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THE NETHERLANDS – REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE CORRECTION OF MACROECONOMIC IMBALANCES

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Executive summary

This is the first specific monitoring report under the Macroeconomic Imbalance Procedure (MIP) for the Netherlands, reflecting the strengthened monitoring of all Member States with imbalances[1]. The Netherlands had been found to have imbalances already in previous years. The imbalances relate in particular to the level of private debt and the current account surplus. This report reviews the latest developments and policy initiatives to correct those imbalances which were identified in the 2016 Country Report and which were addressed by the 2016 country-specific recommendations. The cut-off date for this report is 7 November 2016.

Solid demand-driven growth in the Netherlands is set to continue over the next years, with the macroeconomic environment providing support for rebalancing. Real GDP is projected to grow by 1¾% per year between 2016 and 2018, according to the European Commission 2016 autumn forecast. Private consumption is expected to replace investment as the main driver of economic growth, fuelled by robust wage and employment growth. A significant tax-cut package provides further support for domestic consumption. In line with the steady expansion of domestic demand, the decline in the current account surplus from 10.3% of GDP in 2012 to 7.9% of GDP on average over the last 4 quarters is projected to continue over the forecast horizon. Household deleveraging is expected to proceed, albeit at a slower pace. While recent measures have helped to limit the increase in mortgage debt in light of the sharp improvement in housing market dynamics, the debt over income ratio is likely to remain at an elevated level.

Mortgage debt growth has been slowed by recent policy measures. Private sector indebtedness in the Netherlands is mainly related to the high gross debt of households, in part linked to distortive housing market incentives, such as a relatively generous mortgage interest deductibility (MID), although successive measures to reduce the MID have been implemented over the past decade, such as a reduction in maximum loan-to-value ratios, stricter loan-to-income ratios and a gradual reduction and stricter criteria for MID. Nevertheless, in light of the sharp housing market recovery and the low interest rate environment a faster MID tapering could speed-up the rebalancing process, as was recommended in the 2015 and 2016 CSR. In addition, strict rent regulations and the lack of a well-functioning middle-segment on the rental market push in particular young households towards home-ownership and high debt-to-income ratios. Recent measures aimed at the overregulated social housing sector have the potential to help to provide alternatives for home-ownership, but it is too early to assess their effect on the functioning of the private rental sector.

A reduction of the current account surplus takes time, but some measures have been taken. The current account surplus reflects an imbalance between domestic savings and investments. In particular, the Dutch household consumption-to-GDP ratio has been significantly below the euro area average, driven by low real income growth due to wage moderation and a high compulsory payment wedge (the combined wedge of taxes, pensions and health care contributions). Also negative wealth effects, stemming from a fall in house prices, have negatively affected growth of private consumption in the recent past. In order to raise disposable income, the government lowered pension contributions in 2015 via a

[1] COM(2016)95 final, 8.3.2016.

reduction in the fiscal maximum accrual rate. In 2016 a tax package lowered the tax wedge on labour and provided support to domestic demand. In 2017, the government will limit the fiscal incentive for independent pension savings within small and medium-sized corporations, which may lead to a reduction in corporate savings. Looking ahead, the broad comprehensive pension reform process, which started in 2013 with the national pension dialogue, could lead to more stable developments of domestic demand through a more generationally fair distribution of the balance of risks in the second pension pillar.

In conclusion, while the Dutch imbalances have been narrowing in the recent past, important further reforms have yet to be agreed. Solid economic growth, the recovery of house prices and the low interest rate environment offer the opportunity to step up the reform momentum, most importantly the reduction of MID in the owner-occupied market. In addition, the impact of the reforms in the rental market needs to be monitored, as a well-functioning middle segment is of paramount importance in lowering household debt ratios. Finally, it is important to preserve the reform momentum in the field of pensions, in light of its macro-economic impacts on savings-and investments balances.

Table 1: Key findings on the implementation of policy reforms[2]

On track	Wait-and-see	Action wanted
• 2016 Tax cut • Reform allowing for temporary rental contracts • Ending of fiscal friendly regime for pension savings of Director/Major Shareholders	• Reform to force social housing cooperations to focus on core task • Reform to reduce the number of 'Scheefhuurders' (people with an income above relevant threshold living in social sector houses) • Second pillar pension reform process	• A speed up of the reduction of mortgage interest deductibility.

