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**Assessment of the 2011 national reform programme and stability programme for
THE NETHERLANDS**

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

**on the National Reform Programme 2011 of the Netherlands and delivering a Council
Opinion on the updated stability programme of the Netherlands, 2011-2015**

{SEC(2011) 813 final}

1. INTRODUCTION

The Dutch economy was severely hit by the financial and economic crisis. The government intervened to counteract its effects on the real economy and took unprecedented action to stabilise the financial sector. The deep crisis caused a rapid deterioration in the countries' budgetary position. In the aftermath, one of the main priorities of the new government is to put in place a comprehensive exit strategy. The determination of the government to restore public finances to a healthy position through growth-friendly fiscal consolidation is confirmed in the National Reform Programme and the Stability Programme submitted to the Commission on 29 April 2011. These documents also reflect the short-term commitments presented by the Dutch government on 4 April 2011 under the Euro Plus Pact with the aim of improving the competitiveness of the Netherlands and contributing to a higher degree of convergence in the euro area.

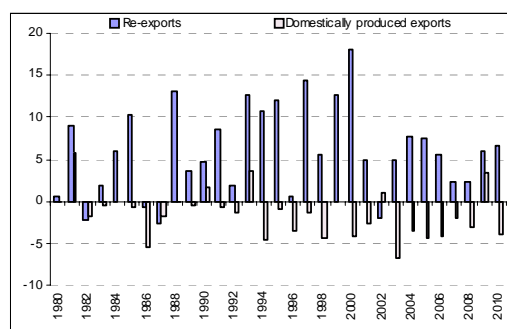
2. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 RECENT ECONOMIC DEVELOPMENTS

With a low and decreasing unemployment rate, a sizeable and stable external balance surplus, the general government budget in surplus, government debt well below the Treaty reference value, and sustained structural reforms to labour and product markets, the Netherlands seemed fairly well equipped to weather the financial and economic crisis. Yet as the crisis unfolded, GDP contracted by almost 4% in 2009 (see Table I in the annex). The Dutch economy was affected through three channels: falling external demand, instability in the financial sector due to exposure to troubled markets and a substantial decline in private consumption and investment due to lower disposable income and declining corporate profitability. On the positive side, developments in the labour market were less adverse than expected, given the large drop in output: unemployment only increased from 3.1% in 2008 to 4.5% in 2010.

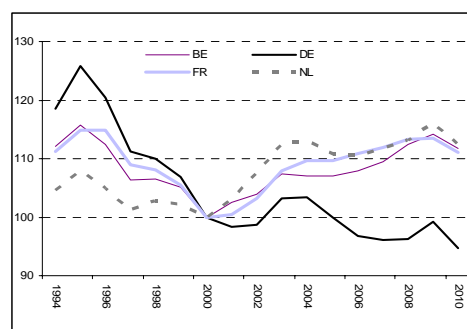
The Netherlands retained its current account surplus throughout the crisis. Savings clearly outweigh investment at a national level, largely due to the strong net lending of the corporate sector (over 7% of GDP on average over the last decade), mirroring relatively low domestic corporate investment with a high savings rate compared to the euro area average. Households on average have a broadly balanced net lending/borrowing position, with savings matching investment. The strong trade balance, which has been consistently in surplus for the last two decades, was a key factor driving the current account, supported by positive net gas exports and re-exports (which accounted for no less than 44% of total exports of goods in 2009). The importance of re-exports reflects the country's strategic geographical position as a major transit country, especially vis-à-vis Germany. By contrast, domestically produced exports have been performing more weakly than re-exports (Figure 1). This partly reflects relatively fast increases in unit labour costs (ULC), especially compared to the main trading partner, Germany (Figure 2).

Figure 1: Relative performance of domestically produced exports and of re-exports to growth in relevant world trade



Source: The Netherlands Bureau for Economic Policy Analysis (CPB)

Figure 2: Relative cost indicators, based on unit labour costs in total economy



Source: Commission services

As regards the financial sector, at the start of the crisis the Netherlands had the highest foreign claims as a percentage of GDP among EU Member States. Following government intervention at the end of 2008 (including enhancing the deposit guarantee scheme, introducing a credit guarantee scheme and supporting the recapitalisation of financial institutions), the conditions for ensuring the proper functioning of the financial system were strengthened. The financial soundness of banks has improved since, as shown both by higher capital adequacy ratios, which are well above the current minimum requirements, and by a rebound in profitability in 2010 as evidenced by the return on equity. Government operations to support financial institutions and stabilise the financial markets entailed an increase in the government debt ratio by 15pps of GDP, with the debt ratio reaching 60.8% of GDP in 2009. The budgetary position also deteriorated strongly, as the general government balance saw a deficit of 5.5% of GDP in 2009 and 5.4% in 2010. Finally, the Dutch housing market was mildly affected by the crisis, as evidenced by a drop in nominal house prices by 3.3% in 2009 and 2% in 2010.

2.2 OUTLOOK

The recovery started in the second half of 2009, led by a pick-up in external demand, and gained momentum in the first half of 2010. In 2010 as a whole, real GDP expanded by 1.8%. The outlook for 2011 and 2012 points to similar moderate rates of economic growth, assuming a slowdown in external demand, combined with a restrictive fiscal policy stance starting in 2011. On the back of this moderate rebound in economic activity and the planned fiscal consolidation, the general government deficit is expected to fall to 3.7% of GDP in 2011 and drop further to 2.3% of GDP in 2012. Gross government debt is forecast to stabilise at 64% of GDP in both 2011 and 2012. In the short-term, the consolidation is expected to have a non-negligible negative impact on government and private consumption and investment. Unemployment is set to decrease very gradually over the next two years. The moderate growth outlook for the Dutch economy is expected to translate into continued slack, keeping core inflation at relatively low levels in the next two years. Driven by the surge recorded in recent months, energy and food prices would significantly contribute to headline inflation in 2011. For 2012, it is expected that core

inflation is expected to increase only slightly, with the effect of oil and food price increases fading out.

The Commission expects potential growth, which averaged 2.7% over the period 1991-2008, to halve to around 1.5% over the coming decade. This is mainly due to the fact that the previously positive contribution of labour is expected to turn negative because of the decrease in the population of working age.

3. MONITORING, PROCEDURAL ISSUES AND GOVERNANCE

The Netherlands submitted its 2011 Stability Programme update covering the period 2010-2014 as well as its 2011 National Reform Programme on 29 April 2011 and notified their Euro Plus Pact commitments in a letter of 4 April 2011 to President van Rompuy (see box 1).

The Dutch government has ensured close coherence between its National Reform Programme, its Stability Programme and its Euro Plus Pact commitments, outlining in an integrated manner the rigorous fiscal consolidation efforts and structural reforms as well as reforms to underpin macro-economic stabilisation. The National Reform Programme reflects the short-term priorities of the Dutch Government including their Euro Plus Pact commitments and also sets out a more long-term development trajectory for the Dutch economy putting the imminent reform priorities within a wider context. The longer term development strategy is underpinned by the national 2020 targets defined by the Dutch Government (see Table 1). The NRP does not contain a national target for energy efficiency as envisaged under the Europe2020 framework. The lack of a quantitative target for this domain makes it difficult to assess the reforms, in particular whether policy efforts are adequate and whether the speed of their implementation is sufficient.

In April, the Dutch Government submitted the National Reform Programme to the parliament, after which there was a debate between the Minister of Economic Affairs, Agriculture & Innovation and a parliamentary committee. The NRP refers to the consultation of social partners and local and regional governments. The government recognises that these partners will have to make an important contribution to achieving the Europe 2020 objectives. In the final chapters, the NRP refers to the attached contributions by local authorities and social partners and concludes that further negotiations are needed to fine-tune the proposed measures.

