KINGDOM OF THE NETHERLANDS—THE NETHERLANDS

March 20, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

KEY ISSUES

Context. The economy has cooled, but signs of overheating remain. After two years of strong recovery, growth decelerated in 2023, reflecting the energy shock, tighter financial conditions, and a slowdown in key trading partners, particularly Germany. Still, core inflation remains elevated, reflecting a tight labor market, robust wage growth, and healthy profit margins. Fragmented results in November elections are leading to a prolonged government formation, with possible implications for pro-growth and climate policies.

Outlook and Risks. Growth is expected to gradually regain momentum in 2024, driven by higher private consumption and external demand. High interest rates will weigh on business and residential investment. Growth in the medium term will be underpinned by public investment and reforms, including from the Recovery and Resilience Plan (RRP), but ageing will have offsetting effects. Amid high uncertainty, downside risks dominate, including from a possible severe housing market correction, a sharper slowdown in trading partner growth, deeper geo-economic fragmentation, and geopolitical tensions. Higher core inflation could become persistent if higher wages lead to second-round effects.

Key Policy Recommendations

Fiscal Policy. For 2024, given the high cost of underestimating inflation persistence, a non-expansionary stance is warranted; adjustment measures should be identified. Medium-term fiscal challenges call for structural reforms to stabilize debt.

Financial Sector. Continued monitoring of vulnerabilities and risks from household and corporate debt, real estate, NBFIs, and climate change is warranted. Financial sector policies should be reinforced by: strengthening supervisory and macroprudential policy frameworks, harnessing data, new technologies, and analytical tools for enhancing supervisory approaches; and ensuring operational readiness of resolution plans and crisis preparedness and management.

Structural. Climate mitigation strategies need to tackle implicit fuel subsidies, striking the right balance among regulation, pricing/feebates, and subsidies, while addressing distributional concerns and ensuring policy predictability. Adaptation efforts should continue by encouraging greater private-sector participation, e.g., by promoting private flood insurance for residential properties, to ensure more efficient response. Labor market policies should encourage part-time workers, especially women, to increase their hours by improving child and elderly care, streamlining the tax-benefit system, promote training and labor mobility in priority sectors, and adopt technology and optimize migration to expand labor supply. The authorities should continue to invest in energy security and digital technologies to enhance resilience and productivity growth.

Approved By
Mark Horton (EUR) and Boileau Loko (SPR)

Discussions took place during January 29–February 9, 2024. The mission team comprised B. Akitoby (head), N. Budina, and A. Myrvoda (all EUR), and J. Mok (MCM). A. Geis (EUR), and E. Hanedar, S. Hebous, K. Kirabaeva, I. Parry, K. Tamiru Gulilat, and N. Vernon (all FAD) joined some meetings virtually. M. Horton (EUR) and the FSAP mission chief, N. Griffin (MCM), joined the concluding meetings and a joint press conference. P. Hilbers (Executive Director) and C. Eijking (Advisor) participated in the meetings. The team met with De Nederlandsche Bank President Klaas Knot, Finance Minister Steven van Weyenberg, Finance Ministry State Secretary Marnix van Rij, and other officials from the Ministries of Finance, the Interior and Kingdom Relations, Social Affairs and Employment, Economic Affairs and Climate Policy, De Nederlandsche Bank (DNB), other government entities, and the Single Supervisory Mechanism; representatives of labor unions and employers, and representatives of private sector institutions. The team was assisted by S. Previde, M. Evio, and H. Jung (all EUR).

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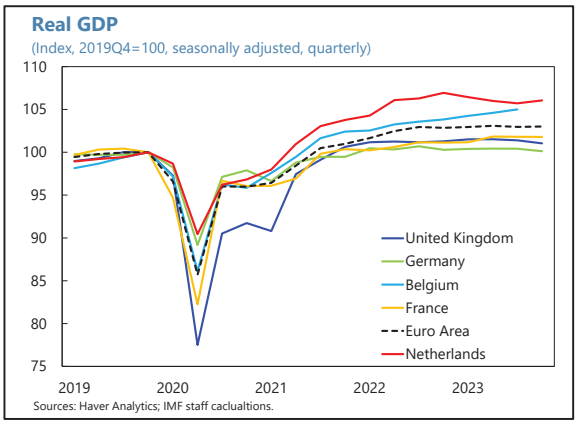
TABLES

ANNEXES

CONTEXT AND RECENT DEVELOPMENTS

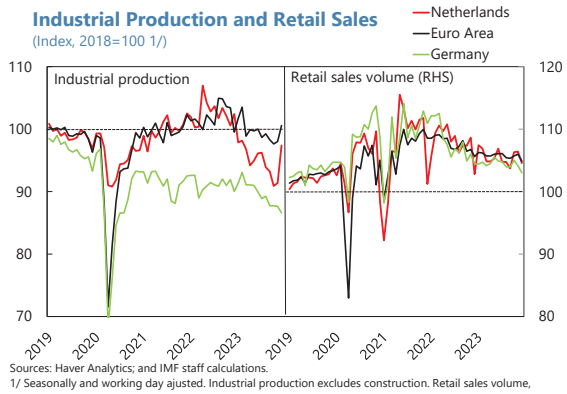
1. The Dutch economy was more resilient than its peers during and after the pandemic. Partly reflecting the strong fiscal response, post-pandemic growth was robust in 2021 and 2022, 6.2 and 4.3 percent, respectively, with GDP exceeding the pre-pandemic output level by 6 percent by 2023Q4. Disagreements over environmental legislation on nitrogen affecting farmers and over immigration policy led to new elections in November 2023. These yielded fragmented results, which are leading to prolonged formation of a new government, and possibly, delays or less ambitious pro-growth and climate policies.



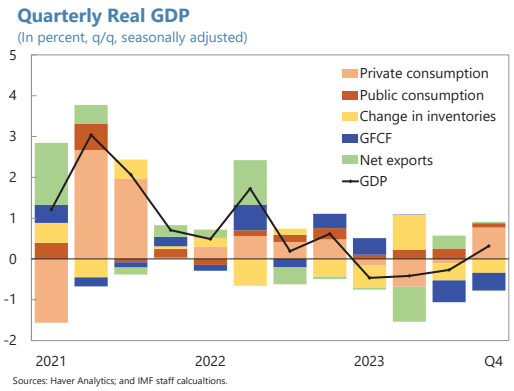
2. The economy cooled in 2023, reflecting tighter financial conditions and weak global demand. Growth declined to about 0.1 percent, as the economy registered negative q/q growth in the first three quarters (Figure 1, chart 2) and modest but positive q/q growth in the fourth quarter. Eroding consumer purchasing power dragged private consumption down in 2023 H1. Growth picked up in Q4 2023 with higher real wages and increasing house prices. Industrial production and exports remained sluggish, however, reflecting weak external demand (Figure 1, chart 1); higher borrowing costs weighed on investment, and a reduction in inventories provided a drag on growth. The output gap is estimated to have declined from about 2 percent in 2022 to 0.4 percent in 2023, easing overheating pressures.

Figure 1. The Netherlands: Economic Growth

Inflation eroded household purchasing power, reducing consumer spending. Meanwhile, a weaker external environment led to a contraction of industrial production…

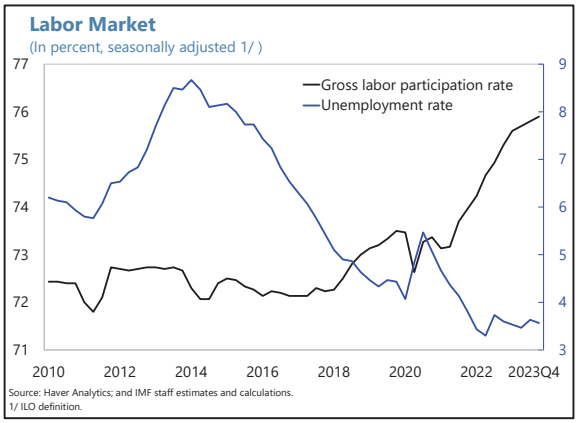


…contributing to slowing growth during the first three quarters of 2023.



3. The labor market has remained tight, reflecting hoarding and structural labor shortages. At 3.6 percent as of 2023Q4 (text chart), unemployment remains historically low with a high participation rate (75.9 percent), highest in the euro area (EA). Despite easing since mid-2022, the job vacancy rate is among the highest in the EA overall and in nearly all sectors (Figure 2, chart 1). However, the risk of a wage-price spiral remains contained, as real wage levels remain below the pre-inflationary period (Figure 2, chart 2). Labor cost per unit of output and labor productivity have broadly kept up with the EA averages (Figure 2, charts 3 and 4). Meanwhile, corporate profits have remained robust, adding inflationary pressures (Figure 2, charts 4 and 5).

4. Inflation remains elevated. The adjusted HICP inflation rate in December 2023 declined to 2.2 percent y/y (text chart and Figure 3).[1] At 3.3 percent as of December 2023, core inflation remained above target, but has declined substantially since a peak of 8.2 in May 2023.[2]



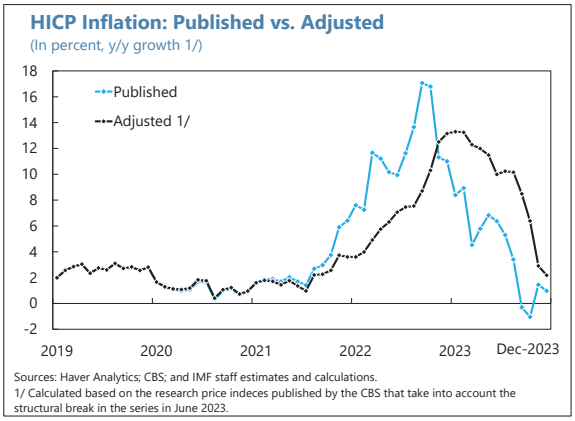
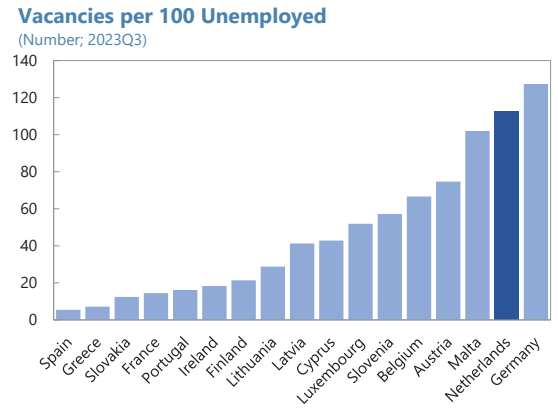
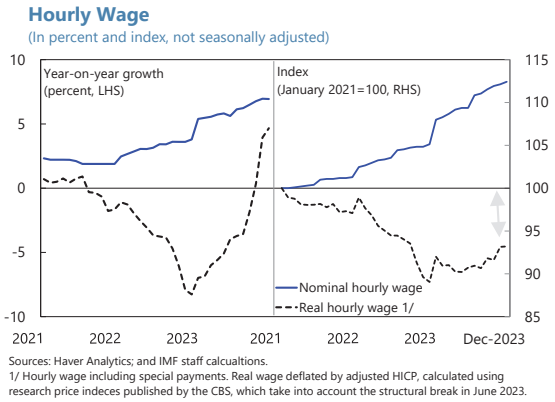


Figure 2. The Netherlands: Labor Market and Wages

Vacancies are prevalent. The ratio of job vacancies to unemployed is among the highest in the EA.



Real wage growth improved on account of declining (adjusted) headline inflation, but real wages remain below the pre-inflationary period in level terms.



Sources: Haver Analytics, and IMF staff Calculations.

[1] Published inflation series were adjusted to account for the structural break in June 2023 due to the change in the measurement of energy prices. Prices on new contracts were replaced with prices on all existing contracts. Without the adjustment, December 2023 HICP inflation was 1.0 percent.

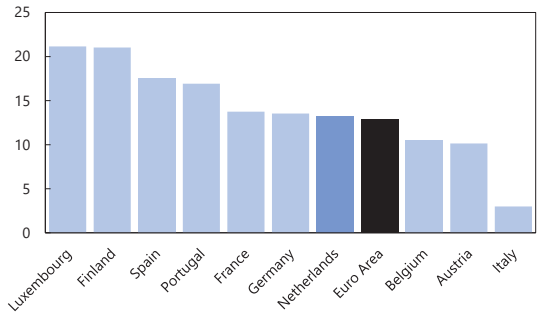
[2] Core inflation defined as HICP inflation excluding energy, food, alcohol, and tobacco.

Figure 2. The Netherlands: Labor Market and Wages (Concluded)

Unit labor costs per unit of output…

Real Unit Labor Cost Growth

(In percent, change in unit labor costs per unit of output during 2019-2023Q3 1/)

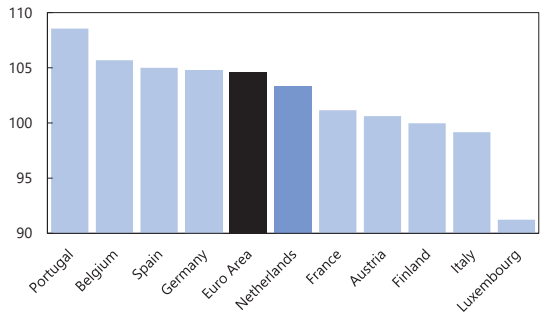


Sources: Haver Analytics; and IMF staff estimates and calculations.
1/ Defined as compensation per unit of output.

…and productivity growth increased broadly in line with the EA average.

Labor Productivity

(Index, 2010=100, as of 2023Q3 1/)

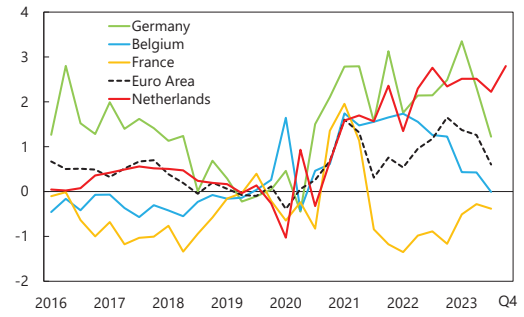


Sources: Haver Analytics; and IMF staff estimates and calculations.
1/ Defined as real GDP per person employed.

Corporate profit margins are still above pre-pandemic levels relative to GDP.

Profit Margins: Deviation from 2019 Average

(In percent, share of gross operating surplus and mixed income in GDP 1/)

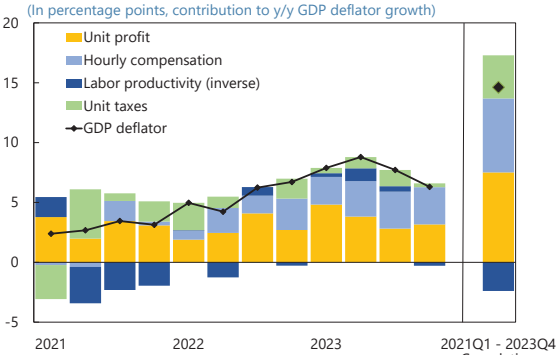


Sources: Haver Analytics; and IMF staff calculations.
1/ Seasonally adjusted.

While both corporate profit margins and wages have added to inflationary pressures since 2021, the contribution of wage growth to GDP deflator increased in 2023.

GDP Deflator Decomposition

(In percentage points, contribution to y/y GDP deflator growth)



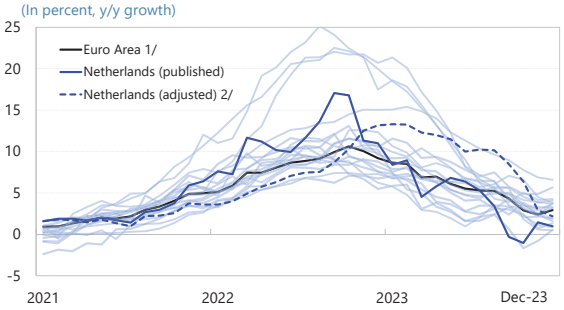
Sources: Haver Analytics; and IMF staff calculations.

Figure 3. The Netherlands: Inflation

While the published HICP series grew 1.0 percent y/y, the adjusted HICP inflation—accounting for a structural break—was 2.2 percent in December 2023.

HICP Inflation

(In percent, y/y growth)

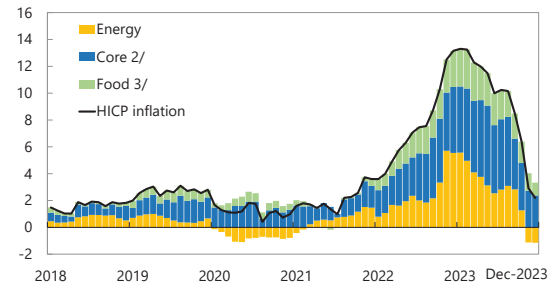


Source: Haver Analytics, and IMF staff estimates and calculations.
1/ Euro Area MUICP, which is the Monetary Union Index of Consumer Prices of 19 countries.
2/ Calculated based on the research price indices published by the CBS that take into account the structural break in the series in June 2023.

Inflation (adjusted) is driven by diminishing contribution of food and more persistent core, and negative contribution of energy components.

Adjusted HICP Inflation

(In percentage points, contribution to y/y growth 1/)



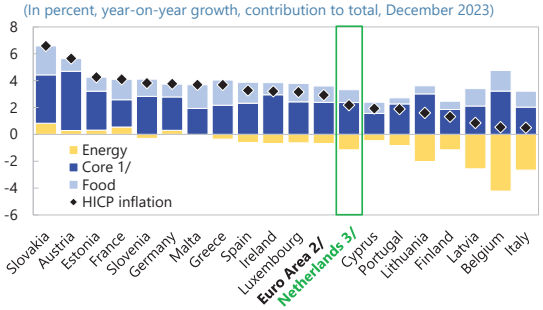
Sources: Haver Analytics; CBS; and IMF staff estimates and calculations.
1/ HICP series are adjusted to account for the methodological change in calculating energy prices in June 2023 and are based on the research price indeces published by the CBS.
2/ Defined as HICP total excluding food, beverages, tobacco and energy.
3/ Includes food, beverages, tobacco.

Figure 3. The Netherlands: Inflation (Concluded)

In adjusted terms, HICP inflation was below the EA average in December 2023.

Headline HICP Inflation

(In percent, year-on-year growth, contribution to total, December 2023)

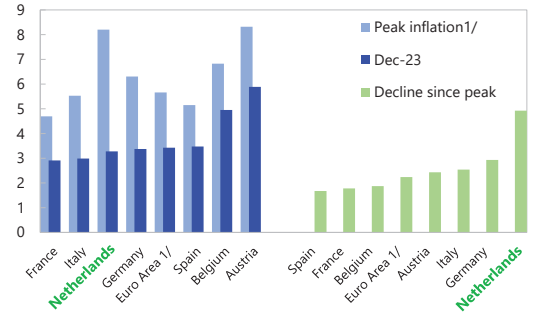


Source: Haver Analytics, and IMF staff estimates and calculations.
1/ Core infaltion defined as total excluding energy, food, alcohol, and tobacco.
2/ Euro Area MUICP, which is the Monetary Union Index of Consumer Prices of 19 countries.
3/ For the Netherlands, energy and total HICP inflation is calculated using research price indeces published by the CBS, which take into account the structural break in June 2023.

While core inflation remained elevated, a significant reduction had been achieved since the peak in May 2023.

Core HICP Inflation

(In percent, year-on-year 1/)



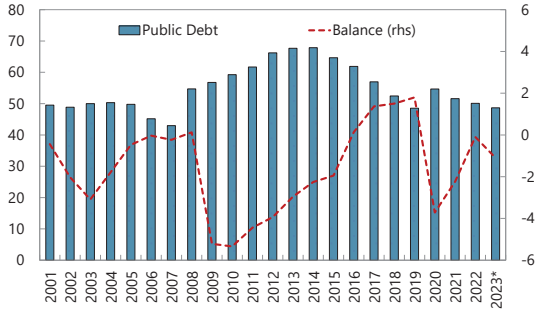
Source: Haver Analytics, and IMF staff estimates and calculations.
1/ Core inflation defined as HCPI inflation excluding energy, food, alcohol, tobacco. Euro Area MUICP, which is the Monetary Union Index of Consumer Prices of 19 countries.

5. The post-pandemic fiscal balance has strengthened, despite measures to mitigate the impact of high energy prices. The 2022 fiscal balance was broadly balanced, after a deficit of 2.3 percent of GDP in 2021, thanks to a strong recovery, higher gas prices, and the end of pandemic programs. The fiscal balance improved through 2023Q3, reaching a small surplus of 0.1 percent of GDP.[3] This better-than-budgeted deficit mostly reflects lower costs of the energy package, higher tax revenue, and investment under-execution. Public debt declined to 45.9 percent of GDP in 2023Q3, from 50.1 percent in 2022 (Figure 4).

Figure 4. The Netherlands: Public Sector Accounts

General Government Indicators

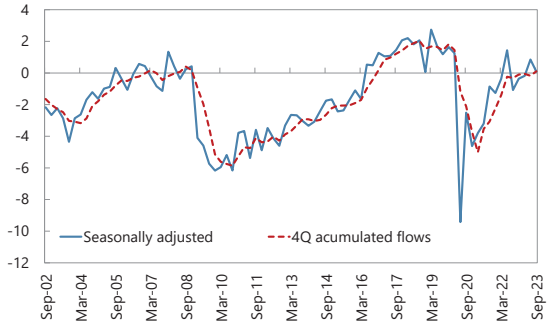
(Percent of GDP)



Sources: CBS, and IMF WEO Database.
Note: * Staff Estimation.

General Government Balance

(Percent of GDP)

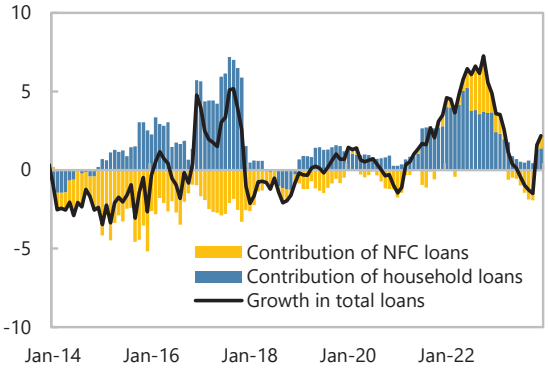


Sources: CBS, Haver Analytics, and IMF staff calculations.

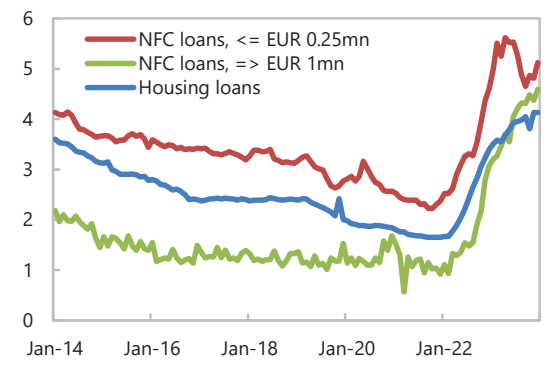
[3] Refers to the 4-quarter cumulative fiscal balance as a percent of 4-quarter cumulative GDP. See Government Finance Dashboard | CBS (www-cbs-nl.translate.goog).

6. Tightening financial conditions have weighed on lending (Figure 5). Credit growth to households declined from 8.7 percent y/y in June 2022 to 2.2 percent in December 2023, reflecting higher mortgage rates and tighter lending standards. Corporate credit growth contracted from a high of 9.1 percent y/y in October 2022 to 2.1 percent y/y in December 2023.

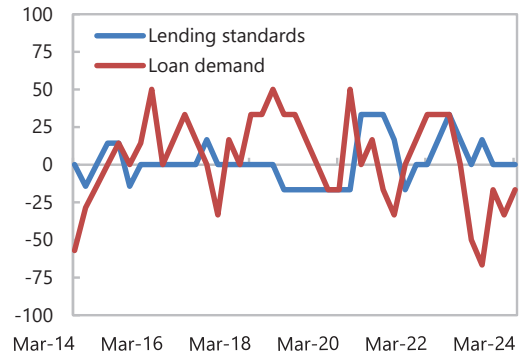
Figure 5. The Netherlands: Credit Developments



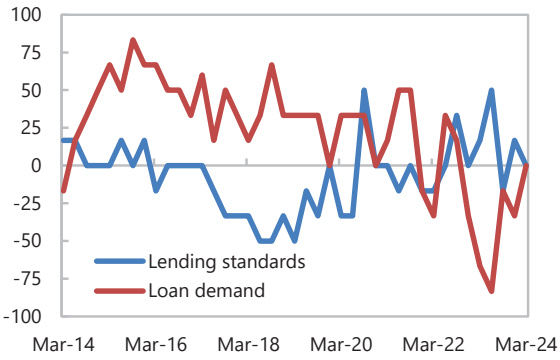
Sources: DNB and IMF staff calculations.



Source: DNB.



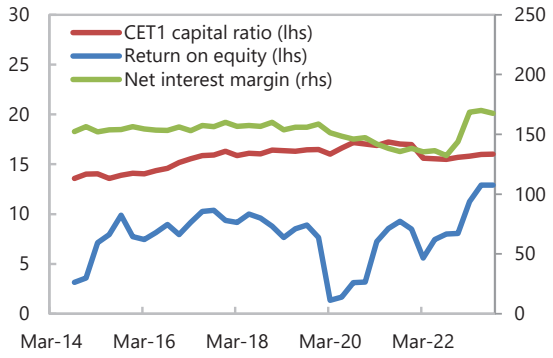
Source: ECB.

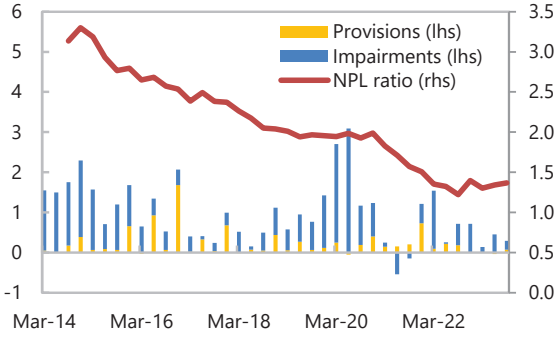


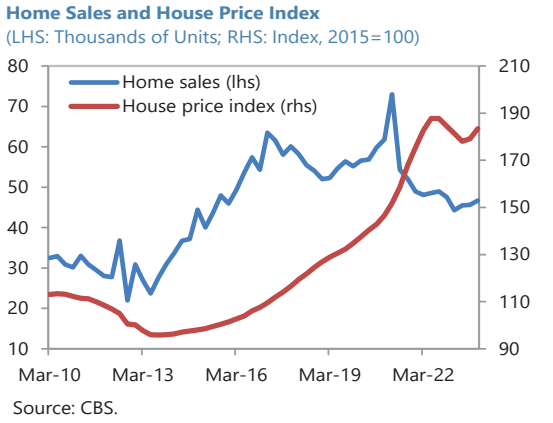
Source: ECB.

