INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/45

KINGDOM OF THE NETHERLANDS—NETHERLANDS

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE KINGDOM OF THE NETHERLANDS—NETHERLANDS

February 2016

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with the Kingdom of the Netherlands—Netherlands, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 8, 2016 consideration of the staff report that concluded the Article IV consultation with the Kingdom of the Netherlands—Netherlands.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 8, 2016, following discussions that ended November 10, 2015, with the officials of the Kingdom of the Netherlands—Netherlands on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 5, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Kingdom of the Netherlands—Netherlands.

The documents listed below have been or will be separately released.

Selected Issues

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 16/54
FOR IMMEDIATE RELEASE
February 11, 2016

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2015 Article IV Consultation with Kingdom of the Netherlands

On February 8, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Netherlands.

A strengthening but moderate recovery led by exports and investment is underway, after a double-dip recession that ended in early 2014, although lower production and exports of natural reduced gas reduced growth in the second quarter of 2015, without however interrupting its momentum. Unemployment is falling slowly and inflation is low, but positive. Credit has continued to decline, but demand for credit is gradually rebounding. The Dutch banking system is emerging from its restructuring. A turnaround in house prices has helped reduce the share of homeowners with negative equity.

The economy now appears set on a gradual path of recovery and growth is expected to reach 1.9 percent this year and in 2015, supported by an improving domestic demand. The current account surplus is projected to reduce gradually, as domestic investment and consumption take over from net exports as the main drivers of growth. Risks to the outlook are tilted to the downside, stemming mainly from weaker-than-expected growth in the euro area and emerging markets. The Netherlands is receiving many refugees, and there will be unpredictable but significant near term costs to accommodating them. However, in the longer term, there will be demographic and growth dividends if incoming refugees are effectively integrated.

With the economy having turned the corner, and public sector balance sheets now being repaired, it is now time to refocus the policy agenda on structural reforms. Key priorities for the Dutch authorities include: furthering tax reform to reorient the tax burden away from the labor tax wedge towards goods, services, and property; reforming the second-pillar pension system to ensure greater transparency and stability; better balancing the fiscal and social benefit treatment of regular employees vis-a-vis the self employed; and continuing the agenda of policies relating to the housing, mortgages, and household debt.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors noted that a recovery is underway, with moderate growth despite the decline in natural gas output. Unemployment is on a gradual downward trajectory, house prices are recovering, and the financial sector is strengthening. The current account surplus remains high, although it is expected to decline gradually over time. Directors observed that risks to the outlook are tilted to the downside, while population aging and the refugee influx pose some challenges. Against this background, policy priorities are to support demand and boost potential growth, including through reforms of taxation, and the labor and housing markets.

Directors considered that fiscal policy should support the recovery to the extent that there is fiscal space, which could be used in such areas as human capital, and research and development. A number of Directors, however, saw no available fiscal space under the Stability and Growth Pact (SGP), pointing to the need to rebuild fiscal buffers and reduce public debt further. Directors encouraged the authorities to use the available flexibility under the SGP to accommodate refugee related costs without cutting other priority spending.

Directors welcomed the recent reduction of labor taxes. They encouraged broader tax reforms, with a view to simplifying the tax system, enhancing its fairness and efficiency, as well as promoting labor force participation. It is also important that measures be taken to address the bias toward debt financing that has contributed to overly leveraged household and corporate balance sheets.

Noting some strains in the second pillar pension system, Directors welcomed the principles underpinning the government's reform proposals to ensure greater transparency, individual choice, and actuarial fairness. In this regard, they recommended that the authorities consider an approach that would lessen the burden on younger families.

Directors underscored the importance of broad based reforms in the housing sector. They noted that a reform of the social housing sector, deregulation of the private rental market, and further reducing the maximum loan to value ratio and mortgage interest deductibility would help improve the housing market.

Directors noted that the rapid growth in self employment points to the need to address rigidities in the formal employment sector. In this context, they encouraged the authorities to consider liberalizing the regulatory regime for regular employees, and to review tax and other incentives for self employment to ensure equitable treatment between regular employees and the self employed.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Netherlands: Selected Economic Indicators (2013–17)

(Percent change, unless otherwise indicated)

	2013	2014	2015 Est.	2016 *Proj.*	2017 *Proj.*
National accounts (percent change)					
Gross domestic product	-0.5	1.0	1.9	1.9	1.9
Private consumption	-1.4	0.0	1.6	1.2	1.5
Public consumption	0.1	0.3	0.3	0.1	0.1
Gross fixed investment	-4.4	3.5	9.4	6.5	3.3
Total domestic demand	-1.8	0.7	2.2	2.3	1.5
Exports of goods and nonfactor services	2.1	4.1	4.8	4.3	3.9
Imports of goods and nonfactor services	0.9	4.0	5.5	5.3	3.7
Net foreign balance 1/	1.1	0.5	0.0	-0.2	0.6
Output gap (percent of potential output)	-4.7	-4.2	-3.2	-2.8	-2.3
Prices, wages, and employment					
Consumer price index (HICP)	2.6	0.3	0.6	0.9	1.4
GDP deflator	1.4	0.8	0.0	1.1	1.7
Hourly compensation (manufacturing)	1.5	3.1	1.5	1.2	2.2
Unit labor costs (manufacturing)	0.8	-1.8	1.2	0.5	0.8
Employment (percent)					
Unemployment rate	7.3	7.4	6.9	6.6	6.6
NAIRU	6.3	5.4	5.7	5.5	5.2
External trade					
Merchandise balance (percent of GDP)	11.8	12.0	12.2	11.8	11.7
Current account balance (percent of GDP)	11.0	10.6	10.2	9.7	9.4
General government accounts (percent of GDP)					
Revenue	44.0	43.9	43.2	42.8	42.8
Expenditure	46.4	46.3	45.3	44.7	44.5
Net lending/borrowing	-2.4	-2.4	-2.2	-1.9	-1.7
Primary balance	-0.9	-0.9	-0.8	-0.7	-0.5
Structural balance 2/	-0.2	-0.4	-0.7	-0.6	-0.7
Structural primary balance 2/	1.6	1.6	1.1	1.1	1.0
General government gross debt	67.6	67.9	66.9	65.9	65.3

Sources: Dutch official publications, IMF, IFS, and IMF staff calculations.

1/ Contribution to GDP growth.

2/ In percent of potential GDP.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—NETHERLANDS

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

January 5, 2016

KEY ISSUES

Context: A strengthening but moderate recovery is taking hold after a double-dip recession that stretched into the first quarter of 2014. Growth has been led by exports and investment, although net exports faltered in mid-2015 as the government cut natural gas output in response to earthquakes in the gas producing areas.

Fiscal stance: The Netherlands should use any available fiscal space with respect to the Medium-Term Objective (MTO) to increase spending on the government's priority areas or reduce taxes to bolster the recovery so long as the economy remains below potential.

Tax reform: The Netherlands tax system subsidizes mortgage debt and has a high rate of taxation on labor. Household and corporate balance sheets are highly leveraged in part because of tax incentives. A tax reform that reorients the tax burden away from labor and toward property and consumption taxes would reduce the debt bias in household and corporate balance sheets, promote higher labor force participation, and enhance growth.

Pension reform: The second pillar of the Dutch pension system is fully funded and delivers a high replacement rate. It is in principle a defined benefit system for the majority of employees. However, frequent adjustments to contribution rates, accrual of benefit rates, and indexation to maintain solvency make it increasingly like a collective defined contribution system. A shift to a new model with greater transparency and individual choice is needed.

The rise of the self-employed in the labor force: The share of the labor force recorded as being in self-employment has risen sharply in the past 15 years to 17 percent. Because of the exemption from the second pillar of the pension system and social insurance schemes and substantial tax preferences, employee positions are being converted into self-employed status. This is enhancing the flexibility of the labor force. However, it may be undercutting the social safety net to the extent that de facto employees are being reclassified as self employed and remain outside some of the social benefits schemes as a result. The authorities should consider creating alternative pension options for the self-employed, perhaps with partial opt-outs, mandatory sickness and disability insurance with pooling of risks to control costs, and more equal tax treatment between employees and the self employed.

Housing-related policies: The turnaround in house prices presents an opportunity to implement policies to better insulate Dutch households and the overall economy from the effect of future house price declines and remove some of the incentives for excessive leverage—thereby reducing the likelihood and intensity of boom-bust cycles.

Approved By
Mr. Pradhan (EUR), Ms. Pattillo (SPR)

Discussions took place in The Hague and Amsterdam from October 29 to November 7, 2015. The mission team comprised Messrs. T. Dorsey (head), M. Gerard, J.M. Natal, and Ms. M Hassine; Mmes. M. Burova, M. Maneely, and A. Valladares participated from headquarters (all EUR). Mr. Snel and Ms. De Lint (both OED) participated in the discussions. Staff met with Finance Minister Dijsselbloem and De Nederlandsche Bank President Knot, other officials from De Nederlandsche Bank, the Ministries of Finance, Housing, Social Affairs and other government entities; representatives of labor unions and employers, and various academics and representatives of private sector institutions. ECB staff participated in the discussions on financial sector supervision via teleconference.

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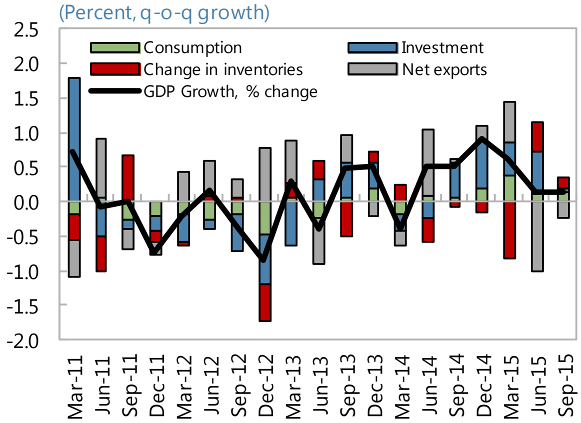
CONTEXT

1. **A moderate recovery is underway after a double-dip recession that ended in early 2014.** Growth is expected to rise from 1.0 percent in 2014 to about 2 percent in 2015 and 2016. GDP growth slowed sharply in 2015:Q2 as natural gas production and exports have been cut because of seismic events in the gas production region. This reduced growth by half a percentage point in 2015. Domestic demand continues to strengthen at a moderate pace.

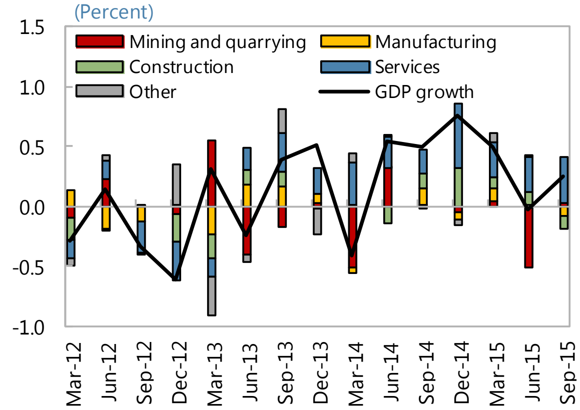
2. **Unemployment is falling slowly.** The unemployment rate fell to 8.3 percent in September 2015 from its February 2014 peak of 9.5 percent based on the national definition.[1] However, unemployment still remains well above the 5–7 percent range of 2003–07, and it is much higher for 15–25 year olds and slightly higher than average among women and the 45–65 year old group.

Contributions to GDP Growth
(Percent, q-o-q growth)



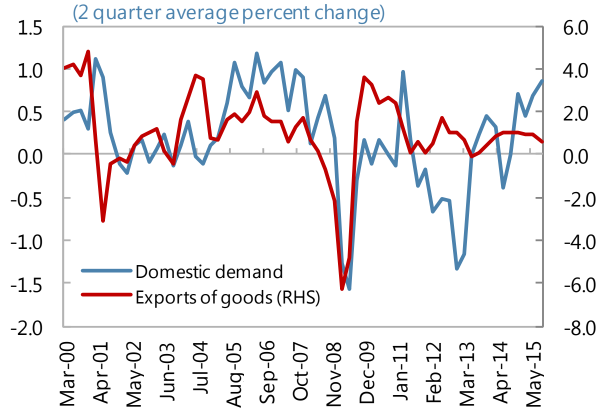
Sources: DNB, Haver Analytics, and IMF staff calculations.

Contributions to GDP Growth by Industry
(Percent)



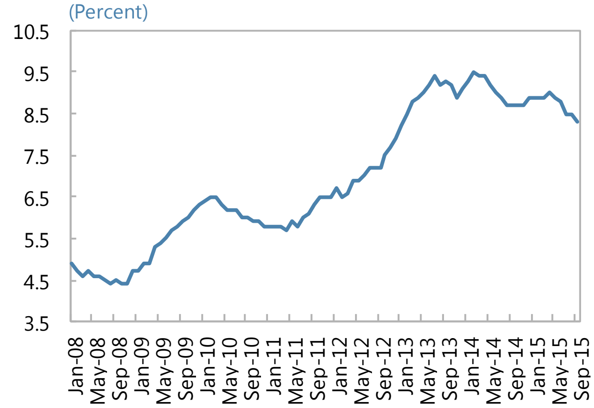
Sources: CBS and IMF staff calculations.

Domestic and Foreign Demand
(2 quarter average percent change)



Sources: CBS and IMF staff calculations.

Unemployment Rate
(Percent)



Sources: CBS and Haver Analytics.

[1]The unemployment rate on the Eurostat definition has been running about 1½ below the national definition and stood at 6.8 percent in September 2015.

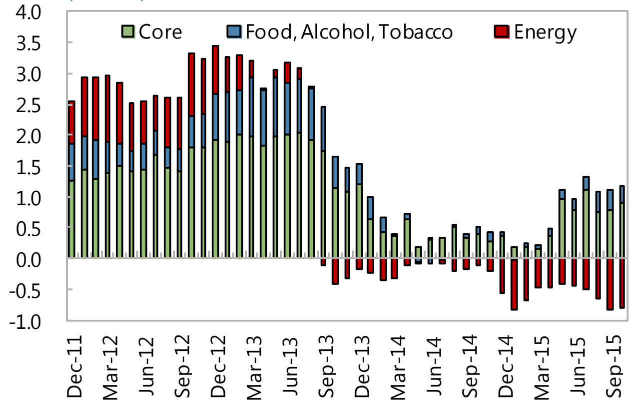
3. **Inflation is low, but positive.** Core inflation was 1.4 percent in October 2015, while headline CPI inflation was held to 0.7 percent by falling energy prices. Inflation in services is higher at just under 2 percent.

4. **Credit has continued to decline, but surveys point to a turnaround in demand for credit**. ECB quantitative easing has increased liquidity, but it has not yet spurred lending. Credit has continued to decline, although credit to households appears to have bottomed out in early 2015. Weak demand for credit appears to be a more important factor than either liquidity or capital constraints. However, this may be turning around; lending surveys have been reporting increased demand from households and large enterprises since early 2014, while the most recent lending survey reported stable rather than declining credit demand from SMEs for the first time since early 2009.

5. **The Dutch banking system is emerging from its restructuring.** Dutch banks continue to adjust to tightening capital and liquidity requirements. Banks' capital levels are well above minimum requirements, and comfortably on track to meet the Basel III requirements. Also, the Dutch government sold a 20 percent stake in ABN-AMRO that it had taken on in the course of the global financial crisis. The schedule for sale of the remaining shares hasn't been set.

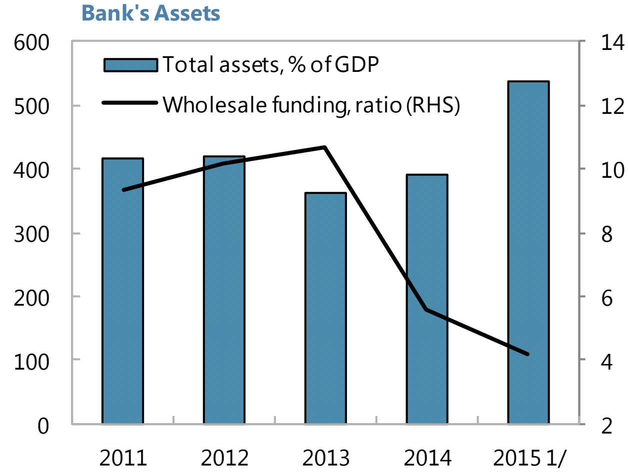
6. **House prices have started to recover.** However, they remain well below peak levels. Prices have risen by more than 5 percent since the 2013 trough, but they are still 17 percent below their 2008 peak in 2015:Q3. More than a quarter of Dutch households have mortgage debt in excess of the house value, primarily among younger households. The recovery in housing prices is uneven. The market is buoyant

Contributions to Headline Year-Over-Year Inflation
(Percent)



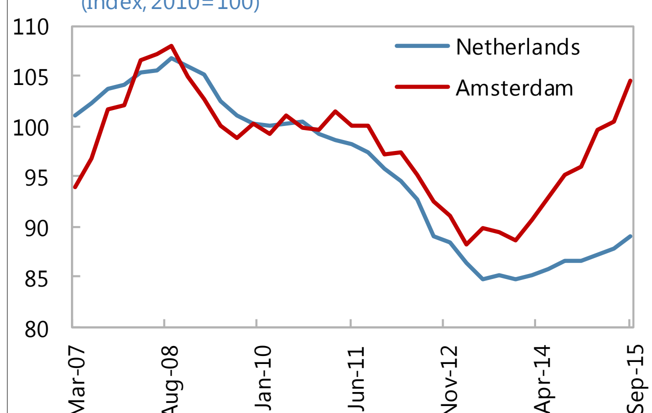
Source: Eurostat and Haver.

