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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of the Netherlands

{SWD(2024) 600 final} - {SWD(2024) 619 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of the Netherlands

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parilament and of the Council of 30 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

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1 OJ L, 2024/1263, 30.4.2024 ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

2 OJ L 306, 23.11.2011, p. 25. ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17) ELI: http://data.europa.eu/eli/reg/2021/241/oj.

(2) The REPowerEU Regulation[4], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Netherlands added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[5], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reforms and investments to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[6]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[7], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it identified the Netherlands as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date the Commission also adopted an opinion on the 2024 draft budgetary plan of the Netherlands. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[8]. The objectives of the

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4 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1) ELI: http://data.europa.eu/eli/reg/2023/435/oj.

5 COM(2023) 168 final.

6 COM(2024) 77 final.

7 COM(2023) 901 final.

8 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of

new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[9] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for revised, updated, or amended recovery and resilience plans in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) On 7 July 2022, the Netherlands submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 4 October 2022, the Council adopted its Decision on the approval of the assessment of

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29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

9 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024. ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

the recovery and resilience plan for the Netherlands[10], which was amended on 24 October 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[11]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that the Netherlands has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) On 29 April 2024, the Netherlands submitted its 2024 National Reform Programme and, on 30 April 2024, its 2024 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects the Netherlands' biannual reporting on the progress made in achieving its recovery and resilience plan.

(9) The Commission published the 2024 country report for the Netherlands[12] on 19 June 2024. It assessed the Netherlands' progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of the Netherlands' implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed the Netherlands' progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(10) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for the Netherlands. The main findings of the Commission's staff assessment of macroeconomic vulnerabilities for the Netherlands for the purposes of that Regulation were published in March 2024[13]. On 19 June 2024, the Commission concluded that the Netherlands is experiencing macroeconomic imbalances. In particular, the Netherlands faces vulnerabilities related to high private debt in a context of an overvalued housing market, which have cross-border relevance and remain relevant despite some improvements. Vulnerabilities associated with the large current account surplus have been mitigated through the relatively strong domestic demand growth. The large current account surplus has been, and is expected to remain, elevated on the back of a substantial surplus in goods and services trade, which reflects a surplus of domestic savings over investment for the economy as a whole. However, domestic demand has been growing more robustly than in the euro area in recent years, which suggests that the spillovers of the current account surplus to the rest of the area are becoming less of a concern. The significant presence of multi-national enterprises in the Netherlands, the statistical impact of retained corporate earnings, and the role of pension funds accumulating large savings that are invested

[10] Council Implementing Decision of 4 October 2022 on the approval of the assessment of the recovery and resilience plan for the Netherlands (ST 12275//22; ST12275//22 ADD1).

[11] Council Implementing Decision of 24 October 2023 amending the Implementing Decision of 4 October 2022 on the approval of the assessment of the recovery and resilience plan for the Netherlands (ST 13613/1/23).

[12] SWD(2024) 619 final.

[13] SWD(2024) 82 final.

abroad are all features that contribute to the large savings-investment gap. Private debt continued declining considerably in 2023, and further reductions can be expected, but debt remains high. The high level of debt coupled with large holdings of illiquid assets, principally housing and pension savings, makes households vulnerable to changing economic conditions, especially given the overvalued housing market. House prices showed some correction for most of last year against a backdrop of tighter financing conditions but remain overvalued even if less than before. Some measures have been taken to address the identified vulnerabilities, but further efforts are needed. Several options could be pursued to tackle housing shortages more forcefully by means of higher housing investment and removing obstacles to the construction of new dwellings, while further addressing tax incentives for debt-financed homeownership. Recent reforms in the private rental market are unlikely to be conducive to housing availability.

(11) Based on data validated by Eurostat [14], the Netherlands' general government deficit increased from 0.1% of GDP in 2022 to 0.3% in 2023, while the general government debt fell from 50.1% of GDP at the end of 2022 to 46.5% at the end of 2023.