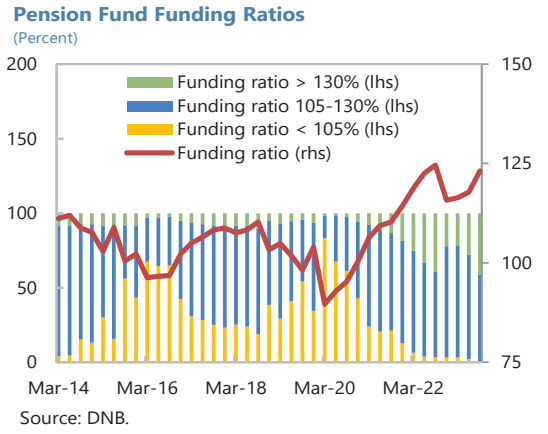
7. The financial sector has so far been resilient although risks are elevated. The banking sector remains well-capitalized and liquid, while bank profitability has risen (Figure 6). Corporate bankruptcies have remained below pre-pandemic levels, despite some pick-up since mid-2022, keeping loan provisioning and NPL ratios in check. The housing market has cooled, registering a 6 percent peak-to-trough decline in prices through June 2023 before recovery set in. The solvency of life insurers has remained stable. Funding ratios of occupational pension funds continue to benefit from rising interest rates. Elevated risks stem from household and corporate debt, real estate, nonbank financial institutions, and climate change (¶23).

Figure 6. The Netherlands: Financial Sector Developments



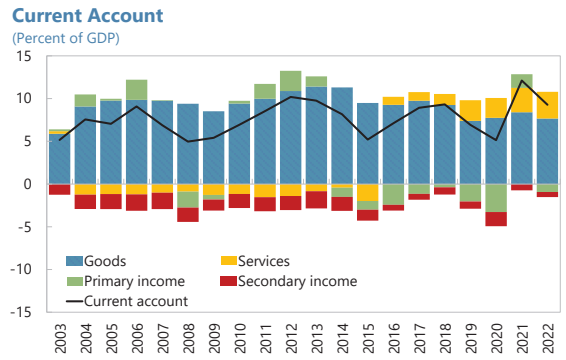




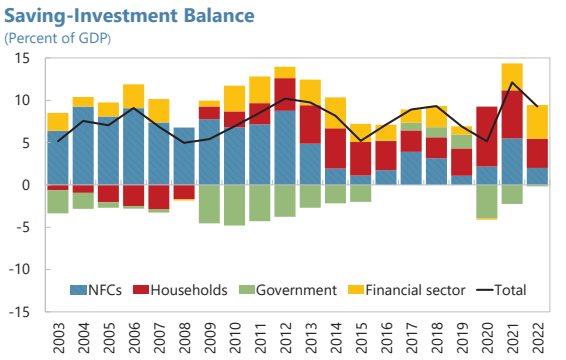


8. On preliminary estimates, the external position was stronger than implied by fundamentals and desirable policy settings in 2023. The current account surplus is projected to have rebounded to 10.2 percent of GDP in 2023, from 9.3 percent in 2022 (Figure 7). The deterioration in the 2023 fiscal balance, as estimated by staff, due to energy support measures, was counterbalanced by higher private net savings from ongoing labor market strength, accelerating wage growth, and weakening residential investment. In 2023, the ULC-based REER appreciated by 0.9 percent from its 2022 average (Figure 16). Based on the 2023 current account projection, staff estimates an underlying, cyclically-adjusted current account surplus of 10.4 percent of GDP, implying a preliminary staff-assessed current account gap of 3.6 percent of GDP. Using EBA estimated elasticities, the REER is assessed as undervalued by about 4.6–6.2 percent in 2023 (Annex I).

Figure 7. Netherlands: External Position



Sources: CBS; Eurostat; IMF BOP database; and IMF staff calculations.



Sources: CBS; Eurostat; and IMF staff calculations.

Authorities' Views

9. The authorities broadly shared staff's assessment of the external position. For 2023, they expect a strengthening of the current account balance, reflecting elevated primary income receipts on the back of robust profitability of Dutch multinationals and a higher trade surplus. They assessed risks for international competitiveness from rising wages as contained since external demand for Dutch exports tends to be primarily driven by non-price factors, yet higher energy costs may pose a challenge for energy-intensive industries.

OUTLOOK AND RISKS

10. Staff expect growth to regain momentum in 2024 and 2025 (Text Table 1). Real GDP growth is projected to increase from 0.1 in 2023 to 0.6 and 1.3 percent in 2024 and 2025, respectively, largely driven by improved household purchasing power and stronger external demand. Higher interest rates will continue to weigh on business and residential investment. The output gap is expected to close in 2024, amid continuing signs of an overheated labor market. Growth in the medium term is expected at about 1.6 percent, underpinned by public investment and reforms, including those in the RRP, although the impact of ageing will have offsetting effects.

Text Table 1. Netherlands: Macroeconomic Projections, 2023–25

	GDP growth			Inflation 1/			Core inflation 2/		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Staff projections	0.1	0.6	1.3	4.1	2.7	2.1	7.3	3.3	2.6
DNB 3/	0.1	0.3	1.0	4.1	2.9	2.2	6.4	3.0	2.7
CPB 4/	0.1	1.1	1.6	4.1	2.7	2.5	…	…	…
European Comission 5/	0.2	0.4	1.6	4.1	2.6	2.0	…	…	…
Consensus Forecasts 6/	…	0.5	1.4	…	2.5	2.1	…	…	…

1/ Period average.
2/ For staff projections, core inflation defined as HICP inflation excluding energy and unprocessed food. For NDB, core inflation defined as HICP inflation excluding energy and food.
3/ December 2023.
4/ February 2024.
5/ February 2024.
6/ February 2024.

11. Inflation is expected to further moderate. Headline inflation (annual average) is projected to decline from 4.1 percent in 2023 to 2.7 percent in 2024 and 2.1 percent in 2025. Meanwhile, core inflation is projected to gradually moderate from its peak in 2023 (7.3 percent), underpinned by the gradual easing of wage pressures and closure of the output gap as the supply capacity of the economy expands.[4] Headline and core inflation are expected to fall to the ECB inflation target in mid and late 2025, respectively.

12. The current account surplus is projected to decline. The current account balance is expected to decline to 8.7 percent of GDP by 2029, from a projected 9.1 percent of GDP in 2024. Population ageing is anticipated to contribute to a weakening of the external position by reducing domestic savings. In addition, sizable expenditure programs initiated by the outgoing administration would reduce the trade surplus if continued.

13. Amid high uncertainty, downside risks dominate (Annex II). The main risks stem from rising geopolitical tensions and deeper geo-economic fragmentation, which could result in renewed increases in energy prices and further monetary tightening. Further weakening of external demand would adversely affect the Dutch economy. Core inflation could become entrenched if higher wages lead to second-round effects.[5] A severe correction in the housing market could raise financial stability concerns through a real-financial feedback loop. Vulnerability to climate change also constitutes a risk, calling for continued enhancement of climate mitigation policies. Over the medium term, insufficient progress on structural reforms to address labor supply shortages could weigh on potential growth and delay the green transition due to insufficient technical workers.

Authorities' Views

14. The authorities broadly shared staff's assessment of the outlook and risks, although DNB was slightly more pessimistic in its December 2023 projections. DNB projected growth at 0.3 percent in 2024, which would become 0.5 percent with the carry-over impact from recently published 2023Q4 data (staff project 0.6 percent), anticipating more subdued world trade and a slower recovery of private consumption, due to still-elevated energy prices. However, given the tight labor market, the authorities considered that signs of overheating would remain, along with a positive gradually narrowing output gap. Considering the openness of the Dutch economy, they were concerned about materialization of external risks (economic slowdown in Germany, China; geopolitics), which could result in slower growth, and possibly, higher inflation. On domestic risks, the authorities agreed that risks of a wage-price spiral remain contained.

[4] Core inflation defined as HICP headline inflation excluding energy and unprocessed food.

[5] See chapter 2 of the IMF Regional Economic Outlook for Europe (October 2023).

POLICY DISCUSSIONS

The policy mix should balance upside inflation risks with downside risks to growth. Given the higher cost of underestimating core inflation persistence, a risk-based approach calls for a non-expansionary fiscal stance. Close monitoring of the housing market and other financial risks should continue, including by ensuring access to loan-level data. For housing, some further adjustments to macroprudential borrower-based measures are needed. Structural policies should remain focused on investment in energy security and green technologies, enhancing labor supply, and advancing digitalization.

A. Fiscal Policy

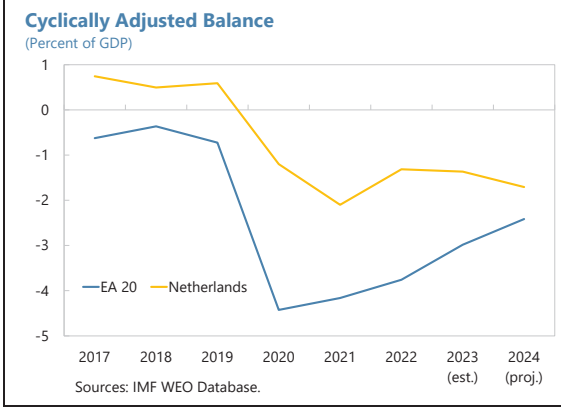
15. Despite a substantial fiscal stimulus, the estimated 2023 deficit was lower than expected. The 2023 budget added fiscal measures estimated initially at 2.9 percent of GDP to cushion the impact of high energy prices, of which 0.8 percent comprised a gas and electricity price cap for small consumers and 0.4 percent of GDP reflected offsetting revenue measures.[6] The measures would have brought the deficit to 2.8 percent of GDP. However, the 2023 deficit is now estimated at 1.1 percent of GDP, reflecting reduced costs of energy support measures, better revenue performance, and under-execution of investment spending. Given elevated inflation, the lower deficit outturn in 2023 is welcome.

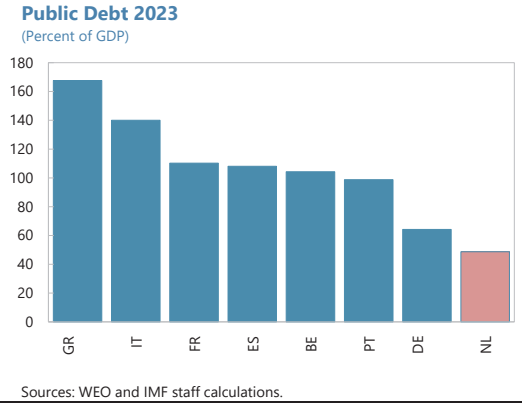
16. The 2024 budget is moderately expansionary. The cyclically adjusted fiscal deficit is projected to increase by 0.3 p.p. to 1.7 percent of GDP in 2024, mostly reflecting higher spending on social transfers, defense, and public investment. The budget includes a permanent structural package amounting to 0.5 percent of GDP to bolster the purchasing power of vulnerable households, with costs offset by raising taxes on higher-income individuals, corporate tax changes and a hike in the bank levy. The energy package is largely phased out in 2024, except for a temporary emergency fund for energy costs, extended to mid-2024, and extension of reduced excise duties on petrol and diesel through end-2024 (0.1 percent of GDP). Social-support measures are well-targeted, while the extension of reduced excise duties is not; the phase-out this year is therefore welcome. The increased employment tax credit for low-wage workers is well-targeted and focused on the supply-side. Efforts to reduce implicit fuel subsidies are also ongoing and welcome (See Section C).

17. Near-term fiscal policy should balance upside inflation risks with downside risks to growth. Given the higher costs of underestimating core inflation persistence, a risk-based approach that would call for a non-expansionary near-term fiscal stance is warranted. Keeping the 2024 cyclically adjusted deficit broadly unchanged would require an adjustment of about 0.3 p.p. of GDP. While underspending and revenue overperformance may deliver, the desired stance in the end, proactively identifying and implementing deficit-reducing measures would send a stronger signal. A good way to achieve this is through phasing-out untargeted energy measures and streamlining and reducing implicit fossil fuel subsidies.

[6] See 2022 Article IV Staff Report.

Figure 8. The Netherlands: Fiscal Policy





18. Given high uncertainty, fiscal policy should be agile and flexible. Automatic stabilizers should provide a first line of response to adverse scenarios. A negative demand shock could call for a smaller fiscal adjustment compared to staff's baseline advice. A severe correction in the housing market that could trigger a recession could necessitate discretionary fiscal support. However, a negative supply shock leading to stagflation, with higher and more-entrenched inflation, could call for a larger fiscal adjustment.

19. The Netherlands has substantial fiscal space, but given rising pressures from long-term fiscal challenges, adjustment will be needed to stabilize debt over the medium to long term and to retain strong buffers. At 47.2 percent, the 2023 public debt/GDP ratio is low relative to peers, and debt is sustainable (Figure 8, DSA annex). However, significant spending pressures need to be addressed over the medium term. The authorities project that by 2028, spending on health care will increase from 9.5 to 10.5 percent of GDP; spending on old age pensions from 4.6 to 5.2 percent of GDP; and spending on defense from 1.4 to 2 percent of GDP. Moreover, age sensitive pressures are expected to rise sharply in the long term. Other spending pressures arise from climate change and labor and housing shortages. Staff's baseline projections show a continuous increase of the deficit and public debt over the medium term, in the absence of fiscal and structural reform measures. Staff therefore support the authorities' objective of stabilizing debt and estimate that the required adjustment will be about 0.3 percentage points per year on average over 2024–28 (text table 2). This is broadly consistent with the recommendation of the 17th Budget Space Study Group report that called for an adjustment of €17 billion to stabilize debt at its 2028 level, while keeping the deficit well below 3 percent of GDP.[7] The objectives and path are also consistent with what is expected to emerge from final considerations on the revised EU fiscal framework.

20. The required adjustment should be of high quality. It should not be achieved by lower overall investment spending, and it should protect or increase investment spending on key medium-term challenges—climate, labor markets, housing, and education. Structural factors behind investment underspending should be addressed to ensure timely implementation of investment plans, thereby reducing policy uncertainty. Given long-term spending pressures, the DSA suggests

[7] See Annex VII, Para 5.

that additional structural reforms would be needed to prevent debt from rising in the long term (DSA, Annex III Figure 7).

Text Table 2. Netherlands: Deficit Reduction to Stabilize Debt
(Percent of GDP)

	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
Primary balance under current policies	-1.3	-1.4	-1.8	-1.9	-2.2
2028 Debt stabilizing primary balance					-0.8
Required deficit reduction					1.3
Implied annual average adjustment	0.3	0.3	0.3	0.3	0.3
Cumulative adjustment	0.3	0.5	0.8	1.1	1.3
Target primary balance	-1.0	-0.9	-1.0	-0.8	-0.8

Sources: The Netherlands' Bureau for Economic Policy Analysis (CPB), Ministry of Finance, and IMF Staff Calculations.

21. Potential structural reforms could include:

- *Containing spending pressures on healthcare, pensions, and climate.* On pensions, linking the retirement age one-on-one to longer life expectancy is an important instrument. On healthcare, consideration should be given to a combination of measures (efficiency gains, reducing the basic policy package or increasing out of pocket payments) that could generate sufficient savings while mitigating risks and supporting solidarity. A health spending review published in December 2023, provides feasible options to slow growth in healthcare costs, but more ambitious measures are likely needed to substantially contain long-term costs pressures. On climate, tilting the balance away from fossil fuel subsidies towards pricing/carbon taxes could help achieve climate goals efficiently, while supporting fiscal sustainability (Annex VII).

- *Streamlining tax expenditures.*[8] This should focus on inefficient and ineffective ones, such as abolishing reduced VAT rates and reduced profit taxes for agriculture and improving the tax treatments of owner-occupied housing (see Section C and Annex VI on reform of implicit fossil fuel subsidies). The recently published Tax report provides important recommendations in this respect, with a view to enhance policy predictability.

Authorities' Views

22. The authorities agreed with staff's recommendations. They noted that the 2024 budget balance will deteriorate due to higher spending on social transfers, defense, and public investment. With rising pressures from medium-term challenges, they agreed that structural reforms were needed

[8] Exemptions are high at 15 percent of GDP, although the figure declines to 8 percent excluding the top three items: general tax credit (important for progressivity), the earned income tax credit (for encouraging labor supply), and the tax treatment of pension savings. See Benedek and others, 2022 and GTED.

to ensure fiscal sustainability. They also noted that staff's projection on the adjustment needed to stabilize debt and keep the deficit below 3 percent of GDP is broadly consistent with the recommendation of the 17th Budget Space Study Group report that called for an adjustment of €17 billion. They welcomed staff's comments on the various recent policy studies, which outline possible reform options. On old-age pensions, they observed that linking the retirement age more strongly to longer life expectancy could be challenging for low-skilled workers engaged in physically demanding jobs.

B. Financial Sector Policies

23. The Financial Sector Assessment Program (FSAP), conducted in 2023, found that the financial sector is generally resilient to an adverse scenario, though systemic risk remains elevated and warrants continued monitoring. The main risks stem from household and corporate debt, real estate, NBFIs, and climate change:

- *Household and corporate debt*. The household debt burden has been declining since 2010, although debt levels and servicing remain high compared to peers (Figure 9). Considerable household assets (Figure 15) provide a counterweight but are mainly tied up in pension savings. Likewise, corporate debt has declined (percent of GDP), but debt-to-surplus ratios of firms are elevated relative to other EU countries, suggesting a need to boost profitability. Under a prolonged high-interest rate scenario, concerns may arise due to the elevated debt burden on households and firms, which could pose credit risks to the banking sector.

- *Real estate*. The financial sector is vulnerable to a steep contraction in real estate prices. Notwithstanding recent corrections, residential (RRE) and commercial real estate (CRE) valuations appear elevated.[9] As a percentage of GDP, the exposure of Dutch banks to RRE and CRE collateralized loans is among the highest in the euro area. NBFIs, including insurers and investment funds, have expanded RRE lending. CRE investments are significant among insurers and occupational pension funds. A strong decline in RRE prices, particularly if coupled with a rise in unemployment, could increase mortgage defaults and losses. Risks are mitigated by a large share of fixed-rate mortgages, a falling prevalence of interest-only loans reflecting continued efforts to incentivize borrowers to lower their exposures to these loans, full legal recourse of lenders and strong debt-servicing commitment, a public mortgage-guarantee scheme, and some tightening of macroprudential policies by the authorities. Still, younger, and lower-income borrowers are more vulnerable to adverse financial shocks, while wealth effects from declining prices could dampen growth and worsen financial sector balance sheets. More broadly, housing affordability concerns call for increases in supply, which in turn will require supply-side measures, including greater efficiency and speed in the building process.

- *NBFIs*. Occupational pension funds and insurers face market, liquidity, and inflation risk. Rapidly-rising interest rates have increased concerns regarding potential margin calls on derivatives. While the FSAP analysis shows the resilience of pension funds to liquidity risks in adverse scenarios,

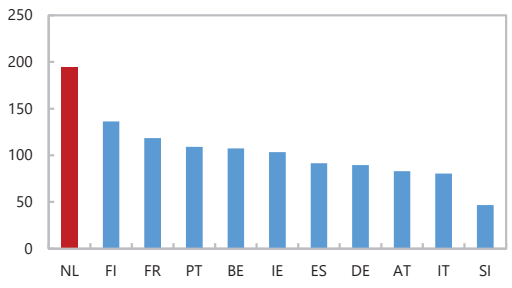
[9] The ESRB's Risk Dashboard indicates an overvaluation of house prices of around 15–25 percent in 2023Q1.

repo market conditions should be monitored closely. Pension funds' transition from the current defined-benefit to a defined-contribution system by 2028 is welcome as it improves their longer-term sustainability, but complexities need to be managed carefully by DNB and Dutch Authority for Financial Markets (AFM).[10] For health and non-life insurers, claims inflation poses risks by straining profitability.

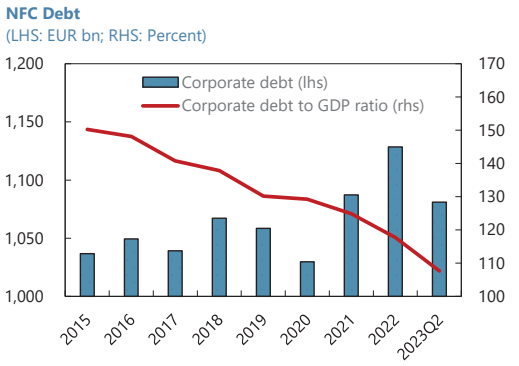
- *Climate risk*: Sea-level rise and more frequent extreme rainfall heighten financial sector exposure to physical climate risk, although the FSAP found that so far banks and insurers are largely resilient to a wide range of flood events. Likewise, some aspects of greening the economy, including nitrogen reduction, can pose risks for affected industries and the financial sector, especially in the absence of full clarity on the transition path.

24. DNB has appropriately strengthened macroprudential buffers. In May 2023, as the systemic risks remain elevated while bank profitability was increasing, the countercyclical capital buffer rate was further raised by 1 percentage point to its 2 percent neutral level, effective in May 2024, along with a reduction in other buffers for the largest banks by 0.25–0.75 CET 1 percentage points, to reflect European Banking Union progress and their lower structural systemic risks (Text Table 3). Moreover, minimum risk weight floors for residential mortgages will remain in place at least until December 1, 2024.

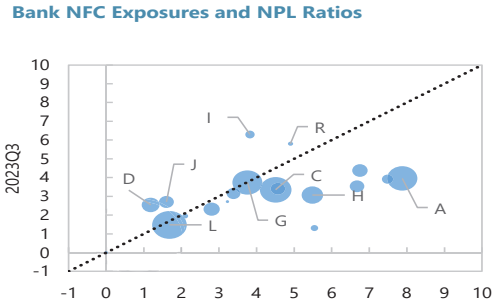
Figure 9. The Netherlands: Financial Sector Vulnerabilities



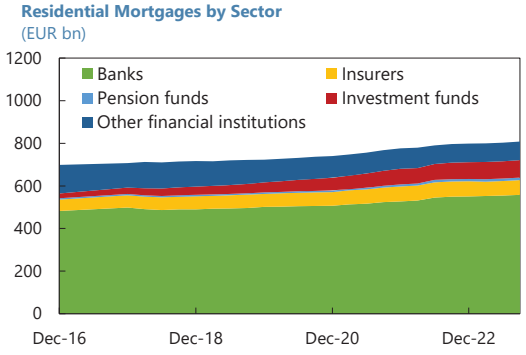
Sources: ECB; Eurostat; and IMF staff calculations.



Sources: CBS and IMF staff calculations.



Source: EBA.
Notes: agriculture (A), manufacturing (C), utilities (D), trade (G), transport and storage (H), hospitality (I), ICT (J), real



Source: DNB.

[10] See the FSSA and the Technical Note on Insurance and Pension Fund Regulation and Supervision.

Text Table 3. The Netherlands: Macroprudential Policy Measures

	current calibration	notes
Capital-based measures		
Capital conservation buffer	2.5 percent	
Counter-cyclical capital buffer	2.0 percent	May 2023 (announced), May 2024 (effective)
G-SII buffer	1 percent	ING
O-SII buffer	0.25-2.0 percent	May 2023 (announced), May 2024 (effective) ABN Amro (1.25 percent reduced from 1.5 percent) BNG (0.25 percent reduced from 1 percent) ING (2.0 percent reduced from 2.5 percent) Rabobank (1.75 percent reduced from 2 percent) Volksbank (0.25 percent reduced from 1 percent)
Risk weight floors on IRB mortgage exposures	12 and 45 percent	since 2022 until at least December 2024 12 percent risk weight for up to 55 percent of collateral value, 45 percent risk weight beyond
Borrower-based measures		
Maximum LTV for residential mortgages	100 percent	since 2018
Interest-only mortgages	tax deductibility limit	since 2013 30 year amortisation requirement for tax deductibility of mortgage payments
Interest-only mortgages	borrowing limit	maximum 50 percent of property value

Sources: ESRB and national authorities.

25. As recommended in the context of the FSAP, the financial sector policy framework could be further strengthened (Annex V).

- *Macroprudential policy*. Calibration of borrower-based measures should be focused on minimizing financial stability risks (which can enhance consumer protection), with access to homeownership objective addressed by other policies. The LTV limit should be gradually reduced to 90 percent, and mortgage interest deductibility should be phased out, considering elevated housing prices. A clear legal basis to access granular transaction/loan-level data, including RRE and CRE loans, on a regular basis should be ensured for timely risk monitoring and analysis.

- *Supervision*. The authorities should: (i) adapt supervisory approaches to reflect a rapidly-changing market environment and strive for consistent supervisory outcomes across sectors through timely deployment of technologies and analytical tools; (ii) review the legislative framework to ensure that the supervisory authorities have sufficient budgetary autonomy, delegated powers, and intervention tools to address risks promptly and efficiently; (iii) further clarify in law the requirement of independent board members of supervised institutions, both banks and NBFIs; and (iv) monitor and proactively manage potential risks of the pension system transition.

- *Climate risk oversight*. The authorities have been leaders in climate risk supervision and quantitative analysis of climate risks. They could further and more systematically integrate climate risks in their supervision, within their legal mandates and backed by stronger data, scenario analysis, and disclosure. They could also establish an interagency body—or further facilitate this in an existing platform—to discuss and coordinate policy actions on climate issues with implications for financial stability. As the climate transition policy path—including nitrogen—becomes clearer, they should assess the impact of such policies on the financial sector.

- *Crisis management and resolution framework*. After good progress with ensuring legal certainty of the resolution framework and deposit insurance access to back-up funding, the authorities should further ensure the operational readiness of resolution plans; identify and operationalize national

sources for the provision of liquidity in resolution (such as emergency liquidity assistance); and develop and regularly test a national financial crisis management plan.

- *Financial integrity*. The authorities should carry out a more comprehensive analysis of risks from the misuse of legal entities and conduit structures; further enhance the DNB's risk-based AML/CFT supervision of the banking and trust-office sectors; and improve the availability and accuracy of beneficial ownership information.