Bank's Assets



Sources: Authorities, CBS, and IMF staff calculations.
1/ 2015 data is only through September.

House Prices
(Index, 2010=100)



Source: CBS.

in Amsterdam, where house prices are less than 4 percent below the 2008 peak, and to a lesser extent in other major cities. However, house price increases are more subdued in outlying areas.

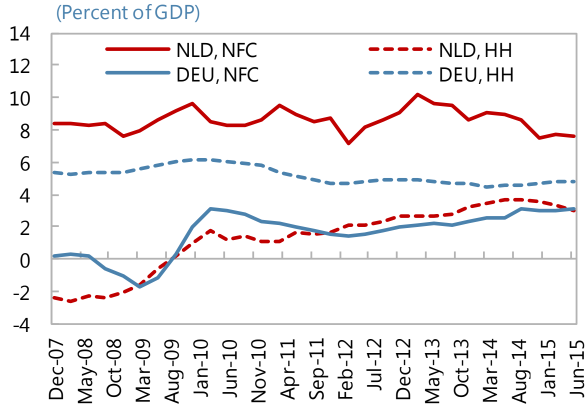
OUTLOOK AND RISKS

7. **The economy appears set on a gradual path of recovery.** The central scenario has moderate growth and a slow decline in unemployment over the remainder of the decade. A gradual reduction in the current account surplus is also projected as domestic investment and consumption take over from net exports as the main drivers of growth. Corporate savings are high, reflected in the high current account surplus. There is scope for firms to use these savings for new investment or increased wages and hiring, which would further boost domestic demand and reduce the current account surplus.

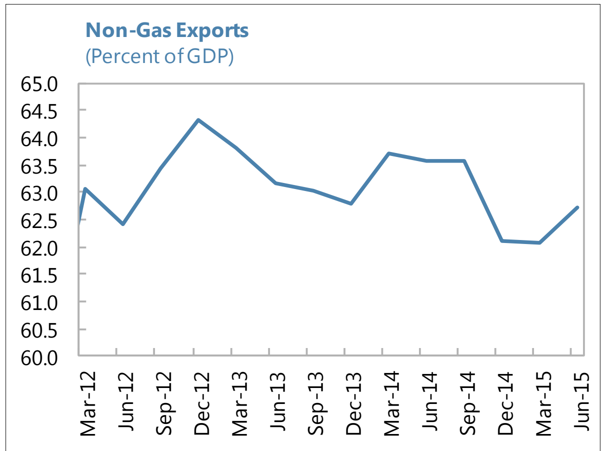
8. **The risks to the macroeconomic outlook are mixed, but skewed to the downside.** Weaker-than-expected growth in the euro area or emerging markets could slow the Dutch economy given its high dependence on exports. While the housing market seems to have turned the corner, a reversal of the recent recovery in house prices could weaken household balance sheets and dampen domestic demand. With house prices still well below their peak levels even in nominal terms, there seems little risk of overheating thus far. Fiscal risks are mixed; while a slowdown in overall growth would negatively affect revenues, a continued rebalancing of growth from external to domestic components would, other things being equal, improve the tax composition of growth, leading to stronger structural consolidation and debt reduction.

9. **The Netherlands is also receiving many refugees and economic migrants.** The number of asylum applications, more than half from Syria, has been rising rapidly. Over 20,000 new asylum applications were placed in September and October alone, nearly equal to the total in the preceding 8 months of 2015. The most recent forecast is for 58,000 arrivals in each of 2015 and 2016. Even if the numbers of applicants remain at September–October levels for the final two months of the year instead of increasing further, the numbers in 2015 would be more than twice those of 2014 and nearly five times the 2013 level. Costs associated with refugees and other migrants are not known given the rapidly changing numbers of new arrivals, but they are expected to be substantial and the authorities have publicly stated that they could reach €1 billion next year**.** As the authorities have agreed to binding spending ceilings through the end of the current government's term, the authorities plan to increase spending as needed to accommodate the refugees and will offset this by reducing other expenditures. In the longer term, there will be demographic and growth dividends if immigrants can be effectively integrated.

Corporate and Household Savings
(Percent of GDP)



Sources: EC and IMF staff calculations.



Sources: CBS, DNB, and IMF staff calculations.

10. **The large current account surplus narrowed slightly in 2014, but surpluses will remain high over the medium term.** The current account surplus is projected to narrow over the medium term, but it will remain above 8 percent of GDP the rest of this decade. In the longer term, it is expected to decline somewhat as pension fund investments (predominately placed abroad) peak and then turn negative as baby boomers retire. Also, natural gas exports will decline and the Netherlands will shift to being a net natural gas importer. The External Sector Report (ESR) assessment indicates that the external position is stronger than the level consistent with medium-term fundamentals and desirable policy settings by 1–5 percent of GDP. But the assessment is particularly uncertain in the Netherlands—the current account surplus may also reflect the high corporate savings and liquidity of Netherlands-based multinationals and favorable tax treatment for corporate income in the Netherlands. The high corporate savings are likely to be used for new investment as the Dutch and global economies recover which will also tend to reduce the current account surplus (see ESR Table).

Authorities' Views

11. **The authorities broadly agree with the central scenario of a gradually closing output gap over** the remainder of the decade and a slight turnaround in the current account surplus. They also agreed that the risks are mostly to the downside and are largely due to external factors. However, they see some upside potential from a strengthened recovery in the housing market.

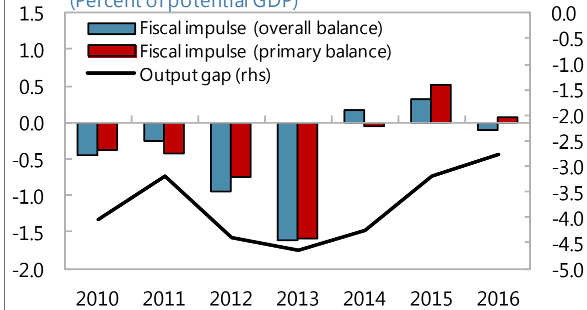
POLICY DISCUSSIONS

An interrelated set of policies has given rise over the years to an overly leveraged Dutch economy*. The tax system has a bias toward debt rather than equity for both households and firms. The high pension savings of most workers promotes security in old age, but the associated high contributions together with the high labor tax wedge can leave younger households cash-constrained. These constraints, together with the tax incentives for home ownership and mortgage debt and the absence of a well-functioning private rental market, promote premature home ownership and high household leverage. This in turn leaves the real economy vulnerable to shocks. There are also issues with the need for frequent changes in contribution, benefit accrual, and indexation in the pension system and tax and other incentives to reclassify employment relationships as self-employment. The government has taken important steps to address the inefficiencies in the housing market, support indebted households, address financial sector problems, and implement pension and labor reforms. However, there is more to be done, and because of the interrelated nature of the policies and their economic impact, there is merit in pursuing the reforms in tandem.*

A. Fiscal Policy—Making Effective Use of Fiscal Space

12. **Fiscal policy was broadly neutral in 2015 and is expected to slightly tighten in 2016.** The recovery helped keep the headline deficit relatively stable in the 2.2–2.4 percent of GDP range in 2013–15, with a slight deterioration in the structural balance. The draft 2016 budget reduces labor and income taxes by €5 billion (about 0.7 percent of GDP) while pursuing the expenditure-based path of fiscal consolidation. General government debt will decline from 67 percent to 66 percent of GDP between 2015 and 2016. Both the headline deficit and the pace of debt reduction are comfortably within the Stability and Growth Pact (SGP) limits.

General Government Fiscal Stance
(Percent of potential GDP)



Note: the fiscal impulse corresponds to the year-on-year difference in structural overall and primary balances, with a negative sign denoting a fiscal contraction.
Sources: Eurostat; and IMF staff calculations.

General Government Fiscal Outcomes and Projections, 2013–16
(in percent of GDP unless otherwise indicated)

	2013	2014	2015	2016	*Difference 2014-2016*
Government revenue	44.0	43.9	43.2	42.8	-1.1
Tax revenues	21.4	22.3	22.9	22.7	0.4
Social security contributions	15.0	14.8	14.1	14.4	-0.4
Non-tax revenues	7.7	6.8	6.2	5.7	-1.1
Government expenditure	46.4	46.3	45.3	44.7	-1.6
Intermediate consumption	6.4	6.3	5.9	5.7	-0.6
Compensation of employees	9.3	9.2	9.2	9.2	0.0
Interest payments	1.5	1.4	1.3	1.2	-0.2
Social benefits	22.4	22.1	21.7	21.5	-0.6
Capital formation	2.9	3.3	3.4	3.8	0.5
Overall fiscal balance	-2.4	-2.4	-2.2	-1.9	0.5
Primary fiscal balance	-0.9	-0.9	-0.8	-0.7	0.3
Structural balance	-0.2	-0.4	-0.7	-0.6	-0.2
Structural primary balance	1.7	1.7	1.2	1.1	-0.6
Gross debt general government (EMU)	67.6	67.9	66.9	65.9	-2.0

Note: the 'robust' fiscal balance is computed as the difference between structural revenues excluding gas revenue and structural primary expenditures.
Sources: CPB; and Fund staff calculations.

13. **There is fiscal space in economic terms, but perhaps less in SGP terms**. Staff calculations show a structural deficit only slightly larger than the MTO of a 0.5 percent of GDP deficit, based on output gap estimates in line with the authorities' ones**.** However, the authorities note that the European Commission's (EC) approach to the calculation, based on a smaller and more rapidly closing output gap, shows structural deficits close to 1 percentage point above the MTO in 2015 and 2016.[2] However, because the SGP rules are defined in terms of the EC approach, Fund staff and other alternative estimates are of limited relevance in assessing fiscal space under the SGP.

14. **Dutch fiscal policy should support the recovery to the extent possible.** Should calculations of the deficit for 2016 change or if there is still a significant output or employment gap in 2017, staff recommends that the authorities make use of this space to support the recovery. The authorities could use any available fiscal space to catch up on deferred spending priorities. For example, public research and development spending is low in comparison to EU Member States at similar levels of development (e.g., Austria, Denmark, Germany, and Sweden), and it is assumed to decrease further. Also, the authorities should consider using any available fiscal space under the SGP to accommodate refugee-related costs without cutting other priority spending. However, in the medium- and long-term as the output gap closes, consolidation should resume to rebuild fiscal buffers, including by reducing public debt below 60 percent of GDP.

Authorities' Views

15. **Given that the fiscal stance is at the limit of that permitted under the SGP, the authorities do not see fiscal space**. While the deficit is well below 3 percent of GDP and the reduction in the debt-to-GDP ratio is more than sufficient to meet SGP requirements, the structural balance calculated using the European Commission approach, exceeds the MTO by nearly a percentage point in 2016. They also noted the substantial increases in public debt in the course of the financial crisis and recession. In this context, they noted that it would be important to reduce public debt to levels well below 60 percent of GDP to restore fiscal buffers.

B. Tax Reform—Promoting Growth and Reducing Complexity[3]

16. **Tax reforms could increase potential growth, enhance fairness, and improve efficiency.** Despite progress in recent years, the Dutch tax and benefit system remains unbalanced; significant efficiency gains could be achieved by shifting the tax burden away from labor, and towards consumption and capital income, in particular on residential property ownership. This makes some sense on distributional grounds as well; Dutch households have high net wealth on average, but—excluding pension entitlements—it is unevenly distributed and most of the assets are in illiquid real estate and pension accounts.

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[2]The European Commission methods show a smaller output gap than estimates by staff or the authorities with the result that there is a structural deficit instead of approximate balance.

[3] This topic is considered in detail in the Selected Issues paper: *Tax Reform in the Netherlands: Moving Closer to Best Practices*.

17. **The authorities have recently taken a number of steps in the right direction.** For example, they have decided to gradually phase out some of the large subsidies on housing investment and pension savings and to roll back some of the regressive features of the taxation of capital income. Also, the 2016 €5 billion labor tax cut package is mainly targeted at female workers and low-wage earners—the most responsive groups to labor taxation in the Netherlands—which should help create new jobs and increase hours worked.

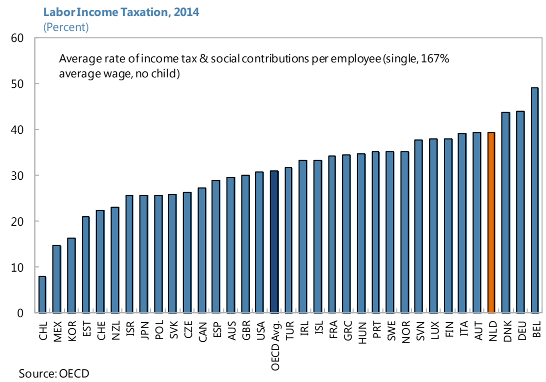
18. **But more could be done and faster.** In particular, the tax preferences on pension income could be reduced and the current large subsidies on home ownership could be phased-out more quickly than currently envisaged, allowing a budget-neutral and growth-enhancing rapid reduction of the labor tax wedge. Moreover, important tax revenue and efficiency gains would result from harmonizing the currently fragmented capital income and value-added tax schemes. Taxes should be levied on actual returns on assets as opposed to presumptive returns, allowing greater fairness and better anti-cyclical properties of the taxation system.

19. **The current tax system favors debt and has contributed to overly-leveraged households and firms.** Interest deductibility has favored debt over equity financing, resulting in excessive leverage, exacerbating business cycles and potentially threatening financial and fiscal sustainability. Future tax reforms should minimize this debt bias. The Dutch authorities have already taken some measures to foster a gradual deleveraging in the housing sector (e.g., decreasing loan-to-value (LTV) ratios and mortgage interest deductibility (MID)). Similar measures should be taken in the corporate sector. For example, an allowance for corporate equity (ACE) could be introduced and calibrated so that equity and debt finance become fiscally neutral to encourage equity building.[4] A similar type of allowance could, in principle, also be introduced in the housing sector; revenue shortfalls could be offset through broadening the VAT base and unifying VAT rates.

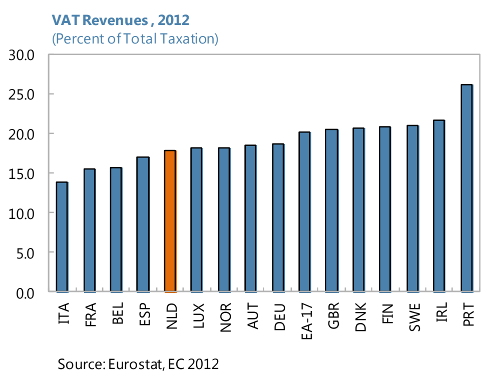
20. **The OECD and G20 recommendations on international corporate taxation to limit Base Erosion and Profit Shifting (BEPS) will deploy their first effects in 2016.** The Dutch Corporate Income Tax Act 1969 (CITA 1969) will be modified to include supplementary transfer pricing documentation requirements in line with the three-tiered approach of Action 13 of the OECD BEPS project. Under the draft law (September 2015), the Country-by-Country (CbC) report, the master file and local file requirements will be applicable for fiscal years starting on or after January 1, 2016. The Tax Administration also plans to start exchanging information on rulings in 2016 (Action 5), and to adopt the new minimum standards to prevent treaty abuse (Action 6) and the criteria to define permanent establishment (Action 7) once incorporated into the update of the OECD Model Tax Convention.

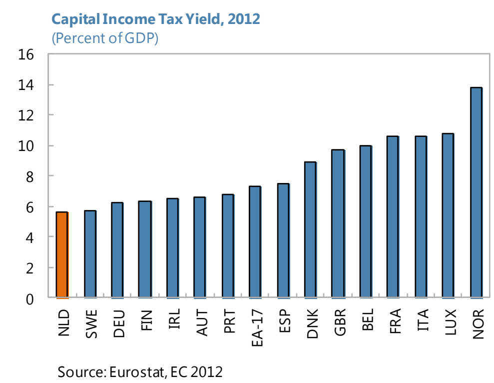
[4] Numerous studies have tried to measure the impact of taxation on leverage and yielded widely different results. Methodologies vary and the results are sensitive to the debt maturity, the design of the tax system and other country specific factors. A meta-analysis of the empirical literature (R. De Mooij, "The Tax Elasticity of Corporate Debt: A Synthesis of Size and Variations", IMF working paper WP 11/95, 2011) concluded that 1pp increase in the corporate income tax rate could increase the debt-equity ratio up to 0.28 percent. In other words, a country with a CIT rate of 25 percent—like the Netherlands—would see the average corporate debt–asset ratio fall by 7 percentage points (0.25x0.28) if it fully eliminated the corporate tax advantage of debt.

