IMF Country Reports 21/243

Kingdom of the Netherlands—the Netherlands: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Kingdom of the Netherlands—the Netherlands

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 21/243

KINGDOM OF THE NETHERLANDS—THE NETHERLANDS

November 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE KINGDOM OF THE NETHERLANDS—THE NETHERLANDS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with the Kingdom of the Netherlands—The Netherlands, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 10, 2021 consideration of the staff report that concluded the Article IV consultation with the Kingdom of the Netherlands—The Netherlands.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 10, 2021, following discussions that ended on September 27, 2021, with the officials of the Kingdom of the Netherlands—The Netherlands on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 26, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Kingdom of the Netherlands—The Netherlands.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR21/332

IMF Executive Board Concludes 2021 Article IV Consultation with the Netherlands

FOR IMMEDIATE RELEASE

Washington, DC – **November 15, 2021**: On November 10, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Netherlands.

The Netherlands is experiencing a robust recovery in 2021, following a contraction of 3.8 percent in real GDP in 2020, which was less severe than the average in the Euro Area. The Dutch economy has been resilient thanks in part to a high rate of digitalization of activities that allowed a large share of the work force to work remotely, and the strong economic policy response since the start of the pandemic has mitigated the impact of containment measures. A strong recovery is underway, with real GDP being expected to surpass its pre-pandemic level by end-2021. The programs deployed to preserve jobs and incomes and support businesses were effective in containing the increase in unemployment while keeping bankruptcies at historically low levels. The labor market has tightened again, with the unemployment rate back near its pre-pandemic readings. Banks have retained their strong pre-pandemic capital position and non-performing loans have remained low,. Residential real estate valuations have kept increasing reflecting high demand and rigidities in housing supply.

The economy is forecast to grow by 4 percent in 2021 and 3.3 percent in 2022, led by strong consumption and investment, and supported by a high coverage of vaccines. Over the medium term the economy is projected to catch up to its pre-pandemic trend. Given the recent evolution of the pandemic and the vaccination rollout, the authorities have lifted most sanitary restrictions and introduced a “corona pass.” Also, in view of the tightness of the labor market, they have phased out the main broad policy support programs as of October 1, while retaining targeted support schemes for those businesses still facing restrictions.

The unprecedented policy response to the pandemic resulted in a large fiscal deficit in 2020 and 2021, following several years of surpluses. However, the Dutch fiscal position remains strong, with the public debt to GDP ratio expected to remain below 60 percent at end 2021. Fiscal deficits are projected to gradually vanish in the next several years and the public debt ratio to fall below 50 percent by 2026. The current account surplus narrowed to 7.0 percent of GDP in 2020, from 9.4 percent of GDP in 2019, as an improving trade balance was offset by deteriorating primary and secondary income accounts, but the surplus is expected to rise somewhat in 2021 and over the medium term.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their vigorous policy response to the pandemic, which helped limit its health, economic, and financial impacts. Directors noted that a strong recovery is underway against the backdrop of pandemic-related uncertainty and supply chain disruptions. In this context, they welcomed the transition to more targeted policy support and the authorities' readiness to react should substantial downside risks materialize.

Going forward, Directors stressed the need to guide the economy toward normalization and facilitate reallocation of factors of production. Improved debt restructuring processes for viable firms and the establishment of a credit bureau are priorities in this regard.

Directors broadly supported using the available fiscal space to foster a more productive, greener, and more inclusive economy, which could also contribute to external rebalancing. They welcomed the introduction of the National Education Plan and the National Growth Fund, and encouraged additional investments in education and public funding for research and development. The ongoing reform of international and capital taxation should help fight tax avoidance globally. Directors also recommended further efforts to address labor market duality and implement the agreed pension reform, noting that progress in these areas would help boost productivity and enhance intergenerational equity.

Directors observed that the financial system remains sound while imbalances in the real estate market warrant heightened vigilance. They encouraged continued strong supervision to prevent undue risk-taking in the low interest rate environment, including through the appropriate use of macroprudential tools. Directors welcomed the activation of risk-based floors for residential mortgage lending and encouraged further efforts to address supply shortages in the housing market.

Directors commended the authorities for their ambitious targets for reducing greenhouse gas emissions. They recommended that the authorities consider additional measures to complement existing policies, including instruments to reinforce carbon pricing. Directors underscored the need to safeguard vulnerable households from the costs of the transition.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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The Netherlands: Selected Economic Indicators, 2019–2022