[2] The table classifies reforms under review on the basis of their respective adoption and implementation process and their credibility and level of detail. “On track“ are measures for which the legislative or implementation process has been completed or is progressing well according to the foreseen timeline, and which are expected to be sufficiently effective. “Wait and see” are measures for which the legislative process is on-going, but is still in a relatively early phase, or measures for which there is still uncertainty on the complete implementation and effectiveness. “Action wanted” are measures for which limited or no action has been taken, or measures that have been announced but which are not sufficiently detailed yet to be assessed.

1. Introduction

On 26 November 2015, the European Commission presented, in the context of the Macroeconomic Imbalance Procedure (MIP), its fifth alert mechanism report[3] to underpin the selection of Member States requiring an in-depth investigation into the existence and extent of macroeconomic imbalances. The subsequent in-depth review in the country report – published on 26 February 2016[4] – examined the nature, origin and severity of macroeconomic imbalances and risks in the Netherlands. In the accompanying Communication[5], the Commission concluded that "the Netherlands is experiencing macroeconomic imbalances". In particular, the Commission emphasised that the large and persistent current account surplus of the Netherlands has cross-border relevance and it noted that the surplus mainly reflected structural features of the economy and policy settings regarding non-financial corporations. The Commission also emphasised the high household indebtedness and deleveraging needs. It noted that while the current account surplus had narrowed slightly since 2013 due to improved cyclical conditions, household deleveraging contributed to maintaining the current account surplus at a high level.

In April 2016, the Netherlands submitted its Stability Programme[6] and National Reform Programme (NRP)[7], respectively outlining the fiscal targets and the policy measures to improve its economic performance and to unwind imbalances. On the basis of an assessment of these plans, the Commission proposed a set of three country-specific recommendations (CSRs)[8], which were adopted by the Council on 12 July 2016[9]. These recommendations concern (i) sustainable public finances and public spending on R&D, (ii) the labour market and (iii) the pension system and housing market. This third recommendation was considered to be MIP relevant, related to household indebtedness.

The first recommendation addressed to all euro-area Member States[10] calls for a regular assessment of progress with the delivery of reforms in those Member States which require specific monitoring within the framework of the MIP. For this purpose, a specific monitoring mission to the Netherlands was conducted on 5 October 2016.

The present report assesses the latest key policy initiatives[11] undertaken by the Dutch authorities also in the light of the findings of the monitoring mission.

[3] http://ec.europa.eu/europe2020/pdf/2016/ags2016_alert_mechanism_report.pdf
[4] http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_netherlands_en.pdf
[5] http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_comm_en.pdf
[6] http://ec.europa.eu/europe2020/pdf/csr2016/sp2016_netherlands_en.pdf
[7] http://ec.europa.eu/europe2020/pdf/csr2016/nrp2016_netherlands_en.pdf
[8] http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_netherlands_en.pdf
[9] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0818%2819%29&from=EN
[10] http://ec.europa.eu/europe2020/pdf/2016/ags2016_euro_area_swd_en.pdf
[11] Details on the policy measures taken can be found in the overview table in the Annex.

2. Outlook and recent developments on imbalances

2.1 Recent economic developments and outlook

Solid demand-driven growth in the Netherlands is set to continue over the next years. Real GDP is projected to grow by 1¾% per year between 2016 and 2018, according to the European Commission 2016 autumn forecast. Private consumption is expected to replace investment as the main driver of economic growth, fuelled by robust wage and employment growth. The headline deficit is set to fall from 1.9% of GDP in 2015 to 0.8% of GDP in 2016, as lower gas revenues and a tax-stimulus are more than offset by strong endogenous increases in tax revenues, in particular corporate taxes. The budget deficit is forecast to decline further to 0.4% of GDP in 2017; and for 2018 a nearly balanced budget is projected (-0.1% of GDP). As a result of the sustained improvement in the headline balance and stable GDP growth, the debt-to-GDP ratio is forecast to decrease from 63.0% of GDP in 2016 to 59.3% in 2018. The debt reduction is likely to accelerate if the government proceeds with the reprivatisation of financial institutions.

2.2. Developments as regards imbalances

As in previous years, the Commission concluded in March 2016 that the Netherlands was experiencing macroeconomic imbalances. The imbalances were related to private sector indebtedness and the current external balance. The following section provides an update of the situation with regard to the imbalances.

