



National Reform Programme 2018
The Netherlands

Table of Contents

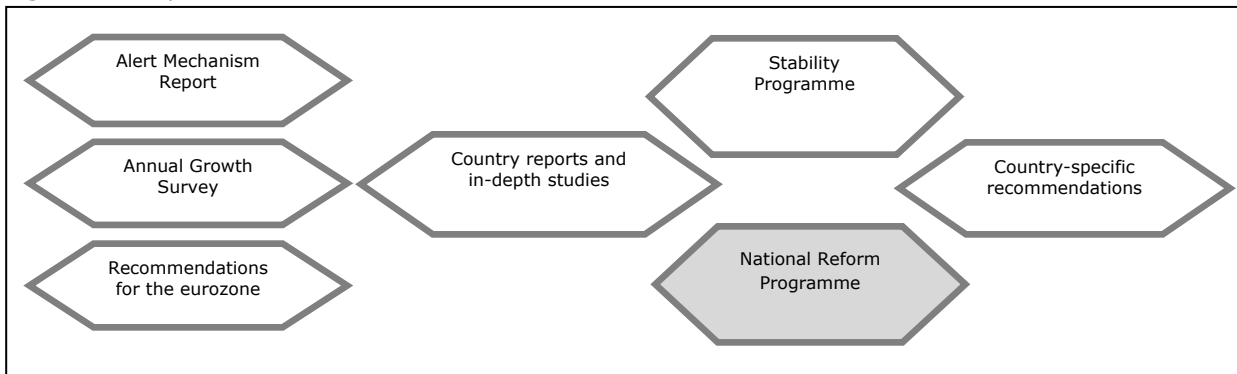
1. Introduction	3
1.1. <i>European Semester</i>	3
1.2. <i>Structure of the document</i>	3
1.3. <i>Country Report The Netherlands 2018</i>	4
2. Macroeconomic context	6
3. Country-specific recommendations	8
3.1. <i>First recommendation for the Netherlands</i>	8
3.2. <i>Second recommendation for the Netherlands</i>	14
3.3. <i>Relationship with recommendations for the eurozone</i>	18
4. Progress on the Europe 2020 strategy	20
4.1. <i>Employment</i>	22
4.2. <i>Research and innovation</i>	24
4.3. <i>Climate change and sustainable energy supply</i>	28
4.4. <i>Education</i>	31
4.5. <i>Poverty and combating social exclusion</i>	33
5. European funds and the Europe 2020 strategy	36
6. Involvement of Parliament and other stakeholders	38
Appendix A: <i>Other tables</i>	39

1. Introduction

1.1. European Semester

The European Semester is an annual cycle of economic and budgetary policy coordination in the European Union, which starts in the autumn with the publication of the "Alert Mechanism Report" and the "Annual Growth Survey" by the European Commission. Since the 2015-2016 European Semester, the European Commission has also issued its recommendations for the eurozone at the start of the European Semester. This may enable national policy measures to respond better to the challenges facing the entire eurozone. Following research in and contact with the Member States, the European Commission's country reports on the state of the economy and progress on country-specific recommendations from the previous Semester and the wider Europe 2020 strategy targets will be released in February/March. The country report also contains an in-depth study for Member States, with the Alert Mechanism Report serving as a basis for further analysis of potential macroeconomic imbalances. Following on from this, by means of the Stability or Convergence Programme and the National Reform Programme (NRP) in spring, Member States report on the budget, the state of the economy and the economic reforms in the light of previous recommendations and the Europe 2020 strategy targets. Together with the country reports and bilateral contracts, these programmes serve as a basis for the new country-specific recommendations that the European Commission will propose in May and that will be adopted by the Council of the European Union in June, with or without amendments.

Figure 1. European Semester



As in previous years, the focus of this NRP lies on how the 2017 country-specific recommendations for the Netherlands have been and are being implemented, as well as on progress towards national goals in the context of the Europe 2020 strategy. The NRP also includes a response to the Commission's findings and its opinion of the progress that has been achieved, as described in the Country Report The Netherlands 2018.¹ Finally, the NRP looks briefly at the relationship between progress on the country-specific recommendations and on the recommendations for the eurozone as a whole.

1.2. Structure of the document

The NRP has been prepared in accordance with the guidelines issued by the European Commission (hereinafter referred to as "the Commission"). Chapter 2 outlines the macroeconomic context. Chapter 3 describes the ways in which the government has implemented the 2017 country-specific recommendations for the Netherlands. It also examines the relationship between implementation of the country-specific recommendations and the recommendations for the eurozone as a whole. Chapter 4 describes the progress the Netherlands has made with regard to the Europe 2020 strategy objectives. Chapter 5 specifically describes how the use of European funds in the Netherlands contributes to achieving the Europe 2020 objectives. Chapter 6 explains how the House of

¹ European Commission, 2018, "Country Report The Netherlands 2018", SWD (2018) 217.

Representatives and the Senate, the social partners and the local and regional authorities were involved in establishing the NRP.

In addition to this NRP, the Netherlands will also submit the Stability Programme (SP) to the Commission. The content of the two documents overlaps to a certain extent, for example in the area of macroeconomic forecasts. The SP reports primarily on budgetary developments and budgetary policy, while the NRP focuses on the package of structural policy measures. These documents refer to each other where relevant.

1.3. Country Report The Netherlands 2018

On 7 March 2018, the Commission published the "Country Report The Netherlands 2018" within the framework of the European Semester.² This document contains an in-depth review of potential macroeconomic imbalances in the Dutch economy, an analysis of other structural economic developments and the Commission's assessment of the progress made on implementing the country-specific recommendations from last Semester (2017).

The country report covers a wide range of topics. Of particular importance is the Commission's finding that there are two imbalances in the Netherlands. The threat posed by the imbalances was rated in the lowest category on the scale (not excessive). This means that the Commission will take no further sanctions measures, but will continue to closely monitor developments.

Similar to previous years, the Commission notes that there is a high level of private debt in the Netherlands, particularly among households as a result of the institutional structure of the pension system and the housing market. The Commission considers the sensitivity of households to shocks due to the high level of mortgage debt combined with high compulsory pension savings as problematic. In this regard, it draws the same conclusion as in previous years. Although household debt as a percentage of GDP is now gradually receding, it is still twice as high as the eurozone average. In the Commission's view, important housing market reforms have been implemented and announced to reduce the incentive to incur debt, but distortions continue to exist. Despite the reduction of mortgage tax relief, the subsidy for debt-financed homeownership remains substantial, according to the Commission. The Commission is also awaiting further details of the planned reform of the second pillar of the pension system.

Besides the high household debt levels, the Commission also noted imbalances in the Netherlands' current account surplus. The surplus is partially of a structural nature and can mainly be explained by the high level of savings of non-financial companies. This is linked to the presence of large multinationals in the Netherlands. According to the European Commission autumn 2017 forecasts, the current-account balance will gradually decline on account of buoyant domestic demand. The Commission takes a positive view of measures that reduce this surplus. The government will implement additional budgetary measures in 2018 that support domestic demand.

Response

The Dutch economy is in good health and the pace of growth accelerated in 2017. This is demonstrated by last year's growth figure of 3.1%, the highest growth figure since the outbreak of the financial crisis. Growth was visible on all fronts, with higher consumption, investment and export levels. Economic growth was also reflected in the development of the unemployment rate, which continued to fall in 2017 to 4.4% in December, one percentage point lower than a year earlier. However, there are various downside risks to the economic outlook that may affect the current momentum. Those risks are mainly external. For example, the Dutch economy remains sensitive to the results of the Brexit negotiations. The expectation is that the Netherlands will be hit harder by the Brexit than other European countries, due to its exceptionally strong financial, trade and investment relations.

² European Commission, 2018, "Country Report The Netherlands 2018", SWD (2018) 217.

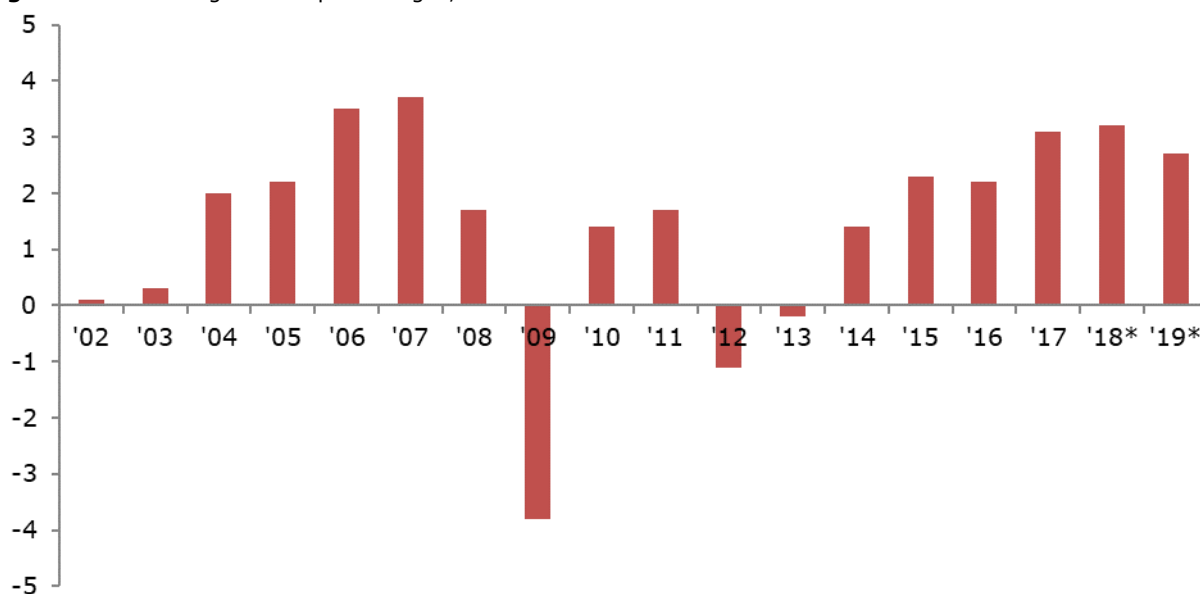
While the government understands the Commission's conclusion regarding the high household debt levels, it should be noted that, in addition to the measures already taken by the previous government, the new government takes various measures to address distortions on the housing market. One such measure is that the government has decided to speed up the reduction of the maximum mortgage interest tax deduction. To compensate home owners for accelerating the reduction of the mortgage interest tax deduction, the tax that home-owners pay on the notional rental value of their homes will be lowered by 0.15 percentage points. The government's housing market policy is examined in greater detail in Chapter 3.1.2. The government also plans to reform the second pillar of the pension system. These plans are set out in further detail in Chapter 3.2.2.

The government acknowledges the Commission's analysis that the current account surplus is primarily caused by structural features of the Dutch economy, such as its favourable geographic location, excellent business climate with high-quality infrastructure and qualified staff and the competitiveness of the business sector. The government notes that efforts to limit the private debt burden make a reduction of the current account surplus more difficult. The Dutch government does not pursue a policy specifically aimed at managing the current account balance, though balanced economic growth is a key policy objective. On the one hand, this means that the government should exercise restraint on increasing government expenditure in boom periods. In times of economic prosperity, such as the current high level of economic growth, sufficient attention should be given to reducing the national debt. On the other hand, the balanced development of wages and the purchasing power of households also merits attention. As a result of supporting domestic demand, the budgetary measures announced will put downward pressure on the current account surplus due to higher domestic consumption and import levels. Furthermore, the government sees the savings surplus as a corollary to the ageing population, with pensioners using their current savings for consumption in the future. The government welcomes the Commission's insights into the savings surplus of the Dutch business sector and the role of the Dutch pension system. These could contribute to the discussion on the balance between savings and investments in the Dutch economy.

2. Macroeconomic context

Economic growth in the Netherlands accelerated in 2017. This is reflected by many economic indicators. First of all it is reflected by last year's growth figure; in 2017, the Dutch economy grew by 3.1%, the highest growth figure since the outbreak of the financial crisis. Growth was visible on all fronts, with higher consumption, investment and export levels. Economic growth was also reflected in the development of the unemployment rate, which continued to fall in 2017 to 4.4% in December, one percentage point lower than a year earlier. Moreover, for consumers and producers, 2017 was a year in which economic confidence surged. The level of consumer and producer confidence was extremely high throughout the whole year.

Figure 2. Economic growth in percentages, 2002 – 2019



Source: Statistics Netherlands (CBS), CPB Central Bureau for Economic Policy Analysis. The figures for 2018 and 2019 are projections.

So looking back, the Netherlands had a very good economic year. The projection in the CPB's Central Economic Plan (CEP) for 2018 indicates that the current momentum will continue, with 3.2% economic growth projected for 2018. Moreover, the rate of unemployment is expected to continue to fall to an average of 3.9%, returning to the pre-crisis level. Following the strong growth of over 3% in the previous and current year, growth will be slightly lower at 2.7% in 2019. The median static purchasing power is set to rise moderately by 0.6% in 2018. Next year it increases by 1.6%, partly due to the measures set out in the coalition agreement that reduce the tax burden. The government finances continue to develop favourably, with a budget surplus projected for both this year and next year. The EMU debt will continue to fall, to 48.4% of GDP in 2019.