Table 1. Dutch Europe 2020 targets

Europe 2020 targets	Current situation in The Netherlands ¹	Dutch Europe 2020 target in the NRP
R&D investment (% of GDP)	1,84% (2009)	2,5%
Employment rate (%)	76,8% (2010)	80%
Early school leaving (%)	10,9% (2009)	< 8%
Tertiary education attainment (%)	40,5% (2009)	>40% 45% expected in 2020.
Reduction of number of people in or at risk of poverty or exclusion	2.5 million people at risk of poverty or exclusion 1.08 million (8.3%) people	- 100.000 (fewer people aged 0 to 64 in a jobless household)

¹ Eurostat figures

	living in households with zero or very low work intensity (2009)	
Energy efficiency – reduction of energy consumption in MToe ²	-	No target in NRP
Reduction in greenhouse gas emissions (from sources not covered by the Emission Trading System)	2% ³	- 16% ⁴
Renewable energy (% of total energy use)	-	14% of energy from renewable sources

Box 1. Overview of the measures presented by the Netherlands under the Euro Plus Pact

The following detailed commitments were announced by the Netherlands on 4 April 2011 in the form of a letter from the Prime Minister to President van Rompuy and are integrated within the coalition agreement, the stability programme and the national reform programme.

1. Fostering competitiveness

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, such as water, life sciences and chemicals.

2. Fostering employment

Reforms of existing benefit schemes targetting relatively low-paid segments of the labour market in order to enhance the capacity of the social security system to foster activation policy and reduce benefit dependence.

3. Contributing further to the sustainability of public finances

The introduction of legislation anchoring the rules of the Stability and Growth Pact into Dutch law. In addition to respecting European agreements, the new Act would also meet the wish of the Dutch Parliament's to enshrine budgetary rules in law.

4. Reinforcing financial stability

The introduction of legislation to provide more scope for interventions regarding financial institutions. The bill will add two new categories of powers to the existing range of intervention measures, allowing the deposits, assets, liabilities, or shares of a financial institution in difficulties to be transferred to another institution or legal person. The first category is designed to wind up banks and insurers if they face insuperable problems, while the second category provides for ways of safeguarding the stability of the financial system.

The measures broadly correspond to the macroeconomic bottlenecks identified by ECOFIN in June 2010 in the context of the Europe 2020 Strategy (see box 1 in the annex).

² As estimated by the Commission. Mtoe = Million tonnes of oil equivalent.

³ This quantity corresponds to the 2005-2008 evolution of the emissions not covered by the EU Emissions Trading System. As the scope of the Emissions Trading System evolved between 2005 and 2008, these emissions are estimated on the basis of the main relevant UNFCCC source categories (as opposed to the difference between total emissions and EU ETS verified emissions).

⁴ The national emissions limitation target set in Decision 2009/406/EC (or "Effort Sharing Decision") concerns emissions not covered by the EU Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

4. POLICY CHALLENGES AND ASSESSMENT OF POLICY AGENDA

4.1. CHALLENGES

In the aftermath of the financial and economic crisis, the Netherlands faces lower confidence in the financial sector and a government deficit and debt above the reference values in the Treaty, in 2010 at 5.4% and 62.7% of GDP respectively. In parallel, the crisis also aggravated already existing concerns, such as the sustainability of public finances. Even before the crisis, the Netherlands was confronted with a rapidly ageing society and lower fertility rates.

In the area of public finances, the two main challenges are i) implementing a rigorous fiscal consolidation in the short term, and correcting the excessive deficit by 2013, and ii) improving the long-term sustainability of public finances, as the Netherlands is considered to be among the countries at high risk in this respect.

Regarding the financial sector, although the financial soundness of banks has improved since the crisis, the challenge will be to ensure a well functioning and stable financial sector capable of meeting the financial intermediation needs of the real economy.

The main issue for the Dutch labour market will be to increase the utilisation of untapped labour potential, in particular with a view offsetting the expected decrease in the working-age population as a result of ageing. This specifically applies to increasing the number of hours worked by second-income earners and integrating vulnerable groups into the labour markets.

A major challenge with respect to growth-enhancing macroeconomic policies is the promotion of the Dutch economy's innovation capacity by supporting investment in and orientation towards high added-value production and services. In addition, the high congestion costs in road and rail transport are having an adverse impact on labour mobility and productivity.

The 2020 targets (see Table 1) set by the Netherlands in the national reform programme, lay the ground for addressing these challenges and will be instrumental in the Netherlands becoming a smart, sustainable and inclusive economy.

4.2. ASSESSMENT OF THE POLICY AGENDA

4.2.1. Macroeconomic policies

4.2.1.1. Public finances

The Stability Programme presents two alternative scenarios, one based on a slowdown in world trade and one on a higher oil price. The reference scenario, however, is the only one that is fully developed, as, in contrast to the alternative scenarios, it covers the full programme period and provides data for all variables required. Hence, the reference scenario is used for the assessment.

Real GDP growth figures in the programme for 2011 (1.75%) and 2012 (1.5%) are slightly lower than the figures in the Commission services' spring 2011 forecast, which stand at 1.9% and 1.7% for 2011 and 2012 respectively (see Table II in the annex). The projections take into account planned consolidation measures and are sufficiently justified. With regard to the components of economic growth, the assumed gradual shift from net exports towards final domestic demand is in line with

the Commission services' 2011 spring forecast, as is private consumption growth of 0.75% in 2011 and 1% in 2012 as against 0.8% and 1.1% in the spring forecast.

Labour market developments are also broadly in line with the spring forecast, although compensation of employees is somewhat higher in the programme for 2012. Inflation is expected to remain stable over the entire programme horizon at 2%, which is slightly below the inflation forecast of 2.2% in 2011 and 2.1% in 2012 in the spring forecast. For the years after 2012, the programme foresees economic growth of 1.25%. Throughout the programme period, the output gap as recalculated by the Commission services based on the information in the programme, and following the commonly agreed methodology, is expected to be negative. However, it is projected to have almost closed at the end of the programme period (-0.2% in 2015). The decreasing output gap reflects real GDP growth outperforming potential growth over the entire programme horizon. The calculated potential output based on the programme is almost a 0.5 pp lower compared to the Commission services' spring 2011 forecast, on account of a lower contribution from total factor productivity.

Overall, the macroeconomic assumptions used in the baseline scenario of the programme appear to be plausible.

In 2010, the general government balance stabilised at a deficit of 5.4% of GDP (5.5% of GDP in 2009) (see Table III in the annex). The stabilisation, despite a pick up in economic growth, was mainly the result of the lagged effects of the financial and economic crisis, due to a rising unemployment rate (increasing social transfers). However, the 2010 outcome is substantially better than the deficit of 6.1% of GDP targeted in the January 2010 update of the Stability Programme, mainly as a result of higher than expected fiscal revenues in 2010.

For 2011, the Commission services' spring forecast foresees a deficit of 3.7% of GDP, substantially better than the 5.0% of GDP target in the January 2010 update of the Stability Programme. This reflects cyclical conditions and a more favourable starting point in 2010 as well as the (partial) withdrawal of the stimulus package (amounting to approximately 0.5% of GDP), additional consolidation measures adopted in October 2010 by the incoming government (also around 0.5% of GDP) and the better than expected outcome in 2010.

The consolidation of public finances is the main goal of the programme's medium-term budgetary strategy. According to the programme, the total consolidation effort will amount to around EUR 18 billion in nominal terms by the end of the programme period (2011-2015), which translates into EUR 24.8 billion (nearly 4% of GDP) in terms of structural savings. The budgetary strategy is fully underpinned by specified measures up to 2015. The authorities aim to bring the general government deficit below the 3% reference value in 2012, which would be one year before the deadline set by the excessive deficit procedure (see box 1 in the annex). After the correction of the excessive deficit, the aim is to reach the Medium Term Objective (MTO) of a structural deficit of at most 0.5% of GDP by 2015. However, in the January 2010 update of the Stability Programme the MTO was not expected to be reached within the programme period. The fiscal targets in the 2011 update of the stability programme have substantially improved and are more credible compared to the January 2010 update of the Stability Programme, reflecting consolidation measures implemented and specified in more detail. The adjustment will be frontloaded as the biggest budget adjustment is expected to take place in 2011 and 2012. The programme envisages no significant one-off measures over the period covered.

For 2011, fiscal policy shifts from stimulating the economy to consolidating government finances, as the stimulus packages for 2009 and 2010 (0.5% of GDP) are being withdrawn. In September 2010, the previous (caretaker) government presented the Budget Memorandum 2011 containing a multi-annual package with deficit reducing measures to be phased-in over the coming years entailing an improvement of EUR 1.4 billion (0.3% of GDP) in 2011. The incoming government, which took office in October 2010, then added additional fiscal consolidation measures to the Budget Memorandum 2011. For 2011, these amount to a net expenditure reduction of EUR 1.0 billion (0.2% of GDP). The main measures on the expenditure side concern wage moderation in the public sector and international cooperation (phasing in of the reduction in average annual expenditure on cooperation from 0.8% of GNP to 0.7% of GNP) (see box 2). These expenditure cuts are partly offset by spending increases, particularly in the area of security. On balance the consolidation amounts to approximately 0.5% of GDP in 2011. Consequently, the programme expects the general government balance for 2011 to improve further to a deficit of 2.2% of GDP, in line with the projected 2.3% of GDP deficit in the Commission services' spring 2011 forecast.