<u>Private sector debt</u>

Both private non-financial corporate sector debt and household debt are substantially above EU-28 averages and the scoreboard benchmark. In 2015, the (consolidated) private sector debt-to-GDP ratio stood at 229% of GDP, with 118% of GDP corporate non-financial sector debt and 111% of GDP household debt. Whereas corporate sector debt in the Netherlands is relatively small compared to corporate assets,[12] gross household debt is relatively high as a share of GDP (almost twice as high as the EU-28 average). Similarly, the ratios of gross debt over disposable income (232%) and, to a lesser extent, over financial assets (34.5%) are elevated.

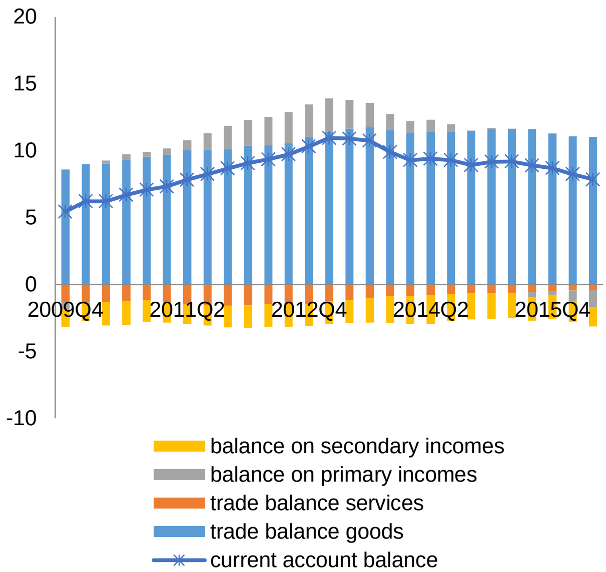
Active deleveraging turned into passive deleveraging. Between 2012 and 2014, nominal debt levels declined. However, by the end of 2014 mortgage debt has started to grow again in nominal terms, but continued to decline in terms of GDP (passive deleveraging). This occurred against the background house prices increasing by almost 6% year-on-year in September and the number of monthly transactions rising well above long-term averages. This can be linked to the improved affordability of house purchases, in particular through low interest rates and an improvement in disposable household income, due to a pick-up in wage growth and increasing employment growth. Household deleveraging is expected to proceed, albeit at a slower pace.

[12] See box 2.2.1 *Balance sheet of non-financial corporations* in Country Report Netherlands 2015.

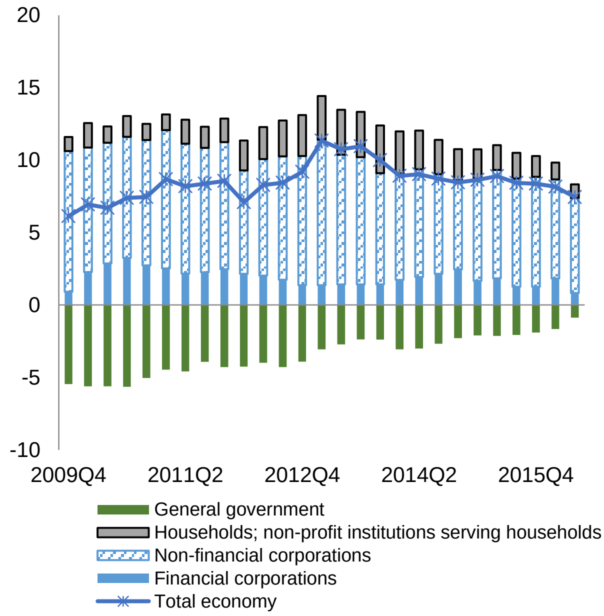
Current account surplus

Increasing domestic demand and a declining balance on the primary income account have contributed to a slight reduction in the current account surplus. The Netherlands' current account has been constantly in surplus for over three decades. The current account surplus peaked above 10% of GDP in 2012, but has declined to 8.7% of GDP in 2015. Recent quarterly data point to a continuation of this trend. The current account surplus was 7.9% of GDP over the last four quarters on average and 7.5% of GDP in the second quarter of 2016 (Graph 1). The fall in the current account balances is partly driven by a gradual decline in the trade balance, in line with the recovery of domestic demand and reflecting reduced exports of natural gas.[13] Another important driving factor is the deterioration of the balance on the primary incomes, as a consequence of lower income from foreign subsidiaries. The balance of secondary incomes has been roughly stable. The gradual decline of the current account surplus is projected to continue at a moderate pace in 2017 and 2018 as robust employment and wage growth is expected to further boost domestic demand driving up imports. A break-down of net lending by sector shows that the saving surplus of the private corporate and household sector slowly declined in recent quarters (Graph 2). This coincides with the pick-up of domestic demand. However, this decline was partly offset by fiscal consolidation positively affecting net lending.