	2019	2020	2021 Proj.	2022 Proj.
National accounts (percent change)				
Gross domestic product	2.0	-3.8	4.0	3.3
Private consumption	0.9	-6.6	4.3	4.1
Public consumption	2.8	1.0	2.1	2.0
Gross fixed investment	6.2	-4.1	4.1	3.3
Total domestic demand	3.0	-4.3	3.4	3.3
Exports of goods and nonfactor services	2.0	-4.8	5.2	4.3
Imports of goods and nonfactor services	3.3	-5.4	4.6	4.5
Net foreign balance[1]	-0.8	0.0	1.0	0.3
Output gap (percent of potential output)	0.6	-1.8	-1.5	-0.8
Prices, wages, and employment				
Consumer price index (HICP)	2.7	1.1	1.9	1.7
GDP deflator	3.0	2.3	1.6	1.9
Hourly compensation (manufacturing)	2.4	6.6	3.3	3.3
Unit labor costs (manufacturing)	2.4	4.0	0.4	0.6
Employment (percent)				
Unemployment rate (ILO definition)	3.4	3.8	3.4	3.8
NAIRU	5.2	5.2	5.2	5.2
External trade				
Merchandise balance (percent of GDP)	7.4	8.1	8.2	7.9
Current account balance (percent of GDP)	9.4	7.0	8.0	8.7
General government accounts (percent of GDP)				
Revenue	43.6	41.1	42.0	42.4
Expenditure	41.1	45.4	48.2	44.8
Net lending/borrowing	2.5	-4.3	-6.1	-2.3
Primary balance	3.2	-3.9	-5.8	-2.1
Structural balance[2]	1.8	-3.2	-5.2	-1.9
Structural primary balance[2]	2.7	-2.6	-4.8	-1.4
General government gross debt	47.4	52.5	57.9	56.4

Sources: Dutch official publications, IMF, IFS, and IMF staff calculations.

[1] Contribution to GDP growth.

[2] In percent of potential GDP.

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INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—THE NETHERLANDS

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

October 26, 2021

KEY ISSUES

The Dutch economy was more resilient than the average Euro area economy in 2020 owing in part to a high rate of digitalization of activities that allowed a large share of the work force to work remotely, while the strong policy response mitigated the impact of containment measures. A strong recovery is underway, with pre-pandemic GDP level to be exceeded in 2021:Q4, and the labor market has tightened considerably. The economy is forecast to grow by 4.0 percent in 2021 and 3.3 percent in 2022, on the back of strong consumption and investment, supported by increasing coverage of vaccines.

Near-term risks to the outlook are roughly balanced, driven by the uncertain trajectory of the pandemic on the downside, while a fuller than expected drawdown of savings accumulated in the pandemic would further support domestic demand and growth. Further out, real estate market developments present additional risks.

Key Policy Recommendations

- With a strong ongoing recovery and a successful vaccination rollout, the authorities have appropriately started the policy shift to targeted and forward-looking interventions to ease the road to normalization. They should stand ready to reactivate broad support policies if significant downside risks materialize.
- The substantial fiscal space available permits growth-enhancing interventions, including support to R&D and further investment in education.
- To meet the ambitious climate policy goals and foster a greener and more sustainable recovery post-pandemic, policies should further incentivize emissions reductions and increase public support to innovation and the adoption of greener technologies.
- Ensuring financial stability entails closely monitoring risks in the real estate market and addressing financial sector challenges exposed and compounded by the pandemic, including the continuation of the low interest rate environment.

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Approved By
Laura Papi (EUR) and Kevin Fletcher (SPR)

Discussions took place remotely on September 7–27, 2021. The mission team comprised A. Cuevas (head), A. Fouejieu, A. Geis, and O. Luca (all EUR), and was assisted by Y. Chen and A. Gamboa Gonzalez (both EUR). Mr. P. Hilbers and Ms. C. Eijking (both OED) participated in some of the meetings. The team met with De Nederlandsche Bank President Klaas Knot; State Secretary Hans Vijlbrief, and other officials from the Ministries of Finance, the Interior and Kingdom Relations, Social Affairs and Employment, Economic Affairs and Climate Policy, De Nederlandsche Bank, other government entities, and the Single Supervisory Mechanism; representatives of labor unions and employers, and representatives of private sector institutions.

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ANNEXES

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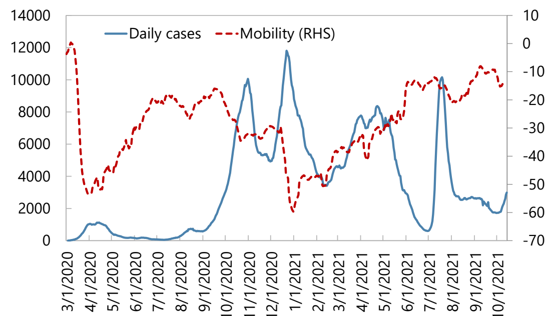
CONTEXT

1. **Restrictions have been lifted almost fully as hospitalizations have stabilized and vaccinations advanced.** The Netherlands was hit hard by several waves of infections in 2020–21. The authorities responded and adapted their containment measures, with the strictest restrictions imposed during the winter, including a curfew from late January to late April 2021. After a brief spike in infections in July 2021 led to the reintroduction of some restrictions, infections and hospitalizations fell back and stabilized. Also, progress on vaccinations has been substantial. As of October 2021, about 68 percent of the Dutch population was fully vaccinated (representing about 80.5 percent of people aged 12 and above). This has allowed most restrictions to be lifted, supported by the use of the "corona pass."