Table 1. Short-term projections for the Dutch economy

	2017	2018	2019
<i>Percentage change, unless stated otherwise</i>	<i>Result</i>	<i>Estimate</i>	<i>Estimate</i>
Gross domestic product (GDP)	3.1	3.2	2.7
Household consumption	1.8	2.1	2.5
Government consumption	0.9	3	2.4
Investment (including inventory)	5	6	4.2
Export of goods and services	5.5	4.9	4.6
Import of goods and services	4.9	5.1	5.2

Unemployment (percentage of the labour force)	4.9	3.9	3.5
Unemployment (in thousands of people)	438	355	320
Purchasing power, static, median	0.3	0.6	1.6
Inflation (harmonised index of consumer prices)	1.3	1.6	2.3
EMU balance	1.1	0.7	0.9
Structural EMU balance	0.8	0	-0.4
EMU debt (in % of GDP)	56	52.1	48.4

Source: CPB Netherlands Bureau for Economic Policy Analysis

Although the Dutch economy is flourishing, there are various downside risks to the economic outlook that may affect the current momentum. Those risks are mainly external. Firstly, the Dutch economy remains sensitive to the results of the Brexit negotiations. The expectation is that the Netherlands will be hit harder by Brexit than other European countries, due to its above average strong financial, trade and investment relations. The United Kingdom is the third-largest export destination for the Netherlands, after Germany and Belgium. In China, the high debt burden of households and businesses, an overheated housing market and a growing shadow banking system still constitute a risk that may affect the Dutch economy through world trade. Lastly, the phaseout of the ECB's bond buying programme poses a risk; if the ECB initiates the phaseout too early or implements it too rapidly, this could dampen the current favourable cyclical development.

3. Country-specific recommendations

In July 2017, the Council of the European Union adopted two recommendations for the Netherlands based on a proposal from the Commission. These recommendations concern budgetary and structural policy, expenditure on research and innovation, the housing market, the labour market, the pension system and wage growth. The recommendations identify major challenges and specific areas of concern for the Dutch economy. Each recommendation is explained in further detail in Sections 3.1 and 3.2. Section 3.3 explores the relationship between Dutch government policy and the recommendations for the eurozone as a whole.

3.1. First recommendation for the Netherlands

3.1.1. Council recommendation

The verbatim recommendation formulated by the Council states:

While respecting the medium-term objective, use fiscal and structural policies to support potential growth and domestic demand, including investment in research and development. Take measures to reduce the remaining distortions in the housing market and the debt bias for households, in particular by decreasing mortgage interest tax deductibility.

3.1.2. New policy based on the recommendation

Budgetary and structural policy

The coalition agreement includes a reduction of the tax burden up to 6.6 billion euros by 2021. Tax on income will decline by 9 billion euros, which will be financed partly by increasing the low VAT rate (2.6 billion euros) and increasing the environmental taxes. In addition, the level of expenditures towards households will be increased by 1 billion euros, mainly for households with children. These measures will lead to a higher net income for households and will consequently support domestic demand. The total additional expenditures in the coalition agreement will rise to 7.9 billion euros by 2021, including additional expenditures on education and research of approximately 2 billion euros.

According to the latest CPB projection, the Netherlands will have a structural EMU balance of 0.0% of GDP in 2018, and -0.4% of GDP in 2019. The projected structural balance therefore falls within the medium-term budgetary objective (MTO), which is -0.5% of GDP for the Netherlands. The CPB projects a structural EMU balance of 0.7% of GDP and an EMU debt of 52.1% of GDP for 2018. This means that the Netherlands complies with the preventive arm requirements for 2018.

In addition to budgetary policy, the coalition agreement sets out specific measures aimed at strengthening the Dutch economy and growth potential. In the forthcoming government's term of office, 950 million euros will be reserved for regional challenges, such as strengthening the European Space Research and Technology Centre (ESTEC), and Brainport Eindhoven. In addition, Invest-NL with equity totalling 2.5 billion euros will be launched during that term and will play a role in financing high-risk activities of businesses engaged in major transition projects (such as energy, mobility and food), the social domains (such as healthcare, safety and education) and the growth of start-ups and scale-ups to larger businesses.

Research and innovation

Public and private investments in research and innovation (R&I) are crucial for future economic growth. The government will therefore structurally invest an additional 400 million euros in fundamental and applied research (200 million euros each), plus incidentally twice 50 million euros in research infrastructure (in 2018 and 2019). By doing so, it wants to keep within reach of the Dutch target of spending 2.5% of GDP on research and development by 2020 (2016: 2.03% of GDP). The investments announced are discussed in greater detail below and in Section 4.2.

Table 2 shows the trends in public expenditure on research and innovation (including corporate tax incentives) for the period 2015 – 2021. This is the latest summation, but still excluding the plans in the coalition agreement, as they have not yet been incorporated into the departmental budgets. This is expected to take place in the course of 2018. Total government expenditure on R&I is expected to increase compared to 2017 due to the R&I expenditure boosts announced. Other expenditure boosts stated in the coalition agreement could potentially also be allocated in part to R&I. Only after it is clear by how much these expenditures will rise, it will also be possible to give a projection on whether public investment in R&I as a percentage of GDP will increase.

Table 2. Resources provided by the Central Government for research and innovation (in millions of euros, actual prices, excluding plans in the coalition agreement)

	2016	2017	2018	2019	2020	2021
Fundamental research	3,396	3,367	3,417	3,381	3,408	3,465
Applied research at TO2 institutions	404	375	361	359	359	359
Expenditures of departments on research and innovation, remaining	1,545	1,427	1,419	1,394	1,393	1,333
Tax incentives for research and innovation (WBSO, Innovation box)	2,606	2581	2581	2581	2581	2581
Total	7,952	7,750	7,778	7,714	7,740	7,737
Total, excluding Innovation Box	6,562	6,385	6,413	6,349	6,375	6,372

The figures are based on the 2015 – 2021 TWIN Report issued by the Rathenau Institute in 2017.

In addition to the above mentioned investments in fundamental and applied research and in research infrastructure, a number of policy changes with regard to research and innovation have been announced in the coalition agreement entitled "Confidence in the Future":

- The funding of research at universities will be more strongly linked to research efforts, scientific quality and social impact. Moreover, there should always be sufficient scope for free research.
- There will be a special focus on technical sciences and research groups faced with high costs.
- Open science and open access will become the norm in scientific research.
- The subsidy for the appointment of more female professors will be implemented in 2018.
- The top sectors policy, aimed at promoting collaboration between the business community, knowledge institutes and the government, will place a stronger focus on the economic opportunities arising from the following three main societal themes: energy transition/sustainability, agriculture/water/food and quantum technology /high technology/nanotechnology/photronics. The government will inform the Parliament before summer 2018 about how it plans to implement this.

The government recently informed the House of Representatives about the allocation of the first tranches of the expenditure boosts for fundamental and applied research.^{3 4}

The government will make the following additional investments in research through the Ministry of Education, Culture and Science: 250 million euros from 2020 on and twice another 50 million euros on a one-off basis in 2018 and 2019. The allocation of funds is based on realising a balance between (1) thematic programming under the National Research Agenda focusing on innovative and socially relevant research and (2) strengthening the basis for scientific and applied research:

1. The broad National Research Agenda covering the entire public knowledge chain (increasing to 130 million euros on a structural basis by 2020).
2. Efforts aimed at strengthening the basis, (120 million euros on a structural basis and twice 50 million euros on a one-off basis), for example, by means of:
 - a. the digital research infrastructure, in connection with which open science and open access are highlighted (20 million euros on a structural basis in 2020; the funds for the

³ <https://zoek.officielebekendmakingen.nl/kst-33009-49.html>

⁴ https://www.tweedekamer.nl/kamerstukken/brieven_regering/detail?id=2018Z04203&did=2018D18589

- digital infrastructure in 2018 (20 million euros) and in 2019 (20 million euros) will be allocated from the non-recurring funds for research infrastructure);
- b. scientific talent, in connection with which the Innovational Research Incentives Scheme is highlighted (5 million euros on a structural basis);
- c. scientific and technical research at universities, in connection with which experience with sectoral plans is highlighted (70 million on a structural basis);
- d. applied research at universities of applied sciences (25 million euros on a structural basis);
- e. scientific research facilities (30 million in 2018 and 30 million in 2019 on a one-off basis).

The considerations and challenges relating to the priorities stated above are described in the letter referred to in footnote 4.

The coalition agreement offers scope for an additional investment in applied research of 75 million euros in 2018, through the Ministry of Economic Affairs and Climate Policy. Following on from the coalition agreement, the government will focus on three topics in 2018:

1. An investment in major technology institutes that demonstrably meet market needs (42 million euros);
2. Strengthening public-private partnerships (15 million euros). Among other things, the PPP allowance will be increased from 25% to 30%;
3. Strengthening the SME sector with the innovation policy (18 million euros) by expanding the Regional and Top Sectors Incentive scheme for SMEs and innovation credits for the SME sector. In this connection, the government aims to support start-ups, continue the Technology Pact and strengthen the government's role as launching customer through the Small Business Innovation Research programme (SBIR).

The government will inform the House of Representatives before summer of details of the revised Top Sectors policy.

Housing market

In addition to the measures already implemented by the previous government administration, the new administration is taking various measures to prevent any further housing market distortions. The government has decided to speed up the reduction of the maximum mortgage interest tax deduction. In 2018 and 2019, the deduction will be reduced by 0.5 percentage points per annum. From 2020 onwards, it will be further reduced in four years by 3 percentage points per annum. The final target, a maximum deductible rate of around 37%, will consequently be achieved by 2023 (previously 2041).

To compensate home owners for accelerating the reduction of the mortgage interest tax deduction, the tax that home-owners pay on the notional rental value of their homes will be lowered by 0.15 percentage points. This will take place in three steps of 0.05 percentage points, from 2020 onwards.

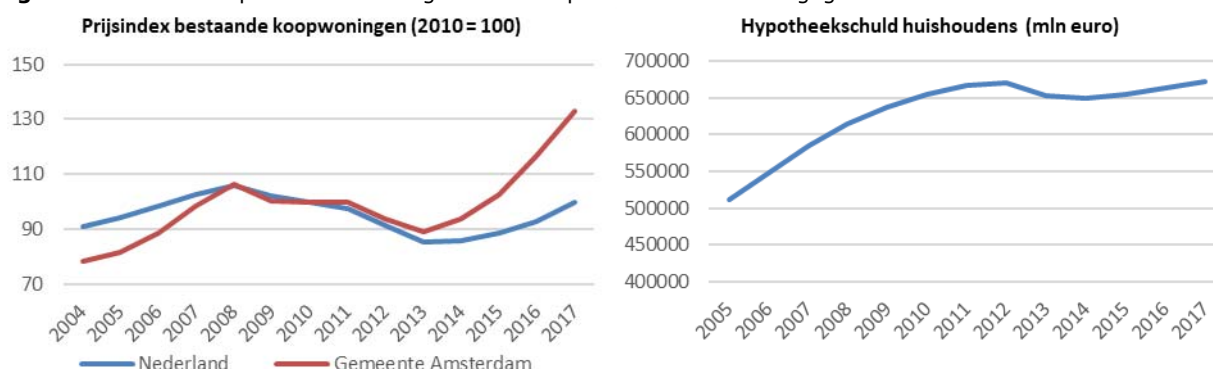
The deduction for no or a low mortgage debt (also known as the Hillen scheme) will be phased out in 30 equal annual steps with effect from 2019. The Hillen scheme was introduced as an incentive for people to pay off their mortgage in full. The repayment requirement introduced in 2013 has rendered this incentive redundant. Moreover, this scheme has had a far greater budgetary impact than anticipated at the time of implementation.

The above measures form part of a tax system reform entailing, on balance, a tax reduction for almost all households.

House prices in the Netherlands continue to rise, with the major cities recording the largest increases. However, the rapid increase in house prices was accompanied by limited growth in mortgage credit, which can primarily be explained by the fact that people, particularly in the major cities, are contributing more of their own funds. The share of households borrowing the maximum amount

against their income and the value of their home is lower in the major cities than in other parts of the country.

Figure 3. Price development for existing owner-occupied homes and mortgage debt



Source: Statistics Netherlands (CBS)

3.1.3. Country Report The Netherlands 2018

Summary

The Commission notes in the Country Report that the Netherlands has made substantial progress in supporting potential growth and domestic demand. In the analysis, the Commission states that the Netherlands promptly took measures during the crisis to correct its excessive deficit sustainably and that the budget situation has improved since that time. The Country Report states that the coalition agreement provides for a substantial fiscal stimulus and that the measures announced will reduce the tax burden on labour.