Graph 1: Current account balance (% of GDP)



Graph 2: net lending/borrowing by sector (% of GDP)



Source: Eurostat. Note: both graphs represent four quarter movering averages based on non-seasonally adjusted data. In the right hand graph, 2015Q2 financial sector net lending does not include an incidental EUR 33 bln transaction related to royalties, see: https://www.dnb.nl/en/news/news-and-archive/statistisch-nieuws-2015/dnb326498.jsp

[13] Following several earthquakes in the northern province of Groningen, the extrapolation of natural gas has been reduced substantially in 2015 and 2016.

3. Progress with policy implementation

3.1 Reduce private debt

The high household indebtedness in the Netherlands can in large part be linked to mortgage debt, which is fuelled by policy distortions in the housing market. In particular the generous MID stands out as suboptimal in welfare terms, as the evidence of positive externalities justifying a tax-subsidy is weak and as it drives up prices given the relative inelastic supply of housing in the Netherlands. Also the very large social housing sector and strict rent regulation distort the buy/rent-decision, limiting the functioning of the housing market. The relevant channel here is that a lacking middle segment of the rental market and the relatively generous MID push particularly young middle income families into the owner occupied market, leading to a relatively young average age of house ownership and relatively high debt-to-income ratios. More ownership-neutral housing market regulations would lead to more resilient household balance sheets. The 2016 CSR called for measures to reduce remaining distortions on the housing market and the debt bias for households, in particular by decreasing mortgage interest deductibility.

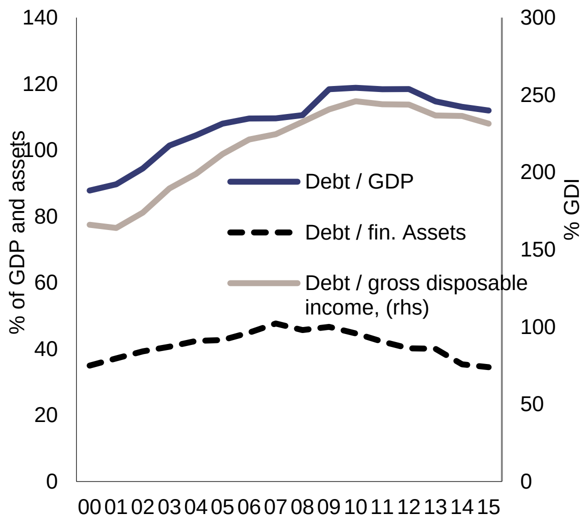
Starting in 2013 a number of policies to improve the functioning of the owner-occupied housing market have been put into practice, but there has been no stepping up of reform effort since the publication of the 2016 CSR. The current government has taken a number of measures to reduce household debt and improve the functioning of the housing market. Loan-to-value and loan-to-income requirements have been sharpened and the deductibility of mortgage interest expenditure in the personal income taxes is being reduced.[14] These reforms are gradually showing their effect as household debt continues to decline as a share of GDP (Graph 3). In fact, household debt stays well below the sharp rise in housing market prices and transactions (Graphs 4). Also continued voluntary repayments reduce the growth of mortgage debt. According to surveys and data from the Dutch central bank, households are increasingly paying back on their outstanding mortgages, to make use of interest arbitrage possibilities.[15] Nevertheless, mortgage debt remains high and the impact of policy seems to be fairly limited, given the rather slow speed of the MID tapering. The current housing market dynamics and low interest rate environment provide a perfect timing to further reduce the MID, however no acceleration has been announced yet, although the non-partisan study group on sustainable growth ('*studiegroep duurzame groei')* proposed an acceleration to a next government term.[16]

The impact of recent policy measures on the overall functioning of the rental market is not yet clear. The current government has taken a number of measures aimed at improving the functioning of the rental market. These measures include (i) higher rent-increases for '*scheefhuurders*' (people with incomes above the relevant thresholds, living in social sector dwellings); (ii) simplification of the determination of the monthly rent; (iii) a (legal or accounting) split of social housing corporations in services of general economic interest and other services; and (iv) (legal) measures allowing for more short term rental contracts.

