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Assessment of the 2014 national reform programme and stability programme for THE NETHERLANDS

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on The Netherlands's 2014 national reform programme and delivering a Council opinion on The Netherlands's 2014 stability programme

{COM(2014) 420 final}

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EXECUTIVE SUMMARY

The Dutch economy is emerging from recession. In the immediate aftermath of the crisis, the economy was weighed down by weak domestic demand stemming from adverse trends in employment and disposable income. The persistent nature of the current economic weakness is mainly due to rigidities and distortive incentives built up over decades which shaped housing finance and sectoral saving patterns. Unwinding these imbalances is expected to involve the joint tackling of economic and financial flows and balance sheet positions. According to the Commission 2014 spring forecast, the outlook for 2014 and 2015 shows an economy emerging from a prolonged economic slump with more supportive trends in disposable income and, albeit with a lag, employment. On the back of the improved economic outlook and several consolidation packages, the headline budget balance is set to improve substantially over the forecast period.

The Netherlands made some progress in implementing the 2013 country-specific recommendations. With regard to public finances substantial progress has been made. Some progress has been made in response to the recommendations concerning the sustainability of public finances in the long term and the labour market. By contrast, only limited progress has been made in response to the recommendation on the housing market. Further measures remain necessary in all areas where the recommendations have not yet been fully addressed. The policy plans submitted by the Netherlands address most of the challenges identified in last year's Staff Working Document, and broad coherence between the two programmes has been ensured. The national reform programme confirms the commitment to address shortcomings in the areas identified in last year's Staff Working Document.

The immediate policy challenge for the Netherlands is to restore confidence and foster growth while stabilising public finances and supporting continued balance-sheet adjustment at a measured pace. Within the fiscal constraints, measures to promote innovation and safeguard growth-enhancing expenditure are crucial for a balanced adjustment. Managing the transition in the housing market gradually and sustainably also represents an essential aspect of such a strategy. There remain considerable challenges when it comes to fiscal policy and the labour market.

- **Public finances:** Thanks to a significant and sustained fiscal effort, the Netherlands reduced its budget deficit to 2.5% in 2013. With the adoption of additional, wide-ranging consolidation measures, the general government deficit is expected to remain below 3 % of GDP in 2014 and a significant improvement is expected in 2015. The stability programme aims at approaching the medium-term objective in 2015 but there is a risk of a significant deviation from the adjustment path. Additional measures may be needed to reach the medium-term objective and to adhere to it throughout the period covered by the stability programme, also to ensure meeting the debt benchmark and improving the long-term sustainability of public finances. Expenditure that is directly relevant for growth and domestic demand, such as education, innovation and (fundamental) research, needs to be protected.

- **Housing market**: Further progress with reforms in the housing market is needed. Although some measures have been introduced, the reform momentum has slowed in the past year. Mortgage interest deductibility has been only gradually and partially reduced, leaving sizeable scope for households to mortgage-finance the purchase of owner-occupied housing. The private rental market is still not functioning fully, partly due to fiscal distortions and a social housing sector that, despite its large scale, still has long waiting lists and provides housing for tenants with incomes above the social housing threshold.

- **Labour market/education**: The Dutch labour market is still performing relatively well compared to that of other Member States. However, unemployment is on the rise and to decline only slowly with the expected recovery while the ageing of the population is projected to put further pressure on the long-term supply of labour. There is still a large pool of untapped labour. Employment rates of people with migrant backgrounds have been falling since 2008. The employment rate of people with disabilities is comparatively low and their employment gap has been increasing since 2008. Youth unemployment rose to 11 % in 2013. Additional measures to reduce tax and other disincentives on labour would make work more attractive. Although the Dutch school system performs well overall, quality, specific needs and excellence across various educational levels need to be addressed.

1. INTRODUCTION

In May 2013, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for the Netherlands. On the basis of these recommendations, the Council of the European Union adopted four CSRs in the form of a Council Recommendation in July 2013. These CSRs concerned public finances, the housing market, the labour market and the education system. This staff working document (SWD) assesses the state of implementation of these recommendations in the Netherlands.

The SWD assesses policy measures in light of the findings of the Commission's 2014 Annual Growth Survey (AGS)[1] and the third annual Alert Mechanism Report (AMR),[2] which were published in November 2013. The AGS sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2014. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. It found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, the Netherlands and 15 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances. These in-depth reviews were published on 5 March 2014 along with a Commission Communication.[3]

Against the background of the 2013 Council Recommendation, the AGS, the AMR and the in-depth review, the Netherlands presented a national reform programme (NRP) and a stability programme (SP) on 29 April 2014. These programmes provide detailed information on progress made since July 2013 and on the government's plans. The information contained in these programmes provides the basis for the assessment made in this staff working document.

The programmes underwent an inclusive consultation process involving the national parliament. The NRP was also discussed with stakeholders, the social partners and subnational governments. Before submitting both programmes, they were debated in Parliament.

2. ECONOMIC SITUATION AND OUTLOOK

Economic situation

According to the Commission 2014 spring forecast, real GDP contracted by 0.8% in 2013. This outcome reflects weak economic activity at the start of the year, while growth turned positive in the second quarter and strengthened significantly towards the end of the year,

[1] COM(2013) 800 final.
[2] COM(2013) 790 final.
[3] Apart from the 16 Member States identified in the AMR, Ireland was also covered by an in-depth review, following the conclusion by the Council that it should be fully integrated into the normal surveillance framework after the successful completion of its financial assistance programme.

helped also by transitory factors (in particular a hike in investments in vehicles reflecting the expiry of a fiscal facility). Whilst weak domestic demand continued to be a drag, corporate investment rebounded strongly towards year-end, in line with the improved business outlook. Private consumption also returned to positive territory. In combination with the general improvement in soft indicators since the second half of 2013, this points to a more broad based recovery.

Unemployment rose sharply during the first half of 2013 as a result of declining employment coupled with an increase in labour supply (the 'added worker effect'). Since mid-2013, the unemployment rate has been relatively stable. This is mainly due to a supply effect, as many of the unemployed withdrew from the labour market in response to negative prospects for an economic recovery (the 'discouraged worker effect'). The unemployment rate reached 6.7 % in 2013. In 2012 and for most of 2013, Harmonised Index of Consumer Prices (HICP) inflation was almost 3 %, due to higher energy prices and the increased VAT rate from October 2012. In October 2013, inflation fell markedly to 1.3 % as the previous energy and tax increases dropped out of the figures.

Economic Outlook

According to the Commission 2014 spring forecast, the Dutch economy is slowly picking up. Building on the positive developments in the second half of 2013, growth of domestic demand is expected to turn positive in 2014 and even to overtake net exports as the main driver of growth. On the back of low real wage growth and ongoing deleveraging of households, private consumption is still under pressure but expected to strengthen in the course of 2014. Domestic investments are to be boosted by the improved economic outlook.

With positive contributions to economic growth expected to spread to all main segments of the economy in 2015, the upturn is expected to be broad-based. However, the employment outlook is set to remain weak in the short term, as labour markets tend generally to respond slowly to changes in the business cycle. Together with negative employment developments in the public sector and health care, this accounts for the projected further rise in the unemployment rate to 7.4% in 2014. Employment should start increasing again in 2015 leading to a slight fall in unemployment to 7.3%. In line with trends in import prices, moderate wage gains and the only gradual pickup in domestic demand over the forecast horizon, inflation is expected to ease to 0.7% in 2014 and to only modestly increase to 0.9% in 2015. Over the forecast horizon, the rebound in domestic demand is unlikely to raise inflationary pressures, given sizeable slack.

The macroeconomic outlook presented in the NRP and the stability programme is broadly realistic. The stability programme and the NRP share the same macroeconomic outlook, which is fairly close to the Commission 2014 spring forecast and even slightly more pessimistic on the prospects for economic growth. The NRP includes an estimate of the macroeconomic impact of policy measures in the short, medium and long term. It presents estimates of the annual total effect of adopted measures stemming from the coalition agreement and the additional consolidation package presented in September last year on a number of key economic variables (in particular economic growth, private consumption, net exports, the consumer price index and employment (albeit not adjusted for the substantial later amendments). It uses the Netherlands Bureau for Economic Policy Analysis' (CPB) Saffier II model to this end.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The objective of the budgetary strategy outlined in the 2014 stability programme is to ensure a lasting correction of the excessive deficit as of 2013 and to reach a budgetary position close to the medium term objective (MTO). The stability programme confirms an MTO of a structural deficit of 0.5% of GDP by 2015.

In 2013, the general government deficit reached 2.5% of GDP. The headline deficit was significantly influenced by the sale of mobile telephony licenses (around 0.6% of GDP). The nationalisation of SNS Reaal is assumed to have had no impact on the deficit outturn, yet a final decision on the classification by Eurostat is still pending. Based on currently available information, the impact may be an increase in the deficit of no more than 0.3% of GDP.

The differences between the budget adopted for 2014 and the Draft Budgetary Plan, which was found to be compliant with the requirements of the Stability and Growth Pact (SGP), are marginal and do not affect the overall budgetary stance. Compared to 2013, the budget for 2014 implemented fiscal measure of around 2% of GDP, half of which was the result of an additional consolidation package requested by revised Council Recommendation under the EDP of June 2013.

According to the stability programme, the government plans a general government budget deficit of 2.9% of GDP in 2014, which is 0.1 pp below the value foreseen in the previous 2013 stability programme. On the one hand economic growth turned out to be lower than expected, on the other hand, the additional consolidation package foreseen in the 2013 stability programme was smaller than the package eventually adopted. Based on the current developments in public finances, the Commission 2014 spring forecast expects a general government budget deficit of 2.8% of GDP. Risks to the budgetary targets appear to be large on the upside and the downside but overall broadly balanced. Particular risks stem from the expected revenue of some of the new measures, especially concerning the fiscal treatment of companies made for the sole purpose of (temporarily) avoiding taxes on severance payments. Even though the government has calculated the additional revenue from this measure in a conservative way, the exact amount to be received is subject to a large degree of uncertainty.

Even though additional sizeable fiscal measures were implemented, the (recalculated) structural balance in 2014 is planned to remain constant compared to 2013. According to the SP, government revenues in percentage of GDP are expected to increase from 47.3% of GDP in 2013 to 47.7% of GDP in 2014. The expenditure ratio is also expected to increase, from 49.9% of GDP in 2013 to 50.3% of GDP in 2014. Although overall expenditure is set to increase, expenditure on growth-enhancing items shows some worrisome trends, which could have negative repercussions for economic growth. Public expenditure on education is planned to fall over the programme period (see Box 1). According to the NRP, public spending on R&D and innovation (direct and indirect), was EUR 6.4 billion in 2012 is expected to reach € 6.6 billion in 2013, after which it is set to decline to EUR 5.9 billion in 2017. Using the GDP projections underlying the NRP, this represents a decline of public spending on R&D and innovation from 1.07% of GDP in 2012 to 0.92% of GDP in 2017. Although the increasing relative importance of *indirect* government funding should improve the efficiency of this spending, the fact that total public spending for research, development and innovation is set to decline could hamper economic growth prospects, and domestic demand, of the Dutch economy.

For 2015 the government plans a general government budget deficit of 2.1% of GDP, which is higher than the deficit of 1.8% of GDP foreseen in the previous stability programme. This is mainly the result of economic growth revised downwards compared to the previous forecast. The Commission 2014 spring forecast expects a general government budget deficit of 1.8% of GDP, mainly due to a more favourable macroeconomic outlook. There appear to be some risks to the budgetary forecast, especially from the planned decentralisation of some areas of social security and long-term care to municipalities. The (recalculated) structural balance is expected to improve by 0.3 pp of GDP. Expenditure is expected to decrease to 50% of GDP, whereas government revenues are expected to increase further to 47.7% of GDP. For the years beyond 2015, the general government deficit is expected to improve to 1.9% of GDP in 2016 and 1.4% of GDP in 2017, which is slightly lower than foreseen in the previous stability programme.

Under the assumption that the EDP is abrogated, the Netherlands will be subject to the preventive arm of the SGP and should ensure sufficient progress towards its MTO starting from 2014. With a debt ratio above 60% and, according to the Commission spring forecast, an estimated output gap in 2014 and 2015 in the range between -4% and -1.5% of GDP, the Netherlands is required to pursue an annual structural adjustment toward the MTO of at least 0.5% in 2014.

In 2014, the Stability Programme (as recalculated by the Commission using the commonly agreed methodology) envisages virtually no improvement in the structural balance, with the structural deficit remaining at 1.3% of GDP, in line with the Commission's forecast. According to the information provided in the Programme, the growth rate of government expenditure, net of discretionary revenue measures, is consistent with the expenditure benchmark both in 2014 and 2015. However, according to the Commission 2014 spring forecast, the Netherlands would comply with the expenditure benchmark in 2014 but not in 2015. The above analysis of budgetary developments in the Netherlands, with the structural balance as a reference, including the analysis of expenditure, net of discretionary revenue measures, points then to the existence of a risk of significant deviation based on both Programme’s plans and the Commission's forecast in 2014.

In 2015 the Commission’s forecast projects a larger improvement in the (recalculated) structural balance than the Programme (0.5% and 0.3% of GDP respectively). Nevertheless, the risk of significant deviation persists also in 2015 based on both pillars on a two-year horizon since both the two year change in the structural balance and in the growth rate of expenditure are projected to deviate by respectively 0.3% and 0.4% of GDP from the required adjustment. According to the stability programme the Netherlands will not meet the MTO by 2015.

The above analysis of the budgetary developments in the Netherlands, with the structural balance as a reference, including the analysis of expenditure, net of discretionary revenue measures, points to the existence of a risk of significant deviation from the requirements of the preventive arm as from 2014 based on both Programme’s plans and the Commission's forecast.

After having been on a downward trend for a some years, general government gross debt came out at 45.3% of GDP in 2007. Mainly due to persistently high budget deficits and weak nominal growth, gross debt increased to 73.5% of GDP in 2013. According to the Stability Programme, general government gross debt is increasing further 74.6% of GDP in 2014, roughly stabilising in 2015 and decreasing thereafter. In addition to the implemented treasury banking for local government authorities, improving primary balances and reprivatizing recently acquired financial institutions could help improve the gross debt level. This would also improve the long-term sustainability of public finances.

