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Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of the Netherlands and delivering a Council opinion on the 2023 Stability Programme of the Netherlands

{SWD(2023) 619 final}

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2)) thereof,

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and social recovery and to the implementation of sustainable reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022 in accordance with Article 11(2) of Regulation (EU) 2021/241.

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[4], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it identified the Netherlands as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on the Netherlands' 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[5] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[6], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant also

[4] COM(2022) 780 final.
[5] COM(2023) 62 final.
[6] COM(2023) 168 final.

for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) The REPowerEU Regulation[7] adopted on 27 February 2023, aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[8]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels, in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated and be formulated on the basis of net primary expenditure, as proposed in its Communication on orientations for a reform of the EU economic governance framework[9]. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and

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

8 COM(2023) 141 final.

9 COM(2022) 583 final.

inclusive growth in all Member States through reforms and investments. The proposals aim at providing Member States with more control over the design of their medium-term plans, while putting in place a more stringent enforcement regime to ensure that Member States deliver on the commitments undertaken in their medium-term fiscal-structural plans. The objective is to conclude the legislative work in 2023.

(9) On 8 July 2022, the Netherlands submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 4 October 2022, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for the Netherlands[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that the Netherlands has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(10) On 28 April 2023, the Netherlands submitted its 2023 National Reform Programme and, on 28 April 2023, its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects the Netherlands' biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2023 country report for the Netherlands[11] on 24 May 2023. It assessed the Netherlands' progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022, and took stock of the Netherlands' implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed the Netherlands' progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for the Netherlands and published its results on 24 May 2023[12]. It concluded that the Netherlands is experiencing macroeconomic imbalances. In particular, vulnerabilities relating to high private debt levels and a large current account surplus, which have cross-border relevance, persist despite some signs of reduction. The current account surplus, despite recent data revisions, and private debt are large by international standards as well as above the fundamentals of the economy. The large current account surplus dropped in 2022, driven by worsening terms of trade, with the current account in constant prices increasing, and by a widening of the deficit in primary incomes. With improving terms of trade, the surplus is expected to

10 Council Implementing Decision of 4 October 2022 on the approval of the assessment of the recovery and resilience plan for the Netherlands (ST 12275//22; ST 12275//22 ADD 1).

11 SWD(2023) 619 final.

12 SWD(2023) 640 final.

rebound markedly in 2023 and stabilise in 2024. Limited policy progress has been made but more needs to be done to reduce obstacles to investment. Non-financial corporation and household debt remains high: the latter is more of a concern as it makes households vulnerable to shocks, with those risks exacerbated by the high and rising overvaluation of house prices. Going forward, debt is expected to continue on its moderately decreasing path. Despite moderately falling house prices, pressure on the housing market remains, notably as new housing construction remains significantly below government targets. At the same time, debt-financed homeownership continues to be subsidised by favourable taxation, while policies regarding the private rental market risk undermining its development.

(13) Based on data validated by Eurostat,[13] The Netherlands' general government budget balance decreased from a deficit of 2.4% of GDP in 2021 to a balanced budget in 2022, while general government debt fell from 52.5% of GDP at the end of 2021 to 51.0% at the end of 2022.

(14) The general government balance has been impacted by the measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included the reduction of VAT on energy and of the excise duty on petrol and diesel; while such expenditure-increasing measures included a discount on the energy bill in November and December and the support to low-income households with high energy bills. The cost of these measures was partly offset by new taxes on windfall profits of energy producers and suppliers, namely a solidarity contribution in application of Council Regulation (EU) 2022/1854 at a rate of 33%. The Commission estimates the net budgetary cost of these measures at 0.6% of GDP in 2022. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.1% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.3% of GDP in 2022, from 1.8% in 2021.

(15) On 18 June 2021, the Council recommended that in 2022 The Netherlands[14] pursue a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

(16) According to the Commission estimates, the fiscal stance[15] in 2022 was supportive, at -0.5% of GDP, as recommended by the Council. As recommended by the Council, The Netherlands continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2% of GDP in 2022 (0.2% of GDP in 2021). Nationally financed investment provided a contractionary contribution of 0.1 percentage points to the fiscal stance.[16] The Netherlands therefore did not preserve nationally financed investment, which is not in line with the Council recommendation.

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13 Eurostat-Euro Indicators, 47/2023, 21.4.2023

14 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of The Netherlands, OJ C 304, 29.07.2021, p. 88.

15 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

16 Other nationally financed capital expenditure provided an expansionary contribution of 0.2 percentage points of GDP.

At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 0.4 percentage points to the fiscal stance. The Netherlands therefore sufficiently kept under control the growth in nationally financed current expenditure.