In 2012, budgetary consolidation would continue, mainly on the expenditure side and largely due to an improvement in the balance of the central government. The main consolidation measures on the expenditure side concern reductions in the government wage bill (e.g. fewer civil servants in combination with a wage moderation in the public sector) and savings in outlays on international cooperation and income transfers, in particular healthcare and childcare benefits. Some increases in expenditure on long-term healthcare and security (police) are also planned. On balance, the consolidation amounts to approximately 0.5% of GDP in 2012.

For the remainder of the programme period, additional consolidation is envisaged amounting to 0.75% of GDP, 0.5% of GDP and 0.5% of GDP in 2013, 2014 and 2015 respectively, mainly following from the growing budgetary impact of the measures taken in 2011 and 2012. According to the programme, the general government balance will improve gradually from -1.8% of GDP in 2013 to -1.4% of GDP in 2014 and -0.9% of GDP in 2015.

The main risk to the general government balance in the coming years is on the expenditure side, where it might prove difficult to offset spending overruns in the health care sector. In addition, there is also a risk of the budgetary targets not being achieved in the later years, as the planned adjustment also relies on a continued improvement in the fiscal balance of local governments. These are difficult to monitor and, given the lower funding from the central government in combination with an extension of their responsibilities, there may be difficulties in realising the consolidation. On the other hand, the targets for the later years (2013-2015) of the programme seem to be on the cautious side, as they correspond to the targets resulting from the budgetary impact of the measures set out in the financial paragraph of the coalition agreement of the new government. The better budgetary outcome of 2010 and the better budgetary projections for 2011 and 2012 in the Stability Programme, do not seem to be taken into account in the budgetary targets of the last years of the programme period (2013-2015). The track record of the Netherlands on budgetary consolidation is good, reducing risks at the current juncture. The excessive deficit in 2004 was corrected within one year, one year ahead of the deadline established by the Council. Furthermore, if budgetary targets are missed, this usually happens in

downturns, as was the case in 2009. During times of economic recovery, targets have almost always been exceeded.

The planned fiscal policy effort as measured by the change in the structural balance is on average 0.75% of GDP over the period 2011-2013. For the years following the deadline for correcting the excessive deficit (2014 and 2015), the recalculated structural balance improves by 0.25% of GDP in 2014 and 0.5% of GDP in 2015, thus slightly falling short of the required 0.5 pp. improvement of the structural balance until the MTO is reached. According to the programme, the MTO (a structural deficit of 0.5% of GDP) will almost be achieved by the end of the programme period, as the structural balance, recalculated by the Commission services following the agreed methodology, should be -0.8% of GDP in 2015. When assessed against the projected rate of medium-term potential output, expenditure projections seem to ensure an appropriate adjustment path towards the MTO, except for 2015, where there is a positive deviation from the reference rate for medium-term economic growth of around 0.5 pp.

Box 2. Main budgetary measures ¹	
Revenue	Expenditure
2011	
<ul style="list-style-type: none"> Increase in the insurance tax (0.05% of GDP) 	<ul style="list-style-type: none"> <i>Smaller government:</i> 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) 	<ul style="list-style-type: none"> Health care benefits (-0.1% of GDP) Primary education (-0.1% of GDP)
2014	
<ul style="list-style-type: none"> Stimulating movement in the rental housing sector (0.1% of GDP) 	<ul style="list-style-type: none"> <i>Smaller government:</i> Savings at central government, autonomous administrative authorities and agencies (-0.1% of GDP) Health care benefits (-0.1% of GDP)
2015	
<ul style="list-style-type: none"> Impact of cutbacks in curative care (as they lead to a reduction in healthcare insurance premiums) (0.2% of GDP) 	<ul style="list-style-type: none"> Removing insured services (medical care, medicines and mental health care) to treat conditions with a low impact on health from the basic insurance package (-0.2% of GDP) <i>Smaller government:</i> Savings at central government, autonomous administrative authorities and agencies (-0.1% of GDP)

¹For a more detailed breakdown of individual policy measures and their budgetary impact over the programme period, see the annex to the stability programme.

In 2008, general government gross debt increased sharply to 58.2% of GDP despite a budget surplus of 0.6% of GDP. This increase was caused by government operations to stabilise the financial markets, leading to a massive stock-flow adjustment of around 15% of GDP. In 2009, the general government gross debt breached the 60% reference value to reach 60.8% of GDP. In 2010, the debt ratio further increased to 62.7% of GDP (see Table IV in the annex).

According to the programme, the debt-to-GDP ratio is expected to further increase to 64.5% and 64.9% in 2011 and 2012 respectively before reversing to approach 63% of GDP in 2015. This is broadly in line with the Commission services' spring forecast which forecast debt ratios of 63.9% of GDP in 2011 and 64.0% of GDP in 2012. Debt will increase owing to the assistance loans to Ireland and Greece in 2011 and 2012 being recorded in the accounts, but will be reduced by the repayment of loans made earlier to domestic financial institutions. There are both upside and downside risks to the development of general government gross debt. On the upside, earlier than scheduled repayments of government support by financial institutions could lower the debt ratio. On the downside, sizeable guarantees to the financial sector could, if activated, further increase the debt ratio.

The current budgetary position compounds the cost of ageing. Based on the current fiscal position, debt would increase to 95.7% of GDP by 2020 (see graph 1 in the annex). However, the full implementation of the programme would be enough to bring debt slightly down by 2020 (see Table IV in the annex).

The Netherlands are classified at high risk with regard to the long-term sustainability of public finances. The long-term cost of ageing is clearly above the EU average, due to relatively high expected increases in both pension and long-term care expenditure. The expected increase in long-term care expenditure is by far the highest in Europe⁵. The main reason for this is the existence of an already comprehensive system of formal long-term care (e.g. public long term insurance covering personal care, nursing, assistance, treatment and stay in an institution) while informal care plays a more limited role in the Netherlands. Furthermore, pension expenditure is increasing strongly. Ensuring sufficient primary surpluses over the medium term together with structural reforms in pensions and health care to curb the projected increase in age-related expenditure would contribute to reducing sustainability risks.

The Dutch medium-term budgetary framework (MTBF), introduced in 1994, has regularly been assessed as one of the most developed examples of such frameworks. The government will continue to base the fiscal framework on the trend based budgetary framework. Some changes to the budgetary rules are described in the Stability Programme and are introduced with a view to ensure budgetary consolidation. While these changes reinforce the credibility of budgetary commitments, the ability to conduct discretionary policy when deemed necessary, is somewhat limited. Furthermore, in line with the Euro Plus Pact, the government is preparing new legislation to anchor the rules of the Stability and Growth Pact in Dutch law. Alongside the agreements at European level, the new bill will also meet the Dutch parliament's wish for budgetary rules to be enshrined in law.

4.2.1.2. Financial sector

Dutch banks are still exposed to external risks stemming from activities in volatile foreign markets. In addition, banks face risks related to high household indebtedness, although there are important mitigating factors in this respect (see box 3).

⁵ See Table 1 (p. 26) of the Commission services' 2009 Ageing Report

Box 3. Household indebtedness

The private gross debt of Dutch households is one of the highest in the euro-area, standing at 130% of GDP in 2009. The debt is for a large part in the form of mortgage loans, partly because of the Dutch tax system, which allows virtually full tax deductibility of mortgage interest payments at the marginal tax rate⁶. Consequently, paying off mortgages is postponed until maturity (normally 30 years) and in general homes are fully financed by borrowed capital. This latter point is evidenced by the loan-to-value ratio for new mortgages (exceeding 110%). Furthermore, in recent years Dutch households have become increasingly vulnerable to developments on the financial markets as they have chosen to fix the interest rate for their mortgage for a relatively shorter term (see Figure 3).