Despite the Netherlands' high rankings in the global innovation and competitiveness indices, the Commission concludes that public R&D intensity (0.88% of GDP in the Netherlands) lags behind that of the European front runners (1% of GDP). From an international perspective, private R&D intensity is modest, not only on account of the Dutch sector structure, but also in the industry (except for the sectors that build (electrical) devices and machines). The Commission also highlights the substantial net savings balance of non-financial companies in the Netherlands (around 7% of GDP in 2016, which is five times higher than the eurozone average). According to the Commission, this is attributable to factors such as the comparatively high profitability, low dividend distribution and low investments in projects in the Netherlands. Companies are increasingly making investments abroad. According to the Commission, this also applies to R&D investments, even though investments in R&D and other forms of knowledge-based capital (including software and data, human and organisational capital) in particular are crucial in ensuring that knowledge-intensive economies such as the Netherlands remain competitive. Furthermore, the Commission highlights the comparatively low number of qualified professionals in science and technology-related specialisations as restrictive for Dutch innovation capacity, with the shortage of qualified ICT professionals and ICT skills giving particular cause for concern. The Commission states that collaboration between businesses and knowledge institutes can foster innovation and that the Top Sectors approach has successfully strengthened this collaboration. However, the Commission states that the government could provide more direction in the Top Sectors policy by setting clear objectives in order to tackle societal challenges, in particular, more effectively.

The Commission states that the recovery in the Dutch housing market continues. However, the pace of recovery varies considerably between the regions. At national level, house prices seem to be in line with their fundamental values, which means that, from a national perspective, there seem to be no signs of overvaluation yet at present. At the same time, the Commission emphasises that the high mortgage debt continues to be a significant vulnerability. However, the number of underwater mortgages has fallen in recent years. According to the Commission, the measures implemented in the past, such as the reduction of the mortgage interest tax deduction, the repayment requirement in order to be eligible for the mortgage interest tax deduction and the reduction of the maximum

mortgage debt relative to the value of a house, will not have a direct impact on the mortgage debt level in the short term. These measures will only succeed in lowering the debt level in the long term. The Commission additionally notes that, even after the reduction of the maximum mortgage interest tax deduction has been completed in 2023, it will still be the highest in Europe at 37%. Lastly, the Commission emphasises that the large share of the social housing sector is causing inefficiencies in the housing market. The liberalised rental sector as the only non-subsidised sector therefore remains underdeveloped.

Response

The government explains how the Netherlands implements the European budgetary objectives in greater detail in the Stability Programme.

The government agrees with the Commission that investments in knowledge-based capital, especially in research and innovation, are crucial for future economic growth. From a historical perspective, in 2017, the level of public investment in R&I was high at 6.4 billion euros (7.8 billion euros, including the Innovation Box, see Table 2). Compared to the EU 28 and the OECD average as a percentage of GDP, this is still comparatively high, but lower than the most innovative countries included in the European Innovation Scoreboard. By means of the measures stated in Section 3.1.2. (and other expenditure boosts included in the coalition agreement), the government will further increase these investments in the years ahead. The Commission states that, despite the expenditure boosts, public investment in R&I as a percentage of GDP will fall relative to the 2016 level. This could occur if GDP grows faster than the expenditure boosts (the denominator effect).

It is the government's aim that the measures described in Section 3.1.2 lead to an increase in public and private R&D conducted in the Netherlands, on the pathway towards achieving the objective of 2.5% of GDP in R&D investment by 2020 and, furthermore, with the goal of ranking among the world leaders in science and innovation. By making available additional public funds, the government aims to bolster scientific excellence while increasing the leverage on private R&D investment. To stimulate more domestic investment in knowledge development and attract investments in the Netherlands, the government will improve a number of conditions for private investment in R&I. In line with the Commission's findings, the government aims to improve the research infrastructure, make public-private partnerships even more attractive and train more science technicians, including ICT professionals. The government will continue both the Technology Pact and the Top Sectors Strategy, and will also proceed with the establishment of Invest-NL. The government will increase the focus of the Top Sectors strategy on the earnings opportunities under three themes and will set clear guideline targets, in which links with the National Research agenda will be sought, for the purpose of solving societal challenges.

The previous government had already put measures in place for both the short and long term, which, combined with the low interest rate, are helping to curb the growth of mortgage debt. Debt reduction will be stimulated in the short term by increasing the gift tax exemption to 100,000 euros, a structural measure implemented with effect from 2017. The repayment requirement introduced in 2013 and the reduction of the mortgage interest tax deduction will contribute to lower mortgage debts in the long term. However, given that the government plans to accelerate the reduction of the mortgage interest tax deduction, it will already be more attractive to make extra mortgage payments in the shorter term as well. Furthermore, the government considers a properly functioning mid-priced rental segment of vital importance. To achieve more mid-price rentals, the previous government had already set up a collaboration platform. The platform was asked to support municipalities in their efforts to achieve more mid-priced rentals, identify bottlenecks and issue a report accordingly. The recommendations formulated in the report include the following: the Municipal Housing Vision should include municipalities' requirements for mid-price rentals; setting up an online platform for posting mid-price rental development projects; simplifying the market test; and offering scope for temporary, local customised solutions. The Minister of the Interior and Kingdom Relations submitted a government

response⁵ to the report in March, in which she described her plans for simplifying the market test and announced a legislative proposal “Mid-price rental segment measure”. In line with the coalition agreement, the market test will be simplified for areas where no commercial parties are found to be willing or able to invest in mid-price rental housing. The Minister has also requested local parties to maximise the use of existing options. An expert team is already working actively to support them.

⁵ https://www.tweedekamer.nl/kamerstukken/brieven_regering/detail?id=2018Z04387&did=2018D19007

3.2. Second recommendation for the Netherlands

3.2.1. Council recommendation

The verbatim recommendation of the Council states:

Tackle remaining barriers to hiring staff on permanent contracts. Address the high increase in the self-employed without employees, including by reducing tax distortions favouring self-employment, without compromising entrepreneurship, and by promoting access of the self-employed to affordable social protection. Based on the broad preparatory process already launched, make the second pillar of the pension system more transparent, inter-generationally fairer and more resilient to shocks. Create conditions to promote higher real wage growth, respecting the role of the social partners.

3.2.2. New policy based on the recommendation

The Dutch economy is in good shape and developments on the labour market are positive. Labour force participation is high, employment is rising rapidly, the number of people making use of incapacity for work schemes is 50% lower than in the 1990s and the number of vacancies is rising considerably. Unemployment has dropped sharply from 6.9% of the working population in 2015 to 4.1% in February 2018. In the past 50 years, a larger decline in the unemployment rate in such a short space of time was only recorded at the end of the 1990s.

Despite these favourable developments, reforms are required, as the labour market equilibrium was distorted in recent years. The government wants to prepare the labour market for new challenges, reduce the disparities and work towards a labour market that offers opportunities for everyone.⁶ The government aims to achieve this broad objective in collaboration with the social partners.

Reduce the difference between flexible and permanent employment relationships

The labour market is constrictive for employers and workers. The system is currently unable to support employers and workers sufficiently in entering into employment relationships that meet their needs/requirements and match with the nature of the work. Entering into flexible versus permanent employment relationships is often determined by the associated costs and risks. Employers are reticent about hiring permanent employees on account of the costs and risks arising from various schemes. The use of flexible employment relationships has risen considerably as a result. Working on the basis of flexible contracts for prolonged periods creates uncertainty among workers about their income, their future and their home.

The government aims to make permanent contracts more attractive by widening the scope for a trial period and by introducing a cumulation basis to avoid unnecessarily complicating the dismissal process. The government will also reduce the difference in the costs of dismissal between flexible and permanent contracts by adjusting the transition payment. To encourage employers to invest in the broader deployability of their employees during employment, the scope for deducting the associated costs from the transition payment will be widened.

At the same time, employees will be entitled to the transition payment from the start of their employment contract rather than only after two years. Moreover, the government will examine how the differentiation of the unemployment insurance (WW) contribution can help make permanent contracts more attractive. Rather than differentiation for the first six months of unemployment benefit according to the sector in which the employer operates, a choice can be made for differentiation according to the nature of the employment contract.

The government will also take measures to better tailor flexible contracts to the nature of the work. An example is the amendment of the chain provision relating to positions that may only be performed for three quarters of the year. Furthermore, the period after which successive temporary contracts

⁶ See the letter "Towards a new equilibrium in the labour market" that was submitted to the Lower House on 15 December 2017 (Parliamentary Paper II, 2018/2018, 29 544 no. 813).

transition into contracts for an indefinite period will be extended from two to three years. The legal status of employees on a zero-hours contract will be strengthened. The payroll will be designed as a tool to unburden employers, rather than a way for businesses to use employment conditions to gain an edge on the competition. Besides the social partners, the government also aims to involve parties in the payroll sector in the elaboration of this measure.

The government wishes to implement these series of measures to reduce the gap between permanent contracts and flexible labour. The government wishes to consider these labour market measures in conjunction with each other and aims to submit the necessary legislation to Parliament in the course of 2018. The majority of the measures are expected to take effect on 1 January 2020 at the latest.

Self-employed workers without employees

Self-employed workers without employees occupy an important position in the labour market. It is important for them to opt for self-employment for the right reasons and for them not to actually be in an employment relationship. The Assessment of Employment Relationships (Deregulation) Act (DBA) has neither provided the intended clarity nor dispelled the unrest causing uncertainty among many of the self-employed. Pseudo self-employment and competition in terms of employee benefits still occurs, especially at the "lower end" of the labour market.

The above act will therefore be replaced. On the one hand, the new legislation must assure genuine self-employed workers and their clients that no formal employment relationship exists and, on the other, it must prevent pseudo self-employment (especially at the lower end of the labour market) while offering more scope to professionals at the top end of the labour market. Stakeholders will be involved in developing this legislation and consideration will be given to enforceability and the impact on the administrative burden.

To prevent pseudo self-employment, the rule imposed on self-employed workers without employees will be that there is always an employment contract if the rate is low and the duration of the contract is long, or if the rate is low and the work constitutes regular business activities. In addition, clarity will be provided to clients on the employment relationship by introducing the client's statement, which can be obtained after completing a web module that will be developed. The legal subordination criterion, as a constituent element of the employment contract, will be clarified in as much detail as possible in the web module. This will provide the client with certainty on whether or not wage tax and social security contributions are owed, as long as the work is indeed performed in accordance with the answers provided in the web module.

In addition to clarifying the legal subordination criterion for the purpose of the web module, the government will amend the law so that legal subordination will be tested largely on the basis of material rather than formal circumstances. This is complex subject matter that could potentially affect all workers. To avoid impacting the introduction of other measures, the government will address this separately, but expeditiously.

The government will also examine ways of increasing the percentage of self-employed workers who have incapacity for work insurance. It is important for self-employed workers to be able to make a conscious choice about whether or not to insure themselves and for those who do choose to buy insurance to have access to the insurance market. The government will enter into discussions with the insurers to promote better insurance options.

The target date for the entry into force of the specific measures intended for the lower and the top ends of the labour market, as well as the client's statement, is 1 January 2020. As stated in the coalition agreement, the government considers it extremely important to involve social partners and stakeholders in elaborating this concretely. The self-employed workers' allowance will be reduced to the basic rate from 2020 in four annual steps of 3 percentage points.

Pension reform

The Netherlands has a strong pension system. However, changes in the labour market, rising life expectancy, the financial crisis and the low interest rate have also exposed vulnerabilities in the Dutch pension system. Expectations are insufficiently fulfilled, tension exists between generations and the system is insufficiently geared towards the changing labour market. During the pension dialogue conducted in recent years, it emerged that there is broad support for the reform of the pension system. Earlier reports issued by the Social and Economic Council (SER) provided good recommendations in this area.⁷

In reforming the pension system, the government seeks to tie in with the contours of a new pension system as described in the SER reports. The SER has examined the option of personal pension capital combined with the retention of collective risk sharing. The government wishes to initiate the reform of the pension system in collaboration with the social partners. This reform should address the vulnerabilities in the current system while retaining the strong elements (compulsory participation, collective implementation, risk sharing and supportive tax rules). Building on the SER's work and reports, the government aims to reform the pension system. Pension capital will be more personal in nature, risks will be shared collectively and the uniform premium system will be abolished.

The government aims to reach agreement in the first half of 2018 with the social partners on the main aspects within the frameworks of the underlying principles set out in the coalition agreement, so that the legislative process will be finalised by 2020.

Conditions for higher real wage growth

In the Netherlands, wages are determined on the basis of consultations between social partners, due to which direct government influence on wage policy is limited. However, by stimulating R&D in the manner described earlier, the government indirectly contributes to labour productivity growth, which can offer further scope for real wage growth. Moreover, it can play a role by placing this topic on the agenda, and the coalition agreement indicates that there is scope, according to the government, for employers to increase wages. Lastly, the government contributes to a real income increase by reducing the tax wedge with effect from 2019. The CPB Netherlands Bureau for Economic Policy Analysis projects that wage growth will accelerate in the short term, with 2.2% wage growth projected for 2018 compared to 1.6% in 2017. The CPB projects a 3.2% increase in negotiated wages for 2019.