Authorities' Views

26. The authorities welcomed the integration of the FSAP into the bilateral surveillance. They were somewhat more sanguine about the risks. The existing risks in the residential real estate are mitigated by a large share of long-term fixed mortgages, a decreasing prevalence of interest-only mortgages, appropriate macroprudential capital-based measures and recent robust income growth. Risks related to the commercial real estate (CRE) are limited, given the relatively low bank exposure to CRE and the low risk of liquidity mismatches for property funds. Monitoring remains warranted, given recent developments in domestic and foreign CRE markets. Regarding macroprudential policy, they considered that the current institutional settings for the calibration of borrower-based tools were adequate, and highlighted the different objectives taken into account in the calibration of those tools—consumer protection and financial stability, while also taking into account access to home ownership. Regarding NBFIs' access to liquidity in times of stress, a well-functioning money market for NBFIs—especially pension funds—could help. Furthermore, they strongly support the transition to a new pension system and emphasize the importance of starting the implementation of the defined contribution system. They stressed that efforts to integrate climate and nature-related risks into supervisory practices will continue through strengthening of policy coordination across agencies. On the crisis management and resolution framework, the authorities welcomed the recommendations to focus on testing resolution capacities and to prioritize operationalization. However, the authorities noted that the directly applicable Single Resolution Mechanism Regulation does not provide for the sharing of more non-confidential details of resolution plans with less significant institutions (LSIs). Furthermore, the authorities noted that it would be more appropriate to focus on the provision of liquidity after resolution.

C. Climate Policy and Energy Security

27. Climate goals appear achievable, but significant uncertainty remains. The Netherlands Environmental Agency (PBL) estimates that based on planned climate policies, greenhouse gas emissions, including nitrous oxide, could be between 46–57 percent lower in 2030 than in 1990. To achieve the goal of at least 55 percent reduction in 2030 with enough certainty, the Netherlands aims at 60 percent greenhouse gas reduction in 2030. A prolonged government formation could delay or weaken the ambitious agenda, as the measures to achieve these goals require a political mandate.

28. A critical issue is to achieve a robust balance among (lower) subsidies, carbon pricing or similar fiscal instruments, and standards/norms to achieve climate goals, including nitrogen reduction:

- *Implicit fossil fuel subsidies.* A recent government report suggests that implicit fuel subsidies (fiscal fossil fuel exemptions, discounts, lower tax rates) are sizeable at 4–5 percent of GDP. Efforts are currently focusing on identifying measures to streamline and reduce them, with €6 billion in subsidies removed via the 2024 Budget (Annex VI).
- *Pricing/carbon taxation.* Power and industry emissions are priced by the EU trading system, and there is a domestic subsidy scheme for low-carbon technologies. Pricing reforms could enhance environmental effectiveness, and maintain robust revenues, in the mobility and agricultural sectors including: (i) shifting from fuel taxation to taxation per kilometer, supported by the existing feebates in the vehicle tax system, which together with the EU's new passenger vehicle fuel economy standards provides enhanced road electrification incentives; (ii) increasing the tax on trucks and long-distance flight tickets; and (iii) introducing a meat products tax.
- *Standards and norms*. Under consideration is a target to completely shift to electric vehicles by 2050 by allowing only zero-emission corporate vehicle sales within the mobility sector. There are also efforts to reduce the number of livestock.

29. Progress with ensuring energy security and expanding renewables have been rapid but complicated and costly, with unintended consequences. The Netherlands is #1 globally in rooftop solar panels per capita and hosts about 24 percent of all the charging electric stations in Europe. The number of new dwellings with heat pumps and without gas connection is also growing rapidly, and the authorities have an ambitious national target to increase green gas by 20 percent by 2030. At the same time, electricity-grid congestion, influenced by high volatility of both demand and supply, and a long waitlist for electricity connections is affecting the clean-energy transition and growth.

Policy Advice

30. Carbon pricing can be reinforced with feebates and implicit subsidy removal (Annex VI). Feebates provide a system of sliding fees for higher-emission products/activities and rebates for those with below-average emissions intensity. Netherlands has, in effect, integrated elements of a feebate into its vehicle tax system, helping to accelerate a shift to cleaner vehicles without a large new tax burden on the average motorist (Annex VI Figure 2). Feebates or similar schemes could be extended to sectors such as buildings (funding subsidies for heat pumps and insulation through residential gas taxes and taxes on energy inefficient buildings) and agriculture. Removing implicit subsidies, where domestically feasible, helps equalize abatement costs across activities, which promotes efficient decarbonization, and generates fiscal savings. Clean technology subsidies are less efficient as they lack penalties for emissions-intensive activities and create fiscal costs.

31. While emissions fees are an effective instrument for cutting agricultural emissions, a meat tax is a practical interim measure from an administrative and competitiveness perspective. Emissions fees would promote reductions in the emissions intensity of farming and shifting from (emissions intensive) cattle operations to pigs, poultry, and crops. However, substantial capacity is needed for farmers to assess and self-report emissions (subject to third party verification) and preserving competitiveness may require revenues to be recycled within the sector, or alternatively a feebate approach. A meat consumption tax, administered at the processor level, is

practical administratively and avoids competitiveness and leakage concerns. It does not however lower the emissions intensity of domestic production and much of the reduced consumption may come from fewer imports rather than less domestic production.

32. The Netherlands is a leader in climate change adaptation, using a proactive and comprehensive approach, in line with past advice. The 2023 National Implementation Program for Climate Adaptation details ongoing efforts in adaptation, highlights areas for further attention, and discusses strategies for acceleration. The National Adaptation Strategy is being updated. While the government is currently the main player in adaptation, greater private-sector participation, e.g., by promoting private flood insurance for residential properties, would help ensure a more efficient response. According to a 2022 EIB Investment Survey, 53 percent of firms see themselves as affected by climate change, similar to the EU average (57 percent); however, just 28 percent of Dutch firms have already developed or invested in measures to build resilience to climate risks, below the EU average (33 percent).

Authorities' Views

33. The authorities agreed with staff's recommendations. To tackle climate change, they agreed that it was critical to use all fiscal instruments available, striking a robust balance among subsidies/fiscal support, carbon pricing, and standards/norms, while addressing distributional concerns and ensuring policy predictability. On fossil fuel subsidies, they highlighted steps to enhance transparency by publishing an inventory of subsidies and to streamline some subsidies as part of the 2024 budget. A recently published independent report provides guidance on which remaining subsidies to phase out and how quickly. They stressed that since a substantial share of subsidies is due to regional and international agreements (e.g., maritime and aviation fuel that is used internationally), a joint work with international partners is needed to address them. On adaptation, they noted the creation of an inter-agency working group in cooperation with the financial sector to promote private participation and fund private adaptation investment.

D. Additional Structural Policies to Enhance Economic and Social Resilience

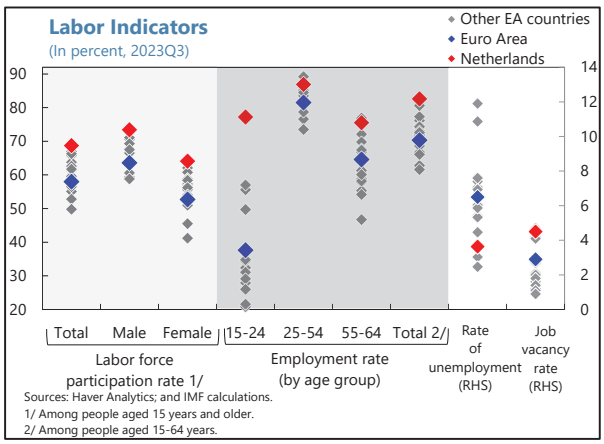
Labor Markets

34. Progress in tackling labor-market duality could increase resilience and improve social protection of the self-employed (SE). To establish a more level playing field between employees and freelance SE, the authorities have introduced and accelerated a phase-out of the SE person's tax deduction. Given that about 6 percent of SE (without employees) have higher risk of poverty, staff welcome the authorities' discussion of mandatory disability insurance and the possibility of collective bargaining to enhance social protection. Pension arrangements for SE are another area where attention is needed. The authorities also aim to clarify the definition of and conditions for employment and to reduce work uncertainty by restricting zero-hour contracts.[11] Discussions are also

[11] In a zero-hour contract, an employee has no fixed hours, and can be spontaneously called in to work when needed.

ongoing, and the authorities aim to improve employer flexibility in times of stress, for instance, by allowing firms more flexibility in reducing hours in a tail risk event.

35. Labor and skill shortages weigh on growth prospects, green transition, and digitalization. The labor market is very tight (text chart, Figure 10), with labor shortages in all sectors and among the highest job vacancy rates in the EA. Labor and skill shortages are likely to become more severe with population ageing and climate change. Labor shortages in health care and social work, which are already among the highest in the EA, will become severe as the old-age dependency ratio is projected to increase from 31 to 50 percent during 2021–60.[12] Given the ambitions climate agenda, new skills and jobs will need to be created and filled. Selected measures of EU member countries to address labor shortages are summarized in Table 1. Potential broad areas include:



- *Addressing labor and skill shortages by incentivizing part-time workers to increase hours worked.* With labor force participation among the highest in the EA, including for women, there is limited remaining potential to stimulate the extensive margin (participation). Efforts should focus on the intensive margin (hours per employed worker). Access to child and elderly care should be improved in a fiscally sustainable manner. Over the medium-term, the tax-benefit system should be streamlined to reduce complexity.

- *Promoting training and labor mobility towards priority sectors (green transition, digitalization, health).* Efforts should focus on: (i) adjusting active labor market policies by reorienting training towards addressing skill shortages in priority sectors; and (ii) continuing to enhance and target lifelong learning programs to improve productivity.

- *Considering measures to adopt technology (including through AI) and optimize migration.* Technology, including robotics and automation, may help reduce vacancies. For migrants, existing processes of recognition and validation of qualifications acquired abroad should be streamlined and accelerated for skills that are in shortage.

[12] Based on UN World Population Prospects (2022); defined as the ratio of persons aged 65 and above to those aged 15–64 years. Using data of the Dutch Statistics Office, the ratio of persons aged 65 and above to those aged 20–64 years is projected to increase from 34.1 in 2022 to 46.2 in 2060.

Digitalization

36. A renewed emphasis on digitalization would help reduce labor shortages and support productivity. The Netherlands ranks among the top-performers in Europe on internet access and digitalization (Figure 11). This high degree of digitalization served the country well during the COVID-19 crisis. However, shortages of IT professional were reported even before the pandemic, while SMEs need faster adoption of digital technologies.[13] The RRP identifies digitalization as one of the key areas for investment, allocating 26 percent of the financing over 2023–26 to be invested in accelerating the digital transition by investing in quantum technology and digital upskilling and improving rail connectivity. Important progress has been made in implementing the RRP. Efforts to support research and development (R&D) and investment in education should continue to help revive business investment and enhance learning.

Voluntary Assessment of Transnational Aspects of Corruption

37. The Netherlands continues to develop measures and good practices to combat foreign bribery of public officials, but there are areas requiring improvement (Annex VIII).

Authorities' Views

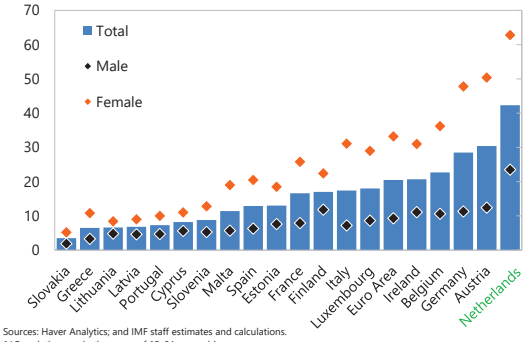
38. The authorities broadly agreed with staff's recommendations. They stressed that efforts to improve labor market functioning are ongoing. They agreed that pension arrangements for the self-employed are another area where attention is needed. They highlighted ongoing efforts to streamline the tax and benefits system. They noted that improving childcare access is an important factor in participation decisions but faces challenges by labor shortages. On digitalization, the authorities indicated that shortages of ICT staff are more prevalent among SMEs. Efforts to address ICT staff shortages are ongoing, including tracking shortages at the regional level, improving student STEM enrollment (including among women), and discussing with social partners on use of AI. They welcomed the voluntary assessment of supply side corruption and reiterated their commitment to further strengthen the AML/CFT framework.

[13] See OECD Economic Surveys—The Netherlands, June 2021, and EC 2022 Country Report—The Netherlands.

Figure 10. The Netherlands: Labor Market Indicators

The Netherlands is the champion of part-time work in the Euro Area, particularly among women.

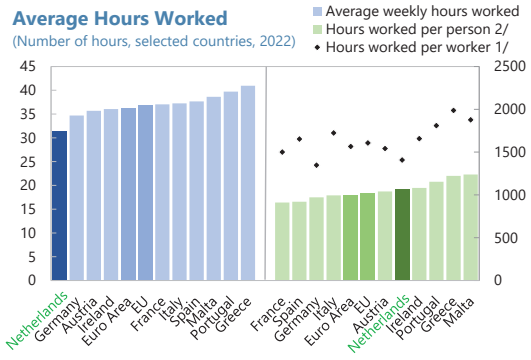
Part-Time Employment
(In percent of total, 2023Q3, seasonally adjusted 1/)



Sources: Haver Analytics; and IMF staff estimates and calculations.
1/ Population age in the range of 15-64 years old.

This helps explain the lowest overall average working weekly hours in the EA. However, hours worked per capita are above the EU and EA averages, given high participation rates.

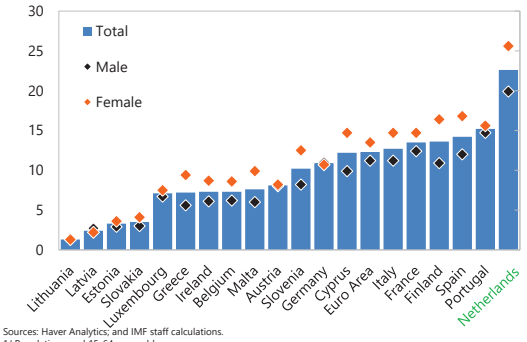
Average Hours Worked
(Number of hours, selected countries, 2022)



Sources: Eurostat; Haver Analytics; and IMF staff calculations.
1/ Defined as total annual hours worked per worker (National Accounts; domestic conccept, RHS).
2/ Defined as total annual hours worked per person aged 15-74 years (RHS).

The prevalence of temporary contracts…

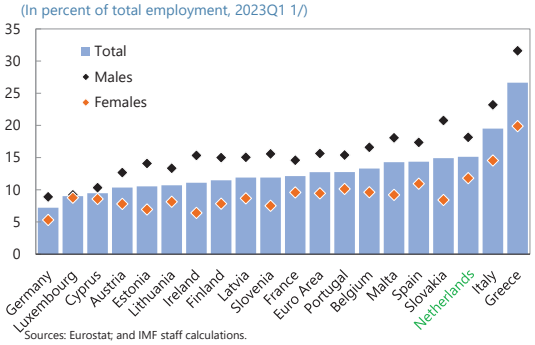
Temporary Contracts
(In percent of total, 2023Q3, seasonally adjusted 1/)



Sources: Haver Analytics; and IMF staff calculations.
1/ Population aged 15-64 years old.

…and self-employment is also among the highest.

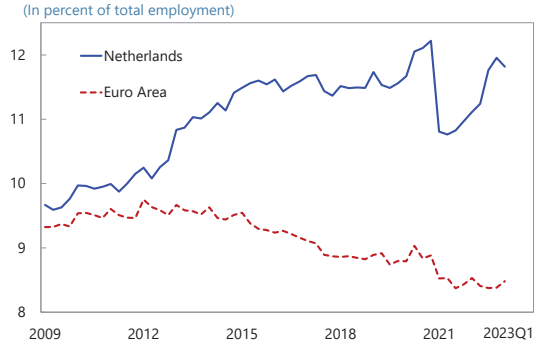
Self-Employment
(In percent of total employment, 2023Q1 1/)



Sources: Eurostat; and IMF staff calculations.
1/ Population age in the range of 15-64 years old. Includes persons with employees and own-account self-employed workers (freelancers).

Freelance self-employment has continued to increase significantly, largely driven by tax incentives.

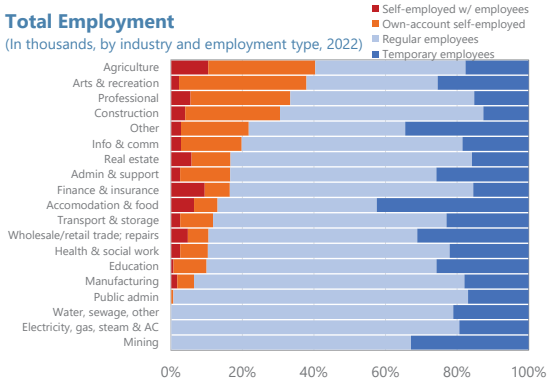
Freelance Self-Employed
(In percent of total employment)



Sources: Eurostat; and IMF staff calculations.

Non-standard types of employment are prevalent in most sectors.

Total Employment
(In thousands, by industry and employment type, 2022)



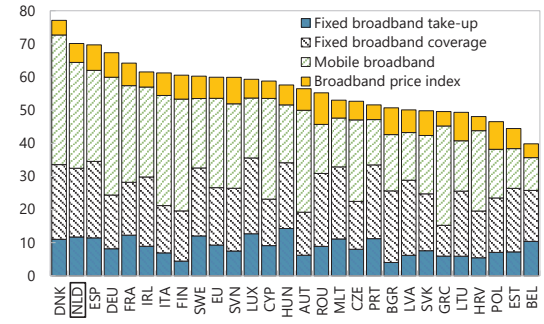
Sources: Eurostat; Haver Analytics; and IMF staff calculations.

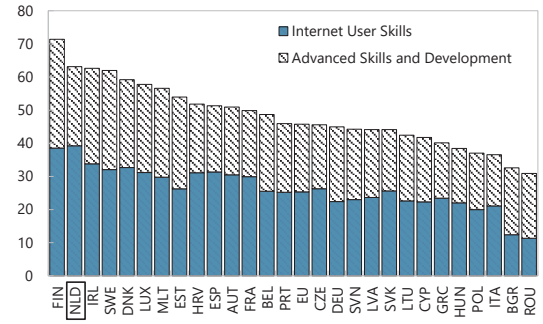
Table 1. Selected Measures to Address Labor Shortages by the EU Member States

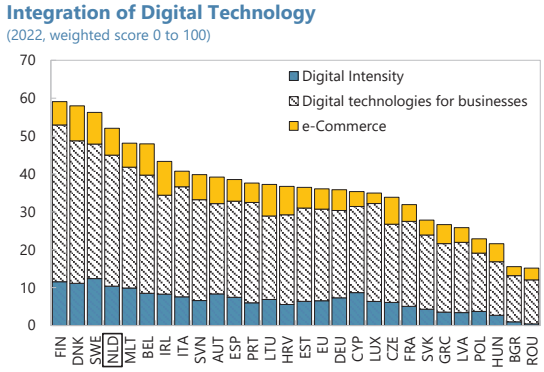
Group	Measure	Description	Examples of countries using approach
Attract labor			
	Enhance the appeal of certain sectors	Enhancing the attractiveness of training for certain (vocational) sectors\occupations.	Austria, Germany, Hungary, Luxembourg, Romania
		Improving pay and working conditions in specific sectors (e.g health and care), incl. regular review of minimum wage.	Belgium, Bulgaria, Croatia, Estonia, Finland, Germany, Hungary, Lithuania, Luxembourg, the Netherlands, Slovakia, Slovenia, Sweden
		Awareness raising of sectors	Austria, Belgium, Finland, Estonia, Malta, the Netherlands, Portugal, Sweden
	Enhance the attractiveness of living and working conditions in a country/region	Attracting specific groups of workers, such as high-level professionals, to countries/regions and assisting in their integration and that of their families.	Austria, Finland, Germany, Latvia
	Active migration policies	Setting up specific migration policy projects based on access requirements for high-, medium-, and low-skilled staff in specific sectors (incl. points-based immigration system, creation of catalogues of shortage occupations, easing of salary criteria and quota system, and easing of admin. requirements). Setting up agreements with specific countries and prolonging the stays of third-country nationals.	Austria, Belgium, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Hungary, Ireland, Latvia, Lithuania, Malta, the Netherlands, Poland, Portugal, Slovenia, Spain
		Setting up specific schemes to support the rights of seasonal workers.	Croatia
		Offering vocational training with integrated language training for migrants.	Sweden
		Encouraging the return migration of diaspora.	Lithuania, Portugal, Slovenia
	Improving recruitment strategies at company level	Providing company-level examples of enhanced recruitment practices	Austria, Malta, Poland
Activate underutilized resources and retain labor			
	Addressing geographical barriers	Support for mobility	Austria, Croatia, Latvia, Lithuania, Sweden
	Addressing work-life balance	Providing support for childcare	Malta
		Enhancing work-life balance policies, including the encouragement of a better balance in caring responsibilities between men and women.	Estonia, The Netherlands, Slovenia, Spain
	Active labor market policies and other measures to support the integration of specific groups	Overcoming non-skills-related barriers to integration for vulnerable groups in the labor market, including long-term unemployed, workers with disabilities, and migrants and refugees	Belgium, Bulgaria, Czech Republic, Denmark, Germany
		Improving rehabilitation services to allow workers to return from long-term sick leave, unemployment or inactivity	Austria, Estonia, Romania
Enhance the use of existing labor and retain labor			
	Improved matching between supply and demand	Using skills forecasting to adapt vocational and ongoing training systems to identify future shortages	Croatia, Estonia, Greece, Latvia, Lithuania, Malta
		Integrating broader government development strategies with training and job creation (taking account of digital transformation and artificial intelligence).	Ireland
		Improving the match between the education system at all levels and labor market needs through regular updating, including with the involvement of social partners	Bulgaria, Germany, Latvia, Lithuania, The Netherlands (technology sector), Poland, Spain
	Addressing skills mismatches	Introducing and developing dual education pathways.	Slovakia
		Enhancing the relevance of transferable skills in vocational training systems, including digital and soft skills.	Finland, Ireland
	Improved matching systems	Improving career guidance and counselling.	Greece
		Better validation and certification of existing skills and non-formal and informal education.	Croatia, Cyprus, Sweden
		Implementing active labor market policies (training) to provide a better match between bottleneck occupations and jobseekers	Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, Germany, Latvia, Romania
		Delivering workplace-tailored training (e.g., by public employment service).	Austria, Belgium, Cyprus
		Greater emphasis in active labor market policies on in-work training.	Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Greece, Ireland, Italy, Latvia, Slovenia
	Enhancing the preparation of employees for labor market change	Providing support for the delivery of lifelong learning, including digital skills.	Austria, Belgium, Latvia, Luxembourg, Sweden
		Ongoing assessments of vocational requirements (including mid-career assessments).	Croatia, Germany
	Enhancing the use of existing labor through employee sharing	Addressing labor shortages through employee sharing.	Czech Republic, the Netherlands
	Preventing early exit from the labor market	Providing support for active age management strategies and promoting the retention of the work ability of older workers.	Lithuania, Romania, Slovenia
		Pension reform and other (non-skills-focused) measures to retain older workers.	Croatia, Estonia, Slovakia, Slovenia

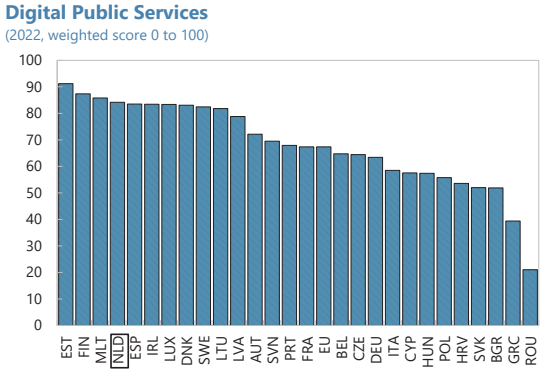
Source: Eurofound (2021), Tackling labour shortages in EU Member States, Publications Office of the European Union, Luxembourg.
For details, see https://www.eurofound.europa.eu/en/publications/2021/tackling-labour-shortages-eu-member-states

Figure 11. The Netherlands: Internet Access and Digitalization









STAFF APPRAISAL

39. While growth has slowed, the Dutch economy continues to show important resilience. After 2 years of strong recovery, growth decelerated in 2023, reflecting the energy shock, tighter financial conditions, and weaker external demand. Growth is projected to increase gradually in 2024 and 2025, driven by improved household purchasing power from lower inflation and stronger external demand. Inflation should continue to moderate. Amid high uncertainty, downside risks dominate, including from a possible housing market correction, a sharper slowdown in trading partner growth, geopolitical tensions, and deeper geo-economic fragmentation. The external position in 2023 is assessed to have been stronger than the level implied by fundamentals and desirable policies.

40. The 2024 budget is moderately expansionary. This mostly reflects higher spending on social transfers, defense, and public investment. Social-support measures are generally well-targeted, but the extension of reduced excise duties is not—the phase-out this year is therefore welcome. Efforts to reduce implicit fuel subsidies are also ongoing and welcome.

41. In the near term, fiscal policy should balance support for inflation reduction with downside risks to growth. Given the higher cost of underestimating core inflation persistence, adopting a non-expansionary fiscal stance is warranted. While revenue overperformance and some underspending may in the end deliver the desired stance, proactively identifying and implementing

deficit-reducing measures would send a stronger signal. A good way to achieve this is through unwinding untargeted energy measures and rationalizing fossil fuel subsidies. Given high uncertainty, fiscal policy should be agile and flexible if risks materialize.

42. Given rising pressures from medium-to-long term fiscal challenges, adjustment will be needed to stabilize debt and retain strong buffers. The current public debt/GDP ratio is low, and debt is sustainable. However, significant pressures need to be addressed over the medium term. Staff support the authorities' objective to stabilize medium-term debt at its 2028 level. To this end, the required adjustment should be of high quality, not be achieved by lower overall investment spending, but should protect or ideally increase investment spending on key medium-term challenges—climate, labor markets, housing, and education. Structural constraints to investment implementation should be addressed to reduce policy uncertainty.

43. Structural reforms are needed to support fiscal sustainability. On pensions, linking the retirement age to longer life expectancy is an important instrument. On healthcare, consideration should be given to a combination of efficiency gains, adjustments of the basic policy package, and higher co-payments that could generate savings while mitigating risks and supporting solidarity. On climate, tilting the balance away from fossil-fuel subsidies towards higher carbon pricing would help achieve climate goals efficiently while supporting fiscal sustainability and allowing for more targeted social spending. Streamlining tax expenditures would also help safeguard sustainability. Decisive actions in these areas will ensure policy continuity and predictability.

44. The financial sector is generally resilient to adverse scenarios, although risks are elevated and warrant continued monitoring. The main risks stem from high household and corporate debt, real estate, NBFIs, and climate change. The 2023 FSAP recommends further adjustments to borrower-based measures; adapting supervisory approaches to a rapidly changing market environment; equipping supervisory authorities with necessary resources, access to technologies, analytical tools, and granular data; and ensuring operational readiness of resolution plans and crisis preparedness and management.