Figure 3: Interest rates fixation

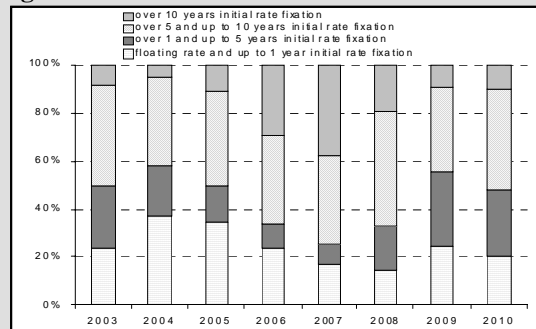
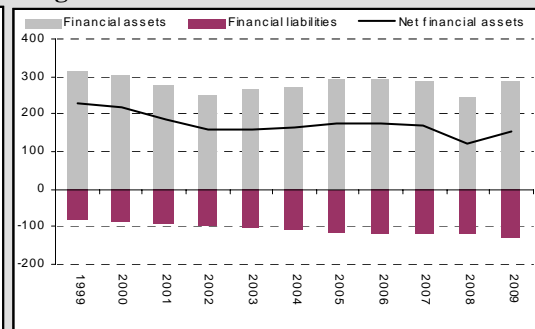


Figure 4: Financial assets and liabilities



However, the high private debt of Dutch households is more than offset by their financial assets (see Figure 4). Financial balance sheets for 2009 shows that households' gross financial wealth is around 280% of GDP and mainly consists of insurance technical reserves (totalling 170% of GDP), shares and other equities (around 35% of GDP) and currency and deposits (67% of GDP). The high share of financial assets in the form of insurance and technical reserves indicates that to a large extent they are not readily accessible if needed. Nevertheless, as the net financial position of Dutch households amounts to over 150% of GDP, financial assets clearly outweigh the liabilities, mitigating risks. In addition, non financial assets (in the form of housing wealth) are of a similar size as the financial assets, further limiting the risk stemming from the relatively large household gross debt. Furthermore, Dutch banks (*Nederlandse Vereniging van Banken*) have recently adopted a code of conduct for mortgage lending with tightened criteria. Finally, non-performing loans as a share of total loans are relatively low in international comparison.

Dutch pension funds suffered from financial market developments during the crisis. Average coverage ratios⁷ dropped rapidly from 150% before the crisis (slightly above the ratio of around 145% needed to fully index future pension obligations) to below 100% in 2008 reflecting the decline in stock markets and the fall in real long-term interest rates. Although coverage ratios subsequently recovered to around 105%, the

6 Mortgage interest deductibility creates a number of additional distortions. In addition to the impact on public finances (estimated in the order of 2% of GDP), this fiscal incentive leads to welfare losses, including a misallocation of savings and higher consumption/investment in housing goods and services. .

7 A figure used to calculate the solvency and ability of a pension fund to meet its liabilities. A ratio above 100 per cent indicates that the fund is in good health and capable of meeting its payments or liabilities, while a ratio of less than 100 per cent means the fund is in danger of being unable to pay its members.

crisis exposed the sensitivity of Dutch pension funds to financial market developments. Furthermore, the coverage ratios of pension funds are under pressure due to longer life expectancy.

The National Reform Programme notes that since the start of the financial crisis several steps have been taken to reform financial regulations, both nationally and internationally. These include the increased capital and liquidity requirements required by the Basel Committee, the change of the performance pay in the Dutch financial sector, the preparation of a legal crisis instrument and the G20 package. These are currently being translated into concrete plans. With respect to the Dutch government's exit strategy from the financial sector, which has received significant state aid also in the form of recapitalisation, the National Reform Programme notes that it is based on the principle that capital investments made should be recouped. According to the National Reform Programme, the government is determined to withdraw from the financial sector and will make the necessary preparations. The final decision will depend on market conditions, the expected return and the stability of the financial sector. Currently several institutions have already paid back part of the capital support and made plans to further pay back the capital support over the coming years.

However, as some parts of the financial system remain fragile, fully withdrawing from the crisis support measures requires a careful balance between safeguarding macro-financial stability and preserving fiscal policy credibility. Furthermore, a recent study by De Nederlandsche Bank⁸ reveals that although the average capital ratio of major banks meets the new minimum requirement of 4.5% to be attained by 1 January 2015 under Basel III standards, it still falls short of the additional capital conservation buffer of 2.5%.

4.2.2. Labour market policies

Labour Supply

The Dutch labour market is characterised by relatively high participation rates, high productivity per hour worked and low unemployment. The overall participation rate is close to 80%, above the EU average. In 2010, the unemployment rate stood at only 4.5%, one of the lowest in the EU, despite having increased in the wake of the economic crisis. However, the low unemployment rate masks the existence of significant unused labour potential, as the average amount of hours worked per person is among the lowest in the EU (see Figure 5), which is related to part-time work, since it is widespread, especially but not only among women. The female employment rate is over 70%, above the EU average, but if employment rates (overall and by gender and age cohort) are calculated in full-time equivalents (FTE), the Netherlands becomes an average performer in the EU. Given the high incidence of part-time work among women, the Netherlands female employment rate is below the EU average.

The low number of hours worked, especially by women, partly results from financial disincentives for either entering the labour market or extending the hours worked. The cost of outsourcing childcare and domestic work is obviously taken into consideration in such a decision, as is the existence of fiscal measures that reduce the net wages of second-income earners.

⁸ Press release 4 May, see: <http://www.dnb.nl/en/news/news-and-archive/persberichten-2011/dnb251625.jsp>.

Currently, one of the main disincentives to work in the Netherlands is the high marginal tax rate on second incomes, which can in some cases turn out to be above 80% as a result of e.g. the general tax credit and losing income dependent credits such as childcare and rent subsidies. The general tax credit is considered to be one of the main financial disincentives for dependent partners to participate in the labour market or increase the number of hours worked⁹. As from 2009, it is being gradually phased out and is scheduled to be fully eliminated in 2024.

The elderly are a second important group, whose labour potential is underused. Although the employment rate of people aged 55-64 has increased significantly in the past decade, once older workers enter the 60-64 age group, a relatively high number exits the labour market (see Figure 6), which can be partly due to the long duration and high level of unemployment benefits. Currently, the duration of unemployment benefits is from a minimum of 3 months up to a maximum of 38 months, depending on the number of years worked. In the first two months, the benefit amounts to 75% of the wage earned before unemployment, decreasing to 70% for the remaining months¹⁰. Shortening the period during which unemployment benefits can be received or lowering the amount of the benefit could increase incentives for the unemployed to seek a job.

Finally, there is a large and increasing heterogeneous group of partly disabled, long-term unemployed and people with a migrant background facing an increasing risk of structural unemployment. For this group, 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 amplifying the persistent employment and unemployment gaps¹¹. Besides the issue of unused labour potential discussed above, a number of rigidities exist in the labour market, such as relatively strict employment protection legislation (for workers with permanent contracts), which negatively affect labour mobility and therefore labour matching.

The expected impact of the individual employment measures is not covered in the National Reform Programme. According to the Stability Programme and the National Reform Programme, the policies envisaged by the government would lead to a net increase of 1.1 pp in employment in the long-term (2040), mainly as a result of fiscal measures and measures addressing the educational system. However, in the short to medium term (2011-2015) the overall impact of all the measures taken by the government is expected to (slightly) negatively affect employment and the labour supply, mainly since a large part of the consolidation aims to reduce the size of government¹².

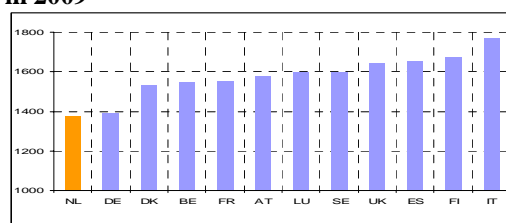
⁹ A person working in the Netherlands will receive a tax credit amounting to EUR 2000 if he or she is earning more than EUR 6265. The non-working partner (or a partner earning less than EUR 6265) could also receive this tax credit depending on his/her income, which could be seen as a transferability of the tax credit. If the non-working partner were to enter the labour force, he/she would immediately face a marginal tax rate of 33%.

¹⁰ The maximum benefit is capped by a gross day salary of EUR 188,88 as of 1 January 2011.

¹¹ In 2010, the unemployment rate of persons with a migrant background was 9.6%, around twice as high compared to the native unemployment rate of 4.5%.