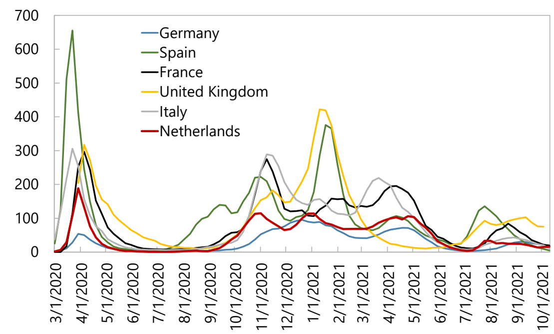
Covid-19 Infections, Mobility Restrictions, and Vaccine Coverage

Covid-19 Daily Cases and Mobility
(7-day moving average)



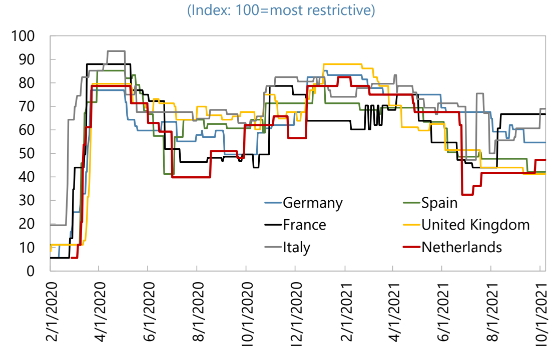
Sources: Google, JHU, Our World in Data, and IMF staff calculations.
Note: Mobility is the simple average of retail, workplace, and transit mobility.

Covid-19 Weekly New Hospital Admissions
(Per million people)



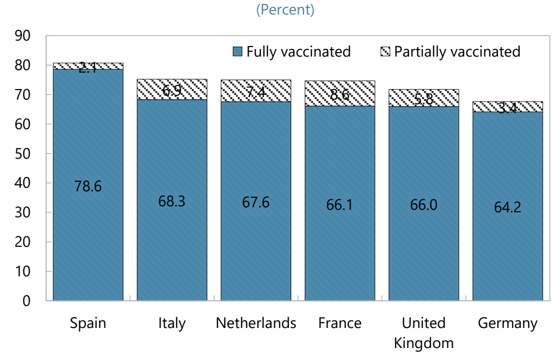
Sources: Our World in Data and Haver.

Covid-19 Government Response Stringency Index
(Index: 100=most restrictive)



Sources: Oxford COVID-19 Government Response Tracker and Our World in Data.

Share of Population Vaccinated, as of October 3, 2021
(Percent)



Sources: Our World in Data, Haver, and IMF staff calculations.

2. **The formation of a new government will bring decisions on medium-term fiscal objectives and policy reform priorities.** Elections took place in March 2021, and negotiations are ongoing to form a government coalition. Under the Dutch fiscal framework, a new government defines key fiscal objectives, including government expenditure ceilings for the four-year duration of the legislature (See Annex I). The new government will submit the Recovery and Resilience Plan (RRP) to the European Commission.

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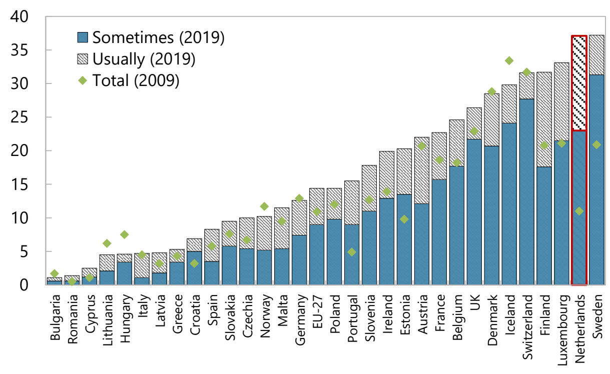
RECENT ECONOMIC DEVELOPMENTS

3. **The pandemic recession was less severe in the Netherlands than in the Euro area.** With a contraction of 3.8 percent in 2020 versus the Euro area's 6.3 percent, the Dutch economy was more resilient, thanks in part to its high degree of technological penetration and digitalization, including a high pre-pandemic prevalence of telecommuting. A strong fiscal policy response focused on supporting affected businesses and households, cushioning the economic impact of the pandemic. The contraction was driven by a record drop in household consumption (-6.6 percent), lower private investment (-5.5 percent) and net exports of goods and services (-0.6 percent), while government consumption increased moderately by 1 percent. On the supply side, contact-intensive sectors (accommodation and food services, culture and recreation, and transport) were the most significantly affected. Following a contraction of 0.8 percent in 2021:Q1 (QoQ, saar), Dutch GDP grew by 3.8 percent in 2021:Q2, on account of a strong recovery of private consumption, as most mobility restrictions were lifted, and exports of goods and services.

Employed Persons Working From Home

(Percentage of the total employment)