3.2.3. Country Report The Netherlands 2018

Summary

The Commission states that the economic expansion in the Netherlands was conducive to the continued recovery of the labour market in 2017. Labour force participation rose considerably while unemployment continued to fall. On the whole, the labour market is in good shape. Nonetheless, challenges continue to exist in terms of pensions and segmentation. Moreover, there is still an unutilised labour reserve because many women work part-time and the participation of non-EU migrants is comparatively low.

In the Commission's opinion, the Netherlands has made limited progress in addressing the remaining barriers to the hiring of staff on permanent contracts. The Commission acknowledges that the new government has announced several measures that could potentially preclude segmentation, although the details, time schedule and possible impact are not yet entirely clear. Concrete measures have not yet been implemented to reduce the tax incentive for self-employed workers and to increase the social security cover for this group. In the case of underinsurance, this could affect the sustainability of the social security system in the long term. With regard to the second pension pillar, the government has reconfirmed its intention to reform the system.

⁷ SER Advisory Report 2015/01 on the Future of the Pension System and the May 2016 Survey on personal pension capital with collective risk sharing.

In addition, the Commission has found that limited progress has been made in creating circumstances to promote real wage growth; wage growth was relatively modest despite a tighter labour market. Although wage growth outpaced productivity growth in 2016, the Commission states that, viewed over a longer period, wage growth is below the level expected given the development of unemployment, productivity and inflation. However, the Commission does expect wage growth to continue in the years ahead in line with the tightening labour market.

The Commission's overall conclusion is that limited progress has been achieved on the second recommendation.

Response

The government's envisaged labour market policy is set out in detail in the coalition agreement entitled "Confidence in the future"⁸ and in the December 2017 letter "Towards a new equilibrium in the labour market".⁹ The government acknowledges the challenges surrounding the rise of flexible forms of work, primarily where these are motivated by institutional factors instead of the preferences of workers and employers/clients. At the same time, these forms of work are important for the economy.

The government plans to initiate legislation on permanent employment and flexible working; the social partners will be involved in developing it. The government aims to submit this legislation to Parliament in the course of 2018. Although ambitions have been formulated for a number of specific topics in the coalition agreement, the government would like to discuss details with the social partners and stakeholders in 2018. These are complex dossiers (such as the issue concerning the qualification of a self-employed worker and the system of sickness and incapacity for work benefits) for which the government aims to seek a fair, workable and effective framework.

In the country report, the Commission highlights the challenge for the Netherlands of improving the transparency, intergenerational distribution and shock resistance of the pension system. The government also acknowledges this challenge. The pension system can be improved so that it is geared more towards the way people live and work today, and to the personal circumstances and preferences of the diverse participants. However, switching to a different pension accrual system should be approached in a balanced manner; it is essential to set out an adequate transition pathway. Significant progress has already been made in the past few years. The reforms in recent years have helped to make public finances more sustainable and have contributed towards a more balanced intergenerational distribution of costs and risks. The revision of the system of supplementary pensions is a major, complex operation with far-reaching consequences, which requires further social dialogue and the meticulous elaboration of technical, legal, tax and governance issues. Given that a good retirement provision is important for everyone, the government will proceed with great care, but expeditiously. The aim is to reach agreement in the first half of 2018 with the social partners on the main aspects within the frameworks of the underlying principles set out in the coalition agreement, so that the legislative process will be finalised by 2020.

⁸ <https://www.tweedekamer.nl/sites/default/files/atoms/files/regeerakkoord20172021.pdf>

⁹ Parliamentary papers II, 2017/2018, 29 544, No. 813.

3.3. Relationship with recommendations for the eurozone

On 22 March 2018, the European Commission formulated the following recommendations for the eurozone as a whole¹⁰:

1. Pursue policies that support sustainable and inclusive growth and improve resilience, rebalancing and convergence [...]. Given the positive cyclical conditions, all Member States should prioritise reforms that increase productivity and growth potential, improve the institutional and business environment, remove bottlenecks to investment and foster innovation, support the creation of quality jobs and reduce inequality [...]. Member States with large current account surpluses should additionally create the conditions to promote wage growth respecting the role of social partners and implement as a priority measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing.
2. Deliver the planned, broadly neutral overall fiscal stance for the euro area, contributing to a balanced policy mix [...]. Member States should take and implement measures to reduce debt bias in taxation and fight aggressive tax planning to ensure a level playing field, provide fair treatment of taxpayers and safeguard public finances and stability within the euro area [...].
3. Implement reforms that promote quality job creation, equal opportunities and access to the labour market, fair working conditions, and support social protection and inclusion. Reforms should aim at:
 - i) reliable labour contracts, which provide flexibility and security for employees and employers, combined with adequate support during transitions and avoid labour market segmentation;
 - ii) quality, efficient and inclusive life-long training and development systems, which aim at matching skills with labour market needs;
 - iii) effective active labour market policies that foster labour market participation;
 - iv) sustainable and adequate social protection systems that contribute throughout the life cycle to social inclusion and labour market integration and are responsive to new types of employment and employment relationships;
 - v) smooth labour mobility across jobs, sectors and locations;
 - vi) effective social dialogue and wage bargaining at the appropriate level according to national specificities;
 - vii) shifting taxes away from labour, particularly for low-income and second earners.
4. In line with the Council (ECOFIN) roadmap of June 2016, continue work to complete the Banking Union [...]. Further develop the Capital Markets Union to support growth in the real economy while safeguarding financial market stability.
5. Make swift progress on completing the economic and monetary union [...].

The government agrees with the recommendations and states that they are also reflected in the policies pursued. The government observes that the desired economic recovery is continuing. This is partly due to keeping the public finances in order and the reforms implemented by the government in previous years. To the extent that there are any remaining bottlenecks that stand in the way of the continued improvement of growth potential, productivity and the business climate, as described in the first recommendation, the government aims to reduce these in an orderly manner with a view to ensuring economic stability. The aim with respect to this point is explained in the previous sections, in particular in the section covering government policy on research, development and innovation. The contribution of government policy to the conditions for stimulating wage growth was also explained earlier, in the context of the specific recommendation given to the Netherlands on wage growth.

The budgetary stance and fiscal policy are discussed in the Stability Programme, which is issued at the same time as this NRP. With regard to the labour market, the government aims to take a series of

¹⁰ <http://www.consilium.europa.eu/nl/press/press-releases/2018/01/23/council-recommendation-on-the-economic-policy-of-the-euro-area/>

measures to reduce the gap between permanent contracts and flexible working, as explained in Chapter 3 of this document. The government wishes to consider these labour market measures in conjunction with each other and aims to submit the necessary legislation to Parliament in the course of 2018, after which the majority of the measures are expected to take effect on 1 January 2020 at the latest.

4. Progress on the Europe 2020 strategy

On 17 June 2010, the European Council adopted the Europe 2020 strategy, the EU's growth strategy for the period 2010 – 2020. Five key policy areas were named: employment, research and innovation, sustainable energy and climate, education and social inclusion. The underlying targets in these areas, as shown in the table below, must be achieved by 2020. The European targets have been translated into specific national targets for the Member States, taking into account the starting positions of each country and their specific challenges. If all countries achieve their national targets, the Europe-wide targets will be met.

Table 3 Overview of targets and results of the Europe 2020 strategy

Europe 2020 Strategy key EU targets	Netherlands national targets	2016 results
Employment Increase in gross labour force participation (20 to 64 years) from 69% to 75% ¹¹	80%	81.6% (2017)
Research and development Increase in research and development expenditure from 1.9% to 3% of GDP	2.5%	2.03%
Sustainable energy and climate 20% reduction in CO ₂ emissions <i>Non-ETS sectors</i> <i>ETS sectors</i> 20% energy from renewable sources 20% increase in energy efficiency	-16% N/A 14% 1.5% per year ¹²	-16.5% N/A 6.0% 1.5% per year (average for 2005 – 2016)
Education Reduction in percentage of early school-leavers Increase in percentage of 30 to 34-year-olds with tertiary education	< 8% > 40%	8.0% 45%
Social inclusion At least 20 million fewer people at risk of poverty and social exclusion	100,000 fewer people in a household with low work intensity than in 2008	51,000 fewer than in 2008 91,000 fewer than in 2015

The key targets are discussed in detail in Sections 4.1 through 4.5.

Country Report The Netherlands 2018

With regard to the Dutch targets for the Europe 2020 strategy, the main aspects noted by the Commission in the country report are as following:

- Labour force participation among 20 to 64-year-olds rose to 81.6% in 2017, well above the national target set.
- Increased efforts are required in the area of R&D investment. The total R&D intensity, which stands at 2.03%, is below the target figure of 2.5%. This below par performance is mainly attributable to the comparatively low private R&D expenditure (1.16% of GDP in 2016). The figure is below the eurozone average (1.4% of GDP) and is considerably lower than in other Member States with a comparable level of education and a comparable level of economic development.
- The Netherlands is expected to amply achieve the national CO₂ emissions reduction target for the non-ETS sectors and is on track to meet the energy efficiency target. The renewable energy target remains a considerable challenge, although the national objective for 2023 is expected to be amply achieved.
- The target figure of at least 40% of 30 to 34-year-olds having completed tertiary education has been exceeded, and good progress has been made in reducing the percentage of early school-leavers.

¹¹ The employment target at the European level is defined in terms of net labour force participation (75% in 2020); the national target is defined in terms of gross labour force participation (80% in 2020).

¹² As per the Energy Efficiency Directive 2012/12/EU.

- The number of people in a household with an extremely low work intensity declined by 51,000 people in 2016 as compared to 2008. This means that the Netherlands is halfway the target figure of 100,000 fewer people by 2020.

Response

- It is the government's ambition to increase labour force participation and for everyone to participate according to their ability. In 2016, the gross labour force participation rate was 81.6%, well above the EU average. The national target has meanwhile been achieved.
- The Commission rightly notes that, even though R&D intensity in the Netherlands is rising, it is below the target of 2.5% of GDP. The government's aim in implementing the measures described in Section 3.1.2 is to increase public and private R&D conducted in the Netherlands, on the pathway towards achieving the objective of 2.5% of GDP in R&D investment by 2020, and maintain its ranking among the world leaders in science and innovation. By making available additional public funds, the government aims to bolster scientific excellence while increasing the leverage on private R&D investment.
- The National Energy Outlook (NEV) 2017 shows that additional efforts are required in order to achieve the renewable energy targets on time. The target is a step closer due to the efforts undertaken last year. In collaboration with the other parties to the Energy Agreement, policy has been further intensified. See Section 4.3 for a more detailed explanation.
- In the country report, the Commission highlights the good results of the Dutch education system, as well as the measures put in place by the government to bring about further improvements in the education system. Examples are the investments in human capital, fostering talent and the efforts relating to mobility, training placements and early school-leavers.
- The Netherlands has set itself the target of reducing the number of people (aged 0 – 64) living in households with low work intensity ("jobless households") by 100,000 people by 2020 (starting point 2008). After the crisis years, in which an upward trend was visible, a downward trend has been occurring since 2015. This corresponds to the declining trend of poverty in the Netherlands since 2013. The risk of poverty is expected to decline further in the future from 2018.

4.1. Employment

4.1.1. National targets

It is the ambition of the Netherlands to increase the labour force participation and for everyone to participate according to their ability. The government's aim, in the context of the employment target in the Europe 2020 strategy,¹³ is to increase the gross participation rate in the 20 to 64-year age group to 80% by 2020. This target has meanwhile been achieved, with 81.6% gross labour force participation in 2017.¹⁴

4.1.2. New policy aimed at achieving the targets

The labour market has changed profoundly in the past decade. Labour force participation in numbers of people has grown considerably. This can largely be accounted for by older people. A decade ago, a minority of people aged 55 and over were active in the labour market. Today, their number has risen to almost two-thirds. The number of people aged 55 and over in employment has risen sharply, from 837,000 in 2003 to 1.71 million in 2017. Employment growth among this age group has continued despite the economic crisis. In 2006, the actual retirement age was 61 years, but a decade later it was raised to 64 years and 5 months. This means that a higher number of people are in employment, which is of vital importance for the tenability of the Dutch welfare state.

People at a distance from the labour market still face too many barriers to labour market entry. Constant attention must be paid to the position of older workers in the labour market, despite the positive developments described earlier. Although the unemployment rate among older people was lower than among young people during the recession, the pace of recovery is also slower. It is more difficult for individuals aged 55 and over to re-enter the labour market if they lose their job. Bringing about a culture change for older people in the labour market will require an ambitious age-conscious human resource policy. The government expects social partners to make binding agreements in this area, giving consideration to training, intersectoral mobility, prospects of downshifting to easier work and the benefits and necessity of specific provisions for older workers in collective labour agreements.

A range of legislative and policy initiatives have been launched and implemented to increase labour force participation. Raising the statutory retirement age, labour market reforms (including the modernisation of employment termination law), redesigning the Unemployment Insurance Act (WW) to make it more enabling and the introduction of the Participation Act (*Participatiewet*) can help improve the functioning of the labour market due to enhanced labour mobility and higher labour force participation.