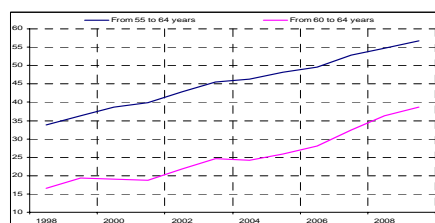
¹² See CPB document 2010/213.

Figure 5: Average hours worked per person in 2009



Source: OECD (2011), Productivity database

Figure 6: Activity rates



Source: Eurostat

The National Reform Programme states the ambition to increase labour participation to 80%¹³ in 2020 especially in view of an ageing population. One of the main measures to increase incentives to work is reforming and merging the Young Disabled Persons Act (Wajong), the Work and Social Assistance Act (WWB) and the Sheltered Employment Act (WSW), with the aim of increasing labour participation. However, there is no indication as to the effectiveness of this reform approach especially in the case of low-skilled people.

As for the general tax credit, the eligibility criteria will be tightened by eliminating some exceptions to the phasing out¹⁴. Although this is a step in the right direction, a faster phasing out targeting 2024 for full elimination of the credit would help offset the impact of ageing.

The government plans to implement budget cuts in childcare. The old arrangements for child care were very successful but quite expensive. Furthermore, formal child care is characterised by limited opening hours which are very difficult to combine with working hours. Even though the effect of the measures on participation of women remains to be seen, the expectation is that they will start working less hours when child care becomes more expensive.

Furthermore, with a view to increasing labour participation on a longer-term basis, the programme confirms the government's intention to improve the mobility and employability of the labour force, e.g. through promoting tele-working and education. The NRP aims to strengthen the orientation of education towards entrepreneurship and labour market needs by establishing closer collaboration with business. Concretely, it is calling on vocational education institutions to achieve a better match with labour market needs. Entrepreneurs will be involved in the assessment of the relevance of education programmes.

Education

The Netherlands performs well in education, across all levels of schooling. The percentage of early school-leavers has fallen from 15.5% (2000) to 10.9% (2009) and is below the European average of 14.4%. Tertiary attainment of the population aged 30-34 has risen significantly in the last decade from 26.5% (2000) to 40.5% (2009) exceeding both the current European average of 32.2% and the 2020 European target. By 2020, the tertiary attainment rate is projected to reach 45%. Rather than further increasing participation in tertiary education, the government intends to shift the policy focus to quality.

¹³ Based on the national definition.

¹⁴ At present, breadwinner families with young children (up to 5 years old) and families with a non-working partner born before 1 January 1972 can transfer the general tax allowance in full. This will be restricted over 13 years: the exception for families with young children will be abolished in full. The age limit for non-working partners will be changed to 1 January 1963.

According to the NRP, the government's education policy focuses on creating the right conditions to improve the system's performance. Regarding early school leaving, the measures focus primarily on prevention i.e. making sure that young people do not leave education without basic qualifications, although there are no specific measures for the hard-to-reach groups and those who have already dropped out of school. In tertiary education, a high participation rate is accompanied by high drop-out rates with the likelihood of graduation falling below 70%. In addition, institutions need to address the growing challenge of combining an ever increasing number of students with academic excellence. The measures set out in the NRP include the introduction of a new funding mechanism in tertiary education based on specialisation and the encouragement of excellence. While the government intends to invest up to EUR 300 million between 2011 and 2016 in intensifying teaching in tertiary education, it remains to be seen if higher education institutions can indeed deliver the quality in the light of rising student numbers.

Poverty and Social Exclusion

In 2009, 15.1% of the population was at risk of poverty or exclusion in the Netherlands (as against 23.1% in the EU). The Dutch social protection system has so far been successful in guaranteeing low levels of poverty and social exclusion. However, 8.3% of children and working-age adults live in jobless households (i.e. with zero or very low work intensity).

The guiding principle of the Dutch government on poverty is that work is the best remedy. In line with this approach, the Dutch government has set a poverty target linked to labour market participation: to reduce the number of people (aged 0-64) in jobless households by 100.000 persons in 2020. Given the projections for the labour market participation rate and the expected tightness of the Dutch labour market, reaching the target seems plausible. While there is a clear link between inclusion and employment since in-work poverty in the Netherlands is relatively low, attention needs to be paid to ensuring that getting people back to work will also help them out of poverty.

4.2.3. Growth enhancing structural measures

The contribution of capital accumulation is a final driver of economic growth potential. There is no evidence as to whether the persistent external balance surplus over the past decades (averaging around 5.5% of GDP) results from an internal imbalance of either 'excessive' saving or low investment or is instead related to structural characteristics of the Dutch economy (such as an ageing population in combination with a large quasi-mandatory second-pillar pension scheme and the importance of re-exports). As the demographic structure in the Netherlands further moves towards that of a society with ever older workers, this can be expected to increase savings temporarily. When this old age cohort goes into retirement, however, this is expected to negatively impact savings and thus the external balance¹⁵. Given the relatively low level of corporate investment in the Netherlands, there might nonetheless be scope for increasing domestic demand through higher private investment, thereby boosting economic growth. Considering the Dutch export performance, one could argue that the Dutch economy has been negatively affected

¹⁵ According to the life cycle hypothesis consumers are expected to be dissaving in their childhood, increasingly save over their working life (as the consumer is likely to have an increasing income path) and to dissave when retired.

by developments in competitiveness (see above); even though the external balance and export market share have remained relatively stable.

Research and Innovation

A major driver of an economy's growth potential is total factor productivity (TFP) growth, which can be taken as a measure of its technological dynamism. The contribution of TFP to potential output growth is twice as high in the Netherlands compared to the euro area average. But according to the latest Eurostat data, R&D intensity in the Netherlands was only 1.84% in 2009, below the euro-area and EU average (2%), mainly due to low private R&D investment. Overall private R&D and innovation expenditures is relatively low compared to other EU Member States, despite a generous level of public R&D expenditure with a high efficiency and effectiveness of spending (as reflected by the number and impact of scientific publications and patents). The National Reform Programme mentions a national target of 2.5% of GDP as R&D expenditure in 2020 in view of the sector structure.

According to the Innovation Union Scoreboard 2010¹⁶, the Netherlands is an 'innovation follower' with above-average performance. The Innovation Union Scoreboard observed high growth in non-R&D innovation expenditure. Firms are still clearly less innovative than the EU average, indicating that the opportunities offered by newly developed knowledge are not fully utilised. The share of science and technology graduates is below the EU average, which raises the question of how the Netherlands can ensure a sufficiently highly skilled young human resources base to keep an innovation-based economy running.

The government aims to create an attractive climate for R&I intensive firms, including firms from abroad, in terms of fiscal incentives, learning culture and excellence of research. Due to the need for budgetary consolidation this year, however, financial cuts could remove some of the subsidies for companies. Subsidies to strengthen the position of entrepreneurs and businesses will be streamlined and targeted towards 'top economic areas' and shifted to more generic tax instruments. Given that the Fonds Economische Structuurversterking (FES) will no longer be available for knowledge and innovation purposes, this could reduce long term investments in research infrastructures.

Although the Dutch research and innovation system has managed to maintain its innovative capacity, the underperformance of the Netherlands in R&D may negatively affect future economic growth and the competitiveness of the Dutch economy, to an extent not offset by technology transfer. The ability to stimulate R&D and exploit and disseminate the acquired knowledge is essential for growth in innovation-driven economies. The Dutch economy and R&I system could benefit from providing the right incentives for the creation and development of new science and technology-based companies spinning out of large enterprises or spinning off from research laboratories.

The Business Environment

The business environment and the labour market are negatively affected by the high congestion levels in large parts of the road and rail transport networks. This relationship between road congestion and economic growth has become stronger in recent years, presumably because road capacity is fully used for an increasing part of the main road network for an increasing part of the day. The Netherlands has the

¹⁶ <http://www.proinno-europe.eu/inno-metrics/page/innovation-union-scoreboard-2010>.

highest overall congestion in the EU, despite its dense and high quality transport network. The business environment is negatively affected by congestion because logistics and freight transport suffers from longer and more variable freight transport times. Congestion affects the labour market as long and unpredictable commuting time discourages people from searching jobs outside the immediate vicinity of their current location, leading to a regional fragmentation of the labour market (reinforced by rigidities in the housing market).

