



Brussels, 29.5.2013
SWD(2013) 369 final

COMMISSION STAFF WORKING DOCUMENT

**Assessment of the 2013 national reform programme and stability programme for the
NETHERLANDS**

Accompanying the document

Recommendation for a Council Recommendation

**on the Netherlands' 2013 national reform programme and delivering a Council Opinion
on the Netherlands' 2013 stability programme for 2012-2017**

{COM(2013) 369 final}

TABLE OF CONTENTS

Executive summary	3
1. Introduction	5
2. Economic developments and challenges.....	6
2.1. Recent economic developments and outlook.....	6
2.2. Challenges	7
3. Assessment of policy agenda	9
3.1. Fiscal policy and taxation.....	9
3.2. Financial sector	14
3.3. Labour market, education and social policies	15
3.4. Structural measures promoting growth and competitiveness.....	20
3.5. Modernisation of public administration	26
4. Overview table	28
5. Annex	32

EXECUTIVE SUMMARY

Economic Outlook

The Dutch economy is in recession, weighed down by weak domestic demand stemming from adverse trends in employment and disposable income. The persistent nature of the current economic weakness owes much to rigidities and distortive incentives built up over decades which shaped house financing and sectoral savings patterns. Gross domestic product shrank by 0.9% in 2012 and economic growth is expected to remain negative in 2013 at -0.8%, turning positive at 0.9% in 2014, according to the Commission's spring 2013 forecast. Unemployment averaged 5.3% in 2012, but is forecast rise to 6.9% in 2013 and 7.2% in 2014. After reaching 2.8% in 2012, inflation is expected to fall to 1.5% in 2014.

The headline general government deficit was 4.1% of GDP in 2012 and is expected to fall to 3.6% of GDP in 2013. The efforts made to reduce the deficits in 2011-2013 have been sizeable and the adjusted fiscal effort amounts to an average of 1.1% of GDP a year, above the required ¾% of GDP. The structural balance (net of one-off and temporary measures) amounted to 2.6% of GDP in 2012, and, according to the Commission services' Spring 2013 forecast, will improve to 2.0% of GDP in 2013 before deteriorating to 2.3% in 2014, if policies remain unchanged. Sufficient progress towards the medium term objective is not ensured on the basis of the stability programme. The debt ratio is expected to increase steadily to 71.2% of GDP in 2012, 74.6% of GDP in 2013 and 75.8% of GDP in 2014.

Key Issues

The Netherlands has been identified by the Commission as experiencing macroeconomic imbalances, particularly with regard to private sector debt. A strong negative feedback loop from the housing market to the real economy, notably through its effect on wealth and confidence, is weighing on economic activity.

The Netherlands has made some progress on meeting the 2012 CSRs, particularly on fiscal consolidation and the long-term sustainability of public finances. Some progress has also been made in response to the recommendations concerning the labour market and the housing market. Good progress has been made in response to the recommendation on innovation and science/business links. However, further measures remain necessary in all areas where the recommendations have not yet been fully achieved.

The policy response needs to strike a balance between the need to make adjustments and pursue reforms and the desirability of supporting near-term activity. Within the fiscal constraints, efforts to promote innovation and safeguard growth-enhancing expenditure will be key to achieving a balanced adjustment. Managing the transition in the housing market gradually and at a sustainable pace, yet with a sufficient level of ambition, will be a defining element of such a strategy.

The immediate policy challenge for the Netherlands will be to contain balance sheet adjustments, to restore confidence and harness growth while simultaneously stabilising public finances. There are considerable challenges when it comes to fiscal policy, the labour market, the housing market, investments in research and development (R&D) and education.

- **Public finances:** The Netherlands reduced its budget deficit to 4.1 % in 2012, thanks to a strong and sustained fiscal effort. With the adoption of additional sizeable consolidation measures in 2013 the deficit is expected to decline further to 3.6 % of GDP. However, the fiscal consolidation measures listed in the stability programme would not suffice to achieve the correction of the excessive deficit by 2014. The social partners agreed on elements of a pension reform including bringing the statutory retirement age in the second (funded) pillar in line with the first pillar. Ongoing consolidation is required to ensure a sustainable correction of the excessive deficit and to achieve the medium-term objective (MTO), while safeguarding growth-enhancing expenditure areas directly relevant for growth such as education, innovation and research.
- **Labour market/education:** The Dutch labour market is still performing relatively well compared to other EU Member States. However, unemployment is on the rise and population ageing is putting further pressure on the labour supply. A large pool of untapped labour is still available: the average number of hours worked in the Netherlands is much lower than the EU average, especially for women (77% of whom worked part-time in 2012); employment rates of people with migrant backgrounds have been falling since 2008; and youth unemployment rose to 9.5% in 2012. Additional efforts to reduce tax disincentives on labour would make work more attractive. Although the Dutch school system performs well overall, it fails to deliver excellence, and high achievers score much lower than their international peers.
- **Housing market:** The high average amount of mortgage debt – which is to a large extent down to long-standing fiscal incentives, notably full mortgage interest deductibility – has made households vulnerable to falling house prices. Banks have also been offering mortgages exceeding the value of the house, leading their balance sheets to be heavily geared towards housing finance, which as the housing market adjusts, weighs on their credit portfolio. The rental market is dominated by a strictly regulated social housing (around one third of total dwellings), and the incentive for people with higher incomes to move out of social housing is very limited.
- **Research and innovation:** Dutch firms' relatively low investment in research (expenditure was 1.07% of GDP in 2011, below the EU average of 1.26%), and public funding for research are currently on a decreasing trend. There is also no significant orientation towards research-intensive sectors (with some exceptions in the machinery and equipment industry), skill shortages in engineering and technology, all of which may adversely affect the future competitiveness of the Dutch economy.

1. INTRODUCTION

In May 2012, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for the Netherlands. On this basis of these recommendations, the Council of the European Union adopted five CSRs in the form of a Council Recommendation in July 2012. These CSRs concerned fiscal policy and public finances, the labour market, innovation policy and the housing market. 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 Annual Growth Survey 2013 (AGS)¹ and the second annual Alert Mechanism Report (AMR),² which were published in November 2012. 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 2013. 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 are at risk of emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is being achieved, the Netherlands and 13 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances.³

Against the background of the 2012 Council Recommendation, the AGS and the AMR, the Netherlands presented updates of its national reform programme (NRP) and a stability programme on 29 April 2013. These programmes provide detailed information on progress made since July 2012 and on the government's future plans. The information contained in these programmes provides the basis for the assessment made in this Staff Working Document.

The programmes submitted went through an inclusive consultation process involving the national parliament. The NRP was also discussed with stakeholders, the social partners and subnational governments.

Overall assessment

The analysis in this SWD leads to the conclusion that the Netherlands has made some progress on measures taken to address the CSRs of the Council Recommendation. Some progress has been with respect to the CSRs on fiscal consolidation, the long-term sustainability of public finances and the housing market. Only limited progress has been made in response to the recommendations concerning the labour market. Good progress has been made in response to the recommendation on innovation and science/business links. Despite progress made, further measures remain necessary in all areas where the recommendations have not yet been fully achieved.

The challenges identified in July 2012 and reflected in the AGS remain valid. In the short term, the main challenge is to support economic recovery by addressing structural impediments in an appropriately sequenced fashion. This involves ensuring fiscal adjustment while improving its quality in terms of prioritising and safeguarding growth-enhancing expenditure, and better utilising the potential in the labour market. Higher quality in the education and research system would help

¹ COM(2012) 750 final.

² COM(2012) 751 final.

³ Commission Staff Working Document (2013), In-depth review for the Netherlands, SWD(2013) 121 final. 13 in-depth reviews were published on 10 April 2013. While selected for an in-depth review in the AMR, Cyprus was ultimately not reviewed under the Macroeconomic Imbalance Procedure in view of the advanced preparations for a financial assistance programme.

support innovation and human capital, improve competitiveness and boost the medium- and long-term growth prospects.

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.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

In 2012 and early 2013, growth and employment in the Netherlands were strongly affected by a combination of a weak international environment and the unwinding of distortions on the housing market, notably through negative wealth and confidence effects. Falling house prices, a low numbers of transactions and high gross household debt and leverage are dampening private consumption and investment in housing. These negative effects on wealth stem from balance sheet adjustments, whose effects have been compounded by uncertainty and generally weak confidence among Dutch economic agents. This dynamic interacts with the effects of adjustments in the (relatively large) financial sector where the need for stabilisation has resulted in discretionary increases in the public deficit and debt through interventions in the banking sector. Meanwhile, the scope for competitive export industries to offset weakness in domestic demand has been impeded by uncertain prospects for exports.

The economy is in recession, weighed down by weak domestic demand. Quarter-on-quarter economic growth has been negative since the second quarter of 2011, apart from the first half of 2012, when it was marginally above zero. Net exports turned strongly negative, while domestic demand continued to decline. Real GDP continued to decrease in the fourth quarter of 2012, with private consumption falling for the eighth quarter in a row, to a level last reached in 2003. Gross domestic product shrank by 0.9% in 2012. Last year, HICP inflation stood at close to 3%, having been boosted by increases in energy prices and certain policy measures, notably the higher VAT rate as of October 2012. In 2012 the unemployment rate averaged 5.3%, but it has been increasing and reached 6.4% in March 2013.

Economic outlook

The near-term prospects remain muted. According to the Commission's 2013 spring forecast, real GDP growth is forecast to remain negative in 2013 at -0.8%. Quarterly growth is projected to return to modest positive territory in the course of 2013, on the back of supportive trade developments, which are set to recover from a poor end of last year. In contrast, domestic demand is expected to remain depressed well into 2013. The combination of increasing unemployment, budget consolidation, continued weakness in the housing market, cuts in pension payments by some pension schemes and a soft patch in external demand is exerting an ongoing drag on households and corporations.

In 2014, a fragile but gradual recovery is expected to set in. The decline in domestic demand should come to a halt in the second half of this year, with growth turning mildly positive in 2014. This is supported by tax relief for employees, which should translate into a positive impact on private consumption, and by a recovery in private investment, especially for export-oriented businesses. Downside risks mainly relate to unemployment and the strength of housing-related balance sheet adjustments.

The macroeconomic outlook presented in the NRP and the SP is broadly realistic. The SP and the NRP share the same macroeconomic outlook, which is fairly close to the Commission 2013 spring forecast yet slightly more positive on the prospects for economic growth. The NRP includes an estimate of the macroeconomic impact of structural reforms. It presents estimates of the annual total average effect of the coalition agreement on economic growth, private consumption, the current account balance, net exports and employment (albeit not adjusted for the substantial later amendments). It uses the Netherlands Bureau for Economic Policy Analysis (CPB)'s Safier II model to this end.

2.2. Challenges

The Netherlands faces considerable challenges as regards fiscal policy, the labour market, the housing market, investments in research and development (R&D) and education. These challenges are broadly the same as in the 2012 assessment.

The immediate policy challenge will be to contain balance sheet adjustments, restore confidence, and harness growth while simultaneously stabilizing public finances. Fiscal policy is geared to achieving the necessary fiscal adjustment in an environment of weak economic growth, particularly due to depressed domestic demand. Within the overall fiscal constraints, it is important to support the Dutch economy's long-term growth potential.

A key challenge lies in the housing market where rigidities and distortive incentives have built up over decades to shape house financing and sectorial savings patterns (see also Box 1). Households' tendency to leverage gross mortgage debt against housing wealth is, to a large extent, a reflection of long-standing fiscal incentives, notably full mortgage interest deductibility. The high average amount of mortgage debt has made households vulnerable to falling house prices, or a prolonged period of low or negative economic growth. Simultaneously, banks have been offering new financial instruments, allowing home purchases to be financed entirely with borrowed money. As households leveraged against housing wealth, financial institutions' balance sheets became heavily geared towards housing finance. As the housing market is adjusting, the negative impact of this process is being felt across the economy.

The rental market for houses is characterised by the strong presence of strictly regulated social housing, organised in a way which hampers (labour) mobility. Efficient allocation of capital in the social housing sector is impeded by rents that do not reflect scarcity, the fact that social housing corporations work on a not-for-profit basis and shortcomings in the governance framework of social housing corporations.

The ageing of the population brings about considerable challenges in guaranteeing the sustainability of public finances and pension systems. The main challenge in this regard is the sustained implementation of the increase of the statutory retirement age in the second pension pillar, including an appropriate intra- and intergenerational division of costs and risks. Moreover, an overhaul of the governance of the second pillar pension funds, which would help underpin resilience to ageing, is overdue. Implementation of the plans to reform long-term care would help curb the fast-rising costs of ageing and would thus support the sustainability of public finances. In this regard, the quality and accessibility of long-term care has to be guaranteed.

Ageing is also putting labour supply under pressure, although a large pool of untapped labour supply is still available, including women, people with a migrant background, people with a disability, the young and older workers. Stimulating labour market participation of these groups, including by (further) reducing fiscal disincentives for second earners, measures to promote life-long learning and ensure employability, and a further increase in the effective retirement age will be vital to prevent labour supply shortages.

Another challenge is fostering the Dutch economy's capacity for innovation. Dutch firms' underinvestment in R&D, the absence of a significant structural orientation towards research-intensive sectors (with some exceptions in the machinery and equipment industry), skill shortages especially in engineering and technology related professions, and pressure on funds for fundamental research may adversely affect the future competitiveness of the Dutch economy. Although the Dutch school system performs well overall, it fails to deliver excellence; high achievers score much lower than their international peers. There is also a mismatch between labour market needs and the skills obtained, in particular in vocational higher education.

