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

The Netherlands benefits from a structural primary surplus, the lowest public debt among larger euro area economies, and low borrowing costs. At the same time, the authorities are continuing to manage challenges associated with household deleveraging, an ongoing adjustment in the housing market, and potential implications for the financial sector. We appreciate the Fund's considered analysis of issues related to deleveraging and the housing sector, which are relevant to foster an environment for more buoyant growth over the medium term. However, in the near term, greater emphasis should be given to fiscal and monetary policy settings that can deliver more immediate boosts to domestic demand. Further, we would have expected the report to feature deeper discussion of the impact of Dutch policy choices on the euro area economy, given the still-lackluster outlook and asymmetric external adjustment within the monetary union so far. We also would have appreciated more analysis of the impact of European policies and architecture on the Dutch economy, including the shift to banking union and the ECB's monetary policy stance.

We agree with the staff's assessment that the Netherlands needs a combination of accommodative macro policies and structural reforms to support balance sheet adjustment and boost productivity and potential growth. Annual inflation is just 0.4 percent, well below the ECB's 2 percent euro area target, and the staff rightly highlights that low inflation risks exacerbating households' real debt burden and increasing the risk of disorderly deleveraging. We welcome the move away from headline fiscal targets to structural targets, but encourage the authorities to consider adopting more expansive near-term policies while maintaining the goal of structural balance over the medium term. *Are there additional measures the authorities could pursue to increase domestic demand in the near term, given the downside risks outlined in the staff report, the Netherlands' large current account surplus, persistent euro are weakness, very low inflation, and an output gap persisting through the forecast period under the baseline? Is there scope for such measures in the context of a medium-term budget framework?* More generally, and taking into account downside risks to euro area growth, we look forward to the staff's analytical work on broad institutional aspects of fiscal frameworks in the European Union, as highlighted in the Board Work Program.

The Dutch current account surplus is the largest in the euro area and has increased even as the member states with the most difficult financing conditions have endeavored to reverse sizeable current account deficits. While we appreciate the staff's efforts to explain the "puzzle" of the persistently large Dutch current account surplus, the role of weak domestic demand must also be accounted for, especially considering that the expansion of the trade surplus is projected to have been the largest driver over the period 2010-2014 and taking into account the authorities' relative fiscal space. We would appreciate more reflection in Article IV consultations on the role the Netherlands and other member states with large surpluses can play in facilitating rebalancing across the monetary union.

The authorities and staff are appropriately focused on promoting orderly household deleveraging, which would address one factor weighing on domestic demand and mitigate associated risks to financial stability. We are pleased to note the staff's attention to developing a comprehensive growth-friendly deleveraging strategy and reducing the stigma of personal bankruptcy will be important. We encourage the authorities to continue evaluating the outcome of measures already undertaken and to explore new measures that may be supportive of further progress. Distortions in the housing market more broadly need to be tackled in light of the risk they represent to the economy, but a gradual phase-in of measures seems reasonable given the size of the social housing sector.

Continued close attention to financial sector risks is warranted given the sluggish economy and deleveraging. Banks' own elevated leverage, strong dependence on wholesale funding, and real estate exposures also represent potential vulnerabilities. We are comforted, however, by efforts to strengthen capital. Like the staff, we urge the authorities to complete national arrangements for resolution and backstopping as the euro area architecture is still evolving. We note the loan rejection rate for Dutch SMEs was among the highest in the euro area and agree that alternative sources of financing would be a useful complement to bank finance. *We would be interested to know how discussions of this issue in the Dutch context relate to broader European proposals to improve the supply of credit to SMEs.*

Finally, as Mr. Snel and Ms. de Lint note in their buff statement, we note the narrower focus of this Article IV report and see value in the Fund's traditional, holistic approach to covering all the key macroeconomic and financial issues.