As mentioned in the labour market chapter of the NRP, the Dutch government aims to alleviate congestion "through parking and travel facilities, transfer points, car pooling, good cycling facilities, incident management and increased "tele-working". Furthermore, an additional EUR 500 million investment in road and rail infrastructure is planned, coupled with investment in freight transport through inland waterways and private-public infrastructure projects, as well as a shift from fixed to variable road transport charges. The latter takes the form of an increase in fuel excise duties along with a decrease in road registration taxes. However, congestion costs are still expected to further increase until 2020 in the absence of policy changes. The government has not taken over the previous government's plans for a (variable) "kilometre charge." Even a fixed kilometre charge would be more efficient than an equivalent rise in fuel duties, because fuel duties tax road transport movements regardless of place and time and hence congestion level. Moreover, they vary with the fuel efficiency of cars, which is unrelated to congestion. Model estimates have shown that varying the charge with congestion levels would further improve the efficiency.

Climate/Energy

Regarding national energy and climate change policies, the NRP contains no quantitative energy efficiency target and does not propose more ambitious targets for renewable energy and CO₂ emission reductions than those legally required. In view of the reported reliance on further analysis, research and expanding nuclear energy (all of which have a rather long lead time), the measures are most likely to be insufficient to reach the not overly ambitious policy goals and commitments mentioned in the programme.

In spite of the influence of the economic crisis, the recent evolution of the greenhouse gas emissions does not appear to be in line with the 2020 national target defined at the European level (-16% compared to 2005 levels). This means that additional emissions reduction measures and/or the use of flexibility mechanisms would be needed, especially in the road transportation sector given its weight in the national emissions and its current trend. The National Reform Programme does contain neither an assessment of the ability of the existing and proposed emissions reductions measures to reach the 2020 target nor any operational targets (such as domestic targets, intermediate targets and/or sectoral targets). These would contribute to efficient monitoring of the progress made towards the 2020 target.

5. SUMMARY

The crisis impacted Dutch public finances heavily, resulting in the general government deficit and debt exceeding the 3% and 60% thresholds. The government is committed to restoring sound public finances and ensuring long-term sustainability, as set out in the Stability Programme. The excessive deficit is now expected to be corrected already in 2012, one year ahead of the deadline recommended by the Council in December 2009. Yet consolidation is not sufficient to fully close the sustainability gap. Structural policy areas where considerable gains can be achieved are health care (especially long-term care) and pensions, as these areas are where the increase in age-related expenditure is the highest. Reforms in these areas would contribute to reducing the high sustainability risks to public finances. The proposed increase in the pension age by one year (from 65 to 66) by 2020 is expected to be an important first step in narrowing the sustainability gap. However, automatically linking the pension age to life expectancy after 2020, in combination with continued efforts to raise the effective retirement age as well as reforming long-term care, in order to curb the fast-rising costs, is not envisaged by the Dutch Government at this stage.

Raising labour supply, tackling the high congestion costs and promoting the economy's innovation capacity will be instrumental in maintaining a robust growth potential. The contribution of labour to the growth potential is now expected to turn negative in view of a decrease in the working-age population, whereas in the short to medium term (2011-2015) the impact of the measures taken or planned is expected to (slightly) negatively affect employment and labour supply. Envisaged government policy, as set out in the NRP, would lead to an increase of 1.1 pp in employment in the long-term (2040). Increasing incentives to raise the overall number of hours worked in the economy, for example by speeding up the individualisation of the general tax credit, reconsidering the basis on which childcare subsidy is granted, as well as further supporting vulnerable groups with specific measures and assistance for re-integration into the labour market, is not envisaged in the Dutch NRP. Although the Dutch research and innovation system has managed to maintain its innovative capacity, the relatively weak performance of the Netherlands in R&I may also negatively affect future economic growth and the competitiveness of the Dutch economy. In spite of the Dutch Government's aim to create an attractive climate for R&I-intensive firms, subsidies for business will be streamlined and shifted to more generic tax instruments. Growth potential is negatively affected by the congestion levels in road and rail transport, which are amongst the highest in the EU. Congestion costs are expected to further increase until 2020 in the absence of policy changes.

ANNEX

Table I. Macro economic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012
Core indicators							
GDP growth rate	3,9	1,7	2,8	-3,9	1,8	1,9	1,7
Output gap ¹	0,1	-0,4	0,6	-3,4	-2,8	-2,2	-1,8
HICP (annual % change)	1,7	3,0	1,7	1,0	0,9	2,2	2,1
Domestic demand (annual % change) ²	4,3	1,1	2,7	-4,0	0,8	1,1	1,3
Unemployment rate (% of labour force) ³	5,4	3,6	4,1	3,7	4,5	4,2	4,0
Gross fixed capital formation (% of GDP)	21,9	20,3	19,8	19,0	17,7	17,7	18,0
Gross national saving (% of GDP)	26,9	26,8	27,5	21,8	24,9	26,1	26,9
General Government (% of GDP)							
Net lending (+) or net borrowing (-)	-1,6	-1,0	0,3	-5,5	-5,4	-3,7	-2,3
Gross debt	69,0	51,9	50,7	60,8	62,7	63,9	64,0
Net financial assets	-48,3	-35,3	-30,3	-29,9	n.a	n.a	n.a
Total revenue	46,7	44,7	45,6	45,9	45,9	46,5	47,1
Total expenditure	48,2	45,8	45,4	51,4	51,3	50,2	49,4
<i>of which: Interest</i>	5,0	2,9	2,2	2,2	2,0	2,1	2,2
Corporations (% of GDP)							
Net lending (+) or net borrowing (-)	4,1	6,7	7,9	7,9	10,9	10,3	9,4
Net financial assets; non-financial corporations	-137,3	-110,2	-80,0	-57,2	n.a	n.a	n.a
Net financial assets; financial corporations	-27,0	-25,2	-11,5	-2,7	n.a	n.a	n.a
Gross capital formation	12,3	10,2	9,5	8,1	8,8	9,0	9,3
Gross operating surplus	24,4	24,5	25,6	24,6	25,5	25,5	25,6
Households and NPISH (% of GDP)							
Net lending (+) or net borrowing (-)	2,9	0,6	-1,0	0,5	0,5	0,5	0,7
Net financial assets	205,9	175,7	160,1	153,3	n.a	n.a	n.a
Gross wages and salaries	42,4	40,5	38,2	40,0	38,9	38,5	38,3
Net property income	9,0	6,9	5,8	4,5	4,3	4,9	5,3
Current transfers received	23,7	22,5	21,2	22,5	23,0	22,9	22,5
Gross saving	10,3	7,7	6,6	7,1	6,3	6,3	6,5
Rest of the world (% of GDP)							
Net lending (+) or net borrowing (-)	4,4	6,2	7,1	3,1	6,0	7,1	7,7
Net financial assets	6,7	-4,9	-38,3	-63,5	n.a	n.a	n.a
Net exports of goods and services	5,1	6,3	8,2	7,2	8,0	9,0	9,4
Net primary income from the rest of the world	0,8	1,5	0,7	-2,7	0,3	0,4	0,6
Net capital transactions	-0,3	-0,2	-0,3	-0,3	-0,7	-0,7	-0,6
Tradable sector	41,3	39,1	38,2	35,5	36,6	n.a	n.a
Non tradable sector	48,3	49,9	50,6	53,6	52,9	n.a	n.a
<i>of which: Building and construction sector</i>	4,8	5,0	4,9	5,4	4,7	n.a	n.a
Real effective exchange rate (index, 2000=100)	103,7	107,2	111,4	115,9	112,0	113,2	113,8
Terms of trade goods and services (index, 2000=100)	99,3	101,5	102,0	101,0	100,4	100,5	100,6
Market performance of exports (index, 2000=100)	97,7	99,6	98,3	104,1	104,9	105,4	105,5
Notes:							
¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2000 market prices.							
² The indicator on domestic demand includes stocks.							
³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.							
Source:							
<i>Commission services' spring 2011 forecast</i>							

