



EUROPEAN COMMISSION

Brussels, 30.5.2012
SWD(2012) 322 final

COMMISSION STAFF WORKING DOCUMENT

**Assessment of the 2012 national reform programme and convergence programme for
The Netherlands**

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

**on the Netherlands' 2012 national reform programme and delivering a Council Opinion
on the Netherlands' updated stability programme for 2012-2015**

{COM(2012) 322 final}

CONTENTS

Executive Summary	3
1. Introduction	4
2. Economic Developments and Challenges	5
2.1. Recent economic developments and outlook	5
2.2. Challenges	6
3. Assessment of the policy agenda	10
3.1. Fiscal policy and taxation	10
3.2. Financial sector	17
3.3. Labour market, education and social policies	17
3.4. Structural measures promoting growth and competitiveness	21
3.5. Modernisation of public administration	23
4. Overview table	25
5. Annex	29

EXECUTIVE SUMMARY

In 2012, the economic activity of the Netherlands is expected to contract by 0.9 %, before regaining light momentum in 2013. Unemployment is foreseen to increase from 5.7 % in 2012 to 6.2 % in 2013.

Constrained by a highly complex political context, the Netherlands has only adopted a limited number of far-reaching policy initiatives. As regards the pension system, the Netherlands has tabled a reform proposal aimed at gradually raising the statutory retirement age. The Netherlands is further taking measures to increase labour supply, especially of second-income earners. In addition, the Netherlands has implemented a strategy aimed at fostering closer science-business links through its new enterprise policy.

The Netherlands continue to face a number of serious challenges in the short to medium term. Rigorously pursuing the budgetary strategy for the year 2012 and specifying the measures necessary to ensure implementation of the 2013 budget with a view to timely correcting the excessive deficit will be of paramount importance. Important changes to the first and second pension pillar, as well as to long-term care, have been announced, which have to be assessed against the challenge of an ageing population. Furthermore, participation in the labour market, particularly of women, people with disabilities and migrants is weak and tax disincentives remain notably for second-income earners. Innovation is high on the Dutch political agenda; there is however a risk that it would come at the cost of fundamental research or of the innovative firms it does not target. Finally, structural distortions have built up in the Dutch housing market, both in the property market and rental market, leading to a gradual increase in household leverage and an inefficient allocation of capital.

1. INTRODUCTION

In June 2011 the Commission proposed four country specific recommendations for economic and structural reform policies for the Netherlands. In July 2011 the Council adopted these recommendations which concerned economic and structural reform policies. The four country specific recommendations addressed to the Netherlands referred to public finances, the pension system, the labour market, innovation, and investment in research and development. On 27 April 2012 the Netherlands presented updates of its national reform programme and stability programme detailing progress made since July 2011 and plans going forward. This Staff Working Document assesses the state of implementation of the 2011 country specific recommendations in the Netherlands, identifies current policy challenges and, in this light, examines the country's latest policy plans.

Overall assessment

The most pressing challenges that the Netherlands faces are in the areas of fiscal consolidation, the long-term sustainability of public finances (in particular pensions), the labour market, innovation policy, education, and the housing market. Following the recent worsening of the fiscal outlook, predominantly due to unfavourable cyclical developments, it is crucial to secure additional consolidation efforts while safeguarding long-term growth drivers from possible additional spending cuts. As regards the pension system, the Netherlands has made a reform proposal aimed at gradually raising the statutory retirement age to 66 in 2019 and to 67 in 2024, linking it to life expectancy thereafter. The proposals to increase the statutory retirement age are not yet adopted and details of an intended increase in the retirement age, especially in the second pillar, have as yet not been filled in. Another important structural problem lies in the housing market. Distortions have built up in both the rental and the property segment which, together with uncertainty about future reforms, weigh increasingly on the recovery of the Dutch economy. The recently announced measures are a step in the right direction, but fall far short of what is required to address the distortions in the housing market. The Netherlands is taking measures to increase labour supply, especially of second-income earners, but these could have been more ambitious and are partly offset by cuts in childcare subsidies. Vulnerable groups are targeted as well, although concrete implementation of the measures is liable to considerable risks. The Netherlands has implemented a strategy aimed at fostering closer science-business links through its new enterprise policy, but this reduces funding earmarked for fundamental research. Also, the prioritisation of sectors in the new enterprise policy is weakly underpinned, while overall research and development intensity remains well below the target. The professed focus of educational policies is to improve quality instead of quantity, but some measures under consideration adversely affect pupils with special educational needs. On the other hand, the Netherlands can be expected to reach the target committed to for the number of early school leavers.

The policy plans submitted by the Netherlands are for a large part relevant. However, several measures are insufficiently specified and/or quantified and in some areas, the policy plans fall short of addressing the challenges in a comprehensive way. Moreover,

implementation risks are high in view of upcoming elections in September, even though the caretaker government has secured the backing of other parties in Parliament for now. The Netherlands is committed to complying with the recommendations of the Excessive Deficit Procedure, to further improve the budgetary position towards the medium-term objective, and to ensuring the long-run sustainability of public finances. It also plans to increase labour market participation, but there are substantial implementation risks. The strategy for the promotion of private R&D investment is not accompanied by an impact assessment and a monitoring framework.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

In the second half of 2011 the Dutch economy experienced a sharp downturn, recording negative quarter-on-quarter growth of 0.4% in the third quarter and 0.7% in the fourth quarter. Both quarterly growth rates are significantly lower than the corresponding projections of 0.1% and 0.0% in the Commission services' 2011 Autumn forecast. This reflects a pronounced weakening of both internal and external demand. Consumer confidence, which was already markedly negative in the summer, deteriorated further at the end of 2011 and was at its lowest level since 2003 in January 2012. This was mirrored by a decrease in consumer spending in the second half of the year. House prices fell by 2.3% in 2011 and the number of transactions, whilst showing some recovery in December, has remained low. Producer confidence also stayed weak. Industrial production in the manufacturing sector (excluding energy) shrank by 1% (quarter-on-quarter) in the fourth quarter of 2011. On the external side, Dutch exports have been adversely affected by the slowdown in global trade. Over 2011 as a whole, gross domestic product (GDP) grew by 1.2%.

Economic outlook

For 2012, the outlook for growth remains dim. The Commission services' 2012 Spring forecast projects real GDP to decrease by 0.9%. The Dutch economy is expected to record slightly negative growth of 0.1% and 0.2% in the first and the second quarter. Towards the end of the year, a fragile and subdued recovery is anticipated, which would extend over the whole of 2013, largely on the back of improved external demand.

The growth rate of private consumption — already negative for four consecutive quarters in 2011 — is expected to remain negative in 2012, as a result of fiscal consolidation measures, mainly affecting households, and negative wealth effects. The latter mainly stem from falling prices in the housing market and pension cuts announced for 2013. Investment is likely to remain subdued, on the back of the weak growth outlook. While net exports are expected to remain the only component yielding a positive contribution to growth, they are likely to suffer from weakening external demand, mainly from the rest of the euro area. HICP inflation is expected to decline from 2.5% in 2011 to 2.5% in 2012, mainly as a result of subdued domestic demand.

Economic growth is expected to return to positive territory in 2013, but only at a modest rate of 0.7%, with net exports being the sole significant driving force. These projections

are based on a no-policy-change assumption. The impact of additional consolidation measures, agreed at the end of April, is not included in the baseline forecast.

Procedural and governance issues

The Netherlands has ensured that its national reform programme and stability programme are consistent and follow the agreed guidelines, except for fiscal targets beyond 2013, which are missing. The two documents outline in an integrated manner the fiscal consolidation efforts committed to and key structural reforms and reforms underpinning macro-economic stabilisation. The national reform programme and stability programme were submitted on 27 April 2012. Both documents include a large number of measures that either have not yet been implemented or still are in a conceptual phase and are not presented in detail. Clear implementation risks derive from the upcoming elections.

In the national reform programme, the Netherlands evaluates progress towards national targets for the year 2020. These targets set out the longer-term development path to modernise the Dutch economy and put imminent reform priorities in a broader context. In addition, the national reform programme describes the proposed measures in relation to the Euro Plus Pact. Local authorities, the European Anti-Poverty Network and the Social Alliance were consulted on the national reform programme.

2.2. Challenges

The Dutch economy was deeply affected by the financial and economic crises, causing a severe contraction in 2009. Since then, the recovery has been gradual at best, with growth falling back into negative territory at the end of 2011, and the growth outlook remains dim. This suggests that underlying problems are of a structural nature and that low growth is not only a cyclical phenomenon, and calls for a fundamental policy response which addresses underlying structural risks to long-term competitiveness and sustainability. The economy is in need of far-reaching structural reforms in several areas (among which the labour and housing markets, pensions and public finances) in order to relaunch itself on a path of sustainable growth. Structural reforms would not only make the Netherlands stronger in the medium to long term, but would also have an immediate positive impact by reducing the uncertainty that is at present looming over the Dutch economy. Against this background, while the challenges as identified in the 2011 European Semester remain, by and large, relevant for the Netherlands, the current economic situation has made dealing with them far more pressing.

In the area of public finances, the two main challenges are (i) correcting the excessive deficit by 2013 through ‘smart’ consolidation and (ii) improving the long-term sustainability of public finances. As regards short-term fiscal efforts, it is crucial to safeguard long-term growth drivers from possible additional spending cuts. In particular, although education budgets have risen slightly in nominal terms in recent years, real expenditure on education is under pressure, threatening the quality of future human capital resources, which are a precondition for sustainable growth. Similarly, efforts to promote innovation and preserve the high-quality base of basic research are essential.

With regard to long-term sustainability, the crisis aggravated already existing concerns. The Netherlands had already been confronted with a rapidly ageing society and lower fertility rates. The main policy areas concerned are pensions and health care. In the area

of pensions, the main challenge is to accompany the targeted rise in the statutory retirement age (and a link to life expectancy) with a matching agreement in the second (occupational) pension pillar, comprising an appropriate intra- and inter-generational division of costs and risks. A supplementary overhaul of the governance of the second pillar is overdue to help underpin resilience to ageing. As for health care, costs in the long term are expected to increase more than in other countries, mainly due to expected increases in the costs of long-term care. Over the last few years, health care budgets have experienced structural overruns. It is thus essential to take measures to curb the structural rise in publicly funded expenditure, while preserving the quality and accessibility of health care provision.

Other structural deficiencies concern labour supply and the quality of the workforce. As the country is faced with a growing structural labour shortage due to ageing, the main issue for the Dutch labour market will be to make more use of untapped labour potential, such as female full-time employment, and labour market participation of disabled people, older workers, and people with a migrant background. The recent rise in unemployment has masked underlying mismatches on the labour market.