Box 1 — Summary of the 2013 in-depth review (IDR) under the Macroeconomic Imbalance Procedure (MIP)

Main macroeconomic challenge

The In-Depth Review (IDR) for the Netherlands indicates that macroeconomic developments regarding private sector debt and balance sheet adjustments, coupled with the remaining inefficiencies in the housing market, are the main challenges. The development of the current account deserves attention, although the large surplus does not raise risks similar to large deficits.

The Netherlands has been tapping financial flows from abroad on a large scale, while simultaneously shifting huge capital flows abroad. This heightens the Dutch economy's sensitivity to swings in financial conditions, with uneven distribution across sectors. Household savings mostly end up with pension schemes and insurance companies, which channel the bulk of these savings abroad. While such a strategy could be justified by portfolio diversification and higher expected returns, it also makes these institutional investors' balance sheets more sensitive to portfolio shifts, flight-to-quality, and revaluations of foreign investments. Alongside their substantial pension savings, Dutch households are highly leveraged against their housing wealth, encouraged by long-standing tax incentives and financing trends. This has heightened their balance sheets' sensitivity to negative shocks, such as falls in house prices, weak economic growth or changes in real interest rates. In turn, the high level of institutionalised and often mandatory households savings (related to second-pillar pensions), coupled with changes in Dutch households' leveraging position have highlighted the extent to which bank balance sheets have become geared towards housing finance, giving rise to deposit funding gaps. Dutch banks are reconsidering their funding model in the light of the altered market conditions and more stringent regulatory requirements.

Policy challenge

Comprehensive, gradual and predictably sequenced reforms in the housing market will be a defining element of a successful adjustment process. Such reforms should extend to both the owner-occupied and rental segments of the housing market. Although balance sheet adjustments are likely to dampen near-term economic activity, they will be a necessary precondition for sustainable recovery. Policy measures should eventually improve the allocation of capital, thus supporting the Dutch economy's long-term growth potential. Exploiting possibilities in the institutional framework to pursue differentiated wage increases and pension contributions in the second pillar may help adjust household balance sheets without unduly inhibiting domestic demand.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

As outlined in the stability programme, the authorities aim to correct the excessive deficit by 2014, one year after the original deadline set by the Council in 2009. Since current forecasts indicate that it is unlikely that this will be achievable without further measures, the stability programme confirms the Dutch authorities' commitment to bringing the headline deficit sustainably below 3 % of GDP in 2014. For the years after 2014, it presents nominal deficit projections which are only partly underpinned by the measures taken. As the 2012 stability programme is silent on this matter, the medium term objective (MTO) for the Netherlands is assumed to be kept at -0.5 % of GDP. The MTO reflects the objectives of the Stability and Growth Pact. How the Netherlands plans to ensure sufficient progress towards its MTO is, however, not specified and the programme does not plan to achieve the MTO within the programme period.

The general government deficit outturn for 2012 was in line with the government's expectations. The budgetary outcome for 2012 was a general government deficit of 4.1 % of GDP, very much in line with the projection of 4.2 % of GDP in last year's stability programme. For 2013, the deadline for the correction of the excessive deficit, the programme expects a deficit of 3.4 % of GDP, compared to 3.6 % in the spring forecast and 3 % in the 2012 stability programme. The deterioration compared to last year's stability programme is partly due to cyclical conditions, but also reflects the net impact of additional savings measures the authorities have taken since then and some specific one-off transactions related in particular the auction of mobile telephony licenses and the nationalisation of SNS Reaal.

The commitment set out in the programme to reduce the general government deficit to 3 % of GDP in 2014 is challenging. The objective is based on a macro-economic scenario which is slightly more optimistic than the 2013 spring forecast while the projections based on implemented measures add up to a deficit of more than 3 % of GDP in 2014. Possible additional measures presented to bring the headline deficit to 3 % of GDP have been withdrawn until further notice and, on the basis of the 2013 spring forecast, would in any case not have sufficed to achieve the improvement in the general government deficit committed to for next year. Hence, additional measures over and above those listed in the programme will be needed to achieve a correction of the excessive deficit by 2014.

The programme includes additional measures to reduce the budget deficit. These measures are based on the current government's coalition agreement that was presented in September 2012. The coalition agreement includes measures until 2017, but the most significant budgetary impact of these newly-presented measures will be felt in 2013. Although tax increases will make the main contribution to the 2013 budgetary consolidation, the programme announces a focus on the reduction of public expenditure in 2014 and beyond.

After 2014, the programme envisages a strong improvement in the headline deficit. This improvement is based on an older medium-term economic scenario that is inconsistent with the more up-to-date projections for 2013-2014. The projections for 2015 and beyond embody excessively optimistic economic growth projections which do not take into account already adopted consolidation measures that will put an additional drag on economic growth. While revenues are forecast to fall slightly from 2014, expenditure is expected to be cut even more sharply. This projection of a strong decrease in expenditure driving an improvement in the fiscal balance is not underpinned by consolidation measures.

A bottom-up approach, listing discretionary savings measures implemented and decided on from 2011 onwards, confirms the very sizeable multi-annual consolidation effort for the period 2011-2013 identified by an output gap-based top-down approach. For the period 2011-2013 the overall fiscal effort as calculated using the bottom-up approach amounts to 4 % of GDP, or around 1.3 % of GDP annually, broadly equally divided between revenue and expenditure measures. The

discretionary measures identified include the phasing-out of the 2010 fiscal stimulus, including some additional savings measures (EUR 5 billion); an initial round of budgetary savings from September 2010 implemented by the first Rutte government (EUR 19 billion); measures embedded in the 'Kunduz' agreement of April 2012 (EUR 9 billion); and, finally, the coalition agreement of the second Rutte government outlined in September 2012 (EUR 15 billion). A draft package of some EUR 4 billion in possible additional savings announced in April 2013 has since been withdrawn by the government until further notice in view of an agreement with the social partners.⁴ It is therefore not taken into account and does not figure in the breakdown underpinning the deficit projections in the programme, although the package is notionally presented. Significant one-off transactions, notably the sale of 4G mobile telephony licenses and the deficit increasing nationalisation of SNS Reaal (both affecting 2013) broadly cancel each other out. The implementation of the consolidation measures for 2013 and beyond is on track.⁵ Should the current plans be fully implemented, the Netherlands will have taken net discretionary measures adding up to an estimated amount of nearly 7% of GDP between 2011 and 2017.

Specified and agreed measures that are embedded in the multi-annual fiscal projections imply continued consolidation in 2014. However, there are implementation risks attached to the measures embedded in the medium-term budgetary plans. These partly relate to downside risks to the macro-economic scenario but also may affect the implementation of plans agreed between the coalition partners. A different type of budgetary risk relates to the sizeable planned decentralisation measures. Some of the budgets and responsibilities concerning youth and long-term care will be transferred to municipalities. This process will also include cuts to the respective budgets, on top of generic cuts on funds transferred to municipalities. It remains to be seen whether the planned efficiency gains can be fully realised. Limited deviations will be compensated within the expenditure ceilings set but more persistent ones would have to be countered by fresh measures. There is a risk that growth-enhancing expenditures on education and research will not be safeguarded. The current budgetary plans set out some reductions in these items. Public expenditure on education and training amounted to 5.77% in 2011.⁶ Nominal expenditure on these categories is projected to remain roughly stable over the coming years, implying a slight decline in their ratio to GDP, to 5.48% of GDP in 2014. Overall expenditure on innovation and research is expected to decrease up to 2016 from the peak years of 2010-2012 due to the expiry of crisis measures, while within the envelope there has been a shift towards a more intensive use of R&D tax incentives. Public spending on fundamental research not earmarked as programme-related and largely carried out by universities and public research institutions with the status of independent administrative public entities (*zelfstandige bestuursorganen*) would be reduced by a further orientation of funds towards sectoral uses.

The structural balance⁷ amounted to -4%, -3.7% and -2.6% of GDP in 2010, 2011 and 2012, respectively. The Commission services' 2013 spring forecast projects a further improvement in the structural balance to -2.0% of GDP in 2013 but subsequent deterioration to -2.3% in 2014 if policies remain unchanged. The average annual apparent fiscal effort over the 2011-2013 period is estimated at 0.7% of GDP. When adjusted for the significant downward revision in potential output growth since the point at which the 2009 Excessive Deficit Procedure (EDP) recommendation was issued and the impact of revisions to the composition of economic growth in revenue, the average annual adjusted structural effort increases to 1.1% of GDP. This exceeds by a substantial margin the recommended average annual fiscal effort (¾% of GDP) over 2011-2013 required in the 2009 Council EDP recommendation.

⁴ In addition, the April 2013 agreement for the health sector implies that savings considered from a voluntary wage freeze in health care will not materialise.

⁵ Source: 30 Miljard Monitor (Miljoenennota 2013).

⁶ Source: Eurostat (General government expenditure by function (COFOG)).

⁷ Cyclically adjusted balance net of on-off and temporary measures.

Following an overall assessment of the Netherlands' budgetary plans, using the structural balance as a reference, including an analysis of expenditure net of discretionary revenues, **a significant deviation from the adjustment path towards the MTO is to be expected for 2015 and beyond**. The structural balance calculated on the basis of the stability programme amounts to -1.5% of GDP in 2013, -1.6% of GDP in 2014 and would improve only slightly to -1.4% of GDP in 2017, leaving a structural deficit still well above the MTO. Differences in the structural balances estimated in the programme and the Commission's spring 2013 forecast reflect the somewhat different macroeconomic scenarios as well as one-off revenues that are not accounted for in the programme. For the later years of the programme, the recalculated structural balances are based on a medium-term scenario that is not consistent with the short-term outlook for 2013-2014, implying an assumed closure of the output gap in 2017.

On the basis of the technical expenditure projections for 2014 and 2015, compliance towards the expenditure benchmark is secured. According to the information provided in the stability programme, government expenditure net of discretionary revenues measures in 2015-2016 is, on average, expected to grow at a rate below the applicable reference rate. The growth rate of this expenditure is below -0.14%, the lower rate under the expenditure benchmark.

Box 2 — Excessive Deficit Procedure for the Netherlands

On 2 December 2009, the Council decided that an excessive deficit existed in the Netherlands and adopted the most recent Council recommendation under Art. 126(7) TEC. The Council recommended that the Dutch authorities should put an end to the present excessive deficit by 2013. Specifically, in order to bring the general government deficit below 3% of GDP in a credible and sustainable manner, the Netherlands was recommended to (a) implement the fiscal measures in 2010 as envisaged in the 2010 budget and to start consolidation in 2011 in order to put an end to the present excessive deficit situation by 2013; (b) ensure an average annual fiscal effort of $\frac{3}{4}$ % of GDP over the period 2011-2013, which should also contribute to halting the rapid rise of the government gross debt ratio, which was forecast to breach the reference value; (c) specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected.

An overview of the current state of excessive deficit procedures, including additional steps adopted after the finalisation of this Staff Working Document, is available on:

http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm (please refer to country sections at the bottom of the page).

The debt ratio is expected to increase in the first years of the programme. On the basis of the Commission 2013 spring forecast **the debt ratio is expected to increase steadily to 71.2% of GDP in 2012, 74.6% of GDP in 2013 and 75.8% of GDP in 2014**. This is predominantly the result of the persistent headline deficits in combination with anaemic nominal GDP growth, while EFSF and ESM transactions attributed to the government debt only have a relatively small upward effect. The increase in the expected gross debt ratio for 2013 includes debt-increasing transactions equivalent to some 1% of GDP arising from the nationalisation of SNS Reaal in early 2013 (on top of the deficit-enhancing measures amounting to around 0.6% of GDP). The relatively contained development of Dutch sovereign interest rate spreads vis-à-vis German benchmarks suggests that market participants still have a relatively high degree of confidence.

Progress towards the debt benchmark cannot be assessed on the basis of the information provided in the programme. For the years 2015 and beyond, the stability programme is based on an outdated forecast that does not match the data provided for 2013 and 2014. Due to this break in the data and the fact that it is outdated for the later years of the programme, an assessment of the progress towards the debt benchmark cannot be made.

Long-term sustainability

The Netherlands has to address its long-term fiscal sustainability risk. The Netherlands does not face a risk of fiscal stress in the short-term. The country is at high sustainability risk in the medium to long run, influenced by the cost of ageing. Government debt (71.2% of GDP in 2012 and expected to rise to 75.8% in 2014) is above the 60% of GDP Treaty threshold. Risks would be lower if the structural primary balance were to revert to the higher values observed in the past, such as the average for the period between 1998 and 2012. The focus should, therefore, be on reducing government debt. Moreover, further containing age-related expenditure growth (especially related to long-term care) appears necessary to help ensure that public finances are sustainable in the long term.

The long-term sustainability of the pension system has been strengthened through the implementation of a gradual increase of the first-pillar statutory retirement age from 65 years in 2012 to 67 in 2023. The linking of the pensionable age to life expectancy after 2023 (which is a very early move in comparison with other Member States) takes account of future increases in longevity and will substantially curb the pressure of age-related expenditure on public finances. As an effect of the reform, projected pension expenditure increases are reduced by 1.8 p.p. as a share of GDP up to 2060 in comparison to the projections set out in the Ageing Report 2012 and will remain only slightly above the EU average in the long term (+1.7 p.p. against an EU average of +1.4 pp. to 2060). Similarly, the age for building up new occupational pension rights in the second pension pillar will rise to age 67 by 2014 and thereafter be linked to increases in life expectancy. While this will improve the long-term financial situation of second pillar schemes, the maturing of the system and impact of the crisis on financial markets on asset prices and interest rates have led to a significant decrease in pension funds' coverage ratios. Future adjustments to contribution rates and benefit levels should ensure a fair sharing of risks within and between cohorts.