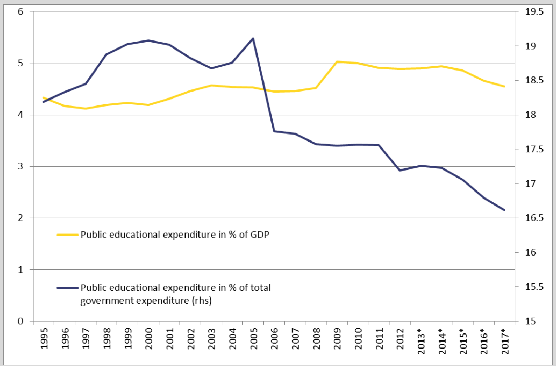
Already before the crisis, the government has accumulated a significant amount of implicit liabilities and guarantees, which has been increasing in the recent years. Although it is unlikely that these liabilities will be drawn upon, the effect on the budgetary position and the stock of debt would be sizeable in case of very adverse shocks.

Box 1: Public expenditure on education

Last year's public finance CSR recommended the Netherlands achieve the structural adjustment specified in the Council Recommendation under the EDP and that it protect expenditure in areas directly relevant for growth such as education, innovation and research.

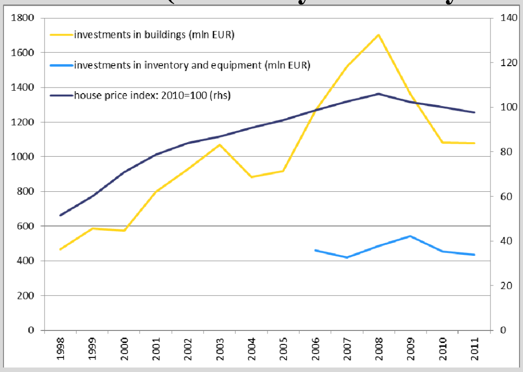
In recent years, public expenditure on education (COFOG[4] 9) stabilised at around 5 % of GDP while it shrank as a percentage of total government expenditure, from a peak in 2005 (over 19 %) to just above 17 % in 2012 (Figure 1). The relative decline in expenditure on education as a proportion of total expenditure is not crisis-related as this trend began in 2006 but was accentuated in recent years. Expenditure on education as a percentage of GDP is expected to decrease in the coming years (forecast data are marked with an asterisk). More striking is the shift of government expenditure from education to other purposes. The proportion of government expenditure allocated to education is expected to decline from its peak in 2005 (19.1%) to 16.6% in 2017.

Figure 1: Public expenditure on education



Source: Statistics Netherlands (CBS), Stability Programme, data provided by the Ministry of Finance

Figure 2: Investments of educational institutions (secondary & tertiary education)



Source: Statistics Netherlands (CBS)

Of course, total expenditure on education does not fully correlate with the *quality* of spending. For this, it is necessary to look more closely at expenditure decisions at school level. Since the 1990s, primary and secondary schools have no longer had their costs reimbursed. They receive instead an ex-ante lump sum payment and have also been given more freedom on how to allocate this money. While teachers' salaries are agreed centrally, other forms of expenditure and investments can be prioritised at school level (including the number of teachers on the payroll). Since the new system was put in place, educational institutions have invested an increasing proportion of their non-wage-related expenditure in buildings (Figure 2), peaking in 2008. This can be inter alia explained by the rising real estate prices which peaked in the same year. Many schools have decided to prioritise investing (i.e. the proportion of expenditure not used for wages, which makes up almost ¾ of the total expenditure of schools) in new buildings rather than buying new supplies and equipment. Some schools, especially a number of regional education centres (*ROCs*), abandoned existing and

[4] Classification of the functions of government (COFOG) is a classification of government expenditure defined by the United Nations Statistics Division and used by EUROSTAT.

functioning buildings and invested in new buildings so much that they now face financial problems and have to cut expenditure, which directly affects the quality of education.[5]

[5] See also OCW (2012), *Onderzoek naar de financiële positie van schoolbesturen in po en vo* on the financial situation of schools in primary and secondary education.

Box 2: Main measures

Revenue	Expenditure
2012	
• Limit on tax credit for single parents (0.1% of GDP) • Reversal of increase in health care own contribution (0.1% of GDP)	• Health care benefits (-0.1% of GDP) • Child care benefits (-0.1% of GDP)
2013	
• Adjustment of pension deductability. (From 2013 onwards, fewer pension entitlements qualifying for tax relief can be accrued; 0.1 % of GDP) • VAT increase by 2 percentage points as of October 2012 (0.7 % of GDP) • Environmental friendly taxation and increase in excise duty on alcohol, tobacco and soft drinks (0.25 % of GDP) • Limiting mortgage interest deductibility for new mortgage loans (0 % of GDP; structural gains far beyond the programme horizon) • Increase insurance tax (0.2% of GDP)	• Health care benefits (-0.1 % of GDP) • Primary education (-0.1 % of GDP) • Increase of own contribution for specialised health care in combination with other measures (0.3 % of GDP) • Increase retirement age (0 % of GDP, but sizeable structural gains beyond the programme horizon) • Wage freeze (for civil servants and nonindexation of income tax brackets) (0.5 % of GDP)
2014	
• Stimulating movement in the rental housing (0.2% of GDP) • Taxation of annuities and box 2 (0.5% of GDP, long-term effect negative) • Freeze of tax brackets and credits (0.15% of GDP) • Retention of business-related revenue envelopes (0.1% of GDP)	• General government (wage freeze, price adjustment, etc.) (-0.3 % of GDP) • Health care (-0.2 % of GDP)
2015	
• Reduction of natural gas production (-0.1% of GDP)	• General government expenditure (-0.3 % of GDP) • Various health care measures
2016	
• Reduction of natural gas production	• General government expenditure

(-0.2% of GDP)	(-0.1% of GDP) • Various health care measures
Note: The budgetary impact in the table is the impact reported in the programme or in other documents provided by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.	

Fiscal framework

The Netherlands has a well-developed fiscal framework. Leaving aside its precise compliance with EU rules put in place in recent years, the well-established Dutch medium-term budgetary framework has long been considered a best practice within the EU. The main characteristics of the multi-annual trend-based fiscal framework currently in place are: (i) the use of real expenditure ceilings, which are pre-determined and apply to the government's entire term of office; (ii) the automatic stabilisation of revenues and (iii) the use of independently derived macroeconomic assumptions. When a new government is formed, medium-term yearly budgetary targets are set for its term of office, for general government expenditure and the tax burden. The Dutch authorities are fully committed to fulfilling their obligations under the Stability and Growth Pact (see Box 3). To reinforce their commitment, they have also ratified the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.[6] In December 2013, the Senate approved legislation that aims to transpose provisions of the EU directive on budgetary frameworks and the Fiscal Compact into national legislation from 1 January 2014 (in particular by setting up the Council of State as the independent fiscal institution in charge of fiscal rule monitoring). It also covers provisions and coordination mechanisms for local government finances (*Wet Houdbare Overheidsfinanciën*). Although in practice the correction mechanisms to ensure healthy public finances at local level are rather weak, this is a welcome development overall as is likely to lead to better monitoring of public finances. The planned decentralisation of a large number of tasks from the central to local governments from January 2015, which will include substantial expenditure cuts (see Section 3.5), will be a test case to see how the new provisions on monitoring public finances across layers of government work. Decentralisation also brings with it risks with regard to the quality and equality of access to public services provided locally (see Section 3.5).

[6] The Netherlands ratified the treaty in October 2013. Title III, known as the Fiscal Compact, includes a set of reinforced fiscal rules and arrangements.

Box 3: The Netherlands`s status vis-à-vis the Stability and Growth Pact

The Netherlands currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for the Netherlands in 2009 and recommended to correct the excessive deficit by 2013 at the latest, a deadline which was extended to 2014 in the revised Council recommendation of June 2013. In that revised recommendation the Council recommended that "*(2) The Netherlands should reach a headline deficit target of 3.6 % in 2013 and 2.8 % of GDP in 2014, which is consistent with an improvement of the structural balance of around 0.6 % and 0.7 % of GDP in 2013 and 2014 respectively, based on the Commission services updated 2013 spring forecast. (3) The Netherlands should implement the multiannual measures already adopted with the 2013 budget, while standing ready to compensate them if their yield would prove less than currently foreseen, and implement additional measures sufficient to achieve a correction of the excessive deficit in 2014. The Council establishes the deadline of 1 October for the Netherlands to take effective action and, in accordance with Article 3(4a) of Regulation (EC) No 1467/97, to report in detail the consolidation strategy that is envisaged to achieve the targets. In addition, to ensure the success of the fiscal consolidation strategy, it will be important to back the fiscal consolidation by comprehensive structural reforms, in line with the Council recommendations addressed to the Netherlands in the context of the European Semester and in particular those related to the preventive arm of the Macroeconomic Imbalances Procedure.*"

The year following the correction of the excessive deficit, the Netherlands will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO. As the debt ratio in 2013 was 73.5% of GDP, exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit the Netherlands would also be subject to the transitional arrangements as regards compliance with the debt criterion, during which it would have to ensure sufficient progress towards compliance.

An overview of the current state of excessive deficit procedures is available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm.

The economic crisis has exposed weaknesses in the fiscal framework, as a result of which successive governments have adjusted the budget compared to original targets set out in the framework. Since the onset of the crisis successive governments have amended their medium-term budgetary plans with wide-ranging additional consolidation measures, partly because initial expenditure ceilings were based on growth paths which turned out to be overly optimistic. Under the current government's coalition agreement, automatic stabilisers are free to operate within each of the separate expenditure sub-ceilings for 'core' central government, social security, the health care, as long as the country's overall fiscal position stays in line with European fiscal rules. As regards national budgetary rules, interest expenditure is kept outside the overall expenditure ceiling, whereas expenditure items sensitive to the cycle (unemployment and social welfare benefits for example) are kept within the overall expenditure ceiling.[7] This could prevent automatic stabilisers from working properly in an economic downturn. Possible actions to put into practice the general commitment to abide by European provisions are not specified in detail.

[7] http://statengeneraaldigitaal.nl/document?id=sgd:19801981:0001348

Long-term sustainability

The Netherlands has to address its long-term fiscal sustainability risk. Government debt (73.5% of GDP in 2013 and expected to remain broadly unchanged until 2015) is currently above the 60% of GDP Treaty threshold, and projected to rise further by 2030. According to the 2012 Ageing Report, the Netherlands appears to face medium fiscal sustainability risks in the medium-term. The medium-term sustainability gap[8], showing the adjustment effort up to 2020 required to bring debt ratios to 60 % of GDP in 2030, is at 1.2 % of GDP, primarily related to the projected ageing costs contributing with 1 pp. of GDP until 2030 and the high level of government debt (73.4% of GDP in 2015). In the long-term, the Netherlands appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 4 pp. of GDP over the very long run, in particular in the field of long-term care. The long-term sustainability gap[9] shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 5.3 % of GDP. Risks would be higher in the event of the structural primary balance reverting to lower values observed in the past, such as the average for the period 2004-2013. It is therefore appropriate for the Netherlands to reduce government debt and to further contain age-related expenditure[10] growth to contribute to the sustainability of public finances in the long term.

A comparatively large part of Dutch GDP is spent on providing pensions and long-term care. Given the ageing of the population, the current healthcare system and long-term care need to be reformed to ensure an appropriate intra- and inter-generational distribution of costs and risks and to maintain a certain level of quality and accessibility. In this regard, the Netherlands has initiated comprehensive reforms in the publicly (pay-as-you-go) and privately funded pillars of the pension system and in the long-term care system. In addition to reforms with respect to second-pillar pensions, measures to encourage older workers to work longer and increase their labour market mobility are being put in place. Long-term care reforms involve shifting responsibilities to municipalities, reducing overall expenditure and making efficiency gains to curb cost increases. Some of these reforms still have to be specified in detail and still need to be adopted,[11] although the central government, local governments and social partners have agreed on most of them. Implementation risks of this decentralisation relate both to the achievement of overall savings and to the implications for

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[8] See Table V. The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance to be introduced until 2020, and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year until 2020 after the last year covered by the autumn 2013 forecast (year 2015) is required(indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

[9] See Table V. The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

[10] Ageing costs comprise long-term projections of public age-related expenditure on pension, health care, long-term care, education and unemployment benefits. See the 2012 Ageing Report for details.

[11] For an overview see http://www.rijksoverheid.nl/onderwerpen/zorgverzekering/documenten-en-publicaties/kamerstukken/2014/03/24/kamerbrief-over-tijdpad-hervorming-langdurige-zorg.html.

access to and quality of care (also in terms of regional dispersion). All in all, the Netherlands made some progress on dealing with this issue.

The Netherlands has made some progress on implementing the part of the recommendation regarding the adjustment of second-pillar pensions in consultation with social partners, to ensure an appropriate intra- and inter-generational distribution of costs and risks. It has strengthened the long-term sustainability of the pension system by gradually increasing the statutory retirement age from 65 in 2012 to 67 in 2023,[12] but there has been an ongoing discussion about the technical parameters for the second-pillar pension reform. From 2.15 % in 2014,[13] the annual accrual rate exempted from taxes will be lowered to 1.875 % from January 2015. This should lead to a decrease in the height of the pension premia (provided that pension funds translate the impact of the lower accrual rate into lower ones), but also to lower pension payments in the future. At present, Dutch pensions are relatively generous from an EU perspective and lower payouts need not result in a shortfall in terms of pension sufficiency. However, it could increase differentiation in pension income across future pensioners, especially in view of less stable labour relationships compared to the past. This may merit reconsidering the existing system for taxation on pensions and wealth. Under the planned reforms, the financial supervision of the pension funds will be improved and made more rigorous. Better use will also be made of financial buffers in order to better cope with financial shocks. This should reduce the system's pro-cyclicality. If pensions need to be adjusted following financial shocks, the Central Bank will assess the way in which the pension funds have taken inter-generational effects into account to ensure inter- and intra-generational fairness in pension contracts. Currently, the parliament is considering the proposed legislation. The overall reform of the second-pillar pension system broadly go in the right direction, while a more fundamental review of the system and its governance may still be called for. The announced broad societal debate about the future of pensions, pointing to a more fundamental reassessment of their role, is therefore also a welcome development.