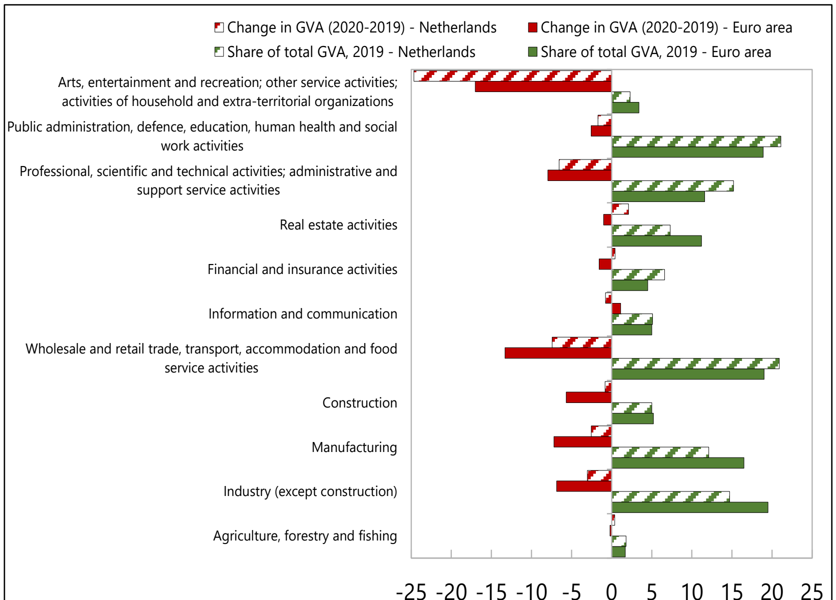


Sources: Eurostat and IMF staff calculations.

Impact of the Pandemic by Sector of Activity

Gross Value Added by Sector

(Percent)



Sources: Eurostat and IMF staff calculations.

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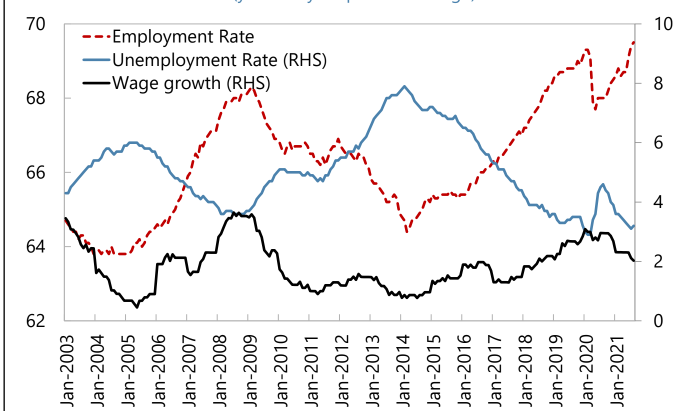
4. Taking advantage of substantial fiscal space, the policy response was large and agile, resulting in a fiscal deficit in 2020. The pre-pandemic fiscal position was strong, with a fiscal balance of 2.5 percent of GDP and government debt of 48 percent of GDP in 2019. After four consecutive years of surpluses, a fiscal deficit of 4.3 percent of GDP was posted in 2020, on account of pandemic support measures and automatic stabilizers. Government debt reached 52.5 percent of GDP in 2020 (Figure 3).

5. Unemployment has remained contained and consumer price inflation subdued. The various policy programs helped limit the impact of the pandemic on the labor market. The unemployment rate increased moderately to 3.8 percent in 2020 from 3.4 percent in 2019, although there were significant differences across types of employment contracts and age groups (See Selected Issues Paper). Headline inflation declined to 1.1 percent in 2020, mainly driven by lower energy prices, and core inflation stood at 1.9 percent. Labor force participation has nearly returned to pre-pandemic levels, and the unemployment rate fell back to 3.2 percent in August 2021, reflecting the resumption of economic activity. Inflation picked up in 2021:H1, to 1.8 percent, boosted by higher energy prices. Wage growth reverted to pre-pandemic levels in 2021:Q1 (Figure 2).

Unemployment Rate, Employment Rate and Wage Growth

(year-on-year percent change)



Sources: CBS and Haver.

6. Financial sector pressures have ebbed since the start of the pandemic with credit growth rebounding from its trough in early 2021. Still, firms face tighter credit standards than before the crisis, while their demand for loans has stayed subdued. Banks preemptively increased provisioning in 2020, but the aggregate NPL ratio has not grown so far, reflecting public sector support to households and corporations and the debt service moratoria on offer in 2020. Bank profitability has rebounded to its pre-crisis level while restrictions on dividend payouts have helped bolster capitalization ratios. Among non-bank financial institutions, the average funding ratio of occupational pension funds dropped below 100 percent in the spring of 2020 but climbed to 109 percent by mid-2021, above its end-2019 level.[1] Likewise, insurers have largely sustained their solvency ratios, keeping them far above regulatory thresholds (Figure 4).

[1] The Dutch pension system rests on three pillars, comprising (i) a public, pay-as-you go, scheme guaranteeing a minimum pension, (ii) mandatory occupational schemes as the main form of pension savings, and (iii) voluntary pension savings that are tax-exempt.

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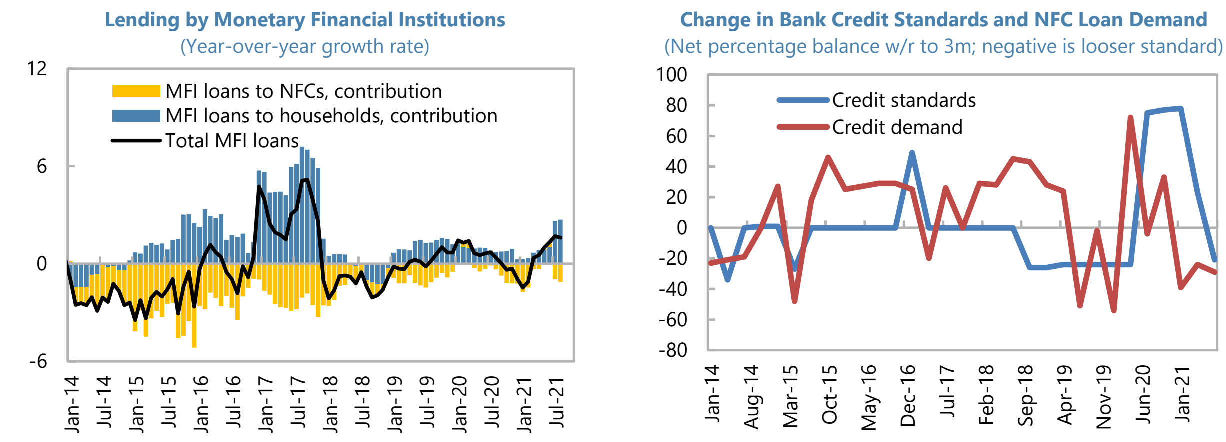
Financial Sector Developments