The Netherlands has fully addressed the part of the recommendation regarding increasing the statutory retirement age and linking it to life expectancy, both for the first and the second pension pillar. Other measures, such as adjusting the second-pillar pension legislation and introducing accompanying labour market measures for the older workers, have only been partially done as discussions with the social partners are still ongoing. Further legislative proposals in this field are planned for 2013 and 2014.

With regard to health care, the Netherlands has undertaken reforms to improve the cost-effectiveness and sustainability of the system while ensuring access to high quality care. Health care providers, health care insurers and doctors concluded several agreements in 2011/2012 to ensure controlled development in hospital care. The Dutch government has provided a blueprint for an ambitious reform in the area of long-term care. The blueprint aims at upgrading the role of local governments, separating living costs from care costs, monitoring quality issues and putting more emphasis on individual responsibility and informal care. It will be important to implement the planned reform in such a way that it ensures accessible, cost-effective and sustainable provision of high-quality long-term care. While the plans entail substantial budgetary savings, additional measures are likely to be necessary to fully restore the long-term sustainability of public finances.

Fiscal framework

The Netherlands has a well-developed fiscal framework. The Dutch medium-term budgetary framework can be considered a best-practice within the EU. The main characteristics of the multi-annual trend-based fiscal framework currently in place in the Netherlands are: (i) the use of real expenditure ceilings, which are determined *ex ante* and apply to the entire term of office of the government; (ii) automatic stabilisation of revenues; and (iii) the use of independently derived macroeconomic assumptions. When a new government is formed, medium-term budgetary targets are set by determining the way in which general government expenditure should evolve and the tax burden for each year until the last year of the government's term. The current framework does not cover local government. In this respect, the government is working on legislation that will transpose the EU fiscal rules into national legislation. This will entail giving the medium-term budgetary framework a legal basis and laying out provisions and coordination mechanisms for local government finances.

However, the economic crisis of the recent years has exposed weaknesses in the fiscal framework and successive governments have increasingly adjusted the budget outside the procedures laid down in the framework. Successive governments have amended their medium-term budgetary plans with sizeable consolidation measures, partly because initial expenditure ceilings had been based on growth paths which turned out to be overly optimistic. According to the coalition agreement, automatic stabilisers are free to operate within each of the separate expenditure ceilings as long as the country's overall fiscal position remains in accordance with European fiscal rules. Although the Dutch authorities are fully committed to their obligations under the Stability and Growth Pact (SGP), the Netherlands has not yet ratified the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Interest payments are kept outside the overall expenditure ceiling, whereas other expenditure that is sensitive to cyclical trends (notably unemployment and social assistance benefits) is kept within the expenditure ceiling framework. This impedes the working of automatic stabilisers in an economic downturn. In addition, possible actions to put into practice the commitment to abide by European provisions are not specified in detail.

Tax system

The tax-to-GDP ratio was 38.4% in 2011, slightly below the EU GDP-weighted average (38.8%). Concerning the composition of revenues, indirect taxes and direct taxes each account for slightly less than a third of total tax revenues, with social contributions – among the highest in the EU – representing 14.8% of GDP.

The Netherlands is frequently used by multinational companies to channel tax driven financial flows to other jurisdictions. A recent OECD study⁸ suggests that some international corporations may shift profits to low-tax jurisdictions via the Netherlands. Indeed, the absence of withholding tax on outbound royalties and interest payments and the fact that the Dutch tax administration gives advance clearance (tax rulings) on the tax consequences for such activities has contributed to companies known as Special Purpose Vehicles being registered in the Netherlands without having a substantial physical presence there. This generates gross financial flows made through special purpose entities through the Netherlands that amount to USD 2,625 billion for inward stock investment and to USD 3,023 billion for outward stock investment in 2011, both equivalent to more than 3 times Dutch GDP in that year. The current international pressure to reform tax rules to prevent the use of such vehicles in this way may have adverse economic effects for the Netherlands and other Member States.

⁸ Addressing Base Erosion and Profit Shifting (OECD, 2013).

Environmental taxation is comparatively advanced in the Netherlands. Revenues from environmental taxes were equivalent to 3.9 % of GDP in 2011—the second highest value among EU Member States.⁹ Revenues from energy taxes are relatively high, despite below average revenues from transport fuel taxes. The green taxation aspect of the car taxation has been reinforced. In 2013, the upper CO₂ limit for the exemption of the vehicle tax has been further reduced, while vehicles with higher CO₂ emissions are taxed more heavily. However, tax incentives for the private use of company cars reduce the base of income tax. There is also room for phasing out hidden water subsidies. Furthermore, companies in energy-intensive industries and horticulture pay lower taxes on energy¹⁰ thereby creating inter-sectoral distortions regarding resource efficiency.

The current tax system leaves room for growth-friendly taxation reform. This could include the broadening of tax bases (e.g. reducing the scope of the reduced VAT rate and reducing the deduction for small mortgage interest payments), reducing environmentally harmful subsidies, increasing green taxes, and accelerating the planned reduction in mortgage interest deductibility.

3.2. Financial sector

In recent years, the Dutch financial sector has increased its resilience, despite the worsening economic environment and the nationalisation of a bank. With balance sheet values amounting to around four times its GDP, the Netherlands has one of the largest financial sectors in the EU. Since the nationalisation of SNS Reaal in February 2013, the Dutch government owns two of the four largest banks and has given financial support to a third. Nonetheless, the banking sector still needs to improve its capital buffers in line with international requirements. Also, as they are highly dependent on market funding, banks have to maintain sufficient capital. Despite having increased slightly recently, banks' capital buffers have remained under pressure through increasing losses and provisions on loans. The government is currently in discussion with stakeholders to reduce the number of mortgages that banks have on their balance sheets, but such a measure would have several drawbacks. Selling government-guaranteed mortgages on a large scale to a government-guaranteed financial institution would reduce the average quality of mortgages privately-run banks have on their books and could amplify the difficulties that banks have in increasing their risk-weighted capital buffers. Selling them to the pension schemes could amplify negative effects on wealth in a recession.

To boost capital and reduce funding gaps, and in view of the relatively low level of private savings, Dutch banks appear to be withholding profits and offering relatively high deposit interest rates compared to banks in neighbouring countries. Lending rates, on the other hand, are also higher and have been increasing at a faster pace in recent years (in particular for housing loans). The charging of these higher lending rates is probably due to the need to reduce the leverage ratio, Dutch banks' relatively high funding costs, which are, in turn, a reflection of their reliance on wholesale funding, the withdrawal of a number of competitors from the market and the perceived risk profile of the loan portfolio. Losses on loans are increasing and the share of non-performing loans has reached the highest level since the outbreak of the crisis. As house prices are still falling, 25 % of homes already have a value that is lower than the gross value of the outstanding mortgage (of which many are interest-only). Payment arrears and the number of foreclosures are still very low compared to other countries. Dutch banks currently have close to EUR 80 billion (13 % of GDP) of loans outstanding to real estate companies. With provisions being at less than 2% of the portfolio, banks may have difficulties absorbing large losses, especially since valuations of collateralised real estate were often done more than a year ago, prices are falling and vacancy rates are relatively high and still increasing.

⁹ Taxation Trends in the European Union (European Commission, 2013).

¹⁰ Taxing Energy Use: A graphical analysis (OECD, 2013).

The proportion of small and medium-sized enterprises (SMEs) reported to experience problems with access to finance in the Netherlands is higher than the EU average and seems to have worsened further in 2012.¹¹ If banks were acting solely in response to an objective worsening of economic prospects and credit conditions, this would be a welcome development. However, if banks are shrinking their SME credit portfolios partly to adjust balance sheets, this development could be counter-productive. The Dutch authorities have taken a number of measures to support SMEs' access to finance, for example by continuing existing guarantee schemes, by re-enforcing available budgets and by increasing the maximum ceiling for micro-credits.¹² Regarding access to risk capital, the government closely cooperates with the European Investment Fund and the European Investment Bank in developing additional financial instruments for SMEs.¹³ All these measures are steps in the right direction. Nevertheless, it is important to continue efforts to ensure appropriate access to finance for SMEs given the stage of the business cycle, in line with the priorities identified in 2013 Annual Growth Survey.

3.3. Labour market, education and social policies

Labour market and social policies

The Dutch labour market is still performing relatively well compared to other EU countries. However, from 2011 to 2012 the unemployment rate in the Netherlands increased steadily (from 4.4% to 5.3%) and is projected to strongly rise further in 2013 and 2014 (to 6.9% and 7.2% respectively). In view of the ambitious EU 2020 employment target of 80% and with a view to addressing future labour supply shortages, the Dutch authorities announced in their NRP/SP comprehensive labour market reforms in line with the 2012 country-specific recommendations (CSRs). Most of the planned reforms have not yet been implemented.

In 2012, the Council Recommendations for the Netherlands contained a CSR on the labour market, addressing the issue of low average number of hours worked. The average number of hours worked in the Netherlands is much lower than the EU average, especially for women. This is partially due to the fact that many people, especially women, work part time. While to a considerable extent this appears to reflect preferences, removing the remaining disincentives to working more hours has the potential to alleviate future labour supply shortages. Reducing tax disincentives on labour would make work more attractive. In order to make work more financially attractive for second income earners, in 2009 the Netherlands started phasing out the transferable tax credit over a period of 15 years. The double general tax credit, provided to those on welfare benefits, is also being phased out over a period of 20 years starting in 2012. This phasing-out is enshrined in law, and in terms of relevance and credibility represents progress in terms of CSR3. However, the long time span of the phasing out (15 and 20 years respectively) is not very ambitious.

Labour market participation and access to jobs for second-income earners would further be facilitated through adequate provision of quality childcare. The use of full-time childcare services in the Netherlands lies well below EU average for all age cohorts. The report of the European Network of Experts on Employment and Gender Equality Issues report on out-of-school care emphasises the low quality of childcare facilities for 0-4 year olds, and also refers to the low quality of out-of-school care facilities as well. In addition, only half of the care facilities offer out-of-

¹¹ Survey on the access to finance of SMEs in the euro area, European Central Bank, <https://www.ecb.int/stats/money/surveys/sme/html/index.en.html>.

¹² E.g. the budget for the guarantee scheme 'Borgstellingskrediet MKB' has been increased from EUR 750 million to EUR 1 billion while other guarantee schemes such as 'Garantie Ondernemingsfinanciering' and 'Groeifaciliteit' are also being continued; The maximum ceiling for micro-credits has been raised from EUR 50 000 in 2012 to EUR 150,000 in 2013.

¹³ For example, in 2012 a Fund-of-Funds has been created with an initial capital of EUR 150 million, which will provide later stage funding for fast growing innovative or high-tech businesses (http://www.eif.org/what_we_do/equity/news/2012/DVI_PPM_Oost.htm).

school care on all school days, which indicates there are bottlenecks in the availability of care facilities. Implemented and planned budgetary cuts on childcare may reduce some dead-weight losses (in particular by cutting subsidies to high income households), but could also have a negative impact on the labour participation of second-income earners, especially for those that cannot rely on informal childcare.

Employment rates of people with a migrant background have been falling since 2008 and youth unemployment has been increasing. The Netherlands performs notably worse than the EU average regarding the employment gap between people with a migrant background and nationals. Youth unemployment has been increasing at an accelerated pace in recent months, although youth unemployment rates in the Netherlands are still well below the European average. If the large increase in youth unemployment could be stopped, this could potentially help prevent labour supply shortages in the future and prevent a loss of human capital and valuable skills. Another source of potential labour supply is people with a disability. The labour participation rate of those entitled to disability benefits, but with a remaining earning capacity between 20% and 65%, is substantially lower than the overall participation rate. The Participation Act aims to improve labour market participation through the merger and reform of several benefit schemes while shifting responsibility for their execution to the level of municipalities and reducing overall funding. The Act is expected to enter into force in January 2014 and should replace the draft Work Capacity Act referred to in last year's Staff Working Document. Social benefits are being checked more stringently, with a tougher approach to fraud and to social benefit recipients' duty to seek work. Moreover, the social partners have agreed on a target for employers to hire 100,000 partially disabled employees over a period of 12 years from 2014.

The Participation Act reform is ambitious and relevant as it aims to boost labour market participation. However, the reforms are not yet enshrined in law and the time span for implementation seems rather short in view of the substantial accompanying efforts expected from local governments, which will coincide with significant budgetary cuts. For instance, major cuts are planned in the budgets for sheltered work places and other regular integration tools. A specific risk in implementing policies for people with a disability is the scale of the shift in responsibilities to the municipalities. They are being given responsibility for a EUR 8.5 billion budget for supporting jobseekers with a disability, while simultaneously taking over responsibility for the General Exceptional Care Act, which covers a large portion of the long-term care (equivalent to some EUR 2.8 billion) previously financed by a national entity the *Algemene Wet Bijzondere Ziektekosten* (see section 3.1). Municipalities are expected to manage costs more efficiently, but the size of budgetary cuts means that it may be difficult for them to do so. There is a push from the central government to merge municipalities into new, larger ones with at least 100,000 inhabitants in order to perform these new tasks adequately. With regard to the target for disabled employees, the plans to impose a requirement on firms with 25 or more employees to have at least 5% of their workforce made up of the partially disabled have been abandoned, as the foreseen fine for breaching the quota would have likely been ineffective and the quota could have led to labour substitution. At the same time, the current plans seem to imply few binding obligations and have been pushed back considerably (well beyond the term of the current government), thereby increasing implementation risks.