(12) On 12 July 2022, the Council recommended[15] that the Netherlands take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[16], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The Netherlands was recommended to stand ready to adjust current spending to the evolving situation. The Netherlands was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[17] was contractionary, by 0.8% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0.9% of GDP. This includes the increased cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by 0.4% of GDP. The growth of nationally financed primary current expenditure in 2023 was in line with the Council recommendation. Nationally financed investment amounted to 3.1% of GDP in 2023, representing a decrease of 0.1 percentage points as compared to 2022[18]. The Netherlands financed public investment for the green and digital transitions, and for energy security, such as expanding the congested electricity grid, undertaking energy

14 Eurostat-Euro Indicators, 22.4.2024.

15 Council Recommendation of 12 July 2022 on the economic policies of the Netherlands and delivering a Council opinion on the 2022 Stability Programme of the Netherlands, OJ C 334, 1.9.2022, p. 154.

16 Based on the Commission Spring 2024 Forecast, the medium-term potential output growth of the Netherlands in 2023, which is used to measure the fiscal stance, is estimated at 9.7% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

17 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

18 Other nationally financed capital expenditure increased by 0.2 percentage points as compared to 2022.

efficiency improvements of public buildings and expanding access to high speed internet in rural areas. The Netherlands has submitted a first payment request under the Recovery and Resilience Facility on 24 May which the Commission is in the process of assessing.

(13) The key projections in the 2024 Stability Programme can be summarised as follows. The macroeconomic scenario underpinning the budgetary projections foresees real GDP growth at 1.1% in 2024 and 1.6% in 2025. The general government deficit is expected to increase to 2.0% of GDP in 2024 and 2.1% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 46.8% by the end of 2024 and 48.1% by the end of 2025. After 2025, the general government deficit is projected to increase to 3.3 of GDP in 2026, 2.6% of GDP in 2027, and 3.2% of GDP in 2028. Therefore, the general government balance is not planned to remain below the 3% of GDP deficit reference value over the programme horizon. In turn, after 2025, the general government debt-to-GDP ratio is projected to increase gradually to 52.0% in 2028.

(14) The Commission Spring 2024 Forecast projects real GDP to grow by 0.8% in 2024 and 1.5% in 2025, and HICP inflation to stand at 2.5% in 2024 and 2.0% in 2025.

(15) The Commission Spring 2024 Forecast projects a government deficit of 2.0% of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 47.1% by the end of 2024. The increase of the deficit in 2024 mainly reflects shortfalls in revenue due to exceptionally high dividend distribution in 2023 in anticipation of an increase of dividend income tax in 2024, increased spending on social benefits to restore purchasing power of low-income households, increased aid to Ukraine, as well as public investments through the government's climate, infrastructure and defence funds. Based on the Commission's estimates, the fiscal stance is projected to be expansionary, by 0.4% of GDP, in 2024.

(16) Expenditure amounting to 0.1% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.1% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of the Netherlands.

(17) On 14 July 2023, the Council recommended[19] that the Netherlands ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[20] in 2024 to not more than 3.5%. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, the Netherlands' net nationally financed primary expenditure is projected to increase by 6.6% in 2024, which is above the recommended maximum growth rate. This excess spending over

[19] Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of the Netherlands and delivering a Council opinion on the 2023 Stability Programme of the Netherlands, OJ C 312, 1.9.2023, p. 176.

[20] Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 1.3% of GDP in 2024. However, net expenditure in 2023 was lower than expected at the time of the recommendation (by 1.3% of GDP). Therefore, as the recommendation for 2024 was formulated as a growth rate, the assessment of compliance also needs to take into account the base effect from 2023. Had net expenditure in 2023 been the same as expected at the time of the recommendation, the resulting growth rate of net expenditure in 2024 would have been above the recommended growth rate by less than 0.1% of GDP. Therefore, net nationally financed primary expenditure is assessed as at risk of not being fully in line with the recommendation.