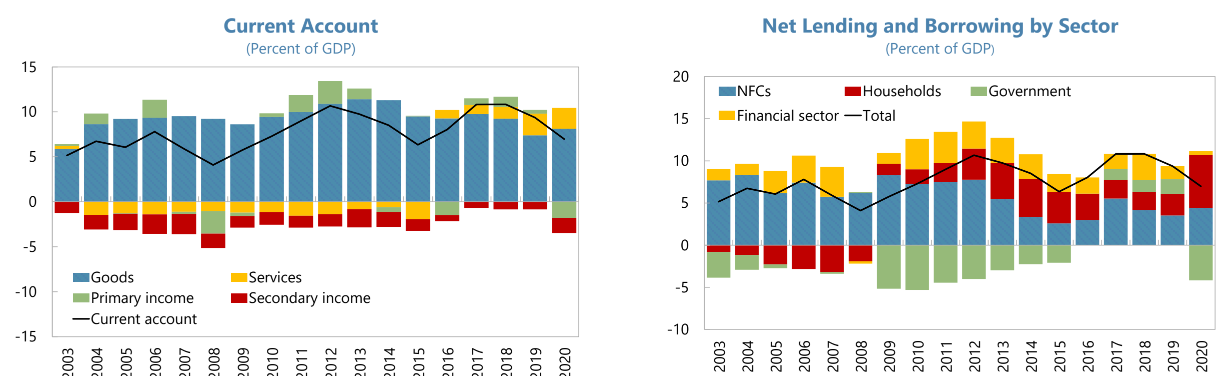


Sources: DNB and IMF staff calculations.

Source: DNB.

7. The external position was stronger than implied by fundamentals and desirable policy settings in 2020. The large current account surplus shrank to 7.0 percent of GDP in 2020 (7.5 percent on a cyclically adjusted basis), from 9.4 percent of GDP in 2019, as an improving trade balance was offset by deteriorating primary and secondary income accounts. Adjusting for biases in the attribution of corporate savings to foreign shareholders[2] and some temporary effects of the Covid-19 pandemic on the balance of payments, staff estimated the underlying current account surplus at around 5.9 percent of GDP in 2020, implying a staff-assessed current account gap of about 2.4 percent of GDP. Using the EBA's estimated elasticities, the REER is assessed as undervalued by 0.5-6.5 percent in 2020 (Annex II).

External Position



Sources: CBS, Eurostat, IMF BOP database, and IMF Staff calculations.

Sources: CBS, Eurostat, IMF BOP database, and IMF Staff calculations.

[2]Official statistics attribute certain corporate saving to Dutch shareholders which should more accurately be attributed to foreign investors holding stakes in Dutch companies. The adjustment uses data provided by DNB to correct for this bias. The adjustment is symmetric, as it also estimates saving by non-resident corporations which should be attributed to Dutch investors with stakes in those corporations (See Selected Issues Paper for the Netherlands 2019 AIV Consultation, IMF Country Report 19/45).

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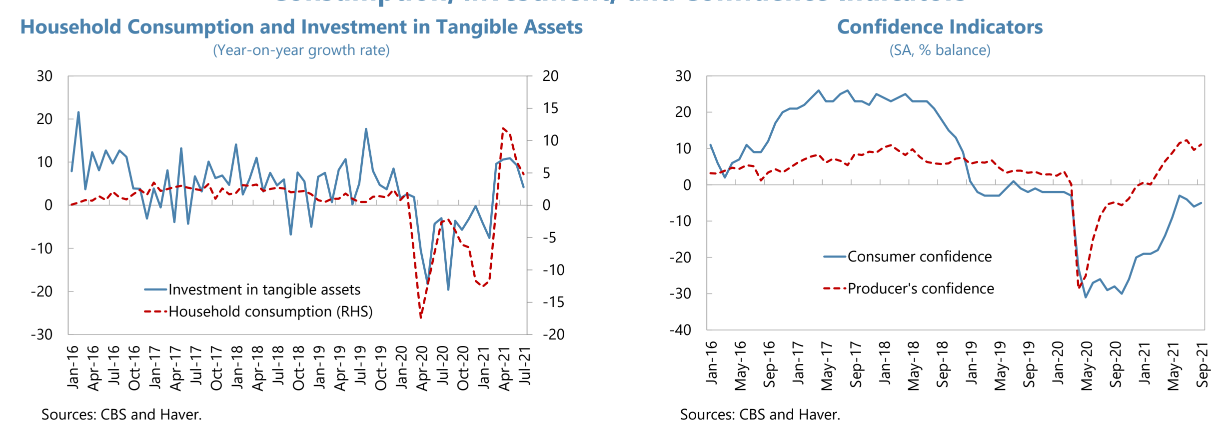
Authorities' Views

8. **The authorities shared staff's assessment of the external position.** They agreed that there is no need for austerity measures, given the limited deterioration of public finances, or further fiscal stimulus, in view of the swift rebound of the economy, but noted that public expenditures to foster potential growth could also contribute to external rebalancing. They highlighted that the IMF EBA methodology could be enriched by considering the impact of multinational corporations and cross-country differences in pension arrangements.