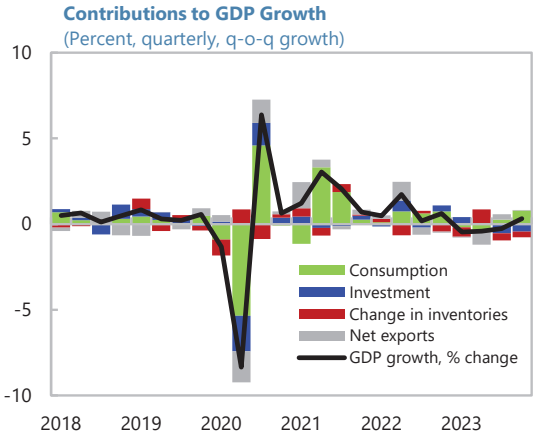
45. Ambitious climate goals appear achievable. Measures to invest in clean energy and enhance energy security are commendable. Staff welcomes the authorities' commitment to enhance climate mitigation and transition policies and policies for climate change adaptation.

46. Additional structural reforms would help enhance economic and social resilience. Efforts to tackle structural challenges in labor markets and advance digital transition are welcome. Further progress in reducing labor market duality would increase labor participation and productivity. Addressing labor and skill shortages calls for incentivizing part-time workers to increase hours worked, strengthening the framework for self-employed workers, promoting training and labor mobility towards priority sectors (green transition, digitalization, health), and measures to speed up adopting of new technology (including AI), while optimizing international labor, where needed. Investment in digitalization will help attenuate labor shortages.

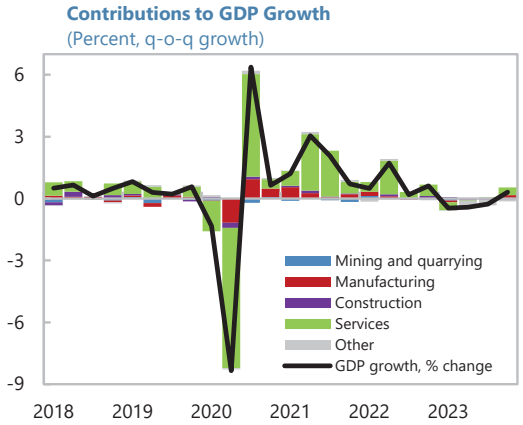
47. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 12. The Netherlands: Economic Activity

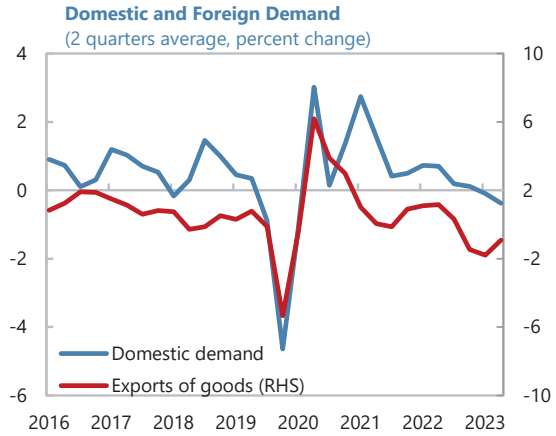
Following strong growth in 2022, activity slowed in the first three quarters of 2023...



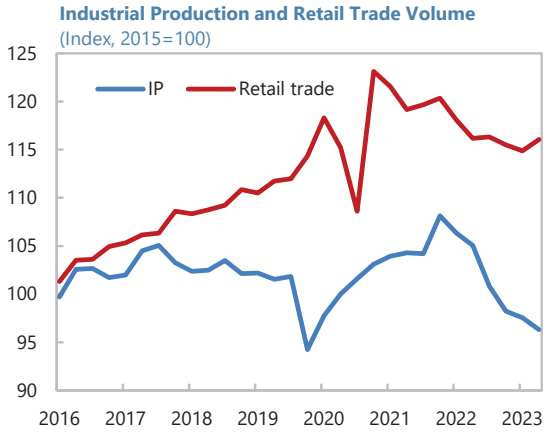
...with the slowdown seen across most sectors.



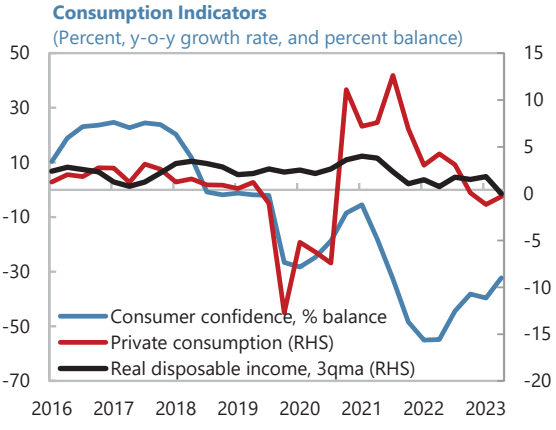
Domestic demand has been slowing recently, and goods exports are declining...



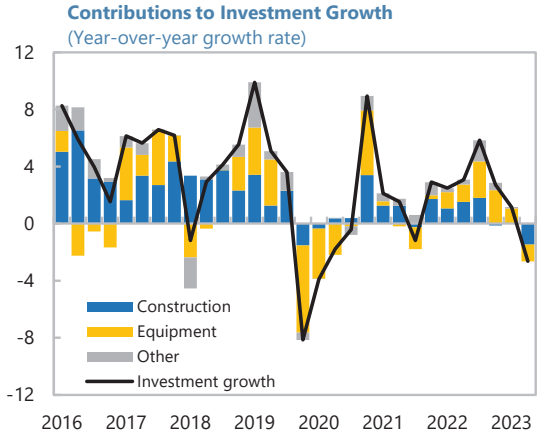
...industrial production and retail trade have also slowed.



Consumer confidence reached an all-time low amid declining real disposable incomes.



Investment growth slowed in 2023 with lower construction growth.

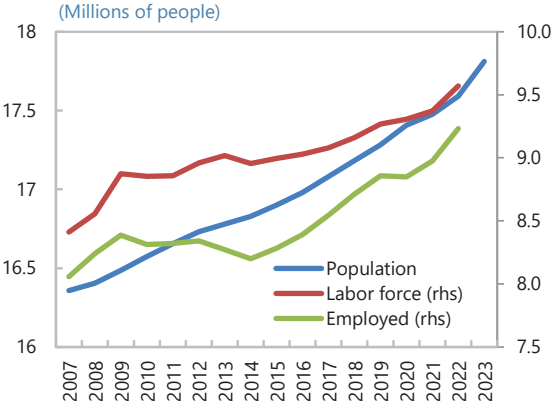


Sources: CBS; DNB; Haver Analytics; and IMF staff calculations.

Figure 13. The Netherlands: Labor Market

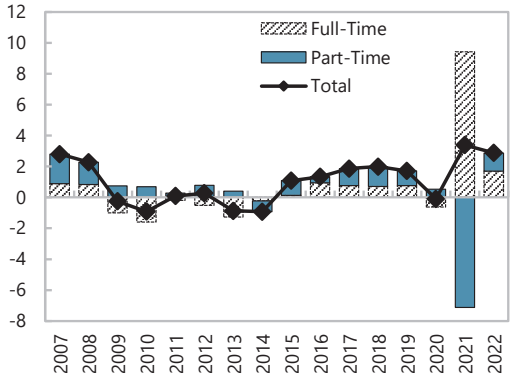
After some decline during the pandemic, employment and labor force participation were at an all-time high in 2022.

Population, Labor Force and Employment
(Millions of people)



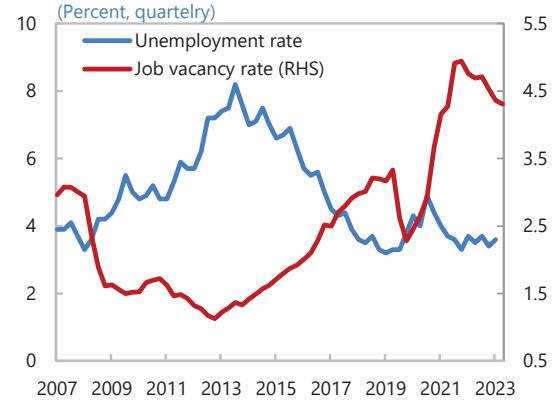
Employment continued to increase in 2022, driven by part-time and full-time employment.

Contributions to Total Employment Growth, 15-64
(Percent)



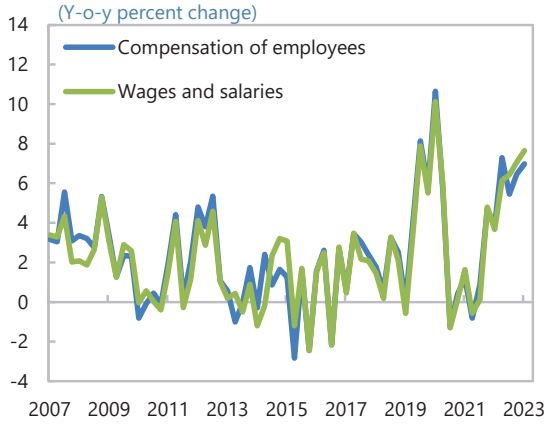
The labor market is tight, with low unemployment and high vacancies.

Labor Market Tightening Indicators
(Percent, quarterly)



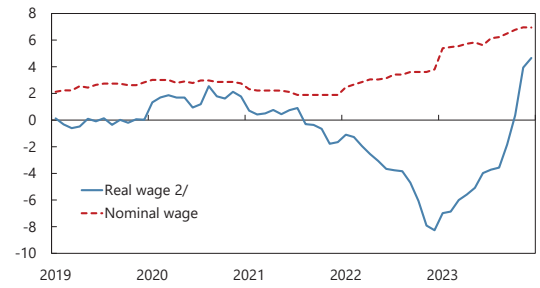
Labor costs have increased, driven by wage growth.

Labor Costs
(Y-o-y percent change)



Real wages increased in line with nominal wage growth and…

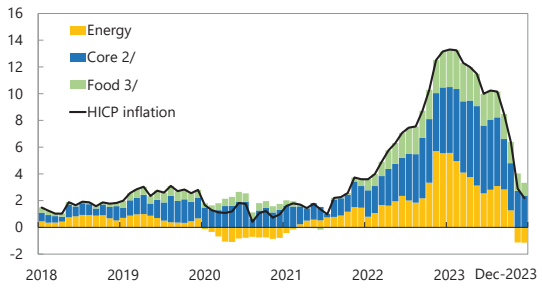
Hourly Wage Growth
(In percent, year-on-year, monthly 1/)



Sources: Haver Analytics; CBS; and IMF staff calculations.
1/ Hourly wage including special payments.
2/ Real wage growth is defined as nominal wage growth deflated by the HICP inflation rate adjusted for the structural break.

…reflecting (adjusted) inflation deceleration.

Adjusted HICP Inflation
(In percentage points, contribution to y/y growth 1/)



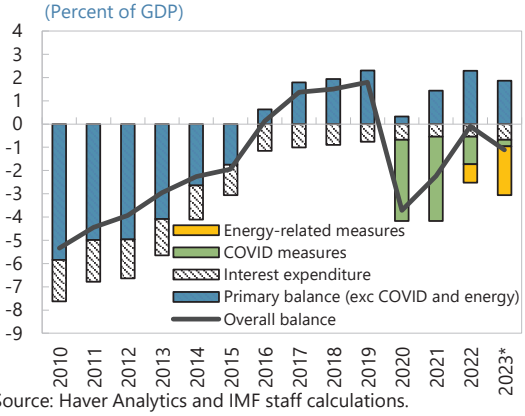
Sources: Haver Analytics; CBS; and IMF staff estimates and calculations.
1/ HICP series are adjusted to account for the methodological change in calculating energy prices in June 2023 and are based on the research price indeces published by the CBS.
2/ Defined as HICP total excluding food, beverages, tobacco and energy.
3/ Includes food, beverages, tobacco.

Sources: CBS; Eurostat; OECD; Haver Analytics; and IMF staff calculations.

Figure 14. The Netherlands: Fiscal Developments

The fiscal balance recovered in 2022–23, despite the COVID and energy packages in place…

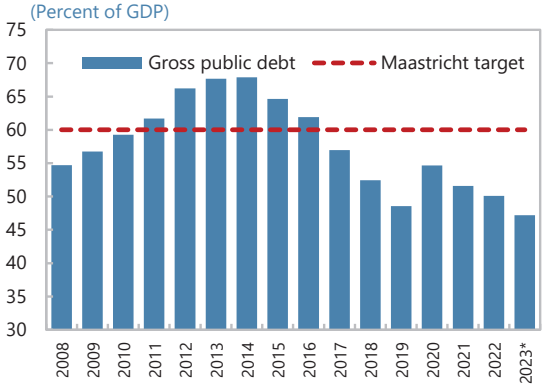
Overall Balance
(Percent of GDP)



Source: Haver Analytics and IMF staff calculations.
Note: * IMF staff projections

…while public debt fell to an estimated 47.2 percent of GDP in 2023, below pre-pandemic level.

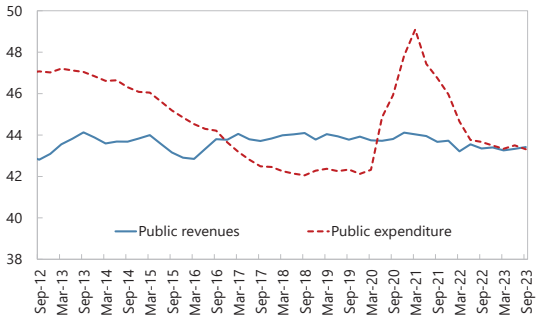
Gross Public Debt
(Percent of GDP)



Source: Haver Analytics and IMF staff calculations.
Note: * IMF staff projections.

The end of pandemic programs, higher revenues, and underspending helped correct the deficit in 2022–23.

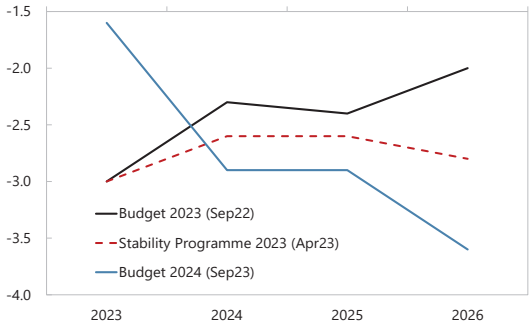
General Government Revenue and Expenditure
(Percent of GDP, 4Q accumulated)



Sources: CBS and IMF staff calculations

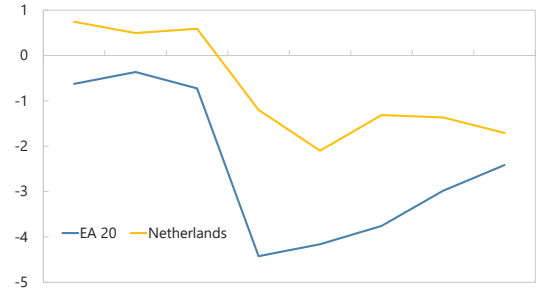
The deficit is expected to deteriorate in 2024 and over the medium term.

General Government Balance: Authorities Projections
(Percent of GDP)



While better than the average for the euro area, the cyclically adjusted balance is projected to deteriorate…

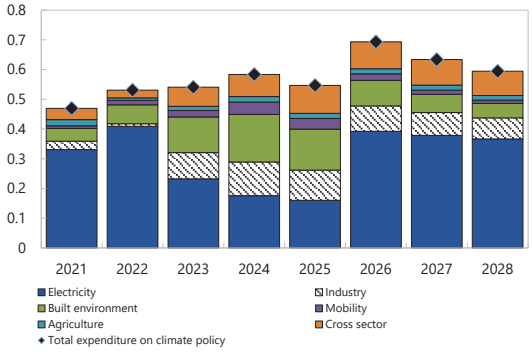
Cyclically Adjusted Balance
(Percent of GDP)



Sources: IMF WEO Database.

…in a context of a need to promote spending aligned with the climate policy agenda.

Projected Climate Expenditure
(As percentage of GDP)

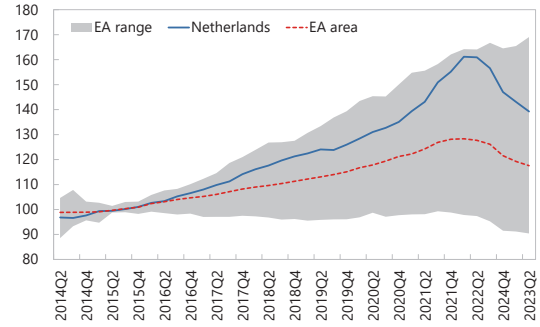


Sources: CBS; CPB; Dutch Ministry of Finance; Eurostat; and IMF staff calculations.

Figure 15. The Netherlands: Financial Sector Developments

Real house prices have seen among the sharpest increases in the euro area in recent years...

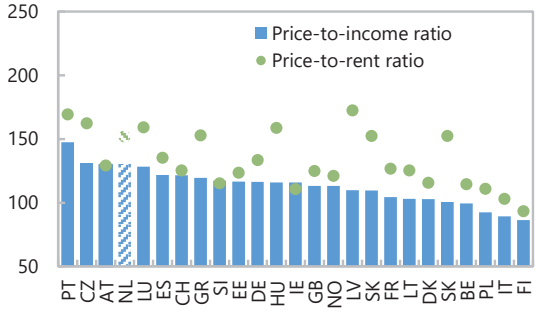
Real House Price Index
(Index, 2015 = 100)



Source: OECD.

...affecting affordability of housing and yielding elevated price-to-rent ratios in relation to peers.

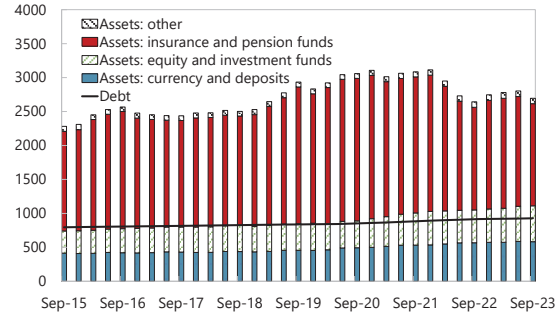
Housing Market Indicators, Q2 2023
(Index, 2015 = 100)



Source: OECD.

Financial assets of households far surpass debts, but a large share is concentrated in less liquid instruments.

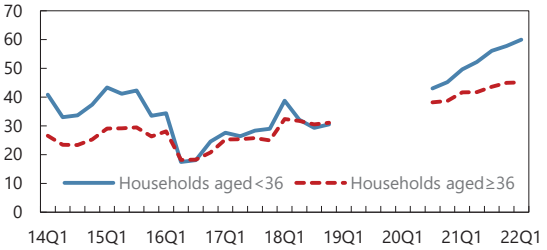
Household Debt and Financial Assets
(EUR billion)



Sources: CBS and ECB.

Debt-to-income ratios of recent mortgage borrowers have become stretched, particularly among younger cohorts.

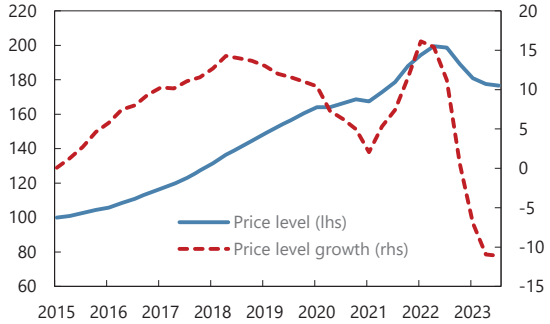
New Mortgages with a Debt-to-Income Ratio over 450 Percent
(Percent)



Source: DNB.
Note: data for 2019Q1-2020Q2 are missing due to data quality issues in the transition from the Residential Real Estate (RRE) data to Loan Level Data (LLD).

A slowdown in commercial real estate markets is an additional element of risk...

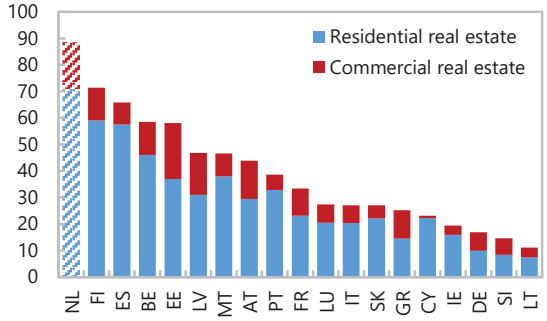
Commercial Real Estate Prices and Growth Rate
(LHS: Index 2015=100; RHS: Percent)



Sources: MSCI Real Estate and IMF staff calculations.

...heightening banking sector vulnerabilities from large real estate exposures.

Euro area banks: real estate exposure, 2023Q3
(Percent of GDP)



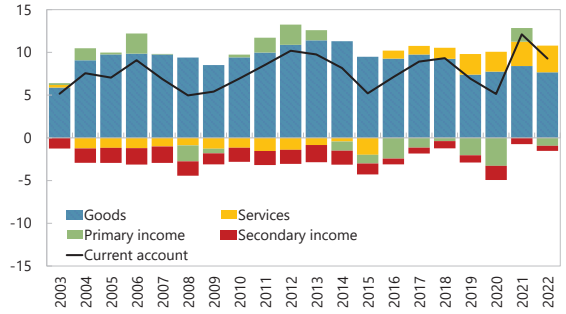
Sources: EBA and IMF staff calculations

Figure 16. The Netherlands: External Sector Developments

The current account surplus declined in 2022, mainly reflecting a return of the primary income balance into deficit.

Current Account

(Percent of GDP)

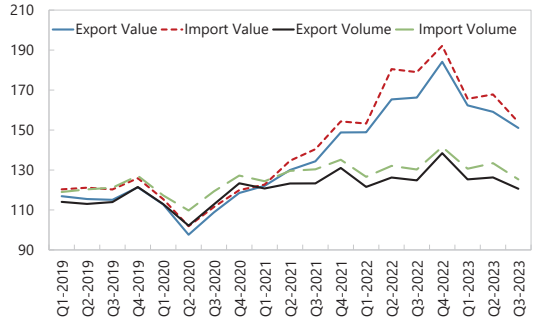


Sources: CBS; Eurostat; IMF BOP database; and IMF staff calculations.

Trade values and volumes have ebbed, reflecting an environment of weaker demand and lower energy prices.

Trade Developments

(Index 2015 = 100, WDA)

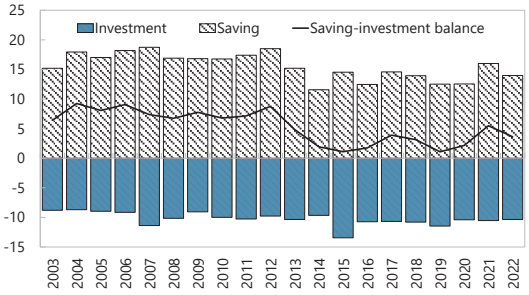


Sources: CBS and Haver Analytics.

As cost pressures have reduced corporate profitability and savings, investment has started to weaken.

NFCs: Saving and Investment

(Percent of GDP)

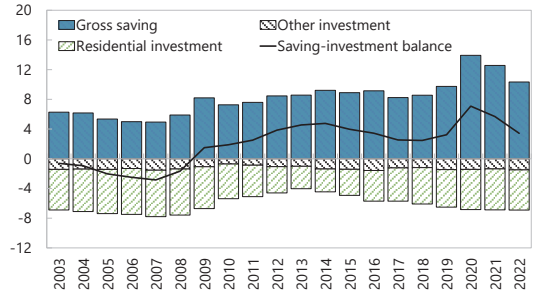


Sources: CBS; Eurostat; and IMF staff calculations.

Reflecting elevated inflation, household savings declined below its pre-pandemic levels.

Household: Saving and Investment

(Percent of GDP)

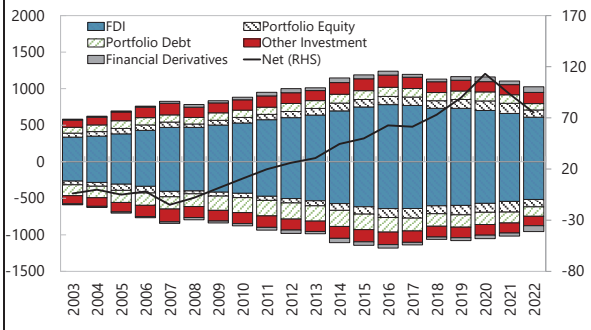


Sources: CBS; Eurostat; and IMF staff calculations.

The net IIP declined, mainly driven by portfolio investment while foreign direct and other investment improved.

External Assets and Liabilities

(Percent of GDP)

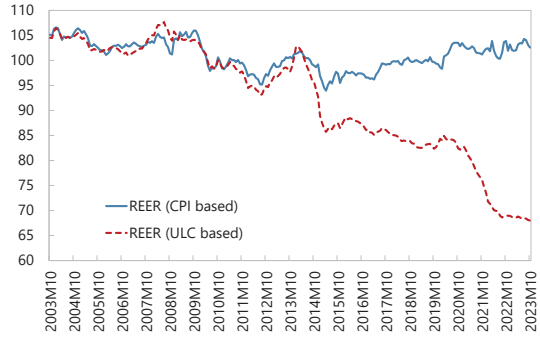


Sources: CBS; DNB; and IMF staff calculations.
Note: Positive numbers are assets; negative are liabilities.

While the CPI-based REER continued to increase, the ULC-based REER has remained on a declining trend.

Real Effective Exchange Rate

(Index, 2010=100)



Source: IMF staff calculations.