(18) Moreover, the Council recommended that the Netherlands take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, the Netherlands should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[21] of emergency energy support measures is estimated at 1.0% of GDP in 2023 and projected at 0.1% in 2024, and 0.0% in 2025. In particular, reduced excise duties on diesel and gasoline are assumed to remain in force in 2024. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.9% of GDP in 2024, whereas net nationally financed primary expenditure[22] provides an expansionary contribution to the fiscal stance of 0.5% of GDP in that year. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. This risks not being in line with the Council recommendation.

(19) In addition, the Council also recommended that the Netherlands preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to remain stable at 3.1% of GDP in 2024 from 3.1% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.2% of GDP in 2024.

(20) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 2.1% of GDP in 2025. The increase of the deficit in 2025 mainly reflects a further increase in public investment planned by the government. The general government debt-to-GDP ratio is set to increase to 48.4% by the end of 2025.

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21 The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

22 This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (ii) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

(21) Returns from primary residence properties, pension wealth and investments held in closely held companies are taxed at favourable rates compared to income from investments in shares and bonds. Additionally, the tax on income from investments in shares and bonds is calculated based on assumed rather than actual returns. The preferential tax treatment of residential properties through mortgage interest deductibility coupled with low imputed rent tax fuels demand on the housing market, driving up prices. Additionally, pension savings enjoy tax relief up to comparatively high-income levels. As a result, household wealth in the Netherlands is highly concentrated in illiquid types of wealth, such as housing or pensions. This exposes households to greater economic risk during economic shocks and may not lead to an optimal consumption pattern over their lifetime in many cases. The unequal tax treatment within and across asset types also gives rise to tax arbitrage and can skew the efficient allocation of capital. As a result, this unequal treatment is relevant to addressing macroeconomic imbalances.

(22) In addition to the tax incentives mentioned above, overvaluation in the housing market has also been driven by a lack of supply of new dwellings. Removing obstacles that are currently holding back investments, including in residential construction, could allow the government to effectively advance its plans to increase housing supply and contribute to external rebalancing. As a result, removing such obstacles is relevant to addressing macroeconomic imbalances. At the same time, the private rental market is relatively small, which results in a limited supply of affordable and available alternatives to homeownership. The lack of affordable rental housing also undermines labour mobility and social cohesion.

(23) The Netherlands has a well-developed long-term care system. While expenditure on long-term care in the Netherlands is already the highest in the EU, costs are expected to increase substantially. In 2022, total long-term care expenditure in the Netherlands stood at 3.8% of GDP, the highest value in the EU by a wide margin. The 2024 Ageing Report projects that this figure will increase by 1.0 pps by 2040 and 1.9 pps by 2070. In addition, unit costs for the provision of institutional care in the Netherlands are among the highest in the EU, even when measured as a share of GDP per capita. This suggests that there is scope for improving the fiscal sustainability of long-term care by reducing inefficiencies in the system without compromising its high quality and coverage. An example of such inefficiencies is that municipalities, which are the providers of home care in the Netherlands, have incentives to shift responsibility for patients to the residential care sector instead of continuing to provide home- and community-based care to them as long as possible. In addition, inefficiencies in the long-term care system could be addressed, for example by using more digital and innovative solutions or investing in prevention to delay the onset of long-term care needs and the dependence on support for daily living activities.