OUTLOOK AND RISKS

9. **The economy is projected to grow robustly in 2021 and 2022.** In 2021, growth is projected at 4 percent, supported primarily by a strong pickup of domestic demand, reflecting in part a reduction in the household saving rate from its unusually high level in 2020. High vaccination coverage should contribute to sustain the recovery. Economic activity is projected to exceed its pre-pandemic level in 2021:Q4. This will more than halve the negative output gap of about -1.8 percent in 2020 by 2022.

Consumption, Investment, and Confidence Indicators



10. **Over the medium term, no significant scarring is projected.** Unemployment is projected to decrease moderately in 2021 and rise somewhat to slightly above pre-pandemic levels in the medium term. Bankruptcies should remain contained but may rise from their recent lows as emergency support programs (which may have protected some unviable firms along with viable ones) are phased out. By 2026 output is projected to catch up with its pre-pandemic trend. Inflation is projected to rise gradually toward 2 percent in the medium term, on the back of stronger domestic consumption and a rebound in energy prices, although temporary spikes might be observed in the near term as the economy exits from the pandemic.

11. **The headline current account surplus is unlikely to return to its pre-pandemic highs over the medium term.** The ratio of investment to GDP is projected to exceed its 2017–2019 average, without a full offset on the saving side; in particular, the public sector saving investment balance should remain lower than in the pre-pandemic years. By 2026, the trade balance is expected

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to narrow as net energy exports continue their long-term decline, roughly offsetting the recovery of the factor income account, leaving the current account somewhat above 8 percent of GDP. The NIIP is anticipated to approach 145 percent of GDP, bolstering further the income balance.

12. Risks to the outlook are roughly balanced and appear to vary over the forecast horizon.

- In the short term, downside risks are related to the evolution of the pandemic. The recovery may slow if infections and, especially, hospitalizations surge, possibly due to incomplete vaccination coverage or lower effectiveness of vaccines against new variants. Larger-than-anticipated weaknesses in the private sector may emerge as government policy support is phased out. Also, disruptions in international value chains may affect the Netherlands, which is a highly open economy.

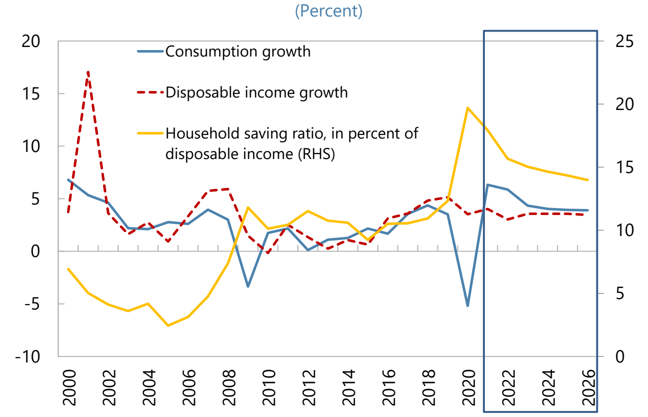
- Farther out on the horizon, financial sector risks from high real estate exposures and valuations may materialize. The crisis affected rental income expectations for commercial properties, also by accelerating structural shifts in demand, yet with rather limited price effects. Possible corrections in the tight residential real estate market may have stronger effects on consumer behavior than mortgage quality, given the record of strong performance of residential mortgages across the cycle.

- On the upside, private demand could grow faster in the near term and beyond if households spend a large fraction of the excess savings built during the pandemic. In the medium term, pension reform could also contribute to a more robust consumption path.

- A slower/faster-than-expected rebound in the euro area would affect the Dutch economy.

Household Consumption, Income, and Saving

(Percent)



Sources: CBS, Haver, and IMF staff calculations.

Authorities' Views

13. The authorities broadly shared staff's assessment of the macroeconomic outlook and risks. They noted an increasing adaptation of businesses to restrictions after each wave of infections. The successful vaccination campaign is seen as underpinning a strong rebound of economic growth in 2021 and 2022, possibly somewhat stronger than anticipated by IMF staff, although only a small fraction of accumulated savings is expected to be consumed. A significant share of these savings will likely finance investment in the housing market. While they expect bankruptcies to increase moderately as broad government support is rolled back, the number of bankruptcies should return to (low) pre-pandemic levels. The currently tight labor market implies

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that unemployment should also remain contained. This suggests only limited aggregate scarring in the medium term, although particular groups, such as the young, could be especially affected. They acknowledged the risk of resurgence of Covid-19 infections, but wide vaccine coverage in the Netherlands should limit the risk.