Box 1. Tax Structure in the Netherlands—An International Comparison



The current tax system tends to overload taxpayers by discouraging labor supply and shrinking the tax base. Labor income taxation is doing the heavy lifting in terms of revenue collection and income redistribution. When including social security contributions, labor income taxation is comparatively elevated in the Netherlands (with respect to European counterparts), and features a very progressive tax scale and dissuasively high marginal tax-and-benefit schemes for low income workers—in particular mothers. At the same time, capital income taxation is one of the lightest in the European union, and indirect taxation—a potentially efficient revenue collection instrument—does not carry its share of the load (see table and figures). There is substantial scope for a reallocation of the tax burden from labor to capital, in particular housing. Back-of-the-envelope calculations indicate that taxing pensions as ordinary savings (€14 billion), removing the tax subsidy for housing (€6 billion), and unifying VAT at the standard rate (€8 billion) could increase (ex-ante) revenues by roughly 4 percent of GDP.





Structure of Taxation in the Netherlands, European Comparison
(Percent of GDP)

	2007	2008	2009	2010	2011	2012	2012	
A. Structure of revenues							Ranking	Bil. Euros
Indirect taxes	13	12.7	12.2	12.5	12	11.9	22	71.1
VAT	7.5	7.3	7	7.3	6.9	7	24	41.7
Excise duties	2.4	2.4	2.3	2.3	2.2	2.2	26	13
Other taxes on products (incl. import duties)	2	2	1.8	1.8	1.6	1.5	8	8.9
Other taxes on production	1	1.1	1.2	1.2	1.2	1.2	14	7.5
Direct taxes	12.2	12	12.1	12.2	11.7	11.2	13	67
Personal income	7.4	7.2	8.6	8.5	8.1	7.7	13	45.9
Corporate income	3.5	3.4	2.1	2.3	2.2	2.1	20	12.7
Other	1.3	1.3	1.4	1.4	1.4	1.4	6	8.3
Social contributions	13.5	14.5	13.8	14.2	14.8	16	2	95.8
Employers	4.5	4.8	4.9	5	5.1	5.4	19	32.6
Employees	6.1	6.6	5.9	6	6.4	7	2	41.7
Self- and non-employed	2.9	3.1	3	3.1	3.3	3.6	1	21.4
Total	38.7	39.2	38.2	38.9	38.6	39	11	233.8
B. Structure by economic function								
Consumption	11.6	11.4	11.1	11.4	11.1	11	20	66.1
Labour	19.8	20.7	21.1	21.4	21.7	22.4	8	134.5
Capital	7.3	7.1	5.9	6.1	5.8	5.6	19	33.3
Capital and business income	4.7	4.6	3.5	3.7	3.5	3.4	20	20.3
Income of corporations	3.5	3.4	2.1	2.3	2.2	2.1	20	12.7
Income of households	-0.9	-1	-0.9	-0.9	-1	-1	28	-6.2
Income of self-employed	2.1	2.2	2.2	2.3	2.3	2.3	7	13.8
Stocks of capital wealth	2.6	2.5	2.4	2.4	2.2	2.2	12	12.9

Source: Eurostat, Taxation Trends in the European Union, 2014
*/ The ranking reflects relative levels of revenue-to-GDP ratios for each revenue source among the EU-28, with rank 1 being the highest ratio

Authorities' Views

21. **The authorities and staff are in broad agreement on tax reform.** They agreed about the desirability of a shift in tax burden from labor to other taxes less harmful to economic growth. They noted that the 2016 tax reductions on labor taxes were a move in the right direction, especially due to targeting the lower tax wedge on groups with the highest labor supply elasticity. However, they expressed some reservations about taxing the actual returns on assets, which is in the political spotlight. Although they recognized that it is the most fair and least distorting way to tax capital income, it would entail a much greater burden of record-keeping than their own proposed reform of the wealth tax. The authorities will investigate whether it will be feasible to tax actual returns in the near future. They agreed in principle on raising VAT taxes on items not currently charged at the standard rate, but noted the lack of political support and that they are constrained to some extent by EU rules in this regard. They agreed that a reduction in the debt bias in personal and corporate tax is in principle also desirable, and noted the gradual reduction in MID that is already underway, but had concerns that faster reduction in MID could undercut the housing recovery. They have not included measures such as an allowance for corporate equity to reduce the debt in corporate taxation, and they have noted that corporate taxation needs to be reformed in a coordinated manner with other EU and advanced economies.

C. Pensions—Second Pillar Business Model is Under Stress[5]

22. **The Dutch pension system has many virtues.** The first pillar ensures a basic retirement income for all citizens and a very low rate of old-age poverty. The fully-funded, mostly defined-benefit, second pillar plans ensure a high replacement rate while pooling longevity risk. Finally, the Financial Assessment Framework ensures the soundness of these plans by requiring adjustments in contributions and benefits whenever the solvency ratio threatens to fall below full funding.

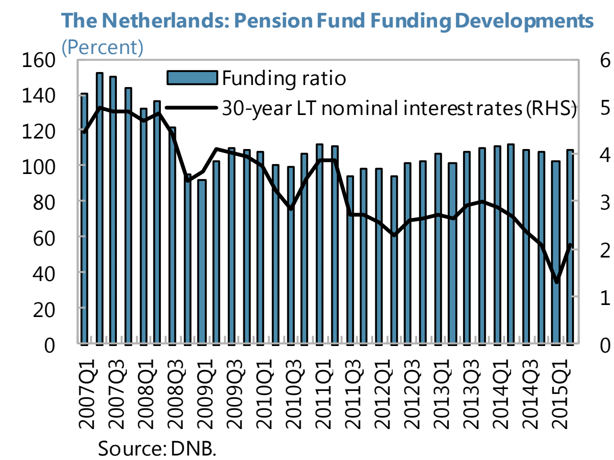
23. **However, the second pillar plans are coming under stress.** They are increasingly combining the disadvantages of both defined benefit and defined contribution schemes while failing to capture many of the virtues of either. While in principle defined benefit plans, they are increasingly behaving as de facto collective defined contribution plans**.** Preserving their solvency has necessitated frequent ad hoc adjustments in contribution rates, benefit accrual rates, indexation mechanisms, and even nominal benefit reductions. The system also entails opaque redistribution mechanisms from younger to older cohorts. As a result, the predictability that should be associated with defined benefit plans for both contributors and beneficiaries has been undermined. Furthermore, the adjustments to contributions and benefits tend to be procyclical in that they reduce disposable income at times when the economy is already weak. Finally, the absence of individual accounts, and opaque redistribution mechanisms between age cohorts make them non-transparent.

[5] This topic is discussed in greater detail in the Selected Issues paper: *Reforming Occupational Pension Schemes in the Netherlands.*

24. **The government's reform proposals to provide for more transparency, individual choice, and improve actuarial fairness across age cohorts are welcome in this context.** In particular, individual accounts could improve transparency and provide greater choice.

- One possibility is to shift to a full defined-contribution system. This option would not preclude collective asset management by the social partners. It would also allow greater individual choice in contributions and investment options, and ensure sustainability by definition. The investment options could be constrained to protect future retirees from poor investment choices and insure them against longevity risk; the social partners could continue to negotiate terms for annuities, pension-related insurance, and investment management services collectively. The problems of procyclicality, portability, actuarial fairness in intergenerational transfers, and non-transparency would go away.

Box 2. The Second Pillar of the Dutch Pension System—Recent Developments and Reform Options



The second pillar of the Dutch pension system consists of about 365 pre-funded occupational funds, the total assets of which represent 160 percent of GDP. Complementing the flat rate first pillar pay-as-you-go public scheme, the funds levy tax-deductible contributions as a constant proportion of the pensionable salary and provide for most of the retirement income, in principle in the form of defined benefits accrued at a constant rate. Over the crisis, solvency ratios have deteriorated under the joint effects of an initial drop in investment returns and a protracted increase in liabilities triggered by low discount rates—prompting some funds to reduce benefits or levy catch up contributions, thus negatively affecting disposable income in pro-cyclical way. At the same time, opaque and actuarially unfair redistribution mechanisms within the schemes, notably from the young to the old, or from the poor to the rich, have remained unscathed, hence delaying debt deleveraging and the economic recovery. In this context, the government has recently submitted to Parliament a proposal for "personal pensions with risk sharing", consisting of mandatory, individual defined contributions schemes complemented by insurance provisions aimed at pooling part of the longevity and/or financial risks, in a proportion still to be determined. There are no obvious answers to the challenges facing the Dutch pension system. However, the authorities may consider the experiences of the Australian system (mandatory individual DC schemes, instrumental in the built up of large pension savings but currently suffering from underdeveloped payout options), Swiss system (decentralized DC schemes complemented with DB features such as nationwide guarantees on investment returns and retirement incomes) discussed in the SIP, or perhaps even closer to the Dutch model, Danish pension system (mandatory DC schemes with collective management of asset portfolios) for both positive and negative lessons learned.

- If reforms are more limited and retain defined-benefit system elements such as predefined accrual rates, the question of actuarial fairness between age cohorts would still arise. The government proposal has a constant, proportional, but a decreasing accrual rate as retirement age approaches. We have argued for addressing intergenerational fairness issues by keeping a constant accrual rate with escalating contribution rates with age. Each has its problems. The former approach would place a high premium on the youngest workers to have regular and stable employment at a stage in life when they are least likely to be in that situation. The latter has the advantage of giving younger households more disposable income to save up for down payments or build up home equity, but it might discourage the hiring of older workers. Modifications would also need to take into account the need for greater transparency, although individual accounts would facilitate this.

- Under any approach, transition issues will be complicated. They are technically easier to solve the closer to a defined contribution system the authorities go, but real and perceived issues of fairness will arise with any transition scheme.

- Administration and trading costs for pension funds seem high at roughly 50 basis points per year, particularly taking into account the very large size of the funds. The authorities and pension funds should consider the merits of the current active management strategies relative to more of a buy-and-hold approach and other strategies to reduce costs.

- The current pillar II system is fragmented among sectoral and corporate pension schemes, penalizing occupation mobility. Any redesign should increase rather than reduce labor market flexibility through pension portability.

There are no obvious answers to the challenges facing the Dutch pension system. However, the authorities should consider the experience of the Australian system (with mandatory defined-contributions but challenges in the payout options) and Swiss system (with decentralized defined-contribution plans) for lessons learned in both positive and negative experiences. The Danish pension system may also merit consideration; it has many similarities to the Dutch model, but it also differs from it in some of the dimensions currently under consideration in the Netherlands.

Authorities' Views

25. **The authorities welcomed the staff endorsement of their principles for pension reform.** In particular, they agreed that more transparency would be welcome and possibilities for tailor-made solutions or individual choice need to be explored. However, they express some reservations about allowing too much individual choice in terms of both contribution levels and investment decisions. In their view, the government and social partners needed to protect contributors from the consequences of poor investment decisions and the "myopia" revealed in the behavioral economics literature. In reforming the system to make it actuarially fair across age cohorts, they see having a flat contribution rate but a rate at which pension entitlements accrue that declines with increasing age as preferable to the staff recommendation of contributions that increase with age.

D. Strengthening the Financial Sector and Housing Finance[6]

26. **The Dutch banking system is gradually emerging from its restructuring.** Dutch banks are well prepared for Basel III, and continue to adjust to tightening capital and liquidity requirements (Panel 3), Retail deposits increased, as depositors moved assets from insurance savings accounts to banks' and helped reduce banks' reliance on wholesale funding.

27. **Banks have made steady progress towards meeting the new capital and liquidity requirements under Basel III and securing loss-absorbing capital.** In early 2015 the banking sector needed to raise about €2.6 billion in core capital to comply with the Basel III rules, and €12 billion in hybrid debt instruments to comply with national supervisory requirements—mainly for higher risk-weighted requirements and the Dutch-specific leverage ratio at 4 percent. Banks were successful in issuing qualifying instruments in 2015. The three systemic banks are also gradually preparing for specific risk buffers and the minimum capital necessary to absorb losses through bail-in rules.

28. **Housing policies and housing finance are being addressed in tandem with tax reform.**

- The authorities are reducing the maximum loan-to-value (LTV) ratio for mortgage loans by one percentage point per year until it reaches 100 percent in 2018, with no further plans beyond that date. The 2014 Article IV consultation urged a further and faster reduction beyond 2018. In May 2015, the Financial Stability Committee's (FSC) recommended reducing the LTV by one percentage point a year through 2028 when it would reach 90 percent.[7]

- The current policies of gradually reducing the LTVs ratios on new mortgages to 100 percent by 2018 and allowing MID only for new fully amortizing loans are steps in the right direction to mitigate housing risks.

- The prospective reinstatement of the higher gift tax exemption is also welcome for reducing mortgage debt.

29. **However, more could be done in housing-related policies.**

- The Netherlands' LTV limit is high even at 100 percent, and the recent recommendation of the FSC to continue the annual reduction in LTV limits between 2019 and 2028 to reach 90 percent should be adopted.[8]

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[6]The Netherlands is among the countries for which Financial Stability Assessments (FSA) are mandatory. The next FSA will be conducted in conjunction with the next Article IV consultation, and planning for it is well underway. Accordingly, the next Article IV consultation will have a deeper focus on financial sector issues.

[7] The FSC is composed of the DNB, and the Authority for Financial Markets (AFM). The Ministry of Finance participates in its deliberations, but it does not vote. It also receives research support by the Central Planning Bureau (CPB).

[8] Figures are not available on the likely impact of such a change on average LTV ratios; however, a substantial minority of mortgage loans are made at the maximum allowable LTV (103 percent in 2015).

- A faster pace would be welcome for both LTV and MID reduction. This would ensure that households have greater financial buffers and would limit macroeconomic volatility in the event of a housing shock.
- This process should be complemented by an accelerated reform of social housing to make it more market oriented and other polices to promote a larger and more robust private rental market (e.g., deregulation of rents on small apartments).

These policies would give younger households an alternative to premature home ownership and promote geographic labor mobility, both directly and by helping to avoid underwater mortgages. Clarifying the LTV path after 2018 sooner rather than later would also provide buyers more time to build savings and for all participants in the housing market to plan appropriately.

Authorities' Views

30. **The authorities pointed to the low level of defaults on mortgages throughout the crisis.** Furthermore, they pointed to the broad set of reforms undertaken by the current government. In this context, they emphasized that the FSC advice on further reducing the LTV limit was addressed to future governments and the decision on this and any further measures should indeed be left to future governments.

E. The Rapid Rise of the Self-Employed—Costs, Benefits, and Reforms[9]

31. **The rapid rise in self-employment reveals tensions in the labor market.** While the rising share of self employed has helped increase the flexibility of the Dutch labor market and contain unemployment, it is also suggestive of an overly rigid regulatory regime for regular employment; the self employed receive large tax exemptions and tend to pay lower social and pension contributions. But not all of the self employed are in that status voluntarily. Many work under conditions that resemble regular employment relationships, and their increasing number threatens to undercut the social safety net and to jeopardize the viability of the pension schemes. Therefore, tight enforcement of recent regulations aimed at screening involuntary self employment is a welcome development. Perhaps new criteria could also help (e.g., when hours and work location are set by the entity paying for the services, there would be a presumption that this is a regular employment relationship).

32. **The lack of retirement benefits and sickness and disability insurance for the self employed needs to be addressed.** The low levels of participation in Pillar II and Pillar III pension schemes and sickness and disability insurance exposes many of the self employed to low income in retirement. This could be addressed through a collectively-managed pillar III system with contributions roughly equivalent to average Pillar II plans for employees. The self employed could

[9] This topic is reviewed in detail in the Selected Issues paper: *Dual Labor Markets in the Netherlands – Environment and Policy Implications.*

be enrolled by default but opt out of part of the pension contributions down to some minimum level. Sickness and disability insurance could also be made obligatory, and a collectively managed insurance pool could be used to control costs to beneficiaries. At the same time, the authorities should consider liberalizing the regulatory regime for employees and move toward more equal tax treatment between employees and the self employed.

Authorities' Views

33. **The authorities emphasized the benefits from allowing self employment as a means of allowing labor market flexibility.** They agreed that the rapid growth in the self-employed can possibly be attributed to differences in fiscal and labor market regimes, but also noted that new legislation has been proposed to limit abuse. They agreed that tax, social and pension contribution and benefit regimes, and other labor market regulations should be examined to help ensure equitable treatment of citizen in both regular employment and self employment.

STAFF APPRAISAL

34. **The Netherlands appears to be firmly on the path to recovery from the long recession**. The economy has grown for five quarters, and growth is moderate but strengthening when the impact of reduced natural gas production is taken into account. Unemployment is on a gradual downward trajectory, and housing prices are recovering.