A major challenge with respect to growth-enhancing macroeconomic policies is fostering the Dutch economy's innovation capacity by supporting investment in and orientation towards high added-value production and services. Although the Dutch research and innovation system has managed to maintain its innovative capacity, resting on a historically strong educational base, the underinvestment of the Netherlands in business research and development and growing pressures on funds for basic research may adversely affect future economic growth and the competitiveness of the Dutch economy, to an extent which cannot be offset by technology transfer. In this regard, the concentration of Structural Funds on a small number of sectors could reduce the positive effects they have on triggering private research and development investments.

Another important structural problem lies in the housing market (Box 1). Over the last decades, structural distortions have built up in the housing market as a result of a combination of factors.

In the property market, the trend increase in labour market participation and supply restrictions have interacted with tax incentives for home ownership (in particular full mortgage interest deductibility, which especially favours higher-income households), inducing a gradual increase in leverage of households. This was facilitated by high loan-to-value ratios coupled with the development of interest-only mortgages. The fact that savings invested in property are taxed differently from investments in other assets and that income taxation does not treat mortgage and equity financing of property in the same way has resulted in inefficiencies in the allocation of capital. The programmes commit to policies to progressively lower the maximum loan-to-value ratio and to reduce the scope for mortgage interest payments to be tax-deductible, limiting this possibility to amortising loans, but only for new cases.

The proposal is a step in the right direction, but falls short of addressing the distortions that have built up in the property market. The limitation to new cases places the adjustment in the purchase market on younger cohorts and only entails a very gradual positive impact on public finances. Moreover, extending this measure to existing housing loans would speed up the reduction of the distortions, arguably without a marked

additional drag on house prices. Finally, an overly slow transition in the purchase segment would limit the likely positive supply effects of a gradual increase in rents in the regulated rental market.

In the rental segment, the Netherlands has the largest social housing stock (relative to the total housing stock) in the EU. Social policies and caps on rents and rent increases have led to a price-inelastic supply of rental housing and have hampered labour mobility, but do not prevent people with high incomes from benefiting from social housing. Furthermore, the special legal status of the social housing corporations does not provide incentives for the efficient use of the sizeable capital stock they own. The intention outlined in the programmes to allow differentiated rent increases again represents a step in the right direction, but falls short of a comprehensive overhaul.

Hence, on balance the measures for the housing market in the stability and in the national reform programmes fall short of what is required and could in some respects even accentuate structural problems. Against the background of negative wealth effects from decreasing house prices and rising uncertainty of reforms of the housing market, impeding the already sluggish recovery of the economy, the need for a comprehensive reform of housing policies encompassing all segments of the market has become more pressing. Reforms in the housing market should aim at phased-in changes to both the property market (modifying the favourable tax treatment of home ownership, especially mortgage interest deductibility, including existing cases) and the rental market (scaling down the scope and size of the social housing segment, allowing a more market-oriented pricing mechanism, and reviewing the status of social housing corporations).

Box 1: The Dutch housing market – state of play

The private housing market is highly regulated to protect tenants and make housing affordable. The regulations concern both the rental market and the property market.

Substantial tax benefits exist to support home ownership. For owner-occupied housing, home owners enjoy the most generous mortgage interest rate deductibility (MID) scheme in the EU and can fully deduct interest payments on their mortgage loans from taxable income at the highest marginal tax rate (meaning that wealthier households benefit the most). Owners pay taxes on a low level of imputed rents and add only a small fraction of the value of their property to taxable income, so that owner-occupied housing capital is fiscally favoured over other forms of capital.

This favourable tax treatment is reinforced by an additional deduction ('wet Hillen'). If the amount of imputed rents (that adds to taxable income) is larger than mortgage interest payments (that can be deducted from taxable income), the difference is granted as an additional deduction. The result is that home owners do not pay net taxes on their property, which especially favours wealthier households.

In the rental market, most tenants enjoy ceilings on rents and annual rent increases. Relatively cheap housing is provided by social housing corporations that serve the largest social housing sector in the EU. These housing corporations are private institutions with a statutory obligation to provide housing at regulated rents for lower income categories. This subsidised rental market covers by far the largest part of the rental segment and features long waiting periods for new applicants, especially in urban areas. The non-social housing market accounts for only a small part of the total housing stock.

The interaction of, on the one hand, tax incentives, financial innovations, bank mortgage policies and trends in the labour market, which push up demand, and, on the other hand, policies limiting supply, has driven up prices. On the other hand, restrictions to the level of rents reduce the value of (rental) property, especially the housing stock of social housing corporations.

Due to the increase in property prices, housing loans accounted for 27 % of bank assets in 2009, up from 17 % in 1997 and well above the EU average (15 %). Funding gaps have increased substantially, with concurrent mismatches and refinancing risks.

Finally, the government is exposed to the guarantees given under the national mortgage guarantee scheme (NHG), which are more likely to be drawn if unemployment increases, and the Waarborgfonds Sociale Woningbouw, which guarantees loans to social housing corporations. This comes on top of the burden to the government budget stemming from other policies in the housing market, for example the MID (2 % of GDP) and the low level of taxation of imputed rents (ca. 0.5 % of GDP).¹

¹ See also 'The Housing Market in the Netherlands', European Economy

3. ASSESSMENT OF THE POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

Following the fall of the minority government, which had governed with parliamentary support of the Freedom Party (PVV) since 2010, leading to early elections scheduled on 12 September 2012, the caretaker government reaffirmed its commitment to fiscal consolidation. The stability programme confirms the commitment to comply with the recommendations of the Excessive Deficit Procedure and outlines a package of additional measures aimed at reducing the budget deficit to a maximum of 3 % of GDP in 2013. After 2013, the programme aims to further improve the budgetary position towards the medium-term budgetary objective (MTO) of -0.5 % of GDP by targeting a structural effort of at least 0.5 % per year. The MTO adequately reflects the requirements of the Stability and Growth Pact.

The budgetary outcome in 2011, a deficit of 4.7% of GDP, was significantly worse than the deficit of 3.7% of GDP expected in the 2011 stability programme. This was predominantly due to unfavourable cyclical developments, resulting in much lower real as well as nominal GDP growth than anticipated, in combination with higher-than expected expenditure.

According to the 2012 stability programme, the general government deficit is expected to fall to 4.2% of GDP in 2012 (as against 2.2% in the 2011 stability programme) and to reach 3 % of GDP in 2013, the deadline for correction of the excessive deficit set by the Council in December 2009. The fiscal baseline projections of the programme include the measures, mainly tilted to the expenditure side, which had been previously agreed by the outgoing government covered in the 2012 budget. In addition, the deficit projections include consolidation measures of an additional package proposed by the government in late April 2012, (the 'Kunduz agreement') just after the minority government had faltered. This additional package was presented (but not voted upon) in Parliament before being submitted as part of the stability programme. The additional consolidation measures would for a limited part already take effect in 2012, but are predominantly concentrated on 2013. For 2013, the net deficit-improving impact of these measures (around two thirds of which are on the revenue side — see Box 2) would amount to approximately 1.4 % of GDP, if fully implemented. For the remaining years covered in the stability programme, i.e. 2014 and 2015, no targets for the general government balance and debt are given, in breach of the requirements of the Code of Conduct. The projections presented for public finance variables at a lower level of aggregation derive from earlier medium-term projections and do not take into account any subsequent impact of the additional savings package adopted by the caretaker government in April. They are, therefore, inconsistent with the budgetary targets provided for 2012 and 2013. Hence, the sustainability of the targeted budgetary correction in 2013 and progress towards the MTO in the outer years of the programme cannot be assessed. According to the Commission services' 2012 Spring forecast, which does not include the late April 2012 additional consolidation measures, the general government deficit is projected to modestly improve to 4.4 % of GDP in 2012 and to fall back to 4.6 % of GDP in 2013.

The April agreement on additional measures, reached under challenging circumstances, sends a strong and welcome signal of the commitment of the Netherlands to meeting its obligations under the EU fiscal framework and to put government finances on a sustainable footing. It fits in with a strong Dutch track record as regards fiscal discipline. However, the programme does not sufficiently specify and quantify the additional measures proposed in April 2012 to allow a full assessment of their budgetary impact. Moreover, there are substantial implementation risks due to upcoming elections. These are not solely restricted to the newly announced consolidation measures, but also relate to uncertainties on how to account for some of the measures already agreed upon (but not yet formally adopted) by the previous government. This complicates an assessment of risks surrounding the attainability of the fiscal target for 2013. Moreover, the macroeconomic outlook appears to be optimistic, as the programme projects economic growth of 1¼% in 2013, whereas this figure does not take into account the negative impact of the additional consolidation measures on growth. By contrast, the Commission services' 2012 Spring forecast projects a somewhat lower growth rate of 0.7% (which also does not account for the second-round effects of the recent additional measures proposed). In addition, whilst the stability programme does not specify budgetary targets beyond 2013, the technical revenue and expenditure projections (in essence based on a no policy change assumption from the 2012 budget) point to a deficit significantly above the 3 % reference value in outer years of the programme, implying that the sustainability of a possible correction of the excessive deficit in 2013 and subsequent progress towards the medium-term objective is not guaranteed on the basis of the information provided.

Amongst the measures announced in the April package, some are of a more structural nature (although their numerical impact cannot be fully assessed, especially beyond 2013) and concern in particular the pension system and the housing market as well as health care. However, as illustrated by box 2, the fiscal impact of measures related to structural reforms is limited. The direction of change of the structural reforms proposals is encouraging, especially as they concern areas where progress had been slow previously, but they need to be followed up and strengthened also after 2013 to assure the sustainability of fiscal adjustment.

The 2012 stability programme confirms the commitment towards the medium-term objective of a structural general government balance² of -0.5 % of GDP. However, whilst the 2011 stability programme targeted the achievement of the medium-term objective in 2015, the 2012 stability programme does not specify a date. In the absence and quantified targets for the years beyond 2013 (for the years 2014 and 2015 there is only a commitment to a structural effort of at least 0.5 % of GDP, in line with the requirements emanating from the Stability and Growth Pact), an assessment regarding the progress towards the medium-term objective cannot be made. On the basis of the technical expenditure projections for 2014 and 2015, compliance towards the expenditure benchmark is safely secured, as the relevant expenditure growth rates reported would remain well below the reference rate.

² Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme, using the commonly agreed methodology.