(24) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost the Netherlands' long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for the Netherlands to significantly accelerate the implementation of reforms and, and in particular to ensure

the effective implementation of reforms that are related to country-specific recommendations. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(25) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, the Netherlands is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. The Netherlands has made progress in implementing cohesion policy and the European Pillar of Social Rights, but challenges remain. While regional differences in GDP per capita have remained stable and all regions rank well above the EU average in terms of competitiveness, the transition to a carbon-neutral economy affects regions with clusters of emission-intensive industries differently. It is important to accelerate cohesion policy implementation, and the priorities agreed in the programmes remain relevant. The objectives to support innovation related to the green and digital transition, as well as to support the green economy in the regions with industry clusters that are most affected by the climate transition, are still particularly important. Support to societal transitions in deprived urban areas in large cities remains relevant. Action is still needed to reduce social and labour market inequalities by investing in equal (employment) opportunities and combating discrimination. When carrying out the mid-term review of cohesion policy programmes, the potential for testing and piloting solutions to help reduce electricity grid congestion should be promoted as this will contribute to the Netherlands' green transition. The Netherlands could make use of the Strategic Technologies for Europe Platform initiative to support industry transformation and facilitate investments in net-zero technology manufacturing, including in upskilling and reskilling.

(26) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, the Netherlands faces several additional challenges related to labour market segmentation, labour and skills shortages, basic education, reliance on fossil fuels and excessive nitrogen deposits.

(27) The share of flexible employment (both workers on temporary contracts and the self-employed) in the labour market remains high in the Netherlands. This points to a persistent risk of labour market segmentation, with particularly distortive effects at the margins of the labour market. This can amplify inequality in opportunities and weigh on productivity. A certain degree of flexibility in the labour market can help improve the adaptability of the economy and may also better accommodate individual preferences. However, the excessive use of flexible types of employment can have negative effects on workers and the wider economy. For example, participation in training and lifelong learning is a challenge for those with flexible contract employment arrangements, which, in turn, reduces investment in skills and exacerbates the weakening of productivity. In cooperation with the social partners, the Dutch government has announced measures to address the differences between permanent and flexible work arrangements. These measures include abolishing zero--hours contracts, replacing 'on-call' contracts in their present form with a new type of contract providing more income security for workers, and improving the job security of temporary agency workers. Rapid progress in adopting and implementing these plans and effective enforcement will be important to ensure that the choice of a certain type of employment contract is driven by job-specific needs or the preferences of job

holders, while also improving the employment and social position of people in flexible employment and reducing labour market segmentation.

(28) Labour and skills shortages were already prevalent in the Dutch labour market before COVID-19, but have since become more widespread. Sectors such as ICT, healthcare, education, technical jobs, and jobs related to the green transition face structural shortages, which are expected to persist, partly due to demographic developments. Despite a high overall participation rate, the Netherlands still has an untapped pool of potential workers, such as people with a migrant background or those working in part--time employment. This underutilisation of part of the workforce, coupled with skills shortages, poses a risk to Dutch competitiveness and can hold back investments, including in the construction of new dwellings, which makes it relevant to the macroeconomic imbalances in the Netherlands. A comprehensive approach is needed to tackle these challenges, while also catering to sector-specific needs and barriers. To increase labour supply, people could be incentivised to work more hours, including through policy measures promoting quality of work and work-life balance. Furthermore, strengthening upskilling or reskilling opportunities via targeted and tailored measures, in particular for those at the margins of the labour market and the inactive, could help alleviate labour and skills shortages and improve social outcomes. Given the existing shortages of workers across sectors and the stagnating labour productivity, policy measures on the demand side could focus on promoting high value-added sectors as well as sectors related to societal challenges, such as education and healthcare, fostering cross-sector mobility and increasing productivity-enhancing and R&D investments.

(29) Despite the still relatively high, although decreasing, share of top-performing 15--year--old students, the 2022 Programme for International Student Assessment (PISA) results show a sharp increase in the number of underachievers in mathematics, science and reading skills. The decline varies substantially between different tracks in secondary education, with students in the lowest tracks – the various paths of pre-vocational secondary education (vmbo) – showing the greatest decline in test scores. Furthermore, students with a migration background (native-born students with parents born abroad and foreign-born students) underachieve almost twice as frequently as students with no migration background in mathematics and science, while the difference is somewhat smaller in reading. The deterioration of basic skills is one of the largest in the EU and undermines education and labour market outcomes as well as long-term productivity and competitiveness. Increasing teacher shortages can exacerbate challenges in the development of skills and the equity and quality of education. Therefore, the Netherlands could evaluate the existing measures addressing basic skills and review them as necessary, to increase their impact, especially for schools with a disadvantaged student population. Furthermore, the Netherlands could take measures to increase the permeability of its secondary school tracks and extend its incentives to attract more teachers to schools with a disadvantaged school population.