35. **The assessment of external stability and the exchange rate is generally benign**. The current account surplus is high, but structural factors relating to population aging and the associated drawdown of pension assets placed abroad, and the decline in natural gas production will contribute to a gradual decline in the surplus in the coming decades.

36. **Nevertheless, there may be a role for fiscal support for the recovery.** The economy remains well below potential, and there appears to be fiscal space, at least in economic terms, for more support for the recovery. However, in the medium- and long-term, it would be desirable to rebuild fiscal buffers, in particular by reducing public debt to levels substantially below 60 percent of GDP.

37. **The authorities' proposed ideas for tax reform through shifting taxes away from labor income are welcome.** However, a more far-reaching plan to reduce the bias toward debt that has contributed to overly-leveraged household balance sheets should also be implemented.

38. **The strains in the second-pillar pension system need to be addressed**. The principles laid out by the government for more individual choice and more transparency are appropriate. A move toward a more explicit defined contribution approach would solve many of the transparency and individual choice issues that have arisen. However, to the extent that a more modest reform retains some of the defined benefit features relating to accrual and contribution rates, a more actuarially fair approach that frees up disposable income for younger families deserves consideration.

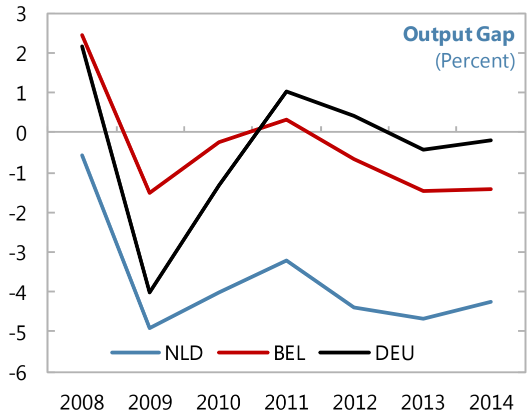
39. **Reforms are needed in the Dutch housing sector beyond removing tax preferences.** The Dutch housing market has many features that push toward excessive leverage, in particular the absence of a well-functioning private rental market. Relatively affordable rental housing tends to be confined to the social housing sector, which is characterized by inefficiencies, a lack of market-based pricing, very long waiting lists, and heavy regulation of rents in housing that might compete with social housing. As a result, young families are pushed prematurely into home ownership. A reform of the social housing sector to more effectively implement means testing and market-based pricing and deregulation of the private rental market are necessary complements to the removal of tax preferences and shift toward LTV limits that require at least some home equity.

40. **Labor market inflexibility and its consequences need to be addressed**. The rapid rise in the share of the Dutch labor force characterized as self-employed, particularly those whose work arrangements strongly resemble regular employment relationships, suggests that rigidities in the employment protection regime for regular employees are excessive. While self employment is a useful means of introducing flexibility into the Dutch labor market, it appears that the current system is open to abuse in some cases. The authorities should consider liberalizing the regulatory regime for regular employees but also reconsider the tax incentives and the extent to which the self-employed are exempt from safety net contributions and the benefits that go with participation in the social safety net programs.

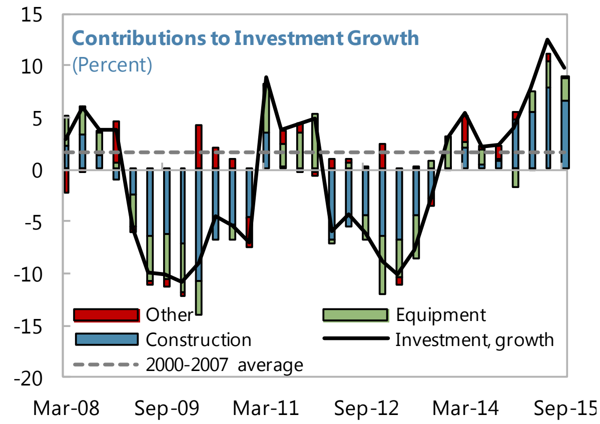
41. **It is proposed that the next Article IV consultation take place on the standard 12-month schedule.**

Figure 1a. Netherlands: Outlook, 2008–15

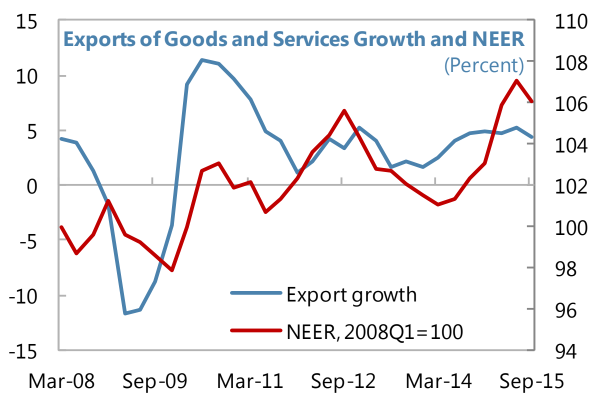
The Dutch output gap trailed those of its peers.



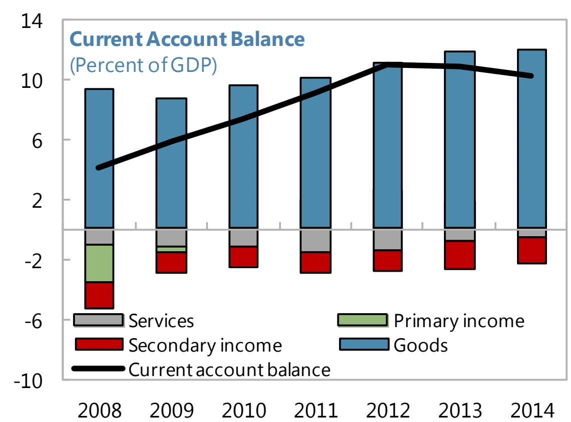
Investment is picking up due to construction.



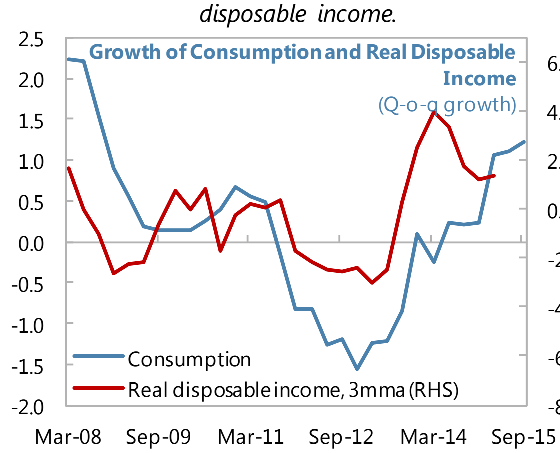
Exports are supported by the weaker euro.



The external current account surplus widens.



Consumption has been supported by real disposable income.



Inflation and unemployment lag the recovery.

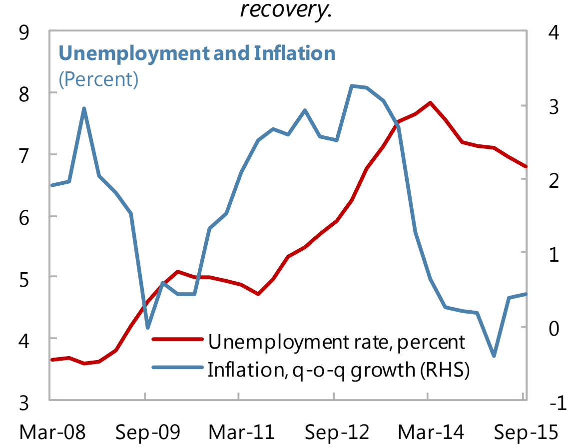
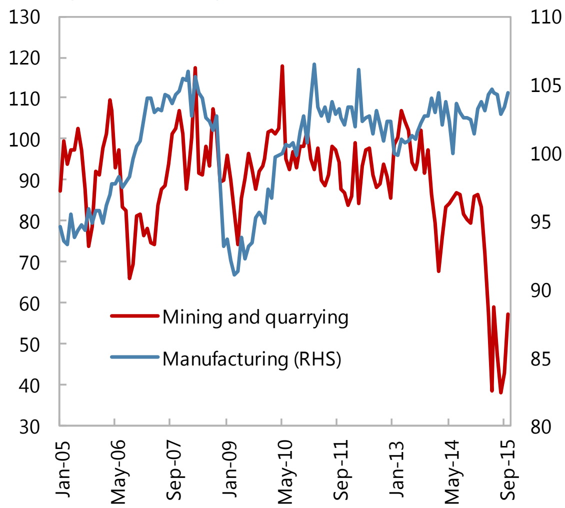


Figure 1b. Netherlands: Outlook, 2005–15

Recovery in manufacturing but mining under pressure.

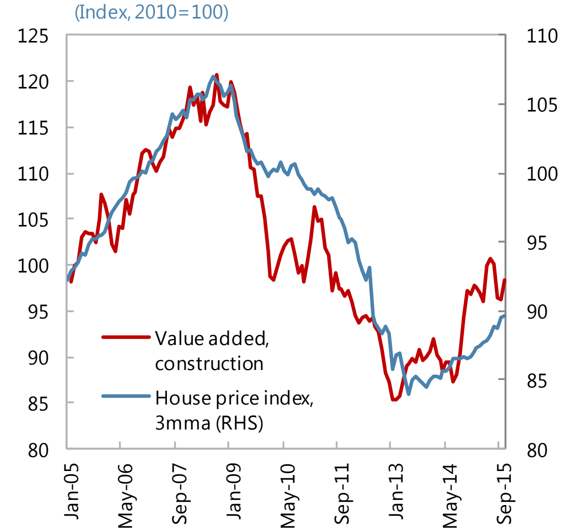
Industrial Production
(Index, 2010=100)



Sources: CBS, Haver Analytics.

Recovering house prices support construction activity.

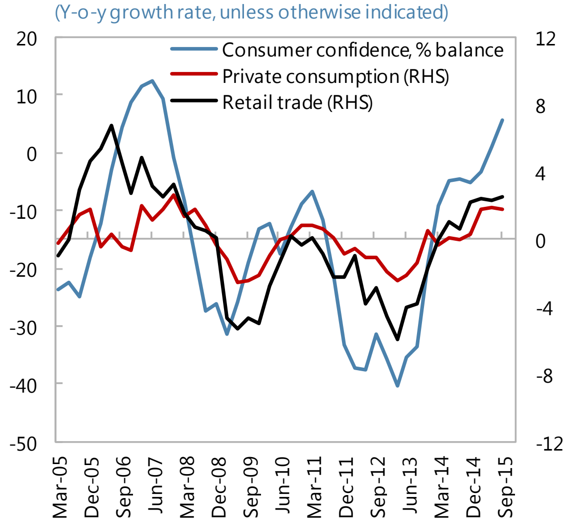
House Prices and Value Added in Construction
(Index, 2010=100)



Sources: CBS, Haver Analytics, and IMF staff calculations.

Consumption is picking up pace.

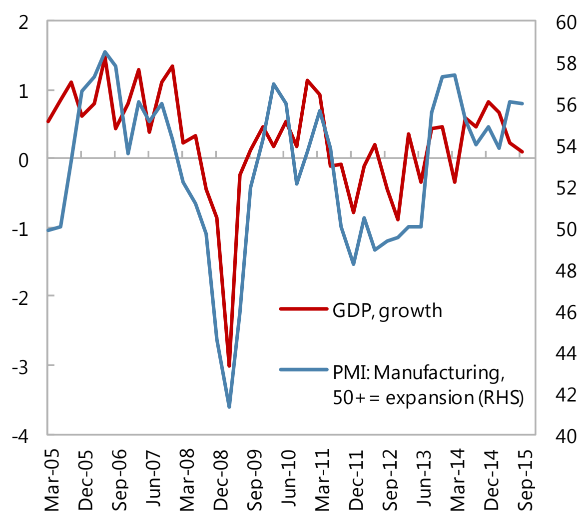
Consumption Indicators
(Y-o-y growth rate, unless otherwise indicated)



Sources: CBS, Haver Analytics, and IMF staff calculations.

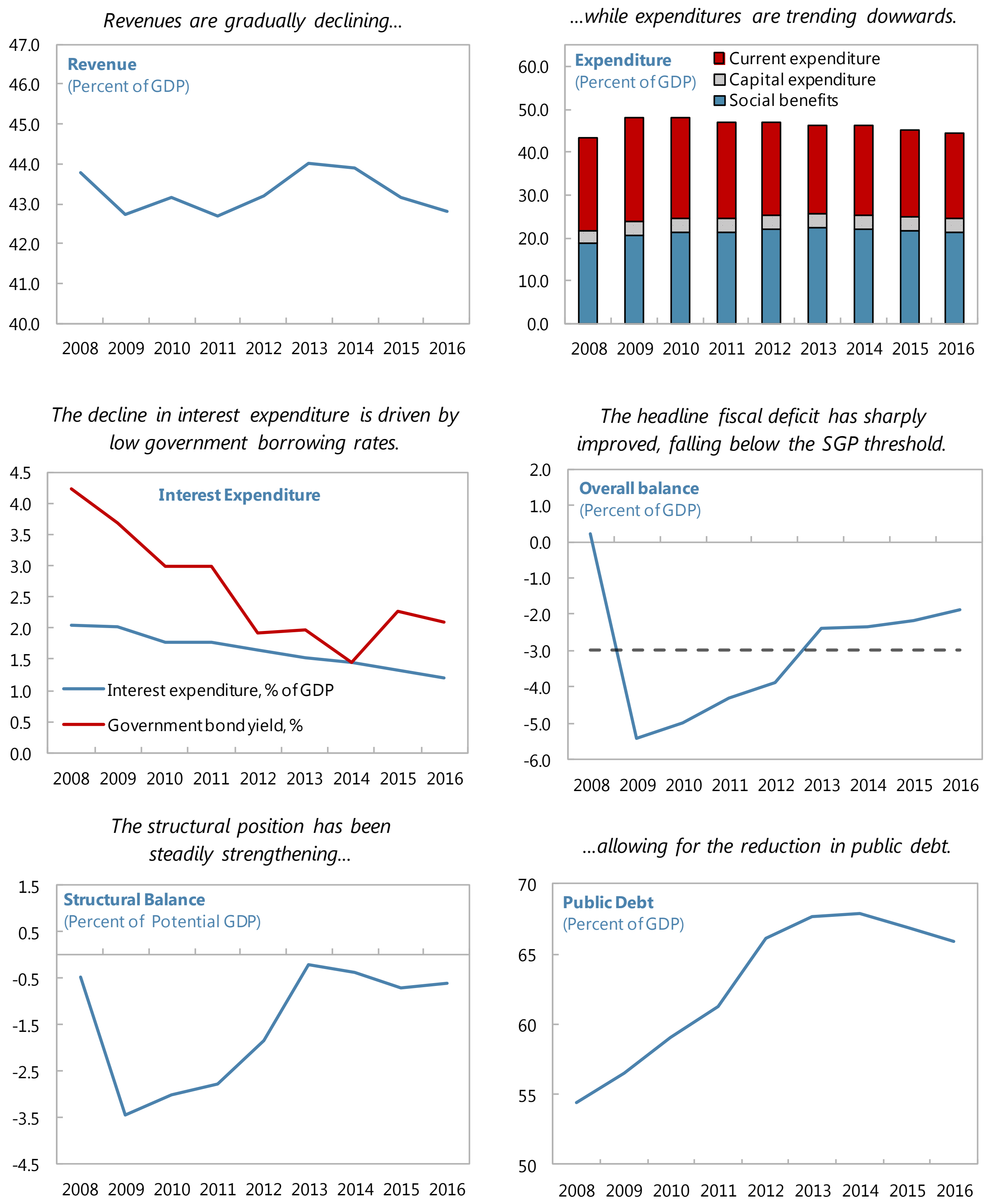
Survey data point to continued recovery.

GDP and PMI



Sources: CBS, Haver Analytics, Markit, and IMF staff calculations.

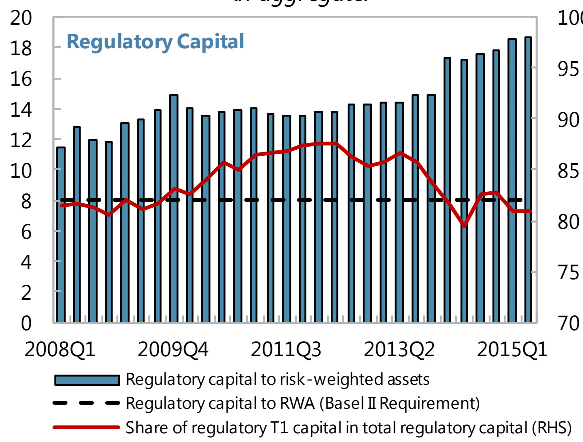
Figure 2. Netherlands: Fiscal Perspectives, 2008–16



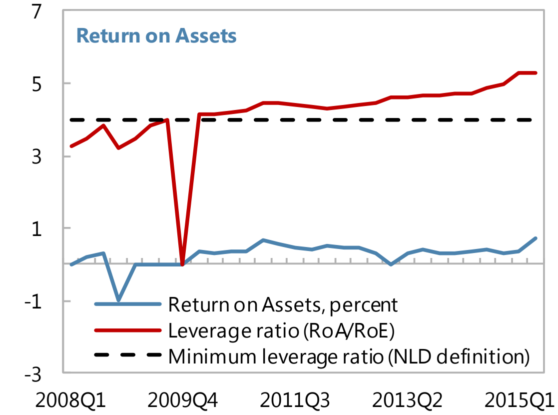
Source: CBS, CPB, Eurostat, and IMF staff calculations.