Box 2. Main budgetary measures³

Revenue	Expenditure
2011	
<ul style="list-style-type: none"> • Increase in the insurance tax (0.05 % of GDP) 	<ul style="list-style-type: none"> • Wage moderation in the central government (-0.2 % of GDP) • International cooperation (-0.1 % of GDP)
2012	
<ul style="list-style-type: none"> • Limit on tax credit for single parents (0.1 % of GDP) • Reversal of health care own contribution increase (0.1 % of GDP) 	<ul style="list-style-type: none"> • Health care benefits (-0.1 % of GDP) • Child care benefits (-0.1 % of GDP)
2013	
<ul style="list-style-type: none"> • Adjustment treatment of pension deductability. (From 2013 onwards, fewer pension entitlements qualifying for tax relief can be accrued.) (0.1 % of GDP) • VAT increase by 2 percentage points as of October 2012 (0.7 % of GDP) • Environmental friendly taxation and increase in excise duty on alcohol, tobacco and soft drinks (0.25 % of GDP) • Limiting mortgage interest deductibility for new mortgage loans (0 % of GDP; structural gains far beyond the programme horizon) 	<ul style="list-style-type: none"> • Health care benefits (-0.1 % of GDP) • Primary education (-0.1 % of GDP) • Increase of own contribution for specialised health care in combination with other measures (0.3 % of GDP) • Increase retirement age by 1 month in 2013 up to 67 in 2024 (0 % of GDP, but sizeable structural gains beyond the programme horizon) • Wage freeze (for civil servants and non-indexation of income tax brackets) (0.5 % of GDP)
2014	
<ul style="list-style-type: none"> • Stimulating movement in the rental housing sector (0.2 % of GDP) 	<ul style="list-style-type: none"> • General government: savings at central government, autonomous administrative authorities and agencies (-0.1 % of GDP) • Health care benefits (-0.1 % of GDP)

³ Measures from the late April 2012 budgetary agreement are marked in italic.

2015	
<ul style="list-style-type: none"> Impact of cutbacks in palliative care (as they lead to a reduction in healthcare insurance premiums) (0.2 % of GDP) 	<ul style="list-style-type: none"> Removing insured health services (medical care, medicines and psychomedical care) to treat conditions with a low impact on health from the basic insurance package (-0.2 % of GDP) Lower levels of government: savings for autonomous administrative authorities and agencies (-0.1 % of GDP)
<p>Note: The degree of detail reflects the type of information made available in the stability programme and, where available, of a multiannual budget.</p>	

In structural terms, the strongest planned fiscal effort is in 2013, linked to the commitment to reduce the headline general government deficit to at most 3 % of GDP by that year. The recalculated annual average fiscal effort over the years 2011-2013, the adjustment period defined in the context of the Excessive Deficit Procedure, is projected to amount to 2.3 % of GDP, or just above 0.75 pp yearly on average, in line with the average annual fiscal effort of $\frac{3}{4}$ % of GDP recommended by the Council.

In the 2011 European Semester, the Council adopted a country specific recommendation for the Netherlands with a reference to budgetary developments. This recommendation consisted of several elements. The government has broadly adhered to the first element, i.e. the implementation of the budgetary strategy of 2012 in line with the requirements in the context of the Excessive Deficit Procedure. National expenditure targets have been broadly met in absolute levels, yet allowing for some additional increases in unemployment benefits. However, expenditure plans for 2012 and 2013 contain several cuts in areas directly relevant for growth, notably fundamental research and education. Progress towards the medium-term objective also does not appear to be secured. Until 2013 significant progress is booked, particularly in 2012 and 2013, but for the outer years any further progress towards meeting the medium-term objective is conditional on the implementation of intentions expressed yet not backed by specified measures in the programme.

In 2008, general government gross debt increased markedly by 13 pps. to 58.5 % of GDP despite a budget surplus of 0.5 % of GDP. This increase was mainly caused by government operations to stabilise the financial markets, leading to a large debt-increasing stock-flow adjustment of around 15% of GDP. In 2009, the general government gross debt reached 60.8 % of GDP, just above the 60 % threshold. In 2010 and 2011, the debt ratio further increased by over 2 percentage points per year to 65.2 % of GDP in 2011.

According to the stability programme, the debt-to-GDP ratio is expected to further rise relatively strongly in 2012, to 70.2 % of GDP and to increase slightly further to 70.7 % of GDP in 2013, taking into account the positive impact of the additional consolidation measures. For 2014 and 2015, the stability programme does not specify debt targets. The

debt dynamics for 2012 are in line with the Commission services' 2012 Spring forecast, which forecasts a debt ratio of just above 70 % of GDP. For 2013, in the absence of additional consolidation measures, gross government debt is projected to rise to 73.0 % of GDP and thus remains well above the 60 % reference value. In the absence of figures provided, an assessment of compliance with the debt reduction benchmark beyond 2013 cannot be given. The projections in the stability programme show the debt ratio to increase in 2012 and 2013. This development is not in compliance with the 2011 country specific recommendation for the Netherlands on setting the high public debt ratio on a downward path as of 2012.

Long-term sustainability

The long-term change in age-related expenditure is clearly above the EU average. The initial budgetary position compounds the long-term costs. Under a no-policy change assumption, the debt ratio would increase to 79% of GDP by 2020. Additional fiscal consolidation beyond the forecast horizon would be needed to make progress towards the reference value for government debt beyond the short-term. The full implementation of the programme would not be enough to put debt on a downward path by 2020 and would still lead to a debt-to-GDP ratio above the 60 % reference value in 2020. Given the high projected increase in age-related expenditure, focus should be put on containing long-term public spending trends, mainly care-related expenditure but also pension expenditure, in order to diminish the sustainability gap. Ensuring sufficient primary surpluses over the medium-term would improve the sustainability of public finances.

The long-term cost of ageing is clearly above the EU average, due to relatively high expected increases in both public pension and long-term care expenditure. The expected increase in long-term care expenditure is by far the highest in Europe, not least because of the relatively large share of the population aged 65 years and over receiving long-term care. Structural reforms in pensions and health care to curb the projected increase in age-related expenditure would contribute to reducing sustainability risks, as indicated in last year's country specific recommendation on public finances.

With a view to ensuring the sustainability of public finances, but also to improving participation, the government reached an agreement to raise the statutory retirement age to 66 in 2020 and to link it to life expectancy thereafter. Although the proposal was approved by the lower house of Parliament on 7 February 2012, the government presented a different plan in the national reform programme, indicating the intention to increase the retirement age by 1 month in 2013, in steps to 66 in 2019, to 67 in 2024 and to link it to life expectancy afterwards, as recommended in the country specific recommendation on long term sustainability of public finances.

The planned increase in the statutory retirement age in the first pillar should be accompanied by an increase in the statutory retirement age for the second pillar. This needs approval by the social partners. A final agreement among them has not been reached yet. In any event, the government is expected to send a draft act to Parliament in the first half of 2013. The law would not become effective before January 2014. In this regard it is important that the authorities ensure intra- and inter-generational risk sharing within the second pillar and that an increase in the procyclicality of the financing of pension funds is averted. Reaching an agreement on the second pillar would also be important to reduce the uncertainty currently weighing heavily on consumers' decisions.

The government has provided a blueprint for the reform of long-term care in a letter to Parliament (*Programmabrief langdurige zorg*), committing itself to spending increases during its term of office combined with structural expenditure increases to invest in additional health workers and the quality of health care. In addition, the government intends to reform long-term health provision, in particular by decentralising certain aspects of long-term care to local government, by making insurers responsible for implementation, by creating a division between long-term care and housing and by tightening the eligibility criteria.

Compared to earlier measures in this field, the planned reform of long-term care is ambitious, although implementation has so far been only partial, with the most important and challenging measures under the reform not scheduled before 2013 and due to the existence of implementation delays (this is specifically the case for the tightening of the eligibility criteria, which has been delayed by one year with respect to what was stated in the Coalition Agreement). In addition, the measures planned are in some cases not yet sufficiently specified, such as how the planned division between care and housing costs is to be achieved. Also, with a view to improving the sustainability of public finances, insurers should bear a greater part of the risk. In view of the limited success of insurers in curbing costs in the care sector, there are significant implicit liabilities under the current proposal.

Fiscal framework

The main characteristics of the current multi-annual trend-based fiscal framework in place in the Netherlands are: (i) the use of real expenditure ceilings, which are determined ex ante and are applied to the entire term of office of the government; (ii) automatic stabilisation on the revenue side; and (iii) the use of independent macroeconomic assumptions. When a new government is formed, medium-term budgetary targets are set by determining the desired development of general government expenditure and the tax burden for each year until the last year of the government's term. Targets are not enshrined in law, but are embedded in a coalition agreement. This framework covers the central government and the social security sector, but does not cover local government. In this respect, the government, in line with its commitments under the Euro Plus Pact, is working on draft legislation that will transpose the EU fiscal rules, as set out in the revised governance framework, into national legislation, including provisions for local government.

The overall performance of the Dutch medium-term budgetary framework has been strong since its implementation in 1994. However, in the case of a protracted economic slowdown, entailing a significant negative impact on both potential and actual growth such as that which the Netherlands is currently experiencing, allowing for the possibility of an exceptional downward adjustment of real expenditure ceilings would help counter the excessively restrictive policy bias that would occur if ceilings had inadvertently been set too high compared to an attainable growth path consistent with fiscal targets or if the automatic stabilisers are not allowed to work freely.

In October 2010, the government amended the budgetary rules governing expenditure and revenue adopted in the past, and added a few additional constraints, in particular:

(1) A signalling margin specified as a downward deviation of 1 percentage point relative to the base path. If the signalling margin is exceeded, additional consolidation measures would have to be taken;

(2) Making expenditures that are sensitive to cyclical trends (unemployment benefits, social assistance benefits and movements in the terms of trade) once again subject to the expenditure ceiling framework.

These rules would further limit the ability to conduct discretionary countercyclical policy in cases where this would be warranted, such as a severe economic downturn. However, the status of the signalling margin in particular is unclear in the current context.

Tax system

The tax-to-GDP ratio was 38.4% in 2011, below the EU average (39.1%). The Netherlands displays a fairly centralised tax structure as local government taxes account for only a very small fraction of total tax revenues. Concerning the composition of revenues, indirect taxes and direct taxes each accounted for slightly less than a third of total tax revenues, with social contributions, among the highest in the EU, representing the rest. The share of indirect taxes decreased in the wake of the crisis, while the share of direct taxes has remained broadly unchanged. The implicit tax rate on labour (36.9% in 2010) is somewhat above the EU average (36%), while the implicit tax rate on capital (12.5%) is significantly lower than the EU average (27%).

Relative to other EU Member States, the debt bias in taxation is high for both households and corporations. For households, this is linked to mortgage interest deductibility (see below and Box 1). For corporations, the effective marginal tax rate on equity-financed new investment was slightly below 30% in 2010, (unweighted EU average: 25.5%). Debt-financed investment faces a negative effective marginal tax rate (-7.5%).

The low level of taxation of imputed rents, the treatment of pension contributions and mortgage interest deductibility involve significant foregone tax revenues of around 3½% of GDP in total.

The newly implemented measures (*Belastingplan 2012*) reflect several priorities highlighted in the Annual Growth Survey. In particular, in order to improve efficiency, the tax system is being simplified by abolishing seven minor taxes, some of which are environmental taxes (e.g. landfilling and groundwater).