Table 2. The Netherlands: Medium-Term Macroeconomic Framework, 2019–29

(Growth Rates, in percent, unless otherwise indicated)

	2019	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
National Accounts											
Real GDP	2.0	-3.9	6.2	4.3	0.1	0.6	1.3	1.9	1.9	1.8	1.6
Domestic demand	3.0	-4.2	4.6	3.7	0.8	1.2	1.7	2.0	1.9	1.9	1.8
Private consumption	0.9	-6.4	4.3	6.5	0.4	0.5	1.3	2.3	2.3	2.2	1.9
Public Consumption	2.8	1.6	5.0	1.6	3.1	2.8	2.0	1.6	1.5	1.6	1.5
Gross fixed investment (total)	6.2	-2.6	2.9	1.8	1.5	-1.1	1.5	1.8	1.8	1.8	1.8
Public	1.9	4.6	-1.1	-4.7	1.2	2.7	2.0	2.0	1.0	1.0	1.0
Private	7.0	-4.0	3.7	3.1	1.5	-1.9	1.4	1.8	2.0	2.0	2.0
Residential	3.4	-0.7	5.7	1.1	-1.4	-2.0	0.7	1.8	2.0	2.0	2.0
Business	8.5	-5.3	3.0	3.8	2.7	-1.8	1.7	1.8	1.9	1.9	1.9
Stocks (contribution to GDP growth)	0.4	-0.8	0.3	-0.2	-0.6	0.4	0.1	0.0	0.0	0.0	0.0
Exports goods and services	2.0	-4.3	8.1	4.5	-1.3	0.2	2.3	3.4	3.4	3.2	3.2
Imports goods and services	3.3	-4.7	6.4	3.8	-0.8	0.8	3.0	3.7	3.6	3.6	3.6
Domestic demand (contribution to GDP growth)	2.7	-3.8	4.1	3.3	0.7	1.1	1.5	1.8	1.7	1.7	1.6
External demand (contribution to GDP growth)	-0.8	-0.1	2.1	1.0	-0.6	-0.5	-0.2	0.1	0.2	0.0	0.0
Output gap	1.5	-4.2	-0.2	2.0	0.4	-0.4	-0.6	-0.2	0.1	0.0	0.0
Potential output growth	1.8	1.8	2.0	2.0	1.7	1.5	1.5	1.5	1.6	1.8	1.6
Gross investment (percent of GDP)	22.1	21.8	21.5	21.2	20.1	20.1	20.2	20.2	20.1	20.1	20.1
Gross national saving (percent of GDP) 1/	29.0	26.9	33.6	30.5	30.2	29.2	29.0	28.9	28.9	28.7	28.7
Prices and Employment											
Consumer price index (headline, period avg.)	2.7	1.1	2.8	11.6	4.1	2.7	2.1	2.0	2.0	2.0	2.0
Consumer price index (headline, eop.)	2.7	0.9	6.4	11.0	1.0	2.5	2.0	2.0	2.0	2.0	2.0
Consumer price index (core, period avg.)	2.2	2.1	1.6	5.5	7.3	3.3	2.6	2.0	2.0	2.0	2.0
Consumer price index (core, eop.)	2.3	2.0	2.4	8.5	3.8	3.1	2.0	2.0	2.0	2.0	2.0
GDP deflator	3.0	1.9	2.9	5.5	7.7	1.9	2.2	2.0	2.0	2.1	2.1
Employment	2.0	0.0	1.5	3.2	2.0	-0.1	-0.2	-0.3	-0.3	-0.3	-0.4
Unemployment rate (percent) 2/	4.4	4.9	4.2	3.5	3.6	3.9	4.2	4.5	4.7	4.8	5.0
External											
Current account balance (percent of GDP)	6.9	5.1	12.1	9.3	10.2	9.1	8.8	8.7	8.7	8.7	8.7
Public Sector Accounts (Percent of GDP)											
Revenue	43.9	44.1	43.8	43.4	43.0	43.0	43.2	43.3	43.4	43.3	43.4
Expenditure	42.1	47.8	46.1	43.5	44.1	45.0	45.3	45.9	46.2	46.6	46.7
General government balance	1.8	-3.7	-2.2	-0.1	-1.1	-2.0	-2.2	-2.7	-2.8	-3.3	-3.3
Structural balance (percent of potential GDP) 3/	0.6	2.1	1.5	0.6	-0.7	-1.7	-1.8	-2.5	-2.9	-3.3	-3.3
Cyclically-adjusted balance (percent of potential GDP)	0.6	-1.2	-2.1	-1.3	-1.4	-1.7	-1.8	-2.5	-2.9	-3.3	-3.3
General government debt	48.5	54.7	51.6	50.1	47.2	47.7	48.2	48.9	49.8	51.1	52.6

Sources: Dutch official publications, International Monetary Fund, International Financial Statistics, and IMF staff calculations.

1/ Value implied by investment and current account data.

2/ ILO definition.

3/ Structural balance excludes one-offs such as pandemic support and the price-cap measures.

Table 3a. The Netherlands: General Government Statement of Operations, 2019–29
(Percent of GDP)

	2019	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Revenue	43.9	44.1	43.8	43.4	43.0	43.0	43.2	43.3	43.4	43.3	43.4
Taxes	25.4	25.8	25.8	25.4	25.4	25.2	25.3	25.5	25.7	25.5	25.4
Taxes on production and imports	12.0	12.3	12.2	11.2	11.7	11.5	11.6	11.5	11.8	11.5	11.2
Current taxes on income, wealth, etc.	13.2	13.2	13.4	13.9	13.5	13.4	13.5	13.6	13.7	13.7	13.9
Capital taxes	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social contributions	13.9	14.1	13.4	13.1	13.3	13.5	13.5	13.5	13.4	13.5	13.6
Grants	0.1	0.1	0.2	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.0
Other revenue	4.5	4.1	4.4	4.9	4.3	4.1	4.1	4.2	4.2	4.3	4.3
Expenditure	42.1	47.8	46.1	43.5	44.1	45.0	45.3	45.9	46.2	46.6	46.7
Expense	42.0	47.6	46.0	43.4	44.1	44.9	45.2	45.7	45.9	46.2	46.3
Compensation of employees	8.2	8.9	8.4	8.3	8.7	8.8	8.8	8.7	8.5	8.5	8.4
Use of goods and services	6.0	6.4	6.5	6.3	6.3	6.3	6.2	6.1	6.1	6.1	6.1
Consumption of fixed capital	3.0	3.2	3.1	3.0	2.1	2.6	2.9	3.1	3.1	3.1	3.1
Interest	0.8	0.7	0.5	0.5	0.7	0.7	0.8	0.9	1.1	1.2	1.2
Subsidies	1.2	4.3	3.6	2.0	2.8	2.9	2.6	2.5	2.4	2.4	2.3
Grants	0.8	0.9	1.2	1.1	0.6	0.8	0.7	0.7	0.5	0.5	0.5
Social benefits	20.8	21.8	21.2	20.2	21.6	22.0	22.4	22.9	23.4	23.7	23.9
Other expense	1.2	1.5	1.4	2.0	1.2	0.8	0.8	0.8	0.8	0.8	0.8
Net acquisition of nonfinancial assets	0.1	0.2	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.4	0.4
Net Operating Balance	1.9	-3.5	-2.1	0.0	-1.1	-1.9	-2.1	-2.5	-2.6	-2.9	-2.9
Net Lending/Borrowing	1.8	-3.7	-2.2	-0.1	-1.1	-2.0	-2.2	-2.7	-2.8	-3.3	-3.3
Net Acquisition of Financial Assets	0.3	2.4	0.9	2.6	...	...	...	...	...	...	...
Currency and deposits	0.1	0.7	-0.6	1.1	...	...	...	...	...	...	...
Securities other than shares	-0.2	-0.1	0.1	0.1	...	...	...	...	...	...	...
Loans	0.2	0.5	0.3	0.6	...	...	...	...	...	...	...
Shares and other equity	0.1	-0.6	0.0	0.0	...	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Financial derivatives	-0.1	-0.6	-0.3	-0.1	...	...	...	...	...	...	...
Other accounts receivable	0.1	2.4	1.3	1.0	...	...	...	...	...	...	...
Net Incurrence of Liabilities	-1.5	6.1	3.2	-0.3	...	...	...	...	...	...	...
Special Drawing Rights (SDRs)	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Currency and deposits	0.0	0.0	0.1	0.0	...	...	...	...	...	...	...
Securities other than shares	-1.5	5.9	2.5	0.1	...	...	...	...	...	...	...
Loans	0.2	-0.6	-0.3	-0.4	...	...	...	...	...	...	...
Shares and other equity	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Financial derivatives	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Other accounts payable	-0.2	0.8	0.9	0.0	...	...	...	...	...	...	...
Memorandum Items											
Primary balance	2.4	-3.2	-1.9	0.3	-0.5	-1.3	-1.4	-1.8	-1.9	-2.2	-2.2
Structural balance (percent of potential GDP) 1/	0.6	2.1	1.5	0.6	-0.7	-1.7	-1.8	-2.5	-2.9	-3.3	-3.3
Structural primary balance (percent of potential GDP)	1.4	2.7	2.0	1.2	0.0	-1.0	-0.9	-1.6	-1.8	-2.1	-2.1
Cyclically-adjusted balance (percent of potential GDP)	0.6	-1.2	-2.1	-1.3	-1.4	-1.7	-1.8	-2.5	-2.9	-3.3	-3.3
Gross Debt	48.5	54.7	51.6	50.1	47.2	47.7	48.2	48.9	49.8	51.1	52.6
Output gap	1.5	-4.2	-0.2	2.0	0.4	-0.4	-0.6	-0.2	0.1	0.0	0.0
Nominal GDP (billions of euros)	813.1	796.5	870.6	958.5	1032.8	1059.5	1097.0	1140.7	1186.1	1232.0	1277.9
Nominal GDP growth (percent)	5.0	-2.0	9.3	10.1	7.8	2.6	3.5	4.0	4.0	3.9	3.7
Real GDP growth (percent)	2.0	-3.9	6.2	4.3	0.1	0.6	1.3	1.9	1.9	1.8	1.6
GDP deflator growth (percent)	3.0	1.9	2.9	5.5	7.7	1.9	2.2	2.0	2.0	2.1	2.1

Sources: The Netherlands' Bureau for Economic Policy Analysis (CPB), Ministry of Finance, and IMF staff calculations.

1/ Structural balance excludes one-offs such as pandemic support and the price-cap measures.

Table 3b. The Netherlands: General Government Statement of Operations, 2019–29
(Billions of Euros)

	2019	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Revenue	357.1	351.4	381.6	416.0	443.7	455.6	473.4	493.6	514.3	533.7	554.2
Taxes	206.4	205.2	224.9	243.1	262.8	266.8	277.9	290.7	305.3	314.7	325.2
Taxes on production and imports	97.5	98.1	106.2	107.2	120.7	121.7	126.8	131.5	139.6	141.5	143.6
Current taxes on income, wealth, etc.	107.1	105.1	116.3	133.3	139.0	142.1	147.9	155.6	162.0	169.4	177.6
Capital taxes	1.8	2.1	2.5	2.6	3.1	3.0	3.2	3.5	3.7	3.8	4.0
Social contributions	113.2	112.5	116.7	125.6	136.9	142.9	148.6	153.6	158.8	166.3	173.4
Grants	1.1	1.0	2.0	0.0	0.0	2.5	1.4	1.5	0.0	0.0	0.0
Other revenue	36.6	32.6	38.0	47.4	44.0	43.4	45.5	47.8	50.1	52.7	55.5
Expenditure	342.5	381.0	401.1	416.9	455.1	476.3	497.1	524.0	547.9	573.9	596.7
Expense	341.7	379.2	400.1	415.8	455.0	475.2	496.0	521.6	545.0	568.9	591.5
Compensation of employees	67.0	70.7	73.2	79.3	89.8	92.7	96.1	98.7	101.4	104.1	106.8
Use of goods and services	48.7	50.7	56.7	60.5	65.2	66.9	67.6	69.6	72.1	74.8	77.6
Consumption of fixed capital	24.6	25.4	26.7	28.7	21.6	27.3	31.7	35.9	36.9	38.3	39.7
Interest	6.2	5.4	4.7	5.2	6.9	7.8	9.1	10.7	12.8	15.0	15.6
Subsidies	9.7	34.3	31.3	19.1	29.2	30.5	28.8	28.2	28.8	29.4	30.0
Grants	6.4	7.2	10.4	10.4	5.8	8.5	7.4	7.5	6.0	6.0	6.0
Social benefits	169.2	173.8	184.6	193.5	223.5	232.6	246.2	261.6	277.7	291.5	305.9
Other expense	9.8	11.6	12.5	19.2	12.9	8.9	9.1	9.3	9.5	9.7	9.9
Net acquisition of nonfinancial assets	0.8	1.8	1.0	1.1	0.1	1.1	1.1	2.4	2.9	5.1	5.2
Net Operating Balance	15.4	-27.7	-18.4	0.2	-11.4	-19.6	-22.6	-28.0	-30.7	-35.2	-37.3
Net Lending/Borrowing	14.6	-29.6	-19.5	-0.9	-11.4	-20.7	-23.7	-30.5	-33.7	-40.3	-42.5
Net Acquisition of Financial Assets	2.2	19.0	7.5	25.0	...	...	...	...	...	...	...
Currency and deposits	0.8	5.7	-5.5	10.3	...	...	...	...	...	...	...
Securities other than shares	-1.4	-0.5	0.8	0.5	...	...	...	...	...	...	...
Loans	1.8	4.2	2.6	5.3	...	...	...	...	...	...	...
Shares and other equity	0.6	-4.6	0.4	0.0	...	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Financial derivatives	-0.7	-5.1	-2.3	-0.8	...	...	...	...	...	...	...
Other accounts receivable	1.1	19.4	11.4	9.7	...	...	...	...	...	...	...
Net Incurrence of Liabilities	-12.5	48.5	27.9	-3.0	...	...	...	...	...	...	...
Special Drawing Rights (SDRs)	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Currency and deposits	0.1	-0.1	0.9	-0.1	...	...	...	...	...	...	...
Securities other than shares	-12.5	47.0	21.6	0.9	...	...	...	...	...	...	...
Loans	1.9	-5.0	-2.4	-4.2	...	...	...	...	...	...	...
Shares and other equity	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Financial derivatives	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Other accounts payable	-2.0	6.5	7.8	0.4	...	...	...	...	...	...	...
Memorandum Items											
Primary balance	19.2	-25.5	-16.5	2.9	-5.4	-13.9	-15.8	-21.0	-22.3	-26.9	-28.6
Gross Debt	394.7	435.5	449.0	480.1	487.2	505.6	528.8	557.9	590.3	629.5	672.0
Nominal GDP (Euro bill.)	813.1	796.5	870.6	958.5	1032.8	1059.5	1097.0	1140.7	1186.1	1232.0	1277.9

Sources: The Netherlands' Bureau for Economic Policy Analysis (CPB), Ministry of Finance, and IMF staff calculations.

Table 3c. The Netherlands: General Government Integrated Balance Sheet, 2014–22

(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Worth	14.7	14.8	15.0	19.1	21.6	24.5	22.5	22.6	...
Nonfinancial assets	60.5	59.1	57.7	56.7	55.9	54.9	57.5	55.0	...
Net Financial Worth	-45.8	-44.3	-42.7	-37.6	-34.2	-30.4	-35.0	-32.4	-25.0
Financial assets	37.5	35.4	34.9	33.2	31.8	31.9	35.2	33.3	29.3
Currency and deposits	1.8	1.7	1.8	2.0	1.8	1.8	2.6	1.7	2.6
Securities other than shares	1.4	1.3	1.2	1.0	1.1	0.9	0.8	0.9	0.8
Loans	9.6	8.4	7.5	7.3	7.2	7.1	7.8	7.4	7.3
Shares and other equity	13.6	14.3	14.6	14.0	13.3	13.8	13.7	12.7	8.2
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	3.4	2.6	2.1	1.5	1.0	1.1	0.6	0.3	0.0
Other accounts receivable	7.7	7.2	7.9	7.4	7.4	7.2	9.7	10.3	10.4
Liabilities	83.3	79.7	77.6	70.8	66.0	62.3	70.2	65.6	54.3
Special Drawing Rights (SDRs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.2	0.3	0.6	0.3	0.2	0.2	0.2	0.3	0.2
Securities other than shares	62.3	58.6	57.2	52.3	48.8	45.9	53.3	49.5	40.0
Loans	14.3	13.9	13.1	11.6	10.4	10.2	9.8	8.7	7.4
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	6.4	6.9	6.7	6.6	6.5	6.0	6.9	7.2	6.6

Sources: The Netherlands' Ministry of Finance, and IMF staff calculations.

Table 4. The Netherlands: External Sector, 2019–29

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Balance on Current Account	6.9	5.1	12.1	9.3	10.2	9.1	8.8	8.7	8.7	8.7	8.7
Trade Balance	7.4	7.7	8.4	7.7	8.8	7.2	6.8	6.7	6.7	6.6	6.4
Exports of goods	60.3	57.6	64.5	72.5	64.4	63.3	62.8	62.9	63.1	63.5	64.0
Imports of goods	52.9	49.9	56.1	64.8	55.6	56.1	56.1	56.2	56.4	57.0	57.6
Service Balance	2.4	2.3	2.8	3.1	2.6	2.8	2.8	2.7	2.6	2.6	2.6
Exports of services	22.2	20.6	19.6	21.3	20.8	21.4	21.6	21.7	21.8	22.0	22.1
Imports of services	19.8	18.3	16.8	18.1	18.3	18.7	18.9	19.0	19.2	19.4	19.6
Factor Income	-2.0	-3.3	1.6	-0.9	-0.5	0.1	0.2	0.2	0.3	0.4	0.5
Current transfers, net	-0.9	-1.7	-0.7	-0.6	-0.7	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Balance on Capital Account	0.0	0.0	0.1	11.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Balance on Financial Account	7.1	4.5	11.8	20.0	10.3	9.2	9.0	8.9	8.9	8.8	8.8
Direct investment, net	-0.1	-8.6	14.2	13.6	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Direct investment abroad	-2.2	-30.7	1.0	12.0	14.1	14.1	14.1	14.1	14.1	14.1	14.1
FDI in Netherlands	-2.1	-22.1	-13.2	-1.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Portfolio investment, net	4.1	21.6	-8.7	-22.9	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial derivatives	-0.5	-2.6	0.6	6.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other investment	3.6	-5.9	4.4	23.0	5.9	5.2	4.8	4.7	4.7	4.6	4.6
Reserve assets	0.1	0.0	1.2	0.0	0.5	0.2	0.2	0.2	0.2	0.2	0.2
Errors and Omissions, Net	0.2	-0.6	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: DNB and IMF staff calculations.

Table 5. The Netherlands: Monetary Survey, 2016–23

	2016	2017	2018	2019	2020	2021	2022	2023
	(Billions of Euros, end of period)							
Net Foreign Assets	207.8	183.4	218.3	267.1	284.2	283.9	331.7	350.9
Claims on nonresidents	979.0	919.0	931.5	943.3	898.7	951.4	1077.8	1087.9
Central Bank	153.1	127.0	150.9	101.5	92.2	65.7	147.3	118.4
Other Depository Corporations	825.9	792.1	780.6	841.7	806.5	885.7	930.5	969.5
Liabilities to Nonresidents	-771.2	-735.7	-713.2	-676.2	-614.4	-667.5	-746.1	-736.9
Central Bank	-27.6	-43.4	-69.0	-48.1	-60.2	-69.7	-49.6	-26.5
Other Depository Corporations	-743.6	-692.3	-644.2	-628.0	-554.2	-597.8	-696.5	-710.5
Net Domestic Assets	1375.9	1317.4	1278.5	1337.1	1399.4	1425.5	1577.7	1493.9
Net Claims on Central Government	102.5	116.4	111.7	103.8	121.9	160.5	148.6	146.5
Claims on State and Local Government	47.2	47.6	49.1	50.9	49.5	49.2	48.4	47.0
Claims on Public Nonfinancial Corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on NBFIs	506.7	422.1	390.1	440.3	474.9	468.7	669.0	575.3
Claims on private sector	811.6	820.4	816.4	818.5	819.3	837.0	882.7	884.7
Corporates	311.9	305.7	305.6	297.1	284.3	288.6	300.7	289.5
Households	499.7	514.7	510.9	521.4	535.0	548.4	582.1	595.2
Capital and Reserves (-)	160.6	163.1	169.6	176.9	185.5	194.3	210.4	204.3
Other items, net (-, including discrepancy)	-68.6	-73.9	-80.6	-100.5	-119.2	-104.4	-39.4	-44.6
Broad Money	772.2	789.5	789.6	827.6	908.8	982.5	1041.5	1039.3
Currency in Circulation	58.1	60.3	63.2	68.5	76.7	82.9	84.2	83.4
Transferable Deposits	264.4	289.3	279.9	308.2	372.2	438.3	449.2	368.5
Other Deposits	436.6	436.4	436.2	443.4	455.3	460.4	503.7	570.2
Securities	13.2	3.5	10.3	7.5	4.6	0.9	4.4	17.3
Other Liabilities	811.5	711.2	707.2	776.6	774.8	726.8	867.9	805.6
	(Annual percentage change)							
Net Foreign Assets	-1.3	-11.7	19.0	22.4	6.4	-0.1	16.8	5.8
Net Domestic Assets	4.1	-4.3	-3.0	4.6	4.7	1.9	10.7	-5.3
Claims on private sector	5.4	1.1	-0.5	0.2	0.1	2.2	5.5	0.2
Corporates	-2.3	-2.0	0.0	-2.8	-4.3	1.5	4.2	-3.7
Households	10.9	3.0	-0.7	2.1	2.6	2.5	6.1	2.3
Broad Money	2.3	2.2	0.0	4.8	9.8	8.1	6.0	-0.2
	(Billions of U.S. dollars, end of period)							
Net Foreign Assets	219.0	217.0	248.5	296.8	345.9	320.9	351.2	383.6
Net Domestic Assets	1450.6	1559.3	1455.5	1485.9	1703.0	1611.3	1670.6	1633.2
Claims on private sector	855.6	971.0	929.5	909.6	997.1	946.1	934.7	967.2
Corporates	328.8	361.8	347.9	330.2	346.0	326.2	318.4	316.5
Households	526.8	609.2	581.6	579.4	651.1	619.9	616.3	650.7
Memorandum Items:								
Velocity (GDP/Broad Money)	0.9	0.9	1.0	1.0	0.9	0.9	0.9	1.0
Euros per U.S. dollar (end of period)	0.9	0.8	0.9	0.9	0.8	0.9	0.9	0.9

Sources: International Financial Statistics and IMF staff calculations.

Table 6. The Netherlands: Financial Soundness Indicators, 2016–22

	2016	2017	2018	2019	2020	2021	2022
Core FSIs							
Regulatory capital to risk-weighted assets	22.4	22.0	22.3	22.9	22.8	22.4	21.0
Tier 1 capital to risk-weighted assets	17.7	18.4	18.8	18.9	19.3	19.3	18.0
Common Equity Tier 1 capital to risk-weighted assets	...	...	...	16.8	17.4	17.4	16.1
Nonperforming loans to total gross loans	2.5	2.3	2.0	1.8	1.9	1.7	1.6
Return on assets	0.6	0.7	0.7	0.6	0.3	0.7	0.6
Return on equity	10.1	12.8	11.7	7.6	3.3	8.8	8.0
Interest margin to gross income	64.8	73.5	54.8	54.9	54.1	47.7	49.6
Noninterest expenses to gross income	78.8	71.7	72.2	68.5	71.6	70.5	69.4
Liquidity coverage ratio	...	...	...	138.6	169.1	163.3	153.6
Net stable funding ratio	...	...	...	168.6	150.2	135.6	133.6
Additional FSIs							
Gross asset position in financial derivatives to capital	80.0	54.2	43.6	42.0	50.7	35.6	48.9
Gross liability position in financial derivatives to capital	96.6	67.3	53.7	55.4	67.0	43.5	42.7
Customer deposits to total (noninterbank) loans	...	...	...	62.3	62.2	74.0	75.6
Residential real estate loans to total gross loans	24.4	27.3	24.4	37.5	35.8	43.2	44.1

Sources: IMF Financial Soundness Indicators.

Annex I. External Sector Assessment

Overall Assessment: On preliminary estimates, *the external position in 2023 was stronger than the level implied by medium-term fundamentals and desirable policies.* The Netherlands' status as a base for multinational corporations and as a trading hub and financial center makes the external assessment challenging. After a projected rebound in 2023, the external current account (CA) surplus is expected to contract over the medium term as population aging and a progressively higher fiscal deficit in the baseline forecast reduce domestic saving.

Potential Policy Responses: To bring the external balance to a level in line with medium-term fundamentals and desirable policies, fostering investment in physical and human capital, also by facilitating access to finance, particularly for small and medium-sized enterprises, should take priority. Against this background, the previous government's structural investment and reform plans to safeguard energy security, allay housing market shortages, reinforce the education system, advance the climate transition, and further promote the digitalization of the economy should continue.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP reached 68.2 percent of GDP in the third quarter of 2023, compared with 75.2 percent in 2022. Positive NIIP impacts from current account surpluses recorded over 2023Q1-Q3 were more than offset by denominator effects from strongly increasing nominal GDP and negative valuation effects that particularly affected the net stock of portfolio investment and financial derivatives. FDI remains the largest component of the IIP, accounting for more than half of external assets and liabilities, also reflecting The Netherlands' role as the seat for multinational corporations (MNCs) and its importance as a financial center. Debt liabilities primarily comprise long-term debt securities (45 percent, of which 68 percent are denominated in euro and 23 percent are denominated in US dollars), currency and deposits (31 percent, of which 59 percent are denominated in euro), and long-term loans (7 percent). **Assessment.** The Netherlands' safe haven status and its sizable foreign assets limit risks from its large foreign liabilities.				
2023Q3 (% GDP)	NIIP: 68.2	Gross Assets: 988.3	Debt Assets: 239.8	Gross Liab.: 920.1	Debt Liab.: 253.1
Current Account	**Background.** Refinements by Statistics Netherlands applied over 2020–22 resulted in an upward shift of the CA surplus from 4.4 percent to 9.3 percent of GDP in 2022, primarily reflecting a higher trade balance (+1.5 percentage points) after addressing data limitations that had prevailed during the pandemic and an improvement of the primary income balance (+3.2 percentage points) due to revisions to the profits of MNCs listed on the stock market. In 2023, the CA surplus is estimated to have rebounded to 10.2 percent of GDP (10.3 percent of GDP cyclically adjusted). Support measures cushioning the impact of the energy price shock on households and corporations have weighed on public net savings in 2023 but were counterbalanced by recovering private net savings from a strong labor market, accelerating wage growth, and weakening residential investment. The Netherlands' role as a trading hub and financial center contributes to a structurally strong headline external position. Specifically, MNCs based in The Netherlands are recording profits at their Dutch HQs while channeling a large part of their investment abroad in the form of FDI, keeping nonfinancial corporate saving high. Relatedly, measurement biases of portfolio equity retained earnings in official statistics may also contribute to an overstatement of the net accumulation of wealth that is attributed to Dutch residents, an issue of relevance for a country where the foreign ownership of publicly listed firms has been above 80 percent in recent years. In 2024, the CA is projected to decline to 9.1 percent of GDP. **Assessment.** The EBA CA model estimates a CA norm of 4.2 percent of GDP. Based on a projected cyclically-adjusted CA surplus of 10.3 percent of GDP in 2023, the EBA CA gap is preliminarily assessed at 6.1 percent of GDP. 3.8 percentage points of the CA gap are attributable to policy gaps, primarily reflecting a relatively tighter fiscal stance and a negative credit gap that remains wider than those abroad. The portfolio retained earnings bias is preliminarily assessed to be –2.5 percent of GDP based on the provision of granular data by DNB that allows for the attribution of aggregate net savings by firms to different segments of the corporate sector.[1] Taking these factors into consideration, and against a norm in the range of 3.7 to 4.7 percent of GDP, the IMF staff preliminarily assesses the CA gap to be in the range of 3.1 to 4.1 percent of GDP, with a mid-point of 3.6 percent of GDP.				
2023 (% GDP)	CA: 10.2	Cycl. Adj. CA: 10.3	EBA Norm: 4.2	EBA Gap: 6.1	Staff Adj.: –2.5	Staff Gap: 3.6
Real Exchange Rate	**Background.** In 2023, the CPI-based REER had appreciated by 0.8 percent when compared with its 2022 average as inflation in the Netherlands kept outpacing price developments in key trading partners. The ULC-based REER appreciated by 0.9 percent, suggesting labor cost increases slightly ahead of competitors. **Assessment.** Assuming a semi-elasticity of 0.67, the preliminary IMF staff CA gap of 3.6 percent of GDP implies a REER undervaluation of about 5.4 percent. EBA REER model estimates for 2023 range from an overvaluation of 16.7 percent (level model) to 27.3 percent (index model), largely reflecting unexplained residuals. Consistent with the preliminary staff CA gap, the IMF staff assesses the REER as undervalued by about 4.6 to 6.2 percent, with a midpoint of 5.4 percent.				
Capital and Financial Accounts: Flows and Policy Measures	**Background.** A considerable share of gross foreign assets and liabilities are attributable to special-purpose entities, financial vehicles with marginal operational footprints in The Netherlands that contribute to substantial yet hard-to-interpret capital flow volatility. A notable part of capital outflows represents the channeling of corporate profits by multinationals abroad as FDI. **Assessment.** The strong external position limits vulnerabilities to capital outflows. The financial account deficit is primarily the flip side of a CA recording sustained—and structural—surpluses.				
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by euro area economies are typically low relative to standard metrics, but the currency floats freely.				