Another underused source of potential labour is that of older workers. In recent years, measures implemented to promote labour force participation by curtailing favourable options for effective early retirement in the 60-to-64 age bracket have already borne fruit. The average effective retirement age increased steadily from 61 in 2006 to 63.6 in 2012, contributing to a narrowing of the gap between the statutory and the effective retirement age. However, under current arrangements, older workers can still use a combination of relatively high severance pay and generous unemployment benefits as a route to early retirement. In addition, relatively strict employment protection legislation for workers with permanent contracts and potentially high (seniority-linked) severance pay give older workers in the Netherlands few incentives to change jobs (see Box 3). This has caused labour mobility to be relatively low, and increases the risk of long-term unemployment

when jobs are lost. Older workers have adjusted less to labour market changes and would benefit from life-long learning (LLL) and active ageing measures. Hence it is troubling that older workers only make up less than half of all adult participants in lifelong learning.

Box 3 — Labour market rigidities in the Netherlands

In general, the Dutch labour market can be regarded as quite flexible, mainly on account of the high participation rates by both men and women, the ample possibilities to work on a temporary or part-time basis, and the large group of self-employed people. Nonetheless, the Netherlands is characterised by relatively strict employment protection legislation (EPL) for permanent workers. In addition, the Dutch system provides for relatively generous unemployment benefits with a long maximum duration (38 months).

These characteristics have an adverse effect on labour mobility. The current EPL system benefits ‘insiders’ at the expense of ‘outsiders’ and reduces incentives to seek out new opportunities, particularly for older workers. Since accumulated severance pay rights are lost when changing jobs, there is a particularly strong disincentive for older workers to switch jobs. At the same time firms are reluctant to hire older workers, due to the EPL and relatively high tenure-based pay in the Netherlands which may result in misalignments between wage costs and productivity levels.

The Netherlands could benefit from tackling the above rigidities. In particular, while strict EPL may delay or impede a strong rise in unemployment, it increases hiring costs. This might lead to more long-term unemployment and could, in combination with the high unemployment benefits, provide a disincentive for firms to hire once the economic recovery kicks in. At the same time, however, it must be recognised that tackling these labour market rigidities may have negative transitional effects. There is a heightened risk that specific cases (in particular low-skilled employees or those on a low income) would be confronted with significantly lower incomes in combination with scant prospects of finding a new job in the short-term. These cases should be actively monitored and supported with appropriate measures. The coalition government and the social partners recently reached an agreement on reforming EPL and unemployment benefits from 2016 (see below).

Against this background, the Netherlands announced reforms concerning the unemployment benefit scheme and employment protection legislation (EPL), which are planned to enter into force as of 2016. The reforms, agreed on through negotiations with the social partners (‘Sociaal Akkoord’) and not yet enshrined in law have secured broad public support and as such can be seen as fitting in a tradition of Dutch consensual decision making (‘poldermodel’), which had been less prominently visible in recent years. The reforms, in combination with a mobility tax credit (‘mobiliteitsbonus’) for employers who hire social security beneficiaries aged 50 or above or people with a disability, target at the lower end of the labour market by increasing incentives both on the demand and supply side. The agreement with the social partners implies that publicly financed unemployment benefits will be reduced in duration.¹⁴ Regarding EPL, the plans to introduce uniformity in the dismissal procedure and a cap on severance pay from 2016 onwards should enhance labour mobility. Better protection is also envisaged for employees with flexible contracts, particularly with regard to the right to obtain sickness benefits and the maximum duration of flexible contracts.

¹⁴ The Publicly financed part of the WW will be brought back to two years. The social partners can decide on offering an extra 14 months of benefits (which will be financed by employers and employees). WW rights will be built up at a slower pace than before.

The EPL reform embodied in the social agreement adequately addresses rigidities in labour matching and hiring, and may particularly benefit the employability of older workers, whose relatively high severance pay and reservation wage reduce their chances of re-entering the labour market. The expected enhancement of labour supply and the decreasing risk of long term unemployment for specific groups are welcome. In addition, the reform rightfully aims at preserving the flexible character of the Dutch labour market, while reducing the gap between fixed and temporary contracts in terms of access to schooling and other social rights, thereby adequately reflecting the ‘flexicurity approach’. The reform of unemployment benefits go broadly in the right direction. However, it is regrettable that the planned reduction in the duration and generosity of unemployment benefits originally planned in the coalition agreement, has been postponed, as this would have stimulated people to return to the labour market (see Box 3). This is strengthened by the fact that people will be confronted with the shortened duration of the publicly funded unemployment benefits only from 2018 onwards. The postponement of these labour market reforms increases implementation risks. That said, the extent to which the delay of these reforms will have negative impact on labour market performance will also be shaped by the overall employment outlook.

Furthermore, a bonus to incentivise older workers to continue working is replaced by a new, less generous one for which only those on lower incomes will qualify. It is not expected that this will significantly improve older workers’ participation in the labour market. In contrast, abolishing the pension allowance for partners who have not yet reached the statutory retirement age, which will apply to all workers reaching the statutory retirement age in 2015, is expected to stimulate older workers partners to work longer. In addition to this the IOAW¹⁵ will be phased out, fiscal arrangements for pension savings will be abolished for incomes above EUR 100,000 and pension accrual rates for occupational schemes will be lowered as of 2014.

The Netherlands has traditionally performed well on social inclusion; the at-risk of poverty indicators are relatively low compared to the EU average. However, the figures show a worrisome trend. The number of people in low-work-intensity households has increased by 75,000 since 2008, while the Europe 2020 target for reducing the number of people living in a low-work-intensity household was set at 93,000. Rising unemployment rates could heighten the risk of poverty as more people become dependent on benefits. This increase in poverty particularly affects single parents, single people, those with a migrant background, the self-employed, and households living on benefits other than pensions.

The Commission comes to the overall conclusion that the Netherlands has made some progress on measures taken to address the labour market CSR.

Education

The Netherlands has a well-functioning educational system and is on track to achieving its Europe 2020 targets. Early school leaving already fell from 10.9% in 2009 to 8.8% in 2012 and is on to hit the 8% target. The tertiary education target is an attainment rate of 40-45% and, at 42% in 2012, has already been achieved.

For 2012 the most important change in funding is the replacement of the current partly grant-based system of funding for students in tertiary education. Students will have to fully finance their studies privately, but can take low-interest loans from the government. Repayment of these loans will depend on the student’s income after graduation. Savings resulting from this measure are to be re-invested, especially in the quality of education, although how exactly this will be done is not yet specified. This reform reduces the deadweight loss of the current grant-based system and may also reduce the average duration of tertiary studies, as it should sharpen the choice of study field by

¹⁵ IOAW: income provisions for older and partially disabled unemployed people who are no longer entitled to unemployment or disability benefits.

prospective students. On balance, it may well be that tertiary attainment rates decrease, but that graduation rates increase. However, the impact on tertiary enrolment and on the level of qualifications on graduation should be closely monitored, especially for students from underprivileged backgrounds. Plans should be amended if a substantially larger-than-expected number of prospective students were either to opt out of pursuing tertiary education altogether, or if there was a clear trend to opt for ‘safer’ study choices, e.g. away from technical studies. It will also be important to communicate to (loan-averse) prospective students the benefits of further study even if this necessitates taking out a loan.

The Dutch educational system is, on average, of high quality. This is reflected in good PISA scores, relatively high employment rates and the good international rankings of universities. But the educational system suffers from a few shortcomings. Especially in primary and secondary education high-achieving Dutch students score worse than their international counterparts, whereas students with lower and medium grades score better than their international peers.¹⁶ Due to the scarcity of excellent students in secondary education, the high (average) level of educational performance at the secondary level does not translate into top performance at the tertiary level. Not only is the average duration of tertiary study longer in the Netherlands compared to the EU average¹⁷, but the number of top performers in tertiary education is also small.¹⁸

The Netherlands has an ‘Excellence Policy’¹⁹ in place, ‘performance agreements’ signed with all individual higher education (HE) institutions that link additional funding to meeting targets on education quality, study success and the profiling of education and research. Furthermore, there will be extra requirements for vocational education and for graduates who wish to enter non-related HE programmes and there are plans to shorten vocational education and training programmes to make the road to higher education more attractive. The government recently submitted a draft law (‘Wetsvoorstel kwaliteit in verscheidenheid hoger onderwijs’) whose aims include (i) introducing pre-selection for education programmes that are currently subject to a numerus clausus and for the pedagogical universities; (ii) improving the transfer of students from secondary to tertiary education and from vocational trainings to universities of applied science; (iv) making training more appropriate for labour market needs and (v) putting greater emphasis on excellence at the tertiary level. As most of the measures have only recently been adopted or are still in the legislative procedure, it is unclear whether they will be sufficient to address the shortcomings of the educational system, but they are clearly steps in the right direction.

Adult participation in lifelong learning (LLL) reached 16.7 % in 2012. It thus already surpassed the 15 % benchmark set out in Europe 2020. While a number of initiatives have been undertaken to encourage training, a formal comprehensive framework for LLL allowing for the possibility to use funds for LLL for both intra- and inter-sectoral schooling could further increase the efficiency of the system.

¹⁶ Van der Steeg, M., Vermeer, N. and Lanser, D. (2011). [Nederlandse Onderwijsprestaties in Perspectief](#). CPB Policy Brief 05.

¹⁷ Source: OCW (2011). [Key Figures 2006-2010, Education, Culture and Science](#).

¹⁸ See also: [Commissie Toekomstbestendig Hoger Onderwijs Stelsel](#) (2010)

¹⁹ See e.g. <http://www.siriusprogramma.nl/?pid=85>

3.4. Structural measures promoting growth and competitiveness

Housing market

Box 4 — Main factors determining the Dutch housing and mortgage market and milestone policy measures over the recent decades

The Netherlands has a long history of public involvement in housing. Households in both the rental sector and the owner-occupied sector receive substantial explicit or implicit subsidies. Crucial subsidy instruments at the national level are the income-based housing allowance for tenants and mortgage interest rate deductibility (MID) for homeowners, allowing home owners to fully deduct interest payments on their mortgage loan from their taxable income, and in place since 1893. In addition, there is government involvement in spatial planning and land policy, regulation and supervision of housing associations, rent policy and financial guarantees. These policies show up in house prices and have in effect furthered substantial and persistent increases in household mortgage debt.

The trend was accentuated in the last few decades for a number of reasons. The existence of the National Mortgage Guarantee system (NHG) since 1993 has meant that the risk of default for mortgages under a fairly high threshold was transferred to the government. Generous mortgage lending and house prices in the Netherlands were also boosted by a combination of changing household behaviour patterns, trends in the labour market, financial innovations, and changes in financing conditions, notably increases in affordability due to lower interest rates. Banks designed instruments to allow borrowers to benefit to the maximum extent from full MID such as bullet-type mortgage loans which kept deductible interest high over the full maturity of the loan. This allowed borrowers to postpone paying off the principal until the loan matured. Moreover, lending standards were also relaxed. High loan-to-value (LTV) ratios in excess of 100 % became possible. In 2010 the vast majority (92 %) of outstanding mortgages thus consisted of non-amortising loans. Moreover, since 1993, in a period of strong employment gains, banks have taken a second household income into account when determining a household's borrowing capacity, further driving up prices.

Over the last decade, some measures have been taken to limit full and unqualified MID. Since January 2001, MID has been restricted in three ways. First, deductibility applies only to mortgage loans on the borrower's primary residence (and not to secondary homes such as holiday homes). Second, deductibility is only allowed for a period of up to 30 years. Finally, the top income tax rate has been reduced from 60 % to 52 %. However, these changes did not have a significant impact on the rate of mortgage loan origination, mainly because of the simultaneous falls in mortgage interest rates in line with international trends. From 1 January 2004, the tax deductibility of mortgage loan interest payments was further restricted under the *Bijleenregeling*, which limited interest deductibility to that part of the mortgage that equalled the price of the new property minus the net profit realised on the old one. As from August 2011, the requirements for mortgage lending have been tightened leading to a revised Code of Conduct for Mortgage Lending. Banks have committed to reducing new interest-only mortgages to a maximum of 50 % of the market value of the property. In addition, the maximum LTV-ratio will be reduced from 106 % in 2012 to 100 % in 2018.

Social housing represents 33 % of total dwellings. The expansion of the social housing sector up to the mid-1990s was accompanied by a sharp fall in private renting, which currently accounts for a mere 7 % of the total housing stock, mostly rent-controlled. The Dutch authorities provide targeted subsidies for low-income households. More than three-quarters of all tenants rent a dwelling from social housing corporations, non-profit organisations that have to act on a commercial basis, but are required to use their profits for the provision of good and affordable housing.

Some progress has been achieved in addressing the 2012 Council Recommendations on the housing market. Since April 2012 a series of measures have been put forward by the respective Dutch governments. While these are steps in the right direction, the overall pace of reforms to address the underlying problems is slow and thus needs to be stepped up.

Property market

The legislative changes on eligibility for mortgage interest deductibility are welcome as an important first step in the direction of a healthier housing market. New mortgage initiated in 2013 and beyond must take an annuity or linear form in order for mortgage interest to be tax-deductible and to qualify for NHG guarantee. Also interest can only be deducted for mortgages amortised over a maximum of 30 years. This adjustment in the fiscal treatment of mortgages will help gradually unwind the structural deficiencies of the housing market and support public finances over the long run. For new loans it will eliminate the fiscal incentive not to gradually repay the principal over the maturity of the loan, thus reducing the tax incentive to take out mortgage loans. Since interest payments automatically decline over time in amortising structures, the absolute size of the tax advantage also declines. Limiting the mortgage interest tax relief to bring it in line with full annuity repayment should also gradually relieve the Dutch banking sector's dependency on market funding, thus reducing the vulnerability and leverage of both Dutch households and banks.