From 2015, the Netherlands has planned a substantial reform of long-term care to make it more cost-effective and sustainable. It aims to upgrade the role of local governments and increase the use of informal care. The central government will remain responsible for institutional care, while municipalities will be responsible for most home care. It is important that the reform be implemented in such a way that it ensures accessible, cost-effective and sustainable provision of high-quality long-term care, notwithstanding the significant structural savings envisaged. It is too early to say whether these savings will be made in practice. Nonetheless, since the reform only deals with a part of public expenditure on long-term care, additional measures would be necessary to ensure that that the system as a whole is financially sustainable. Putting greater emphasis on rehabilitation and independent living would help reduce the need for institutional care and ensure savings can be made without compromising accessibility.

Tax system

In 2013 the Netherlands received a country specific recommendation concerning the reduction of tax disincentives to labour. The analysis in this staff working document leads to the conclusion that the Netherlands has made some progress to address this recommendation. In 2014, an increase of the labour tax credit by EUR 950 over a period of

[12] The statutory retirement age will gradually increase to reach 67 in 2023. From 2024, the statutory retirement age will be linked to life expectancy. A proposal to expedite this process, linking the statutory retirement age to life expectancy from 2021, is being negotiated.
[13] This tax-exempted annual accrual rate was already lowered from 2.25 % to 2.15 % in 2014.

four years has been legislated, intended to reduce the unemployment trap and the inactivity trap. Also, the general tax credit will be increased by EUR 260 over these years. However, these increases only hold for lower incomes. Both credits will be gradually reduced and finally abolished for higher incomes. This increases the progressivity of the income tax system by increasing the marginal burden for middle incomes.

Part of the revenues of the reform of the tax treatment of owner-occupied housing will be used from 2014 to reduce labour taxes. It is intended to finance the extension of the threshold value of the highest tax bracket and from 2018 a reduction in the rates of the second and third (lowest) brackets. In practice, this implies that especially lower and middle incomes should benefit from lower taxes on labour. A faster decline in the mortgage interest deductibility would reduce the differences in the taxation between owner-occupied and rental housing and thus support the emergence of a functioning rental market. Any net tax receipts resulting might be used to generically decrease the tax burden, for instance on labour, with potential beneficial effects on both employment and disposable household income. For progress with respect to accelerating the planned reduction in mortgage interest deduction see section 3.4.

At 3.9 % of GDP, the Netherlands has the second highest level of environmental taxes as a percentage of GDP in the EU. It raises significant revenues from transport taxes, especially the vehicle registration tax. It is one of the few countries in the EU with a significant proportion of pollution taxes, beginning with a tax on the pollution of surface waters and sewerage charges (0.72 % of GDP, EU-27 0.1 % of GDP).[14] Even though it has one of the highest levels of environmental taxes in the EU, subsidies through lower energy taxes for energy-intensive industry and horticulture remain.[15] Although they have been reduced, the government still grants environmentally harmful subsidies for old cars.

The excise duties on diesel and liquefied petroleum gas (LPG) were increased as of 1 January 2014 and the vehicle circulation tax has been reformed. After these increases, diesel is taxed close to the average EU level, but petrol taxes are high by EU standards, leading to the second biggest petrol-diesel tax difference in the EU.[16] Over the last few years, environmental factors have been added to the taxable income from company cars, the vehicle circulation tax and the vehicle registration tax. This has led to a large increase in the sales of energy-efficient cars and a substantial drop in revenues from the vehicle registration tax. Emission limits for lower tax rates were tightened in 2014 and will further be tightened in 2015.[17] Taxes on company cars remain low.[18]

The 2014 taxation plan[19] contains some measures towards a growth-friendly tax shift, such as increasing charges on tap water and re-introducing the waste tax. However, taxation could be shifted further away from labour towards environmental and other taxes less detrimental to growth[20] (e.g. by reducing the preferential tax treatment of diesel compared to petrol; reducing environmentally harmful subsidies; reducing the scope of the reduced VAT rate, abolishing the deduction for small mortgage debt and reducing mortgage interest more

[14] *Taxation trends in the European Union* (Eurostat, 2013).
[15] *Taxing Energy Use: A Graphical Analysis* (OECD, 2013).
[16] *Tax reforms in EU Member States 2013* (European Commission, 2013).
[17] *Taxation trends in the European Union* (Eurostat, 2013).
[18] In 2010 the low tax base for company cars was estimated to result in a fiscal loss of EUR 1.5 billion per year, around 0.2 % of GDP (see Commission Taxation Papers 22/2010).
[19] *Wijzigingen in de belastingheffing met ingang van 1 januari 2014* (Ministry of Finance, 2013).
[20] *Tax reforms in EU Member States 2013* (European Commission, 2013), p. 47.

quickly and ambitiously, while considering increasing recurrent property taxation, which are still relatively low).

Multinational companies frequently channel tax-driven financial flows to other jurisdictions through the Netherlands. An OECD study[21] suggests that some international corporations may shift profits to low-tax jurisdictions through the Netherlands. The absence of withholding tax on outbound royalties and interest payments, and the fact that the Dutch tax authorities gives advance clearance (tax rulings) on the tax consequences for such activities, is a reason large numbers of special-purpose vehicles are registered in the Netherlands without having a substantial physical presence there. This generates considerable gross financial flows from special-purpose entities through the Netherlands, amounting to more than three times its GDP.[22] The government recently introduced new substance requirements for holding companies. These requirements are meant to identify a real presence in the Netherlands, for example by requiring that at least half of the members of the board reside or are actually established in the Netherlands and that the bookkeeping of the company takes place in the Netherlands. The aim is to prevent corporate taxpayers with no real presence in the Netherlands from benefitting from the Dutch tax treaty network.

3.2. Financial sector

The Netherlands has one of the largest banking sectors in the EU in terms of its balance sheet relative to GDP. In 2013, the banking sector's total assets were almost four times GDP. The Dutch banking sector is highly concentrated. Since the onset of the crisis, the Dutch banking sector has shrunk and has improved its capitalisation. The three largest banks manage over 80 % of all the sector's assets. Together with a smaller bank, one of the three largest banks is currently state-owned. The government has communicated the intention to re-privatise both banks.

Obligatory savings through pension funds leave little room for households to save outside the pension system. At the same time, they used to have strong, mainly fiscal, incentives to take out interest-only mortgages combined with high loan-to-value ratios to leverage against housing wealth. This has resulted in a banking sector that has a comparatively large share of domestic mortgage loans on its balance sheets and relies heavily on wholesale funding to finance them. This has led to a funding gap of around 75 % of GDP and a loan-to-deposit ratio of over 200 %. More restrictive lending policies and precautionary savings by households have decreased the funding gap but their dependence on market funding leaves Dutch banks vulnerable to developments in financial markets, especially as regards maturity mismatches. Given the low number of non-performing loans, arrears and forced sales, short-term risks are, however, unlikely to emerge from the large mortgage portfolio. Moreover, since the housing market has stabilised, risks to house prices from large negative shocks are subsiding.

In the coming years, changes to the fiscal treatment of mortgages and new regulations will help strengthen and deleverage the banking sector. Since the beginning of 2013, only mortgages that are repaid in a linear or annuity mode over 30 years are eligible for mortgage interest deductibility. As a result, interest-only mortgages, previously very popular, are virtually no longer taken up. Over time, repaying the principal in the course of the mortgage contract will reduce the size of the outstanding mortgages on bank balance sheets, supporting capital ratios. However, given grandfathering clauses and the large stock of various forms of

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[21] *Addressing Base Erosion and Profit Shifting* (OECD, 2013).
[22] See also *In-depth review (IDR) Macroeconomic Imbalances — Netherlands 2014*.

interest-only mortgages, this will be a gradual and back-loaded process. Larger capital ratios will help absorb possible future losses, improve confidence and secure market access.

Access to finance remains a challenge, in particular for SMEs, but overall its negative impact seems limited. According to the most recent ECB survey,[23] 20 % of SMEs, one of the highest percentages in the EU, name access to finance as their biggest problem. For the moment the negative impact of this appears to be limited. According to the survey, the demand from SMEs for credit is low compared to other Member States and concentrated at companies in adverse financial shape. Overall, around 5% of all SMEs are confronted with a rejection of a loan application, a higher percentage than in Germany (3%), but comparable to Belgium (4%) and France (5%).[24] That the rejection rate is somewhat higher than in Germany is probably related to the credit cycle in relation to state of the domestic economy, which has experienced a sharp fall in domestic demand, especially private consumption. This in turn affected investment opportunities and thus loan demand, in particular for firms oriented towards the domestic market – often SMEs. These trends resulted in a doubling of arrears of SME loans between the second quarter of 2009 and the second quarter of 2013[25]. Additionally, decreasing house prices have decreased the value of (potential) collateral. As Dutch banks are well on track on meeting their new capital ratios even under adverse scenarios[26], there does not seem to be a problem related to the supply of credit as far as the loan-generating capacity of banks is concerned. The overall supply of credit does not seem to be a major impediment to a recovery.

As described in the NRP, the Dutch authorities have taken a number of measures to help SMEs access finance. For example, the government is continuing to implement existing guarantee schemes and re-enforcing available budgets. It has also increased the maximum ceiling for micro-credits and is looking at alternative ways of financing. These instruments appear to be underused however. This either means that they are not effective or it is a further indication that SMEs' access to finance is not a major problem. In any case, it could be worthwhile to assess the instruments' efficiency. In the medium term, the virtual disappearance of interest-only mortgages from the mortgage market and the resulting shrinkage of the mortgage portfolio of banks should free up assets and capital to provide credit for more productive sectors of the economy. However, the overhang from existing financing structures will take some considerable time to adjust.

3.3. Labour market[27], education and social policies

Given the ageing population, ensuring that there is a sufficient supply of labour in the long term remains a key issue for the Dutch economy. It is crucial to use the large pool of untapped labour. This includes women, people with a migrant background, people with disabilities, young people and older workers. The government developed an ambitious reform agenda to increase labour participation and mobility (see Box 4 below). The planned reforms are comprehensive and substantial, but a difficult negotiation process with social partners has slowed down their implementation.

[23] Source: www.ecb.int/stats/money/surveys/sme/html/index.en.html.
[24] Source: http://www.dnb.nl/binaries/DNBos3_tcm46-306789.pdf
[25] Source: http://www.dnb.nl/binaries/DNBos3_tcm46-306789.pdf
[26] Source: http://www.dnb.nl/binaries/DNBos3_tcm46-306789.pdf, see also *Kreditverlening aan het MKB*
[27] For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.

In 2013 the Dutch labour market fared relatively well compared to that of other EU countries, although unemployment continued to increase. It is expected to continue doing so in 2014, albeit at a much slower pace and to start decreasing in the course of the year. Unemployment growth and a continuing increase in labour supply in the short term (see Section 2) may lead to a decline in the participation rate for 2013 and 2014, making it more difficult to reach the target of 80 % participation by 2020. The 2012 percentage of people not in education, employment or training (NEET) is around 4%, the lowest in the EU. Early school leaving rates in the Netherlands have significantly dropped to 9.2% in 2012. Youth unemployment is still substantially lower than in most other European countries but is on the rise (11.5% in 2013).

In 2013 the Netherlands received a country specific recommendation on making better use of the untapped supply of labour to increase labour market participation in order to cope with future labour supply shortages. The analysis in this staff working document leads to the conclusion that the Netherlands has made some progress on measures taken to address this recommendation.

Box 4: State of play of reforms following from the Social Agreement[28]

Labour market reform	**Name of proposed act (acts it will be replacing)**	**State of play adoption process in Parliament**	**Expected implementation date**
Reform of unemployment benefits and employment protection legislation	"*Wet Werk en Zekerheid*" Replaces: "Werkloosheidswet" (WW) and changes several acts concerning employment protection legislation (EPL).	Proposed act has been adopted by the lower chamber and has been sent to the upper chamber to be adopted before the 2014 summer recess (10.07.14).	Gradual implementation from July 2015.
Reform of labour disability schemes and social assistance act ("Participatiewet")	"*Participatiewet*" Replaces the "*Wet Werk en Bijstand*" (WWB), "*Wet Sociale Werkvoorziening*" (WSW) and parts of the "*Wet werk en arbeidsondersteuning jonggehandicapten*" (WAJONG)	Proposed act has been adopted by the lower chamber and has been sent to the upper chamber to be adopted before the 2014 summer recess (10.07.14).	1 January 2015
Agreement to provide 125,000 jobs for people with a (labour) disability by 2026.	"*Quotumwet*" Complements the "*Participatiewet*"	Internet consultation of the proposed act has been closed. The act still has to be presented to the lower chamber of Parliament. The act foresees the obligation to hire a	Act will only enter into force when targeted results have not been reached. This will for the first time be

[28] The "Social Agreement" was struck between the government and social partners on 11 April 2013.

		certain percentage of people with a labour disability only when targets agreed on with social partners are not reached.	evaluated in 2016.
Second pillar pension reform Lowering of accrual rates	"*Wet verlaging maximumopbouw- en premiepercentages pensioen en maximering pensioengevend inkomen*" Changes the rules for fiscally exempted pension accrual and changes the "*Belastingplan 2014*"	Proposed act has been adopted by the lower chamber and has been sent to the upper chamber of Parliament to be adopted before the 2014 summer recess.	1 January 2015

Labour market and social policies

Female labour market participation in the Netherlands is high compared to the EU average.[29] Nevertheless, a high percentage of women, often second-income earners, work part-time. It is important to ensure that fiscal and other disincentives do not discourage taking up work for a second-income earner. In the Netherlands, the average amount of hours women work remains well below the EU average. The high part-time rate has a negative impact on the financial independence of women and partly accounts for a high gender pay gap (16.9%)[30] and gender pension gap (40%) which is also affected by cohort effects[31]. However, this did not lead to a substantial increase in the risk of poverty for women, which remains relatively low. Since only 4.2% of part-time workers want to work more (whereas in all other Member States this share is between 10 and 60%)[32], it seems that the incidence of part-time work is to a large degree based on personal preferences. In order to help reduce disincentives for second-income earners, the Netherlands implemented measures to make it financially more attractive to work more hours, for example by phasing out transferable tax credits for second-income earners, as recommended in the 2013 country specific recommendation, and by increasing the labour tax credit for lower incomes. The government is also working on reforming several child arrangements with the aim of diminishing the inactivity trap, especially for single parents.[33]

The employment gap for non-EU nationals increased from 20.5 % in 2008 to 24.2 % in 2012. Furthermore, a recently published report[34] points out that non-EU nationals in the Netherlands are affected disproportionally by the economic crisis when it comes to labour market performance and social inclusion (i.e. poverty). In the NRP no national targeted

[29] In 2012, 71.9 % compared to an EU average of 62.3 %. Source: NL Country Fiche on Gender Equality and Policy Developments (ENEGE, 4th Quarter 2013), p.15.
[30] Data for 2012; source: NL Country Fiche on Gender Equality and Policy Developments (ENEGE, 1st Quarter 2014)
[31] Data for 2010; source: ENEGE Report: "The Gender Gap in Pensions in the EU" (2013), p. 48
[32] Source: EUROSTAT Labour Force Survey 2014 of 10 April 2014: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-10042014-BP/EN/3-10042014-BP-EN.PDF
[33] The "Wet Hervorming Kindregelingen" was adopted by the lower house of parliament on 11 March 2014, has been presented to the upper house of parliament and is foreseen to be implemented in 2015.
[34] Jaarrapport integratie 2013, Sociaal Cultureel Planbureau, February 2014.

policies specifically aimed at increasing the employment rate of people with a migrant background are mentioned.

