EUROPEAN COMMISSION

Brussels, 30.5.2012
COM(2012) 322 final

Recommendation for a

COUNCIL RECOMMENDATION

on the Netherlands' 2012 national reform programme

and delivering a Council opinion on the Netherlands' stability programme for 2012-2015

{SWD(2012) 322 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission[2],

Having regard to the resolutions of the European Parliament[3],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[4], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

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1 OJ L 209, 02.08.1997, p. 1

2 COM(2012)322 final

3 P7_TA(2012)0048 and P7_TA(2012)0047

4 Council Decision 2012/238/EU of 26 April 2012

(3) On 12 July 2011, the Council adopted a recommendation on the Netherlands' national reform programme for 2011 and delivered its opinion on the Netherlands' updated stability programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) 1176/2011, adopted the Alert Mechanism Report[5], in which it did not identify the Netherlands as one of the Member States for which an in-depth review would be carried out.

(5) On 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(6) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time for inclusion in their stability or convergence programmes and their national reform programmes.

(7) On 27 April 2012, the Netherlands submitted its stability programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Based on the assessment of the 2012 stability programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is optimistic. For 2013, the stability programme projects economic growth of 1¼% without taking into account the negative impact of the additional consolidation measures on growth, whilst, on the basis of the same no-policy change scenario, the Commission's forecast a lower growth rate of 0.7%. The stated objective of the programme is to meet the Council recommendations on correcting the excessive deficit and to strive to further improve the budgetary position towards the medium-term budgetary objective (MTO) by targeting a structural effort of at least 0.5% per year. The programme targets a headline general government deficit of 3% of GDP in 2013 and confirms the previous MTO of a structural deficit of 0.5% of GDP, which adequately reflects the requirements of the Stability and Growth Pact. The average annual fiscal effort of 0.75% of GDP over the period 2010-2013, based on the (recalculated) structural budget balance[6], is in line with the structural effort of ¾% of GDP recommended by the Council. As the programme does not provide budgetary targets beyond 2013, the sustainability of the budgetary correction in 2013 and progress towards the MTO in the outer years, including compliance with the expenditure benchmark of the Stability and Growth Pact, cannot be assessed. The budgetary projections over the programme period are subject to implementation risks. These are not solely restricted to the newly

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5 COM(2012) 68 final.

6 Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

announced consolidation measures, but also to the implementation of some of the measures agreed upon earlier by the outgoing government. Moreover, the additional measures proposed by the government in April 2012 and their budgetary impact are not sufficiently specified and quantified. Budgetary adjustment has so far relied mostly on expenditure cuts, which also affect growth-enhancing expenditure. According to the 2012 stability programme, the debt-to-GDP ratio is expected to further rise relatively markedly in 2012, to 70.2% of GDP and to increase slightly further to 70.7% of GDP in 2013, taking into account the impact of the additional consolidation measures. The debt ratio is thus projected to remain well above the 60% reference value. For 2014 and 2015, the programme does not specify debt targets and therefore an assessment of compliance with the debt reduction benchmark of the Stability and Growth Pact beyond 2013 cannot be given.

(9) Social partners and the Dutch government reached a comprehensive agreement on pension reform in September 2011 and the government presented plans to increase the statutory retirement age to 66 in 2019 and 67 in 2024. After that the statutory retirement age will be coupled to life expectancy. Labour market measures would support a corresponding increase in the effective retirement age. In line with the government agreement, the pension reform aims at securing an appropriate and sustainable intra- and intergenerational sharing of costs and risks in the second pillar. With regard to long-term care, the Dutch government has provided a blueprint for reform. Further concrete measures will be necessary to contribute to reducing the financial burden of the ageing society in the Netherlands.

(10) Fiscal disincentives for second-income earners have been reduced but not yet sufficiently. Removing remaining disincentives would further contribute to raising labour supply and make human capital allocation more efficient. The labour market integration of vulnerable groups should be improved.

(11) In the field of enterprise policy, the top sector agendas have been endorsed and sectoral ‘innovation contracts’ have been signed between the government and industry representatives. Support to private research is being increased through the introduction of the RDA+ tax deduction scheme as part of the incentives to further promote innovation, private R&D and closer science-business links. However, the focus on ‘top sectors’ should not come at the cost of fundamental research nor exclude innovative firms that do not belong to one of the ‘top sectors’.

(12) Over the last four decades, structural distortions have built up in the Dutch housing market. In the property market, fundamental supply restrictions and tax incentives for home ownership (notably mortgage interest deductibility favouring higher-income households) have led to an inefficient allocation of capital. In the rental market, with its very large social housing segment, social policies and caps on rent levels and on rent increases have led to a very inelastic supply of rental housing. Modifying the favourable tax treatment of home ownership would contribute to reducing the structural distortions on the Dutch housing market.

(13) The Netherlands has made a number of commitments under the Euro Plus Pact. These commitments, and the implementation of the commitments presented in 2011, relate to fostering employment, improving competitiveness, reinforcing financial stability, and enhancing sustainability of public finances. The Commission has assessed the

implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the Netherlands' economic policy. It has assessed the stability programme and national reform programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in the Netherlands but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (5) below.

(15) In the light of this assessment, the Council has examined the Netherlands' stability programme, and its opinion[7] is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that the Netherlands should take action within the period 2012-2013 to:

1. Ensure progress towards the timely and durable correction of the excessive deficit. To this end, fully implement the budgetary strategy for 2012 as envisaged. Specify the measures necessary to ensure implementation of the 2013 budget with a view to ensuring the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure. Thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark whilst protecting expenditure in areas directly relevant for growth such as research and innovation, education and training. To this end, after the formation of a new government, submit an update of the 2012 stability programme with substantiated targets and measures for the period beyond 2013.

2. Take measures to increase the statutory retirement age, including linking it to life expectancy, and underpin these with labour market measures, whilst improving the long-term sustainability of public finances. Adjust the second pension pillar to mirror the increase in the statutory retirement age, while ensuring an appropriate intra- and inter-generational division of costs and risks. Implement the planned reform in long-term care and complement it with further measures, in view of an ageing population.

3. Enhance participation in the labour market, particularly of older people, women, and people with disabilities and migrants, including by further reducing tax disincentives for second-income earners, fostering labour market transitions, and addressing rigidities.

4. Promote innovation, private R&D investment and closer science-business links, as well as foster industrial renewal by providing suitable incentives in the context of the enterprise policy, while safeguarding accessibility beyond the strict definition of top sectors and preserving fundamental research.

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[7] Under Article 5(2) of Council Regulation (EC) No 1466/97.

5. Take steps to gradually reform the housing market, including by: (i) modifying the favourable tax treatment of home ownership, including by phasing out mortgage interest deductibility and/or through the system of imputed rents, (ii) providing for a more market-oriented pricing mechanism in the rental market, and (iii) for social housing, aligning rents with household income.

Done at Brussels,

For the Council
The President