However, under the current plans, the phasing in of the limitation of mortgage interest deductibility²⁰ is in effect strongly back-loaded due to the very gradual restrictions on mortgage interest deductibility for the stock of existing mortgages. The possibility to grandfather full mortgage interest deductibility for existing loans when refinancing or moving home²¹ adds to the back-loading of the actual impact on the existing stock of mortgages. Therefore, given the size of the outstanding stock of existing mortgages (which for the overwhelming majority consists of interest-only loans in various guises) the current measures will have an excessively muted effect on the rate at which mortgage interest deductions are reduced and will be overly slow in reducing the incentive to leverage against gross housing debt. Moreover, in effect, these measures limit first-time homebuyers' access to the mortgage (and housing) market. Given that a revival of activity in the Dutch housing market will hinge to a large degree on mobilising first-time buyers, spreading the cost over a wider group (including those with larger financial buffers) could help cushion the impact of a faster reduction in mortgage interest deductibility.

Since the full effect will be phased in only very gradually, the current plans imply a marked difference in the fiscal treatment between new and existing mortgage loans. The latter will continue to be treated more favourably, partly due to grandfathering provisions. Indeed, when an old mortgage loan is being refinanced, the borrower will be able to transfer his tax benefit to a new mortgage loan, even with a different originator.²² The old tax regime is portable until the date that mortgage loan matures (under the current legislation at least 30 years after the conclusion of the mortgage). In other words, if a borrower, at the moment of an interest reset date, opts to refinance the loan instead of accepting a new interest rate, then, *de facto*, the above mentioned reform will not apply to him.

²⁰ This favourable tax treatment is reinforced by an additional deduction for small mortgage interest payments. The result is that home owners do not pay net taxes on their property, which especially favours wealthier households.

²¹ It is not yet clear if, as indicated in the original version of the reforms, borrowers would be able to keep the same, grandfathered, mortgage deal for their existing loan amount if they move homes. If this is the case, it is only any additional borrowing that would be subject to the rule change.

²² The grandfathering applies to the mortgage loan product as well as to the specific loan amount.

A further aspect of the change in the tax treatment of housing finance relates to the gradual reduction in the deductible rate from 52 % to 38 %. From 2014 onwards, the maximum deduction rate of 52 % (for the highest income tax bracket) will fall to 38 % in steps of half a percentage point per year. This reform will be applicable to new as well as existing mortgage loans, but the impact will only be felt very gradually because of slow phasing in and grandfathering clauses which allow tax advantages to persist on refinancing or relocation of an existing housing loan. A gradual approach is needed, but the phasing-in of this measure over a period of 28 years is too slow to have a significant impact on amortising behaviour in the coming years. In theory, it will also have an impact on existing mortgage holders, but this will only have material effect after a protracted gestation period. For the first 20 years only those with taxable income in the highest income tax bracket of 52 % (who account for only around 18 % of all households²³) will be affected. Hence, for 20 years the bulk of existing mortgages in the second highest tax bracket of 42% will not be affected. In other words, they will not lose the incentive to postpone paying back the housing loan principal.

The measures proposed increase net loan servicing costs over time, thereby affecting the affordability of housing, in particular of first-time home buyers who are important in determining prices and in driving the number of transactions. To partly address this, there is a possibility to take a second interest-only mortgage for a partial repayment of the first loan. With each repayment on the first loan, debt on the other loan builds up to reach a maximum of 50 % of the mortgage sum after 30 years. Although these second loans do not qualify for tax deductibility of interest paid, they do allow buyers to initially lower their monthly interest payments. However, the duo-mortgage also induces them to build up higher residual debt compared to an outright annuity mortgage and strongly increases the overall costs of financing the purchase. Therefore, it remains to be seen whether people will actually opt for up this kind of second mortgage. Nevertheless, on balance interest-only mortgage loans are poised to lose significant market share, which is a positive development. The popularity of other amortisation-free mortgage product structures, such as savings, investment and insurance structures, will also fall due to the fact that new loans of this type no longer qualify for a specific tax discount.

First-time home buyers also bear the brunt of more restrictive bank lending conditions, including the stepwise reduction over five years in the maximum loan-to-value (LTV) ratio to 100 %. Reducing the maximum LTV ratio translates into a limitation of the borrowing capacity of more liquidity-constrained home buyers and thus accentuates further the existing slump in the housing market, due to the interaction with restrictions on mortgage interest deductibility for new housing loans.

Negative equity is increasingly creating gridlock on the housing market, since most homeowners affected are either not willing or able to take losses if they relocate. It is estimated that for around 25 % of housing loans the market value of the house is currently below that of the outstanding mortgage debt. Relatively young households are particularly affected. In order to partly address this issue, from 2014 onwards the interest payment on residual debt will still be tax deductible for a maximum of 5 years (up to 10 years for residual debt originating between 29 October 2012 and 31 December 2017). Nevertheless, actual costs for these homeowners will still rise substantially if they sell their properties, as banks will require the remaining debt to be reimbursed over a period of 10 years. Moreover, although these measures may contribute to an orderly adjustment of the housing market in the medium run, their short-term stimulus effect is far less certain.

²³ The number of households with an owner occupied dwelling is 4 214 000. Of those, 751 000 had at least one household member with a taxable income in the highest income tax bracket.

Overall, the proposed measures lead to an overly back-loaded adjustment in the owner-occupied segment, as they are geared towards preserving advantages for existing borrowers. Therefore, the planned reduction in mortgage interest deductibility should be accelerated in order to reduce disincentives to amortise and lower the fiscal drag. This will mean putting a larger part of the burden of adjustment on existing mortgages. This should make it progressively more attractive for people to start repaying their loan principal (through the trade-off between the returns on savings, mortgage interest rates and the rates for tax deduction on various sources of taxable income). A gradual approach is still important to avoid undue destabilising effects. At a micro-level, the turning point of individuals' decisions on whether or not to amortise will depend on their specific situations; at a macro-level, the transition will inevitably still need to be gradual, but should be faster than current plans imply.

Rental market

The planned reforms for the rental housing market aim at addressing rental market distortions, notably the problem of so-called 'scheefhuurders' (people still living in social housing, despite having higher incomes), while protecting those who need social housing. They are relevant and are a step in the right direction, but fall short of a full implementation of the CSR. The parliament recently approved income-dependent rent increases for the regulated rent sector (more than three-quarters of which consists of social housing corporations)²⁴, but with a maximum annual rent increase of 4% above inflation²⁵, the incentive for people with higher income to move out of social housing is very limited. The measure is expected to have only marginal effect in the short- to medium term. The additional rental income that social housing corporations receive as a result of the rent increases will be skimmed by a higher the property tax levy, amounting to an additional EUR 50 million in 2013, and rapidly rising to EUR 1.7 billion by 2017 (0.3% of GDP). There is a risk that this obligation will lead to a commensurate reduction in investment on the part of social housing corporations, given the wider financial constraints they are under. On the other hand, rules for selling part of the social housing corporations' property will be loosened to encourage social housing corporations to focus on their prime task of building and managing social housing. The governance of the social housing sector needs to be strengthened to prevent the build-up of operational risk in the social housing corporations. This is particularly the case if there is not strong enough oversight (as in the case of Vestia) which could lead to severe financial repercussions for public finances and other social housing corporations. It is fundamental to safeguard the housing corporations' social dimension. Along with other aspects, such as spatial planning, this social role means ensuring that social housing is available to disadvantaged citizens or socially less advantaged people, who, due to solvency constraints, are unable to obtain housing at market conditions"²⁶, including in sought-after locations. This will imply a role for targeted income support.

The Commission comes to the conclusion that the Netherlands has made some progress on measures taken to address the CSR on the housing market.

²⁴ The liberalized rental sector, currently accounting for a mere 7% of the total housing stock, is not bound to maximum rent increases.

²⁵ Tenants with a household income of less than EUR 33,614 would pay up to 1.5 pp above the inflation rate, for tenants with an income between EUR 33,614 and EUR 43,000 the difference to inflation will be 2 pp, and those with incomes above EUR 43,000 face rent increases up to 4 pps above inflation. Landlords will thus be allowed to differentiate the rent increases among their properties, while tenants experiencing income decreases can obtain rent decreases, and lower-income households are partly compensated with rent subsidies for losses in purchasing power.

²⁶ See recital 11 of the Commission Decision of 20 December 2011 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest, OJ L 7, 11.01.2012, p. 3.

Research and innovation

According to the Innovation Union Scoreboard, the Netherlands is an ‘innovation follower’ with above-average performance.²⁷ It is excellent in terms of frequently quoted scientific publications and licence or patent revenues from abroad and it will be important to maintain this level. Although the Dutch research and innovation system has managed to maintain and in some areas improve its innovative capacity, the Netherlands’ relative underperformance in private research and development (R&D) expenditure may reduce economic growth and weaken the competitiveness of the Dutch economy in the future.

Research and development intensity was 2.04% in 2011, similar to the EU average of 2.03%. However, business enterprise research and development expenditure (BERD) is relatively low compared to the EU average (1.07% vs. 1.26% in 2011). This is partly due to the fact that the Dutch economy features a large service sector and a relatively small manufacturing industry, which is geared towards medium-tech sectors. Moreover, a significant proportion of private research and development expenditure is concentrated in a limited number of large multinational firms. In line with its commitments under the Europe 2020 Strategy, the Netherlands has set a national target of 2.5% of GDP for research and development intensity in 2020.

The enterprise policy ‘To the Top’, which features a sectoral approach to public-private partnerships in the area of research, innovation and education (‘top sectors’), is now being implemented. The strategy enhances cooperation between businesses and research institutions and stimulates private investment in R&D and innovation. Stakeholders play a central role in the process and SME participation is supported and monitored closely. This approach is expected to channel private research funding in a mutually beneficial way. Several private investment commitments were announced in 2012. So far, the progress seems promising, but at this stage it is still too early to assess to what extent the strategy is able to mobilise additional resources and investments in R&D and innovation.

In addition to sectoral innovation policies, horizontal research and innovation policies and funding have an important role to play. For instance, it is essential that companies with high growth potential that do not fall under one of the chosen ‘top sectors’ can also be brought into the enterprise policy and that the selection of top sectors can be updated. Although some adjustments have been made to the coverage of the top sectors, there do not seem to be plans to carry out regular revisions. Moreover, it is important to preserve an adequate level of public funding for not-earmarked fundamental research, in line with the priorities set out in the annual growth survey. In the coming years, it will be critical to secure the allocation of funding and additional expenditure for fundamental research not earmarked for specified fields, as announced under the coalition agreement.²⁸

In recent years, specific subsidies for innovation have been considerably reduced and largely transformed into tax incentives or generic tax reductions. All remaining financial support measures are of a generic nature and are not limited to the top sectors. This shift from administrative to generic instruments, irrespective of sectors, is particularly welcome, as it limits the risk that innovative firms outside pre-selected sectors will fall outside the scope of R&D policies. The R&D tax incentive scheme WBSO, which allows for the deduction of R&D wages for tax purposes, was evaluated in 2012.²⁹ The evaluation points out that the scheme has had a positive impact in terms of

²⁷ Innovation Union Scoreboard:

http://ec.europa.eu/enterprise/policies/innovation/facts-figures-analysis/innovation-scoreboard/index_en.htm

²⁸ Letter to parliament ‘Uitwerking regeerakkoord voor versterking kenniseconomie’, 11 February 2013.

²⁹ <http://www.rijksoverheid.nl/documenten-en-publicaties/rapporten/2012/04/02/hoofdrapport-evaluatie-wbso-2006-2010.html>

mobilising additional private R&D expenditure, while the thresholds seem to ensure a particular concentration in SMEs.

Skills shortages, especially in engineering and technology related professions, are becoming an increasing concern and a potential bottleneck for growth. In reaction to these developments, the government has recently announced the ‘*Techniekpact*’ strategy. Concrete measures to make the educational system and the labour market better suited to the changing requirements of the technology sector are currently being developed. It will be important to implement this strategy effectively in order to preserve and enhance the innovative capacity of high-tech companies in the Netherlands. Higher education should aim at making studies for technical profiles attractive.

The measures taken so far are relevant and are steps in the right direction in promoting closer links between science and business and in stimulating additional private investments in R&D and innovation. There is a clear link between the measures presented and the challenges identified in the country specific recommendation. However, it is still too early to judge the effectiveness of these measures. It is therefore important to remain ambitious about strengthening the innovative capacity and competitiveness of the Dutch economy, ensuring that innovative instruments are inclusive across sectors while safeguarding a solid base in fundamental research which is adequately funded and delivering good quality higher education.

The Commission comes to the conclusion that the Netherlands has made substantial progress on measures taken to address the CSR.

Energy, Climate and Environment

The latest data suggest that the Netherlands is currently on track to meet its target regarding reducing emissions not covered by the EU Emissions Trading Scheme (ETS).³⁰ By 2020, in accordance with the Effort Sharing Decision, the Netherlands needs to have reduced emissions that are not covered by the EU ETS by 16% from their 2005 levels. However, the weak economic activity in the wake of the crisis has probably partly contributed to achieving this. Emission targets may well become more difficult to achieve should economic growth pick up again.

The renewable energy share in the Netherlands rose from to 3.8% in 2010 to 4.3% in 2011, bringing it within reach of its 2011/2012 interim target of 4.7%. Nevertheless, despite the announced more ambitious policies announced to promote renewables, including a continuation of the sustainable energy production (SDE+) scheme with a budget of EUR 3 billion for 2013, the gap between the Netherlands’ current renewable energy share figures and the 2020 target figure is still one the widest in the EU (in percentage points). Consequently, if additional policies are not put in place swiftly, in particular for projects that need a long lead-time such as off-shore wind, there is a risk that the target of 14% by 2020 (let alone the recently announced 16 % government target) will not be achieved.