Under the Participation Act, people at a distance from the labour market receive guidance on transitioning to regular employment, where possible, with the aim of achieving an inclusive labour market. In this regard, good collaboration with social partners and municipalities was crucial, as the implementation of the Participation Act, among other things, has given them a central role. They are close to citizens, they know the regional and local labour markets and they can provide customisation. To enable municipalities to offer customised solutions or to "unburden" employers, additional funds have been earmarked for municipalities in the coalition agreement. In the context of the Occupational Disability (Employment Targets and Quotas) Act (*Wet banenafspraak en quotum arbeidsbeperkten*), public-sector employers created 3,600 jobs in 2016 instead of the intended 6,500. They therefore became subject to the quota scheme with effect from 1 January 2018. The total number of 33,000 jobs envisaged under the above act by year-end 2017 is expected to be exceeded, with the creation of around 36,000 jobs (some 5,000 of which will be in the public sector).

Furthermore, in 2018, the government will continue the co-funding programme initiated in 2017 for the central municipalities in the labour market regions for projects focusing on increasing the economic independence of women. In addition, the Ministry of Education, Culture and Science will finance the

¹³ The employment target at the European level is defined in terms of net labour force participation, whereas the national target is defined in terms of gross labour force participation.

¹⁴ Ministry of Social and Affairs and Employment calculation, based on Statistics Netherlands (CBS) data.

Education for Women with Ambition project (EVA). This project aims to improve the basic skills of less educated women in the 18 – 55 age group to facilitate them in finding a job, voluntary work or a training course aimed at increasing their economic independence. The government will also set aside an additional 250 million euros per year for childcare benefit and it has opted to substantially extend (non-transferable) parental leave for partners. These measures can help boost women's participation in the labour market.

The government recognises the importance of continuous skills development and lifelong learning for the Dutch economy. Many workers hardly undergo any further training during their career. This applies to a number of specific groups, including the less educated and older workers, in particular. A strong and broadly supported learning culture requires a broad approach. Employers, employees, Training and Development funds (T&D funds) as well as educational institutions, private training centres, municipalities, branches of industry, sectors and regional partnerships and the government all play a role in this context. The primary responsibility for lifelong development lies with employers and employees. The government will set out the necessary preconditions and ensure support for people who do not have an employer/clients. An individual learning account will be developed, which is a combination of boosting the development of existing private learning accounts or training budgets in businesses and sectors; subsequently making targeted use of public funds in the form of individual study entitlements; and exploring a digital overview that provides insight into the training opportunities available to an individual and the public and private funds he or she is entitled to.

Table 4. Description of the key EU 2020 measures

Progress towards achieving national employment targets	Status of measures aimed at the targets	Predicted impact of the measures (qualitative/quantitative)
National 2020 target: 80% gross labour force participation rate of 20 to 64-yr-olds 2017 result: 81.6%	Key measures: <ul style="list-style-type: none"> • To make work pay, income tax will be reduced, the general tax credit will be increased further and, on balance, the employed person's tax credit will be increased. • More funds will be set aside for childcare benefit. • Development of an individual learning account. • Long-term unemployment among the 50+ age group will be addressed jointly with the social partners. • Labour force participation by people at a distance from the labour market will be increased in collaboration with the social partners and other parties. 	Stimulating both supply (e.g. by making work pay) and demand for labour through a combination of measures is expected to have a positive effect on employment, particularly for older people and those in a vulnerable position in the labour market.

4.2. Research and innovation

4.2.1. National targets for the Europe 2020 strategy

Many Member States have set a target of spending 3% of GDP on research and development (R&D) by 2020. The Dutch target is 2.5%, which takes into account the sector structure of the economy. In contrast to other countries, R&D-intensive sectors such as the automotive industry represent a relatively small part of the Dutch economy, as indicated by the Commission in the 2018 country report. According to the most recent data from Statistics Netherlands (CSB), total R&D expenditure as a percentage of GDP rose slightly to 2.03% in 2016 (up from 2.00% in 2015).

Table 5. R&D expenditure in the Netherlands as a percentage of GDP¹⁵

	Private sector R&D expenditure	Public sector R&D expenditure	Total R&D expenditure
2011	1.08	0.83	1.90
2012	1.10	0.84	1.94
2013	1.09	0.87	1.95
2014	1.12	0.88	2.00
2015	1.12	0.88	2.00
2016	1.16	0.88	2.03

Source: Rathenau Institute/Statistics Netherlands (CBS)

The difference between public and private-sector R&D expenditure (Table 5) relates to the *conduct* of R&D as measured by Statistics Netherlands (CBS). Public R&D refers to research and development conducted by public knowledge institutes, irrespective of the *source of funding*. Private R&D is conducted by businesses. The term "public R&I expenditure" is also used in the NRP and refers to the total amount of funds budgeted by the central government for conducting and fostering research, development and innovation at knowledge institutes and businesses (including the WBSO tax instrument), as shown in Table 2 and Figure 4. The target for the EU and the Netherlands relates to the R&D *conducted* as a percentage of GDP. The government funds for R&I make a significant contribution in this area. Both figures are therefore reported in this NRP.

The 2.5% target includes both public and private R&D expenditure. There is no further breakdown of the share of public and private expenditure in this target. In contrast to public expenditure, which is above the international average (0.88% of GDP), private expenditure is still below the EU and OECD averages. The absolute increase in R&D expenditure in the private sector exceeded GDP growth in 2016, due to which private R&D intensity rose (from 1.12% of GDP in 2015 to 1.16% in 2016).

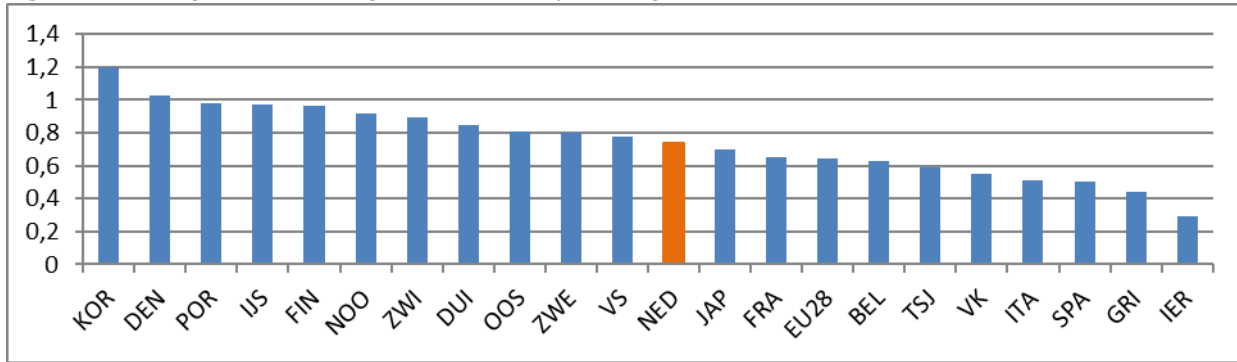
Compared to other countries, the level of direct public R&I investment in the Netherlands (0.74% of GDP) shown in Figure 4 is above the EU average (0.64% of GDP). If the budget for the WBSO scheme – the tax incentives that promote direct private investment in R&I – were included in the calculations, the public investment figure for the Netherlands would be 0.17 percentage points higher than the figure shown in Figure 4. The Netherlands is one of the countries that make relatively extensive use of this type of incentive.¹⁶ This commitment fits with the research finding that tax incentives – provided they are well designed – stimulate private investment in research and innovation.¹⁷ Such incentives are important for the Netherlands, given that the level of private investment in the Netherlands lags behind the international level.

¹⁵ Moreover, the figures in this table cannot be compared to the figures published in the NRP in previous years, due to adjustments of the GDP and changes in the methodology used to distinguish between the public and private sectors.

¹⁶ OECD, 2017, "[Measuring Tax Support for R&D and Innovation](#)". Incidentally, the OECD does not count tools such as the Innovation Box when compiling its international overview.

¹⁷ IMF, 2016, "Acting Now, Acting Together". In Chapter 2: "Fiscal Policies for Innovation and Growth". Dutch schemes were cited as an example of a best practice in this report.

Figure 4. Direct government budgets for R&I as a percentage of GDP, 2015



Source: Rathenau Institute/Eurostat

The government invests in research and innovation in close partnership with companies, knowledge institutes and local and regional authorities, as well as in the right preconditions (see also Section 4.4 – Education). In this context, the Enterprise Policy of the Ministry of Economic Affairs and Climate Policy ties in with the Science and Higher Education Policy of the Ministry of Education, Science and Culture and, where possible, with the knowledge and innovation agendas of other ministries.

In addition to innovation, the Enterprise Policy also covers entrepreneurship and financing, industrial policy (with a focus on sustainability and digitisation), human capital, the regulatory burden and international R&I collaboration. The Enterprise Policy has generic tracks for all businesses and a specific track focusing on priorities. Both tracks contain tools designed to stimulate private investment in research and innovation. Some of these tools are implemented by the Central Government together with the local and regional authorities (MIT, Innovation Performance Contracts, funding and innovation-oriented procurement).

All companies benefit from the generic innovation policy, particularly SMEs. Examples include tax incentives for innovation, reducing the regulatory burden, establishing a good connection between education and the labour market (Technology Pact), availability of risk-bearing business financing, maintaining a properly functioning system for intellectual property and the promotion of corporate social responsibility.

The specific track of the innovation policy consists of the Top Sectors strategy. The core of the Top Sectors strategy involves public-private partnerships (PPPs) between companies, knowledge institutes and the government in the form of two-year innovation contracts based on Knowledge and Innovation Agendas. Published at the end of 2017, these agendas take account of the National Research Agenda, the European H2020 priorities, ten key technologies and eight societal challenges. These contracts establish how the funds provided by the parties involved will be used for each top sector (in 2018 and 2019, 1.1 billion euros per year), and will be implemented by the Top Consortia for Knowledge and Innovation (TKIs). The TKIs receive a subsidy of 25% on private contributions from the Ministry of Economic Affairs and Climate Policy via the PPP allowance (30% from 2018). The allowance is almost exclusively used for research at public knowledge institutions.

The Enterprise Policy Progress Report shows that the government's policy measures are producing increasingly better results.¹⁸ In 2017, the Netherlands climbed from fifth to fourth place in the European Innovation Scoreboard rankings within the group of Innovation Leaders (countries with a score of more than 20% above the EU average). In the World Economic Forum's Competitiveness Index rankings, the Netherlands retained fourth place. The Netherlands also held onto fourth place in the European Commission's DESI (Digital Economy and Society) index.¹⁹ This composite index shows

¹⁸ Ministry of Economic Affairs, 2017, "Enterprise Policy Report 2017, [Navigeren met wind in de zeilen](#)"

¹⁹ European Commission, 2017, <https://ec.europa.eu/digital-single-market/en/desi>

the extent to which a country capitalises on economic and social opportunities offered by information and communication technology (ICT).

Following on from the Vision for Science 2025, the government has worked with knowledge institutions, businesses, social organisations and government departments to issue the National Science Agenda. Strategic choices and cooperation are essential to further strengthen the leading position of Dutch science. Although the Netherlands is not a leader in terms of the size of its budget for publicly-conducted research and innovation, it produces excellent scientific results. This is reflected, for example, in the position of Dutch universities in international rankings. Of the 13 Dutch universities, 12 are listed in the top 400 in the 2016 Shanghai Ranking. In the Leiden ranking, which is only based on publication data, all 13 Dutch universities rank among the top 300, with 8 of the 13 universities listed among the top 100. In the QS World University Ranking, the Netherlands has 2 universities in the top 100 and 12 in the top 200. To further strengthen Dutch science, the government published three policy papers and associated actions in early 2017 focusing on the implementation of open science²⁰ in the Netherlands (for which the most important parties in the field have developed a National Plan, at the request of the government²¹) and the improvement of valorisation²² and talent policy.²³ In December 2016, the new Dutch Road Map for large-scale research facilities was drawn up by the National Road Map Committee, showing which projects may be eligible for funding in 2018.²⁴

4.2.2 New policy aimed at achieving the targets

The new policy proposals and investment measures introduced by the government to help achieve the EU 2020 targets are described in Section 3.1. In addition, where necessary, new elements are explained below.

In line with the coalition agreement, the government is currently revising various areas of the Enterprise Policy, with a view to increasing the focus of the Top Sectors strategy on the earning opportunities for societal themes and key technologies. The government is also working on an SME Agenda, a digitisation strategy and a new Technology Pact.

The government is strengthening Dutch science by implementing the Vision for Science 2025, and is also contributing to the European target of creating a European Research Area (ERA). The government will continue to focus on fields of science that require attention, such as Science and Technology, the Innovational Research Incentives scheme, applied research at universities of applied sciences, research infrastructure and research facilities. The government will also issue a policy letter, in which it will include an update of the Vision for Science and set out the direction for the years ahead.

In the short and medium term, the National Science Agenda will be reflected in the profiles of academic universities and universities of applied sciences, the programmes of partners in the knowledge coalition, the direction of the development of national research institutes and investment in major research facilities. Raising the profile of Dutch science with an individual agenda will also strengthen the Dutch position in international partnerships.