1/ With the help of the unique DNB dataset, the average shares of net savings of small and medium-sized enterprises, Dutch and foreign MNCs, as well as other large firms in total non-financial corporate (NFC) net savings is derived for the period 2015–19 to abstract from idiosyncratic effects during the pandemic and energy crisis. The resulting shares are then combined with latest available (2021) foreign ownership data for each type of NFC and applied to NFC net savings in 2023 to estimate the portfolio investment liability retained earnings bias for NFCs. Financial corporations (FCs) are treated equivalently, yet a breakdown across different types of FCs is unavailable. To deduct the portfolio investment asset retained earnings bias, publicly available data about global equity market developments and ownership information is employed.

Annex II. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Time Horizon	Impact	Policy Response
Global Conjunctural Risks				
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	ST, MT	High Direct energy, trade and financial links with Russia and Ukraine are limited. However, an escalation of the war would affect the economy via indirect growth spillovers and rekindled inflation from higher commodity prices.	Automatic stabilizers should be allowed to operate. More active support, if necessary to cushion the impact on the most vulnerable groups, should be well-targeted, limited in scope to preserve fiscal room for maneuver in future crises and to allow for efficient resource reallocation, and offset by adjustments in other areas. Energy support, if any, should preserve price signals to foster savings.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. **Europe:** Intensifying fallout from the war in Ukraine, recurrent energy crises and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections.	Medium High	ST, MT	High Sharp drop in economic activity, domestic and external demand. Energy dependence on Russia and *direct* trade and financial links with Russia and Ukraine are relatively limited. However, *indirect* links and spillovers are important; depressed activity in key trading partners (e.g., Germany) is likely with disruption of energy supplies from Russia. Falling commodity prices may alleviate inflationary pressures.	Automatic stabilizers should be allowed to operate. More active support, if necessary to cushion the impact on the most vulnerable groups, should be well-targeted, limited in scope to preserve fiscal room for maneuver in future crises and to allow for efficient resource reallocation, and offset by adjustments in other areas. Energy support, if any, should preserve price signals to foster savings.
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	Medium	ST, MT	Medium Tighter financial conditions could increase financing costs for the private and public sectors, leading to further pressures on borrowers, given elevated private debt. This, along with the negative effects on private consumption, could weigh on growth and the housing market.	Recalibrating fiscal policy would support disinflation, while cushioning the impact on the most vulnerable groups, which is well-targeted, limited in scope, and offset by adjustments in other areas. Financial sector policies should ensure intensive monitoring of financial conditions and impacts and make use of available macro-prudential buffers to absorb losses and sustain credit provision.
Structural Risks				
Deepening geo-economic fragmentation and geopolitical tensions. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	MT	Medium The Netherlands is vulnerable to supply disruptions and weaker investor confidence, due to strong cross-border real and financial linkages and the presence of large multi-national corporations and financial institutions. Such disruptions could impact both bank asset quality and non-bank investment asset valuations.	Continue to enhance financial sector resilience by monitoring emerging vulnerabilities, building appropriate buffers, and developing adequate contingency plans.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Sources of Risks	Relative Likelihood	Time Horizon	Impact	Policy Response
Structural Risks				
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability. The exposure of portfolios to foreign assets and global transition spill-over risks can affect financial stability. The Netherlands is particularly vulnerable to sea level rise. In addition, efforts to reduce nitrogen emissions may need to be redoubled to meet Paris commitments, with adverse macroeconomic effects.	Medium High	ST, MT	Medium Most physical infrastructure would be at risk from flooding in case of sharp sea-level rises or adverse other weather events. Forceful actions to curtail nitrogen emissions to meet EU commitments could disrupt economic activity, including in agriculture and construction. Droughts would also threaten housing infrastructure. Possible large financial losses.	Continue to enhance climate mitigation policies by striking the right balance among regulation, pricing, and subsidies. Climate adaptation could be further strengthened, focusing on: (i) integrating adaptation into government long-term planning; (ii) prioritizing adaptations with large positive externalities (e.g., climate risk research, updating building codes, strengthening infrastructure, early warning systems); and (iii) removing barriers to private adaptation while addressing distributional concerns. Close monitoring of bank and NBFI foreign exposures.
Cyberthreats. Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability and disrupt economic activities.	Medium	ST, MT	Medium Possible disruptions in economic activity, given the Netherlands' high degree of digitalization. Weaker confidence may lead to capital outflows.	The authorities should remain vigilant and perform coordinated cyber security tests regularly, especially on strategic infrastructures, as it is done under DNB's oversight in the financial sector.
Domestic Risks				
Labor shortages.	Medium	ST/MT	Medium Ambitious investment and reform agenda to address structural challenges on climate policy and under-supply in the housing market can be compromised in the absence of labor.	Implement policies to reduce labor market duality, and promote more working hours, especially among the part-time workers, in domestic employment to reduce the gap between labor supply and demand. Target training and skills-building in areas of expected labor pressures (digitalization, green transition).
An adverse change in the direction of economic and climate policies in the context of political fragmentation.	Medium	ST/MT	Medium Economic and climate policy uncertainties (including nitrogen policies) raise the risk of supply disruptions, stranded assets, and affect investment and growth.	Further strengthen social dialogue to agree on the main reform priorities.
A rapid correction of residential and commercial real estate prices.	Medium	ST/MT	Medium Banks are highly exposed to highly indebted households, and vulnerable to a downward correction in the housing market and commercial real estate market. Continued high inflation and a cooling economy could impact borrowers' ability to repay, worsening asset quality. Second-round effects on growth through households cutting consumption to service their debts would be likely.	Financial sector policies should ensure heightened vigilance and monitoring of financial sector risks, especially those arising from the stretched housing and commercial real estate market and higher interest rates and make use of available macro-prudential buffers to absorb losses and sustain credit provision.

Annex III. Public Debt Sustainability Analysis

Annex III. Figure 1. The Netherlands: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Low	Staff assess the overall risk of sovereign stress as low, reflecting a relatively low level of vulnerability in the near- and medium-term horizons, and a moderate vulnerability in the long-term horizon.
Near term 1/			
Medium term	Low	Low	Staff assess medium-term risks as low, consistent with the mechanical signals. This largely reflects strong institutions and favorable debt structure of the Netherlands (long maturities, stable investor base and euro-denominated debt predominantly at fixed rates). The Fan chart module signals a moderate risk, reflecting uncertainty around the outlook.
Fanchart	Moderate	…	
GFN	Low	…	
Stress test		…	
Long term	…	Moderate	Staff assess long-term risks as moderate as spending pressures from challenges such as aging healthcare, and climate change feed into debt dynamics. Previous studies by the authorities suggest growing spending pressures from health and long-term care, ageing, and climate change over the medium- to long-term.
Sustainability assessment 2/	Not required for surveillance countries	Sustainable	Not required for surveillance countries.
Debt stabilization in the baseline			No

DSA summary assessment

Commentary: The Netherlands is at a low overall risk of sovereign stress and debt is sustainable. At 47.6 percent of GDP, gross public debt has been contained through consecutive shocks, falling by 6 percentage points of GDP since the pandemic. The low interest rate environment of previous years and favorable debt structure kept debt servicing costs contained. This, along with the strong post-pandemic recovery and better than expected fiscal outturns ensured public debt/GDP ratio remained among the lowest in the euro area. However, over the medium term, the Netherlands should undertake reforms to tackle fiscal pressures from challenges such as ageing, healthcare, climate change, and defense.

Source: Fund staff.

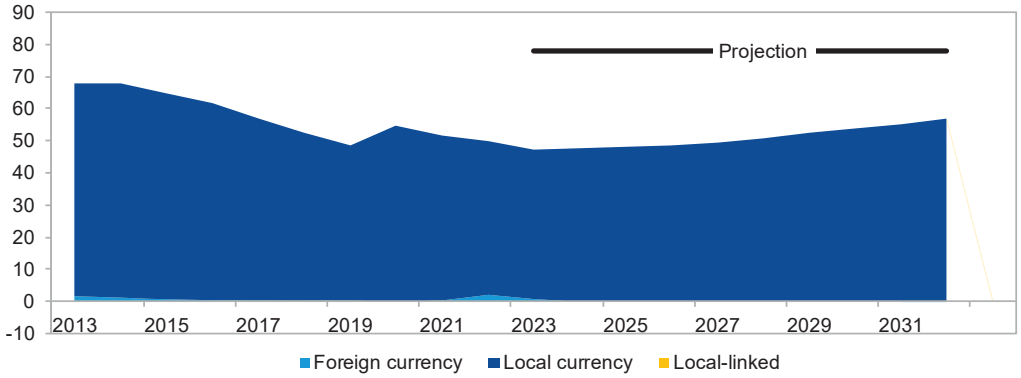
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

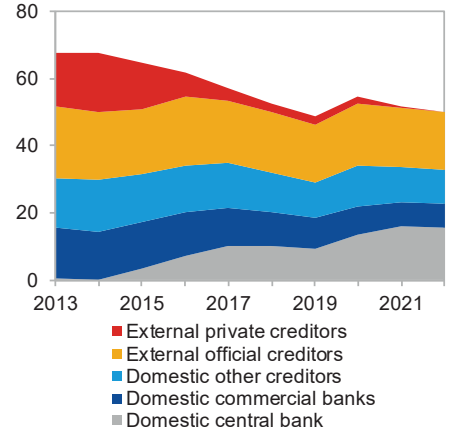
Annex III. Figure 2. The Netherlands: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



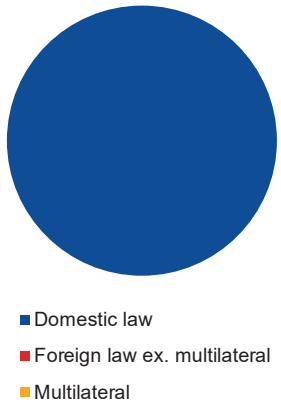
Note: The perimeter shown is consolidated public sector.

Public debt by holder (percent of GDP)



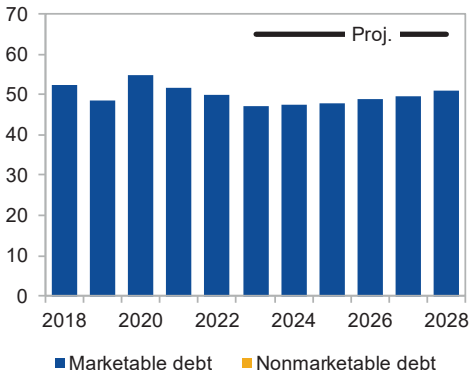
Note: The perimeter shown is general government.

Public debt by governing law, 2022 (percent)



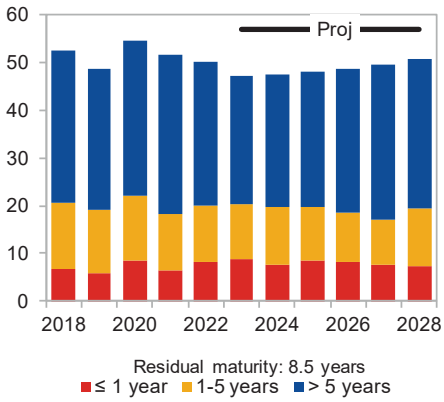
Note: The perimeter shown is general government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: Public debt is entirely in domestic currency and marketable. The relatively long average maturity of the debt portfolio (8 1/2 years) and debt primarily on fixed rates are important buffers in the higher interest rate environment.

Annex III. Figure 3. The Netherlands: Debt Coverage and Disclosures

Debt by Currency (Percent of GDP)

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

		Subsectors captured in the baseline	Inclusion	
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
	2	Extra budgetary funds (EBFs)	Yes	Not applicable
	3	Social security funds (SSFs)	Yes	
	4	State governments	Yes	
	5	Local governments	Yes	
	6	Public nonfinancial corporations	No	
	7	Central bank	No	
	8	Other public financial corporations	No	

	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
3. Instrument coverage:					

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

	Consolidated	Non-consolidated
5. Debt consolidation across sectors:		

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

Issuer \ Holder				Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt										0
	2	Extra-budget. funds										0
	3	Social security funds										0
	4	State govt.										0
	5	Local govt.										0
	6	Nonfin pub. corp.										0
	7	Central bank										0
	8	Oth. pub. fin. corp										0
		Total		0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

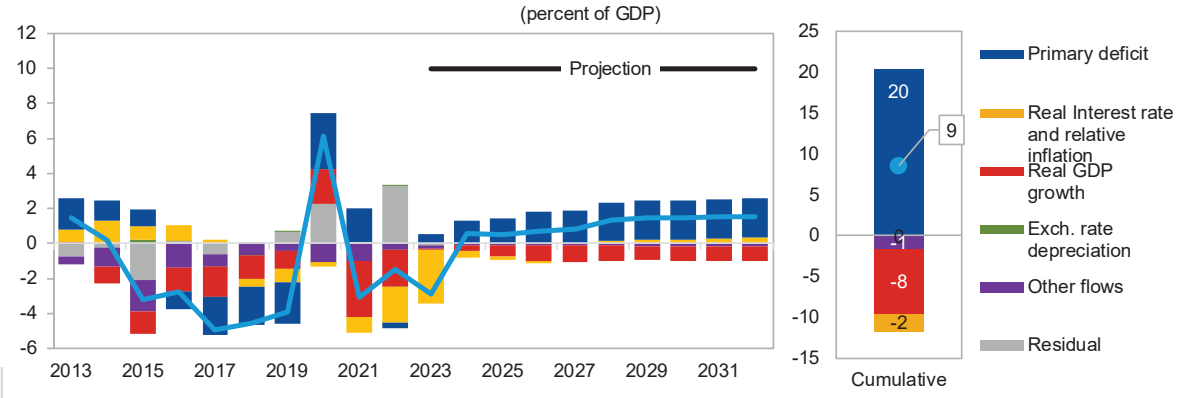
Commentary: The debt coverage remains unchanged from the last Article IV -- i.e., it covers general government debt, with most debt issued by the federal (central) government.

Annex III. Figure 4. The Netherlands: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	50.1	47.2	47.7	48.2	48.9	49.8	51.1	52.6	54.1	55.6	57.1
Change in public debt	-1.5	-2.9	0.6	0.5	0.7	0.9	1.3	1.5	1.5	1.5	1.5
Contribution of identified flows	-4.8	-2.8	0.5	0.5	0.7	0.9	1.3	1.5	1.5	1.5	1.5
Primary deficit	-0.3	0.5	1.3	1.4	1.8	1.9	2.2	2.2	2.2	2.2	2.2
Noninterest revenues	43.3	42.9	42.9	43.1	43.2	43.2	43.2	43.2	43.2	43.2	43.2
Noninterest expenditures	43.0	43.4	44.2	44.5	45.0	45.1	45.4	45.5	45.5	45.5	45.5
Automatic debt dynamics	-4.2	-3.1	-0.7	-0.9	-1.0	-0.9	-0.7	-0.6	-0.6	-0.6	-0.6
Real interest rate and relative inflation	-2.1	-3.1	-0.4	-0.2	-0.1	0.0	0.1	0.2	0.2	0.3	0.3
Real interest rate	-2.1	-3.2	-0.4	-0.2	-0.1	0.0	0.1	0.2	0.2	0.3	0.3
Relative inflation	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-2.1	0.0	-0.3	-0.6	-0.9	-0.9	-0.9	-0.8	-0.8	-0.9	-0.9
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other transactions	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	3.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	5.6	7.7	10.3	9.5	10.7	10.6	10.7	10.5	10.3	10.1	9.8
of which: debt service	6.1	7.3	9.1	8.1	9.0	8.9	8.7	8.4	8.2	8.0	7.7
Local currency	6.1	5.9	8.4	8.1	9.0	8.9	8.7	8.4	8.2	8.0	7.7
Foreign currency	0.0	1.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	4.3	0.1	0.6	1.3	1.9	1.9	1.8	1.6	1.6	1.6	1.6
Inflation (GDP deflator; percent)	5.5	7.7	1.9	2.2	2.0	2.0	2.1	2.1	2.1	2.1	2.1
Nominal GDP growth (percent)	10.1	7.8	2.6	3.5	4.0	4.0	3.9	3.7	3.7	3.7	3.7
Effective interest rate (percent)	1.2	0.9	1.1	1.7	1.8	2.1	2.4	2.5	2.5	2.6	2.7

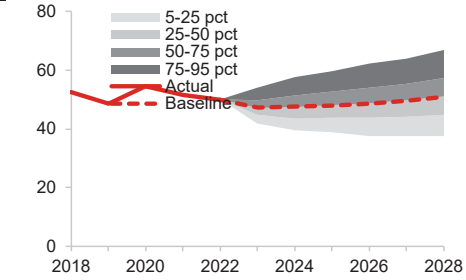
Contribution to change in public debt



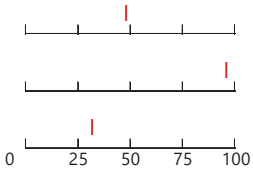
Commentary: Public debt is relatively low and it is expected to continue falling this year, on the back of the expected recovery, and as energy-relief measures are being phasing out. However, debt will start to increase again over the medium and long term, reflecting fiscal pressures from challenges such as healthcare, ageing, climate change.

Annex III. Figure 5. The Netherlands: Medium-Term Risk Assessment

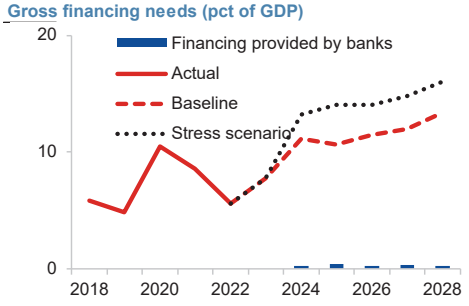
Final fanchart (pct of GDP)



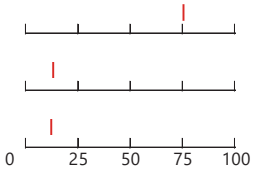
Debt fanchart module	Value	Contrib [1/]	Percentile in peer group [2/]
Fanchart width *(percent of GDP)*	29.3	0.4	
Probability of debt non-stabilizaiton *(percent)*	98.8	0.8	
Terminal debt-to-GDP x institutions index	6.6	0.1	
Debt fanchart index (DFI)		1.4	
Risk signal: [3/]		Moderate	



Gross financing needs (pct of GDP)



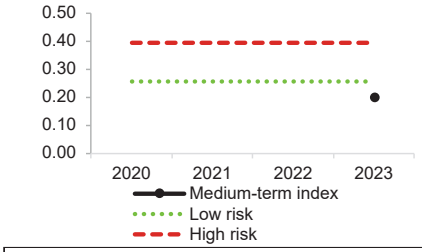
Gross financing needs (GFN) module	Value	Contrib
Average baseline GFN *(percent of GDP)*	11.0	3.8
Initial Banks' claims on the gen. govt *(pct bank assets)*	2.1	0.7
Chg. In banks' claims in stress *(pct banks' assets)*	0.6	0.2
GFN financeability index (GFI)		4.6
Risk signal: [4/]		Low



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term index (index number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.4	0.3	0.5	0.2
GFN finaceability index	4.6	0.1	0.5	0.0
Medium-term index		0.2		
Risk signal: 5/		Low		
Final assessment:		Low		

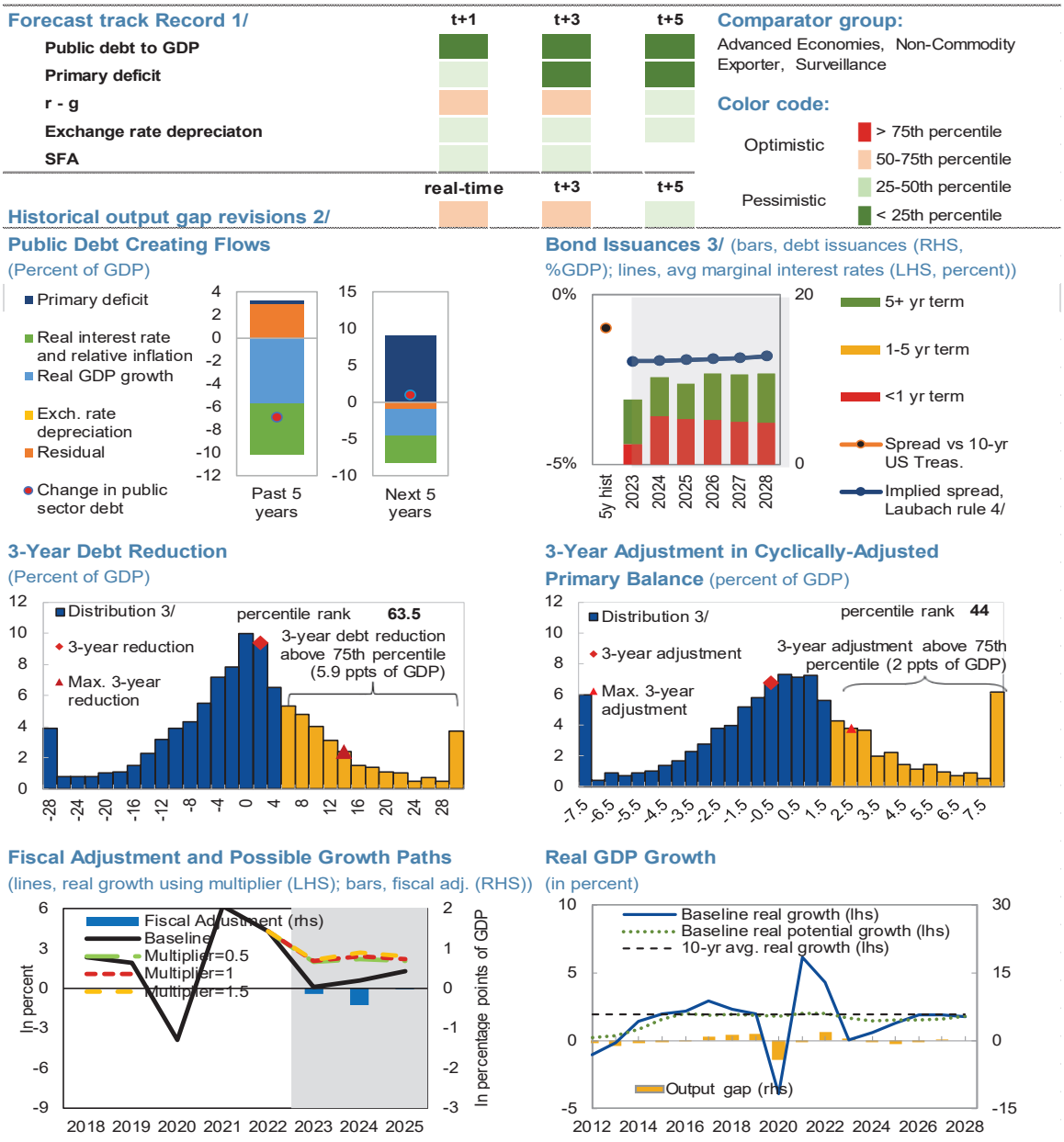
Prob. of missed crisis, 2023-2028, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 54.5 pct.

Commentary: Medium-term tools point to low level of risks, even though the debt fan fanchart index shows that under current policies, there is a risk that public debt would not stabilize over the medium term. However, the GFN financeability index is low, given the low level of the public debt/GDP ratio, and its favorable debt structure.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex III. Figure 6. The Netherlands: Realism of Baseline Assumptions



Commentary: Past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

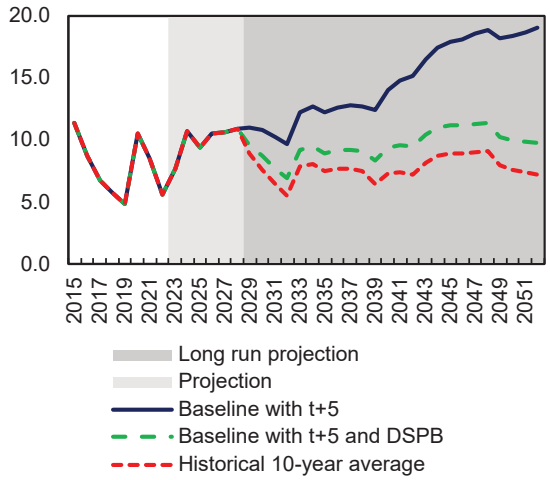
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

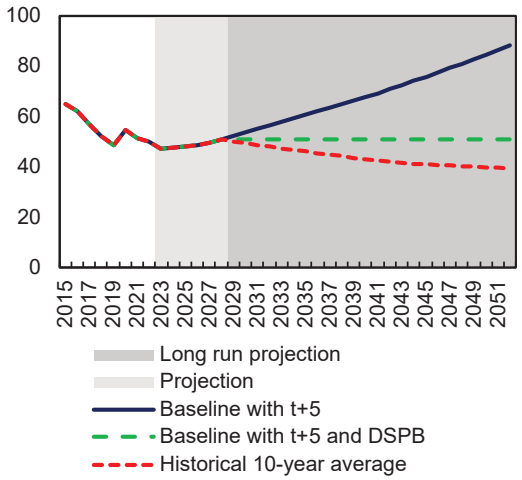
Annex III. Figure 7. The Netherlands: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Commentary: Overall risk from large amortization remains low. Under the baseline,the risks are related to the fact that without additional policies, debt will be increasing over the long term, reflecting fiscal pressures from challenges such as healthcare, ageing, and climate change, though the overall index is low given the low initial debt level and good historical track record, as well as favorable debt strature.