[14] Households are obliged to repay on the principal in order to qualify for MID and the maximum rate of MID is being gradually reduced (with 0.5 pps per year, from 52% to 38% by 2041)
[15] See for instance DNB research on loan level data:
https://www.dnb.nl/binaries/Dutch%20mortgages%20in%20the%20DNB%20loan%20level%20data_tcm46-332479.pdf
[16] See Rapport Studiegroep Duurzame Groei "Kiezen voor duurzame groei" July 2016, p.32
https://www.rijksoverheid.nl/documenten/rapporten/2016/07/06/advies-studiegroep-duurzame-groei

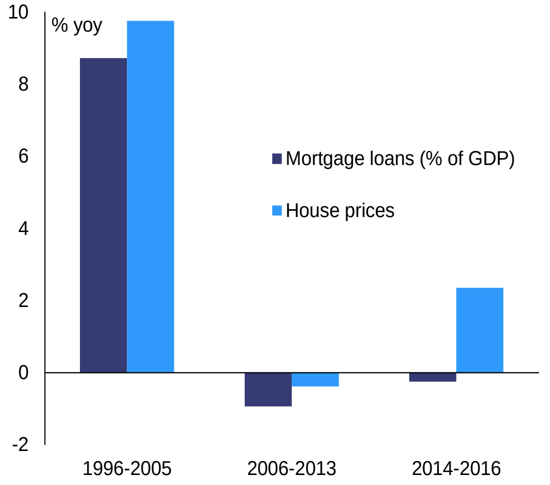
Although some measures, such as higher rent-increases for *scheefhuurders*, are promising, the impact of the overall policy package is largely unknown as it is being implemented in the current period, e.g. the formal split between services of general economic interest and other services has to be realised by 1 January 2017.

Graph 3: household debt ratio's



Source: Eurostat

Graph 4: Change in mortgage debt and house prices



Source: Statistics Netherlands and Dutch Central Bank (DNB)

3.2 External rebalancing.

Overstretched household balance sheets have fuelled the current account surplus, through relatively muted growth of domestic demand. Although statistical conventions in accounting for capital flows seem to push up the current account surplus to some extent (see Annex box 1), the persistent large surplus could indicate a suboptimal allocation of resources. Notably, the design of the pension system entailed an important increase in compulsory and precautionary savings, much of which is channelled towards foreign investment, while domestic investment remains relatively low.[17] Total pension fund assets have increased from EUR 750 bln in 2009 (ca 120% of GDP) to EUR 1250 bln (ca 185% of GDP in 2015). Also Dutch household consumption (as a share of GDP) has been significantly below the euro area average, which is related to the high compulsory payment wedge[18] and long household balance sheets.[19] Overstretched household balance sheets make household consumption vulnerable for financial shocks, amplify the economic cycle and negatively affect domestic demand in economic downturns. The fall in housing prices has taken a toll on consumption growth, via wealth effects.

[17] The Dutch investment-to-GDP ratio is below the level of peer countries (e.g. Sweden, Belgium, France, Austria, Germany) and domestic corporate sector investment is low compared to corporate sector saving.

[18] The Dutch private consumption-to- GDP ratio, for example, stands at 45% in 2015, which is 10 pps lower than the euro area average. This is in part explained by relative large individual collective consumption (on health care and education), as the difference in the actual individual consumption-to-gdp ratio is only 6.5 pps (61.5% of GDP for NL, compared to 68% for the euro area average) Note as well that actual individual consumption per capita is only 17% higher than the Euro Area average, compared with a roughly 30% higher GDP per capita. As the labour compensation-to-gdp ratio is above the euro area average, the relatively high compulsory payment wedge comes forward as an explanation for relatively muted developments in disposable income and consumption.

[19] In the Netherlands, housing and pension wealth go hand in hand with high mortgage debt, which is illustrated by the very high debt-to-income ratio and substantially smaller debt-to-financial asset ratio for households.