Figure 3. Netherlands: Financial Stability Issues, 2008–15:Q2

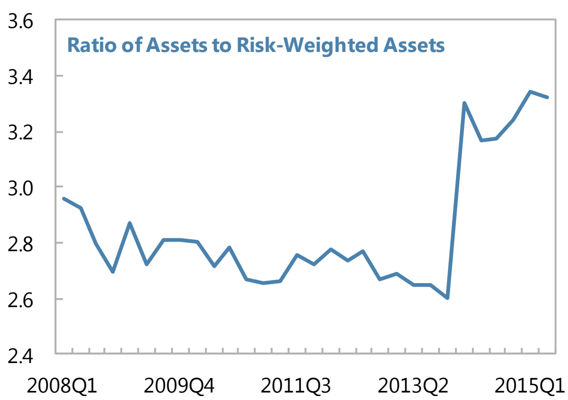
Dutch banks have a higher capital adequacy ratio in aggregate.



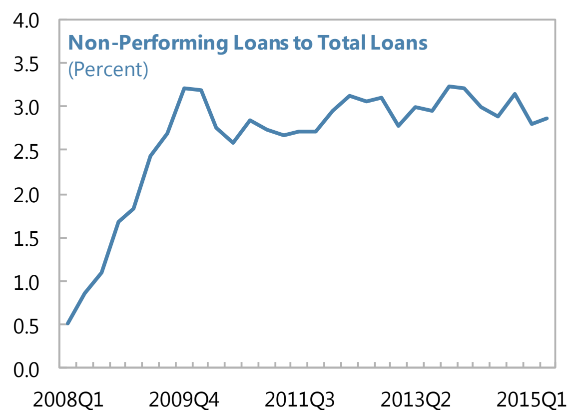
The leverage ratio has started to rise.



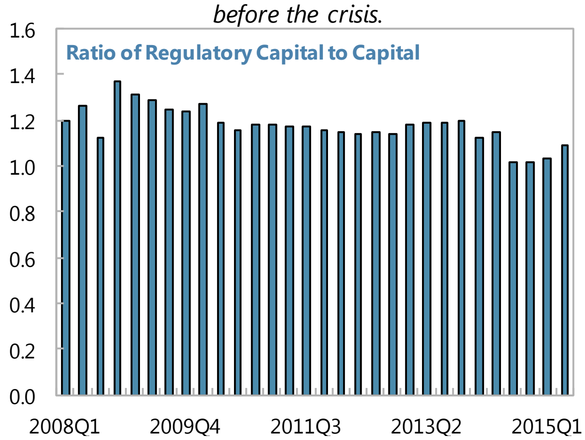
The assets of Dutch banks are overal less risky...



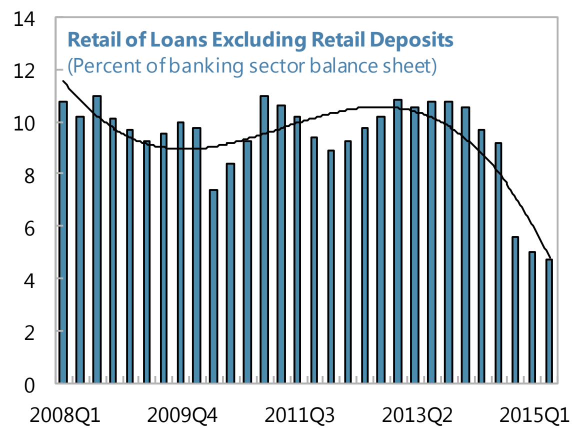
...while NPLs have stabilized since the crisis.



In aggregate, the Dutch banking system has not recuperated its level in regulatory buffers it had before the crisis.



Banks' reliance on wholesale funding halved since the crisis.



Source: DNB, ECB, and IMF staff calculations.

Table 1. Netherlands: Medium Term Macroeconomic Framework, 2013–21

(Growth rates in percent, except where otherwise indicated)

	2013	2014	2015 Est.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
National accounts									
Real GDP	-0.5	1.0	1.9	1.9	1.9	1.9	1.9	2.0	2.1
Domestic demand	-1.8	0.7	2.2	2.3	1.5	1.7	1.7	1.8	1.8
Private consumption	-1.4	0.0	1.6	1.2	1.5	1.6	1.6	1.6	1.6
Public Consumption	0.1	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Gross fixed investment (total)	-4.4	3.5	9.4	6.5	3.3	3.6	3.7	3.8	3.7
Public	-2.5	-1.9	11.3	-2.9	2.0	0.3	1.3	2.2	1.0
Private	-4.9	4.9	9.0	8.7	3.5	4.2	4.2	4.1	4.2
Residential	-11.5	7.0	3.0	3.3	2.3	2.5	2.5	2.5	2.6
Business	-2.7	4.2	10.9	10.2	3.9	4.6	4.6	4.5	4.5
Stocks (contribution to GDP growth)	-0.2	-0.2	-0.6	0.2	0.0	0.0	0.0	0.0	0.0
Exports goods and services	2.1	4.1	4.8	4.3	3.9	3.2	3.2	3.2	3.2
Imports goods and services	0.9	4.0	5.5	5.3	3.7	3.2	3.2	3.2	3.1
Domestic demand (contribution to GDP growth)	-1.6	0.6	1.9	2.1	1.3	1.5	1.5	1.6	1.6
External demand (contribution to GDP growth)	1.1	0.5	0.0	-0.2	0.6	0.4	0.4	0.4	0.5
Output gap	-4.7	-4.2	-3.2	-2.8	-2.3	-1.8	-1.1	-0.6	0.0
Potential output growth	-0.2	0.6	0.8	1.4	1.4	1.4	1.3	1.4	1.3
Gross investment (percent of GDP)	18.0	18.1	18.3	19.7	20.0	20.5	21.0	21.5	22.0
Gross national saving (percent of GDP) 1/	29.0	28.7	28.5	29.4	29.5	29.7	30.1	30.5	30.9
Prices and employment									
Consumer price index (year average)	2.6	0.3	0.6	0.9	1.4	1.6	1.7	1.8	1.9
GDP deflator	1.4	0.8	0.0	1.1	1.7	1.6	1.6	1.6	1.6
Employment	-0.8	-0.7	1.6	1.1	0.5	0.7	0.7	1.1	0.8
Unemployment rate (percent) 2/	7.3	7.4	6.9	6.6	6.6	6.0	5.5	4.8	4.3
External									
Current account balance (percent of GDP)	11.0	10.6	10.2	9.7	9.4	9.2	9.1	9.0	8.9
Public sector accounts (percent of GDP)									
Revenue	44.0	43.9	43.2	42.8	42.8	42.8	42.8	42.8	42.8
Expenditure	46.4	46.3	45.3	44.7	44.5	44.4	44.2	44.1	43.9
General government balance	-2.4	-2.4	-2.2	-1.9	-1.7	-1.5	-1.4	-1.2	-1.1
Structural balance (percent of potential GDP)	-0.2	-0.4	-0.7	-0.6	-0.7	-0.7	-0.9	-1.0	-1.1
General government debt	67.6	67.9	66.9	65.9	65.3	64.6	63.8	62.8	61.7

Sources: Dutch official publications, International Monetary Fund, International Financial Statistics, and Fund staff estimates.

1/ Value implied by investment and current account data.

2/ Eurostat definition.

Table 2a. Netherlands: General Government Statement of Operations, 2013–21

(Percent of GDP)

	2013	2014	2015 Est.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Revenue	44.0	43.9	43.2	42.8	42.8	42.8	42.8	42.8	42.8
Taxes	21.4	22.3	22.9	22.7	22.7	22.7	22.7	22.7	22.7
Taxes on production and imports	11.0	11.3	11.2	11.4	11.4	11.4	11.4	11.4	11.4
Current taxes on income, wealth, etc.	10.1	10.7	11.4	11.0	11.0	11.0	11.0	11.0	11.0
Capital taxes	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions	15.0	14.8	14.1	14.4	14.4	14.4	14.4	14.4	14.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	7.7	6.7	6.2	5.7	5.7	5.7	5.7	5.7	5.7
Expenditure	46.4	46.3	45.3	44.7	44.5	44.4	44.2	44.1	43.9
Expense	46.8	46.2	45.2	44.1	43.9	43.8	43.6	43.5	43.3
Compensation of employees	9.3	9.2	9.2	9.2	9.2	9.1	9.1	9.1	9.0
Use of goods and services	6.4	6.3	5.9	5.7	5.7	5.7	5.6	5.6	5.6
Consumption of fixed capital	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.2
Interest	1.5	1.4	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Subsidies	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Grants	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Social benefits	22.4	22.1	21.7	21.5	21.5	21.4	21.3	21.2	21.2
Other expense	1.5	1.5	1.5	0.8	0.8	0.8	0.8	0.8	0.8
Net acquisition of nonfinancial assets	-0.4	0.0	0.2	0.6	0.6	0.6	0.6	0.6	0.6
Net operating balance	-2.8	-2.3	-2.0	-1.3	-1.1	-1.0	-0.8	-0.6	-0.5
Net lending/borrowing	-2.4	-2.4	-2.2	-1.9	-1.7	-1.5	-1.4	-1.2	-1.1
Net acquisition of financial assets	-1.0	…	…	…	…	…	…	…	…
Currency and deposits	-0.5	…	…	…	…	…	…	…	…
Securities other than shares	-1.0	…	…	…	…	…	…	…	…
Loans	0.5	…	…	…	…	…	…	…	…
Shares and other equity	0.2	…	…	…	…	…	…	…	…
Insurance technical reserves	0.0	…	…	…	…	…	…	…	…
Financial derivatives	0.2	…	…	…	…	…	…	…	…
Other accounts receivable	-0.5	…	…	…	…	…	…	…	…
Net incurrence of liabilities	1.3	…	…	…	…	…	…	…	…
Special Drawing Rights (SDRs)	0.0	…	…	…	…	…	…	…	…
Currency and deposits	0.0	…	…	…	…	…	…	…	…
Securities other than shares	2.7	…	…	…	…	…	…	…	…
Loans	-0.9	…	…	…	…	…	…	…	…
Shares and other equity	0.0	…	…	…	…	…	…	…	…
Insurance technical reserves	0.0	…	…	…	…	…	…	…	…
Financial derivatives	0.0	…	…	…	…	…	…	…	…
Other accounts payable	-0.5	…	…	…	…	…	…	…	…
Memorandum items									
Primary balance	-0.9	-0.9	-0.8	-0.7	-0.5	-0.3	-0.2	0.0	0.1
Structural balance (percent of potential GDP)	-0.2	-0.4	-0.7	-0.6	-0.7	-0.7	-0.9	-1.0	-1.1
Structural primary balance (percent of potential GDP)	1.6	1.6	1.1	1.1	1.0	0.8	0.6	0.3	0.1
Gross Debt	67.6	67.9	66.9	65.9	65.3	64.6	63.8	62.8	61.7
Output gap	-4.7	-4.2	-3.2	-2.8	-2.3	-1.8	-1.1	-0.6	0.0
Nominal GDP (billions of euros)	650.9	662.8	675.4	696.0	721.7	746.9	773.4	801.2	831.0
Nominal GDP growth (percent)	0.9	1.8	1.9	3.0	3.7	3.5	3.5	3.6	3.7
Real GDP growth (percent)	-0.5	1.0	1.9	1.9	1.9	1.9	1.9	2.0	2.1
GDP deflator growth (percent)	1.4	0.8	0.0	1.1	1.7	1.6	1.6	1.6	1.6

Sources: The Netherlands' Bureau for Economic Policy Analysis (CPB), Ministry of Finance, and Fund staff calculations.

Table 2b. Netherlands: General Government Statement of Operations, 2013–21

(Billions of euros)

	2013	2014	2015 Est.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Revenue	286.5	290.9	291.4	297.8	308.9	319.8	331.2	343.2	356.0
Taxes	139.1	147.7	154.5	157.9	163.8	169.6	175.6	182.0	188.8
Taxes on production and imports	71.4	75.2	75.7	79.6	82.5	85.4	88.5	91.7	95.1
Current taxes on income, wealth, etc.	65.9	71.0	77.2	76.7	79.5	82.3	85.3	88.3	91.7
Capital taxes	1.7	1.5	1.6	1.7	1.8	1.8	1.9	2.0	2.0
Social contributions	97.3	98.4	95.1	100.2	103.9	107.6	111.4	115.5	119.8
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	50.0	44.7	41.7	39.6	41.1	42.5	44.0	45.6	47.3
Expenditure	302.0	306.5	306.2	310.8	321.2	331.3	341.8	352.9	364.8
Expense	304.9	306.5	305.1	306.8	317.0	327.0	337.4	348.3	360.1
Compensation of employees	60.2	60.8	62.2	64.1	66.2	68.3	70.5	72.7	75.2
Use of goods and services	41.6	41.7	39.7	39.6	41.0	42.2	43.6	45.0	46.5
Consumption of fixed capital	21.8	21.9	22.0	22.3	23.1	23.8	24.5	25.3	26.2
Interest	9.9	9.6	9.0	8.4	8.7	9.0	9.3	9.6	9.9
Subsidies	8.2	8.1	7.9	8.6	8.9	9.2	9.5	9.8	10.1
Grants	7.5	7.6	7.8	8.0	8.3	8.6	8.9	9.2	9.6
Social benefits	145.6	146.7	146.7	149.9	154.9	159.8	164.9	170.2	175.9
Other expense	10.1	10.1	9.8	5.8	6.0	6.1	6.3	6.5	6.7
Net acquisition of nonfinancial assets	-2.9	0.1	1.0	4.0	4.2	4.3	4.4	4.6	4.7
Net operating balance	-18.4	-15.6	-13.7	-9.0	-8.1	-7.2	-6.2	-5.2	-4.1
Net lending/borrowing	-15.5	-15.6	-14.7	-13.0	-12.3	-11.5	-10.7	-9.8	-8.8
Net acquisition of financial assets	-6.2	...	...	...	...	...	...	...	...
Currency and deposits	-3.0	...	...	...	...	...	...	...	...
Securities other than shares	-6.2	...	...	...	...	...	...	...	...
Loans	3.6	...	...	...	...	...	...	...	...
Shares and other equity	1.3	...	...	...	...	...	...	...	...
Insurance technical reserves	0.0	...	...	...	...	...	...	...	...
Financial derivatives	1.5	...	...	...	...	...	...	...	...
Other accounts receivable	-3.4	...	...	...	...	...	...	...	...
Net incurrence of liabilities	8.2	...	...	...	...	...	...	...	...
Special Drawing Rights (SDRs)	0.0	...	...	...	...	...	...	...	...
Currency and deposits	-0.1	...	...	...	...	...	...	...	...
Securities other than shares	17.4	...	...	...	...	...	...	...	...
Loans	-6.0	...	...	...	...	...	...	...	...
Shares and other equity	0.0	...	...	...	...	...	...	...	...
Insurance technical reserves	0.0	...	...	...	...	...	...	...	...
Financial derivatives	0.0	...	...	...	...	...	...	...	...
Other accounts payable	-3.1	...	...	...	...	...	...	...	...
Memorandum items									
Primary balance	-5.6	-6.0	-5.7	-4.5	-3.6	-2.5	-1.4	-0.2	1.1
Gross Debt	440.0	450.1	451.8	458.7	471.0	482.5	493.1	502.9	512.7
Nominal GDP (Euro bill.)	650.9	662.8	675.4	696.0	721.7	746.9	773.4	801.2	831.0

Sources: The Netherlands' Bureau for Economic Policy Analysis (CPB), Ministry of Finance, and Fund staff calculations.

Table 2c. Netherlands: General Government Integrated Balance Sheet, 2008–13

(Percent of GDP)

	2008	2009	2010	2011	2012	2013
Net Worth	32.7	32.0	28.3	24.0	22.4	21.9
Nonfinancial assets	55.4	59.4	60.2	60.7	61.6	61.8
Net Financial Worth	-22.7	-27.4	-31.9	-36.7	-39.1	-39.9
Financial assets	38.3	36.3	35.7	34.9	38.2	36.1
Currency and deposits	3.0	2.9	2.3	2.2	2.3	1.8
Securities other than shares	0.3	3.9	3.7	3.5	3.1	2.1
Loans	12.1	8.0	7.7	7.7	9.0	10.2
Shares and other equity	16.0	14.1	13.9	12.8	14.6	13.9
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.3	0.0	0.3	1.4	2.0	1.5
Other accounts receivable	6.6	7.4	7.8	7.2	7.1	6.6
Liabilities	61.0	63.7	67.6	71.6	77.3	76.0
Special Drawing Rights (SDRs)	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.2	0.1	0.1	0.1	0.1	0.1
Securities other than shares	46.8	46.5	50.4	54.1	58.5	58.1
Loans	9.9	12.7	12.3	13.0	14.6	14.2
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	4.1	4.4	4.9	4.4	4.1	3.7

Sources: The Netherlands' Ministry of Finance, and Fund staff calculations.