As regards energy efficiency, the Netherlands has set an indicative national target of 1.5% energy savings per year. However, it has not complied with the requirements of the Energy Efficiency Directive³¹ to express this target in terms of an absolute level of primary and final energy consumption in 2020 and to provide information concerning the basis on which this data has been calculated. As regards industry, the Covenants (MJA3 and MEE) have not achieved the expected

³⁰ Referentieraming Energie en Emissies Actualisatie 2012 (PBL 2012b)

³¹ Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency. OJ L315 of 14.11.2012, p.1

results, with the ETS sector only achieving an improvement of 1.6% in 2011 (compared to an average expected improvement of 2.7%).

The Netherlands is the largest gas producer in the EU and eighth largest in the world. Gas makes up 40% of the Dutch energy mix, against an EU average of 25%. With two thirds of the existing gas field reserves used up, the Dutch government is now firmly committed to securing the Netherlands' position as the gas hub of north-west Europe, although the less secure regulatory framework is jeopardising the required investments.

Over the last 20 years, there has been progress on environmental indicators. For example, there has been a considerable decline in landfilling, and a reduction in air emissions. Problems persist, however, with biodiversity and nature conservation, and with meeting the targets of the Water Framework Directive. The 2012 coalition agreements states that the Netherlands strives to create a circular economy and intends to stimulate the (European) market for sustainable materials and for re-use of scarce materials. There is a need to clarify how this will be achieved. It is, for example, not clear how skills, capital and knowledge transfer to SMEs will be organised effectively in order to stimulate them to save costs and secure jobs by using less resources and energy.³² The Netherlands rightfully emphasises the international dimension of resource efficiency and welcomes sustainability criteria for all biotic resources, and a European approach to defining subsidies that could result in damage to the environment.

3.5. Modernisation of public administration

The Netherlands has a tradition of policies that promote reliable public administration and reductions in the administrative burden. According to the World Bank's Doing Business 2013 Report, the Netherlands generally has a business-friendly legal and regulatory environment that encourages business competitiveness, but there may still be scope for further improvement or simplification in certain areas of regulation. In 2012, a new target was announced for a further reduction in the administrative burden. By 2017, a reduction in the regulatory burden on businesses, professionals and citizens to the value of EUR 2.5 billion should be achieved. In order to do so, the introduction of new regulations is to be linked to the revision or scrapping of existing rules.

In 2012 and 2013, procedures for starting a business have been further simplified and minimum paid-in capital requirements abolished. The Chamber of Commerce and the innovation agency Syntens are currently being merged and restructured, which may lead to reduced local or regional presence but should enhance electronic information and services provided through a digital one-stop shop for entrepreneurs.³³ Moreover, mandatory membership fees for enterprises have been abolished and the Chamber of Commerce is now directly financed by the public budget. While this reorganisation should produce synergies of this reorganisation it will be important to continue to deliver high quality and ensure that key business support services remain available.

A sizeable proportion of the total fiscal consolidation effort is achieved through savings in the size of the public sector. Although this reduction should result in considerable efficiency gains, there is a risk that the high quality standards of public service provision will not be maintained and it could lead to an increase in expenditure on temporary workers. There is clear scope for the Netherlands to introduce an integrated, systematic and transparent impact assessment system based on the good practice demonstrated in the EU institutions' impact assessment process. This would ensure that policies are coherent and effective, strengthen the evidence base for planned measures and save costs including the costs of non-action, costs caused by the lock-in effects of inadequate

³² NL could learn from one of the most successful initiatives in Europe in this respect, the UK *Enworks* initiative (www.enworks.com), co-funded from the ERDF programme budget.

³³ www.ondernemersplein.nl

measures, and indirect and long-term costs.³⁴ As part of a net expenditure savings effort, the government is also planning to decentralise a large number of competences to municipalities, ranging from youth services to long-term health care. Whether these efficiency gains can be fully realised is very questionable, especially within the timeframes envisaged.

In the field of state aid the Dutch administration³⁵ only coordinates the central collection data. Additional responsibilities, such as coordinating notifications, drafting legislation, recovering state aid and pursuing infringements are divided between different bodies. The Netherlands does not have mechanisms of control over aid granted, such as transparency mechanisms or bodies in charge of checking the eligibility of aid awards.

³⁴ The European Commission aims to ensure that, by 2020, all Member States carry out systematic ex-ante assessments of the environmental, social and economic aspects of their policy initiatives (COM(2012)710 final, p.32: Proposed Environmental Action programme to 2020.

³⁵ State aid coordinated by the Ministry of Economic Affairs.

4. OVERVIEW TABLE

2012 commitments	Summary assessment
Country-specific recommendations (CSRs)	
<p>CSR 1: Ensure timely and durable correction of the excessive deficit. To this end, fully implement the budgetary strategy for 2012 as envisaged. Specify the measures necessary to ensure implementation of the 2013 budget with a view to ensuring the structural adjustment effort specified in the Council recommendations under the excessive deficit procedure. Thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the MTO, including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark whilst protecting expenditure in areas directly relevant for growth such as research and innovation, education and training. To this end, after the formation of a new Government, submit an update of the 2012 Stability Programme with substantiated targets and measures for the period beyond 2013.</p>	<p>The Netherlands has partially implemented the CSR:</p> <p>The authorities fully implemented the budgetary strategy for 2012 and submitted an update of the 2012 Stability Programme. Herein, they specified substantiated targets and measures for the period 2013 and beyond, that were also foreseen to bring the general government deficit below 3% of GDP in 2013 and to ensure the structural adjustment effort specified in the Council recommendation under the excessive deficit procedure. However, according to the Commission Services' 2013 Spring Forecast the deficit is expected to reach 3.6% of GDP, due to unfavourable economic developments. In 2014 the deficit is expected to remain above the 3% of GDP threshold without additional measures. According to the 2013 stability programme sufficient progress towards the MTO, including meeting the expenditure benchmark and sufficient progress towards compliance with the debt reduction benchmark, are not guaranteed. Safeguarding expenditure directly relevant for growth will depend on budgetary implementation in the coming years.</p>
<p>CSR 2: Take measures to increase the statutory retirement age, including linking it to life expectancy, and underpin these with labour market measures to support raising the effective retirement age, whilst improving the long-term sustainability of public finances. Adjust the second pension pillar to mirror the increase in the statutory retirement age, while ensuring an appropriate intra- and inter-generational division of costs and risks. Implement the planned reform in long-term care and complement it with further measures to contain the increase in costs, in view of an ageing population.</p>	<p>The Netherlands has partially implemented the CSR:</p> <p>The statutory retirement age has been increased and will be linked to life expectancy. The lowering and eventual abolition of the partner allowance in the first-pillar pension is expected to have a positive effect on older workers participation in the labour market and might therefore stimulate an increase the effective retirement age.</p> <p>The tax credit for older workers is being replaced by a new one which targets to the lowest incomes only. It is not expected that this will contribute significantly to the effective retirement age, but given the necessity to take austerity measures the actions seem appropriate For instance, a bonus for employers who hire people with a disability or beneficiaries of social assistance aged 50 or above is being introduced).</p> <p>Loosening employment protection legislation and making unemployment benefits less generous is expected to increase older workers' labour mobility, and might therefore contribute to labour participation, the effective retirement age and the sustainability of public finances.</p> <p>However, these reforms have been watered down or postponed based on the agreement reached with the social partners.</p> <p>Reforms to the second pension pillar, to mirror the increase in statutory retirement age are implemented.</p>

	<p>Increasing the statutory retirement age has been addressed, with additional plans to increase the pace at which the increase will be implemented. It is questionable to what extent the other measures will actually support an increase in the effective retirement age. Moreover, although understandable from an austerity point of view, the reduction in the ‘prolonged-working bonus’ may have a negative effect. Furthermore the second pension pillar has not yet been adjusted fully and reforms are still under being negotiated with the social partners.</p>
<p>CSR 3: Enhance participation in the labour market, particularly of older people, women, and people with disabilities and migrants, including by further reducing tax disincentives for second-income earners, fostering labour market transitions, and addressing rigidities.</p>	<p>The Netherlands has partially implemented the CSR:</p> <p>The Participation Act could reduce the number of people on benefits by stimulating them to work, and hence will contribute to budget savings. These reforms are still being negotiated.</p> <p>The phasing-out of the transferrable tax credit for single-breadwinner families is likely to contribute to the participation of second-income earners, although it is to be phased out very slowly (15 years from 2009).</p> <p>The phasing-out of the double tax credit for those on social assistance should reduce inactivity and help prevent low wage traps, but it, too, will be done at a slow pace (20 years from 2012).</p> <p>The increase in the general worker tax credit should make work more attractive and thereby promote labour market participation. The relevant tax measures have been implemented.</p> <p>Loosening of employment protection legislation and making unemployment benefits less generous is expected to increase individual labour mobility, and ultimately contribute to labour market participation. However, these reforms have been watered down or postponed further to the agreement reached with the social partners.</p> <p>Although the measures taken touch upon many aspects of the CSR, tax disincentives are only reduced at a very slow pace and no significant measures are taken to enhance the participation of people with a migrant background in the labour market.</p>
<p>CSR 4: Promote innovation, private R&D investment and closer science-business links, as well as foster industrial renewal by providing suitable incentives in the context of the enterprise policy, while safeguarding accessibility beyond the strict definition of top sectors and preserving fundamental research.</p>	<p>The Netherlands has made good progress in the implementation of the top sectors business strategy which addresses challenges for research and innovation mentioned in this CSR. However, in view of the latest budgetary measures, safeguarding of funding for fundamental research in line with priorities set out in the Annual Growth Survey does not appear certain.</p>
<p>CSR 5: Take steps to gradually reform the housing market, including by: (i) modifying the favourable tax treatment of home ownership, including by phasing out mortgage interest deductibility and/or through the system of imputed rents, (ii) providing for a more market-oriented pricing mechanism in the rental market, and (iii) for social housing, aligning rents with</p>	<p>The legislative changes on eligibility for mortgage interest deductibility are welcome as a first step in the right direction, but need to be stepped up for the stock of existing mortgages. The planned reforms for the rental housing market are equally relevant, but fall short of full implementation of the CSR.</p>

household income.	
Europe 2020 (national targets and progress)	
Employment rate target: 80%.	The employment rate went up from 76.8% in 2010 to 77% in 2011 and 77.2% in 2012. Given that the (rising) employment rate is already close to the target value, it is likely that the target will be met in time.
R&D target: 2.5% of GDP.	<p>The Netherlands has set an ambitious national target of 2.5% of GDP for R&D in 2020, without indicating a subdivision between public and private expenditure. In 2011, the Dutch R&D intensity was 2.04%, similar to the EU average of 2.03%. The increase from the 2010 value of 1.85% is at least partially explained by a change in the way data is collected.</p> <p>Private R&D expenditure (BERD) is relatively low (1.07% vs. 1.26% EU average in 2011) and, before the change of methodology in 2011, had decreased from 1.07% in 2000 to 0.89 % in 2010.</p> <p>Public R&D expenditure (GOVERD and HERD as % of GDP), at 0.98% in 2011, is on the contrary well above the EU average of 0.74% GDP, and the Netherlands is ranking at 4th position. After strong increases up to 2010, public funding for R&D is currently on a decreasing trend, including by the ending of anti-crisis measures taken in 2009-2010. However, according to the NRP, the total of direct and indirect public expenditure is foreseen to be higher in 2016 than in the pre-crisis year 2008. The share of total funds for innovation and research according to the NRP increased from 0.94% of GDP in 2008 to 1.17% of GDP in 2012, notably by a more intensive use of R&D tax incentives, and is foreseen to decrease to 0.99% of GDP in 2016, as a result of the expiry of temporary crisis measures.</p> <p>The feasibility of reaching the EU 2020 target of 2.5% of GDP will depend heavily on a significant leverage effect of the top sector policy and tax incentive schemes on private investments, and on safeguarding the planned direct and indirect public R&D expenditure until 2016.</p>
Greenhouse gas (GHG) emissions target: -16% (compared to 2005 emissions; ETS emissions are not covered by this national target).	Change in non-ETS greenhouse gas emissions between 2005 and 2011: -8%. According to the latest national projections submitted to the Commission and taking into account existing measures, the target is expected to be reached: -19% in 2020 compared to 2005 (with a margin of 3 percentage points).
Renewable energy target: 14 % Share of renewable energy in the transport sector: 10 %	<p>The share of total renewable energy in gross final energy consumption was 4.3 % in 2011 and 4.6 % in the transport sector. (Source: Eurostat. April 2013. For 2011, only formally reported biofuels compliant with Art. 17 and 18 of Directive 2009/28/EC are included).</p> <p>To achieve its renewable energy share targets, the Netherlands would have to make sure additional</p>