Table 6. Description of the key EU 2020 measures

Progress towards achieving national 2020 R&D targets	Status of measures aimed at the targets	Predicted impact of the measures (qualitative/quantitative)
National 2020 target: 2.5% of GDP 2016 result: 2.03% of GDP	Key measures: <ul style="list-style-type: none"> • funding public knowledge institutions; • tax instruments for R&I; • (WBSO, Innovation Box); • funding tools; • Future Fund; • Invest-NL; 	<ul style="list-style-type: none"> • Policy measures consist of either direct public R&I expenditure or the promotion of private R&I expenditure. • The increased government investments in research and innovation, with a leverage on private R&I investment, will enable the Dutch

²⁰ Lower House, 2016 – 2017 session, 31 288, No. 575.

²¹ National Plan for Open Science, 2017. Annex to Lower House, 2016 – 2017 session, 31 288, No. 579.

²² Lower House, 2016 – 2017 session, 31 288, No. 574.

²³ Lower House, 2016 – 2017 session, 31 288, No. 569.

²⁴ Netherlands Organisation for Scientific Research (NWO), 2016, "2016 National Road Map for Large-Scale Research Facilities".

	<ul style="list-style-type: none"> • matching and co-funding in the context of Horizon 2020 and EFRO; • PPP allowance (30% from 2018); • MIT scheme, in collaboration with the regions; • NWA funds. 	<p>R&D intensity to continue to grow (from 2018).</p> <ul style="list-style-type: none"> • More Dutch projects in Horizon 2020 and better alignment with EU research and innovation priorities, together with more private investment in public-private partnerships, will lead to higher private R&I expenditure, improved availability of risk capital and more knowledge valorisation.
--	--	--

4.3. Climate change and sustainable energy supply

4.3.1. National targets for the Europe 2020 strategy

In signing the Paris Climate Agreement, the Netherlands made a commitment to achieve a significant reduction in CO₂ emissions to fight global warming.

The Netherlands is pursuing a realistic and ambitious green growth strategy that combines a commitment to economic growth and greater competitiveness with improving the environment and capitalises on social initiatives. In 2013, under the overarching coordination of the Social and Economic Council (SER), the government entered into an Energy Agreement for sustainable growth with more than 40 parties, including the 36 largest municipalities in the Netherlands. Four of the ambitions set out in the agreement contribute to the European targets for climate change and a sustainable energy supply:

- reducing final energy consumption by an average of 1.5% per year;
- an additional reduction in final energy consumption of 100 petajoules by 2020;²⁵
- increasing the share of renewable energy to 14% by 2020;
- a further increase in the share of renewable energy to 16% by 2023.

To support the implementation of the Energy Agreement, a Monitoring Committee was appointed with an independent chairperson. The Monitoring Committee oversees the progress of the implementation of the Energy Agreement and addresses any problems that may arise in a swift and appropriate manner.

A mandatory national target has been set for the Netherlands by the EU for the reduction of greenhouse gases in the non-ETS sectors of 16% by 2020 compared to 2005. That target will be amply achieved in accordance with the National Energy Outlook (NEV).

Only an overarching European target applies to companies that fall under the European Emissions Trading System (ETS). The European ETS target will, by definition, be achieved on the basis of the corresponding emission ceiling. The contribution of Dutch ETS companies in achieving that target is still relatively limited. Figures published by the Dutch Emissions Authority (NEa) in April 2017 showed that CO₂ greenhouse gas emissions produced by Dutch industry remained almost unchanged in 2016 against the previous year.

In 2017, important steps were taken in implementing the Energy Agreement. After it emerged from the 2016 NEV that additional efforts were necessary in order to achieve the targets set on schedule, policy was intensified in cooperation with the other parties to the Energy Agreement. The government's approach to renewable energy and energy efficiency is set out below.

The 2017 NEV shows that the renewable energy target for 2023 will be achieved. According to the 2017 NEV, delays in the procedures for granting permits and limited social support mean that the Netherlands is not on track to achieve the target set for onshore wind energy. To address these issues, efforts are being undertaken in the area of environmental management, and there is a possibility that an area coordinator may be appointed. Conversely, a number of offshore wind projects have been successfully rolled out using a robust cost-reducing tendering system.

The Sustainable Energy Production Incentive (SDE+) scheme remains the most important tool for achieving the renewable energy targets. The Ministry of Economic Affairs and Climate Policy promotes the development of a sustainable energy supply in the Netherlands through the SDE+. In 2017, the SDE+ made another important contribution to achieving these targets. A total of eight billion euros was set aside for projects. The budget has been allocated across two rounds for calls. This means

²⁵ A reduction of 100 PJ would easily surpass the European target of 1.5% as stated in the Energy Efficiency Directive 2012/12/EU.

more room for adjustment and more opportunities to submit projects, which will benefit projects' lead times.

More intensive work on policy measures has given rise to a scheme for small-scale renewable heating options, launched on 1 January 2016. Since no government tools existed for these options, although they had the potential to make an important contribution to achieving the renewable energy targets, the Sustainable Energy Investment Grant (ISDE) was created. Progress has also been made in other areas, such as manure mono-fermentation, geothermal power and renewable energy production in sports facilities, with the aim of enabling these elements to contribute to the achievement of the renewable energy target. The target of achieving a share of 14% renewable energy by 2020 will remain within reach partly due to the efforts under this additional policy and the ambition reconfirmed by the parties to the Energy Agreement to achieve 6000 MW onshore wind energy by 2020. Incidentally, it has emerged that the share of renewable energy will continue to grow considerably after 2020 to 16.7% by 2023, according to the European calculation method.

The 2017 NEV clearly indicates that the pace of energy conservation in the Netherlands will be sufficiently high in the years ahead. The Netherlands is also well on track to meet the targets in the European Energy Efficiency Directive. According to the 2017 NEV, the national target agreed in the Energy Agreement of an additional 100 PJ of energy savings is still out of reach, in spite of a clear improvement since the 2016 NEV. As a result of the forecasts in the 2017 NEV, the parties to the Energy Agreement – including the central government – must now consider how all the agreed targets can be achieved. Additional efforts will be undertaken in the context of the Environmental Management Act (Wm). The results of this consultation will be put into effect in the 2018 Implementation Agenda.

Table 7. Description of the key EU 2020 measures

Progress towards achieving national 2020 climate and energy targets	Status of measures aimed at the targets	Predicted impact of the measures (qualitative/quantitative)
National 2020 target: 16% reduction of greenhouse gases in the non-ETS sector 2015 result: 16.5% reduction of greenhouse gases in the non-ETS sector	Key measures: <ul style="list-style-type: none"> • more fuel-efficient vehicle fleet; • energy conservation in the built environment; • increased use of renewable energy in greenhouse horticulture. 	The policy measures implemented and proposed are expected to lead to a further decline in emissions in the non-ETS sectors between 2013 and 2020 of 29% in 2020 compared to 2005 levels.
National 2020 target: 14% renewable energy production 2016 result: 6.0% renewable energy production	Key measures: <ul style="list-style-type: none"> • annual call for projects in the SDE+ scheme; • incentives for small-scale heating options through the ISDE scheme; • roll-out of offshore wind projects, tendering system; • reduced rate for local energy production; • agreements with provinces to achieve 6000 MW of onshore wind production. 	Moderate growth was seen in 2016, but due to the effect of the operating grants provided under the SDE and SDE+ schemes, regulations for renewable energy in transport and energy performance standards for buildings, this share will grow substantially from 2017, swiftly followed by a significant catch-up. The cost reduction in offshore wind energy agreed in the Energy Agreement has already been achieved. Developments in that area are occurring rapidly.
National 2020 target: 1.5% energy efficiency per year 2016 result: 1.5% energy efficiency per year on average (2005 – 2016)	Key measures: <ul style="list-style-type: none"> • implementation of measures from the Energy Agreement, including the energy performance incentive scheme for the rental and owner-occupier sectors; • European emissions requirements and national incentives for fuel-efficient vehicles that have had a positive impact on the transport sector; • proposed policy measures in the services sector, industry and the agricultural sector, which will lead to an increase in energy conservation. 	The 2017 NEV shows that the rate of energy savings is rising considerably to 1.7% per year, partly as a result of the Energy Agreement measures. In line with the 2017 NEV, the energy savings achieved through these measures amount to 75 PJ (bandwidth 41 – 102 PJ). These new policy measures are anticipated to bring the target of 100 PJ of additional energy savings by 2020 back within reach. Some of the new policy measures still need further development. Even without these new measures, the European energy efficiency target is expected to be comfortably exceeded, provided that both existing and proposed policy measures are enforced (target = 482 PJ, 2017 NEV projection for 2020 = 721 PJ).

National ambitions for the period after 2020

Policy has been announced in the coalition agreement set out by the Rutte III government regarding the further climate and energy transition towards 2030 and 2050.

The government aims to reduce greenhouse gases by 49% by 2030 compared to 1990, an ambition that exceeds the European target of 40% by 2030. In this context, the government has set a single target for the reduction of greenhouse gas. While the renewable energy and energy savings contributions to that target remain vital, separate targets for these areas are no longer being considered. Against this background, the government intends to achieve the reduction in greenhouse gases at the lowest costs by focusing on the most cost-effective options for reducing greenhouse gases.

This new policy will be formulated in a Climate Agreement that is to be concluded in the near future, which will include the necessary contribution from the ETS sector to climate and energy transition. Furthermore, a Climate Act will enshrine the targets for 2030 and 2050 in law.

4.4. Education

4.4.1. National targets for the Europe 2020 strategy

The Netherlands aims to be one of the top five nations in the world in the field of education. The percentage of tertiary graduates in the Netherlands remains relatively stable, and is above the European target of at least 40%. In 2016, the percentage of tertiary graduates was 45%. With regard to the number of early school-leavers, the Netherlands has also already met the European target of a maximum of 10%. The Netherlands had set itself a more challenging ambition of reducing the number of early school-leavers to 8% by 2020, which it has since achieved. In 2016, 8.0% of young people aged 18 to 24 did not have a basic qualification.

4.4.2. New policy aimed at achieving the targets

Higher education

In the Netherlands, there is a stronger focus on improving the quality and accessibility of higher education than on increasing the percentage of tertiary graduates – which, after all, is already 45%. In 2012, the Ministry of Education, Culture and Science (OCW) signed performance agreements with all research universities and universities of applied sciences concerning ambitions with regard to the quality of education and study success, raising profiles and valorisation. An independent committee (chaired by Prof. Van de Donk) evaluated the performance agreements in 2017. The evaluation showed that the higher education institutions had achieved good results in terms of both quality of education and study success. As a result of the lessons drawn from this evaluation and the discussions conducted with students and other stakeholders, new quality agreements (taking effect from 2019) will be designed in 2018, as indicated in the Strategic Agenda for Higher Education and Research for 2015 – 2025.²⁶

The themes set out in the Strategic Agenda for Higher Education and Research remain important in the forthcoming period. Therefore, the Ministry of Education, Culture and Science will continue to invest time in, among other things, a smoother transition between senior secondary vocational and higher professional education, the abolition of the requirement for a personal contribution from students for selection procedures and the provision of 76 Comenius grants for lecturers in higher education. Applications for these grants will be submitted under one of the following four themes: Personalised Education, Equal Opportunities, Higher Education connected to society and a free category across the full spectrum of the Strategic Agenda for Higher education.

Early school-leavers

Over the next few years, to provide more young people with better future prospects, the Ministry of Education, Culture and Science will continue the successful elements of the "Tackling Early School-Leaving" programme, albeit with a number of adjustments. For example, more responsibility will be placed on regional parties. They will be requested to pay particular attention to young people in vulnerable situations. The involvement of more parties in the regional collaboration will be encouraged, including parties in the labour market and healthcare domains. To support the follow-up approach, the Ministry will provide appropriate funding. In total, 140 million euros will be available annually for policy measures targeting early school-leaving, both for regional use and for tackling the problem at a school level. Schools and municipalities will work together to decide how they want to use the regional budget. In 2016, all regional registration and coordination (RMC) regions initiated new four-year plans containing measures aimed at combating early school-leaving and at offering young people in vulnerable situations appropriate supervision.

Table 8. Description of the key EU 2020 measures

Progress towards achieving national education targets	Status of measures aimed at the targets	Predicted impact of the measures (qualitative/quantitative)
National EU 2020 target: >40% of 30 to	Key measures:	The share of 30 to 34-year-olds who have

²⁶ Ministry of Education, Culture and Science (OCW), 2015, "Strategic Agenda for Higher Education and Research for 2015 – 2025". Annex to "Lower House, 2014 – 2015 session, 31 288, No. 481".

<p>34-year-olds have completed tertiary education 2016 result: 45% of 30 to 34-year-olds have completed tertiary education</p>	<p>Implementation of the Strategic Agenda for Higher Education and Research</p>	<p>completed tertiary education remains stable at over 40%.</p>
<p>National EU 2020 target: <8% early school-leavers 2016 result: 8.0% early school-leavers</p>	<p>Key measures: Implementation of the follow-up approach for early school-leavers</p>	<p>The maximum number of early school-leavers will amount to 8% by 2020.</p>

4.5. Poverty and combating social exclusion

4.5.1. National target for the Europe 2020 strategy

The Netherlands has set itself the target of reducing the number of people (aged 0 – 64) living in households with low work intensity ("jobless households") by 100,000 by 2020 (starting point 2008). The age range in the national definition is 0 – 64 years. At the European level, this is 0 – 59 years.²⁷ Based on the Dutch indicator used for the Europe 2020 poverty target (based on people aged 0 to 64 years), the percentage of people in households with low work intensity declined in 2016 compared to 2015. A decline of 0.6 percentage points is evident.²⁸ This equates to a reduction of 91,000 people (see Table 9). This means a decrease of 51,000 people compared to 2008.