Annex IV. Past IMF Policy Recommendations

IMF 2021 and 2022 Article IV. Recommendations	Implementation
Fiscal Policy	
Start the policy shift to targeted and forward-looking interventions to ease the road to normalization.	The remaining COVID-support programs ended in early 2022, and further reduction on expenditure is projected to 2023. Some pandemic-related measures will be maintained, such as the National Education Program, test, and vaccine development, representing 0.5 percent of GDP in 2023.
Use the substantial fiscal space to promote growth-enhancing interventions, including support to R&D and further investment in education.	The Resilience and Recovery Plan (RRP) includes €180 million in education, including the development of a National Education Lab AI (NOLAI) and increasing subsidies for schools to support digitalization and limit learning delays with programs' implementation announced for 2022Q4.
To meet the ambitious climate policy goals and foster a greener and more sustainable recovery post-pandemic, policies should further incentivize emissions reductions and increase public support to innovation and the adoption of greener technologies.	Acceleration of the climate and energy transition through several measures included in 2023 budget. Reform of the energy tax, shifting taxation from electricity to gas. Introduction and tightening up of CO2 levy on industry, with an increase in the reduction target for the CO2 tax from 1.3 to 18.3 million tons in 2030. Extension of the promotion of the National Isolation Program and alternative energy sources (offshore wind, green energy hydrogen). Specific measures for the structural nitrogen package and the transition fund in the long term.
Adopt a non-expansionary or mildly contractionary stance in 2023 considering high inflation and the tight labor market.	The fiscal stance for 2023 was mildly expansionary.
Adopt flexible fiscal policy if risks materialize.	Implemented. Deficit was smaller in line with lower energy prices.
Structural Reforms	
Push forward with second-pillar pension reform to improve pension transparency and flexibility, clarifying transition costs, and designing a compensation package for those adversely affected by the transition.	In June 2020, the government signed an agreement with trade unions and employers on pension reform—a major breakthrough after 10 years of negotiations. The agreement affects all three pillars of the pension system, but agreements have also been made about sustainable employability and early retirement. Pension reform legislation, approved in 2022, took effect in January 2023, with a transition period until January 1, 2028.
Take measures to ensure energy security.	In progress.
Make further progress to tackle labor market duality.	In progress.

IMF 2021 and 2022 Article IV. Recommendations	Implementation
Financial Sector Policies	
Continue tightening macro-prudential policies to reduce households' indebtedness, and expedite reforms to increase housing supply, particularly in the private rental market.	The majority of household debt consists of mortgages for residential real estate. The mortgage debt as a percentage of GDP has decreased from around 106 percent in 2012 to 93 percent in 2020. The most important policy measures that have contributed to this decline are tightening the legally binding loan to value (LTV) limit from 106 percent in 2013 to 100 in 2018. In addition, the Dutch government has introduced restrictions on non-amortizing mortgages since 2013. The introduction of minimum risk weights for mortgages was suspended during the pandemic but is now expected to go into effect at the start of 2022. The government has set up a policy agenda for housing supply together with subnational governments ('woondeals'). These include agreements for housing targets with municipalities in the areas with the greatest housing shortage and provinces. The 2022 budget also includes new resources to support the construction of social housing.
Revive SMEs dynamism and business investment, including by increasing direct support to Research and Development (R&D) and establishing a credit bureau.	• Several funds were launched that support innovative SMEs and allow them to invest more in R&D for the technologies of the future (Deeptech Fund & Dutch Future Fund). • The Dutch Alternative Credit Instrument (DACI) was launched to further strengthen the accessibility of SMEs to alternative financing sources. • A study on the usefulness and necessity of a credit register was conducted and sent to Parliament. In 2020 the Dutch government launched the National Growth Fund (see above).
Avoid pro-cyclical macro prudential stance.	Implemented.

Annex V. 2023 FSAP Recommendations

Recommendation		Addressee	Timing*	Priority**
Cross-Cutting				
1	Establish an interagency body or expand the mandate of an existing platform to regularly discuss policy implications of climate-related issues, broaden cooperation including data sharing, and coordinate policy actions with implications for financial stability (¶).	MoF, AFM and other relevant ministries	ST	H
2	Adapt supervisory approaches to a rapidly changing market environment and strive for consistent supervisory outcomes across sectors through timely deployment of technologies and analytical tools (¶).	DNB, AFM	ST/MT	H
3	Review legislative framework to ensure the supervisory authorities have sufficient budgetary autonomy, delegated powers, and intervention tools to address risks promptly and efficiently (¶).	MoF, AFM, DNB	ST	H
4	Ensure that authorities have a clear legal basis to access granular transaction/loan-level data on a regular basis for risk monitoring and analysis, including residential and commercial real estate loans (¶).	MoF, DNB, AFM	I	H
5	Further clarify the requirement of independent supervisory board members in law (¶).	MoF, Ministry of Social Affairs and Employment (MoSA)	MT	H
Systemic Risk Analysis				
6	Tap alternative datasets to complete the ongoing efforts to develop market risk analysis (¶).	DNB	ST	M
7	Develop system-wide stress testing methodologies to assess the contagion effects across banks and NBFIs (¶).	DNB	MT	M
8	Closely monitor pension funds' repo transactions, amend supervisory reporting where necessary, and perform liquidity stress tests which incorporate a drying-up of repo markets (¶).	DNB	I	M
Climate Risk Oversight and Analysis				
9	Establish a medium-term plan to develop LSI/insurance climate risk supervision to incorporate climate-related risk perspective across activities of the supervisory process, including bridging data gaps. (¶)	DNB	ST	H
10	Conduct physical risk analysis using forward-looking medium and long-term flood scenarios accounting for the impact of climate change (e.g., those aligned with the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report) (¶).	DNB, Ministry of Infrastructure and Water Management	ST	M
11	Develop an approach to assess the impact of policies to reduce nitrogen depositions on the financial sector once the transition path and its implications on the economy become clearer (¶).	DNB	ST	H
12	Deepen collaboration among DNB supervisors and DNB stress testers to inform supervisors of climate stress testing insights and vice versa (¶).	DNB	ST	H
Macroprudential Framework and Policies				
13	Elevate the Financial Stability Committee (FSC) to a permanent advisory body and vest it with semi-hard powers, or vest DNB with hard powers over the calibration of the borrower-based tools. (¶).	MoF, DNB	ST	H
14	Gradually reduce the maximum limit of the LTV ratio to 90 percent by one percentage point per year (¶).	MoF, DNB, FSC	ST	H

Recommendation		Addressee	Timing*	Priority**
Macroprudential Framework and Policies				
15	Keep monitoring and addressing fragilities from IO mortgages, including by increasing incentives for borrowers to lower their exposure to these mortgages (¶).	AFM, DNB, NIBUD, MoF	I	M
16	Gradually remove the mortgage interest deductibility (¶).	MoF	ST	H
Regulation and Supervision of Banks, Insurers, and Pension Funds				
17	Introduce a requirement for all mortgage credit providers and their mortgage clients to periodically update information on the clients' financial situation (¶).	DNB, AFM, MoF	MT	H
18	Expand the number of on-site inspections for insurers in the lowest impact class, as a backstop to the risk-based approach (¶).	DNB	ST	H
19	Closely monitor and proactively manage potential risks of the pension system transition for the authorities related to resources and legal risks (¶).	MoSA, DNB, AFM	C	H
Securities Market Regulation and Supervision				
20	Continue risk-based use of thematic and firm-specific supervisory tools to ensure that key trading venues have robust arrangements in place to prevent and manage operational outages including where the market is unable to open or close (¶).	AFM	I	H
21	Continue to monitor liquidity mismatch in real estate and corporate bond funds, including risks arising from fund credit lines, and availability/use of appropriate liquidity management tools (¶).	AFM, DNB	ST	M
Financial Integrity				
22	Produce a comprehensive risk assessment on the cross-border financial crime risks and misuse of legal vehicles, covering the risks stemming from conduit companies and foreign entities with complex legal structures and sufficient links to the Netherlands (¶).	MoF, FIU, FEC	ST	H
23	Ensure completeness of the beneficial ownership registries, including resolving the legacy issues with pre-existing legal persons and liaising closely with the tax authorities concerning legal arrangements such as foreign trusts (¶).	MoF, CoC	ST	M
24	Ensure that the intensity, depth, and scope of the risk-based AML/CFT supervision is informed by the lessons learnt from the remediation cases of the three largest banks, and that the risk-based procedures are aligned with the main risks, including tax risks to financial integrity relevant primarily in the context of the large number of conduit structures, and continue taking action to tackle the issue of illegal trust offices and underground banking (¶).	DNB	I	H
Financial Safety Nets and Crisis Management				
25	Operationalize the preferred and fallback resolution strategies for SIs and LSIs, by finalizing the authorities' relevant handbooks, sharing more non-confidential detail on DNB's resolution plans with LSIs and regularly testing DNB's resolution capabilities (¶).	DNB, MoF, AFM, DGF	I	H
26	Identify and operationalize national sources for the provision of liquidity in resolution, such as by relying on the existing ELA framework and setting up and testing cross-border cooperation arrangements (¶).	DNB	I	H
27	Develop and regularly test a comprehensive financial crisis management plan that sets out authorities' roles and responsibilities and establishes an inter-authority decision-making body (¶).	DNB, DGF	I	H

* Timing: C = Continuous; I = Immediate (within one year); ST = Short Term (within 1-3 years); MT = Medium Term (within 3-5 years).

** Priority: H = High; M = Medium; L = Low.

Annex VI. Climate Mitigation Policy[1]

Climate mitigation policies are very important in The Netherlands given the authorities' ambitious climate goals and international leadership through co-chairing the Coalition of Finance Ministers for Climate Action and leading role in the Network for Greening the Financial System (NGFS). This Annex highlights potential policy options for achieving a balance among removing fossil fuel subsidies and expanding carbon pricing and similar instruments and regulation.

1. Fossil fuel subsidy estimates vary across studies, with differences largely driven by variation in methodology. The 2024 Budget finds subsidies of €32 to €39 billion in 2023 (in addition to €6 billion of subsidies being phased-out) when comparing revenue foregone from individual policies that provide reduced rates or refunds for fossil fuel use (i.e., the inventory approach). The CPB and PBL (2024) estimate subsidies to have been €13.7 billion in 2021 and the IMF (Black et al 2023) at €13.5 and €27.9 billion in 2021 and 2022, respectively, comparing existing taxes to externalities (i.e., the external cost price-gap approach). The CPB/PBL measure of external cost is narrower as it only includes climate damages (valued at €130 per ton), while the IMF's incorporates climate damages (valued at $100 per ton of CO_2 emissions in 2022 for this Annex), local air pollution, congestion, road fatalities, and road damage. Annex IV Box 1 provides more details on the methodology and illustrates the calculations for the case of diesel.[2] The IMF study also does not consider international aviation and maritime (e.g., it excludes from the calculations maritime and aviation fuel that is used internationally) given that the associated emissions fall outside of national boundaries and the fuel's taxation is governed (and restricted in the case of aviation) by international agreements.

2. Prices for some fossil fuels in the Netherlands do not fully reflect their supply and environmental costs (Annex VI Figure 1). While prices on gasoline and non-aviation kerosene are in line with their efficient levels, those on LPG, natural gas, coal, electricity—and especially diesel—are estimated to fall short.[3] Consequently, the energy pricing structure results in undercharging for environmental costs, with implicit subsidies of €20.5 billion and explicit subsidies of €7.4 billion in 2022. Explicit subsidies increased by €3.1 billion in 2022 due to the energy price cap that has prevented a full pass through to consumers from the surge in international energy prices. However, with total implicit and explicit subsidies of 2.8 percent of GDP in 2022 (1.6 percent in 2021), the magnitude of subsidies is well below the world and European averages of 7.1 and 3.3 percent of GDP, respectively.

[1] Prepared by Ian Parry and Nate Vernon (FAD) and Nina Budina (EUR).

[2] As CPB and PBL (2023) note, the inventory and price-gap approach to measuring fossil fuel subsidies are complements as the inventory approach allows one to identify (and reform) the specific policies that result in subsidies while the price-gap approach evaluates the policies' economic effectiveness.

[3] Efficient prices incentivize energy users to internalize the social cost of their consumption, i.e., externalities like climate damage, congestion, and local air pollution, which supports resource reallocation towards the clean sectors away from the polluting sectors thereby enabling the green transition.

Annex VI. Box 1. Illustrating the Methodology for Measuring Fossil Fuel Subsidies

This box discusses the methodology for measuring fossil fuel subsidies and illustrates it for the case of diesel in 2022.

Retail price. The retail price for diesel was $1.59 per liter in 2022, collected from third-party sources (Global Petrol Prices and the International Energy Agency).

Supply cost. For diesel, the supply cost was $0.91 per liter in 2022, obtained by adjusting the international wholesale diesel price upwards for domestic marketing and distribution.

Consumption. Diesel consumption in 2022, 7.6 billion liters, is the observed value published by the IEA but also available at US Energy Information Administration.

Climate change. The CO_2 emissions factor for diesel is 0.003 tons per liter. Multiplying by the illustrative carbon price for 2022 ($100 per ton) gives global warming damages for diesel of $0.24 per liter.

Local air pollution. Damages from local air pollution mortality from diesel in Netherlands (based on procedures described in Black and others 2023) are $0.51 per liter.

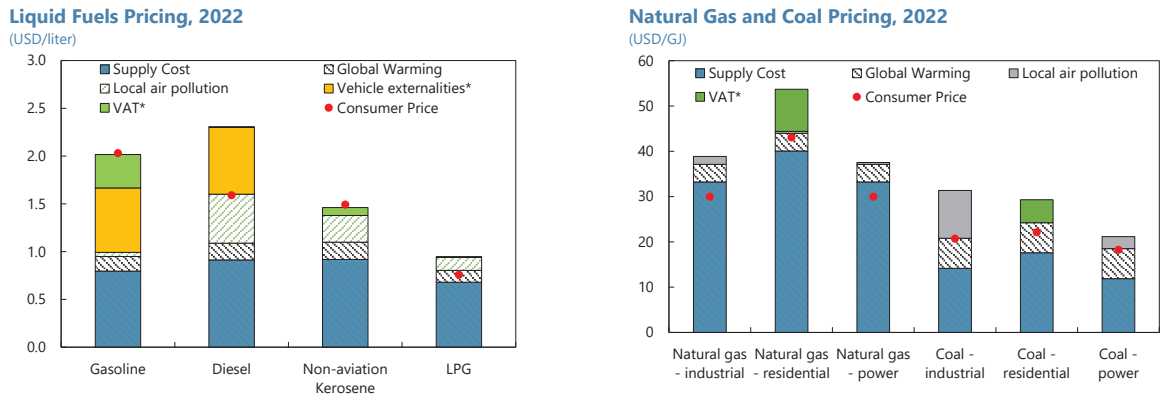
Broader externalities for transportation. Congestion, accident, and road damage externalities associated with the use of road diesel in Netherlands are valued at $0.58, $0.09, and $0.03 per liter respectively (again based on procedures described in Black and others 2023).

Forgone consumption tax revenue. This component is calculated as the excess value added tax (VAT) revenue from charging a VAT on the efficient price, but it is very small for diesel, $0.01 per liter.

Summary. In 2022, the retail diesel price fell short of the efficient price (the sum of supply cost, environmental costs, and forgone consumption tax) by $0.78 per liter (the difference between the efficient price $2.37 per liter and the retail price, $1.59 per liter). Multiplying this price gap by diesel fuel consumption (7.64 billion liters) gives the (implicit) diesel fuel subsidy of $6 billion. The 2022 diesel price exceeded the supply cost, meaning that there is no explicit subsidy.

3. As the authorities phase out temporary energy support measures, prices for all fossil fuels but diesel and coal will approach efficient levels. The EU ETS, which covers large industrial and power generation installations, captures the cost of global warming damages at its current price of around €60 per ton. However, an additional coal excise is needed to ensure that users internalize local air pollution costs (local air pollution costs from natural gas are minimal). Diesel taxes of €0.52 per liter fall well short of the efficient level of €1.43 per liter, which is composed of €0.24 (climate), €0.48 (local air pollution), €0.55 (congestion), €0.08 (accidents), and €0.03 (road damage). Other priorities include ensuring efficient carbon pricing for agriculture, paving the way for transition to km-based taxation in transport, and ensuring that buildings use clean heating and are energy efficient, as well as promoting pricing measures on international aviation and maritime fuels through participation at their respective international governing bodies.

Annex VI. Figure 1. The Netherlands: Fossil Fuel Pricing

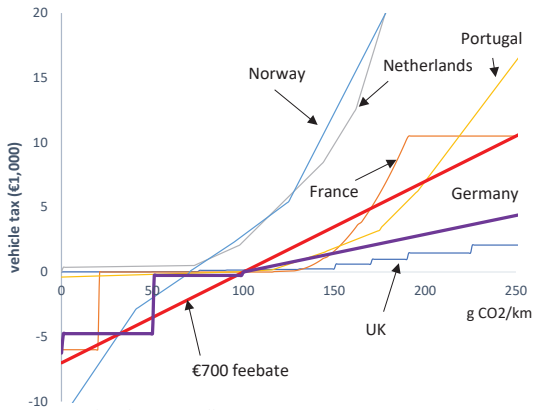


Source: IMF Fossil Fuel Subsidies Data.
Note: The light blue bar is calculated based on a global worming damage price set at $100 per ton of CO2, which is roughly the price at which the EU Emission Trading Scheme allowances are currently traded. Kerosene refers to domestic uses but excludes that used for international aviation and maritime.

Policy Advice

4. Comprehensive mitigation strategies need to strike a balance between carbon pricing and reinforcing sectoral instruments. Carbon pricing is the most efficient instrument as it provides across-the-board incentives to reduce the energy use and shift to cleaner energy sources while also mobilizing revenue. But there may be acceptability constraints on carbon pricing because of its potentially significant impact on energy prices; this creates an important complementary role for reinforcing sectoral instruments. A good example is feebates which provide a sliding scale of fees on products/activities with above average emissions intensity and a sliding scale of rebates for products/activities with below average emissions intensity. For example, Netherlands has, in effect, integrated an aggressive feebate into its vehicle tax system which induces shifting to cleaner vehicles without a large new tax burden on the average motorist, though (unlike carbon pricing or fuel taxation) it does not reduce vehicle kilometers travelled (Annex VI Figure 2). Feebates could also be applied to other sectors like buildings, industry, and agriculture. Tradable performance standards are another promising instrument (where fluid credit trading markets can be created among producers) and are the regulatory analogue of feebates. In contrast, clean technology subsidies are less efficient as they do not penalize emissions-intensive products/activities and they involve a fiscal cost.

Annex VI Figure 2. CO2-Based Components of Vehicle Taxes, Selected Countries



Source. ACEA (2018) and IMF staff calculations.
Note. Feebates assume on road fleet average emission rate of 115 g CO_2/km. Circulator taxes for Germany are expressed on a lifetime basis assuming a 13 year life and 7 percent discount rate.

5. Nationwide taxes on vehicle kilometers travelled (VKT) could provide a robust revenue source and more efficiently manage road traffic congestion. Unlike fuel taxes, VKT taxes are unaffected by the progressive decarbonization of the vehicle fleet. VKT charges (applied nationwide at a uniform rate to light- and heavy-duty vehicles) of around €0.09 in 2030 would be required to raise the same revenue (as a percent of GDP) as currently raised by road fuel taxes. Differentiating VKT charges by location and time of day can exploit many behavioral responses for reducing congestion (shifting drivers to off-peak travel, transit, less congested routes, etc.). The development of digital metering technologies (like global-positioning systems) has largely addressed technical implementation difficulties—the transition to VKT charging might be initially promoted through subsidizing/taxing new vehicles with/without monitoring capacity with capacity ultimately becoming mandatory.

6. Emissions fees are the most effective instrument for reducing emissions from agriculture, but a meat tax may be a more practical interim approach from an administrative and competitiveness perspective. Emissions fees would reduce the emissions intensity of livestock operations (e.g., through changes in herd management and feed) as well as incentivize shifting from (emissions intensive) cattle to pigs, poultry, and crops. Capacity needs are significant, however, as farmers would need to self-report emissions (subject to third party verification) based on farm-level characteristics (as, for example, in schemes proposed in New Zealand and under consideration in Denmark and Ireland). Concerns about competitiveness and emissions leakage may require recycling revenues from the fee into the agricultural sector or adopting a (revenue-neutral) feebate system instead of a fee. Alternatively, a meat consumption tax administered at the processor level, would (largely) address competitiveness and leakage concerns, and its incidence would be largely borne by consumers rather than domestic producers. Much of the reduction in domestic consumption could come from reduced meat imports rather than reduced domestic production—there might be some scope for linking meat taxes to broader sustainability practices of suppliers (e.g., habitat restoration).

7. Striking a balance between pricing and norms and ensuring policy predictability are also needed to help overcome the nitrogen challenge and manage multiple transitions (Annex VII Box 2). Implementing ambitious climate plans and addressing housing supply issues would require adjusting/replacing the nitrogen norms with adequate pricing that ensures that the polluter pays for externalities (nitrogen depositions that pollute water and land surfaces) while avoiding rigid controls on urban development. Certainty over future policies reduces risks for investment in energy efficiency and low carbon as certainty allows households and firms to predict future cost/tax savings from reducing energy use and emissions.

Annex VI. Box 2. Nitrogen in the Netherlands[1]

Nitrogen depositions refer to the settling of nitrogen compounds from the atmosphere on land and water surfaces. The main sources of nitrogen deposition include agriculture, industry, traffic. Excessive levels of depositions of these substances can contribute to significant problems to nature, such as acid rain, soil degradation, contamination of groundwater, and loss of biodiversity. This is a particular issue for the Netherlands, where the exceedance above the critical value based on international research is substantial.

To promote the conservation of biodiversity and protect natural habitats and species, the EU established the Birds and Habitats Directive (See The EU Birds and Habitat Directive)**.** This directive urges member states to designate a network of protected areas known as Natura 2000 areas to avoid deterioration and improve the conservation status. In the Netherlands, out of the 161 designated Natura 2000 areas, nitrogen deposition exceeds acceptable levels in 118 of them.

In 2015, the Dutch government initiated the Nitrogen Approach Program (PAS) to reduce nitrogen emissions and mitigate their adverse effects. This program established measures, including permit requirements for certain projects or activities, to prevent significant harm to Natura 2000 sites from increased nitrogen deposition. However, a ruling by the Council of State determined that PAS did not comply with the EU regulations, emphasizing the need for a more robust approach to nitrogen management. The ruling emphasized that projects contributing to additional nitrogen emissions, such as the construction of motorways and residential areas, could not proceed without adequate compensation for the environmental impact on nitrogen-sensitive areas. This led to a reevaluation of nitrogen management policies in the Netherlands.

In 2022, the government announced the Nitrogen Reduction and Nature Improvement Program, backed by the Nitrogen Reduction and Nature Improvement Act. This program aims to achieve that in 50 percent of the area with high nitrogen deposition within nitrogen sensitive and Natura 2000 areas, the internationally adopted critical deposition load will no longer be exceeded by 2030 (74 percent by 2035). While excessive nitrogen is a global concern, the Netherlands, together with Belgium, are where the legal ruling has prompted additional measures for limiting nitrogen emission (DNB and PBL, 2020). However, the measures focused on reducing nitrogen emissions from agriculture in rural areas faced substantial opposition.

As a result, securing permits for housing or infrastructure projects related to the energy transition may become increasingly challenging without more flexibility. Competing demands for space, including addressing housing shortages and advancing the energy transition may exacerbate these challenges. Hence, if not dealt with appropriately, this challenge can have significant societal and economic consequences. One possibility might be to allow permit trading within targeted areas, for example, allowing construction companies to pay for emissions reductions at farms to cover their own emissions. Another option might be instead to charge construction companies for their nitrogen emissions with higher fees in priority areas with the largest discrepancies between depositions and acceptable levels.

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1/ Prepared by Junghwan Mok and Nina Budina.

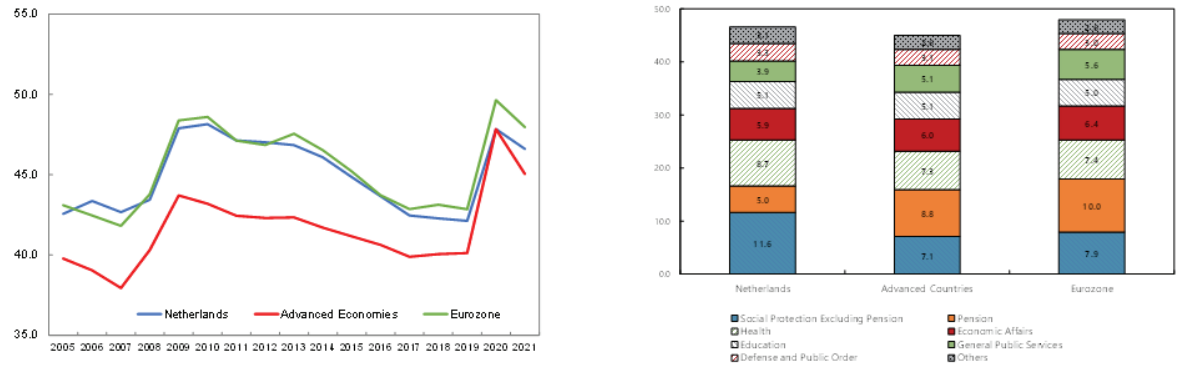
Annex VII. Long-Term Spending Pressures in the Netherlands[1]

The Netherlands has substantial fiscal space, and public spending is broadly in line with the Eurozone and advanced economy averages, but it needs to tackle significant long-term spending pressures from challenges such as healthcare, ageing and climate change. This Annex discusses long-term spending pressures from healthcare, ageing and climate change, and summarizes potential policy reform options.