Some government policies, particularly in the field of pensions, improve household balance sheets. The third CSR, which focuses on the pension system and housing market regulations, addresses household balance sheets. It was recommended to reform the pension system, and provide for more ownership-neutral housing market regulations, and a better functioning rental market, as this would lead to more financially resilient households as well as more stable household consumption. Some measures in this area have been taken. In particular, the lowering of the fiscal maximum for annual pension contributions (the so-called *Witteveen* measure) has lowered pension premiums, which translated into higher household disposable incomes, while limiting the increase in unit labour costs. Also revisions in the financial supervision framework for pension funds allowed for less-procyclical reactions, following the decline of long term interest rates, stock-markets and increases in longevity. At present, challenges continue to be related to the second pillar, where defined-benefit contracts still dominate. These challenges stem mainly from the low interest rate environment, and population ageing. The market valuation makes the present value of future obligations large, and leads to a situation of under-coverage in many pension funds. On July 06, 2016 the government proposed a reform proses which should lead to an overhaul of the second pillar of the pension system by 2020. The reform effort is concentrated among four themes:

1. coverage: a differentiated approach; an adequate pension for all working people;
2. actuarial fairness: a shift to a more actuarially correct system of accruing pension;
3. transparency: moving towards a more transparent and simple pension;
4. flexibility: more space for customised solutions and options (including more focus on aligning compulsory pension savings to one's life-course).

These reform 'directions' have promising potential as they could lead to lower and more stable pension contributions, while respecting pension adequacy. In particular, it could lead to more stable developments of domestic demand through a more generationally fair distribution of the balance of risks in the second pension pillar. However with the upcoming elections in spring 2017, substantial reforms are left to a future government

The government has taken some measures to spur the growth of domestic demand and the speed of fiscal consolidation is slowing down. In 2016 a tax-cut of EUR 5 bn (0.7% of GDP) was implemented in order to lower the tax wedge on labour and increase domestic demand. A recently announced new measure in the field of pensions is expected to release "locked-in" savings in the corporate sector. In 2017, the government will abolish the practice of self-administrated pension savings by director/major shareholders (DGAs) within their own corporations. A temporary tax abatement gives the incentives to withdraw these savings. Finally, according to the 2016 National Reform Program, some marginal measures have been taken to support R&D investment as was recommended in CSR 1. In early 2016, the fiscal innovation schemes, the Promotion of Research and Development Act (WBSO) and the Research & Development Tax Credit (RDA) were integrated into a single scheme and the budget for this scheme has increased by €100 million from 2016 and by €115 million from 2017. Given the limited size of these measures the R&D intensity is likely to remain well below the target of 2.5%.

Annex Box 1 Capital flows in the current account

Capital flows play an important role in today's Balance of Payment statistics. Earlier ECFIN publications explained the high Dutch current account surplus by fundamental features of the Dutch economy, such as energy exports, goods re-exports and the international capital flows of multinational corporations.[20] The 2016 Country Report took a savings- and investment perspective and examined the role of multi-national enterprises in explaining savings and investment imbalances. A key finding of the 2016 Country Report is that net saving by the Dutch corporate sector is much larger than the EU average. Most likely this is driven by the fact that the Netherlands hosts many multinational enterprises, which dominate the net-lending position of the corporate sector. Dutch corporations have a relatively large gross value added compared with European peer countries. Both the net operating surplus and net pre-tax profits are relatively high, with pre-tax profits being fuelled by relatively high retained earnings from foreign direct investment. If a Dutch multinational enterprises reinvests earnings in a subsidiary abroad, these earnings are fully assigned to the parent company in the Netherlands, but the investment overseas is not registered as capital formation inside the Netherlands and as such, not being deducted in the income account. By contrast, Dutch multinationals are mostly owned by foreign shareholders, but because other statistical conventions apply for portfolio investment, the retained earnings within these MNEs are not assigned to the shareholders' host countries. Retained earnings and the relatively low net distribution of profits is thus partly a statistical phenomenon affecting net savings and investment balances.[21]

The interpretation of balance of payments statistics is further complicated by flows related to special purpose entities. Around 80% of the Dutch in- and outward foreign direct investment positions are held by so called 'special purpose entities', which are largely owned by MNEs. By Eurostat definition, these entities have no or little physical presence in the host country and their core business function is the financing of group activities or holding assets and liabilities of its group. In principle, as they mainly act as intermediaries between non-residents, their activities should have no net effect on the current account. In practice, in- and outflows often fall under different categories of the balance of payments (lending, equity investment, income, etc.), which warrants attention when interpreting balance of payment flows. Further analysis is needed on the impact of MNEs and SFIs on the savings surplus of the Netherlands

[20] See the Netherlands Country Report 2015 or Vandevijvere, W (2012). "The Dutch current account balance and net international investment position " *European Economy* Economic Papers 465.