Concerning green taxation, the national reform programme announces a green tax package, but does not mention concrete targets or a date of publication. However, with effect from July 2012 vehicles with lower CO₂ emissions are charged less and the difference in taxation between petrol and diesel is gradually being phased out. On the other hand, a low tax base for company cars exists, which results in an estimated fiscal loss of EUR 1.5 bn per year.⁴

The fight against tax fraud is enhanced by allowing only one bank account for refunds and by increasing fines.

⁴ DG TAXUD Taxation Papers 22/2010.

In the context of the current economic downturn, the Netherlands would benefit from growth-friendly taxation reforms, such as broadening tax bases, raising indirect and green taxation, reducing direct taxation and phasing out the growth-unfriendly tax treatment of pension contributions, imputed rents and mortgage interest payments.

3.2. Financial sector

The financial soundness of Dutch banks has improved recently as exemplified by the fact that financial institutions have paid back a substantial share of government financial support since the conclusion of the 2011 European Semester. Of the three financial institutions that have received financial support from the government, one (Aegon) has repaid all its debt and the other two (SNS Reaal and ING) have partially repaid their financial support (EUR 185 million out of EUR 750 million and EUR 7 billion out of EUR 10 billion respectively). No decision has yet been taken concerning sale of the shares in ABN AMRO and Fortis Bank Nederland that the government acquired during the financial crisis.

Nevertheless, ensuring a well-functioning and stable financial sector capable of meeting the financial intermediation needs of the real economy remains a challenge. Dutch banks are still exposed to substantial external risks stemming from international activities in volatile foreign markets, although the exposure to countries particularly affected by the sovereign debt crisis has gradually diminished. In addition, banks face risks linked to high household indebtedness, mainly stemming from mortgage lending. The traditional tendency of Dutch banks to rely on securitisation to provide funding for the mortgage portfolio has resulted in a substantial 'funding gap' (i.e. the amount of outstanding mortgages exceeds the amount of domestic deposits). This partly reflects higher spreads and reduced access to wholesale funding due to the sovereign debt crisis. Also, Dutch pension funds are still underfunded, with the average coverage ratio dropping well below the required level of 105 %, resulting in a recent announcement that the vast majority of pensioners will most likely see a cut in second-pillar pension benefits as of April 2013.

With regard to credit supply, the Netherlands has not suffered a major retrenchment compared to other EU Member States. However, in view of the ongoing uncertainty on the financial markets, the worsened outlook for the Dutch economy and the ongoing deleveraging of the financial sector, credit supply conditions could tighten further. Against this background it is important to safeguard continued access to credit for small and medium-sized enterprises, as is also called for in the AGS 2012.

3.3. Labour market, education and social policies

The Dutch labour market is notable for relatively high participation rates, high productivity per hour worked and low unemployment. The overall participation rate is close to the Europe 2020 target of 80 % and above the EU average. Following a sharp increase in unemployment in the late summer of 2011, according to the Commission services' 2012 Spring forecast, the Dutch unemployment rate is expected to increase from 4.4 % in 2011 to 5.7 % in 2012. While still relatively low in an EU perspective, this would be the highest level since the onset of the current crisis. Whereas during the first few years of the crisis many Dutch firms hoarded workers to reduce hiring costs in any subsequent upswing (partly facilitated by government-paid schemes), the recent uptrend

in unemployment suggests firms have started laying off workers because of the negative economic outlook.

A number of rigidities exist in the labour market, such as relatively strict employment protection legislation for workers with permanent contracts, which adversely affect labour mobility and therefore labour matching and hiring. The Netherlands committed itself to reforms in this area under the Euro Plus Pact. Reducing barriers to increasing labour supply would help assess the extent to which the relatively low number of average hours worked reveal a preference, which should not be the target of policy. Despite the high overall activity rate, the average number of hours worked in the Netherlands is among the lowest in the EU. One of the main disincentives⁵ to work is the high marginal tax rate on second incomes, which in some cases can exceed 80% as a result of e.g. the general transferable tax credit⁶ and losing income-dependent credits such as childcare and rent subsidies. As of 2009, the general transferable tax credit is being gradually phased out and is scheduled to be fully eliminated in 2024. Eligibility criteria for the tax credit have been tightened, but a faster phasing-out would help increase labour supply.

From 1 January 2012, the government has imposed stricter rules on childcare allowances. To claim them, both parents must be in regular employment. Furthermore, parents cannot claim more than 230 hours per child per month for all types of care. The child-based budget is limited to two children and is not indexed. Also, the state contribution to childcare costs is linked to the number of hours worked by the partner working the least. There is a risk to the targeted increase in labour supply, especially for second-income earners who work only a few hours, although the aim to reduce the deadweight fiscal loss of childcare subsidies is clear.

A second large group whose labour potential is underused are the elderly. Although the employment rate of people aged 55-64 increased significantly in the past decade, once older workers enter the 60-64 age bracket, a relatively high number exits the labour market. This is partly due to the long duration and high level of unemployment benefits. The labour market would benefit from the integration of partly disabled, long-term unemployed and people with a migrant background, as these groups face a growing risk of structural unemployment. For them, the implementation of active labour market policies has not produced effective results. The labour market position of people with a migrant background is deteriorating faster and more steeply compared to the native population, thereby widening the persistent employment and unemployment gaps.⁷

Shortening the period during which unemployment benefits are paid or lowering the thresholds would increase incentives to work, especially for older workers, as their employment protection is among the highest in Europe and the amount of severance pay in the event of dismissal increases with age and experience. The programmes announce plans to put a cap on severance payments and to have employers pay for the first six months of unemployment benefits. Although such a cap reduces the costs of firing (and

⁵ 'Kosten en baten van participatiebeleid', SEO Economisch Onderzoek, 2007

⁶ A person working in the Netherlands receives a tax credit amounting to EUR 2000 if earning more than EUR 6265. A non-working partner (or partner earning less than EUR 6265) could also receive this tax credit depending on his/her income, which could be seen as transferability of the tax credit. If the non-working partner were to enter the labour force, he/she would face a marginal tax rate of 33%.

⁷ In 2010, the unemployment rate of persons with a migrant background was 9.6%, around twice as high as the native unemployment rate of 4.5%.

hiring) workers, having firms pay unemployment benefits could reduce demand for labour. Despite attempts in recent years to loosen employment protection legislation for permanent contracts and smaller reforms, major reforms have so far not been adopted. As older workers on permanent contracts lack incentives to invest in their employability, their participation in lifelong learning is limited to half the level of overall adult participation in lifelong learning. Tackling employment protection legislation and participation in lifelong learning, within an integrated flexicurity approach, would improve labour market transitions.

The planned increase in the retirement age is ambitious and the underlying broad societal compromise is far from guaranteed.⁸ Furthermore, raising the retirement age should be backed by additional measures for improving the participation rate of older workers. The recently adopted Vitality scheme, due to come into force in 2013, is a step in the right direction but the programmes announce cutbacks on funding which could limit the impact.

The Netherlands has a well-functioning education system, which performs well in terms of both the quantitative targets and the quality of educational outcomes, measured by PISA. The NRP's stated aim is to focus on quality, with the ambition of becoming one of the top five global knowledge economies by 2020. The share of early school leavers in the Netherlands was reduced from 15.4% (2000) to 10.1% (2010), below the European average of 14.1%, and migrants also show below EU-average drop-out rates. The national Europe 2020 target aims to reduce the number of young people (18-24) without basic qualifications to 8% by 2020. The national target seems to be realistic, given the current progress in reducing the number of early school leavers. Evolving from a more targeted to a comprehensive and inclusive system should assist in achieving the target. Measures focus primarily on prevention and there are no specific measures for the hard-to-reach groups or those who have already dropped out of school.

It is important to actively invest in education to achieve growth-friendly consolidation in a context of budgetary restrictions. There is a particular concern regarding the long-term impact of cuts in budgets for fundamental research (NWO) and for pedagogical support for pupils with special needs or handicaps.

In February 2011, the government presented a new action plan, covering 2011–2015, for secondary vocational education (MBO), focusing on skills. Therein the newly-created Education-Business Alliance is to develop the qualification structure. In order to reduce the drop-out rate from the 2012/2013 school year onwards, students in vocational training will be able to enrol in fields of training containing modules from different courses with related content, rather than following standard courses.

The new strategy 'Quality in Diversity' for higher education/advanced vocational education and training calls for a streamlining of the existing system using performance agreements, with less but better focused study programmes, in particular in professional higher education, including a clear call for additional training of teachers.

⁸ The discussion on the side of the trade unions was intense and led to a break-up of the existing organisational structure of the Dutch trade unions with proposals for a new structure having been announced recently.

A mismatch between labour market needs and the skills obtained in the Dutch education system persists, in particular as regards vocational education and training. Current reforms are intended to create institutions with a clearer profile, better structured and targeted courses and more favourable teacher-student ratios.

The Netherlands exhibits high and still rising completion rates in tertiary education and has already achieved its Europe 2020 target. However, students with a migrant background are relatively underperforming, also compared to the EU average (tertiary education completion rates for students with a migrant background are 34.3% versus 42% for people without a migrant background). The reform of higher education student support, moving from a grant-based to a refundable loan-based system, aims to reduce relatively long study times and allow budgetary resources to be invested in additional quality measures, in particular teacher training. Loans instead of grants might deter students from less privileged backgrounds from starting tertiary education, although the previous system produced substantial deadweight losses in subsidising wealthy people getting high private returns on higher education.

Adult participation in lifelong learning, at 16.5% in 2010, has already surpassed the 15% benchmark of EU 2020. Whilst different initiatives have been undertaken to encourage training, a formal comprehensive framework for lifelong learning would further increase the efficiency of the system. It also remains to be seen how policy measures will affect some hard-to-reach individuals.

The Dutch social protection system has been effective in coping with poverty and protecting vulnerable groups. Single-earner households and large households are most affected by, respectively, the restriction of the transferability of the general tax credit and the cutbacks in childcare benefits and non-income based child benefits. To prevent overly strong negative effects on low-income families, income-based child benefits were raised for the first two children as of 1 January 2012.

The most significant measure concerning vulnerable groups is the intended merger of the reform of the Young Disabled Persons Act (Wajong), the Work and Social Assistance Act (WWB) and the Sheltered Employment Act (WSW) into the Work Capacity Act (WWNV). The responsibility for implementing the new Work Capacity Act will be transferred to the Dutch municipalities. This policy aims to boost the effectiveness of labour market measures for vulnerable groups. The act (intended to come into force on 1 January 2013) has not yet been approved.

The stated main purpose of the new Work Capacity Act is to help vulnerable groups enter the labour market, but major cutbacks are planned in the budgets for sheltered work places and regular integration tools. If implemented, and given these cuts, it remains to be seen whether the new set-up would result in people making the transition to work, especially the lower skilled. Shifting the responsibility for enactment to the municipal level entails considerable implementation risks as regards their ability to appropriately carry out the tasks that will be entrusted to them.