	policies are put in place quickly, in particular for projects that need a long lead-time.
Energy efficiency target: 1.5% per year (partial). The preliminary data suggests that the final energy consumption level in 2020 would be 52.1 Mtoe.	Netherlands has set an indicative national energy efficiency target. However, it has neither expressed it, as required, in terms of an absolute level of primary and final energy consumption in 2020, nor has provided information on the basis on which data this has been calculated.
Early school leaving target: <8%	Early school leaving rate: 10.9% in 2009, 10.0% in 2010, 9.1% in 2011 and 8.8% in 2012. Reaching the early school leaving target seems highly feasible.
Tertiary education target: 40-45%	Tertiary attainment rate: 40.5 in 2009 41.4 in 2010, 41.1% in 2011 and 42% in 2012. In 2012, 42% of those aged 30-34 years had completed tertiary education. The 40% target has thus already been reached. The trend since 2005 has been for this rate to grow by an average of 2.76% on a compound annual basis. To reach the 45% target a compound annual growth rate of 1.01% is needed, and hence this also seems feasible.
Risk of poverty or social exclusion target: -100,000 (reduction of people aged 0 to 64 in a jobless household).	The number of people (aged 0 to 59) in low-work intensity households has risen by 75,000 people since 2008, instead of falling by the required 93,000. Hence achieving this target seems highly problematic.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014
Core indicators								
GDP growth rate	3.9	1.7	1.5	1.6	1.0	-1.0	-0.8	0.9
Output gap ¹	0.0	-0.4	0.0	-1.7	-1.4	-2.5	-3.3	-2.7
HICP (annual % change)	1.7	3.0	1.6	0.9	2.5	2.8	2.8	1.5
Domestic demand (annual % change) ²	4.3	1.1	1.6	0.2	0.5	-1.5	-1.6	0.3
Unemployment rate (% of labour force) ³	5.4	3.6	4.0	4.5	4.4	5.3	6.9	7.2
Gross fixed capital formation (% of GDP)	21.9	20.3	19.6	17.3	17.7	16.8	16.3	16.3
Gross national saving (% of GDP)	26.9	26.8	26.2	23.1	26.4	25.5	25.6	25.8
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	-1.6	-1.0	-0.9	-5.1	-4.5	-4.1	-3.6	-3.6
Gross debt	69.0	51.9	52.7	63.1	65.5	71.2	74.6	75.8
Net financial assets	-48.3	-35.3	-30.2	-34.4	-38.8	n.a	n.a	n.a
Total revenue	46.7	44.7	45.7	46.1	45.4	46.4	47.3	47.2
Total expenditure	48.2	45.8	46.6	51.3	49.9	50.4	50.9	50.8
<i>of which: Interest</i>	5.0	2.9	2.2	2.0	2.0	1.9	1.9	1.9
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	4.1	6.7	7.9	10.1	12.0	11.9	10.2	10.9
Net financial assets; non-financial corporations	-137.3	-110.2	-75.6	-53.6	-44.0	n.a	n.a	n.a
Net financial assets; financial corporations	-27.0	-25.2	-8.4	-13.2	-15.6	n.a	n.a	n.a
Gross capital formation	12.3	10.2	9.3	8.7	9.4	8.7	8.7	8.7
Gross operating surplus	24.4	24.5	25.4	26.1	26.3	26.6	25.9	26.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	2.9	0.6	-0.7	-0.6	0.4	0.1	1.1	1.2
Net financial assets	205.9	175.7	158.8	166.5	169.7	n.a	n.a	n.a
Gross wages and salaries	42.4	40.5	38.6	39.2	39.0	39.0	39.0	38.9
Net property income	9.0	6.9	5.5	4.0	4.2	5.0	5.4	5.4
Current transfers received	23.7	22.5	21.5	23.0	22.9	23.6	24.2	24.4
Gross saving	10.3	7.7	6.6	5.3	5.9	5.4	6.1	6.2
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	4.4	6.2	6.2	4.5	7.9	8.0	7.7	8.7
Net financial assets	6.7	-4.9	-44.7	-65.1	-71.4	n.a	n.a	n.a
Net exports of goods and services	5.1	6.3	8.0	8.2	8.9	8.8	9.2	9.6
Net primary income from the rest of the world	0.8	1.5	0.1	-1.6	0.9	1.0	1.0	1.0
Net capital transactions	-0.3	-0.2	-0.3	-0.6	-0.3	-0.3	-0.9	-0.3
Tradable sector	43.0	41.4	40.1	39.3	39.9	40.2	n.a	n.a
Non tradable sector	46.6	47.7	48.7	50.0	49.7	49.7	n.a	n.a
<i>of which: Building and construction sector</i>	4.9	5.1	5.1	4.8	4.8	4.4	n.a	n.a
Real effective exchange rate (index, 2000=100)	93.5	96.6	101.8	102.5	102.8	100.2	101.5	101.3
Terms of trade goods and services (index, 2000=100)	97.0	99.2	99.6	98.7	98.9	98.0	97.7	97.5
Market performance of exports (index, 2000=100)	99.8	101.2	100.3	104.8	103.8	107.0	109.5	108.5
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 services' 2013 spring forecasts (COM); Stability programme (SP).								

Table II. Comparison of macroeconomic developments and forecasts

	2012		2013		2014		2015	2016	2017
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	-1.0	-0.9	-0.8	-0.4	0.9	1.1	1.6	1.6	1.6
Private consumption (% change)	-1.4	-1.5	-2.4	-1.6	-0.1	0.3	0.1	0.1	0.1
Gross fixed capital formation (% change)	-4.6	-4.9	-3.3	-2.1	1.6	2.3	2.6	2.6	2.6
Exports of goods and services (% change)	3.3	3.1	3.3	2.8	3.9	4.2	5.1	5.1	5.1
Imports of goods and services (% change)	3.1	2.8	2.9	2.0	3.6	4.2	4.5	4.5	4.5
<i>Contributions to real GDP growth:</i>									
- Final domestic demand	-1.5	-1.4	-1.7	-1.1	0.3	0.6	0.5	0.5	0.5
- Change in inventories	0.1	0.0	0.2	-0.2	0.0	0.1	0.0	0.0	0.0
- Net exports	0.4	0.5	0.6	0.9	0.6	0.4	1.1	1.1	1.1
Output gap ¹	-2.5	-2.9	-3.3	-3.3	-2.7	-2.5	-1.6	-0.7	0.0
Employment (% change)	-0.1	-0.2	-1.6	-0.4	-0.1	0.1	0.5	0.5	0.5
Unemployment rate (%)	5.3	5.3	6.9	6.3	7.2	6.4	6.7	6.6	6.1
Labour productivity (% change)	-0.1	-0.7	0.2	0.0	1.0	0.9	1.1	1.1	1.1
HICP inflation (%)	2.8	2.8	2.8	2.8	1.5	1.7	1.5	1.5	1.5
GDP deflator (% change)	0.7	1.1	1.4	1.6	1.7	1.6	0.9	0.9	0.9
Comp. of employees (per head, % change)	1.3	2.2	1.8	2.2	2.1	2.7	1.3	1.3	1.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	8.0	8.0	7.7	8.8	8.7	9.0	11.2	11.1	11.5

Note:

¹In 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 services' 2013 spring forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2012	2013		2014		2015	2016	2017	Change: 2012-2017
	COM	COM	SP	COM ¹	SP	SP	SP	SP	SP
Revenue	46.4	47.3	46.7	47.2	47.0	46.8	46.7	46.5	0.1
<i>of which:</i>									
- Taxes on production and imports	11.4	12.0	12.0	12.1	12.2	11.9	11.9	12.0	0.6
- Current taxes on income, wealth, etc.	10.9	10.9	11.1	10.7	10.8	12.4	12.6	12.8	1.9
- Social contributions	16.5	16.9	16.8	17.1	17.0	15.9	15.7	15.6	-0.9
- Other (residual)	7.5	7.5	6.8	7.3	7.0	6.6	6.5	6.1	-1.4
Expenditure	50.4	50.9	49.9	50.8	50.4	48.9	48.7	48.0	-2.4
<i>of which:</i>									
- Primary expenditure	48.5	49.0	48.0	48.9	48.6	46.9	46.6	45.9	-2.6
<i>of which:</i>									
Compensation of employees	9.7	9.8	9.7	9.7	9.5	9.0	8.9	8.7	-1.0
Intermediate consumption	7.7	7.5	7.6	7.5	7.4	7.0	6.9	6.7	-0.8
Social payments	24.0	24.6	23.8	24.8	24.0	24.2	24.2	24.0	0.0
Subsidies	1.3	1.2	1.2	1.1	1.1	1.1	1.0	1.1	-0.2
Gross fixed capital formation	3.4	3.4	3.1	3.3	3.2	3.0	2.9	2.8	-0.6
Other (residual)	2.5	2.5	1.9	2.4	1.9	2.7	2.7	2.5	0.0
- Interest expenditure	1.9	1.9	1.9	1.9	1.8	2.0	2.1	2.1	0.2
General government balance (GGB)	-4.1	-3.6	-3.4	-3.6	-3.0	-2.0	-1.9	-1.4	2.7
Primary balance	-2.2	-1.7	-1.3	-1.7	-1.6	-0.1	0.1	0.6	2.8
One-off and other temporary measures	0.0	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	-4.1	-3.8	-3.4	-3.8	-3.0	-2.0	-1.9	-1.4	2.7
Output gap ²	-2.5	-3.3	-3.3	-2.7	-2.5	-1.6	-0.7	0.0	2.6
Cyclically-adjusted balance ²	-2.6	-1.8	-1.5	-2.0	-1.6	-1.1	-1.5	-1.4	1.2
Structural balance (SB)³	-2.6	-2.0	-1.5	-2.3	-1.6	-1.1	-1.5	-1.4	1.2
<i>Change in SB</i>	<i>1.0</i>	<i>0.7</i>	<i>1.1</i>	<i>-0.3</i>	<i>-0.1</i>	<i>0.5</i>	<i>-0.4</i>	<i>0.1</i>	<i>-</i>
<i>Two year average change in SB</i>	<i>0.7</i>	<i>0.8</i>	<i>1.1</i>	<i>0.2</i>	<i>0.5</i>	<i>0.2</i>	<i>0.0</i>	<i>-0.2</i>	<i>-</i>
Structural primary balance ³	-0.7	-0.1	0.4	-0.4	0.2	0.9	0.6	0.7	1.4
<i>Change in structural primary balance</i>		<i>0.7</i>	<i>1.1</i>	<i>-0.3</i>	<i>-0.2</i>	<i>0.7</i>	<i>-0.3</i>	<i>0.1</i>	<i>-</i>
Expenditure benchmark									
Applicable reference rate ⁴	0.39	0.39	0.39	-0.14	-0.14	-0.14	-0.14	n.a.	-
Deviation ⁵ (% GDP)	-0.9	-2.2	-3.1	0.4	0.2	-1.5	0.0	n.a.	-
Two-year average deviation (% GDP)	-0.9	-1.5	-3.3	-0.9	-1.4	-0.7	-0.7	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 positive sign implies that expenditure growth exceeds the applicable reference rate.									
<i>Source:</i>									
<i>Stability programme (SP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.</i>									

Table IV. Debt dynamics

(% of GDP)	Average 2007-2011	2012	2013		2014		2015	2016	2017
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio ¹	58.6	71.2	74.6	74.0	75.8	75.0	71.4	71.4	70.8
Change in the ratio	3.6	5.7	3.4	2.8	1.2	1.0	-3.6	0.0	-0.6
<i>Contributions</i> ² :									
1. Primary balance	0.8	2.2	1.7	1.3	1.7	1.6	0.1	-0.1	-0.6
2. “Snow-ball” effect	1.1	2.1	1.4	1.2	0.0	0.0	0.1	0.3	0.3
<i>Of which:</i>									
Interest expenditure	2.1	1.9	1.9	2.0	1.9	1.9	1.9	2.0	2.0
Growth effect	-0.4	0.6	0.6	0.3	-0.7	-0.8	-1.2	-1.1	-1.1
Inflation effect	-0.6	-0.5	-1.0	-1.1	-1.2	-1.1	-0.6	-0.6	-0.6
3. Stock-flow adjustment	1.8	1.5	0.2	0.4	-0.5	-0.6	-3.8	-0.2	-0.3
<i>Of which:</i>									
Cash/accruals diff.				0.0		0.0	-0.1	-0.1	0.0
Acc. financial assets				0.2		-0.4	-0.3	-0.3	-0.3
<i>Privatisation</i>									
Val. effect & residual				-0.8		-1.9	-1.7	-1.7	-1.8
			2013		2014		2015	2016	2017
		2012	COM/ SP ³	SP ⁴	COM/ SP ³	SP ⁴	SP	SP	SP
Gap to the debt benchmark ^{5,6}		n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
Structural adjustment ⁷		n.r.	n.r.	n.r.	n.r.	n.r.	0.5	-0.4	0.1
<i>To be compared to:</i>									
Required adjustment ⁸		n.r.	n.r.	n.r.	n.r.	n.r.	0.0	-0.4	-0.4
<u>Notes:</u>									
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 Assessment of the consolidation path set in SP assuming growth follows the COM forecasts.									
⁴ Assessment of the consolidation path set in the SP assuming growth follows the SP projections.									
⁵ Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.									
⁶ 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.									
⁷ Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.									
⁸ 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) budgetary projections for the previous years are achieved.									
<u>Source:</u>									
Stability programme (SP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.									

Table V. Sustainability indicators

	NL		EU27	
	No-policy change scenario	Programme (SCP) scenario	No-policy change scenario	Programme (SCP) scenario
S2	6.5	5.7	3.0	1.3
<i>of which:</i>				
Initial budgetary position (IBP)	2.6	1.9	0.8	-0.9
Long-term cost of ageing (CoA)	4.0	3.8	2.2	2.2
<i>of which:</i>				
Pensions	1.0	0.9	1.0	1.1
Health care	0.8	0.7	0.9	0.8
Long-term care	2.7	2.6	0.6	0.6
Others	-0.5	-0.4	-0.4	-0.3
S1 (required adjustment)*	3.1	1.9	2.2	0.5
<i>of which:</i>				
Initial budgetary position (IBP)	1.1	-0.1	0.0	-1.8
Debt requirement (DR)	1.0	0.8	1.9	1.9
Long-term cost of ageing (CoA)	1.0	1.2	0.3	0.4
S0 (risk for fiscal stress)**	0.15		:	
Debt, % of GDP (2012)	71.2		87.0	
Age-related expenditure, % of GDP (2012)	24.4		25.8	
Note:				
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.				
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.				
** The critical threshold for the S0 indicator is 0.44.				
Source:				
Commission services; 2013 stability programme.				