POLICY DISCUSSIONS: SUPPORTING THE RECOVERY AND BOOSTING RESILIENCE AND GROWTH

A. In the Near-Term: Pave the Way Toward Normalization

As the economy recovers, policy interventions, including fiscal and macroprudential policies, should target areas of weaknesses to foster normalization of economic activity. However, given the near-term uncertainties surrounding the pandemic (including globally), the authorities should stand ready to re-introduce broader support programs, if needed, to contain its economic impact.

14. A set of programs were deployed starting in March 2020 and have been adapted throughout the crisis. These programs provide liquidity to firms, preserve jobs, support household incomes, and ensure continued provision of financial sector services. Notable among these programs was the NOW short work scheme, designed to help keep workers in their jobs and avoid a surge in unemployment, and the TOZO program targeted at the self-employed. These and other programs were made available to businesses experiencing large declines in sales. In 2020, government pandemic support spending amounted to some 3.5 percent of GDP. A budget of about 4.7 percent of GDP was set aside for 2021.[3] As of May 2021, tax measures (including the deferral of tax payments and other revenue reduction measures) represented about 3 percent of GDP. In addition, public guarantee schemes were expanded by up to 6.3 percent of GDP to facilitate firms' access to financing.

[3] Higher extraordinary spending in 2021 partly reflects payments for applications received in 2020.

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Covid-19 Fiscal Measures

	2020		2021	
	bn euros	% of GDP	bn euros	% of GDP
Expenditure measures	27.8	3.5	39.4	4.7
Social Affairs and Employment	16.5	2.1	8.5	1.0
of which				
Compensation for labor cost (NOW)	13.2	1.7	7.7	0.9
Support for the self-employed (TOZO)	2.7	0.3	0.9	0.1
Support for workers under flexible contract (TOFA)	0.0	0.0	0.0	0.0
Economic Affairs and Climate	2.5	0.3	8.1	1.0
of which				
Allowances for fixed costs (TVL)	1.1	0.1	7.2	0.8
Public Health, Welfare and Sport	5.6	0.7	12.6	1.5
of which				
Bonuses for healthcare workers	2.0	0.3	1.0	0.1
Test capacity	1.8	0.2	5.5	0.6
Education, Culture and Science	0.7	0.1	4.3	0.5
Support for culture	0.3	0.0	0.3	0.0
National education program	0.3	0.0	3.2	0.4
Other	2.5	0.3	5.9	0.7
Revenue measures	23.4	2.9		
Tax deferrals *(oustanding, as of May 2021)*	19.0	2.4		
Other tax measures	4.4	0.6		
of which				
Income tax	1.0	0.1		
Corporate tax	3.0	0.4		
Sales tax	0.4	0.0		
Public guarantees	50.3	6.3		
of which				
Next Generation EU	27.4	3.4		
Re-insurance supplier credits	11.9	1.5		
SURE	6.1	0.8		
Other	4.9	0.6		

Notes:

2021 data are budgeted amounts as of September 2021.

The NOW program initially compensated labor costs by up to 90% at beginning of the pandemic, conditional on loss of turnover of at least 20%. Loan and income support are provided to the self-employed via the TOZO program, and to workers under flexible contracts via the TOFA program. The TVL program provides allowance to companies affected by the crisis to finance their fixed costs (with the maximum allowance based on the size of the company).

Sources: Dutch Ministry of Finance

15. **While broad support programs are being phased out, the authorities should remain vigilant to unfavorable developments of the pandemic.** The main support programs, notably the NOW, were appropriately allowed to expire on October 1st 2021, in light of the strength of economic activity and a tight labor market (vacancies currently exceed the number of the unemployed). The authorities are maintaining targeted support for businesses in sectors affected by the limited

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restrictions still in place, while keeping loan guarantees available until end-2021, and offering longer grace periods and maturities for the repayment of tax debts.[4] These are welcome precautions, as risks related to the pandemic remain active. The authorities should also stand ready to reintroduce broader support programs should substantial risks materialize. This will not only protect jobs and viable firms, but it will also minimize the risk of spillovers to the financial sector. Fiscal space in the Netherlands remains substantial, providing room to offer additional support.

16. As the economy normalizes, policies should gradually transition to forward-looking interventions. To ease the road to normalization, policy focus should consider the following:

- *Supporting viable firms*. The authorities should consider policy proposals for supporting viable but challenged firms through active state engagement with other creditors in restructuring efforts.[5]
- *Facilitating the mobility of factors of production*. The expiration of general support measures such as the NOW may temporarily increase unemployment. Therefore, policies should help the laid-off find new jobs. Ongoing initiatives to support training and career counselling, such as the new training allowances and the regional employment teams, are welcome and should be adjusted and expanded as needed to meet post-pandemic demand. Policies to facilitate capital movement include ensuring that restructuring and insolvency procedures are agile to speed up the release of salvageable capital trapped in failing businesses. In this respect, the new law aiming to facilitate debt restructuring for companies in financial difficulties is timely.
- *Fostering investment*. Supporting the adaptation of business investment to structural changes would help strengthen the recovery and support growth in the medium term. Public support to R&D would help boost investment in technology, and selected public capital projects could crowd in private investment. Establishing a credit bureau would help improve funding conditions for SMEs, facilitating their investment activity.