Table 3. Netherlands: External Sector, 2013–21

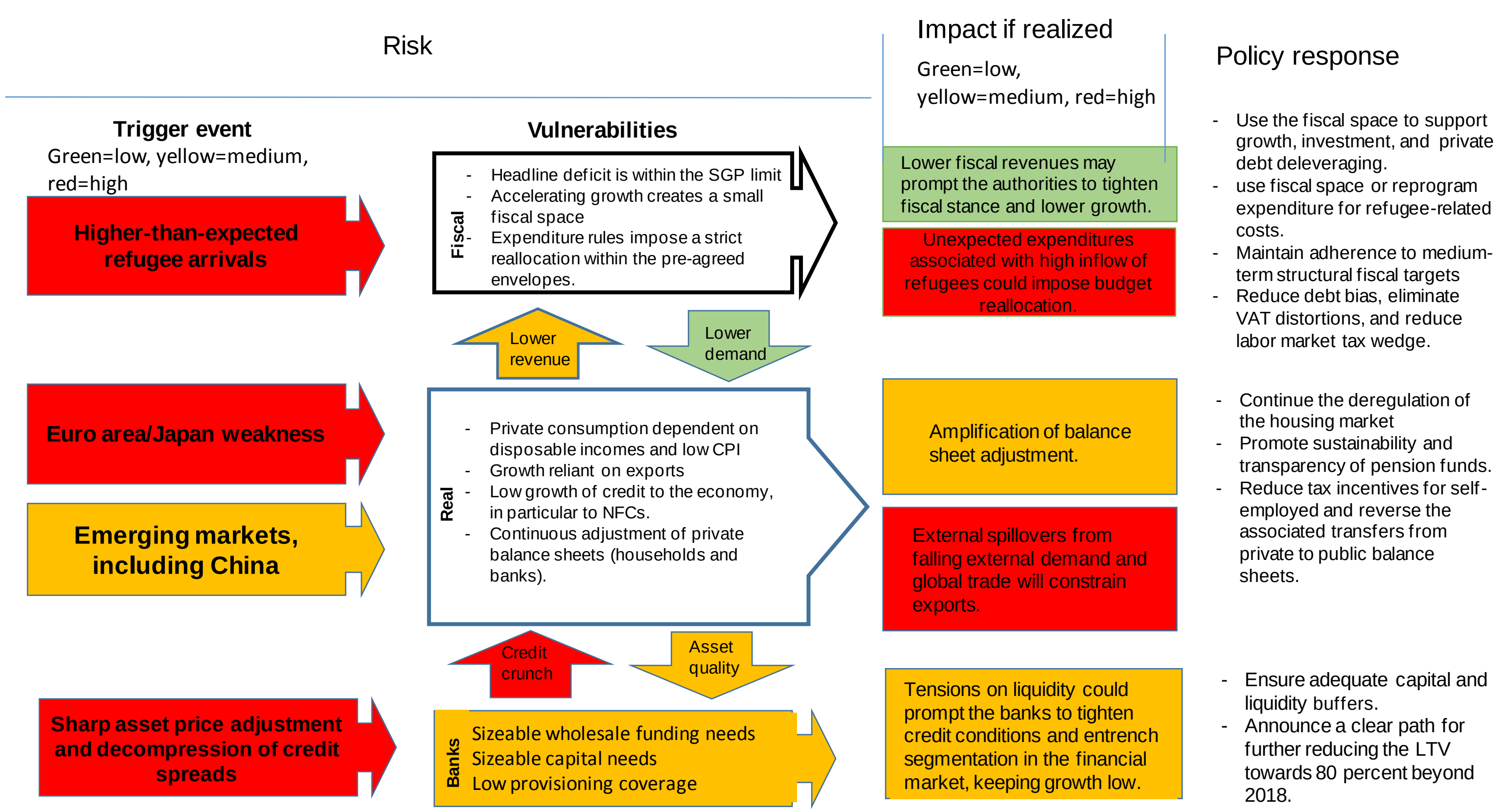
(Percent of GDP, unless otherwise indicated)

	2013	2014	2015 Est.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Balance on Current Account	11.0	10.6	10.2	9.7	9.4	9.2	9.1	9.0	8.9
Trade Balance	11.8	12.0	12.2	11.8	11.7	11.8	11.9	11.9	11.9
Exports of goods	65.9	65.3	66.2	66.9	67.6	68.3	69.0	69.6	70.0
Imports of goods	54.1	53.3	54.0	55.1	55.9	56.5	57.1	57.6	58.0
Service Balance	-0.8	-0.6	-0.9	-1.3	-0.8	-0.8	-0.8	-0.8	-0.6
Exports of services	16.7	17.6	19.4	20.8	21.7	22.0	22.2	22.5	22.8
Imports of services	17.6	18.2	20.4	22.1	22.5	22.8	23.0	23.3	23.4
Factor Income	1.8	1.0	0.7	0.9	0.4	0.1	-0.1	-0.2	-0.4
Current transfers, net	-1.8	-1.8	-1.8	-1.8	-1.9	-1.9	-1.9	-1.9	-1.9
Balance on capital account	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance on financial account	10.2	8.1	10.2	9.7	9.4	9.2	9.1	9.0	8.9
Direct investment, net	5.3	-1.7	3.2	2.1	1.6	1.9	1.3	1.8	1.6
Direct investment abroad	41.2	3.8	26.3	26.5	23.3	22.1	18.6	21.0	20.0
FDI in Netherlands	35.8	5.5	23.1	24.4	21.7	20.1	17.3	19.2	18.4
Portfolio investment, net	1.7	9.0	2.0	1.8	3.1	3.0	3.6	3.1	3.0
Financial derivatives	-1.3	0.7	-0.4	-0.6	-0.1	-0.2	-0.4	-0.3	-0.2
Other investment	4.5	0.3	5.3	6.2	4.6	4.4	4.5	4.3	4.4
Other investment, official	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve assets	0.0	-0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.2
Errors and omissions, net	-0.8	-2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: DNB and Fund staff calculations.

Annex I. Risk Assessment Matrix[1]

The Netherlands



1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF Staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern of the time of discussion with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. External Sector Assessment

	The Netherlands	Overall Assessment
Foreign asset and liability position and trajectory	**Background**. Since 2000, the NIIP has continuously strengthened and reached 69.7 percent of GDP at end-2014 up from 41.6 percent in 2013. Through end-June 2015, the NIIP reached 66.2 of GDP. The increase chiefly reflects large net FDI outflows and a strong other investment position as well as valuation effects on overseas holdings due to higher equity prices and the euro's depreciation. As of June 2015, the total assets reached 536.5 percent of GDP and liabilities 470.3 percent of GDP. Over the medium term, the NIIP is expected to continue growing, given the projected sizeable current account surpluses **Assessment.** The Netherland's safe haven status and its sizeable foreign assets limit risks from its large foreign liabilities.	**Overall Assessment:** The external position in 2015 was stronger than the level consistent with medium-term fundamentals and desirable policy settings. The REER depreciation since 2014 is likely to further strengthen the external position. The Netherlands' status as a trade and financial center and natural gas exporter make an external assessment more uncertain than usual. **Potential policy responses** Structural reforms to raise the productivity of smaller, domestic firms and progress in repairing household balance sheets and strengthening the banking system will support domestic demand and contribute to reducing external imbalances. A shift towards more productive investment as the Dutch and global economies recover will also help in the rebalancing.
Current account	**Background**. The current account has been in surplus since 1981, and is expected to reach 10.2 percent of GDP in 2015, after 10.6 percent of GDP in 2014. The high current account surpluses reflect mainly the savings of the corporate sector and institutional pensions held by households, offset in part by health expenditure above OECD average, and Netherland's status as a trade and financial center and natural gas exporter. The large corporate savings have been used to finance substantial FDI outflows by global firms in the Netherlands. Household savings have also increased as a result of deleveraging following the sharp declines in housing prices starting in mid-2008. The CA surplus is projected below its level in 2014 (10.2 percent of GDP), given a lower primary income and a higher service deficit. Declining oil and commodity prices had substantial effects in 2015, reducing the CA surplus by 1.6 percent of GDP, explained by lower gas production due to earthquakes in extraction areas and reflected in lower exports (-0.6 percent of GDP). Strong growth in export volume amid declining export prices and contained exporter margins are projected to deliver a lower CA surplus in 2015 than in 2014. **Assessment**. Staff assesses that the current account gap is smaller than that estimated in the EBA model due to the following country-specific factors: (i) unlike many other advanced economies, the Netherlands has a fully funded pension system which has probably increased household saving rates above the level that households would save voluntarily, and (ii) following the real estate collapse, household deleveraging has also kept saving rates high. Taking account these factors, staff assessment of the current account gap is in the range of 1-5 percent of GDP. 1/ In the medium term the CA surplus is likely to decline, supported by a recovery in domestic demand, progress in household deleveraging, declining gas exports, and demographic trends.	
Real exchange rate	**Background.** Both the ULC and CPI based REERs depreciated by 2.1 and 1.7 percent respectively in 2014, mainly due to the 1.6 percent nominal effective depreciation, primarily reflecting the euro depreciation. As of October 2015, the REER depreciated by 4.0 percent from its 2014 average. **Assessment**. The EBA REER gaps estimates for 2014 are -1.3 percent and -10 percent respectively for the EBA index and level models. Taking into account the EBA REER results, staff assesses that the REER remained undervalued by around 5 percent within a range of 0-10 percent. The further depreciation of the euro in 2015 is likely to have increased the undervaluation of the exchange rate.	
Capital and financial accounts: flows and policy measures	**Background**. Net FDI and portfolio outflows dominate the financial account. FDI outflows are driven by the investment of corporate profits abroad. On average, gross FDI outflows largely match corporate profits. **Assessment.** The strong external position limits vulnerabilities from capital flows. The financial account is likely to remain in deficit as long as the corporate sector continues to invest substantially abroad.	
FX intervention and reserves level	**Background**. The euro is a global reserve currency. **Assessment.** Reserves held by the Euro area are typically low relative to standard metrics, but the currency is free floating.	

Technical Background Notes	1/ In comparison with last year, the EBA-estimated CA gap in 2015 (unexplained residual plus by the contribution of identified policy gaps) narrowed by 1.5 percentage point to 3.6 percent of GDP. The smaller gap reflects a lower cyclically adjusted CA surplus (down from 9.7 to 9.2 percent of GDP) and a higher estimated CA norm of 5.7 percent of GDP (after 5.0 percent in 2013). 2/The larger external balance sheet, presence of large international corporations, and issues related to the measurement of the current account add uncertainty to this assessment. According to the DNB, half of the positions in assets and liabilities are attributable to subsidiaries of foreign multinationals, which are identified as Special Financial Institutions (SFIs).	

Annex III. Public Debt Sustainability Analysis

Public debt is expected to remain sustainable, peaking at 67 percent of GDP in 2015 before decreasing at a faster pace than previously anticipated to about 63 percent of GDP by 2020, owing to favorable growth developments and continued fiscal tightening. The largest risks to the baseline scenario are represented by a negative growth shock and a contingent liability shock, which could push up the debt-to-GDP ratio to 74 percent and 95 percent by 2017, respectively.

Macroeconomic assumptions: Real growth is forecast to accelerate from about 1.9 percent in 2015 to 2 percent in 2020, driven by exports, a gradual rebound in private consumption supported by positive wealth effects, and catch up investment. Reflecting stronger domestic demand, inflation would increase to just below 2 percent in 2016 before stabilizing around 1.5 percent over the medium run. While rapidly declining over the projection period, public debt would remain above 60 percent of GDP, calling for the use of the higher scrutiny framework in the context of the Fund framework for debt sustainability analysis.

Realism of baseline assumptions: Over 2006–2014, staff projections of the main macroeconomic and fiscal variables in the Netherlands have constantly remained close to the median within the 25–75 interquartile range vis-à-vis other surveillance countries, except for the 2014 primary balance, which turned out higher than expected. On average, real growth and primary balance forecasts appear to have been relatively conservative, while inflation forecasts have been slightly optimistic.

Baseline scenario and stress tests: Under the baseline scenario, public debt would rapidly decrease from 67 percent of GDP in 2015 to about 63 percent by the end of the projection period, under the joint effects of steady nominal growth and the pursuit of expenditure-based fiscal consolidation. Public debt would increase up to, and stabilize around, 69 percent of GDP in the historical scenario, due to conservative growth assumptions. It would first peak, and then steadily decrease over the medium term, in all other scenarios.

Main shocks to the baseline scenario

- **Growth shock.** Assuming a negative one standard deviation shock on the real growth rates in 2016-2017, lowering them by about 2.5 percentage points compared to the baseline scenario, associated with inflation rates lower by 0.6 percentage points, public debt would increase to 74 percent of GDP in 2017 before gradually returning to 71 percent by 2020. Gross financing needs would peak at 15 percent of GDP in 2017.

- **Primary balance shock.** A deterioration of the primary balance by 1.2 percentage points in 2016-2017 would stabilize the debt-to-GDP ratios at 69 percent for these years, with gross financing needs reaching 14 percent of GDP, thus postponing fiscal consolidation until 2018.

- **Contingent liability shock.** A non-interest expenditure shock arising from the need to bail out 10 percent of the banking sector, accompanied with lower growth rates by one standard deviation, lower inflation, and higher interest rates, would push up gross financing needs to

33 percent of GDP in 2016 and public debt to 95 percent of GDP in 2017. Public debt would subsequently decrease, but remain above 93 percent of GDP by the end of the projection period.

Netherlands Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(in percent of GDP unless otherwise indicated)

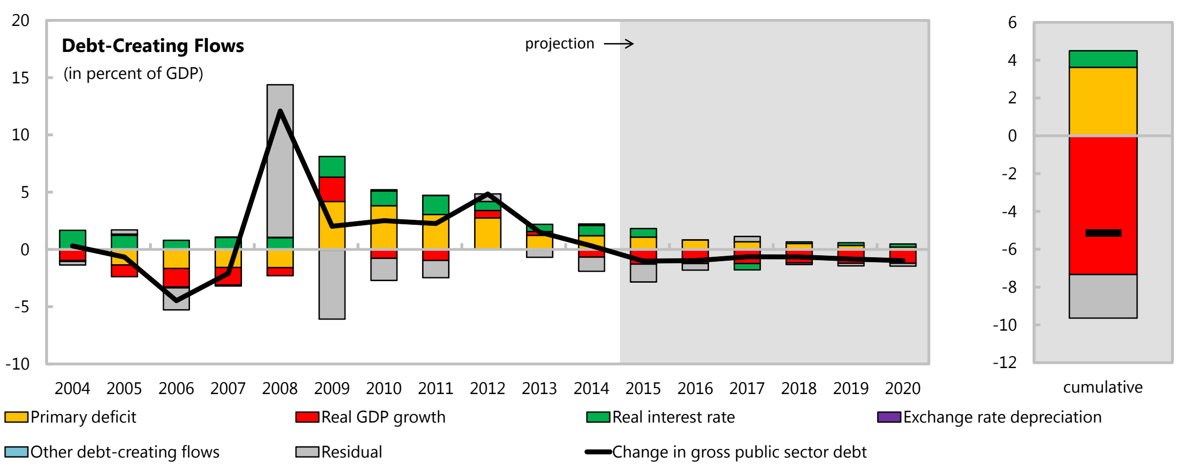
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2004-2012 [2/]	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	53.6	67.6	67.9	67	66	65	65	64	63
Public gross financing needs	2.2	2.4	2.4	7.7	9.6	12.0	10.4	10.4	8.9
Public debt (in percent of potential GDP)	52.3	64.5	65.0	64.7	64.1	63.8	63.5	63.0	62.4
Real GDP growth (in percent)	1.3	-0.5	1.0	1.9	1.9	1.9	1.9	1.9	2.0
Inflation (GDP deflator, in percent)	1.5	1.4	0.8	0.0	1.1	1.7	1.6	1.6	1.6
Nominal GDP growth (in percent)	2.8	0.9	1.8	1.9	3.0	3.7	3.5	3.5	3.6
Effective interest rate (in percent) [4/]	4.0	2.3	2.2	1.1	1.1	0.9	1.9	2.0	2.1

As of October 13, 2015		
Sovereign Spreads		
Bond Spread (bp) 3/	15	
5Y CDS (bp)	17	
Ratings	Foreign	Local
Moody's	Aaa	Aaa
S&Ps	AA+	AA+
Fitch	AAA	AAA

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.9	1.5	0.3	-1.0	-1.0	-0.7	-0.7	-0.8	-1.0	-5.1	
Identified debt-creating flows	1.6	2.1	1.5	0.5	-0.4	-1.1	-0.5	-0.6	-0.7	-2.8	
Primary deficit	0.8	1.2	1.2	1.1	0.8	0.7	0.5	0.4	0.2	3.6	-0.9
Primary (noninterest) revenue and grants	42.2	43.6	43.6	42.9	42.6	42.6	42.6	42.6	42.7	256.1	
Primary (noninterest) expenditure	43.1	44.9	44.8	44.0	43.4	43.3	43.1	43.0	42.9	259.7	
Automatic debt dynamics [5/]	0.7	0.9	0.4	-0.5	-1.2	-1.8	-1.0	-1.0	-0.9	-6.5	
Interest rate/growth differential [6/]	0.7	0.9	0.2	-0.5	-1.2	-1.8	-1.0	-1.0	-0.9	-6.5	
Of which: real interest rate	1.3	0.6	0.9	0.7	0.0	-0.5	0.2	0.2	0.3	0.9	
Of which: real GDP growth	-0.5	0.3	-0.7	-1.3	-1.2	-1.2	-1.2	-1.2	-1.2	-7.3	
Exchange rate depreciation [7/]	0.0	0.0	0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (1) (e.g., privatization rece	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., other debt flows)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.3	-0.6	-1.2	-1.6	-0.6	0.5	-0.1	-0.2	-0.3	-2.3	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds (bp).