Unemployment and poverty traps remain high in the Netherlands; single parents are most affected by these traps. In February 2012, the Dutch government announced measures to address low wage traps, especially for single parents. The current 12 schemes for parents

with children will be merged into 4 with a view to simplifying the system and to prevent income loss as a result of loss of subsidies when taking up a job.

The Netherlands has implemented the country specific recommendation on labour market participation only partially. With respect to reducing fiscal disincentives for second-income earners, the policy response is effective but should be speeded up. With regard to the Work Capacity Act, implementation risks prevail.

3.4. Structural measures promoting growth and competitiveness

Research and innovation

The Netherlands ranks among the Member States with a legal and regulatory environment that encourages business competitiveness, but research and development intensity was only 1.83% in 2010, below the EU average of 2%. Private research and development expenditure is relatively low compared to other EU Member States (0.87% vs. 1.23% in 2010). This is partly due to the fact that the Dutch economy features a large service sector and a relatively small manufacturing industry which focuses on medium-tech sectors, such as electrical machinery, food processing, chemicals and petroleum refining. Furthermore, private research and development expenditure is concentrated in a limited number of multinational firms. The level of public research and development expenditure is at a reasonable level. As committed to under the Euro Plus Pact and the Europe 2020 Strategy, the Netherlands set an ambitious national target of 2.5% of GDP for research and development intensity in 2020. This target is also in line with the priority to promote growth and competitiveness as outlined in the Annual Growth Survey 2012.

According to the Innovation Union Scoreboard 2011, the Netherlands remains an ‘innovation follower’, but with above-average performance. It is excellent in terms of frequently quoted scientific publications and licence or patent revenues from abroad⁹ and it would 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 relative underperformance of the Netherlands in private research and development expenditure may reduce future economic growth and weaken the competitiveness of the Dutch economy to an extent that cannot be offset by the use of licences and know-how transfer from other countries.

The new enterprise policy ‘To the Top’ has three main pillars: a sectoral approach for public-private partnerships in the area of research, innovation and education (‘top sector’ approach¹⁰), aimed at reducing the administrative burden, and additional mechanisms for innovation funding via a revolving Innovation Fund.

Specific innovation subsidies have been drastically reduced and largely transformed into tax incentives or generic tax reductions in 2011. The key remaining specific instruments

⁹ The high level of patent and licence revenues could also be influenced by the facts that the Dutch tax system is attractive to set up legal headquarters of international firms and holdings and that it treats patent and licence revenues very favourably (van Dijk, Michiel, Weyzig, Francis and Murphy, Richard (2006), *The Netherlands: A Tax Haven?*, Amsterdam: SOMO).

¹⁰ The ‘top sector’ approach is presented in two key policy documents: ‘To the Top: Towards a new enterprise policy’ (February 2011) and ‘Enterprise policy in action’ (September 2011).

are the wage subsidy scheme (WBSO), the Innovation Box and the Research and Development Deduction (RDA/RDA+).

The ‘top sector’ approach aims to bring research closer to business and foster the practical use of results of publicly funded research as addressed in the country specific recommendation on research and innovation. ‘Top teams’ involving various stakeholders from the top sectors are responsible for developing sectoral policy agendas that would be endorsed by the government. However, the effectiveness of this new industrial policy is difficult to assess at this stage: it is unclear whether research and development investments promised by some ‘top sectors’ are simply ‘relabelled’ research and development investments that companies would have made even in the absence of a new policy, rather than representing any newly mobilised resources. It is also unclear how small enterprises can be effectively involved. Moreover, fast-growing firms that do not fall under one of the top sectors might be sidelined. A rationale supporting this sector-based industrial policy has not been provided. More developed regions benefit the most from the resources made available through the ‘top sector’ policy, potentially increasing the innovation gap between regions. Finally, neglecting basic research in favour of applied research may well harm the long-term growth prospects of the economy. In this respect, the channelling of a substantial share of the funding of fundamental research by the Netherlands Organisation for Scientific Research (NWO) to applied uses under the top sector approach is a cause for concern.

As the measures taken have not yet proved to be effective, the country specific recommendation on research and innovation has only partially been implemented and remains valid. The measures taken so far are *relevant* (i.e. there is a link between the measures presented and the challenges identified in the country specific recommendation) in promoting closer science-business links, but the relevance is less clear in promoting innovation and private research and development investment. It is too early to judge the *effectiveness* of the measures taken as they will mainly have an impact in the medium term. The criteria that were used to identify the ‘top sectors’ are not fully clear. If fully implemented, they could in principle be *ambitious* enough to promote closer science-business links. A shortcoming of the strategy is the lack of monitoring and impact assessment.

Internal market, liberalisation and competition

The Netherlands has transposed the Services Directive in time through a horizontal law and sector-specific amendments. However, as regards the establishment of service providers, some measures have to be examined as to the justification put forward and their proportionality (e.g. shareholding requirements in the regulated professions).

The new public procurement law, which, if cleared by the Senate, would probably come into force as of January 2013, has the potential to considerably increase participation of small and medium-sized enterprises in public procurement. Starting a company will become easier, once a law reducing the minimum capital requirements for limited companies enters into force in 2013. This is particularly important given that the Netherlands currently has the second highest costs in the EU when it comes to starting up a company.

Energy, transport, infrastructure and environment

The Netherlands is still lagging behind concerning the share of renewable energy in total energy used (3.8% in 2010 compared to an EU average of 12.4%). It has indicated that current policies, which put more emphasis on renewable heating and green gas, and less on wind energy, would lead to a share of 12% for renewable energy in 2020, i.e. 2 percentage points short of the Europe 2020 target. Regarding energy efficiency, the Netherlands has committed to vigorously seek to increase energy efficiency, albeit without formulating a quantitative (Europe 2020) target. The government should reconsider setting an explicit energy efficiency target to highlight the importance of this policy field and drive the implementation of concrete measures.

The Netherlands have committed to reducing greenhouse gas emissions in non-ETS sectors by 16% (compared to 2005) by 2020. According to the Netherlands' projections, emissions are expected to decrease by 18.3% (compared to 2005), leading to an overachievement by 2 percentage points.

Environmental sustainability does not figure prominently in the policy initiatives of the current government, but resource efficiency is said to be mainstreamed in all 'top sectors' and taken up in the cross-cutting theme 'bio-economy'. In addition, the concept of 'Green Deals' encourages bottom-up initiatives by citizens, increasing the likelihood of successful implementation and strong local support for environmental and sustainable energy projects. The actual effects of the 'Green Deals' on (additional) CO₂ reductions and other targets have not yet been quantified. Apart from this, the government took only few environmental initiatives in 2011.

Some energy- or emissions-intensive sectors and activities are currently subsidised (e.g. vans, red diesel and the partially free allocation of EU Emission Trading Scheme allowances). Ending or reducing such environmentally harmful subsidies as foreseen in the Commission's Roadmap to a Resource Efficient Europe¹¹ would reduce emissions and increase revenues.

The measures adopted so far are most likely insufficient to reach the policy goals mentioned in the national reform programme. Additionally, setting an energy efficiency target in the national reform programme would help the Netherlands evaluate its progress in this regard. On the positive side, the national reform programme rightfully emphasises the international dimension of resource efficiency and welcomes sustainability criteria for all biotic resources, and a European approach to defining environmental harmful subsidies.

3.5. Modernisation of public administration

The Netherlands has a tradition of policies promoting reliability of the public administration and reductions in the administrative burden. Most recently, the 'quality label for local public administrations' providing a good service to enterprises and citizens has been highlighted as a best practice by the European High-level Group of Independent Stakeholders on Administrative Burden Reduction.

Since 2010 the government has merged several ministries, centralised support functions and improved its IT systems. E-procurement is already being implemented: e-notification

¹¹ COM(2011) 571 final of 20.09.2011.

of all contract notices for publication on a website is mandatory and e-submission is available. Over the last few years, the Netherlands has been a front-runner in terms of e-government, and it scores well above the EU average in the share of business using e-government services.

However, some public responsibilities are being transferred to lower levels of administration without a matching increase in resources. In the area of tax compliance the government has taken several measures, among them a risk-based approach to inspections of companies (those with reliable internal controls are inspected less often) and harmonised electronic data submission. Small and medium-sized enterprises are able to deal with special units within the tax administration. In the future, a single agency will be responsible for administering the few remaining subsidies for enterprises. The collection of any fines for disregarding legal obligations will also be done by a single agency.

Out of the total consolidation effort, a sizeable share is achieved through various savings in the size of the public sector. Although this reduction entails several efficiency gains, it poses a risk to retaining the high quality standards of public service provision and could lead to an increase in expenditure for temporary workers.

The Netherlands' institutional set up includes a central function entrusted with the coordination of state aid policy issues. However, such a body is not independent from the granting authority, as in most instances the coordination is ensured by Ministry of Economic affairs. In addition, and contrary to the majority of Member States, the Ministry does not assess the content of the notification received. In addition, it is not even entrusted with the responsibility to give non-binding advice on draft State aid measures. The Netherlands also lacks a central State aid registry (neither Central nor *de minimis* register, including all information on granted State aid submitted by the awarding authorities), the existence of which would allow for better monitoring of public expenditure. The Netherlands ranks amongst those member States with the longest lasting cases, mainly due to the quality of notifications (number of requests needed, and many requests for an extension of deadlines). Overall the Netherlands would gain from enhanced efficiency in the State aid field, notably through a strengthening of the role of the central coordination body and the setting of a central registry.

