

# European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

**PURPOSE:** draft 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.

**BACKGROUND:** the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

**CONTENT:** 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.

Based on the assessment of the 2012 stability programme, 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 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. The debt ratio is thus projected to remain **well above the 60% reference value**. 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 **budgetary projections over the programme period are subject to implementation risks**. 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 Commission, the **main policy challenges** for the country are as follows:

- 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. Further concrete measures will be necessary to contribute to reducing the financial burden of the ageing society in the Netherlands.
- 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.
- 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. 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’.
- Over the last four decades, structural distortions have built up in the Dutch housing market. Modifying the favourable tax treatment of home ownership would contribute to reducing the structural distortions on the Dutch housing market.

### **Recommendations proposed for the Netherlands for the period 2012-2013:**

#### **Budgetary measures:**

- 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;
- submit, after the formation of a new government, an update of the 2012 stability programme with substantiated targets and measures for the period beyond 2013.

#### **Pension system:**

- 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 longterm care and complement it with further measures, in view of an ageing population.

#### **Labour market:**

- 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;
- 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.

**Housing market:**

- 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 socialhousing, aligning rents with household income.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.