(17) The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is realistic. The government projects real GDP to grow by 1.6% in 2023 and 1.4% in 2024. By comparison, the Commission 2023 spring forecast projects a slightly higher real GDP growth of 1.8% in 2023 and slightly lower growth of 1.2% in 2024. This is mainly due to small differences in the domestic demand outlook in both years.

(18) In its 2023 Stability Programme, the government expects that the general government deficit will increase to 3.0% of GDP in 2023. The increase in 2023 mainly reflects the cost of the energy package, rising interest expenditure and additional spending plans related to societal challenges, such as the green transition, limiting excessive nitrogen depositions, education and housing supply. According to the Programme, the general government debt-to-GDP ratio is expected to decrease from 49.3% at the end of 2022 to 48.4% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 2.1% of GDP for 2023. This is lower than the deficit projected in the Stability Programme, mainly due to the fact that the government balance outcome data for 2022 turned out better than assumed in the Stability Programme. The Commission 2023 spring forecast projects a higher general government debt-to-GDP ratio, of 49.3% at the end of 2023. The difference is due to the fact that the outcome data for 2022 turned out higher than assumed in the Stability Programme, as a result of a high stock-flow adjustment in 2022.

(19) The government balance in 2023 is expected to continue to be impacted by the fiscal measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular, the reduction of the excise duty on petrol and diesel and the support of low-income households) and new measures such as a price cap on electricity and gas and the support scheme to energy-intensive SMEs. The net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 1.1% of GDP in 2023[17]. Most measures in 2023 do not appear targeted to the most vulnerable households or firms, and do not preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.5% of GDP in 2023 (compared to 0.1% of GDP in 2022). The budgetary cost of temporary protection to displaced persons from Ukraine is projected to remain stable compared to 2022.

(20) On 12 July 2022, the Council recommended[18] that the Netherlands take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in

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[17] The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

[18] Council Recommendation of 12 July 2022 on the National Reform Programme of the Netherlands and delivering a Council opinion on the 2022 Stability Programme of the Netherlands, OJ C 334, 1.9.2022, p. 154.

line with an overall neutral policy stance[19], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The Netherlands should stand ready to adjust current spending to the evolving situation. The Netherlands was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.

(21) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (- 1.1% of GDP), in a context of high inflation. This follows an expansionary fiscal stance in 2022 (- 0.5% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0.9% of GDP to the fiscal stance. This includes the increased cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.4% of GDP. The expansionary contribution of nationally financed net primary current expenditure is therefore only partly due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is also driven by untargeted energy measures, permanent increases in public sector wages and social benefits and higher spending on healthcare. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2% of GDP in 2023, while nationally financed investment provided a neutral contribution to the fiscal stance of 0.0 percentage points. Therefore, The Netherlands plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment.[20] It plans to finance public investment for the green and digital transitions, and for energy security, such as investing and facilitating the development of offshore wind parks, incentivising the use of hydrogen and improving the digital literacy of students, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(22) According to the Stability Programme the general government deficit is expected to decline to 2.6% of GDP in 2024. The decrease in 2024 mainly reflects the phasing out of energy measures. The programme expects the general government debt-to-GDP ratio to increase to 48.7% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 1.7% of GDP in 2024. This is lower than the deficit projected in the programme, mainly thanks to the base effect from the lower projected deficit-to-GDP ratio in 2023. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 48.8% at the end of 2024.

(23) The Stability Programme envisages the phasing out of all of the energy support measures in 2024. The Commission also assumes the full phasing out of energy

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[19] Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of the Netherlands, which is used to measure the fiscal stance, is estimated at 7.9% in nominal terms.

[20] Other nationally financed capital expenditure is projected to provide a expansionary contribution of -0.2 percentage points of GDP.

support measures in 2024. This hinges upon the assumption of no renewed energy price increases.

(24) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark.[21] Taking into account fiscal sustainability considerations,[22] an improvement in the structural balance of at least 0.3% of GDP for 2024 would be appropriate. To ensure such an improvement, the growth in net nationally financed primary expenditure[23] in 2024 should not exceed 3.5%, as reflected in this recommendation. At the same time, the remaining energy support measures (currently estimated by the Commission at 1.1% of GDP in 2023) should be phased out, contingent on energy market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit. Based on Commission estimates, this would lead to a growth in net primary expenditure below the recommended maximum growth rate for 2024. However, according to the Commission 2023 spring forecast, the growth in net nationally financed primary current expenditure in 2023 is not in line with the recommendation of the Council. If this is confirmed, lower growth in net primary expenditure in 2024 would be appropriate.

(25) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 1.7% in 2024 which is below the recommended growth rate. The adjustment projected in the Commission forecast is in line with the savings from the full phasing out of energy support measures.