Table II. Macro economic scenario for the budgetary projections

	2010		2011		2012		2013	2014	2015
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	1,8	1,7	1,9	1¾	1,7	1½	1¼	1¼	1¼
Private consumption (% change)	0,4	0,4	0,8	¾	1,1	1	¾	¾	¾
Gross fixed capital formation (% change)	-4,9	-4,9	3,0	2½	4,1	3	3¾	3¾	3¾
Exports of goods and services (% change)	10,9	10,8	6,4	5½	6,0	4	4½	4½	4½
Imports of goods and services (% change)	10,5	10,5	5,8	5	6,1	3¾	4¾	4¾	4¾
<i>Contributions to real GDP growth:</i>									
- Final domestic demand	-0,3	-0,3	0,9	1	1,2	1	1	1	1
- Change in inventories	1,1	1	0,1	0	0,0	0	0	0	0
- Net exports	1,0	1	0,9	¾	0,5	½	¼	¼	¼
Output gap ¹	-2,8	-2,4	-2,2	-1,6	-1,8	-1,1	-0,6	-0,4	-0,2
Employment (% change)	-0,5	-1	0,6	1	0,8	1	-¼	-¼	-¼
Unemployment rate (%)	4,5	4,5	4,2	4¼	4,0	4	4¼	4¾	5
Labour productivity (% change)	2,4	3,1	1,4	¾	1,0	½	1½	1½	1½
HICP inflation (%)	0,9	0,9	2,2	2	2,1	2	2	2	2
GDP deflator (% change)	1,6	1,4	1,9	1½	2,1	2¼	1¾	1¾	1¾
Comp. of employees (per head, % change)	1,1	1,6	2,9	2¾	2,5	3½	3½	3½	3½
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	6,0	6,7	7,1	7,5	7,7	8,1	9,5	9,5	9,5
<u>Note:</u>									
¹ In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.									
<u>Source:</u>									
Commission services' spring 2011 forecasts (COM); Stability programme (SP).									

Table III. Composition of the budgetary adjustment

(% of GDP)	2010	2011		2012		2013	2014	2015	Change: 2010-2015
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	45,9	46,5	45,3	47,1	46,0	45,9	46,3	46,8	0,9
<i>of which:</i>									
- Taxes on production and imports	12,1	11,9	11,8	12,0	11,8	11,5	11,4	11,4	-0,7
- Current taxes on income, wealth, etc.	11,8	11,8	11,7	11,8	11,8	12,4	12,7	12,8	1,0
- Social contributions	14,7	15,6	15,7	16,1	16,2	15,6	15,6	15,9	1,2
- Other (residual)	7,3	7,2	6,1	7,2	6,2	6,4	6,6	6,7	-0,6
Expenditure	51,3	50,2	49,0	49,4	48,3	47,7	47,6	47,6	-3,7
<i>of which:</i>									
- Primary expenditure	49,3	48,1	46,8	47,2	46,0	45,1	44,8	44,9	-4,4
<i>of which:</i>									
Compensation of employees	10,0	9,7	9,7	9,4	9,5	9,2	9,0	8,8	-1,2
Intermediate consumption	8,3	7,9	8,0	7,7	7,7	7,3	7,0	6,9	-1,4
Social payments	23,0	22,8	22,7	22,7	22,8	22,5	22,7	23,1	0,1
Subsidies	1,5	1,3	1,4	1,2	1,3	1,2	1,2	1,2	-0,3
Gross fixed capital formation	3,7	3,6	3,6	3,5	3,4	3,4	3,2	3,1	-0,6
Other (residual)	2,9	2,9	1,5	2,7	1,2	1,4	1,6	1,7	-1,2
- Interest expenditure	2,0	2,1	2,2	2,2	2,3	2,6	2,8	2,7	0,7
General government balance (GGB)	-5,4	-3,7	-3,7	-2,3	-2,2	-1,8	-1,4	-0,9	4,5
Primary balance	-3,4	-1,6	-1,5	-0,1	0,1	0,8	1,4	1,8	5,2
One-off and other temporary measures	-0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,2
GGB excl. one-offs	-5,2	-3,7	-3,7	-2,3	-2,2	-1,8	-1,4	-0,9	4,3
Output gap ²	-2,8	-2,2	-1,6	-1,8	-1,1	-0,6	-0,4	-0,2	2,6
Cyclically-adjusted balance ²	-3,8	-2,5	-2,8	-1,3	-1,6	-1,4	-1,2	-0,8	3,1
Structural balance³	-3,7	-2,5	-2,8	-1,3	-1,6	-1,4	-1,2	-0,8	2,9
<i>Change in structural balance</i>		1,2	0,9	1,1	1,2	0,2	0,2	0,4	
Structural primary balance ³	-1,7	-0,4	-0,6	0,9	0,7	1,2	1,6	1,9	3,6
<i>Change in structural primary balance</i>		1,4	1,1	1,3	1,3	0,5	0,4	0,3	
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.									
Source:									
Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations									

Table IV. Debt dynamics

(% of GDP)	average 2005-09	2010	2011		2012		2013	2014	2015
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio ¹	52,7	62,7	63,9	64,5	64,0	64,9	64,7	64,1	63,0
Change in the ratio	1,7	2,0	1,2	1,8	0,1	0,4	-0,2	-0,6	-1,1
<i>Contributions</i> ² :									
1. Primary balance	-1,3	3,4	1,6	1,5	0,1	-0,1	-0,8	-1,4	-1,8
2. “Snow-ball” effect	0,9	0,0	-0,2	0,2	-0,1	0,1	0,7	0,9	0,8
<i>Of which:</i>									
Interest expenditure	2,2	2,0	2,1	2,2	2,2	2,3	2,6	2,8	2,7
Growth effect	-0,6	-1,0	-1,2	-1,0	-1,0	-0,9	-0,8	-0,8	-0,8
Inflation effect	-0,8	-0,9	-1,2	-1,0	-1,3	-1,3	-1,1	-1,1	-1,1
3. Stock-flow adjustment	2,1	-1,4	-0,2	0,1	0,1	0,4	-0,1	-0,1	-0,1
<i>Of which:</i>									
Cash/accruals diff.	0,3	-0,4		0,2		-0,1	0,0	0,0	0,0
Acc. financial assets	1,9	-1,2		2,8		0,4	-1,5	-2,9	-3,8
<i>Privatisation</i>	-0,7	-0,1		0,0		0,0	0,0	0,0	0,0
Val. effect & residual	-0,1	0,2		-1,9		-2,3	-2,1	-1,9	-1,8

Notes:

¹End of period.

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

Source:

Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations.

Table V. Long-term sustainability

Netherlands	Baseline scenario (2010)			Programme scenario		
	S1	S2		S1	S2	
Value	7,5	9,2		3,3	5,2	
<i>of which:</i>						
Initial budgetary position (IBP)	3,7	4,7		-0,2	0,7	
Debt requirement in 2060 (DR)	0,3	-		0,0	-	
Long-term change in the primary balance (LTC)	3,5	4,5		3,5	4,5	
	2010	2015	2020	2010	2015	2020
Debt as % of GDP	62,7	76,5	95,7	62,7	63,0	61,0

Note: The 'baseline' scenario (2010) depicts the sustainability gap under the assumption that the 2010 budgetary position remains unchanged over the medium-term (until the end of the period covered by the programme). The 'programme' scenario depicts the sustainability gap under the assumption that the budgetary plans of the programme are fully implemented.