The employment gap for persons with disabilities increased from 25.6 percentage points in 2009 to 29.2 percentage points in 2011. [35] In order to increase the labour participation of people with disabilities a new Participation Act will be implemented from January 2015. It aims to improve the labour market participation of people with disabilities by merging and reforming several benefit schemes, while shifting responsibility for their execution to municipalities and reducing overall funding. The government and the social partners have also agreed to hire 125 000 people with disabilities in the next 12 years, although it is not specified where these jobs should be coming from. Not everyone who loses their disability benefits will be offered a job however.[36] In relation to the Participation Act, the Social Assistance Act will be amended to focus more on labour market activation. These changes are planned to enter into force from January 2015 as the Social Assistance Act will be incorporated in the Participation Act.

Several measures have been taken to encourage older workers to work longer and increase their labour mobility. As a result, the effective retirement age has been increasing substantially,[37] narrowing the gap between the statutory and the effective retirement age. Under current arrangements, older workers can still combine relatively high severance pay with generous unemployment benefits to retire early. Relatively strict employment protection legislation for workers with permanent contracts and high (seniority-linked) severance pay give older workers few incentives to change jobs. As a result, the labour market is inflexible and labour mobility relatively low. This increases the risk of long-term unemployment for people who lose their jobs, especially people over 55. Fighting youth unemployment and helping older workers remain employable are amongst the priorities, but it is questionable whether the "sector plans" will actually create any new jobs. Overall, these reforms, in line with the 2013 country specific recommendations, are expected to have a positive impact on labour market participation and mobility. However, possible negative effects in times of rising unemployment must be taken into account. The impact of the reforms therefore needs to be closely monitored.

The government is currently working on a comprehensive reform of the unemployment benefits scheme (WW) and employment protection legislation (*Ontslagrecht*). When they enter into force, from July 2015, the reforms will make dismissal procedures less complicated and expensive by setting out a clear dismissal route and linking the amount of severance pay or 'transition payment' to seniority rather than age. The maximum severance pay will be reduced to EUR 75 000 or an annual salary, whichever is higher. The aim of these measures is to make the system fairer and simpler. Rules on temporary employment are also being tightened for employers. The Netherlands will gradually reduce the maximum length of time statutory unemployment benefits are paid from 38 months in January 2016 to 24 months in 2019.[38] The pace of accrual of unemployment benefits rights will also be decreased and the length of time after which a benefits recipient must accept all job offers will be decreased from twelve to six months. The government also provided EUR 600 million for 2014 and 2015 to fund the implementation of plans in order to reduce unemployment in the short term.

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[35] Source: Eurostat (EU SILC)

[36] Raad van State, Advies W12.13.0314/III. 1 November 2013. Kamerstukken II 2013/2014, 33 161, nr. 108: http://www.raadvanstate.nl/adviezen/advies.html?id=11049.

[37] The effective retirement age went up from 60.9 in 2001 to 63.5 in 2009 (Eurostat). It increased to 63.9 in 2012.

[38] Social partners will be allowed to agree on complementary unemployment insurance arrangements after the maximum of 24 months.

The social partners are responsible for implementing these plans and provide 50% of the funding. As stated in last year's staff working document, the Netherlands stands to benefit from tackling these labour market rigidities. The same would hold for other arrangements with potentially large effects on the labour market, in particular the regulation stipulating that, under certain conditions, employers are obliged to pay at least 70% of the salary to employees whom fall chronically ill for a period of two years.

Making use of the existing room in the institutional framework to allow for more differential wage increases could help support household income. Both price and cost competitiveness indicators and the proportion of labour income show that overall wage developments have been broadly in line with productivity. However, the proportion of household disposable income in GDP has decreased substantially in the last twenty years. This is partly because an increasing part of the income earned in the country accrues to households in a different way (especially through individual government consumption), and partly also reflects changes in taxation and pension premia. In spite of the varying profitability of the different sectors of the economy, wage increases do not vary much across subsectors. To an extent this reflects the binding nature of collective agreements within sectors. However, as social partners have a lot of freedom in negotiating collective agreements under the existing institutional framework, they do not seem to fully use this freedom to negotiate wage increases that differentiate more according to productivity and profitability differentials across subsectors.[39] Taking advantage of the scope in the existing framework for more differentiated wage increases could help support household income and internal demand without jeopardising the profitability or competitiveness of firms.[40] Greater differentiation of wage increases across firms and industries, aligning them more closely with productivity increases, might also provide a stronger incentive for reallocating production factors, thus making production more efficient overall. Such an approach would have to be decentralised and take account of companies' productivity, profitability and prevailing buffers in order not to weaken their viability or competitiveness.

The planned reforms in long-term care consist of a transfer of part of the responsibilities in the current long-term care system to municipalities and health insurance companies from January 2015. This transfer of responsibilities (this also includes the new tasks for the Participation Act) is accompanied by budget cuts under the assumption that efficiency gains are possible under the new implementation structure. The reforms have been broadly agreed with the Dutch municipalities in December 2014, but have not yet been adopted by the parliament. Responsibilities for less intensive care tasks, extra-mural care for disabled people, district nursing and care for children will be transferred to the health insurance and the municipalities. The new schemes also call for a larger reliance on informal care. The planned structural savings amount at EUR 3 billion and are due to a reduction of the planned expenditure increase from 3% to 1.5% per year. The timeframe for the implementation of the reform is very ambitious. It is important to closely monitor the effects of the reforms to ensure that increased efficiency goes hand in hand with ensuring accessibility and the quality of long term care. Another risk to be monitored concerns regional or local dispersion in terms of access and quality, in function of the age and risk profile of the population.

Education

The Dutch education system works well and has almost reached its Europe 2020 targets. Early school leaving fell from 10.9 % in 2009 to 9.2 % in 2013. The tertiary education

[39] IDR Macroeconomic Imbalances — Netherlands 2014.
[40] See also *Overwegingen bij de loonontwikkeling* (Dutch Central Bank, 2014).

attainment rate, for which the target is at least 40 %, reached 43 % in 2013. On average, the quality of the education system is high. This is reflected in good scores under the OECD's Programme for International Student Assessment and Programme for the International Assessment of Adult Competencies,[41] and in good international university rankings. However, competence in mathematics has decreased and the number of top performers in tertiary education is small.[42]

Public expenditure on education is set to decrease over the programme period. Overall public expenditure on education has been stable in recent years but is expected to slightly decrease over the coming years (see Box 3). While there is no direct link to the quality of education, the implications need to be monitored. Up to 7 % of funding is closely linked to performance in higher education and vocational training. Additional funding will be made available by changing to a new study financing system, but it has been postponed to September 2015. It is important to monitor very carefully the policy's impact on low-income groups and adapt it if necessary. A new subsidy scheme recently introduced should facilitate companies to offer learning on the job positions. A National Education Agreement ("*Onderwijsakkoord*")[43] was reached in September 2013 on the level of funding for employing more teachers, improving labour conditions, assessing the quality of teachers and education while decreasing the administrative burden on teachers. It remains to be seen whether the agreement will achieve the results it is expected to.

Although the Netherlands' education system works well, there are risks.[44] In addition to basic skills, more attention needs to be given to cross-curricular 'advanced skills' (such as problem-solving, collaboration, entrepreneurship and information and communications technology skills). The variety and revision of the range of education available and of teaching methods also need to be tackled. There are also risks in relation to low-achieving pupils and (early) tracking[45] in secondary education which may accentuate differences between young people from different social (and migrant) backgrounds. The 2014 national reform programme acknowledges these problems and points to a number of measures that have been taken aimed at improving the quality of education across a number of educational levels. As of August 2014, schools must provide adapted education for pupils who need extra support, while the aim is to reduce enrolment in separate schools for pupils with special educational needs. This implies a risk as regards the impact on pupils in need of specific pedagogical support as well as potential spillovers to other pupils resulting from their integration. These need to be monitored with a view to taking corrective action if needed. On the differentiation of the educational offer and excellence, the government adopted a new law on higher education, offering more differentiation between courses. In primary and secondary education, as of 2013, school boards have received extra budget to provide adequate support to the most talented students. As most of the measures have only recently been introduced or

[41] http://www.oecd.org/pisa/aboutpisa/netherlands-pisa.htm, Programme for the International Assessment of Adult Competencies http://www.oecd.org/site/piaac/.

[42] See also *Commissie Toekomstbestendig Hoger Onderwijs Stelsel* (2010).

[43] http://www.rijksoverheid.nl/documenten-en-publicaties/convenanten/2013/09/19/nationaal-onderwijsakkoord-de-route-naar-geweldig-onderwijs.html.

[44] See also Een smalle kijk op onderwijs-kwaliteit: report of the 'Education Advisory Council' 2013.

[45] School tracking systems, which allot students to certain school types according to their ability, seek to improve efficiency in education by tailoring curricula to students' needs. Yet, early tracking bears the risk of misallocating students, as information about their full academic potential may be incomplete at the time of tracking. This risk of misallocation is likely to be higher the younger the age at which children are tracked. (source: http://newsroom.iza.org/en/2014/01/31/no-long-term-effects-of-early-track-choice-on-labor-market-outcomes/), see also: Efficiency and equity in european education and training systems COM(2006) 481 final

still have to be implemented, it is still unclear whether they will be sufficient to remedy the shortcomings of the education system, but they are clearly steps in the right direction.

3.4. Structural measures promoting sustainable growth and competitiveness

Housing

The housing market seems to stabilise, especially in larger cities. House prices fell markedly and the number of transactions in the purchase segmented plummeted since the onset of the crisis. Recently, the housing market seems to bottom out, as prices have started to increase again in some larger cities and the overall number of transactions is also increasing again.

In 2013 the Netherlands received a country specific recommendation concerning the implementation of housing market reform by accelerating the planned reduction in mortgage interest tax deductibility Since April 2012, a set of measures have been implemented which go some towards implementing the related CSR, especially with regard to adjusting the fiscal treatment of housing finance by gradually reducing mortgage interest deductibility while not fully removing it (the reduction of mortgage interest deductibility rates is planned to take 28 years). Other measures include income-dependent rent increases over and above the rate of inflation, a housing tax for housing associations, stricter mortgage rules, especially on redemption, and a temporary VAT decrease (6 %) for parts of the construction sector. The loan-to-value ratio is being lowered to 100 % by 2018. In 2014, additional measures for the rental market have been announced but not yet presented in full detail. These include measures to refocus social housing corporations on their core task, a change in the way rent ceilings are calculated in the social housing sector, and measures to promote the free rental market. Overall, the reduction of mortgage interest deductibility rates is very gradual and only partial, leaving a considerable subsidy for households to mortgage-finance the purchase of owner-occupied housing. The ability to retain the tax treatment for existing mortgages until amortisation adds to the effective backloading of the impact. The functioning of the rental market is still impaired by fiscal distortions and a social housing sector that, despite its large scale, still has long waiting lists and provides housing for tenants with incomes above the social housing threshold. As a result, the Netherlands has made limited progress in implementing the 2013 CSR on the housing market.

The loan-to-value ratio of 100 % planned for 2018 is still very high from an international perspective and does address the issue of people faced with negative housing equity. Gradually reducing the maximum loan-to-value ratio further would reduce this risk, but it needs to be adapted to the capacity of households to serve housing loans outside the pension system. Indeed, the 2014 national reform programme mentions the intention further to reduce the loan to value ratio once the housing market recovers. For existing cases, over the next 20 years, the reduction in mortgage interest deductibility rate will only affect people in the highest tax bracket. Speeding up the reduction would spread the burden of the reforms more evenly across households and free up fiscal space for a growth-friendly tax shift. Even when the planned limitation of the mortgage interest deductibility rate has been completed, the current tax system will still treat owner-occupied housing differently from other assets. Not only are recurrent taxes on owner-occupied housing low, but the ability to deduct mortgage interest payments from taxable labour income also makes owner-occupied housing more attractive than renting. This creates an incentive to invest to favour investments in owner-occupied housing over more productive assets, potentially implying a misallocation of savings. It also makes it less attractive for investors to offer houses for rent as they do not receive fiscal subsidies. Channelling budgetary savings from a reduction in mortgage interest deductibility rate back to households through lower taxes on labour would make the tax system more growth-friendly. The 2014 in-depth review on the Netherlands[46] contains a detailed analysis of housing market and related policies in light of potential imbalances (see Box 5 below).

The government is trying to encourage higher-income households to move by higher rent differentiation by income in order to increase the availability of social housing for households that need it. The system of income-related rent increases aims at addressing the problem of long waiting lists. It will take time to let higher-income households move out of social housing, especially since the yearly rent increases for people with higher incomes are relatively modest. The system of income-related rent increases has also proven to carry a significant administrative burden and has created problems regarding the privacy of sensitive information about tenants (especially information about household income). In response to this the 2014 national reform programme announces plans to simplify and reform the calculation of the maximum rent for social housing. Under the new system the value of the dwelling will influence the maximum rent. This allows rents to better reflect the value and quality of dwellings and aims at improving the availability of social housing for poorer households. Any undue income effects can in principle be addressed by targeted measures. Such an approach can help develop a rental market more responsive to price incentives in particular by heightening the incentives for tenants who can afford to do so to move to more expensive dwellings. This in turn may help increase the size and improve the functioning of the currently undersized commercial rental market.