4. OVERVIEW TABLE

2011 commitments	Summary assessment
Country-specific recommendations (CSRs)	
<p>CSR 1: Implement the budgetary strategy for the year 2012, in line with the Council Recommendations on correcting the excessive deficit, setting the high public debt ratio on a downward path. Thereafter, progress towards the medium-term objective in line with the Stability and Growth Pact requirements, respecting the overall spending ceilings and consolidation requirements, thereby ensuring that consolidation is sustainable and growth-friendly, by protecting expenditure in areas directly relevant for growth such as research and innovation, education and training.</p>	<p>The government has broadly adhered to the first element, i.e. the implementation of the budgetary strategy of 2012 in line with the requirements in the context of the Excessive Deficit Procedure, as expenditure targets have been broadly met in absolute levels. However, expenditure plans for 2012 and 2013 contain several cuts in areas directly relevant for growth, notably fundamental research and education. Progress towards the medium-term objective also does not appear to be secured. Until 2013 significant progress is booked, particularly in 2012 and 2013, but for the outer years possible progress is conditional on the implementation of intentions expressed by the government, which are not backed by specified and quantified measures in the programme. Only once this is the case can sufficient progress towards compliance with the debt criterion be ensured.</p>
<p>CSR 2: Take measures to increase the statutory retirement age by linking it to life expectancy, and underpin these measures with others to raise the effective retirement age and to improve the long-term sustainability of public finances. Prepare a blueprint for reforming long-term care in view of an ageing population.</p>	<p>The Netherlands has implemented the CSR only partially:</p> <p>The government reached an agreement to raise the statutory retirement age in steps to 66 in 2019, to 67 in 2024 and to link it to life expectancy afterwards, but this has not yet been matched by an agreement among social partners on the reform of the second pillar. With regard to long-term care, the Dutch government has provided a blueprint for an ambitious reform, although the measures are not fully specified and implementation has so far been only partial.</p>
<p>CSR 3: Enhance participation in the labour market by reducing fiscal disincentives for second-income earners to work and draw up measures to support the most vulnerable groups and help them to re-integrate within the labour market.</p>	<p>The Netherlands has implemented the CSR only partially:</p> <p>With respect to reducing fiscal disincentives for second-income earners, the policy response is effective but could have been speeded up. The most significant measure concerning vulnerable groups is the intended reform of the social assistance schemes (introduction of the Work Capacity Act). The act is expected to come into force on 1 January 2013. Shifting the responsibility for enactment to the municipal level entails considerable implementation risks.</p>

<p>CSR 4: Promote innovation, private R&D investment and closer science-business links by providing suitable incentives in the context of the new enterprise policy ('Naar de top').</p>	<p>The Netherlands has implemented the CSR only partially:</p> <p><i>The new enterprise policy was still at a conceptual phase when CSR 4 was formulated.</i></p> <p>Although the measures taken so far under this policy are relevant, it is too early to judge whether they are effective in addressing the challenge. If fully implemented, they could in principle be ambitious enough to address part of the challenge. However, concerns remain with regard to the regional distribution of the funds and the shift from fundamental research to applied research. A further shortcoming is the lack of monitoring and impact assessment.</p>
<p>Euro Plus Pact (national commitments and progress)</p>	
<p>The introduction of a new Act anchoring the rules of the Stability and Growth Pact in Dutch law. Alongside the European agreements, the new bill will also meet the Dutch parliament's wish for budgetary rules to be enshrined in law.</p>	<p>The commitment has been partially implemented:</p> <p>The government is working on draft legislation that will transpose the EU fiscal rules, as set out in the revised governance framework, into national legislation, including provisions for local government.</p>
<p>Making the social security system more activating and reducing benefit dependence by introducing a scheme for the lower end of the labour market that reforms existing benefit schemes.</p>	<p>The commitment has been partially implemented:</p> <p>The new Work Capacity Act, which has not yet been adopted, is the main measure envisaged to address this commitment, but it suffers from several drawbacks. Attention needs to be paid to ensuring that getting people back to work will also help them out of poverty.</p>
<p>The introduction of a new business policy, comprising a sectoral, more business-driven approach, with fewer specific-purpose grants, more generic tax cuts and more scope for enterprise. The sectoral approach covers nine key areas in which the Netherlands is particularly strong, largely due to its location and history: water, agri-food, horticulture and starting materials, high-tech materials and systems, life sciences, chemicals, energy, logistics and creative industry.</p>	<p>The commitment has been partially implemented:</p> <p>Specific innovation subsidies have been streamlined in 2011 and have largely been transformed into tax incentives or generic tax reductions. The 'top sector' approach, however, suffers from several deficiencies.</p>
<p>The introduction of an Act that provides more scope for interventions regarding financial institutions than existing statutory instruments. The bill will add two new categories of powers to the existing range of intervention measures, allowing deposits, assets or liabilities, or shares of a financial institution in difficulties to be transferred to another institution or legal person. The first category relates to individual problem institutions and is designed to allow banks and insurers to be wound up in a timely and orderly fashion</p>	<p>The commitment has been partially implemented:</p> <p>The bill has passed the lower house, but is awaiting approval of the Senate. The bill gives the government and the central bank a wide range of possibilities to intervene in the financial system, including the forced transfer of assets and/or liabilities, without having to declare the institution bankrupt if it faces</p>

<p>if they face insuperable problems. The second category serves a more far-reaching goal and provides for ways of safeguarding the stability of the financial system as a whole, if that stability is ever threatened.</p>	<p>insurmountable problems and enables the government to intervene in more daily business and to make use of compulsory purchase in the event of severe and immediate threats to financial stability.</p>
<p>Europe 2020 (national targets and progress)</p>	
<p>Employment target: 80 %.</p>	<p>Although progress has been made in recent years towards achieving this target (the employment rate steadily increased to 78.8% in 2009), the employment rate decreased to 76.8% in 2010. The phasing-out of the transferable tax credit and the incentives for the elderly and the partly disabled to enter the labour market or stay in it should help support the employment rate in the years ahead. On the other hand, decreasing subsidies for childcare poses a risk in this regard.</p>
<p>R&D target: 2.5 % of GDP.</p>	<p>Little progress has been made towards achieving this target. R&D investments were 1.82% in 2009 and 1.83% in 2010. The ‘top sector’ approach aimed at increasing the low share of private R&D investments has no mechanisms in place to evaluate whether the R&D investments under this approach are indeed additional investments. Through shifting funds towards more applied research, the ‘top sector’ approach also threatens fundamental research.</p>
<p>Greenhouse gas (GHG) emissions target: -16 % (compared to 2005 emissions; ETS emissions are not covered by this national target)</p>	<p>According to the Netherlands’ projections, emissions are expected to decrease by 18.3% (compared to 2005), leading to an overachievement by 2 percentage points.</p>
<p>Renewable energy target: 14 %.</p>	<p>The Netherlands is still lagging behind concerning the share of renewable energy in total energy used (4.1% in 2009) and is still behind its 2011/2012 interim target for renewables. Current policies put more emphasis on renewable heating and green gas and less on wind energy. The Netherlands indicated that current policies would lead to a share of 12% for renewable energy in 2020, 2 percentage points short of the target.</p>
<p>Energy efficiency target: Not a target in the NRP.</p>	<p>The Netherlands has not yet specified a Europe 2020 target for energy efficiency.</p>
<p>Early school leaving target: < 8 %.</p>	<p>The percentage of early school leavers has fallen in recent years, to 10.1% in 2010. Based on the decrease achieved in the last few years, achieving the target seems realistic.</p>
<p>Tertiary education target: >40 %, projected to amount to 45 % in 2020.</p>	<p>The target of 40% was achieved in 2010 with a tertiary education rate of 41.4% (after 40.5% in 2009), but recent measures to partially replace</p>

	study grants by loans could have a deterrent effect on students from less privileged backgrounds participating in tertiary education.
Target for reduction of the population at risk of poverty or social exclusion: -100 000 (reduction of people aged 0 to 64 in a jobless household).	There is a clear link between inclusion and employment since in-work poverty in the Netherlands is relatively low. The number of people in jobless households decreased from 1.641 million to 1.595 million and reaching the goal of 1.513 million in 2018 seems reachable, given the projections for the labour market participation rate and the expected tightness of the Dutch labour market.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	3.9	1.7	2.8	-3.5	1.7	1.2	-0.9	0.7
Output gap ¹	0.0	0.0	0.9	-2.7	-2.1	-2.1	-3.7	-3.9
HICP (annual % change)	1.7	3.0	1.7	1.0	0.9	2.5	2.5	1.8
Domestic demand (annual % change) ²	4.3	1.1	2.6	-3.1	0.9	0.8	-1.9	0.0
Unemployment rate (% of labour force) ³	5.4	3.6	4.1	3.7	4.5	4.4	5.7	6.2
Gross fixed capital formation (% of GDP)	21.9	20.3	19.8	19.4	18.2	18.6	17.9	17.8
Gross national saving (% of GDP)	26.9	26.8	27.4	21.5	23.8	26.4	26.1	26.3
General government (% of GDP)								
Net lending (+) or net borrowing (-)	-1.6	-1.0	0.2	-5.6	-5.1	-4.7	-4.4	-4.6
Gross debt	69.0	51.9	50.7	60.8	62.9	65.2	70.1	73.0
Net financial assets	-48.3	-35.3	-30.4	-29.8	-34.4	n.a	n.a	n.a
Total revenue	46.7	44.7	45.7	46.0	46.2	45.5	46.3	46.1
Total expenditure	48.2	45.8	45.4	51.6	51.3	50.2	50.8	50.8
of which: Interest	5.0	2.9	2.2	2.2	2.0	2.0	2.1	2.2
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	4.1	6.7	7.8	7.4	9.8	10.7	10.9	11.5
Net financial assets, non-financial corporations	-137.3	-110.2	-79.9	-59.2	-55.9	n.a	n.a	n.a
Net financial assets, financial corporations	-27.0	-25.2	-10.7	2.8	0.8	n.a	n.a	n.a
Gross capital formation	12.3	10.2	9.5	8.8	9.5	10.1	9.3	9.2
Gross operating surplus	24.4	24.5	25.6	24.6	26.0	26.3	25.5	26.0
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	2.9	0.6	-0.9	0.6	-0.2	1.0	1.1	1.2
Net financial assets	205.9	175.7	160.4	154.1	165.7	n.a	n.a	n.a
Gross wages and salaries	42.4	40.5	38.2	40.2	39.2	38.9	39.1	38.6
Net property income	9.0	6.9	5.8	4.5	3.9	4.2	4.2	4.2
Current transfers received	23.7	22.5	21.2	22.7	23.1	23.0	23.4	23.5
Gross saving	10.3	7.7	6.6	6.8	5.6	6.7	6.7	6.7
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	4.4	6.2	7.1	2.4	4.6	7.2	7.7	8.1
Net financial assets	6.7	-4.9	-39.4	-67.9	-76.3	n.a	n.a	n.a
Net exports of goods and services	5.1	6.3	8.2	6.8	7.5	8.1	8.7	9.3
Net primary income from the rest of the world	0.8	1.5	0.7	-2.5	-0.8	1.0	1.0	0.9
Net capital transactions	-0.3	-0.2	-0.3	-0.4	-0.5	-0.3	-0.3	-0.3
Tradable sector	43.0	41.4	40.6	38.1	39.2	39.7	n.a	n.a
Non-tradable sector	46.6	47.7	48.2	51.0	50.2	50.0	n.a	n.a
of which: Building and construction sector	4.9	5.1	5.0	5.5	4.9	4.9	n.a	n.a
Real effective exchange rate (index, 2000=100)	103.6	107.5	112.3	116.9	113.7	113.5	112.6	111.9
Terms of trade in goods and services (index, 2000=100)	99.3	101.5	102.0	100.8	100.2	100.2	99.7	99.6
Market performance of exports (index, 2000=100)	97.9	99.5	97.8	102.4	102.9	102.1	100.8	100.4
Notes:								
¹ The output gap constitutes the gap between actual and potential gross domestic product at 2000 market prices.								
² The indicator for 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 spring 2012 forecast								