After the crisis years, in which an upward trend was visible, a downward trend has been occurring since 2015. This corresponds to the declining trend of poverty in the Netherlands since 2013 (Statistics Netherlands, 2018). However, within the downward trend, an increase is evident in the period 2014 – 2016 in the number of people with a long-term risk of poverty (more than three consecutive years), from 2.7% to 3.3%. The risk of poverty is expected to decline further in the future with effect from 2018 (Statistics Netherlands, 2018).

The number of people in households with low work intensity has fallen mainly among single-person households, and other multi-person households. An increase can be seen among single parent families with only minor children and couples with only minor children compared to 2015. Women are still over-represented in households with low work intensity, but the decrease in 2016 was more pronounced among women than among men.

Table 9. Number of people in households with low work intensity

	2008	2009	2010	2011	2012	2013	2014	2015	2016
People in households with low work intensity in the NL (aged 0 – 64) x 1000	1,613	1,641	1,595	1,678	1,635	1,624	1,680	1,653	1,562

The risk of poverty and social exclusion declined by 0.7 percentage points in the European Union in 2015, as shown by the "At Risk of Poverty and Social Exclusion" (AROPE) indicator. In the Netherlands, the risk of poverty and social exclusion fell by 0.1 percentage point. At 16.4%, the risk of poverty and social exclusion in the Netherlands is still significantly lower than the EU average, which is 23.7%. In 2015, the Netherlands was, after the Czech Republic and Sweden, the Member State with the lowest risk of poverty and social exclusion.

4.5.2. New policy aimed at achieving the targets

The government aims to make working (more) pay. This will be implemented by lowering the tax burden on labour and by making agreements with municipalities about reducing the poverty gap. After all, work that pays is the main road leading out of poverty. Measures will also be taken to reduce the marginal pressure starting from the minimum wage. The reduction of the income tax burden is important, but the government will, for example, additionally abolish the firm income threshold applicable to housing benefit. Tenants who start earning a slightly higher salary will no longer suddenly lose their entire housing benefit as a result. In addition, the government will offer self-employed workers better protection against bogus self-employment schemes. Besides the broad reduction of the tax burden, additional funds will be set aside specifically for families with children to boost their purchasing power. The childcare benefit and child benefit will be increased. Furthermore, the government will offer municipalities scope for experimentation in the Participation Act to examine what the best methods are for bringing people entitled to social assistance into work.

In tackling poverty, the government will devote special attention to the position of children. Each child deserves to participate. In 2017, 100 million euros were made available to municipalities and a

²⁷ According to Eurostat figures, which also include groups such as students.

²⁸ As the national EU 2020 target is based on people up to the age of 64, there are no data for the 65+ group for this target, in spite of the increase in the retirement age.

number of social organisations working with children in poverty, on the understanding that the money will be paid to children in kind.²⁹ An amount of 85 million euros was allocated to municipalities. Administrative agreements were made on this topic with the Association of Dutch municipalities (VNG), the results of which are expected to be available in the autumn of 2018. Furthermore, an additional 80 million euros has been made available in the coalition agreement to combat poverty and debt – particularly for families with children. In spring this year, the Lower House will be informed of how these funds will be used.

In late 2015, the then State Secretary for Social Affairs and Employment (SZW) requested the then Ombudsman for Children to conduct a follow-up study on how to tackle child poverty more effectively at a local level.³⁰ In mid-2016, the government asked the Social and Economic Council (SER) for advice on how child poverty could be radically reduced.³¹ The advisory reports have meanwhile been issued. The government will respond to the advisory reports in spring.

In line with the coalition agreement, the government will devote considerable efforts to tackling debt. The government aims to reduce the number of people with problematic debts and provide more effective assistance to people in debt. Multiple ministries, municipalities, public-sector organisations and private parties must – jointly – take action. A comprehensive approach to debt reduction will therefore be adopted, which will include not only the measures aimed at tackling debt set out in the coalition agreement, but also existing measures from the various ministries and initiatives from the professional field. Further to the letter of 18 December 2017, the Lower House will be informed of further details of the approach in spring.

The government is in favour of an integrated approach to poverty reduction. This means that every situation will be examined from a broad perspective, from a lack of income to social exclusion. It also means looking at the role of and impact on various areas, such as work, healthcare, housing and education. Poverty policy is decentralised so that it can be designed close to citizens and so customised solutions can be offered. The inter-departmental and inter-administrative social domain programme aims to strengthen this integrality of local policy in the social domain and focuses on identifying and eliminating barriers that stand in the way of providing concrete solutions to citizens in complex situations.

Table 10. Description of the key EU 2020 measures

Progress towards achieving national targets for poverty and combating social exclusion	Status of measures aimed at the targets	Predicted impact of the measures (qualitative/quantitative)
National EU target: 100,000 fewer people in jobless households than in 2008. 2016 result: 51,000 fewer people in jobless households than in 2008.	Key measures: <ul style="list-style-type: none"> • additional funding as an annual budget item for policy measures aimed at poverty and debt reduction (€100 million from 2015); • 100 million euros extra per year for child poverty (from 2017); • temporary additional funds to combat poverty and debt, specifically among children (a total of 80 million euros for the period 2018 – 2020); • increase in benefits (child-related budget supplement, childcare benefit); • financial incentives for employers to hire people; • offering better protection against bogus self-employment schemes; 	<ul style="list-style-type: none"> • Working for minimum wage after coming off a benefit now pays, and working an extra day a week is now more profitable for second earners. More single people, single parents and second earners with young children will be encouraged to enter the workforce. • A comprehensive approach to tackling poverty and debt will be implemented for the purpose of more effective, efficient and sustainable prevention. • Specific investment will be made in child poverty to prevent social exclusion and future disadvantage. • Collaboration between public and private parties will be strengthened to reach target groups more

²⁹ Lower House, 2016 – 2017 session, 24 515, No. 378.

Lower House, 2016 – 2017 session, 24 515, No. 380.

³⁰ Lower House, 2015 – 2016 session, 24 515, No. 359.

³¹ Lower House, 2015 – 2016 session, 24 515, No. 357.

	<ul style="list-style-type: none"> • more intensive guidance for specific groups of unemployed people; • enabling experimentation within the Participation Act; • City Deals – solutions for integrated customisation within the social domain; • agreements with municipalities to reduce the poverty gap; • comprehensive approach to debt reduction. 	<ul style="list-style-type: none"> • comprehensively and effectively. • More knowledge about the effectiveness of financial incentives and labour and re-integration requirements, in order to more effectively implement the Participation Act. • Impact of City Deals: bring about extensive reform in the social domain by developing integrated alternative arrangements in the areas of housing, work and income, healthcare, youth assistance and social support, among others. The emphasis is on the most vulnerable households. These are often people who rely on multiple forms of support and would benefit from an integrated approach.
--	--	---

5. European funds and the Europe 2020 strategy

European structural and investment funds

The effective use of European structural and investment funds (ESI funds) supports the achievement of Dutch policy objectives, in part linked to the Europe 2020 strategy.

Four ESI funds contribute to the European objectives for employment, research and innovation, sustainable energy and climate, and social inclusion. These funds are the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). European funds totalling 1.9 billion euros have been allocated to the Netherlands for the period 2014 – 2020 for the seven national and regional operational programmes conducted by these funds. In addition, there are four cross-border programmes (INTERREG) for which around 0.3 billion euros are available.

The ESF contributes, among other things, to the EU 2020 objective for increasing labour force participation by including unutilised labour potential in the labour market by means of active reintegration (active inclusion), and by preventing people from dropping out of the labour force prematurely and promoting working longer (sustainable employability). In this programme period, 363 million euros from the EFS budget have been made available for active inclusion. A large portion of this budget has already been released for calls for project proposals and committed. Over 100,000 participants joined the programme in the first three years. A total of 102 million euros is available for sustainable employability. Over 2,800 projects were completed up to and including 2017. The ESF is also undertaking efforts to improve access to employment by means of the so-called Integrated Territorial Investments (ITI).

The four regional ERDF programmes focus largely on research and innovation. Around three-quarters of the total ERDF budget is earmarked for innovation, mainly in the small and medium enterprise (SME) sector. The programmes focus on improved and innovation-oriented collaboration between businesses, knowledge institutes and government authorities, better alignment between education and the labour market (mainly in the area of technical staff), promoting application knowledge, for the Smart Industry for instance, and improving the business climate in the four major cities of the Netherlands (through ITIs). Over 50% of the available ERDF budget was committed for research and innovation (164 million euros) up to and including 2017. These investments stimulated more than 1,600 businesses to market innovative ideas, as well as more than 400 businesses in collaboration with research institutes.

In addition, EAFRD, the Rural Development Programme, invests in programmes such as innovation in rural areas, the modernisation of agricultural businesses (including supporting young farmers) and strengthening the agricultural structure. EMFF fosters innovation with the aim of improving returns and implementing sustainability in the fishing industry and aquaculture, and strengthening collaboration across the entire fishery supply chain.

All ESI funds contribute to the sustainable energy and climate objectives. Around 60% of the available EAFRD budget has been allocated to climate change and protection of the environment. This includes subsidy schemes for "non-productive investment projects" pertaining to the Integrated Approach to Nitrogen, biodiversity and water. On 1 January 2018, all provinces issued calls for applications for the subsidy schemes and some 90 projects were launched and began implementing the improvement measures, representing over 100 million euros of committed EU funds. Currently, the subsidy applications of some 50 projects are still being processed.

This target also includes the implementation of the Agricultural, Nature and Landscape Management programme. The system was changed from individual to collective agricultural, nature and landscape management contracts in 2016. Forty collectives are now working on this measure. The collectives will receive a subsidy of just under 500 million euros (50% EU and 50% from the provinces) for a 7-year period.

EMFF focuses on fostering innovation in the Dutch fishing industry to address climate challenges facing the industry and on the efficient use of natural resources. Efforts are directed towards reducing

emissions in the fisheries sector and more selective fishing methods. In addition, a number of large IT projects were financed by the government for the purpose of digital registrations, inspections and reporting in the fishing industry, and research is being conducted on the size of fish stocks.

With regard to the EU 2020 sustainable energy and climate target, the ERDF programmes focus on fostering innovation in the area of low-carbon technologies, putting existing state-of-the-art techniques into practice (smart roll-out) and reducing energy consumption in the built environment. Until year-end 2017, over 48 million euros had been committed to projects on average, which is around 40% of the ERDF budget available for this particular target.

To conclude, the ESF focuses on the retraining and reintegration of unemployed job seekers into so-called green jobs.

Aside from the above, the ESF contributes to the objective of combating poverty and promoting social inclusion. Similar to the measures aimed at increasing labour force participation, this entails increasing employment opportunities and employability and helping people find paid work. Utilisation of the ESF programme was high during this programme period, due to factors such as the simplification of cost accounting measures and the increased supervision of applicants. The majority of the applicants have already utilised almost the total amount of the subsidy budget applied for. An evaluation of active inclusion covering the 2014 – 2016 period shows, among other things, that with the aid of ESF new groups of people at a large distance from the labour market have been reached (scope effects) and that the range of opportunities for the existing target group has risen (volume effects). A positive side effect is that, in 80% of the labour market regions, regional collaboration has improved, for instance between municipalities and schools in reintegrating young people at a distance from the labour market.

The EAFRD contributes to this objective through the LEADER programme. Implementation is organised by 20 local action groups (LAGs). On 1 January 2018, over 120 LEADER projects were under way.

Other financing instruments

In addition to ESI funds, the Netherlands also uses various financing instruments from the European Investment Bank Group (EIB and EIF). The Netherlands aims to ensure a strong link between the national and international instruments. Good examples are the EU/NL co-investment instruments: Dutch Venture Initiative I (DVI I) and Dutch Venture Initiative II (DVI II), the European Angel Fund The Netherlands and the Dutch Growth co-investment programme for Dutch innovative scale-ups.

Furthermore, the Netherlands uses the European Fund for Strategic Investments (EFSI) for investments in social challenges, particularly if they involve cross-border aspects. The EFSI themes of education, research and innovation, strategic infrastructure, SME financing, renewable energy and the environment are strongly linked to the national priorities. For the purpose of investing in these themes, the Netherlands will establish a Dutch financing and development institution called Invest-NL.