What is still missing is an affordable middle segment of dwellings for rent, home-ownership or cooperative housing. Such a well-developed middle segment is needed given the changes made to the owner-occupied part of the market. The government has eased the conditions under which a social housing corporation can sell houses that do not fall under the rent ceiling (and are therefore not social housing by definition). While this should give social housing corporations an incentive to refocus on their core task, it could have a negative impact on the functioning of the housing market if the discounts social housing corporations usually give when selling houses are too large. Moreover, the overall rent ceiling for social housing will be kept stable for 3 years (as of 2015) at the current level. This means that the ceiling according to which a new rental contract is regulated or liberalised, will be kept constant in the coming three years. This measure can be expected to strongly improve the incentives to offer rental housing in the middle segment of the free rental market and to improve the affordability of the social rental sector.

The government has introduced a property tax levy aimed at taxing social housing corporations. It is intended to increase the proportion of recurrent taxes from housing and reduces the amount of 'dead capital' in the hands of social housing corporations. A stricter separation of the activities of social housing corporations for social housing and their activities in the liberalised rental market is expected to limit cross-subsidisation and to limit the financial risks. Such a strict separation of (implicitly) subsidised and non-subsidised activities was initially proposed but the weaker form of a mere administrative split makes it more difficult to prevent cross-subsidisation.

The governance of the social housing sector needs to be strengthened to reduce operational risks and inefficiencies. Strengthening the financial supervision of social housing corporations should help limit risks to public finances stemming from the extent of

[46] IDR Macroeconomic Imbalances — Netherlands 2014.

implicit government guarantees. With respect to inefficiencies, there are strong indications that the operational costs of many social housing corporations could be lower.[47]

On the whole measures taken in recent years have gone in the right direction but as significant distortions still persist in the housing market, they need to be followed up by additional measures. The 2013 country specific recommendation on the housing market made implementing the measures more quickly contingent on the economic environment. As the housing market is bottoming out and the economy is expected to continue recovering, stepping up the pace of reform may be considered.

Box 5: Conclusions from the March 2014 in-depth review on the Netherlands

The second in-depth review (IDR) on the Netherlands under the Macroeconomic Imbalance Procedure was published on 5 March 2014.[48] On the basis of this review, the Commission concluded that the Netherlands continues to experience macroeconomic imbalances which require monitoring and policy action. The review shows that macroeconomic developments regarding private sector debt and ongoing deleveraging, coupled with remaining inefficiencies in the housing market, deserve attention. The large external balance surplus does not pose risks similar to large deficits and is partly linked to the need for deleveraging.

Rigidities and distorted incentives have built up over decades to shape housing finance and sectoral saving patterns. Financial institutions' balance sheets have become heavily geared towards housing finance, as households leveraged up against housing wealth. At the same time, since the mid-1990s, non-financial corporates have acquired a structural savings surplus. This has resulted in a substantial, persistent external balance surplus going hand-in-hand with a high level of gross household debt and household net assets. In recent years, subdued domestic demand in the wake of the global financial crisis has further pushed up the external balance surplus. Over the past few years there have been improvements in this regard, with policies implemented to curb mortgage-financing. Deleveraging will continue to weigh on economic activity but a stabilising housing market and households' significantly positive net asset position limit the risks.

Regarding ways of tackling these imbalances through policy, a balanced adjustment of saving, expenditure and investment patterns across the Dutch economy would have a beneficial effect on the domestic investment climate and growth potential, thus improving economic prospects. Taking advantage of the scope in the existing institutional framework for more differentiated wage increases could help support household income. Such an approach would have to take account of companies' productivity, profitability and prevailing buffers. Policy and supervisory measures to reduce the number of incentives for households to incur housing debt and lower loan-to-value ratios should ultimately lead to lower housing-related debt and leverage ratios. However, it may take a long time for existing debt overhangs to lessen. The private rental market is still not functioning fully and there are still inefficiencies in the allocation of social housing to people who really need it. It is important to maintain and speed up the pace of reforms in the housing market by improving the sector's functioning and reducing inefficiencies and dead-weight losses arising out of the operations of social housing corporations.

[47] See e.g. Regiecorporatie – naar een doelmatige maatschappelijke verhuurder.
[48] IDR Macroeconomic Imbalances — Netherlands 2014.

Research, innovation and enterprise policy

A key challenge for the Netherlands is exploiting their world-class science base to make the economy more innovation-intensive. This requires preserving the strong base in fundamental research and higher education, further enhancing science-business cooperation, improving the transfer of knowledge and creating a business environment that lends itself to the creation and development of knowledge-intensive innovative companies. More skilled human resources are needed for this to happen.

The National 2020 Technology Pact is a non-binding, joint initiative between the central government, business communities, trade unions and other stakeholders. Concluded in May 2013, it aims to increase the number of school pupils and technical students to study, learn and work in technology. Together with the human capital agendas, it is intended to address the shortage of skilled workers, though care should be taken to promote skill enhancement broadly, without singling out certain sectors.

Fostering the Dutch economy's capacity for innovation still remains a challenge. The government is continuing to implement its enterprise policy 'To the Top'[49]. The policy was introduced in 2012 with its 'top sectors' approach, complemented by greater use of indirect support for research and innovation activities through tax incentives and an innovation fund for entrepreneurship for example.[50] The main objective of this policy is to foster public-private cooperation between entrepreneurs and knowledge institutions, strengthen competitiveness, and reinforce the knowledge base. While it is too early to fully assess the impact of the various aspects of the enterprise policy, their implementation points to progress in addressing the Netherlands' innovation challenge.

According to the Innovation Union Scoreboard 2014, the Netherlands is one of the top 'innovation followers'.[51] Private research and development investments increased slightly to 1.22 % of GDP in 2012, but they remain below the euro-area average (1.35 % in 2012). This is partly because the Dutch economy has a large service sector and a relatively small manufacturing industry geared towards medium-tech sectors. A lot of private research and development expenditure is concentrated in a limited number of large multinational companies. A strong publicly funded base in education and fundamental research must be preserved in order to support private sector innovation. To this effect, it is important that expenditure on publicly funded fundamental research is shielded and not channelled into earmarked uses. The absence of a significant structural orientation towards research-intensive sectors and skill shortages, especially in engineering and technology-related professions, may be detrimental the future competitiveness of the Dutch economy.

Energy

The Netherlands is the largest natural gas producer in the EU. According to Eurostat, the country accounted for 43.2% of EU-27 gas production in 2012, up from 40.6% in 2010. In 2012 the country's annual production was 57.4 million tonnes of oil equivalent (Mtoe), down from 57.7.4 Mtoe in 2011. Dutch gas production is forecast to decline significantly by 2020. The government is preparing itself for when more imports will be necessary by pursuing a strategy to become Europe's 'gas roundabout', thereby ensuring the security of supply by

[49] 'To the top: towards a new enterprise policy' http://www.rijksoverheid.nl/documenten-en-publicaties/rapporten/2011/09/13/naar-de-top-het-bedrijvenbeleid-in-actie-s.html.

[50] Innovation Fund SME+.

[51] http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index_en.htm

diversifying sources. Even though the market is fully liberalised in the Netherlands, market concentration at retail level remained high (the three largest companies cover 81 % of the retail market).

Sustainable growth

Under the Effort Sharing Decision (ESD), by 2020 the Netherlands needs to decrease its emissions not covered by the Emissions Trading Scheme by 16 % compared to 2005 levels. Its latest projections, taking into account existing measures, suggest it will miss the target by one percentage point.[52] This means that the situation needs to be further monitored. If measures in the planning stage are taken into account, the Netherlands is currently on track for reaching the target set out in the Effort Sharing Decision.[53]

The Netherlands has reached a renewable energy share of only 4.47 % in 2012, far off its EU target of 14 % by 2020. This might be due to a rapidly changing[54] policy environment before 2012. On 6 September 2013, more than 40 organisations, signed a legally non-binding Energy Agreement for Sustainable Growth.[55] It commits the parties to implementing measures to reach EU and national targets on energy efficiency and using renewable energy. The crux of the agreement is a set of broadly supported provisions on energy saving, clean technology and climate policy. Their aim is to achieve four quantitative objectives including an average annual saving of 1.5 % in final energy consumption.

If planned policies and policies that are being developed are not implemented as soon as possible, the Netherlands risks falling short of its 2020 renewable energy target. The broad involvement of society in helping to speed up the implementation of policies is a welcome development, although it entails risks in terms of ownership and accountability. Given the non-binding nature of many aspects of the Energy Agreement, combined with limited supportive additional public expenditure, it also remains to be seen whether its implementation will result in the expected energy savings by 2020. The overcapacity in electricity production poses a further challenge for the future energy policy in view of the transition to a low carbon economy. It is therefore important to closely monitor progress and take corrective action if necessary. Cooperation mechanisms[56] could be developed with other Member States to help the country reach its 2020 target.

Compared to EU average peak hour congestion constitutes a problem in the Netherlands, both inside the agglomeration as on essential interurban links.[57] Even if the downturn of the economy and recent infrastructure developments have improved the traffic flows[58], the Netherlands is still confronted with significant congestion. A system of road

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[52] *EEA, Member States' greenhouse gas projections submissions under Article 3(2) of the EU MMD (19.3.2013),* Referentieraming Energie en Emissies Actualisatie 2012 (PBL 2012b).

[53] *EEA, Member States' greenhouse gas projections submissions under Article 3(2) of the EU MMD (19.3.2013),* Referentieraming Energie en Emissies Actualisatie 2012 (Planbureau voor de Leefomgeving (PBL) 2012b).

[54] For example, incentives for renewable energies which were revised, implemented or abolished in the period 2003-2012 include the exemption from the regulatory energy tax, the three different renewable electricity subsidy schemes MEP, SDE and SDE+, the energy investment allowance, the energy premium, the accelerated depreciation of environmental investments.

[55] Energy Agreement for Sustainable Growth (Socio-Economic Council 2013).

[56] The Renewable Energies Directive (2009/28/EU) introduces optional cooperation mechanisms between Member States which allow them to agree on the extent to which one Member State supports the energy production in another and on the extent to which the energy production from renewable sources should count towards the national overall target of one or the other.

[57] http://scorecard.inrix.com/scorecard/

[58] http://www.anwb.nl/verkeer/nederland/verkeersinformatie/filezwaarte

pricing and/or congestion charges could have both economic and environmental benefits[59], but advanced preparations for introducing such a system were abandoned in 2010.

The Netherlands would benefit from prioritising investments in resource efficiency. It is promising that the Dutch government recently published an ambitious, comprehensive programme supporting the transition to a circular economy. In particular, there is scope to improve the business environment by setting up programmes for giving SMEs hands-on support to use fewer resources in order to save costs and create or safeguard jobs.[60]

Box 6: Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators such as the degree of competition or labour market participation. Improvements on these indicators could raise GDP by about 4.5% in a 10-year period. Some reforms could have an effect even within a relatively short time horizon. The model simulations corroborate the analysis of Section 3.3, according to which large potential gains could be achieved by further increasing participation rates. Whilst to a considerable extent the low amount of hours worked by second-income earners appear to reflect current preferences, it is also related to barriers such as tax disincentives or expensive childcare provisions discouraging an increase in hours worked. The simulation indicates that addressing these barriers could have positive effects even within a relatively short time horizon.

[59] Kosten en Baten varianten Anders Betalen voor Mobiliteit (Ecorys 2007), Economische analyses van Anders Betalen voor Mobiliteit (CPB 2008)
[60] Based on the results of best practices in other Member States, the cost-benefit ratio between investments and SME cost savings can be up to 1:20 (Risk and Policy Analysts, *Study on Economic and Social Benefits of Environmental Protection and Resource Efficiency Related to the European Semester* (2014)).

Table: Structural indicators, targets, and potential GDP effects[61]

Reform areas		NL	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.21	0.13	1.9	2.3
Market regulation	Entry costs	5.50	0.13	0.0	0.0
Tax reform	Implicit consumption tax rate	26.3	28.6	0.1	0.0
Skill enhancing reforms*	Share of high-skilled	5.8	10.7	0.0	0.1
	Share of low-skilled	26.6	7.5	0.0	0.1
Labour market reforms	Female non-participation rate (25-54ys):			0.6	0.8
	- low-skilled	35.9	26.4		
	- medium-skilled	15.4	10.5		
	- high-skilled	8.7	4.3		
	Low-skilled male non-participation rate (25-54ys)	13.4	7.7	0.1	0.1
	Elderly non-participation rate (55-64ys):			0.1	0.4
	- low-skilled	17.6	13.4		
	- medium-skilled	7.5	4.8		
	- high-skilled	4.7	3.3		
	ALMP (% of GDP over unemployment share)	29.4	37.4	0.0	0.0
	Benefit replacement rate**	72.9	52.6	0.6	0.8
Total				3.4	4.6

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.[62] * EU average is set as the benchmark. ** The long-run effect of increasing the share of high-skilled labour in the population could be 1.7% of GDP and of decreasing the share of low-skilled labour could be 3.9%.

3.5. Modernisation of public administration

The Netherlands has a tradition of a reliable public administration and a business-friendly legal environment. According to the World Bank's Doing Business Report,[63] it generally has a business-friendly legal and regulatory environment that encourages business competitiveness, but certain areas of regulation could be improved or simplified even more. The Netherlands has one of the lowest EU publication rates of public procurement contracts advertised at EU level compared to country's GDP. Increasing this rate might bring economic benefits.[64] Planning rules and licensing/derogation schemes at provincial and municipal level limit market access for large retail shops. The planned amendment of the national regulation aiming to reduce those barriers has not been adopted yet.