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.2	1.2	-0.9	-¾	0.7	1¼	1½	1½
Private consumption (% change)	-1.1	-0.9	-1.5	-½	0.0	½	½	¼
Gross fixed capital formation (% change)	5.8	5.7	-3.9	-¾	0.2	¾	¾	¾
Exports of goods and services (% change)	3.8	3.8	0.4	-¾	3.8	3.0	5.0	5¼
Imports of goods and services (% change)	3.5	3.6	-0.8	-1½	3.3	¾	¾	5.0
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	0.6	0.7	-1.6	-1.0	0.1	1.0	1.0	¾
- Change in inventories	0.1	0.0	-0.1	-¼	0.0	0.0	0.0	0.0
- Net exports	0.5	0.5	0.9	½	0.7	½	¾	¾
Output gap ¹	-2.1	-2.2	-3.7	-3.4	-3.9	-2.8	-2.1	-1.5
Employment (% change)	0.3	0.3	-0.1	-¼	-0.2	0.0	¼	¾
Unemployment rate (%)	4.4	4.5	5.7	5½	6.2	6.0	6.0	5½
Labour productivity (% change)	1.0	0.9	-0.7	-½	0.8	1¼	1¼	¾
HICP inflation (%)	2.5	2.5	2.5	¾	1.8	1½	1¾	2.0
GDP deflator (% change)	1.1	1.4	1.6	1¾	1.7	1½	1¾	1¾
Comp. of employees (per head, % change)	1.7	2.0	1.9	3.0	1.5	1½	2½	¾
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	7.2	7.0	7.7	6½	8.1	7½	8¼	8¾
<u>Note:</u>								
¹ In per cent of potential GDP, with potential GDP growth according to the programme as recalculated by the Commission.								
<u>Source:</u>								
Commission spring 2012 forecasts (COM); stability programme (SP).								

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	Change: 2011-2015
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	45,5	46,3	45,5	46,1	45,2	45,4	45,5	0,0
<i>of which:</i>								
- Taxes on production and imports	11,5	11,5	11,4	11,5	11,4	11,2	11,2	-0,3
- Current taxes on income, wealth, etc.	11,4	11,4	11,5	11,0	11,1	11,4	11,8	0,4
- Social contributions	15,5	15,9	16,0	16,1	16,2	16,4	16,3	0,8
- Other (residual)	7,1	7,5	6,6	7,5	6,5	6,4	6,2	-0,9
Expenditure	50,2	50,8	50,0	50,8	49,8	49,5	48,9	-1,3
<i>of which:</i>								
- Primary expenditure	48,1	48,7	48,0	48,6	47,7	47,3	46,6	-1,5
<i>of which:</i>								
Compensation of employees	9,8	9,8	9,6	9,6	9,3	9,1	8,9	-0,9
Intermediate consumption	7,7	7,8	7,8	7,6	7,5	7,3	7,1	-0,6
Social payments	23,3	23,9	23,9	24,3	24,0	24,1	24,1	0,8
Subsidies	1,5	1,4	1,3	1,3	1,2	1,2	1,2	-0,3
Gross fixed capital formation	3,5	3,5	3,7	3,4	3,6	3,4	3,2	-0,3
Other (residual)	2,4	2,3	1,7	2,3	1,9	2,2	2,0	-0,4
- Interest expenditure	2,0	2,1	2,0	2,2	2,1	2,2	2,3	0,3
General government balance (GGB)	-4,7	-4,4	-4,2	-4,6	-3,0	n.a.	n.a.	1,5
Primary balance	-2,6	-2,3	-2,5	-2,5	-2,4	-1,9	-1,0	1,6
One-off and other temporary measures	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,1
GGB excl. one-offs	-4,6	-4,4	-4,2	-4,6	-3,0	-3,9	-3,2	1,4
Output gap ²	-2,1	-3,7	-3,4	-3,9	-2,8	-2,1	-1,5	0,6
Cyclically-adjusted balance ²	-3,5	-2,4	-2,3	-2,5	-1,5	-2,8	-2,4	1,1
Structural balance³	-3,5	-2,4	-2,3	-2,5	-1,5	-2,8	-2,4	1,1
<i>Change in structural balance</i>		1,1	1,1	-0,1	0,9	-1,3	0,4	
Structural primary balance ³	-1,4	-0,3	-0,3	-0,3	0,6	-0,6	-0,1	1,3
<i>Change in structural primary balance</i>		1,1	1,1	0,0	1,0	-1,2	0,5	
Expenditure benchmark								
Public expenditure growth ⁴ (real)		-0,96	-3,59	0,75	-0,12	-0,58	-1,12	-
Reference rate ^{5,6}		1,43	1,43	1,43	1,43	1,43	1,43	-
Lower reference rate ^{5,7}		0,39	0,39	0,39	0,39	0,39	0,39	-
Deviation in % GDP		-0,66	-1,93	0,17	-0,24	-0,45	-0,70	-
against applicable reference rate								
Two-year average deviation in % GDP		n.a.	n.a.	-0,24	-1,08	-0,35	-0,58	-
against applicable reference rate								
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 information in the programme.								
³ Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.								
⁴ Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.								
⁵ The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.								
⁶ The (standard) reference rate applies starting in the year following which the country has reached its MTO.								
⁷ The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.								
<i>Source:</i>								
<i>Stability programme (SP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.</i>								

Table IV. Debt dynamics

(% of GDP)	average 2006-10	2011	2012		2013		2014	2015
			COM	CP	COM	CP	CP	CP
Gross debt ratio ¹	55.0	65.2	70.1	70.2	73.0	70.7	n.a.	n.a.
Change in the ratio	2.2	2.3	4.9	5.0	2.9	0.5	n.a.	n.a.
<i>Contributions</i> ² :								
1. Primary balance	-0.3	2.6	2.3	2.5	2.5	2.4	1.9	1.0
2. "Snow-ball" effect	0.9	0.6	1.6	1.0	0.6	-1.4	-0.2	n.a.
<i>Of which:</i>								
Interest expenditure	2.1	2.0	2.1	1.7	2.2	0.6	2.0	2.2
Growth effect	-0.6	-0.7	0.6	0.5	-0.5	-0.9	-1.0	n.a.
Inflation effect	-0.6	-0.7	-1.0	-1.1	-1.1	-1.2	-1.2	n.a.
3. Stock-flow adjustment	1.6	-0.9	0.9	1.4	-0.1	-0.5	n.a.	n.a.
<i>Of which:</i>								
Cash/accruals diff.				0.1		0.0	-0.1	0.0
Acc. financial assets				1.1		0.3	-0.2	-0.1
<i>Privatisation</i>								
Val. effect & residual				-0.8		-2.1	-1.8	-2.2
(% of GDP)		2011	2012		2013		2014	2015
			COM/SP ³	SP ⁴	COM/SP ³	SP ⁴	SP ⁴	SP ⁴
Gap to the debt benchmark ^{3,4}	-	-	-	-	-	-	-	-
Structural adjustment ⁵	-	-	-	-	-	-	n.a.	n.a.
<i>To be compared to:</i>								
Required adjustment ⁶	-	-	-	-	-	-	n.a.	n.a.
Notes:								
¹ End of period.								
² The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and								
³ Assessment of the consolidation path set in the 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 during EDP that were ongoing in November 2011 and in the 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								
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 are achieved.								
Source:								
<i>Stability programme (SP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.</i>								

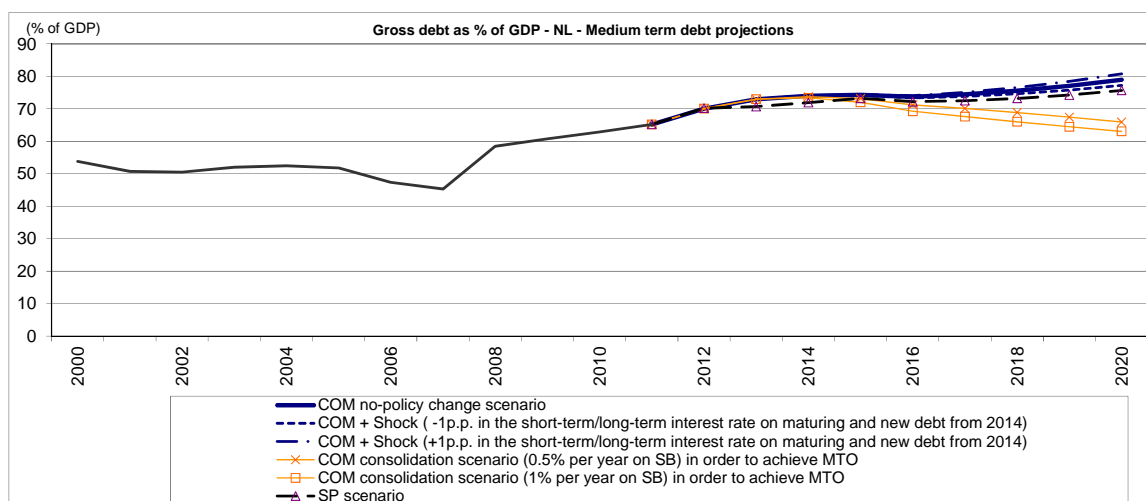
Table V. Long-term sustainability indicators

	NL		EU27	
	no-policy change scenario	SCPs scenario	no-policy change scenario	SCPs scenario
S2	7.9	6.9	2.9	0.7
<i>of which:</i>				
Initial budgetary position (IBP)	2.4	1.5	0.7	-1.6
Long-term change in the primary balance (LTC)	5.4	5.5	2.3	2.4
<i>of which:</i>				
Pension	1.9	1.9	1.1	1.2
Care (HC and LTC)	3.7	3.7	1.5	1.5
Others	-0.2	-0.2	-0.3	-0.3
S1 (required adjustment)*	4.1	2.9	2.2	-0.1
Debt, % of GDP (2011)	65.2		82.8	
Age-related expenditure, % of GDP (2011)	24.5		25.8	

Source: Commission, 2012 stability and convergence programmes.

Note: The ‘no policy change’ scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The SCPs 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.



Source: Commission, 2012 stability and convergence programmes.