(26) According to the programme, government investment is expected to increase from 3.4% of GDP in 2023 to 3.5% of GDP in 2024. The higher investment reflects higher nationally financed investment and investment financed by the EU, namely through the Recovery and Resilience Facility. The programme refers to reforms and investments, that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. These include reforms and investments in the field of education, research and development, labour market and the green and digital transition, which are also part of the Recovery and Resilience Plan.

(27) The Stability Programme outlines a medium-term fiscal path until 2027. According to the programme, the general government deficit is expected to increase to 2.8% by 2026 and 3.2% of GDP in 2027. The general government deficit is therefore planned to remain below 3% of GDP until 2026 and increase above 3% of GDP in 2027. According to the programme, the general government debt-to-GDP ratio is expected to increase from 48.7% at the end of 2024 to 52.7% by the end of 2027.

(28) Rapidly rising house prices in recent years have resulted in an overvalued housing market. However, with financial conditions tightening, the housing market reached a

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21 Cf. Article 5 of Council Regulation (EC) No 1466/97, which also requires an adjustment of more than 0.5% of GDP for Member States with a government debt exceeding 60% of GDP, or with more pronounced debt sustainability risks.

22 The Commission estimated that The Netherlands would need an average annual increase in the structural primary balance as a share of GDP of 0.35 percentage points to achieve a plausible debt reduction or to ensure that government debt is kept at prudent levels in the medium term. This estimate was based on the Commission autumn 2022 forecast. The starting point for this estimate was the projected government deficit and debt for 2024 which assumed the withdrawal of energy support measures in 2024.

23 Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

turning point in mid-2022 as house prices started to decrease in response to rising mortgage interest rates. Mortgage debt relative to GDP remains high in the Netherlands, by international standards. This is driven by relatively high borrowing limits (loan-to-value) and substantial tax relief on mortgage payments. Although the mortgage interest tax deductibility is being reduced gradually, it remains high. The resulting high household debt makes households vulnerable to economic shocks, which is especially relevant now that risks of house price corrections have increased. At the same time, the private rental market is relatively small, which results in a limited supply of affordable and available alternatives to buying a house. The lack of affordable rental housing also undermines labour mobility. Removing obstacles that are currently holding back investments, including in residential construction, could allow the government to successfully execute its plans for an increase in housing supply and could therefore contribute to external rebalancing as well as the better functioning of the housing market.

(29) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investment to be implemented by 2026. While the Netherlands' recovery and resilience plan was only adopted in 2022, its implementation is now underway. Proceeding swiftly with the negotiation of the operational agreement will help the implementation of the plan and it is necessary for the submission of the first payment request, which is expected by the end of 2023. Implementation is ongoing, at this stage, risks of non-absorption appear limited given the relatively small financial allocation. Preparations of a REPowerEU chapter are ongoing. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of the Netherlands' strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(30) The Commission approved all of the Netherlands' cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in the Netherlands.

(31) Beyond the economic and social challenges addressed by the recovery and resilience plan, the Netherlands faces a number of additional challenges related to labour market segmentation, labour and skills shortages, reliance on fossil fuels and excessive nitrogen deposits.

(32) The share of flexible employment (both workers on flexible and temporary contracts and the self-employed without employees) in the labour market remains high in the Netherlands. This points to an increasing risk of labour market segmentation, with particularly distortive effects at the margins of the labour market. This can amplify inequality in opportunities and weigh on productivity. A certain degree of flexibility in the labour market can contribute to the adaptability of the economy and may also better accommodate individual preferences. However, the excessive use of flexible types of employment can have negative effects for workers and the wider economy.

For example, participation in training and lifelong learning is a challenge for those with flexible contract employment arrangements, and this in turn reduces investment in skills. In cooperation with the social partners, the Dutch government intends to address the differences between permanent and flexible work arrangements. Plans include the abolishment of zero-hours contracts and the replacement of 'on-call' contracts in their present form with a new type of contract providing more income security for workers, and improvements to the job security of temporary agency workers. Rapid progress in implementing these plans will be important to ensure that the choice of a certain type of employment contract is driven by job-specific needs or the preferences of job holders, while also improving the employment and social position of people in flexible employment and reducing labour market segmentation.