The objective set for Invest-NL is to realise the desired investments in businesses and projects, which have failed to materialise to date due to market failure and have been unable to attract sufficient financing from the market due, among other things, to the risk and/or length of the payback period. Invest-NL will be allocated equity amounting to 2.5 billion euros. The European funds and schemes often make use of National Promotional Institutes, like Invest-NL. Access to EU funds and schemes is expected to improve with the launch of Invest-NL. The Netherlands Investment Agency (NIA) is the predecessor of Invest-NL. NIA has meanwhile become a member of the EFSI EIF-NPI Equity platform. NIA has also concluded a cooperation agreement with the European Advisory Hub of the European Investment Bank. Invest-NL, which has yet to be established, will be able to build further on the agreement.

6. Involvement of Parliament and other stakeholders

The central government is not the only party involved in implementing the Europe 2020 strategy and the country-specific recommendations, both of which are described in this NRP. Social partners, local and regional authorities and non-governmental organisations also play an important role in shaping and implementing policy.^{32 33} As usual, they have been consulted in the process of drafting this NRP. The content and presentation of this document, however, remain the responsibility of the government. The social partners have produced their own document to explain how they have contributed to the Europe 2020 targets.³⁴

The government attaches great importance to having a broad support base for the Dutch position in the European Semester. It keeps both the House of Representatives and the Senate informed with regard to the various stages and steps within the European Semester. After the proposals for the most recent country-specific recommendations were issued in May 2017, both the House of Representatives and the Senate were informed of the government's response to the proposed recommendations.³⁵ Following the publication of the Annual Growth Survey and the Alert Mechanism Report in November 2017, which launched the 2018 European Semester, both the House of Representatives and the Senate were informed of the government's view of these analyses.³⁶ The House of Representatives and the Senate have had opportunities to discuss the content of these documents with the government prior to various Council meetings (both verbally and in writing).

This National Reform Programme is submitted to both the House of Representatives and the Senate before being sent to the Commission. It provides an opportunity to debate the discussed measures and reforms at a national level. As in previous years, both the House of Representatives and the Senate will be informed about the country-specific recommendations that the Commission will propose for the Netherlands as part of the 2018 European Semester.

³² In this context, the minister of Economic Affairs again held consultations with the SER on 8 March to discuss the Dutch efforts regarding the European themes.

³³ With regard to cooperation with the local and regional authorities, the Inter-Administrative Programme (BBP) was recently agreed, in which new, tentative agreements were made by the central government and the above authorities to collaborate more closely on social challenges (including those described in the NRP). <https://www.rijksoverheid.nl/documenten/rapporten/2018/02/14/programmastart-interbestuurlijk-programma-ibp>

³⁴ See the Annex to the National Reform Programme: Labour Foundation, March 2018, "Contribution of social partners to the National Reform Programme in the context of the EU 2020 strategy: March 2017 – February 2018".

³⁵ Lower House papers 2017, 21501-20 no. 1231; Senate papers 2017, CXXI no. G.

³⁶ Lower House papers 2017, 21501-20 no. 1283; Senate papers 2017, CXXI no. A.

Appendix A: Other tables

Table 11. Qualitative characteristics of measures aimed at country-specific recommendation (CSR) 1

CSR 1: Budgetary policy, research and development, and housing market		Description of key measures and how they relate to the country-specific recommendations				Budget effects	Qualitative effects
		Description of the measure	Statutory basis	Progress made in the last 12 months	Steps still to be taken		
In view of the medium-term budgetary objective, use the budgetary and structural policy to support potential growth and domestic demand.	Budgetary policy	The coalition agreement will lead to a net reduction of the tax burden that will gradually increase to 6.6 billion euros by 2021 and additional expenditures that will gradually increase to 7.9 billion by 2021.	Central government budget	The coalition agreement was presented in October 2017.	These measures will be incorporated in legislation and budgets in the years ahead.	According to the CPB Netherlands Bureau for Economic Policy Analysis, the total coalition agreement will lead to a 1.1% point lower EMU balance in 2021.	Supports domestic demand and will lead to a lower tax burden on labour.
Repurposing government expenditure to support R&I investment	Investments	Aggregated investment of 400 million euros on a structural basis for fundamental and applied research.	Central government budget	Decision in the October 2017 coalition agreement, will be worked out in greater detail.	Financial framework and implementation	Expenditure boost of 400 million euros on a structural basis.	More research and innovation in the Netherlands with an impact on excellence in science, technology development and absorption, innovative capacity and competitiveness, productivity growth and solutions for societal challenges.
Repurposing government expenditure to support R&I investment	One-off investment	One-off investment of twice 50 million euros for research infrastructure.	Central government budget	Decision in the October 2017 coalition agreement.	Financial framework and implementation	Expenditure boost of 50 million euros in 2018 and 50 million euros in 2019.	An improved research infrastructure in the Netherlands
Taking measures to reduce the remaining housing market distortions and the preferential treatment for household debt, mainly by reducing the mortgage interest tax deduction.	Using fiscal incentives to encourage repayment of mortgage debt and reduce households' capital risks.	Linking entitlement to mortgage interest tax deduction to a requirement to repay new mortgages within 30 years, on at least an annuity basis.	Tax Treatment of Homeownership (Review) Act (<i>Wet herziening fiscale behandeling eigen woning</i>)	Implemented in 2013	N/A	Structural revenues of 5.2 billion euros.	High debts and the associated financial risks are limited for households and banks. This contributes to a better and more balanced housing market with fewer financial risks.
	Reducing the home mortgage interest tax deduction for new and existing cases.	The maximum deduction rate in the 4th bracket will be reduced by 0.5 percentage points per year.	Housing Market Measures 2014 II Act (<i>Wet maatregelen woningmarkt 2014 II</i>)	Implemented in 2014; with effect from 1 January 2018, the maximum deduction rate is 49.5%.	24 annual steps of 0.5 percentage points per year from 50% to 38%	Structural revenues of 0.77 billion euros.	
	Accelerate the reduction of the mortgage interest tax deduction.	The maximum deduction rate in the highest bracket will be reduced by 3 percentage points per year from 2020.	Not yet applicable	N/A	Four annual steps of 3 percentage points, from 2020 through 2023.	Acceleration of the structural revenue from the above measure.	

	Phaseout the Hillen scheme (deduction for no or low mortgage debt).	The Hillen scheme will be phased out in 30 equal annual steps from 2019.	Amendment of the Income Tax Act 2001 (<i>Wet inkomstenbelasting 2001</i>) entailing the gradual phaseout of the deduction for no or low mortgage debt	N/A	30 equal annual steps of 3 1/3 percentage points.	Structural revenues of 1.1 billion euros.	Improve the public finances, simplify regulations and create a more efficient tax system.
	Reduction of maximum loan-to-value ratio (LTV) to 100%	Annual linear reduction of maximum LTV from 106% to 100% in 2018.	Financial Supervision Act (<i>Wet op het Financieel Toezicht</i>) (Decree on Conduct of Business Supervision of Financial Enterprises, Temporary Mortgage Lending Scheme)	Implemented in 2013. With effect from 1 January 2018, the maximum LTV is 100%.	N/A	Structural revenues of 0.2 billion euros	High debts and the associated financial risks are limited for households and banks. This contributes to a better and more balanced housing market with fewer financial risks.

Table 12. Qualitative characteristics of measures aimed at country-specific recommendation (CSR) 2

CSR 2: Labour market and pensions		Description of key measures and how they relate to the country-specific recommendations			Budget effects	Qualitative effects	
		Description of the measure	Statutory basis	Progress made in the last 12 months	Steps still to be taken		
Address the remaining barriers to the hiring of staff on permanent contracts. Address the sharp rise in the number of self-employed workers without employees (ZZPers), both by reducing tax distortions that encourage self-employment (without harming entrepreneurship) and by facilitating access by self-employed workers to affordable social protection. Based on the comprehensive preparatory process that is already underway, make the second pillar of the pension system more transparent, more honest between generations and more shock-resistant.	Better balance between permanent and flex workers	<ul style="list-style-type: none"> - Introduction of a cumulation basis in the context of employment termination law - More balance in the transition payment - Temporary contracts for temporary work - Focus payroll services and zero-hours contracts on their original purpose - Differentiation of the unemployment insurance (WW) contribution according to contract type - Ease the obligations regarding compulsory sick pay - More incentives in incapacity for work schemes to return to work 	The government wishes to consider these labour market measures in conjunction with each other and aims to submit the necessary legislation to Parliament in the course of 2018. The majority of the measures are expected to take effect on 1 January 2020 at the latest.	See the 15 December 2017 Letter to Parliament "Towards a new equilibrium in the labour market".	See statutory basis	N/A	Reduce the gap between permanent contracts and flexible working
	Self-employed workers without employees	<ul style="list-style-type: none"> - Introduce a minimum rate for the lower end of the market - More freedom for the top end of the market - Introduce client statement - Examine how the percentage of self-employed workers with an incapacity for work insurance can be increased 	The target entry into force date of the specific measures is 1 January 2020. As stated in the coalition agreement, the government considers it extremely important to involve social partners and stakeholders in elaborating this concretely. The self-employed workers' allowance will be reduced to the basic rate from 2020 in four annual steps of 3 percentage points.	See the 15 December 2017 Letter to Parliament "Towards a new equilibrium in the labour market".	See statutory basis	N/A	Certainty for genuine self-employed workers and their clients and preventing pseudo self-employment, especially at the lower end of the market.
	Pension system	<ul style="list-style-type: none"> - Abolish the average contribution system - The social partners will develop a new pension contract - Transition to a new system 	The government aims to reach agreement in the first half of 2018 with the social partners on the main aspects within the frameworks of the underlying principles set out in the coalition agreement, so that the legislative process will be finalised by 2020.	See the 15 December 2017 Letter to Parliament "Towards a new equilibrium in the labour market".	See statutory basis	N/A	A reformed pension system that addresses the vulnerabilities in the current system while retaining the strong elements (obligatory, collective implementation, risk sharing and tax relief).

Table 13. Overview of the most important new measures in response to the Europe 2020 strategy

Europe 2020 Strategy key EU targets	Most important new measures for the coming 12 months	Relationship to Europe 2020 Strategy	Expected impact of the measures (qualitative/quantitative)
Employment	<ul style="list-style-type: none"> To make work pay, income tax will be reduced, the general tax credit will be increased further and, on balance, the employed person's tax credit will be increased. More funds will be set aside for childcare benefit. Development of an individual learning account. Long-term unemployment among the 50+ age group will be addressed jointly with the social partners. Labour force participation by people at a distance from the labour market will be increased in collaboration with the social partners and other parties. 	Increase labour force participation	Stimulating both supply (e.g. by making work pay) and demand for labour through a combination of measures is expected to have a positive effect on employment, particularly for older people and those in a vulnerable position in the labour market.
Research and innovation	<ul style="list-style-type: none"> Two hundred million euros will gradually be made available for applied research on a structural basis by 2020. Two hundred million euros has also been made available for applied research. A one-off amount of 50 million euros will be available in 2018 and 2019 for major infrastructure. 	Contributes to a better climate for research and innovation.	More investments in research and innovation.
Sustainable energy and climate	<ul style="list-style-type: none"> The government aims to set out an ambitious Climate Agreement for 2030 and 2050. A Climate Act aimed primarily at monitoring the reduction of CO₂ will also be drafted. 	None: the agreement relates to new policy for the period after 2020. Until that time, the government will fully implement the Energy Agreement.	The new Agreement and the Climate Act will have a clear signalling effect. Some measures in the Agreement that will be concluded in 2020 may already have an initial effect on the reduction of CO ₂ .
Education	<ul style="list-style-type: none"> implementation of the Strategic Agenda for Higher Education and Research; retention of successful elements from the previous approach to tackling early school-leaving. The approach largely concerns the existing target group, with a focus on young people in a vulnerable position and young people who have dropped out of school previously. 	Contributes to keeping the percentage of tertiary graduates stable at over 40% and further reducing the total group of early school-leavers.	<ul style="list-style-type: none"> increasing the quality and accessibility of higher education and fostering talent development and diversity within higher education as well as the connection between higher education and society; further improving and embedding results of policy measures in the area of early school-leaving. Coherent approach to young people in a vulnerable position
Social inclusion	<p>Key measures:</p> <ul style="list-style-type: none"> additional funding as an annual budget item for policy measures aimed at poverty and debt reduction (€100 million from 2015); 100 million euros extra per year for child poverty (from 2017); temporary additional funds to combat poverty and debt, specifically among children (a total of 80 million euros for the period 2018 – 2020); increase in benefits (child-related budget supplement, childcare benefit); financial incentives for employers to hire people; offering better protection against bogus self-employment schemes; more intensive guidance for specific groups of unemployed people; enabling experimentation within the Participation Act; City Deals – solutions for integrated customisation within the social domain; agreements with municipalities to reduce the poverty gap; comprehensive approach to debt reduction; supporting municipalities in implementing policy measures aimed at poverty and debt reduction. 	The measures will help reduce poverty and social exclusion.	<ul style="list-style-type: none"> Working (more), pays. A comprehensive approach to tackling poverty and debt will be implemented for the purpose of more effective, efficient and sustainable prevention. Specific investment will be made in child poverty to prevent social exclusion and future disadvantage. Collaboration between public and private parties will be strengthened to reach target groups more comprehensively and effectively.