In April 2013 a new programme was launched which aims to further reduce the regulatory burden on businesses, professionals and citizens by EUR 2.5 billion by 2017. The introduction of new regulations is being linked to the revision or scrapping of existing ones. By 2017 all business will be able to communicate with the authorities online. While the

[61] Final goods sector markups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.
[62] For a detailed explanation of the transmission mechanisms of the reform scenarios see: European Commission (2013), "The growth impact of structural reforms", Chapter 2 in QREA No. 4. December 2013. Brussels; http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf
[63] http://www.doingbusiness.org/reports.
[64] The value of works, goods and services that Dutch authorities and entities publish EU-wide stood at 2.1% of GDP and 6.8% of total public expenditure on works, goods and services in 2012, which is below the respective EU averages of 3.4% and 17.7%.

main e-government infrastructure seems to be in place, not all procedures can be completed electronically yet. While at national level and in larger cities a considerable effort is being made in this regard, a number of regional and local authorities may still need to make a greater effort. In January 2014, the Chamber of Commerce and the innovation agency Syntens were merged into one centralised organisation with a radically simplified governance structure. The number of local offices was reduced considerably, but services provided through a new digital one-stop shop for entrepreneurs are being significantly reinforced. It is still too early to assess the impact of this reorganisation, but the approach seems promising.

Much of the total fiscal consolidation effort is achieved through savings by reducing the size of the public sector and decentralising competences. As part of an effort to save on net expenditure, the government is decentralising many competences to municipalities, from youth services to long-term healthcare. This could improve the provision of public services by making it possible to provide more individually tailored services in these areas. To this end, local governments should maintain a large degree of autonomy regarding their supporting policy solutions, as this might give rise to best practices that could then be rolled out on a wider scale. However, at the same time, this could lead to significant differences in the quality of and access to associated public services, which could be perceived as unfair. It is therefore important to ensure that the large degree of local autonomy is in line with some centrally established criteria ensuring a minimum degree of quality control and accessibility. Furthermore, it is important to maintain the quality of public services across all levels of government; sustained freezes in public sector remuneration are not conducive in this respect. Developments need to be closely monitored and supportive policies should be implemented if necessary. Another risk is that the timeframes envisaged, whilst achievable in principle, are very ambitious. This could lead to practical problems with implementation, especially in municipalities with low organisational capacities and high demand pressures.

The Netherlands recently introduced a comprehensive impact assessment system to analyse the economic, social and environmental costs and benefits and the administrative burden of new policies and legislation. Such a system is welcome because a thorough ex-ante assessment is expected to save costs (e.g. the costs of not taking action, lock-in effects, indirect and long-term effects). A next step could be to apply the new system to all strategic policy decisions and make it transparent by publishing the impact assessment reports.

4. CONCLUSIONS

The Dutch economy had been in a prolonged slump with negative repercussions for the budgetary balance and employment, but is finally emerging from recession. Ongoing deleveraging of households, financial institutions and the government caused weak internal demand and pushed up the external balance in 2013. In particular households have been (voluntarily) repaying the principal of their mortgages due to high loan-to-value ratios and decreasing house prices. Weaknesses in the pension system and the labour market that came to the fore during the crisis have been mitigated by measures implemented and are also expected to be addressed to some extent by planned measures. The housing market recently took a turn for the better, one of the factors enabling the economy to start recovering. Since pension and labour market reforms are still being adopted and implemented, their positive effects on the economy have yet to be gauged.

The analysis in this staff working document leads to the conclusion that the Netherlands has made some progress in implementing the 2013 country-specific recommendations.

Far-reaching reforms implemented in recent years have improved the Dutch economy's long-term growth prospects. Nonetheless, more still needs to be done to improve the economy's structure, especially since the reform momentum appears to have somewhat waned since the submission of the 2013 national reform programme and stability programme.

Thanks to a significant and sustained fiscal effort, the Netherlands is expected to substantially reduce its budget deficit. With the adoption of additional, wide-ranging consolidation measures, the general government deficit is expected to reach 2.8 % of GDP in 2014 and 1.8% of GDP in 2015. The stability programme aims at approaching the MTO in 2015. Additional measures may be needed to reach the MTO and to adhere to it throughout the period covered by the stability programme, also to ensure meeting the debt benchmark and improving the long-term sustainability of public finances. In order to enhance the growth potential of the economy and support domestic demand, safeguarding growth-enhancing expenditure, such as innovation and research, including fundamental research, education and training will be needed.

There are still significant structural distortions in the housing market. Measures taken in recent years have gone in the right direction but they do not fully address the country specific recommendation. Mortgage interest deductibility has been only gradually and partially reduced, leaving sizeable scope for households to mortgage-finance the purchase of owner-occupied housing. The private rental market is still not functioning fully, partly due to fiscal distortions and a social housing sector that, despite its large scale, still has long waiting lists and provides housing for tenants with incomes above the social housing threshold. Since the economy is heading for a moderate expansion and the housing market shows signs of bottoming out in terms of prices and an increase in transactions, renewed or additional efforts and/or speeding up the pace of housing market reforms could be considered.

The reform of the second pension pillar is ongoing but crucial details still need to be fleshed out. The reform of the second-pillar pension system follows from the increase in the statutory retirement age under the first pillar as of 2013. This has already been enshrined in law but it remains to be seen to what extent the reform ensures inter- and intra-generational fairness. With regard to long-term care, the government is planning to decentralise its supply to municipalities and expects to make considerable efficiency gains as a result. There are however significant risks associated with reaching these budgetary targets. This is because the planned decentralisation is subject to a very ambitious timeframe. It may be difficult to monitor and check the implementation of the planned measures, as a result of which the expected savings may not be made. Moreover, preserving quality and access to care needs to be monitored closely. Additional measures also seem to be necessary to ensure the long-term sustainability of public finances.

Labour market reforms are in the process of adoption and aim to improve labour market participation and labour mobility. Labour market reforms include changes to tax credits, a number of allowances, unemployment benefits and employment protection legislation. Schemes for people with a labour disability are also being reformed. Overall, these measures can be expected to have a positive impact on labour market participation and mobility. This can only be fully evaluated at a later stage however, as most of the planned measures still have to be put in place. Their effects must be closely monitored.

The policy plans submitted by the Netherlands address most of the challenges identified in last year's Staff Working Document, and broad coherence between the two documents has been ensured. The national reform programme confirms the Dutch commitment to address shortcomings in the areas of the housing and the labour market. The stability programme demonstrates the Dutch commitment to comply with the recommendations of the Excessive

Deficit Procedure, improve the budgetary position towards the medium-term objective and ensure the long-run sustainability of public finances in line with the Stability and Growth Pact. However, planned measures do not address the challenges in a comprehensive way and there is a risk of a significant deviation from the adjustment path towards the MTO.

Overview table (CSRs, 2020 Targets)[65]

2013 Commitments	**Summary assessment**
2013 Country specific recommendations (CSRs)	
CSR 1: Reinforce and implement the budgetary strategy, supported by sufficiently specified measures, for the year 2014 and beyond to ensure a timely correction of the excessive deficit by 2014 in a sustainable manner and achieve the structural adjustment effort specified in the Council recommendations under the EDP. Protect expenditure in areas directly relevant for growth such as education, innovation and research. After the correction of the excessive deficit, pursue the structural adjustment effort that will enable the Netherlands reaching the medium-term objective by 2015.	The Netherlands made **substantial progress** in implementing CSR 1: • Fully addressed: Additional measures have been implemented that are expected to correct the excessive deficit in a sustainable manner. • Some progress: Expenditure in areas directly relevant for growth is under pressure. • Limited progress: The budgetary adjustment path does not appear to ensure reaching the MTO by 2015.
CSR 2: Step up efforts to gradually reform the housing market by accelerating the planned reduction in mortgage interest tax deductibility, while taking into account the impact in the current economic environment, and by providing for a more market-oriented pricing mechanism in the rental market, and by further relating rents to household income in the social housing sector. Refocus social housing corporations to support households most in need.	The Netherlands made **limited progress** in implementing CSR 2: • Limited progress: since last year's NRP, the enthusiasm for further reforms has waned significantly. The implementation of reforms has not been stepped up as recommended, even though the economic outlook has improved and the housing market has stabilised. • Limited progress: the rental market is still underdeveloped. Rents in the social housing sector are linked to household income but the system introduced has proven costly. The government recently announced that rents will also be more closely linked to the value of the dwelling. This should support turnover in the market. • Limited progress: despite long waiting lists for social housing, social housing corporations are still engaging in activities outside their core task. The strict separation of (implicitly) subsidised and non-subsidised activities was initially proposed but now the weaker form of a mere administrative split seems to be considered. It will

[65] The following categories are used to assess progress in implementing the 2013 country specific recommendations: No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures. Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk. Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases. Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR. Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

	be more difficult to prevent cross-subsidisation under this arrangement.
CSR 3: Adjust the second pension pillar, in consultation with social partners, to ensure an appropriate intra- and inter-generational division of costs and risks. Underpin the gradual increase of the statutory retirement age with measures to increase the employability of older workers. Implement the planned reform of the long-term care system to ensure its cost-effectiveness and complement it with further measures to contain the increase in costs, with a view to ensure sustainability.	The Netherlands made **some progress** in implementing CSR 3: • Some progress: the Netherlands has partially implemented the part of the recommendation regarding the adjustment of the second pension pillar in consultation with social partners, to ensure an appropriate intra- and inter-generational distribution of costs and risks. The long-term sustainability of the pension system has been strengthened by gradually increasing the first-pillar statutory retirement age from 65 in 2012 to 67 in 2023, but there has been an ongoing discussion about the technical parameters for the second-pillar pension reform. An agreement reached in December 2013 is to be transposed in legislation in the course of 2014. From 2.15 % in 2014, the annual accrual rate exempted from taxes will be lowered to 1.875 % from January 2015. In principle, this should lead to a decrease in the height of the pension premiums. The Dutch Central Bank will monitor the situation. Under the planned reforms, the financial supervision of the pension funds will be improved and made more rigorous. Better use will also be made of financial buffers in order to better cope with financial shocks. This should reduce the system's pro-cyclicality. If pensions need to be adjusted following financial shocks, the Central Bank will assess the way in which the pension funds have taken inter-generational effects into account to ensure inter- and intra-generational fairness in pension contracts. The proposed legislation is awaiting parliamentary approval. • Substantial progress: several measures have been taken to encourage older workers to work longer and increase their labour mobility. As a result, the effective retirement age has been increasing significantly, narrowing the gap between the statutory and the effective retirement age. • Some progress: it is also planned to reform the long-term care system from 2015. The reform will shift responsibilities from the state partly to municipalities and partly to health insurers, with a view to getting people to make greater use of informal care. The parliament is negotiating the proposed legislation. Whilst this reform is a step in the right direction, more will need to be done to ensure the long-term sustainability of public finances.
CSR 4: Take further measures to enhance participation in the labour market, particularly of people at the margin of the labour market. Continue to reduce tax disincentives on labour, including by phasing-out of transferable tax credits for second income earners. Foster labour market transitions and address labour market rigidities, including by reforming employment protection legislation and the	The Netherlands made **some progress** in implementing CSR 4: • Some progress: to increase the number of hours worked some tax measures (e.g. phasing out the transferable tax credit and increasing the labour tax credit for lower incomes) have been implemented, but the situation remains largely unchanged. Full-time female participation remains low. The high percentage of women working part-time contributes to a high gender pay gap (17.9 %) and pension gap (40 %). To make

unemployment benefit system.	women more financially independent and alleviate future labour supply shortages, they need to work more hours. • Some progress: a Participation Act has been drafted to increase the labour market participation of people who live far from work. The parliament is discussing it and it is planned to implement it from January 2015. It aims to improve the labour market participation of people with disabilities by merging and reforming several benefit schemes, while shifting responsibility for their execution to municipalities and reducing overall funding. This increased responsibility, combined with substantial budget cuts for the municipalities, might create implementation problems. It is therefore crucial to monitor the reform's impact on the quality of service provision. • Substantial progress: in addition to the reform of unemployment benefits and employment protection legislation, which are supposed to have a positive effect on labour mobility, a decrease in labour segmentation is scheduled to be implemented from July of this year (parts of employment protection legislation) until January 2016 (decrease of the maximum duration of unemployment benefits).
Europe 2020 (national targets and progress)	
Employment rate target set out in the 2013 NRP: 80 %.	The employment rate was 76.8 % in 2010 77.0 % in 2011 77.2 % in 2012 and 76.5 % in 2013. In view of past performance, the Europe 2020 employment rate target of 80 % is ambitious but feasible. Current developments in the Dutch labour market might hamper the Netherlands' ability to reach the target by 2020.
R&D target set out in the 2013 NRP: 2.5 % of GDP.	The R&D intensity has reached 2.16% in 2012. While a break in the statistical series in 2011 impedes any appropriate trends analysis, 2012 saw a clear increase in relation to 2011, both for public (0.94% vs. 0.89%) and private R&D intensity (1.22% vs. 1.14%). Public spending on R&D and innovation (EUR 6.4 billion in 2012) is expected to reach € 6.6 billion in 2013, after which it is set to decline to EUR 5.9 billion in 2017. This represents a decline of public spending on R&D and innovation from 1.07% of GDP in 2012 to 0.92% of GDP in 2017. The probability of achieving the overall R&D intensity target will depend on future developments of public R&D and innovation spending and the leverage effect on private R&D investments of both the top sector policy and the R&D tax incentives.
The Netherlands has an Effort Sharing Decision target to reduce non-ETS emissions by 16 % relative to 2005 levels by 2020.	Change in non-ETS greenhouse gas emissions between 2005 and 2012: -9 %. The Netherlands' latest projections, taking into account existing measures, suggest that it will miss the target (-15 % in 2020

	relative to 2005, a shortfall of 1 %).
2020 renewable energy target: 14 %. Proportion of renewable energy in all modes of transport: 10 %.	According to provisional Eurostat data, the proportion of renewable energy in gross final energy consumption reached 4.5 % in 2012. The average proportion of renewable energy sources for 2011/2012 (4.4 %) is therefore below the benchmark of 4.7 % set by the indicative trajectory in the Renewable Energy Directive for 2011/2012.
Energy efficiency target: 20 %. The Netherlands has set itself an indicative national energy efficiency target of a reduction of 1.5 % a year. This means it must reach a 2020 level of 60.7 Mtoe in primary energy consumption and 52.2 Mtoe in final energy consumption.	The Netherlands informed the Commission of the policy measures it plans to adopt to implement Article 7 of the Energy Efficiency Directive (on energy efficiency obligation schemes). It is estimated that the impact of Article 7 shall ensure about half of the required savings expected from the Directive.
Early school leaving target: <8.0 %.	The early school leaving rate was 10.9 % in 2009 10.0 % in 2010 9.1 % in 2011 8.8 % in 2012 and 9.2 % in 2013. A fast decline in the early school leaving rate, even in crisis years, shows that it is possible to reach the target of 8 % by 2020.
Tertiary education attainment target: >40% %.	The tertiary education attainment rate was 41.4 % in 2010 41.1 % in 2011 42.2 % in 2012 and 43.1% in 2013. The target has already been achieved.
Target for reducing the number of people living in households with very low work intensity in number of people: -100.000 (aged 0-64).	The number (in 1 000 people) of people living in households with very low work intensity was 1 068 in 2010 1 128 in 2011 and 1 133 in 2012 In the year the target was set, 1 053 000 people aged 0 to 59 lived