Figure. Medium term debt projections

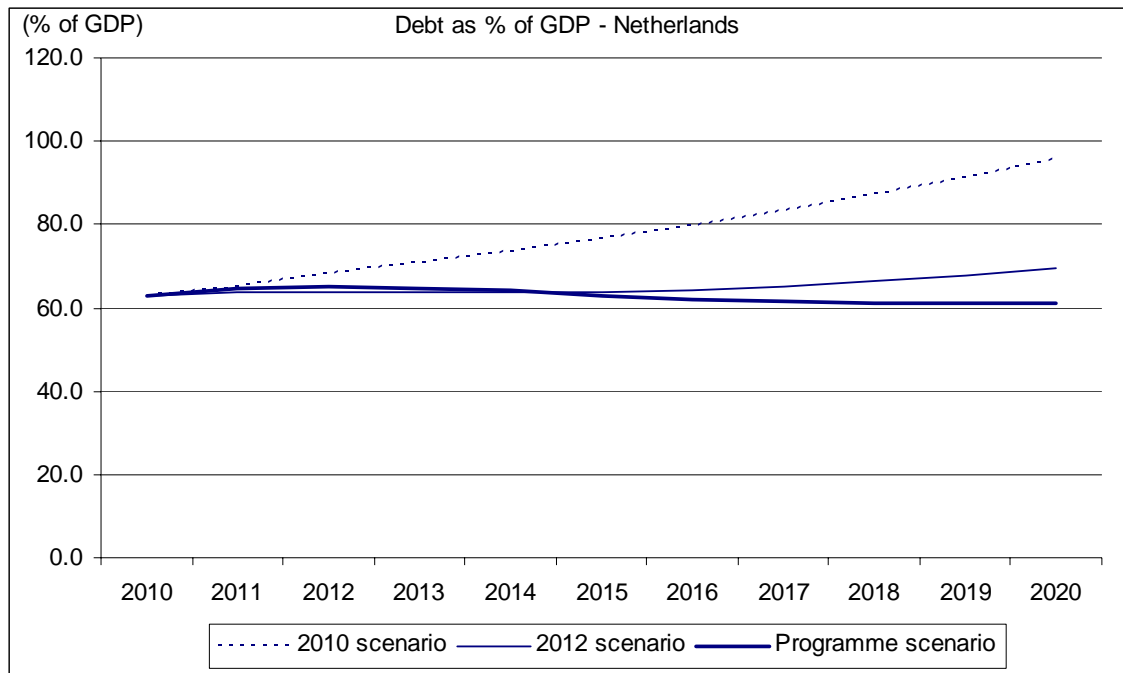


Table VI. Financial markets indicators

	2006	2007	2008	2009	2010
Total assets of the banking sector (% of GDP)	332,4	358,2	382,5	391,1	390,4
Share of assets of the five largest banks (% of total assets)	85,1	86,3	86,8	85,0	...
Foreign ownership of banking system (% of total assets)	15,0	17,3	5,7	5,3	...
Financial soundness indicators:					
- non-performing loans (% of total loans)	1,7	3,2	2,8
- capital adequacy ratio (%) ¹⁾	11,9	13,2	11,9	14,9	13,9
- profitability - return on equity (%) ²⁾	15,4	18,7	-12,5	-0,4	7,1
Private credit growth (annual % change)	6,0	8,3	7,0	-0,3	2,2
Residential property prices (y-o-y % change)	4,6	4,2	2,9	-3,3	-2,0
Exposure to countries receiving/repaying official financial assistance (%)	11,5	11,7	9,9	8,0	5,0
Private debt (% of GDP)	170,5	171,7	172,0	191,6	182,5
Gross external debt (% of GDP)					
- Public	33,2	28,2	42,4	41,3	40,0
- Private	92,4	92,4	94,3	82,7	84,4
Long term interest rates spread versus Bund (basis points)*	57,8	69,5	150,1	145,4	80,4
Credit default swap spreads for sovereign securities (5-year)*	36,9	56,0	44,7
¹⁾ The capital adequacy ratio is defined as total capital divided by risk weighed assets. ²⁾ Net income to equity ratio, after extraordinary items and taxes. ³⁾ Covered countries are IE, EL, PT, RO, LV and HU. * Measured in basis points. <i>Source:</i> <i>Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt), Eurostat (residential property prices) and ECB (all other indicators).</i>					

Table VII. Labour market and social indicators

Labour market indicators	2005	2006	2007	2008	2009	2010
Employment rate (% of population aged 20 - 64)	75,1	76,3	77,8	78,9	78,8	76,8
Employment growth (% change from previous year)	0,5	1,7	2,5	1,4	-1,1	-0,5
Employment rate of women (% of female population aged 20 - 64)	67,6	69,0	70,7	72,2	72,7	70,8
Employment rate of men (% of male population aged 20 - 64)	82,4	83,5	84,8	85,5	84,9	82,8
Employment rate of older workers (% of population aged 55 - 64)	46,1	47,7	50,9	53,0	55,1	53,7
Part-time employment (% of total employment)	46,1	46,2	46,8	47,3	48,3	48,9
Fixed term employment (% of employees with a fixed term contract)	15,5	16,6	18,1	18,2	18,2	18,5
Unemployment rate ¹ (% of labour force)	5,3	4,4	3,6	3,1	3,7	4,5
Long-term unemployment ² (% of labour force)	2,1	1,9	1,4	1,1	0,9	1,2
Youth unemployment rate (% of youth labour force aged 15-24)	9,4	7,5	7,0	6,3	7,7	8,7
Youth NEET ³ rate (% of population aged 15-24)	5,3	4,0	3,5	3,4	4,1	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	13,5	12,6	11,7	11,4	10,9	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	34,9	35,8	36,4	40,2	40,5	:
Labour productivity per person employed (annual % change)	2,1	1,7	1,7	0,6	-2,8	2,4
Hours worked per person employed (annual % change)	-0,4	0,1	-0,4	-0,7	0,0	-0,1
Labour productivity per hour worked (annual % change; constant prices)	2,0	1,6	1,8	1,2	-2,8	2,3
Compensation per employee (annual % change; constant prices)	-0,7	0,7	1,6	1,2	2,4	-0,5
Nominal unit labour cost growth (annual % change)	-0,4	0,6	1,6	2,9	5,2	-1,1
Real unit labour cost growth (annual % change)	-2,8	-1,1	-0,2	0,6	5,3	-2,7
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 services (EU Labour Force Survey and European National Accounts)						

Table VII. Labour market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	2004	2005	2006	2007	2008
Sickness/Health care	8,06	7,97	8,82	8,64	8,80
Invalidity	2,79	2,53	2,36	2,41	2,37
Old age and survivors	11,10	11,08	10,94	10,89	10,73
Family/Children	1,28	1,26	1,47	1,56	1,78
Unemployment	1,64	1,59	1,36	1,14	1,03
Housing and Social exclusion n.e.c.	1,57	1,56	2,05	2,06	2,15
Total	26,4	26,0	27,0	26,7	26,9
of which: Means tested benefits	3,09	3,10	3,40	3,71	3,63
Social inclusion indicators	2005	2006	2007	2008	2009
Risk-of-poverty or exclusion ¹ (% of total population)	16,7	16,0	15,7	14,9	15,1
Risk-of-poverty or exclusion of children (% of people aged 0-17)	19,6	17,5	17,2	15,5	17,5
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	6,4	6,4	9,8	9,7	8,1
At-Risk-of-Poverty rate ² (% of total population)	10,7	9,7	10,2	10,5	11,1
Value of relative poverty threshold (single HH per year) - in PPS	9612	9900	10524	11484	11544
Severe Material Deprivation ³ (% of total population)	2,5	2,3	1,7	1,5	1,4
Share of people living in low work intensity households ⁴ (% of people aged 0-59 not student)	9,7	10,7	9,5	8,1	8,3
In-work at-risk-of poverty rate (% of persons employed)	5,8	4,4	4,5	4,7	5,0
Notes:					
¹ People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).					
² At-risk-of poverty rate: 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 for social protection benefits ESSPROS; for social inclusion EU-SILC.					

Table VIII. Product markets performance and indicators

Performance indicators	2001-2005	2006	2007	2008	2009	2010
Labour productivity ¹ total economy (annual growth in %)	1,1	1,6	1,4	0,6	-2,3	2,6
Labour productivity ¹ in manufacturing (annual growth in %)	3,1	3,7	5,3	-2,8	-5,8	10,6
Labour productivity ¹ in electricity, gas, water (annual growth in %)	7,4	-0,3	-3,6	0,7	-5,7	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	-0,6	0,5	4,4	2,8	-2,4	n.a.
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	6,1	5,4	1,4	n.a.	n.a.	n.a.
Policy indicators	2001-2005	2006	2007	2008	2009	2010
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	1,9	1,8	1,8	1,8	n.a.
Tertiary educational attainment (% of 30-34 years old population)	31,2	35,8	36,4	40,2	40,5	n.a.
Total public expenditure on education (% of GDP)	5,3	5,5	5,3	5,5	n.a.	n.a.
	2003	2005	2006	2008	2009	2010
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	1,4	n.a.	n.a.	1,0	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	1,6	n.a.	n.a.	2,1	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁶ (Index; 0=not regulated; 6=most regulated)	1,9	1,8	1,8	1,7*	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 designated 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, of this indicator is presented in detail at the website http://www.doingbusiness.org/methodology .						
⁴ The methodologies of the Product market regulation indicators are presented in detail at 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.						
6 Aggregate ETCR.						
*figure for 2007.						
Source:						
Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						