(30) Due to the progressively increasing congestion of the electricity grid, network operators are frequently forced to refuse grid access requests from new electricity producers and consumers. Grid congestion risks slowing down the clean energy transition and constrains economic activity, which makes it relevant to the macroeconomic imbalances in the Netherlands. Therefore, increasing the capacity and flexibility of the transmission and distribution grid is essential to ensure the security of electricity supply, speed up the deployment of both onshore and offshore renewable energy infrastructure, meet the electricity demand, and improve competitiveness. The

national energy system plan, adopted in December 2023, calls for investments in additional grid and storage capacity that must be implemented now. To facilitate the needed investments in the expansion of electricity infrastructure, faster permitting procedures for electricity transmission and distribution networks are crucial. This would also speed up the implementation of onshore and offshore renewable energy projects. Finally, as part of the framework conditions, there is room to address congestion through technical measures and regulations (e.g. tariff incentives or peak hour limitations).

(31) Intensive agricultural practices can cause excessive nitrogen deposition, with serious repercussions on soil health and on aquatic and marine ecosystems leading to deterioration of natural capital, while at the same time putting significant constraints on the permitting of nitrogen-emitting construction activity and the deployment of renewable-energy infrastructure. As a result, these practices are relevant to the macroeconomic imbalances in the Netherlands. Continuing support is needed to drive a transition to sustainable agriculture, including organic farming, while ensuring competitiveness and social fairness. In line with the CAP Strategic Plan of the Netherlands[23], the Netherlands would benefit from reducing livestock numbers, accelerating the transition to circular and organic agriculture, incentivising rewetting and taking carbon-rich soils out of production, and cutting the use of chemical pesticides and inorganic fertilisers. Furthermore, the position of farmers in the value chain could be improved, for example through the further development of EU quality signs, greater recognition of producer organisations, further digitalisation and innovation in agriculture, and increased availability of organic products for consumers. There is still scope to further increase investment in pollution prevention and control, and sustainable water management.

(32) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For the Netherlands, recommendations (1), (2), (3) and (4) help implement the first, second, third, fourth and fifth euro area recommendations.

(33) In light of the Commission's in-depth review and its conclusion on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1) below. Policies referred to in recommendation (1) help to address vulnerabilities linked to high private debt in a context of an overvalued housing market. Recommendation (1) contributes to both addressing imbalances and implementing the recommendation for the euro area, in line with recital 31.

HEREBY RECOMMENDS that the Netherlands take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[24] in 2025 to a rate consistent with maintaining the general government

[23] C(2022) 9800 final.

[24] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of

deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term. Align the taxation of different types of income from wealth, amongst others, to reduce the household debt bias. Remove obstacles to the construction of new dwellings, and ensure the affordability and availability of housing in the private rental market. Address the expected increase in age-related expenditure by making the long-term care system more cost-effective.

2. Significantly accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the agreed priorities and promote testing and piloting solutions to help reduce the congestion of the electricity grid, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Implement measures to reduce incentives to use flexible or temporary contracts. Address structural and sector-specific labour and skills shortages, including by tapping into underutilised labour potential, and by encouraging mobility to high--productivity sectors and sectors related to societal challenges. Improve basic skills, including by addressing teacher shortages and tailored support to disadvantaged schools.

4. Improve framework conditions to boost investment in the electricity transmission and distribution grids, in particular to accelerate the deployment of renewables and improve competitiveness. Take further efforts for sustainable agriculture.

Done at Brussels,

For the Council
The President

programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.