[66] The Dutch target is related to the 0-64 age group instead of the 0-59 age group (Eurostat does not provide figures for latter and Statistics Netherlands provides annual figures for the 0-64 age group to the Ministry of Social Affairs and Employment). According to these figures, the number of people in households with very low work intensity increased by 22 000 people between 2008 and 2012.

	in households with very low work intensity. This number increased to 1 133 000 in 2012 as a result of the economic crisis (an increase of 80 000). This makes it difficult for the Netherlands to reach the target of a decrease of 100 000 by 2020.[66]

ANNEX

Standard tables

Table I. Macroeconomic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	4.0	1.3	1.4	0.9	-1.2	-0.8	1.2	1.4
Output gap [1]	0.8	-1.2	0.1	-1.0	-2.4	-3.3	-2.6	-1.8
HICP (annual % change)	1.9	2.8	1.5	2.5	2.8	2.6	0.7	0.9
Domestic demand (annual % change) [2]	4.2	0.8	1.3	0.8	-1.6	-2.4	1.0	0.7
Unemployment rate (% of labour force) [3]	4.6	4.0	3.9	4.4	5.3	6.7	7.4	7.3
Gross fixed capital formation (% of GDP)	22.1	19.7	19.3	17.8	17.0	16.1	16.7	17.0
Gross national saving (% of GDP)	27.1	26.4	25.5	25.5	25.2	24.1	25.0	25.7
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.3**	**-1.5**	**-1.9**	**-4.3**	**-4.1**	**-2.5**	**-2.8**	**-1.8**
Gross debt	**64.6**	**51.5**	**55.1**	**65.7**	**71.3**	**73.5**	**73.8**	**73.4**
Net financial assets	**-44.5**	**-35.3**	**-30.1**	**-38.8**	**-42.2**	**n.a**	**n.a**	**n.a**
Total revenue	46.4	44.4	46.1	45.6	46.4	47.3	47.0	47.7
Total expenditure	46.8	45.9	48.0	49.9	50.5	49.9	49.8	49.5
of which: Interest	4.6	2.7	2.2	2.1	1.9	1.8	1.7	1.7
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**3.0**	**7.3**	**8.2**	**10.8**	**10.6**	**8.7**	**8.0**	**6.8**
Net financial assets; non-financial corporations	**-146.6**	**-98.5**	**-67.3**	**-42.3**	**-37.5**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-32.0**	**-20.2**	**-7.6**	**-14.6**	**-23.9**	**n.a**	**n.a**	**n.a**
Gross capital formation	12.3	9.6	9.4	9.6	9.6	8.6	9.2	9.6
Gross operating surplus	24.4	24.8	25.4	25.9	26.1	25.8	25.4	25.0
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**1.8**	**0.6**	**-0.6**	**0.5**	**0.7**	**1.3**	**2.3**	**3.3**
Net financial assets	**212.7**	**167.4**	**157.5**	**170.8**	**192.0**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	41.8	40.0	38.7	39.2	39.1	39.0	38.9	39.0
Net property income	8.6	6.8	5.0	4.3	4.8	4.8	5.0	5.8
Current transfers received	23.1	22.6	21.6	22.8	23.4	24.0	24.0	24.3
Gross saving	9.4	7.7	6.3	5.9	5.5	5.9	6.8	7.8
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**4.5**	**6.5**	**5.7**	**7.0**	**7.4**	**7.6**	**7.5**	**8.2**
Net financial assets	**10.4**	**-13.3**	**-52.6**	**-75.1**	**-88.3**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	5.1	6.9	7.9	8.6	8.4	10.2	10.4	10.8
Net primary income from the rest of the world	0.9	1.2	-0.3	0.3	0.9	-0.5	-0.4	-0.5
Net capital transactions	-0.3	-0.2	-0.4	-0.3	-0.3	-0.3	-0.6	-0.3
Tradable sector	42.8	41.0	39.9	39.6	39.7	39.8	n.a	n.a
Non tradable sector	46.6	48.0	49.1	50.0	50.1	49.8	n.a	n.a
of which: Building and construction sector	4.9	5.0	5.1	4.8	4.4	4.2	n.a	n.a
Real effective exchange rate (index, 2000=100)	91.7	98.5	102.2	102.8	101.6	104.3	104.9	104.6
Terms of trade goods and services (index, 2000=100)	97.3	99.7	99.3	98.4	97.8	98.4	98.7	98.5
Market performance of exports (index, 2000=100)	100.0	100.8	101.2	103.5	106.5	107.2	106.8	106.4

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:
Commission 2014 spring forecast (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2013		2014		2015		2016	2017
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	-0.8	-0.8	1.2	n.a.	1.4	n.a.	1.6	1.6
Private consumption (% change)	-2.1	-2.1	-0.2	n.a.	0.9	n.a.	0.1	0.1
Gross fixed capital formation (% change)	-4.8	-4.8	4.9	n.a.	2.9	n.a.	2.6	2.6
Exports of goods and services (% change)	1.4	1.3	3.3	n.a.	5.0	n.a.	5.1	5.1
Imports of goods and services (% change)	-0.2	-0.5	3.4	n.a.	4.8	n.a.	4.5	4.5
Contributions to real GDP growth:								
- Final domestic demand	-1.8	-1.9	0.9	n.a.	0.7	n.a.	0.5	0.5
- Change in inventories	-0.4	-0.4	0.0	n.a.	0.0	n.a.	0.0	0.0
- Net exports	1.4	1.5	0.3	n.a.	0.7	n.a.	1.1	1.1
Output gap[1]	-3.3	-3.1	-2.6	-2.7	-1.8	-1.9	-1.0	-0.3
Employment (% change)	-1.0	-1.0	-0.8	n.a.	0.6	n.a.	0.5	0.5
Unemployment rate (%)	6.7	6.7	7.4	n.a.	7.3	n.a.	6.6	6.1
Labour productivity (% change)	0.4	0.3	1.8	n.a.	0.8	n.a.	1.1	1.1
HICP inflation (%)	2.6	2.6	0.7	n.a.	0.9	n.a.	1.5	1.5
GDP deflator (% change)	1.4	1.8	1.2	n.a.	1.1	n.a.	0.9	0.9
Comp. of employees (per head, % change)	2.3	2.1	2.3	n.a.	1.7	n.a.	1.3	1.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	7.6	9.7	7.5	n.a.	8.2	n.a.	11.1	11.5

Note:

[1] In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Commission 2014 spring forecast (COM); Stability programme (SP).

Table III. Composition of budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	Change: 2013-2017
	COM	**COM**	**SP**	**COM**[1]	**SP**	**SP**	**SP**	**SP**
Revenue	**47.3**	**47.0**	**47.4**	**47.7**	**47.7**	**46.7**	**46.5**	**-0.8**
of which:								
- Taxes on production and imports	11.7	12.0	12.0	12.0	11.8	11.9	12.0	0.3
- Current taxes on income, wealth, etc.	10.9	11.2	11.4	11.8	11.9	12.6	12.8	1.9
- Social contributions	16.9	16.9	17.1	17.2	17.3	15.7	15.6	-1.3
- Other (residual)	7.7	6.9	6.9	6.7	6.7	6.5	6.1	-1.6
Expenditure	**49.9**	**49.8**	**50.3**	**49.5**	**50.0**	**48.7**	**48.0**	**-1.9**
of which:								
- Primary expenditure	48.1	48.1	48.5	47.9	48.2	46.6	45.9	-2.2
of which:								
Compensation of employees	9.5	9.4	9.5	9.3	9.4	8.9	8.7	-0.8
Intermediate consumption	7.7	6.9	7.0	7.0	7.0	6.9	6.7	-1.0
Social payments	24.4	24.5	24.9	24.8	25.2	24.2	24.0	-0.4
Subsidies	1.3	1.2	1.3	1.2	1.2	1.0	1.1	-0.2
Gross fixed capital formation	3.2	3.3	3.3	3.2	3.2	2.9	2.8	-0.4
Other (residual)	1.9	2.8	2.6	2.4	2.4	3.0	2.8	0.9
- Interest expenditure	1.8	1.7	1.8	1.7	1.8	2.1	2.1	0.3
General government balance (GGB)	**-2.5**	**-2.8**	**-2.9**	**-1.8**	**-2.1**	**-1.9**	**-1.4**	**1.1**
Primary balance	**-0.7**	**-1.0**	**-1.1**	**-0.2**	**-0.4**	**0.1**	**0.6**	**1.3**
One-off and other temporary measures	0.6	0.0	0.0	0.0	0.0	0.0	0.0	-0.6
GGB excl. one-offs	**-3.1**	**-2.8**	**-2.9**	**-1.8**	**-2.1**	**-1.9**	**-1.4**	**1.7**
Output gap[2]	-3.3	-2.6	-2.7	-1.8	-1.9	-1.0	-0.3	3.0
Cyclically-adjusted balance[2]	-0.6	-1.3	-1.4	-0.8	-1.0	-1.3	-1.2	-0.6
Structural balance (SB)[3]	**-1.3**	**-1.3**	**-1.4**	**-0.8**	**-1.0**	**-1.3**	**-1.2**	**0.1**
Change in SB	*1.4*	*0.0*	*0.0*	*0.5*	*0.3*	*-0.3*	*0.1*	-
Two year average change in SB	*1.3*	*0.7*	*0.7*	*0.2*	*0.2*	*0.0*	*-0.1*	-
Structural primary balance[3]	0.5	0.4	0.4	0.9	0.8	0.8	0.9	0.5
Change in structural primary balance		*-0.1*	*0.0*	*0.4*	*0.3*	*0.0*	*0.1*	-
Expenditure benchmark								
Applicable reference rate[4]	n.a.	-0.14	-0.14	-0.14	-0.14	n.a.	n.a.	-
Deviation[5] (% GDP)	n.a.	0.5	1.0	-1.3	0.3	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.a.	n.a.	n.a.	-0.4	0.7	n.a.	n.a.	-

Notes:

[1] On a no-policy-change basis.

[2] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3] Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Commission 2014 spring forecast (COM); Stability programme (SP).

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014 COM	2014 SP	2015 COM	2015 SP	2016 SP	2017 SP
Gross debt ratio[1]	**63.9**	**73.5**	**73.8**	**74.6**	**73.4**	**74.7**	**74.1**	**73.2**
Change in the ratio	5.2	2.2	0.3	1.1	-0.4	0.1	-0.6	-0.9
Contributions[2] *:*								
1. Primary balance	**1.6**	**0.7**	**1.0**	**1.1**	**0.2**	**0.4**	**-0.1**	**-0.6**
2. "Snow-ball" effect	**1.6**	**1.4**	**0.0**	**0.5**	**-0.1**	**-0.1**	**0.2**	**0.2**
Of which:								
Interest expenditure	2.1	1.8	1.7	1.8	1.7	1.7	2.0	2.0
Growth effect	0.2	0.6	-0.8	-0.5	-1.0	-0.9	-1.2	-1.2
Inflation effect	-0.6	-1.0	-0.9	-0.7	-0.8	-0.9	-0.6	-0.6
3. Stock-flow	**1.9**	**0.1**	**-0.8**	**-0.5**	**-0.4**	**-0.2**	**-0.7**	**-0.5**
Of which:								
Cash/accruals diff.				0.0		-0.2	-0.1	0.0
Acc. financial assets				0.1		-0.2	-0.6	-0.5
Privatisation								
Val. effect & residual				-1.9		-1.8	-1.9	-1.9

	2013	2014 COM	2014 SP	2015 COM	2015 SP	2016 SP	2017 SP
Gap to the debt benchmark[3,4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Structural adjustment[5]	n.a.	0.0	n.a.	0.5	n.a.	n.a.	n.a.
To be compared to:							
Required adjustment[6]	n.a.	-0.1	n.a.	-0.1	n.a.	n.a.	n.a.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[4]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[5]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[6]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP/CP) budgetary projections for the previous years are achieved.

Source:

Commission 2014 spring forecast (COM); Stability programme (SP).

Table V. Sustainability indicators

	Netherlands			European Union		
	2013 scenario	No-policy-change scenario	Stability programme scenario	2013 scenario	No-policy-change scenario	Stability programme scenario
S2*	5.6	5.3	5.5	2.4	2.4	0.7
of which:						
Initial budgetary position (IBP)	1.6	1.3	1.7	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	4.0	4.0	3.8	1.9	2.0	2.0
of which:						
pensions	0.9	1.0	0.9	0.7	0.8	0.9
healthcare	0.8	0.7	0.7	0.9	0.9	0.8
long-term care	2.7	2.7	2.6	0.6	0.6	0.6
others	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
S1**	1.6	1.2	2.1	1.5	1.7	-0.2
of which:						
Initial budgetary position (IBP)	-0.2	-0.7	0.3	-0.2	-0.4	-2.0
Debt requirement (DR)	0.8	0.9	0.9	1.5	1.8	1.5
Long-term cost of ageing (CoA)	1.0	1.0	0.9	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.15	:		:		
Debt as % of GDP (2013)	73.5			88.9		
Age-related expenditure as % of GDP (2013)	24.5			25.8		

Source *: Commission; 2014 stability programme.*

Note : The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP), which gives the gap vis-à-vis the debt-stabilising primary balance and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that, in an infinite horizon, the growth in the debt ratio is bound by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.