Table VI. Taxation indicators

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	38.3	37.6	38.7	39.2	38.3	38.8
Breakdown by economic function (% of GDP) ¹						
Consumption	11.9	12.0	12.1	12.0	11.8	12.0
of which:						
- VAT	7.3	7.2	7.5	7.3	7.0	7.2
- excise duties on tobacco and alcohol	0.5	0.5	0.4	0.5	0.5	0.5
- energy	1.8	2.0	1.8	1.9	2.0	2.0
- other (residual)	2.3	2.3	2.4	2.3	2.3	2.3
Labour employed	16.0	16.0	17.5	18.3	18.8	18.9
Labour non-employed	2.5	2.6	2.3	2.4	2.4	2.4
Capital and business income	5.7	4.6	4.7	4.6	3.5	3.7
Stocks of capital/wealth	2.2	2.3	2.1	1.9	1.8	1.8
<i>p.m.</i> Environmental taxes ²	3.8	3.9	3.8	3.9	4.0	4.0
VAT efficiency ³						
Actual VAT revenues as % of theoretical revenues at standard rate	58.4	58.0	61.8	59.9	54.7	57.3
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 (2012), 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 (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.						
Source: Commission						

Table VII. Financial market indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	379.2	375.4	388.2	384.0	399.2
Share of assets of the five largest banks (% of total assets)	86.3	86.8	85.0	84.4	...
Foreign ownership of banking system (% of total assets)	17.3	5.7	5.3
Financial soundness indicators:					
- non-performing loans (% of total loans) ¹⁾	...	1.7	3.2	2.6	2.7
- capital adequacy ratio (%) ^{1), 2)}	13.2	11.9	14.9	13.7	14.0
- return on equity (%) ^{1), 3)}	18.7	-12.5	-0.4	7.1	11.5
Bank loans to the private sector (year-on-year % change)	5.4	3.9	1.8	4.1	4.2
Lending for house purchase (year-on-year % change)	1.9	-0.9	0.8	5.5	3.1
Loan to deposit ratio	124.2	121.4	124.6	120.3	119.4
CB liquidity as % of liabilities	2.5	2.5	2.0	0.4	0.0
Banks' exposure to countries receiving official financial assistance (% of GDP) ⁴⁾	11.6	10.4	7.9	5.1	4.8
Private debt (% of GDP)	171.7	172.5	191.9	182.8	183.2
Gross external debt (% of GDP) ⁵⁾					
- Public	28.2	43.2	42.4	41.0	37.8
- Private	92.4	93.7	79.8	84.3	79.8
Long term interest rates spread versus Bund (basis points)*	69.5	150.1	145.4	80.4	...
Credit default swap spreads for sovereign securities (5-year)*	...	36.9	56.0	44.7	66.0
Notes:					
¹⁾ Latest available March 2011.					
²⁾ The capital adequacy ratio is defined as total capital divided by risk weighted assets.					
³⁾ Net income to equity ratio, after extraordinary items and taxes.					
⁴⁾ Covered countries are IE, EL, PT, RO, LV and HU.					
⁵⁾ Latest data 2011Q3.					
* Measured in basis points.					
Source:					
<i>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).</i>					

Table VIII. Labour market and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	76.3	77.8	78.9	78.8	76.8	77.0
Employment growth (% change from previous year)	1.8	2.5	1.5	0.0	-2.6	0.0
Employment rate of women (% of female population aged 20-64)	69.0	70.7	72.2	72.7	70.8	71.4
Employment rate of men (% of male population aged 20-64)	83.5	84.8	85.5	84.9	82.8	82.6
Employment rate of older workers (% of population aged 55-64)	47.7	50.9	53.0	55.1	53.7	56.1
Part-time employment (% of total employment)	46.8	47.5	48.0	49.2	49.7	49.9
Part-time employment of women (% of women employment)	75.2	75.7	76.0	76.7	77.3	77.5
Part-time employment of men (% of men employment)	23.4	24.0	24.4	25.5	26.0	26.0
Fixed term employment (% of employees with a fixed term contract)	16.6	18.1	18.2	18.2	18.5	18.4
Unemployment rate ¹ (% of labour force)	4.4	3.6	3.1	3.7	4.5	4.4
Long-term unemployment ² (% of labour force)	1.9	1.4	1.1	0.9	1.2	1.5
Youth unemployment rate (% of youth labour force aged 15-24)	7.5	7.0	6.3	7.7	8.7	7.6
Youth NEET ³ rate (% of population aged 15-24)	4.0	3.5	3.4	4.1	4.4	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.6	11.7	11.4	10.9	10.1	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	36.0	36.7	39.8	40.1	40.3	:
Labour productivity per person employed (annual % change)	1.7	1.7	0.3	-2.5	2.2	1.5
Hours worked per person employed (annual % change)	-0.1	-0.2	0.2	-0.6	-0.2	-0.2
Labour productivity per hour worked (annual % change; constant prices)	1.8	1.6	0.1	-2.3	2.2	1.1
Compensation per employee (annual % change; constant prices)	0.7	1.6	1.1	2.9	0.1	0.8
Nominal unit labour cost growth (annual % change)	0.6	1.6	3.0	5.2	-0.8	0.6
Real unit labour cost growth (annual % change)	-1.1	-0.2	0.9	5.6	-2.1	-0.5
Notes:						
¹ According to ILO definition, age group 15-74)						
² Share of persons in the labour force who have been unemployed for at least 12 months.						
³ NEET are persons that are neither in employment nor in any education or training						
Sources:						
Commission (EU Labour Force Survey and European National Accounts)						

Expenditure on social protection benefits (% of GDP)	2005	2006	2007	2008	2009
Sickness/Health care	7.97	8.82	8.64	9.39	10.34
Invalidity	2.53	2.36	2.41	2.37	2.50
Old age and survivors	9.71	9.50	9.64	9.65	10.44
Family/Children	1.26	1.47	1.56	1.18	1.30
Unemployment	1.59	1.36	1.14	1.04	1.45
Housing and Social exclusion n.e.c.	0.33	0.38	0.38	0.36	0.38
Total	27.9	28.8	28.3	28.5	31.6
of which: Means tested benefits	3.10	3.40	3.71	3.91	4.50
Social inclusion indicators	2006	2007	2008	2009	2010
Risk-of-poverty or exclusion ¹ (% of total population)	16.0	15.7	14.9	15.1	15.1
Risk-of-poverty or exclusion of children (% of people aged 0-17)	17.5	17.2	15.5	17.5	16.9
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	6.4	9.8	9.7	8.1	6.2
At-risk-of-poverty rate ² (% of total population)	9.7	10.2	10.5	11.1	10.3
Value of relative poverty threshold (single household per year) - in PPS	9897	10522	11485	11536	11293
Severe material deprivation ³ (% of total population)	2.3	1.7	1.5	1.4	2.2
Share of people living in low work intensity households ⁴ (% of people aged 0-59 not student)	10.7	9.5	8.1	8.3	8.2
In-work at-risk-of poverty rate (% of persons employed)	4.4	4.6	4.8	5.0	5.1
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 households with zero or very low work intensity (LWI).					
² At-risk-of poverty rate: 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 work less than 20% of their total work-time potential during the previous 12 months.					
Sources:					
For expenditure on social protection benefits ESSPROS; for social inclusion EU-SILC.					

Table IX. Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity ¹ total economy (annual growth in %)	1.4	1.3	0.4	-2.9	2.0	1.4
Labour productivity ¹ in manufacturing (annual growth in %)	3.8	5.3	-2.8	-5.8	10.6	n.a.
Labour productivity ¹ in electricity, gas, water (annual growth in %)	5.9	-3.6	0.7	-5.7	n.a.	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	-0.4	4.4	2.8	-2.4	-8.5	n.a.
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	5.6	4.4	3.7	n.a.	n.a.	n.a.
Policy indicators	2002-2006	2007	2008	2009	2010	2011
Enforcing contracts ³ (days)	n.a.	514	514	514	514	514
Time to start a business ³ (days)	n.a.	8	8	8	8	8
R&D expenditure (% of GDP)	1.9	1.8	1.8	1.8	1.8	n.a.
Tertiary educational attainment (% of 30-34 years old population)	32.9	36.4	40.2	40.5	41.4	n.a.
Total public expenditure on education (% of GDP)	5.4	5.3	5.5	n.a.	n.a.	n.a.
	2005	2006	2008	2009	2010	2011
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	1.0	n.a.	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	2.1	n.a.	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁵ (Index; 0=not regulated; 6=most regulated)	1.8	1.8	1.7*	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 Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.						
³ The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology .						
⁴ The methodologies for 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 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 performance

Netherlands		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
<i>Macroeconomic</i>							
Energy intensity	kgoe / €	0.19	0.17	0.18	0.17	0.17	0.18
Carbon intensity	kg / €	0.50	0.45	0.43	0.42	0.42	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.43	0.39	0.40	0.40	0.33	n.a.
Waste intensity	kg / €	n.a.	0.20	0.20	0.20	n.a.	n.a.
Energy balance of trade	% GDP	-1.5%	-3.4%	-2.1%	-2.1%	-1.8%	-2.9%
Energy weight in HICP	%	9	10	10	11	10	10
Difference between change energy price and inflation	%	6.3	7.9	2.5	0.8	-0.1	-8.8
Environmental taxes over labour taxes	ratio	20.6%	20.5%	19.5%	19.2%	19.0%	n.a.
Environmental taxes over total taxes	ratio	10.1%	10.3%	9.8%	9.9%	10.4%	n.a.
<i>Sectoral</i>							
Industry energy intensity	kgoe / €	0.19	0.15	0.13	0.12	0.14	n.a.
Share of energy-intensive industries in the economy	% GDP	10.9	11.8	11.5	12.5	10.8	n.a.
Electricity prices for medium-sized industrial users	€/ kWh	n.a.	0.09	0.09	0.09	0.09	0.09
Public R&D for energy	% GDP	n.a.	0.02%	0.02%	0.02%	0.02%	n.a.
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.00%	0.00%	n.a.
Recycling rate of municipal waste	ratio	79.6%	80.7%	81.7%	81.7%	82.2%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	37.0%	38.9%	40.8%	40.7%	n.a.
Transport energy intensity	kgoe / €	0.47	0.46	0.45	0.45	0.47	n.a.
Transport carbon intensity	kg / €	1.11	1.06	1.01	1.02	1.08	n.a.
Change in the ratio of passenger transport and GDP	%	-0.5%	-3.3%	-2.8%	-3.0%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	35.1%	37.4%	38.9%	34.4%	36.5%	n.a.
Diversification of oil import sources	HHI	n.a.	0.21	0.18	0.15	0.17	n.a.
Diversification of energy mix	HHI	0.36	0.36	0.36	0.36	0.36	n.a.
Share of renewable energy in energy mix	%	2.0%	2.9%	2.7%	3.3%	3.9%	n.a.
Country-specific notes:							
The year 2011 is not included in the table due to lack of data.							
General explanation of the table items:							
Source: Eurostat unless indicated otherwise; ECFIN explanations given 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 construction 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 EUR)							
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP							
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 (in kgoe) divided by gross value added of industry (in EUR)							
Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector							
Passenger transport growth: measured in %-change in passenger kilometres							
Energy import dependency: net energy imports divided by gross inland energy consumption incl. of 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 of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents							

