheme.

Deleveraging takes time, but appropriate policies can smooth the adjustment. We see merit in staff's suggestion to extend the favorable tax treatment of intergenerational transfers to reduce mortgage debt and support deleveraging. The authorities should also explore ways to further accelerate reprofiling of underwater mortgages and facilitate debt workout process, inter alia, by encouraging greater use of out of court dispute resolution. However, we are not fully reassured to what extent the suggested adjustments to the pension system to reduce pension contributions for the young could be considered a policy tool to support deleveraging. By involving considerably longer time horizons, adjustments to the pension frameworks can have substantial and multifaceted long-term consequences that require thorough consideration. Therefore, we would see merit in adjusting pension frameworks only if it improves the long-term sustainability of the pension system, and not to reach other intermediate policy goals. *Regarding other options to facilitate deleveraging, we would welcome staff comments to what extent the MID of the past mortgage loans constitutes a drag on deleveraging. We would also welcome some comments on options for and assessment of risks and benefits (including legal considerations) of introducing a more targeted system of MID on the existing debt.*