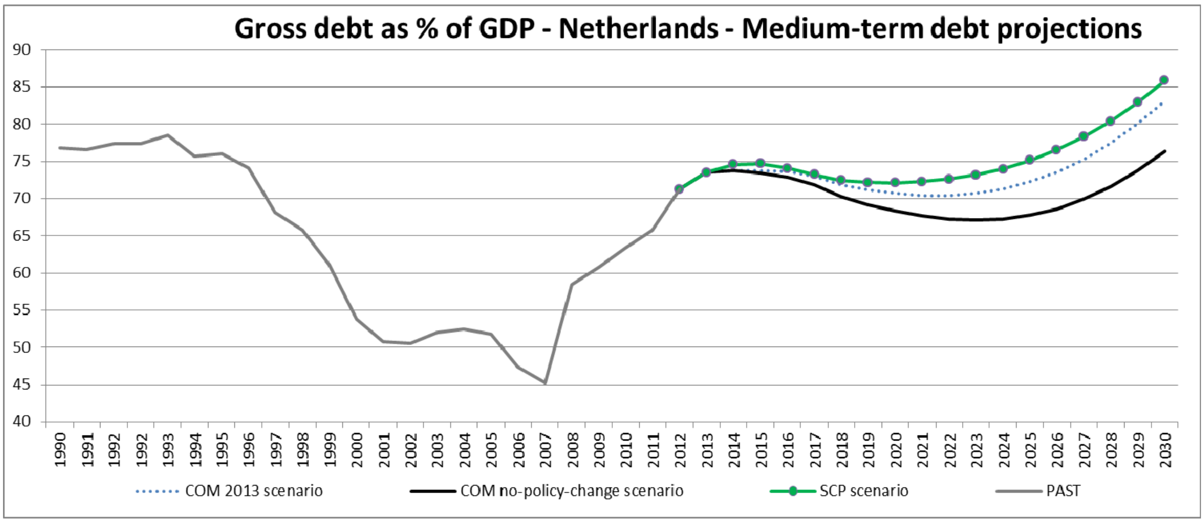

Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	37.7	39.0	39.2	38.9	38.6	39.0
Breakdown by economic function (% of GDP)[1]						
Consumption	11.4	11.7	11.4	11.4	11.1	11.0
of which:						
- VAT	7.2	7.4	7.3	7.3	6.9	7.0
- excise duties on tobacco and alcohol	0.5	0.5	0.5	0.5	0.5	0.5
- energy	1.8	2.0	1.9	2.0	2.0	1.9
- other (residual)	1.9	1.8	1.8	1.6	1.7	1.6
Labour employed	16.2	17.2	18.3	19.0	19.2	19.9
Labour non-employed	2.6	2.8	2.4	2.4	2.5	2.6
Capital and business income	5.0	4.7	4.6	3.7	3.5	3.4
Stocks of capital/wealth	2.5	2.6	2.5	2.4	2.2	2.2
p.m. Environmental taxes[2]	3.5	3.9	3.8	3.8	3.7	3.6
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	56.9	59.9	59.9	57.2	55.1	54.6

Note:

1. Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2014), Taxation trends in the European Union, for a more detailed explanation.

2. This category comprises taxes on energy, transport and pollution, and resources included in taxes on consumption and capital.

3. The VAT efficiency is measured via the VAT revenue ratio. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.

Source: Commission

Table VII. Financial markets indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	386.8	385.3	405.1	415.0	373.6
Share of assets of the five largest banks (% of total assets)	85.1	84.2	83.6	82.1	-
Foreign ownership of banking system (% of total assets)	5.3	15.4	13.1	11.0	-
Financial soundness indicators:					
- non-performing loans (% of total loans)[1)]	3.2	2.8	2.7	3.1	3.0
- capital adequacy ratio (%) [1)]	14.9	13.9	13.5	14.2	14.9
- return on equity (%) [1), 2)]	-0.5	8.9	9.6	7.4	9.2
Bank loans to the private sector (year-on-year % change)	1.8	4.0	4.1	4.0	-1.1
Lending for house purchase (year-on-year % change)	0.8	5.5	3.3	4.3	-0.1
Loan to deposit ratio	124.6	120.3	119.4	119.2	117.6
CB liquidity as % of liabilities	1.8	0.4	0.4	1.2	0.5
Banks' exposure to countries receiving official financial assistance (% of GDP)[3)]	22.9	15.0	13.0	11.1	10.0
Private debt (% of GDP)	221.2	221.3	219.3	219.4	-
Gross external debt (% of GDP)					
- Public	43.0	40.3	39.0	40.9	40.8
- Private	82.8	84.2	89.2	91.4	89.7
Long term interest rates spread versus Bund (basis points)*	46.4	24.8	38.1	43.8	39.2
Credit default swap spreads for sovereign securities (5-year)*	55.7	44.6	66.0	86.4	49.0

Notes:

[1)] Latest data 2013Q3.

[2)] After extraordinary items and taxes.

[3)] Covered countries are CY, EL, ES, LV, HU, IE, PT and RO.

* Measured in basis points.

Source:

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	78.9	78.8	76.8	77.0	77.2	76.5
Employment growth (% change from previous year)	1.5	-0.7	-0.4	0.7	-0.2	-1.1
Employment rate of women (% of female population aged 20-64)	72.2	72.7	70.8	71.4	71.9	71.6
Employment rate of men (% of male population aged 20-64)	85.5	84.9	82.8	82.6	82.5	81.3
Employment rate of older workers (% of population aged 55-64)	53.0	55.1	53.7	56.1	58.6	60.1
Part-time employment (% of total employment, 15 years and more)	47.3	48.3	48.9	49.1	49.8	50.8
Part-time employment of women (% of women employment, 15 years and more)	75.3	75.8	76.5	76.7	77.0	77.2
Part-time employment of men (% of men employment, 15 years and more)	23.9	24.9	25.4	25.4	26.4	27.9
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	18.2	18.2	18.5	18.4	19.5	20.6
Transitions from temporary to permanent employment	27.1	26.2	20.0	20.8	16.5	:
Unemployment rate[1] (% of labour force, age group 15-74)	3.1	3.7	4.5	4.4	5.3	6.7
Long-term unemployment rate[2] (% of labour force)	1.1	0.9	1.2	1.5	1.8	2.4
Youth unemployment rate (% of youth labour force aged 15-24)	6.3	7.7	8.7	7.6	9.5	11.0
Youth NEET rate (% of population aged 15-24)	3.4	4.1	4.3	3.8	4.3	5.1
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	11.4	10.9	10.0	9.1	8.8	9.2
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	40.2	40.5	41.4	41.1	42.2	43.1
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	41.0	43.0	44.0	46.0	39.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	6.0	6.0	6.0	6.0	7.0	:
Labour productivity per person employed (annual % change)	0.3	-2.6	2.1	0.4	-1.0	0.4
Hours worked per person employed (annual % change)	0.2	-0.6	-0.2	0.1	0.1	-0.3
Labour productivity per hour worked (annual % change; constant prices)	0.1	-2.4	2.1	0.2	-1.2	0.5
Compensation per employee (annual % change; constant prices)	1.1	2.4	0.7	0.5	0.5	0.9
Nominal unit labour cost growth (annual % change)	3.0	5.3	-0.7	1.1	2.8	2.0
Real unit labour cost growth (annual % change)	0.9	5.2	-1.5	0.0	1.5	0.6

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2007	2008	2009	2010	2011
Sickness/Health care	8.6	9.4	10.4	10.7	10.9
Invalidity	2.4	2.4	2.5	2.5	2.4
Old age and survivors	10.9	10.9	11.6	11.9	12.0
Family/Children	1.6	1.2	1.3	1.2	1.2
Unemployment	1.1	1.0	1.4	1.6	1.5
Housing and Social exclusion n.e.c.	0.4	0.4	0.4	0.4	0.4
Total	26.7	26.9	29.7	30.3	30.5
of which: means tested benefits	3.7	3.9	4.5	4.6	4.7
Social inclusion indicators	**2008**	**2009**	**2010**	**2011**	**2012**
At-risk-of-poverty or social exclusion[1] (% of total population)	14.9	15.1	15.1	15.7	15.0
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	15.5	17.5	16.9	18.0	16.9
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	9.7	8.1	6.2	6.9	6.2
At-Risk-of-Poverty rate[2] (% of total population)	10.5	11.1	10.3	11.0	10.1
Severe Material Deprivation[3] (% of total population)	1.5	1.4	2.2	2.5	2.3
Share of people living in low work intensity households[4] (% of people aged 0-59)	8.2	8.5	8.4	8.9	8.9
In-work at-risk-of poverty rate (% of persons employed)	4.8	5.0	5.1	5.4	4.6
Impact of social transfers (excluding pensions) on reducing poverty	47.2	45.9	51.2	47.4	51.0
Poverty thresholds, expressed in national currency at constant prices[5]	11 530	11 648	11 613	11 516	11 377
Gross disponsable income (households)	283 487	280 226	284 583	289 179	288 683
Relative median poverty risk gap (60% of median equivalised income, age: total)	14.9	16.5	16.2	15.5	17.3

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2004-2008	2009	2010	2011	2012	2013
Labour productivity[1] total economy (annual growth in %)	1.3	-2.6	2.1	0.5	-1.0	0.5
Labour productivity[1] in manufacturing (annual growth in %)	2.8	-6.8	9.2	4.1	-0.6	0.5
Labour productivity[1] in electricity, gas, water (annual growth in %)	2.8	3.2	1.9	-9.1	-0.5	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	2.3	-3.7	-8.4	7.1	-6.6	1.6
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	405.2	377.1	371.0	369.8	n.a.	n.a.
Policy indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Enforcing contracts[3] (days)	514.0	514	514	514	514	514
Time to start a business[3] (days)	8.4	8	8	8	5	4
R&D expenditure (% of GDP)	1.9	1.8	1.9	2.0	2.2	n.a.
Tertiary educational attainment (% of 30-34 years old population)	36.2	40.5	41.4	41.1	42.2	43.1
Total public expenditure on education (% of GDP)	5.5	6.0	6.0	5.9	n.a.	n.a.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	1.0	n.a.	n.a.	n.a.	n.a.	0.9
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	0.9	n.a.	n.a.	n.a.	n.a.	0.9
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	1.7	n.a.	n.a.	n.a.	n.a.	1.6

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website

[4] The methodologies of the product market regulation indicators are presented in detail on the website

[5] Aggregate ETCR.

Source :

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green growth

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.18	0.17	0.17	0.18	0.17	0.17
Carbon intensity	kg / €	0.47	0.42	0.42	0.44	0.40	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.41	0.41	0.41	0.41	0.40	n.a.
Waste intensity	kg / €	n.a.	0.21	n.a.	0.25	n.a.	n.a.
Energy balance of trade	% GDP	-2.4%	-2.2%	-1.9%	-2.9%	-3.8%	-5%
Energy weight in HICP	%	9	11	10	10	11	11
Difference between change energy price and inflation	%	6	0.8	-0.1	-8.8	3.4	3.6
Environmental taxes over labour taxes	ratio	20.0%	18.8%	18.8%	18.8%	18.0%	n.a.
Environmental taxes over total taxes	ratio	10.2%	9.9%	10.4%	10.3%	10.1%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.17	0.17	0.15	0.16	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	11.2	12.5	10.8	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.09	0.10	0.09	0.08	0.08
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.03	0.03	0.03	0.03	0.03
Public R&D for energy	% GDP	n.a.	0.02%	0.02%	0.02%	0.01%	0.02%
Public R&D for the environment	% GDP	n.a.	0.00%	0.00%	0.00%	0.01%	0.01%
Recycling rate of municipal waste	ratio	46.8%	57.3%	57.8%	79.1%	90.8%	97.3%
Share of GHG emissions covered by ETS*	%	n.a.	40.8%	40.8%	40.3%	40.8%	39.7%
Transport energy intensity	kgoe / €	0.46	0.44	0.44	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	1.07	0.99	1.00	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	36.0%	34.3%	35.9%	30.4%	29.7%	30.7%
Diversification of oil import sources	HHI	n.a.	0.08	0.08	0.08	0.08	n.a.
Diversification of energy mix	HHI	0.36	0.36	0.36	0.38	0.36	0.35
Share renewable energy in energy mix	%	2.5%	3.5%	3.9%	3.5%	4.1%	4.3%

Country-specific notes:

The year 2012 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)

Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)

Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector

Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents

* Commission and EEA.

** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.

*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.

List of indicators used in Box 6 on the potential impact on growth of structural reforms.

Final goods sector mark-ups: Price-cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities[67]).
Source: Commission services estimation using the methodology of Roeger, W. (1995). "Can imperfect Competition explain the Difference between primal and dual Productivity?" *Journal of Political Economy* Vol. 103(2) pp. 316-30, based on EUKLEMS 1996-2007 data.

Entry costs: Cost of starting a business in the intermediate sector as a share of income per capita. The intermediate sector is proxied by the manufacturing sector in the model.
Source: World Bank, Doing Business Database. www.doingbusiness.org. 2012 data.

Implicit consumption tax rate: Defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes. The implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced so that the combined impact is ex-ante budgetary neutral.
Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013. 2011 data.

Shares of high-skilled and low-skilled: The share of high skilled workers is increased, the share of low-skilled workers is reduced (halving the gap vis-à-vis the best performers). Low-skilled correspond to ISCED 0-2 categories; high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.
Source: EUROSTAT. 2012 data or latest available.

Female non-participation rate: Share of women of working age not in paid work and not looking for paid work in total female working-age population
Source: EUROSTAT. 2012 data or latest available.

Low-skilled male non-participation rates: Share of low-skilled men of working age not in paid work and not looking for paid work in total male working-age population
Source: EUROSTAT. 2012 data or latest available.

Elderly non-participation rates (55-64 years): Share of the population aged 55-64 years not in paid work and not looking for paid work in total population aged 55-64 years.
Source: EUROSTAT. 2012 data or latest available.

ALMP: Active Labour Market Policy expenditures as a share of GDP over the share of unemployed in the population.
Source: EUROSTAT. 2011 data or latest available.

[67] The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.

Benefit replacement rate: Share of a worker's pre-unemployment income that is paid out by the unemployment insurance scheme. Average of net replacement rates over 60 months of unemployment.
Source: OECD, Benefits and Wages Statistics.
www.oecd.org/els/benefitsandwagesstatistics.htm. 2012 data.