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi)$ times previous period debt ratio, with r = effective nominal interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

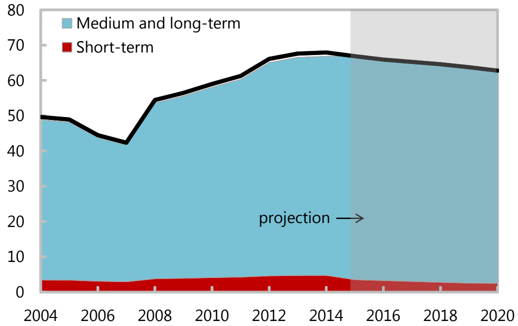
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Netherlands Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

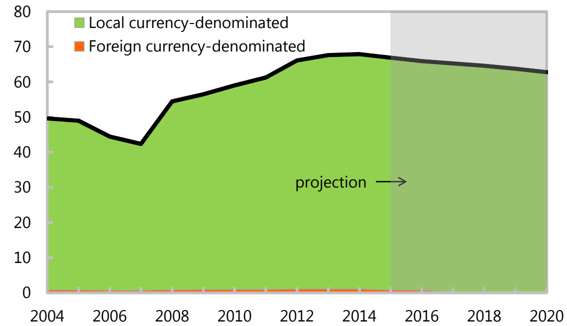
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

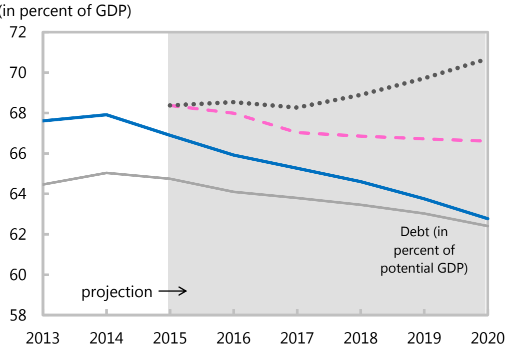


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

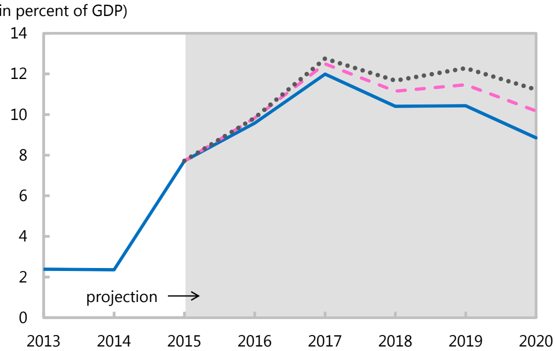
Gross Nominal Public Debt [1/]

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	1.9	1.9	1.9	1.9	1.9	2.0
Inflation	0.0	1.1	1.7	1.6	1.6	1.6
Primary Balance	-1.1	-0.8	-0.7	-0.5	-0.4	-0.2
Effective interest rate	1.1	1.1	0.9	1.9	2.0	2.1
Constant Primary Balance Scenario						
Real GDP growth	1.9	1.9	1.9	1.9	1.9	2.0
Inflation	0.0	1.1	1.7	1.6	1.6	1.6
Primary Balance	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Effective interest rate	1.1	1.1	0.9	1.8	1.9	2.0

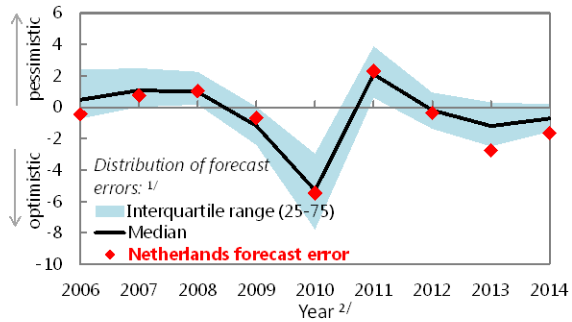
Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	1.9	1.0	1.0	1.0	1.0	1.0
Inflation	0.0	1.1	1.7	1.6	1.6	1.6
Primary Balance	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	1.1	1.1	1.1	2.3	2.6	2.8

Source: IMF staff.

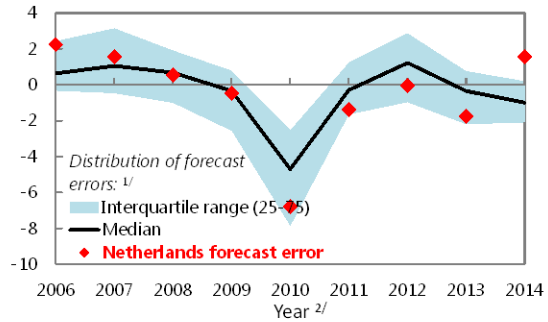
Netherlands Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries

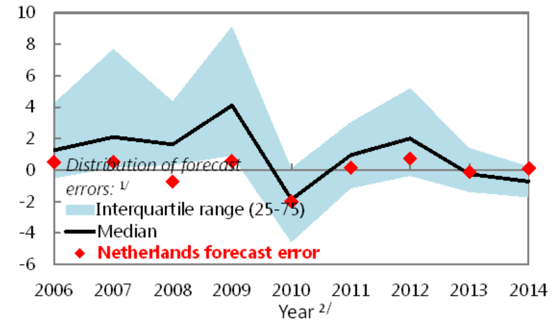
Real GDP Growth
(in percent, actual-projection)
Netherlands median forecast error, 2006-2014: **-0.45**
Has a percentile rank of: **41%**



Primary Balance
(in percent of GDP, actual-projection)
Netherlands median forecast error, 2006-2014: **-0.05**
Has a percentile rank of: **57%**

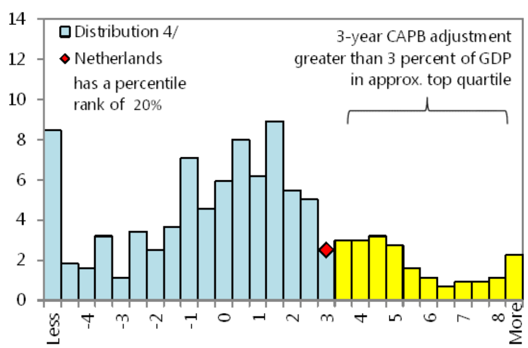


Inflation (Deflator)
(in percent, actual-projection)
Netherlands median forecast error, 2006-2014: **0.16**
Has a percentile rank of: **30%**

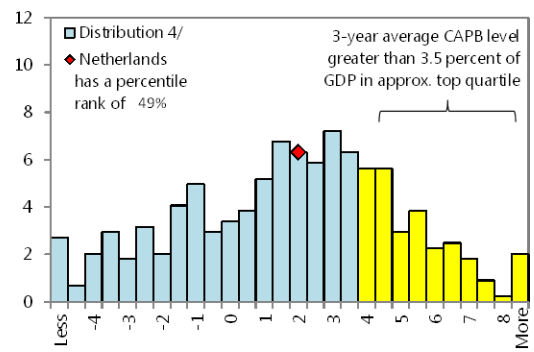


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

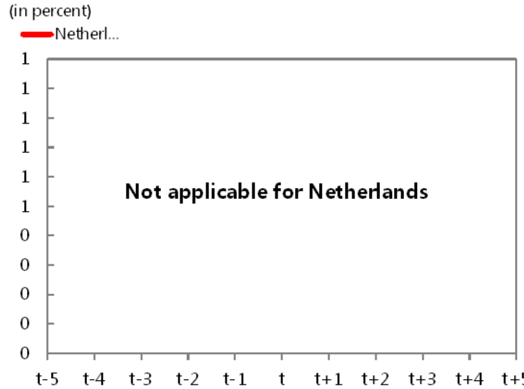


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

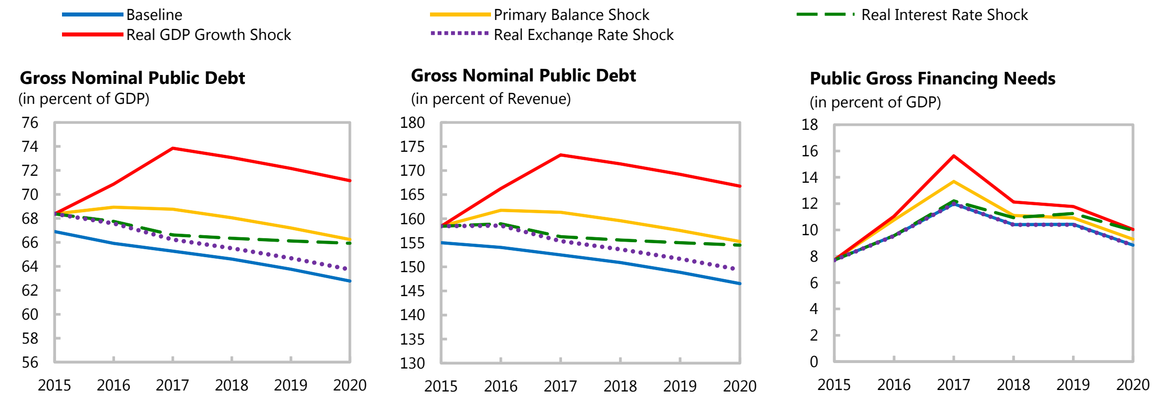
Real GDP growth
(in percent)



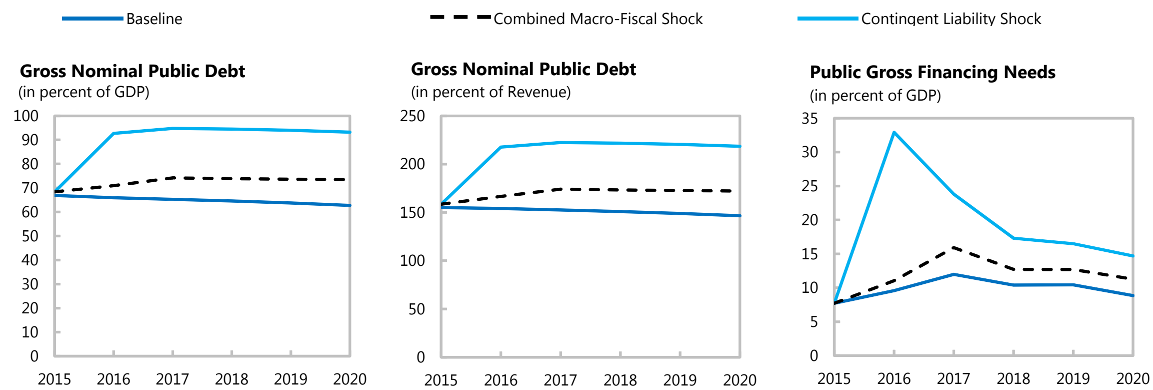
Source : IMF Staff.
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Netherlands, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Netherlands Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	1.9	1.9	1.9	1.9	1.9	2.0
Inflation	0.0	1.1	1.7	1.6	1.6	1.6
Primary balance	-1.1	-2.0	-1.9	-0.5	-0.4	-0.2
Effective interest rate	1.1	1.1	0.9	1.9	2.0	2.1
Real Interest Rate Shock						
Real GDP growth	1.9	1.9	1.9	1.9	1.9	2.0
Inflation	0.0	1.1	1.7	1.6	1.6	1.6
Primary balance	-1.1	-0.8	-0.7	-0.5	-0.4	-0.2
Effective interest rate	1.1	1.1	1.2	2.6	2.9	3.3
Combined Shock						
Real GDP growth	1.9	-0.3	-0.3	1.9	1.9	2.0
Inflation	0.0	0.6	1.2	1.6	1.6	1.6
Primary balance	-1.1	-2.1	-3.1	-0.5	-0.4	-0.2
Effective interest rate	1.1	1.1	1.3	2.6	3.0	3.3

Real GDP Growth Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	1.9	-0.3	-0.3	1.9	1.9	2.0
Inflation	0.0	0.6	1.2	1.6	1.6	1.6
Primary balance	-1.1	-2.1	-3.1	-0.5	-0.4	-0.2
Effective interest rate	1.1	1.1	0.9	2.0	2.0	2.1
Real Exchange Rate Shock						
Real GDP growth	1.9	1.9	1.9	1.9	1.9	2.0
Inflation	0.0	1.5	1.7	1.6	1.6	1.6
Primary balance	-1.1	-0.8	-0.7	-0.5	-0.4	-0.2
Effective interest rate	1.1	1.1	0.9	1.8	2.0	2.1
Contingent Liability Shock						
Real GDP growth	1.9	-0.3	-0.3	1.9	1.9	2.0
Inflation	0.0	0.6	1.2	1.6	1.6	1.6
Primary balance	-1.1	-23.9	-0.7	-0.5	-0.4	-0.2
Effective interest rate	1.1	1.2	2.6	2.8	2.8	2.7

Source: IMF staff.

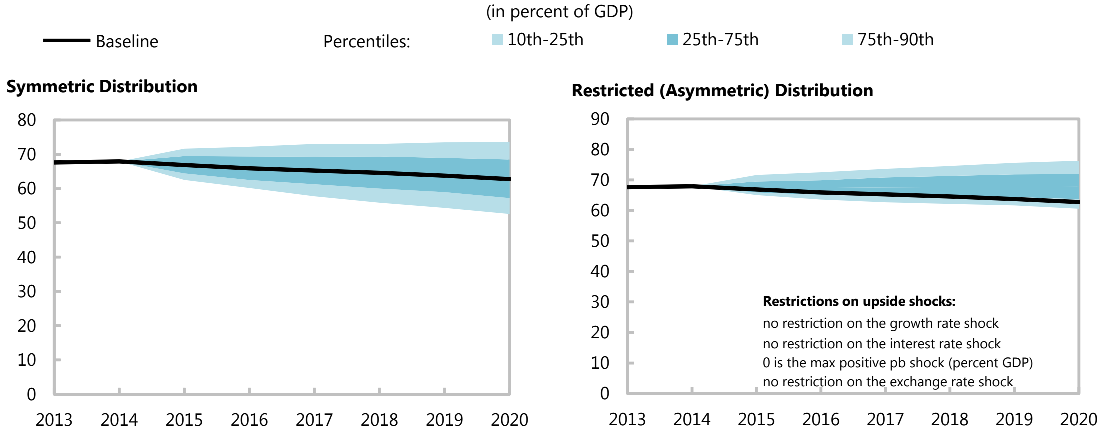
Netherlands Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

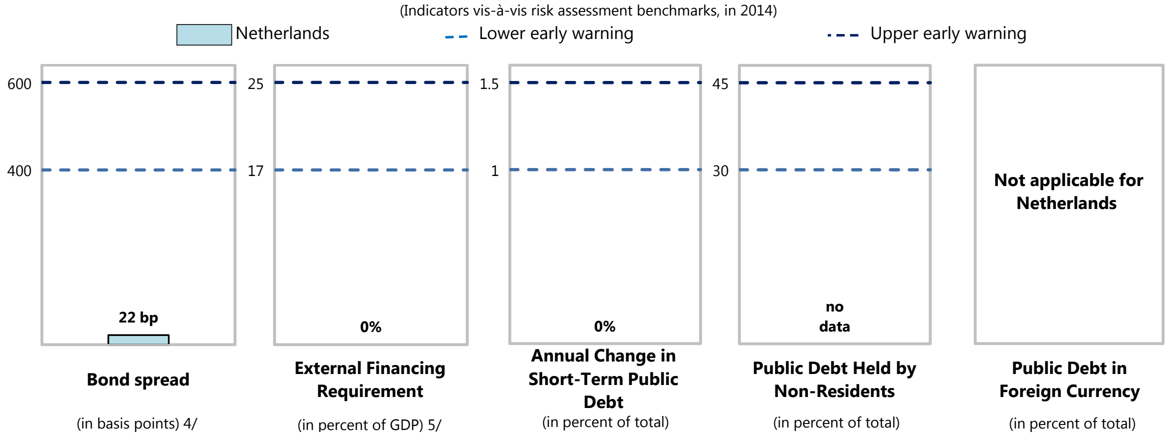
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds (bp), an average over the last 3 months, 15-Jul-15 through 13-Oct-15.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex IV. Progress Against IMF Recommendations