[21] Jansen and Rojas-Romagosa (2015) also point to increased foreign investment as one of the driving forces behind the increase in the Dutch current account balance since the turn of the century, see Cees Jansen and Hugo Rojas-Romagosa (2015). Facts and figures on the Dutch current account surplus. *CPB Background Document.*

Annex 1: Overview table of MIP-relevant reforms

MIP objective: Reduce private debt			
Housing market regulation (owner occupied market)			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	July 2016: The upon parliamentary request installed non-partisan Studygroup Sustainable growth advised a faster reduction of MID.	• **In 2013:** Only annuity or linear mortgages are eligible for MID and the maximum rate is being reduced by 0.5 pps per year, starting from 52% to 38%. • Maximum loan-to-value ratio's are being reduced gradually to 100 **by 2018** and Maximum loan-to-income ratio's are made more strict.	CSR (3) – 2016:…Take measures to reduce the remaining distortions in the housing market and the debt bias for households, in particular by decreasing mortgage interest tax deductibility
Housing market regulation (rental market)			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		• **In July 2016**: the *Wet Doorstorming Huurmarkt* entered into force. This law allows for more short term contracts and more mobility on the rental market. • **In July 2015:** the Woningwet entered into force which aims at a better allocation in the social housing sector, reducing the number of Scheefhuurders (by limiting the number of flats that can be offered freely, without the eligibility criteria, to 10%) in social housing. The law also forces social	CSR (3) – 2016: :…Take measures to reduce the remaining distortions in the housing market and the debt bias for households, in particular by decreasing mortgage interest tax deductibility

		housing cooperations to focus on their core task, by imposing a legal or administrative split between social housing and commercial activities. • **In July 2013** the *Uitvoeringswet huurprijzen woonruimte* was amended to allow for means tested rent-increases, to create mobility in the rental market and reduce the number of 'scheefhuurders**'.**	
MIP objective: External rebalancing			
Rebalancing via domestic demand			
Public finances and taxation			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		• **In 2016** a substantial package of tax-measures (EUR 5 bln, 0.7% of GDP) to lower the tax wedge on labour and boost domestic demand was implemented. The measures include (i) an increase in the employment tax credit, (ii) a reduction of tax rates in the second and third tax bracket, (iii) an increase in the top-rate threshold, and (iv) an increase in the low-income family tax credit.	Euro Area Recommendation 1 – 2016: …Member States with large current account surpluses should implement as a priority measures, including structural reforms that help strengthen their domestic demand and growth potential. Euro Area Recommendation 2 (2016): … Reduce the tax wedge on labour, particularly on low-earners, in a budgetary-neutral way to foster job creation.
• The government has proposed legislative changes in order to end the "*Pension in Eigen Beheer*" by	• The proposal is currently discussed in Parliament, but appears to have sufficient support. Adoption is		Euro Area Recommendation 1 – 2016: …Member States with large current account surpluses should implement as a

Director/Major Shareholders (DGA). Up to now, DGAs could accumulate pension savings within their small and medium-sized enterprises, which was fiscally attractive and prevented them from distributing earnings as dividends or income. Releasing these "locked-in" savings could help to drive down the relatively high corporate savings rate, and thus increase domestic demand.	expected by the **end of 2016**, with the adoption of the budget proposal for 2017.		priority measures, including structural reforms that help strengthen their domestic demand and growth potential
Pensions			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• **In July 2016:** The government has announced the ambition to reform the second pillar of the pension system by 2020, but no major new measures have been announced since the publication of the CSR. The debate about the scope and transition path of of the reform is ongoing, and no measures are to be expected before the elections in 2017. • **In July 2015**: on the basis of the national pension dialogue the government has provided an outline for a possible reform of the pension system.	• **In July 2016**: The non-partisan study group sustainable growth which was commissioned by the government published a report, highlighting household balance sheet problems, oversaving by households and further housing market – and pension reforms.	• **In 2015:** the retirement age for the first pillar of the pension system has been increased to 67 by 2021 and is linked to life expectancy afterwards. Simultaneously the fiscal maximum accrual rates have been lowered, leading to lower pension contributions (the so called *Aanscherping Witteveenkader*). • **In January 2015:** a revised financial supervision framework was introduced.	CSR (3) – 2016: Take measures to make the second pillar of the pension system more transparent, inter-generationally fairer and more resilient to shocks…