(33) Labour and skills shortages were already a feature of the Dutch labour market before the COVID-19 pandemic, but have become more widespread across sectors since then. Sectors such as ICT, healthcare, education and technical jobs face structural shortages, which already existed before the pandemic and are expected to persist, partly due to demographic developments. Despite a high overall participation rate, the Netherlands still has a pool of untapped and underutilised potential workers, such as people with a migrant background and those working in part-time employment. Once in a part-time job, few employees choose to increase their hours worked. This can be partially explained by the high marginal tax rates, obligations (or the anticipation of future obligations) related to informal care of children or other family members and/or the quality of work and work-life balance. To tackle labour and skills shortages it will be necessary to take a comprehensive approach, while also addressing sector-specific needs and barriers and productivity-enhancing investment. A combination of policies could be considered to tackle labour and skills shortages. These policies could include: (i) further reducing the marginal tax rate and/or improving the transparency of the marginal tax rate that individuals face; (ii) increasing wages in sectors with structural shortages, in particular those with a concentration of public and semi-public employers; (iii) promoting quality of work and work-life balance; (iv) improving career guidance; and (v) improving access to high-quality and affordable childcare. Furthermore, strengthening upskilling or reskilling opportunities via targeted and tailored measures, in particular for those at the margins of the labour market and the inactive, could help alleviate labour and skills shortages and improve social outcomes.

(34) Although the Netherlands has introduced measures to reduce its dependency on Russian fossil fuels, oil and natural gas accounted for 38% and 41% respectively of its energy mix, making the Dutch economy vulnerable to global price developments. Additional effort is needed for the Netherlands to achieve the EU 2030 renewable energy targets. Despite increased ambitions for installing additional renewable energy capacity, the share of renewables in final energy consumption amounted to only 13.0% in 2021, which is below the politically agreed target at the EU level and the EU average of 21.8%. As a result, the Netherlands continues to be among the worst performing Member States in terms of the renewables share in gross final energy consumption, having one of the largest gaps between the 2021 share and the 2030 targets. The expansion of the electricity grid, for both transmission and distribution, is essential to speed up the deployment of both onshore and offshore renewable energy infrastructure. Due to the progressively increasing congestion of the electricity grid, network operators are frequently forced to refuse grid access requests from new electricity producers and consumers. With gas consumption in dwellings accounting for around 25% of total natural gas consumption in the Netherlands, energy efficiency improvements in the building stock (for instance through minimum energy

performance standards to trigger renovations and more rigorous enforcement of energy audit requirements for industry) can contribute significantly towards further reducing carbon emissions and dependency on fossil fuels. The Netherlands' consumption of natural gas has dropped by 29% in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding 5 years, beyond the 15% reduction target. The Netherlands is encouraged to keep pursuing efforts to temporarily reduce gas demand until 31 March 2024[24].

(35) Due to the negative effects of excessive nitrogen deposits in natural areas resulting mainly from the intensive Dutch agricultural sector, the issuing of permits for certain nitrogen-emitting projects, in particular construction projects, is currently blocked. The Dutch government is taking action to reduce nitrogen deposits, in particular through integrated area programmes at provincial level. Further support is needed to make agriculture more sustainable while ensuring competitiveness through for instance support for the reduction of livestock, the acceleration of the transition to circular and/or organic agriculture and increasing digitalisation and innovation.

(36) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, labour shortages were reported in the Netherlands for 108 occupations that required specific skills or knowledge for the green transition, including environmental-protection professionals, insulation workers, and civil-engineering technicians.

(37) In light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[25] is reflected in recommendation (1) below.

(38) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that euro area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain high public investment and promote private investment to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary, targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the Banking Union. For the Netherlands, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second, third, fourth and fifth euro area recommendations.

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24 Council Regulation (EU) 2022/1369

25 Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

(39) In light of the Commission's in-depth review and this assessment, the Council has examined the 2023 National Reform Programme and the 2023 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1) below. Policies referred to in recommendation (1) help address vulnerabilities related to high private debt and vulnerabilities linked to a high current account surplus. Recommendations (2) and (4) contribute to addressing recommendation (1) in as much as higher investment is concerned. Recommendation (1) contributes to both addressing imbalances and implementing the recommendation for the euro area, in line with recital 38.

HEREBY RECOMMENDS that the Netherlands take action in 2023 and 2024 to:

1. Wind down the energy support measures in force by the end of 2023, using the related savings to reduce the government deficit. Should renewed energy price increases necessitate support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 3.5%.

   Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.

   For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

   Reduce the household debt bias and distortions in the housing market. Support the availability and affordability of housing on the private rental market. Remove obstacles holding back investments, including in residential construction.

2. Proceed with the steady implementation of its recovery and resilience plan and swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Reduce incentives to use flexible or temporary contracts. Taking into account sector-specific needs, address structural labour and skills shortages, including by tapping into underutilised labour potential and strengthening up- and reskilling opportunities, in particular for those at the margins of the labour market and the inactive.

4. Reduce reliance on fossil fuels by accelerating the deployment of renewables, improving framework conditions to boost investment in the expansion of electricity transmission and distribution grids, extending and accelerating energy efficiency measures to reduce energy consumption, in particular in the built environment. Support the transition towards sustainable agriculture. Step up policy efforts aimed at the provision and acquisition of the skills needed for the green transition.

Done at Brussels,

For the Council
The President