	IMF 2014 Article IV Recommendations	Authorities' Response
Promote orderly deleveraging	Addressing the household debt problem among the young would lift overall spending by increasing transfers between generations, helping reprofile underwater mortgages, and reducing the stigma associated with personal bankruptcy.	The recovery in the housing sector since mid-2014 reduced the share of underwater households. The tax break on monetary gifts up to €100,000 will be restored from January 2017. In the meantime, households can use a standard €50,000 exemption on tax-free transfers.
	Reducing pension contributions for the young could also free resources to reduce debt.	Rebalancing pension contributions from young to older cohorts is one of the aspects currently discussed with all stakeholders within the Pension Dialog.
Fiscal Policy	To support growth during deleveraging, fiscal policy should focus on structural targets. Also, a medium term budget framework would also enhance the predictability and responsiveness of fiscal policy.	With the exit from the EDP, the authorities are refocusing the fiscal balance on medium-term targets, provided SGP targets are observed. They also target to reduce public debt to levels below 60 percent of GDP to restore fiscal buffers.
	Tax reform should aim to reduce the debt bias, VAT distortions, and the labor tax wedge.	Shifting the tax burden from labor to goods and services and property would help reduce labor costs and improve tax equity. Accordingly, the 2016 tax reduction on second-income earners elicits the shift.
Financial Sector Policy	Stronger capital and liquidity buffers would ensure that banks have the capacity to support the recovery and the adjustment of household's balance sheet.	In 2015 banks continued to strengthen their capital and liquidity buffers, and €2.6 billion in core capital, and €12 billion in hybrid capital are still needed. The authorities remain confident that the targets are within reach, and that Dutch banks will be able to find adequate resources to meet their buffers through 2019.
	Further improvement to the framework for risk management and resolution are needed.	The DNB can deploy a number of macroprudential instruments to control risks to financial stability—in particular the capital buffers for systemic banks, and a quarterly adjustment to the countercyclical capital buffer from 2016. The DNB adopted organizational changes reflecting its new role as The Netherlands' resolution authority.
	Accelerate the pace of LTV reduction to reach 80 percent and clarify [shortly] the path of LTV after 2018.	The decision on further lowering the LTV cap below 100 percent will be addressed by the next government.
	Dutch pension funds should look to further reduce the procyclical link between interest rates and payouts.	The pension funds are expected to fully use the flexibility offered by the revised Financial Assessment Framework, e.g., freezing pension payouts, moderating indexation, increasing contributions, and spreading out the adjustment over a longer 10-year horizon. However, hedging the interest rate would cut returns, thereby undermining coverage ratios.

Structural Reform	**Labor market**: Easing protection for regular workers combined with reduction in the tax wedge would support employment.	New legislation was introduced to limit abuse and tighten eligibility to the self-employed category. The labor and income tax reductions in the draft 2016 budget would help reducing the tax wedge on labor.
	SMEs: Improving the quality and sharing of credit information would enhance the availability of credit for SMEs. Also, shifting public support from credit guarantees to equity or quasi-equity initiatives could foster SME startups and innovation.	The authorities have not committed to a course of action.
	Housing market: The size of the social housing corporation (SHC) sector should be scaled back to focus on its social mandate and allow the development of the private sector rental market. Zoning regulations should be eased to expand housing supply, while scaling back public support would reduce housing risks to the government.	From this year SHC concentrate on their core social mandate, income test tenants and offer temporary rent contracts. The private sector market is expanding with the interest of foreign investors.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—NETHERLANDS

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 5, 2016

Prepared By	European Department

CONTENTS

FUND RELATIONS

(As of December 18, 2015, unless specified otherwise)

Mission: October 29–November 10, 2015 in The Hague and Amsterdam. The concluding statement of the mission is available at https://www.imf.org/external/np/ms/2015/111015a.htm.

Staff team: Messrs. Dorsey (head), Natal, and Gerard and Ms. Hassine (all EUR).

Country interlocutors: The mission met with Finance Minister Dijsselbloem, Dutch National Bank President Knot, other senior officials, finance industry, academic, and trade union representatives. Ms. De Lint and Mr. Snel (OED) joined at the end of the visit.

Fund relations: Discussions for the 2015 Article IV consultation were held in The Hague and Amsterdam from October 29 to November 10, 2015. The staff report for the 2014 Article IV Consultation (IMF Country Report No. 14/327, December 5, 2014) was considered by the Executive Board on December3, 2014. The Article IV consultations with the Netherlands are on the standard 12-month consultation cycle. The Executive Board's assessment and staff report are available at https://www.imf.org/external/pubs/cat/longres.aspx?sk=42491.0.

Membership Status: Joined December 27, 1945; Article VIII.

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	5,162.40	100.00
Fund holdings of currency	4,032.59	78.11
Reserve Tranche Position	1,129.89	21.89
Lending to the Fund	1,201.08	

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	4,836.63	100.00
Holdings	4,569.63	94.48

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Obligations to Fund[1] (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2015	2016	2017	2018	2019
Principal					
Charges/Interest	0.03	0.22	0.22	0.22	0.22
Total	0.03	0.22	0.22	0.22	0.22

Implementation of HIPC Initiative
Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI)
Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR)
Not Applicable

Exchange Rate Arrangements
The Netherlands' currency is the euro, which floats freely and independently against other currencies. The Netherlands maintain the exchange system free from restrictions on payment and transfers for current international transactions.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of arrears will be shown in this section.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
National accounts The Netherlands adopted the *European System of Accounts 2010 (ESA 2010)* in March 2014. The transition from the *ESA 1995 (ESA 95)* entailed a revision of national accounts data. New data sources have been incorporated in the new estimates. As a result of these changes, the GDP level in 2010 has been revised 7.6 percent upward (only 3 percent because of the *ESA 2010)*. Historical data series are available from 2001. **Government Finance Statistics** Government finance statistics reported to Eurostat and the Fund are compiled using the *ESA 95* methodology and are converted to the *Government Finance Statistics Manual 2001* format. Starting from September 2014, government finance statistics data will be based on *ESA 2010* methodology which is likely to include revisions of the general government deficit and debt levels from 1995 onwards. Revised ESA based data series will be published in October 2014. **External Sector Statistics** The DNB compiles the balance of payments in close cooperation with the CBS. An agreement between the CBS and the DNB was formally ratified in 2006 to further strengthen the decades-long cooperation between the two institutions. Balance of payments and international investment position (IIP) statistics are compiled according to the *Balance of Payments Manual, fifth edition (BPM5)* and the legal requirements of the ECB and Eurostat. The Data Template on International Reserves and Foreign Currency Liquidity is disseminated monthly and quarterly external debt data are reported to the World Bank for redissemination in the Quarterly External Debt Statistics (QEDS) database. **Monetary and Financial Statistics:** Monetary data reported for International Financial Statistics are based on the European Central Bank's (ECB) framework for collecting, compiling, and reporting monetary data. **Financial Soundness Indicators** The Netherlands participates in the financial soundness indicators (FSIs) project. Quarterly data for most of the 40 FSIs are posted on the FSI website for the period 2008:Q1 to 2012:Q4.

II. Data Standards and Quality	
Subscriber to the Fund's Special Data Dissemination Standard since June 11, 1996.	Data ROSC is available.

Netherlands: Table of Common Indicators Required for Surveillance
(As of December 18, 2015)

	Date of Latest Observation	Date Received	Frequency of Data /8	Frequency of Reporting /8	Frequency of Publication /8	Memo Items:	
						Data Quality—Methodological Soundness /9	Data Quality—Accuracy and Reliability /10
Exchange Rates	Current	Current	D and M	D and M	D and M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities /1	11/15	12/15	M	M	M		
Reserve/Base Money 2/	11/15	12/15	M	M	M		
Broad Money 2/	11/15	12/15	M	M	W and M		
Central Bank Balance Sheet	11/15	12/15	M	M	M		
Consolidated Balance Sheet of the Banking System	11/15	12/15	M	M	M		
Interest Rates /3	Current	Current	D and M	D and M	D and M		
Consumer Price Index	11/15	12/15	M	M	M	O, O, LO, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing /4—General Government /5	Q2/15	09/15	Q	Q	Q	LO, LO, LO, O	LO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing /4—Central Government	Q2/15	09/15	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt /6	Q2/15	09/15	Q	Q	Q		

Netherlands: Table of Common Indicators Required for Surveillance (concluded)

(As of December 18, 2015)

External Current Account Balance	Q2/15	09/15	Q	Q	Q	O, O, O, O	O, O, O, O, O
Exports and Imports of Goods and Services	Q2/15	09/15	Q	Q	Q		
GDP/GNP	Q3/15	11/15	Q	Q	Q	O, O, O, O	LO, O, O, O, O
Gross External Debt	Q2/15	09/15	Q	Q	Q		
International Investment Position 7/	Q2/15	09/15	Q	Q	Q		

1/ Includes reserve assets pledged of otherwise encumbered.
2/ Pertains to contribution to EMU aggregate.
3/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
4/ Foreign, domestic bank, and domestic nonbank financing.
5/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
6/ Including currency and maturity composition.
7/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.
8/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
9/ Reflects the assessment provided in the data ROSC (published on January 10, 2008, and based on the findings of the mission that took place October 3-17, 2007) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
10/ Same as footnote 9, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by Mr. Snel, Executive Director for Kingdom of the Netherlands—Netherlands and Ms. De Lint, Advisor to the Executive Director
February 8, 2016

We thank staff for the interesting consultations and the well-written report and SIPs. The documents provide a good overview of the state of the Dutch economy and discuss the structural issues that are now at the focus of the policy debate in the Netherlands: tax and pension reform and the rise of the self-employed in the labor force. Especially because staff is well placed to give an outsider perspective and has experience with similar situations in other countries, their analysis is a useful contribution to the ongoing discussion in the Netherlands.

Economic growth is projected to increase to 2.1 percent in 2016, supported by growing household consumption and investments, and rising export levels. The restrictions on natural gas production in the north of the country are projected to slow down growth by 0.2 percentage points. Consumption is expected to increase next year by over 2 percent, and savings by households will stabilize. Disposable incomes will increase due to higher wages under low inflation, increased employment and an income tax cut package of €5 billion which is part of the 2016 budget envelope. As a result of the favorable economic developments and increases in profitability, investments will increase. Export levels are growing because of a further lowering of the exchange rate and the growth in world trade, while natural gas exports are declining. Although the employment figures will increase, the effect on unemployment figures will be limited in 2016, as growth is still relatively low and labor supply increases as a result of demographic factors, policy incentives (including the €5 billion package of tax measures) and a return to the labor market of the previously discouraged.

The current account surplus is mainly explained by structural factors and, as staff describes in the report, is expected to come down over the medium to longer term as baby boomers will retire and natural gas exports will decline. In the short term, the end of the fiscal consolidation and the stabilization of savings by households will also contribute to a narrowing of the surplus. The two most important factors that explain the large surplus are the relatively high savings and foreign investments by multinational enterprises and pension funds, and the internationalization of the Dutch economy. The savings and investment behavior of multinational enterprises and pension funds does not point directly to market or policy failures which should be addressed by economic policy. We disagree in particular with the reference in the report to a favorable tax treatment for corporate income as a reason for the current account surplus. The recently published report by the World Bank and PwC *"Paying Taxes 2016"* does not characterize the tax regime in the Netherlands as particularly favorable. On the contrary, it suggests that the Netherlands is getting less attractive for corporates in terms of tax treatment.

The authorities agree that fiscal policy should support the recovery to the extent possible, but do not see fiscal space and stress the importance to restore fiscal buffers. The authorities' expectations for the overall fiscal deficit are more or less in line with staff's projections, but the structural deficit figures substantially differ, as the authorities forecast

1.3 percent of GDP in 2015 and 1.9 percent in 2016. The government debt is projected to decrease to around 65 percent of GDP in 2016. This means that both the debt level and the structural deficit are still above the levels set under the SGP rules (60 percent and 0.5 percent respectively). For the credibility of the SGP, which contains strong fiscal rules in line with IMF recommendations, it is important that member states comply with the rules. Steering towards or across the boundaries of the European rules could require further consolidation measures in upcoming years to comply with the rules again and will limit the possibility to restore adequate buffers against negative shocks. The absence of buffers could result in pro-cyclical spending cuts in case of an unexpected downturn. Regarding the suggestions by staff how to use possible fiscal space if it would come available, we are pleased that staff dropped the recommendation for infrastructure investment as was included in the October 2015 WEO, but regret the inconsistency in staff's policy advice.

The authorities are continuously looking for ways to simplify and improve the tax system and have started debating an overhaul of the system in 2014. In this context, several measures were taken, including mainly targeting the €5 billion of tax cuts on income for this year at female workers and low-wage earners, the group with the highest labor supply elasticity. The gradual reduction in MID will reduce the debt bias in personal tax. For the preparation of the 2017 tax plan, citizens and companies are invited to provide the Ministry of Finance with suggestions for simplifying the tax system. Discussions on more fundamental reforms will continue and will most likely be an important topic for the 2017 elections. Staff's analysis and suggestions are very helpful in this regard and provide a good overview of the issues at stake and interesting examples from other countries. Possible reforms need to be judged on their effectiveness, simplicity and coherence and should aim to minimize distortion and shortfall in revenues.

To ensure the sustainability of the pension system in the face of an ageing population, the authorities increased the pension age to 67 by 2021, while linking it to life expectancy afterwards. In addition, to strengthen the (occupational) pension system, the Financial Assessment Framework has been reformed, including rules regarding the distribution of financial shocks and the indexation of pension claims. Although these measures significantly strengthened the sustainability of the pension sector in the short term, the low interest rate environment continues to pose challenges for pension funds.

The Dutch pension system is solid and is ranking high in international comparison, but the authorities saw a need for an inclusive and comprehensive debate about the future of the pension system. The labor market has changed, with increased mobility and more and more self-employed. Moreover, there are feelings of uncertainty and lack of transparency in the society about second pillar pensions. Given the complexity of the issue and the large transaction costs, the government is approaching the debate in a careful manner without rushing into a major overhaul. All stakeholders had the opportunity to contribute to the National Pension Dialogue (i.e. a national consultation on the future of the pension system). Using this as an input, the government formulated four principles for a future-proof pension system. First, the aim is a differentiated approach to accommodate the diversity in the labor market (i.e. fixed contract, flexible contract, self-employed, etc.). Second, the system should become more actuarially fair, to eliminate structural transfers from young to old contributors within the second pillar. In this regard, there is a preference for a decline in accrual of pension entitlements with age instead of an increase in contributions with age. Third, the risk-sharing system should become more transparent and simple, while the base of a new pension contract could be one of personal pension accounts. Fourth, more room for customization and choice for participants to reflect their different preferences and situations is required. Based on these principles, the government will present in the summer of 2016 a couple of concrete options for reform. The economic impact as well as the costs and benefits of these options will be calculated by the Netherlands Bureau for Economic Policy Analysis (CPB) so that they can be used in the 2017 election programs.

The current government has implemented a broad set of reforms in the housing market and housing prices have started to recover, albeit unevenly. The reforms that have been initiated, significantly reduce the fiscal subsidy on home-ownership, reduce vulnerability to housing price shocks, redirect the attention of housing corporations to their core responsibility of housing for lower incomes and incentivize higher income households to move out of social housing. One specific measure has been the gradual reduction of the maximum LTV ratio for mortgage loans to 100 percent in 2018. Last spring, the FSC recommended future governments to continue the annual reduction in LTV limits to reach 90 percent in 2028. The government has indicated that it will indeed leave this decision to the next government. An important prerequisite will be a well-functioning private rental market. In this regard, the government has initiated further reforms, including obliging housing corporations to separate their public and commercial operations – paving the way for a level playing field.

Although the presence of self-employed in the economy has important benefits, the rapid rise in self-employment requires careful consideration of the different aspects of this phenomenon. It is important to note that the group of self-employed is very diverse. There is the group of entrepreneurs who may bring diffusion of knowledge, competition, and flexibility into the economy and labor market. However, there is also self-employment that is just replacing a regular employment relationship, but then without the protection, social benefits and mandatory second pillar pension. This could lead to low incomes, in particular in retirement of cases of disability. In an Interdepartmental Policy Review, the government analyzed the developments concerning self-employed and identified three areas where measures could be taken: 1) fighting feigned self-employment; 2) improving attractiveness of regular employment; and 3) facilitating accessible social protection for self-employed.