Benchmarking and Issues in Public Spending

1. The trajectory and level of public spending in the Netherlands is broadly in line with the Eurozone and advance economy (AE) averages with some notable differences in the composition of public spending. Overall, public spending in the Netherlands has been above the average for advanced economies,[2] but has closely tracked the Eurozone average (Annex VII Figure 1). Public spending increased to 48 percent of GDP as part of the stimulus packages for the Global Financial Crisis but declined steadily over the subsequent decade to 43 percent of GDP. In 2020, public spending rose again to 48 percent of GDP at the height of COVID pandemic. This spending pattern is similar to the averages in both advanced economies and the Eurozone. In 2021, spending in the Netherlands as a share of GDP was 1½ percentage points higher than the AE average but 1½ percentage points of GDP lower than the Eurozone average. Social protection spending excluding pensions (11.6 percent of GDP) is 4½ percentage points higher than the AE average and 3.7 percentage points higher than the Eurozone average spending. However, spending on public pensions (5 percent of GDP) is 5 percentage points lower than the Eurozone average and about 4 percentage points lower than the AE average. Public health spending was higher (8.7 percent of GDP) than averages for advanced economies (7.3 percent) and the Eurozone (7.4 percent). Education and defense spending are broadly similar across comparators (Annex VII Figure 1).

Annex VII. Figure 1. Level and Composition of Spending
(Percent of GDP, Latest Available)



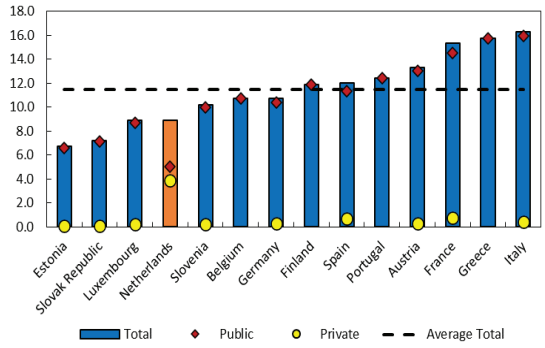
Sources: IMF GFS and staff calculations

[1] Prepared by Emine Hanedar and Kaleb Tamiru Gulilat (FAD) and Nina Budina (EUR). Research assistance provided by Kardelen Cicek (FAD).

[2] IMF classification of advanced economies.

2. Compared to selected comparators, pension expenditure is lower than average, with public pensions ranking as the lowest among these comparators. The Dutch pension system is set up differently than in most countries in the Eurozone or other AEs. Public pension spending comprises of a basic old-age pension, disability benefits, and survivors' benefits. The old-age pension (AOW) is the statutory basic old-age pension scheme that provides all residents of the Netherlands a flat-rate pension benefit roughly equal to the social minimum.[3] The AOW is a pay-as-you-go system. However, due to a change in the tax/premium system, since 2001 the revenues from premiums are not sufficient to finance the AOW.[4] In 2021, the difference between the revenues and expenditures were about €19.3 billion (2.2 percent of GDP). Formally, employers are not mandated to provide private or occupational pensions, and employees are not required to participate in them; therefore, occupational pensions are recorded as "private spending." However, in practice for 9 out of 10 employees, an occupational pension is provided.[5] Self-employed workers are the largest group not participating in occupational pensions. Therefore, public pension spending—which is considered as a social minimum—is much lower than in comparator countries (5 percent compared to 11 percent of GDP), while private pension spending is much higher (4 percent compared to 0.7 percent of GDP). Fiscal pressures on pensions spending from aging are therefore limited to the AOW. Pension benefits are generous, with an average gross replacement rate of 97 percent compared to an average of 53 percent in OECD countries. Replacement ratios are also high for lower income groups with 97 percent in the Netherlands compared to 48–65 percent in the OECD countries (OECD 2017).

Annex VII. Figure 2. Pension Spending 2021
(Percent of GDP)



Sources: IMF GFS and IMF staff calculations.
Note: Benchmarked agains the euro area economies.

3. Health care spending in the Netherlands has been above the Eurozone and AEs, but close to its neighboring countries with spending on long term care among the highest in the Eurozone and AEs. Since the introduction of a Curative Care Law in 2006—which lead to an expansion of the publicly covered package—public health spending in the Netherlands has been above the Eurozone and AEs but close to that in neighboring countries (Annex VII Figure 1).[6] In the

[3] Beneficiaries receive from the eligibility age roughly equivalent to 80 percent and 100 percent of minimum wage respectively for singles and couples.

[4] In practice, the premiums are part of the first and second tariff of the income tax and are therefore sometimes referred to as taxes, but, in principle, they are premiums.

[5] See Werknemer zonder pensioen | SER.

[6] The Dutch health care system consists of three schemes: a self-funded health insurance scheme for curative care (ZVW), non-self-funded long-term care which is partially financed with social insurance premiums included in the first bracket tax rates and the social support care through the municipalities. Public health care spending was about 10 percent of GDP in 2020 of which almost 65 percent curative care, one third long term care and 3 percent is social support care.

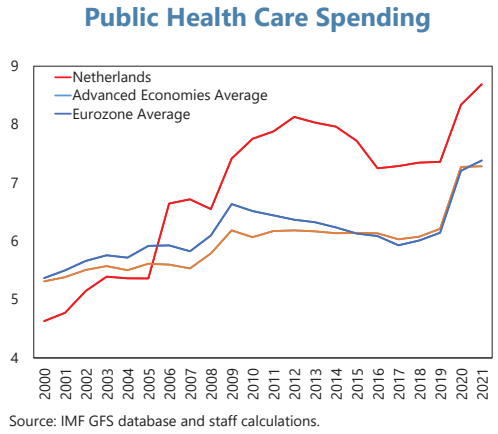
last decade public health spending was 7.8 percent of GDP in the Netherlands, 7.9 percent of GDP in Belgium, 7.4 percent of GDP in Germany and 9.2 percent of GDP in France (not shown here).[7] Trends in the last few years follow a similar pattern. Total (public and private) health care spending in the Netherlands is also above the average of the Eurozone and AEs but close to that in neighboring countries (Annex VII Figure 2). The composition of health care spending shows that the Netherlands similarly to Norway spend the most on long-term care, both, in terms of GDP (3 percent of GDP) and as a share of total spending (almost 30 percent of total health spending) (Annex VII Figure 3). The share of publicly financed long-term care in total spending is the largest while out of pocket spending is the lowest among peers. A further breakdown of spending shows that the Netherlands spends indeed more on long-term care compared to the average of the Eurozone and AEs, but far less on inpatient curative care and medical goods. In fact, Netherlands has the lowest inpatient use in the EU as primary care doctors fulfill a strong gatekeeping function. Spending on pharmaceuticals and medical devices is contained by volume and price policies including a conservative approach of doctors prescribing medications.

4. The Dutch health care system is highly effective, and accessibility is high, but there is room to improve efficiency. Mortality rates from preventable and treatable causes in the Netherlands are among the lowest in the EU with 129 deaths compared to 160, and 65 compared to 92 deaths, respectively, per 100 000 population (OECD 2021). The combination of a universal health care system with a large basic package and the "right for care" embedded in the law, unmet needs for health care were among the lowest in the EU in 2019 after Spain and Malta (OECD 2021).[8] Health adjusted life expectancy is 71.4 years–above the average of the Eurozone (70.6 years), AEs (70.9 years), Belgium (70.6 years), Germany (70.9 years), but lower than in France (72.1 years). Half of the increased life expectancy since the 1950's is attributed to health-care spending in the areas of cardiovascular diseases, infectious diseases, and cancer (Meerding 2007). Frequently cited reasons for inefficiencies in provided care are incorrect diagnosis, supply-induced demand, perverse financial incentives, outdated guidelines, or not following guidelines, which can perpetuate the inappropriate use of care (CPB, 2022). However, enhancing the efficiency of the healthcare system is challenging due to the reasons mentioned above (CPB, 2022).

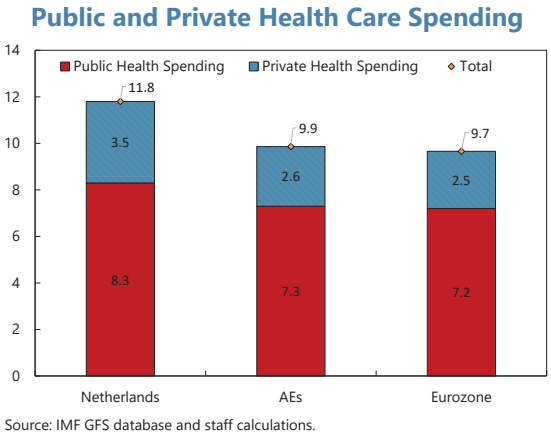
[7] Last decade refers to the years 2011–21, 2021 is the year with the latest data available.

[8] The difference of unmet care between high- and low-income groups are for the same reason also negligible. However, unmet care while still below the EU average (21 percent) increased during the first year of the pandemic from 1 percent to 15 percent when many non-urgent services were postponed. (OECD 2021).

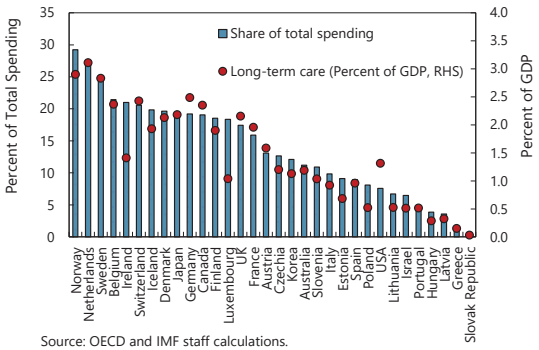
Annex VII. Figure 3. Health Care Spending
(Percent of GDP)



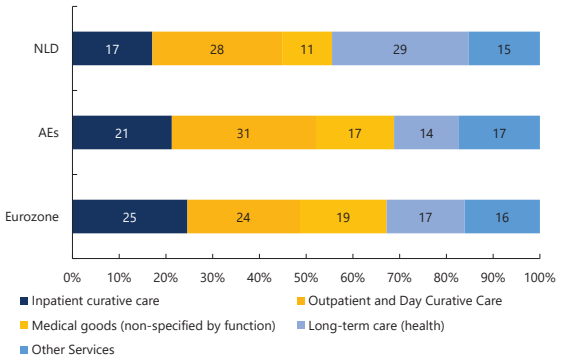
Source: IMF GFS database and staff calculations.



Source: IMF GFS database and staff calculations.



Source: OECD and IMF staff calculations.



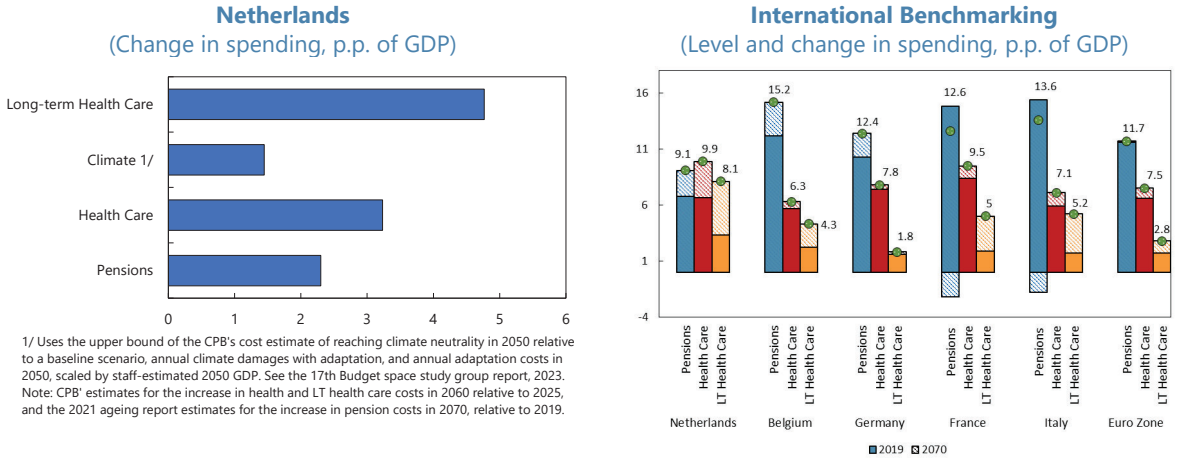
Source: WHO GHED.

Fiscal Pressures

5. Public spending pressures in the Netherlands are much higher than in comparator countries. The report "*The Adjustment with a View to the Future,*" written by the Dutch Budget Space Study Group (an advisory council), provides analysis and advice for fiscal policy, factoring in long-term spending pressures in the Netherlands. This report noted that long term spending pressures will arise from three areas: pensions, health care and climate-related spending. Total spending pressures in Netherlands (excluding climate spending pressures) is about 10 percent of GDP. Spending pressures from climate have a great degree of uncertainty. Spending related to climate is forecasted to be around 1 ½ percent of GDP annually starting in 2050. Spending on pensions and health care (areas for which there is international comparable data) is forecasted to increase by 10¼ percentage point of GDP from 2019 to 2070 (2021 Ageing report and CPB 2022) of which 3¼ in healthcare, 4¾ in long term health care and 2¼ in pensions (Annex VII Figure 4). In comparator countries the total forecasted increase is 5¾ percentage point of GDP in Belgium, 2¾ in Germany, 2 in France, and 3 in Italy. Forecasted total health care spending is much lower in Belgium and Germany—by 1¾ percentage points of GDP—and about 4½ percentage points of GDP lower in France and Italy. While public pension spending in the Netherlands is lower than in other

comparators, the forecasted increase is by 2¼ percentage points of GDP, in the same range as in countries as Belgium (3 percent of GDP) and Germany (2 percent of GDP). France and Italy will face a decrease in public pension spending.

Annex VII. Figure 4. Long-Term Spending Pressures
(Percent of GDP)



1/ Uses the upper bound of the CPB's cost estimate of reaching climate neutrality in 2050 relative to a baseline scenario, annual climate damages with adaptation, and annual adaptation costs in 2050, scaled by staff-estimated 2050 GDP. See the 17th Budget space study group report, 2023.
Note: CPB' estimates for the increase in health and LT health care costs in 2060 relative to 2025, and the 2021 ageing report estimates for the increase in pension costs in 2070, relative to 2019.

Sources: 2021 Ageing report, CPB, 17th Budget space study group report, and IMF staff calculations.
Note: Data for health care and climate costs for the Netherlands are from CPB and the 17th Budget space study group report (2023).

6. Pension spending will increase due to the increase in the old-age dependency ratio. Both public and private occupational pension spending will increase. The old-age dependency ratio will significantly increase from around 32.9 percent in 2019 to about 55.2 percent by 2070.[9] Contributing factors to such a steep increase include the increase in the size of the cohort of 65+ year olds relative to working age population due to the baby boomers after the World War II, the increase in the life expectancy at 65 and decline in the fertility rate. Public pensions[10] are expected to increase from 6.8 percent of GDP in 2019 to 9.1 percent of GDP in 2070, when the effects of the aging population will have fully kicked in. The increase is more than 80 percent driven by an increase in the old-age pensions. Spending on occupational pensions is also projected to reach 6.6 percent of GDP in 2070 (The 2021 Ageing Report). However, since expenditures are financed through contributions by both employers and employees (strict funding requirement), there is no fiscal consequence—nor emergence of implicit fiscal risk—associated with occupational pensions.

7. Public health spending will increase to 18 percent of GDP in 2060 on the back of higher elderly care. The Central Planning Bureau projects that public health care spending will increase from 10 percent of GDP in 2020 to 18 percent of GDP in 2060.[11] This increase is mainly driven by an increase in long term care, with its share in total public health care spending increasing

[9] Projection sourced from "*The 2021 Ageing Report: Economic & Budgetary Projections for the EU member States (2019–70).*" European Commission Institutional Paper 148, May 2021.

[10] Public pension spending comprises a basic old-age pensions, the disability benefits, and survivors' benefits.

[11] Total health spending (public and private) is projected to increase from 15 percent of GDP in 2020 to 26 percent of GDP in 2060.

from about one-third in 2020 to almost 45 percent in 2060. Increases are driven mostly by aging, but also by the Baumol effect,[12] and the availability of new technologies and treatments.[13] The increase in long-term care spending also reflects the fact that this type of health care is labor intensive and will likely lead to higher cost pressures due to increased demand for labor. In the baseline, the percentage of the labor market working in health care will increase from 16 percent in 2019 to about 37 percent in 2060 (WRR, 2021).

8. Climate change will inevitably bring costs but estimating both the size and the degree to which this will be publicly financed is uncertain. There are three channels through which climate change can lead to fiscal pressures (CPB, 2023). First, climate change will have physical consequences—"climate damage"—such as drought, heat, flooding from the rise of the sea level. Second, to address these consequences several adaptation measures should be implemented such as raising dikes, strengthening drainage, and adapting to drought, heat, and salinization. Third, measures to mitigate the impact of climate change itself, which also depend on global efforts. It is difficult to give a precise estimate of these costs. Any estimates have a high degree of uncertainty and cannot be summed as there are complex interactions. Nevertheless, the CPB has compiled estimates of the potential cost of climate change for the government in 2050 and 2100 using various studies (Annex VII Table 1). The CPB estimates that the physical cost of climate change could range from €2–3½ billion per year in 2050 to €8.1–9.6 billion euro in 2100. An effective adaptation policy can reduce costs in 2050 by more than 50 percent and in 2100 by more than 80 percent. Total costs with adaptation measures will be annually €0.9–1.6 billion in 2050 and €1.1–1.9 billion in 2100. Especially adaption measures related to the rise of the sea level can be very effective reducing the cost in 2100 from €6 billion to €0.2 billion per year. At the same time, CPB also estimates that the cost of adaptation will amount at €2.7 billion per year. The estimates for the mitigation costs also range between €18 ½ to about 33 billion per year in 2050.

Annex VII. Table 1. Netherlands: Estimation of Public and Private Climate Costs

Annual cost (billion euros)	2018–50	2030	2050	2100
Climate damage				
Without adaptation measures			2.0–3.5	8.1–9.6
With adaptation measures			0.9–1.6	1.1–1.9
Mitigating Costs		7.2	18.4–32.7	
Adaptation Costs	2.7			

Source: Central Plan Bureau, the Netherlands.

[12] The Baumol effect, refers to the phenomenon where costs in labor-intensive sectors like healthcare rise faster than in other sectors due to salary increases, despite no corresponding increase in productivity. This happens because wages in healthcare must compete with salaries in other sectors to keep attracting labor without productivity gains.

[13] Disabled care entails about one third of spending and long-term mental health care entails about 7 percent of total long-term care.

Measures by the Authorities

9. The 2019 pension agreement reduced the earlier-agreed statutory pension age. The government had agreed to increase the retirement age to 66 years and 8 months in 2020 and to 67 years and 3 months in 2022 and to link it to life expectancy afterwards. However, in the 2019 pension agreement, social partners and the government agreed to reduce the agreed retirement age in two ways. First, both the increase in the retirement age was reduced as from the year in which it starts. Instead of increasing the retirement age gradually to 67 years and 3 months in 2022, it was agreed to increase the retirement age gradually to 67 years in 2024. Second, instead of increasing the retirement age from 2025 in line with life expectancy, it will be increased by 8 months for each year of higher life expectancy. The reason for the 8 months is based on the agreement to keep the ratio between working life and pensions about the same. The Study Group on Fiscal Space notes that the increase of public pension spending can be further contained by linking the retirement age 1:1 with the increase of life expectancy. The Study Group also notes that reducing the benefit amount is possible.

10. Unchanged policies in elderly care will likely widen the gap in accessibility between low- and high-income groups, with a deterioration of quality. The authorities carried out a spending review on elderly care to present measures to ensure financial, labor, and societal sustainability.[14] The review concluded that without additional measures it is unlikely that public elderly care can be financed without tax increases, spending cuts in other areas, and/or increases in out-of-pocket payments. The spending review provided two alternatives, lower spending paths, one in which the spending path increases with demographics and one with GDP leading to respectively €4 bn and €13 bn lower spending compared to unchanged policies. Measures to achieve savings were provided along the same lines as described above: efficiency measures, measures that reduce the collectively financed elderly care, or increase out of pocket payments. Annex VII Table 2 summarizes these measures. A one-percent efficiency gain leads to €240 million of savings, while efficiency gains in the use of labor leads to €180 million of savings. The authorities also published a spending review to contain the macro increase in health care spending.

Annex VII. Table 2. Netherlands: Saving Proposal Spending Review Elderly Care

Measure	Savings in 2029(in mln Euro's)
Improving Efficiency	At least between 45 to 70
Reducing collective financed elderly care	At least 1505
Increasing out of pocket payments	At least between 545–915

Sources: Government of the Netherlands, 2022 and staff calculations
Note: The shown savings are based on the spending path as of 2022 including the then newly agreed Coalition Agreement and will need to be updated. Savings cannot be simply added as some measures interact with each other and further development of the measures is also needed.

[14] The review notes that financing public spending on elderly care is a political choice and that financial sustainability would need to be ensured. Labor sustainability means that there is sufficient labor to work in the elderly care. Societal sustainability means that choices regarding elderly care are acceptable and affordable for elderly people.

11. Additional regulatory and pricing policies are essential to meet climate goals, whereby postponing actions now will necessitate more substantial efforts in the future. The government conducted a spending review on climate measures to achieve a 60 percent reduction in emissions in 2030, as agreed in the latest Coalition Agreement. The current policy mix is strongly focused on subsidies and voluntary adjustments. The review provided an assessment of each sector (general, construction, agriculture and land use, mobility, industry, electricity) and specific measures. As easy measures are no longer available, and challenges are different in every sector, a good policy mix is crucial. Delaying measures in one sector implies that more measures are needed in other sectors and that measures in the same sector should be more ambitious in later years. In addition to these policy choices, an emissions ceiling may increase the certainty that the climate goals will be met. The normative and pricing measures from the central package increase costs for citizens, businesses, and social organizations, which requires careful consideration of potential adverse distributional effects. The previous Coalition agreement had €35 billion reserved in the so-called "Climate Fund".

12. The Netherlands has a long, advanced history of water management with funding embedded in its institutional framework. The "Delta Commission" was established as a response to the 1953 Water Ramp—and works among other things on issues to adapt to the rising sea level and changing rivers and rainfall. The requirements for safety are established in the "Water Law" that is revised every 50 years, the last time in 2017. A Delta Fund is funded from contributions from the Ministry of Infrastructure and Nature to ensure that there are sufficient resources for necessary measures.[15] Additional costs on top of the current budgeted amounts would be €2.7 billion per year starting from 2023.

Recommendations

13. Decisive policy choices are needed in all sectors to ensure fiscal sustainability, high quality health care that is accessible for all, and meet climate objectives. Recommendations for each sector are:

- **Pensions:** While the pension agreement is relatively new and re-opening discussions may be socially and policially infeasible in the near future, the authorities should explore measures to link increases in the retirement age 1:1 to higher life expectancy in the future. The authorities should also explore reducing benefit amounts under the AOW (as proposed by the Study Group on Fiscal Space) as a feasible policy option. The AOW benefit is considered a "social minimum". Those without an occupational pension may be eligible for additional social assistance for the difference, so that there may not be net savings for the government. In 2020, 24 percent of all employees were not saving under the occupational or additional private retirement schemes (DNB, 2020).

[15] The Delta Fund will have an estimated 27.4 billion euro available until 2050.

- **Health care:** The recently published spending review on "Macro Containment of Health Care Costs" put forward several policy options to contain health care costs. Careful consideration should be given to a combination of measures (efficiency gains, reducing the basic policy package or increasing out of pocket payments) to generate sufficient savings while mitigating risk and supporting solidarity.

- **Climate:** As far-reaching measures are needed, it is key that the authorities make firm policy choices without delay, as described in the spending review on climate. On climate, achieving the right balance among fossil fuel subsidies, pricing, and norms could help achieve climate goals efficiently while supporting fiscal sustainability. Delaying measures now will increase costs later. Measures for 2030 are only intermediate steps to achieve "climate neutrality" by 2050 as included in the Climate Law.

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Annex VIII. Transitional Aspects of Corruption[1]

1. Foreign bribery risks are relatively high given the size and export-driven nature of the Dutch economy. The authorities have taken several steps to tackle these risks. Of the 500 largest multinational enterprises (MNE) globally, 10 are headquartered in the Netherlands, with several operating in high-risk sectors and jurisdictions.[2] The Netherlands is also one of the major sources of FDI to the rest of the world. In its Phase 4 evaluation of the Netherlands, the OECD acknowledged progress in detecting and investigating foreign bribery, in particular raising awareness of fighting foreign bribery, creating dedicated law enforcement teams to investigate and prosecute cases, and providing training to the Whistleblowers Authority's officials. However, a continued low number of concluded cases is a concern. The authorities should continue mitigation efforts and implement OECD recommendations, including allocating adequate resources for enforcement, revising sanctions, and increasing enforcement against natural persons, issuing guidelines for self-reporting procedures, and reforming non-trial resolutions.

2. The authorities should continue efforts to ensure an even implementation of AML/CFT safeguards by obliged entities and to capitalize on recent improvements to beneficial ownership transparency. The implementation of the AML/CFT obligations, including screening of high-risk customers such as foreign politically-exposed persons, is more advanced for banks and trust offices supervised by the DNB than for other non-financial entities—lawyers, accountants, and domiciliary providers. The authorities have taken action to bridge gaps, including pursuing registration requirements for domiciliary providers as part of a new AML/CFT package. However, recent reviews suggest that deficiencies in customer due diligence processes in banking remain. Efforts to improve implementation of the AML/CFT risk-based approach include recently consulted guidance by DNB on AML/CFT, including good practices in scrutiny of PEPs and identification of beneficial owners (BOs) by obliged entities expected to be published in 2024. Continued efforts are needed given exposure to complex cross-border structures, such as conduit structures, that make the identification of foreign BOs challenging.[3] The authorities should ensure that the BO registries are complete and pursue close inter-agency cooperation, including between the registrar and tax authorities, to help identify BOs of legal arrangements such as foreign trusts. The authorities should also continue efforts to improve the level of sentencing for money laundering generated by foreign proceeds of corruption.

[1] The Netherlands volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance for purposes of determining whether it: (a) criminalizes and prosecutes the bribery of foreign public officials; and (b) has an effective AML/CFT system designed to prevent foreign officials from concealing proceeds of corruption.

[2] See OECD-UNSD Multinational Enterprise Information Platform, and International Financial Statistics International Investment Position, Assets, Direct investment (BPM6).

[3] As of 2021, the Netherlands hosts an estimated 8,700 conduit companies, with a balance sheet total of €4.5 trillion (517 percent of GDP). The number of such entities could be underestimated due to reporting gaps.