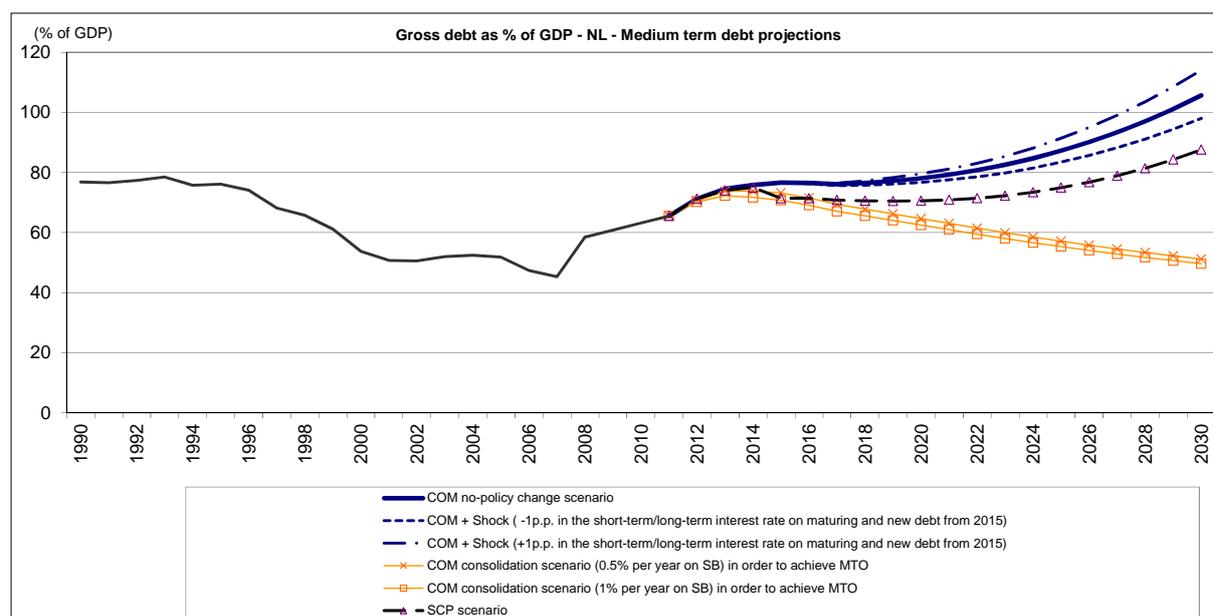


Table VI. Taxation indicators

	2002	2006	2008	2009	2010	2011
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	37.7	39.0	39.2	38.2	38.8	38.4
Breakdown by economic function (% of GDP) ¹						
Consumption	11.7	12.2	12.0	11.7	12.0	11.7
of which:						
- VAT	7.2	7.4	7.3	7.0	7.2	6.9
- 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	2.0
- other (residual)	2.2	2.4	2.3	2.2	2.3	2.3
Labour employed	16.2	17.2	18.3	18.7	18.9	19.1
Labour non-employed	2.6	2.8	2.4	2.4	2.4	2.5
Capital and business income	5.0	4.7	4.6	3.5	3.7	3.5
Stocks of capital/wealth	2.3	2.0	1.9	1.8	1.8	1.6
<i>p.m.</i> Environmental taxes ²	3.7	4.0	3.9	4.0	4.0	3.9
VAT efficiency ³						
Actual VAT revenues as % of theoretical revenues at standard rate	56.9	59.9	59.9	54.7	57.3	55.1
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 (2013) 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. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. 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'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.						
<i>Source: Commission</i>						

Table VII. Financial market indicators

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	375.4	388.2	384.2	403.1	414.7
Share of assets of the five largest banks (% of total assets)	86.8	85.0	84.4	83.6	...
Foreign ownership of banking system (% of total assets)	5.7	5.3
Financial soundness indicators:					
- non-performing loans (% of total loans) ¹⁾	1.7	3.2	2.8	2.7	3.1
- capital adequacy ratio (%) ¹⁾	11.9	14.9	13.9	13.5	14.3
- return on equity (%) ^{1), 2)}	-12.5	-0.4	7.1	5.4	10.1
Bank loans to the private sector (year-on-year % change)	3.9	1.8	4.0	4.1	4.1
Lending for house purchase (year-on-year % change)	-0.9	0.8	5.5	3.3	4.2
Loan to deposit ratio	121.4	124.6	119.3	119.4	119.0
CB liquidity as % of liabilities	2.5	2.0	0.4	0.4	1.1
Banks' exposure to countries receiving official financial assistance (% of GDP) ³⁾	24.8	23.2	15.1	13.5	12.0
Private debt (% of GDP)	172.5	191.9	181.6	185.0	193.9
Gross external debt (% of GDP) ⁴⁾					
- Public	40.9	43.2	40.2	38.8	38.3
- Private	88.8	83.1	83.8	87.3	90.3
Long term interest rates spread versus Bund (basis points)*	0.2	0.5	0.2	0.4	0.4
Credit default swap spreads for sovereign securities (5-year)*	36.9	56.0	44.7	66.0	86.7
Notes:					
¹⁾ Latest data (September 2012).					
²⁾ After extraordinary items and taxes.					
³⁾ Covered countries are CY, EL, ES, LV, HU, IE, PT and RO.					
⁴⁾ Latest data 2012Q3.					
* 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	2007	2008	2009	2010	2011	2012
Employment rate (% of population aged 20-64)	77.8	78.9	78.8	76.8	77.0	77.2
Employment growth (% change from previous year)	2.5	1.5	-0.7	-0.4	0.7	-0.1
Employment rate of women (% of female population aged 20-64)	70.7	72.2	72.7	70.8	71.4	71.9
Employment rate of men (% of male population aged 20-64)	84.8	85.5	84.9	82.8	82.6	82.5
Employment rate of older workers (% of population aged 55-64)	50.9	53.0	55.1	53.7	56.1	58.6
Part-time employment (% of total employment, 15 years and more)	46.8	47.3	48.3	48.9	49.1	49.9
Part-time employment of women (% of women employment, 15 years and more)	75.0	75.3	75.8	76.5	76.7	77.0
Part-time employment of men (% of men employment, 15 years and more)	23.6	23.9	24.9	25.4	25.4	26.4
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	18.1	18.2	18.2	18.5	18.4	19.5
Transitions from temporary to permanent employment	2.5	3.1	2.2	3.0	:	:
Unemployment rate ¹ (% of labour force, age group 15-74)	3.6	3.1	3.7	4.5	4.4	5.3
Long-term unemployment rate ² (% of labour force)	1.4	1.1	0.9	1.2	1.5	1.8
Youth unemployment rate (% of youth labour force aged 15-24)	7.0	6.3	7.7	8.7	7.6	9.5
Youth NEET rate (% of population aged 15-24)	3.5	3.4	4.1	4.3	3.8	4.3
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	11.7	11.4	10.9	10.0	9.1	8.8
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	36.4	40.2	40.5	41.4	41.1	42.3
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	39.0	41.0	43.0	44.0	46.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	4.0	6.0	6.0	6.0	6.0	:
Labour productivity per person employed (annual % change)	1.7	0.3	-2.6	2.2	0.5	-0.2
Hours worked per person employed (annual % change)	-0.2	0.2	-0.6	-0.2	0.0	0.4
Labour productivity per hour worked (annual % change; constant prices)	1.6	0.1	-2.4	2.2	0.2	-1.1
Compensation per employee (annual % change; constant prices)	1.6	1.1	2.4	0.4	0.5	0.6
Nominal unit labour cost growth (annual % change)	1.6	3.0	5.3	-0.8	1.2	2.0
Real unit labour cost growth (annual % change)	-0.2	0.9	5.2	-1.8	0.0	1.2

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)	2006	2007	2008	2009	2010
Sickness/Health care	8.82	8.64	9.39	10.41	10.64
Invalidity	2.36	2.41	2.37	2.50	2.47
Old age and survivors	10.94	10.89	10.86	11.64	11.84
Family/Children	1.47	1.56	1.18	1.29	1.24
Unemployment	1.36	1.14	1.04	1.44	1.57
Housing and Social exclusion n.e.c.	0.38	0.38	0.36	0.38	0.38
Total	27.00	26.69	26.95	29.69	30.19
of which: means tested benefits	3.40	3.71	3.91	4.50	0.00
Social inclusion indicators	2007	2008	2009	2010	2011
At-risk-of-poverty or social exclusion ¹ (% of total population)	15.7	14.9	15.1	15.1	15.7
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	17.2	15.5	17.5	16.9	18.0
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	9.8	9.7	8.1	6.2	6.9
At-Risk-of-Poverty rate ² (% of total population)	10.2	10.5	11.1	10.3	11.0
Severe Material Deprivation ³ (% of total population)	1.7	1.5	1.4	2.2	2.5
Share of people living in low work intensity households ⁴ (% of people aged 0-59)	9.5	8.1	8.3	8.2	8.7
In-work at-risk-of poverty rate (% of persons employed)	4.6	4.8	5.0	5.1	5.5
Impact of social transfers (excluding pensions) on reducing poverty	50.5	47.2	45.9	51.2	47.4
Poverty thresholds, expressed in national currency at constant prices ⁵	10946	11530	11648	11613	11516
Gross disposable income (households)	280802	283487	280226	283909	288855
Relative median poverty risk gap (60% of median equivalised income, age: total)	17.0	14.9	16.5	16.2	15.5

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 markets performance and policy indicators

Performance indicators	2003-2007	2008	2009	2010	2011	2012
Labour productivity ¹ total economy (annual growth in %)	1.9	0.3	-3.0	2.0	0.3	-0.8
Labour productivity ¹ in manufacturing (annual growth in %)	5.1	-2.3	-6.8	10.1	4.5	0.1
Labour productivity ¹ in electricity, gas, steam and air conditioning supply (annual growth in %)	3.9	-0.5	3.2	0.6	-9.2	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	1.7	1.4	-3.7	-8.9	6.4	-6.4
Total number of patent ² applications per million of labour force	409.8	382.0	375.4	369.4	n.a.	n.a.
Policy indicators	2003-2007	2008	2009	2010	2011	2012
Enforcing contracts ³ (days)	514	514	514	514	514	514
Time to start a business ³ (days)	9	8	8	8	8	5
R&D expenditure (% of GDP)	1.9	1.8	1.8	1.9	2.0	n.a.
Tertiary educational attainment (% of 30-34 years old population)	34.5	40.2	40.5	41.4	41.1	42.0
Total public expenditure on education (% of GDP)	5.42	5.48	5.94	n.a.	n.a.	n.a.
	2007	2008	2009	2010	2011	2012
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	n.a.	1.0	n.a.	n.a.	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	n.a.	2.1	n.a.	n.a.	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁵ (Index; 0=not regulated; 6=most regulated)	1.7	n.a.	n.a.	n.a.	n.a.	n.a.
Notes:						
¹ Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.						
² Total number of patent applications to the European Patent Office (EPO) per million of labour force						
³ The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology .						
⁴ The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html . The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.						
⁵ Aggregate Energy, Transport and Communications Regulation (ETCR).						
*figure for 2007.						
Source:						
Commission, World Bank - <i>Doing Business</i> (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						

Table X. Green Growth

		2002-2006	2007	2008	2009	2010	2011
Green Growth performance							
<i>Macroeconomic</i>							
Energy intensity	kgoe / €	0.18	0.18	0.17	0.17	0.18	0.17
Carbon intensity	kg / €	0.48	0.43	0.42	0.42	0.44	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.41	0.39	0.40	0.40	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.20	n.a.	0.25	n.a.
Energy balance of trade	% GDP	-2.1%	-2.1%	-2.1%	-1.8%	-2.9%	-3.8%
Energy weight in HICP	%	n.a.	10	11	10	10	11
Difference between change energy price and inflation	%	n.a.	2.5	0.8	-0.1	-8.8	3.4
Environmental taxes over labour taxes	ratio	20.1%	19.2%	18.8%	18.9%	18.8%	n.a.
Environmental taxes over total taxes	ratio	10.1%	9.8%	9.9%	10.4%	10.3%	n.a.
<i>Sectoral</i>							
Industry energy intensity	kgoe / €	0.17	0.14	0.14	0.15	0.16	n.a.
Share of energy-intensive industries in the economy	% GDP	11.1	11.5	12.5	10.8	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€/ kWh	n.a.	0.10	0.10	0.11	0.10	0.10
Gas prices for medium-sized industrial users***	€/ kWh	n.a.	0.04	0.04	0.04	0.03	0.03
Public R&D for energy	% GDP	n.a.	0.02%	0.02%	0.02%	0.02%	0.02%
Public R&D for the environment	% GDP	n.a.	0.01%	0.00%	0.00%	0.00%	0.01%
Recycling rate of municipal waste	ratio	80.2%	81.7%	81.7%	82.3%	83.5%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	39.1%	41.1%	41.0%	40.5%	41.1%
Transport energy intensity	kgoe / €	n.a.	0.44	0.44	0.44	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	0.99	0.99	1.00	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	n.a.	38.9%	34.4%	36.5%	30.7%	30.4%
Diversification of oil import sources	HHI	n.a.	0.06	0.08	0.08	0.08	n.a.
Diversification of energy mix	HHI	n.a.	0.36	0.36	0.36	0.38	0.36
Share renewable energy in energy mix	%	n.a.	2.8%	3.4%	3.9%	3.5%	4.1%
<p><u>Country-specific notes:</u> The year 2012 is not included in the table due to lack of data.</p> <p><u>General explanation of the table items:</u> 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 - 2000M Wh 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</p> <p>*Provisional data (15 April 2013). Commission Services and EEA. ** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2. *** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.</p>							