17. Complementing measures at the European level, the Dutch authorities implemented a range of policies to strengthen capital buffers and ensure credit provision to the economy. De Nederlandsche Bank (DNB) extended capital and liquidity measures taken by the ECB's Single Supervisory Mechanism (SSM) to less significant institutions (LSIs) under its supervision. Moreover, recommendations to refrain from payouts to shareholders and limit variable renumeration were passed on to LSIs, as was guidance to prevent procyclical effects from the application of IFRS 9 and the capital provision for market risk. The DNB also reduced the systemic risk buffer applicable to the three largest Dutch banks and postponed the introduction of a floor for mortgage loan risk weights from September 2020 to January 2022. EBA guidance in place until March 2021 allowed temporary flexibility for the classification and provisioning of non-performing loans subject to general payment moratoria benefiting Dutch SMEs and mortgage borrowers.

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[4] Repayments can start in October 2022, and businesses have up to five years to fully repay their tax debt.

[5] A proposal receiving attention is Bastiaan Overvest and Bert Smid, *Balansherstel bedrijven na corona* (CPB, May 2021); it aims to prevent the state becoming a holdout creditor in restructurings of viable companies.

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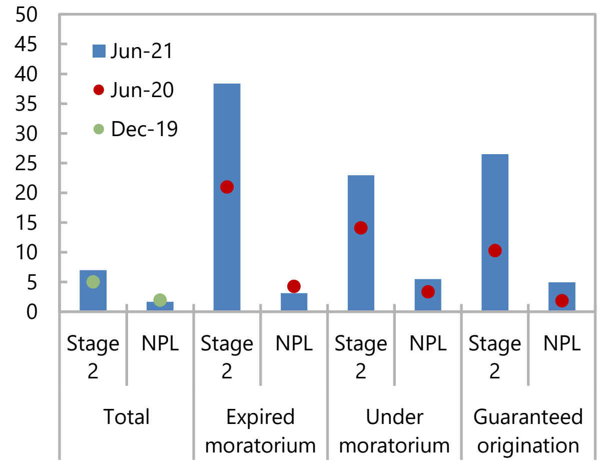
18. Going forward, financial sector polices should encourage continued financing for viable borrowers and the use of available buffers to recognize impaired exposures. Policy interventions have helped avoid a worsening of bank assets, lifted capitalization above its pre-pandemic level, and underpinned a decline in the aggregate NPL ratio. But loans subject to moratoria or public guarantees, even if representing only a small fraction of the overall credit portfolio[6], are of lower quality and about a quarter of outstanding NFC lending is to sectors heavily affected by the crisis. Once borrower support measures are phased out, banks should pro-actively offer debt relief to viable but challenged debtors on a case-by-case basis and within existing frameworks. Losses deemed unavoidable should be acknowledged by deploying provisions and capital buffers while profit distribution should consider still limited visibility about the ultimate impact of the pandemic. The authorities should ensure that banks can play an active role on these fronts by avoiding a premature tightening of macroprudential policies and by subjecting outstanding tax debts to joint restructuring efforts.

Bank Loan Quality
(Percent)



Source: EBA.

Authorities' views

19. The authorities emphasized that further extending broad pandemic support programs beyond the third quarter of 2021 could create unintended consequences and delay the normalization of the economy. However, measures remain in place to support sectors still facing restrictions. In addition, the experience with these pandemic support programs will be helpful to facilitate their reintroduction, if needed. Nevertheless, a program relaunch would most likely be more restricted and targeted than before, thereby also implying a time-lag. The authorities further noted that a new wave of infections would likely have comparatively limited impact on the economy, thanks to the strong adaptation of businesses, but also because containment measures would mostly likely be localized. They pointed to global supply bottlenecks as another important source of near-term risks for the Netherlands, given the open nature of its economy. They stressed also that although it is too early for an in-depth assessment, programs in place to facilitate reallocation of labor seem to be working. They indicated their readiness to tighten macroprudential policies if credit developments call for it in the foreseeable future. They showed an openness to work with private creditors towards ensuring the debt sustainability of viable but temporarily challenged borrowers, though concrete modalities of engagement are still being explored.

[6] In Q2 2021, the total loan portfolio of Dutch banks was €1,958.9bn. The loans under expired moratoria amounted to €43.7bn, those under active moratoria to €0.7bn, and loans originated under a public guarantee scheme to €3.2bn.

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B. Agenda for the Medium Term: Boosting Potential Growth and Addressing Areas of Vulnerability

The inauguration of a new legislature creates an opportunity to define medium-term goals and policies. Substantial policy space allows the authorities to actively foster potential growth and a green recovery, while continuing to reduce areas of vulnerability and secure financial stability. Policy priorities include increasing public support to R&D, addressing skill mismatches and shortages, and moving forward with the implementation of the climate agenda, international tax reform, and pension agreements.

Fiscal Policy

20. Despite the large fiscal package deployed to combat the pandemic, fiscal space remains substantial, providing room to support growth-enhancing reforms. Under current policies, staff projects the fiscal balance to return to a small surplus in the medium term, as the economy recovers, automatic stabilizers shrink, and pandemic-related emergency support measures are phased out. Public debt is projected to start declining after 2022, returning to about 50 percent of GDP by 2026.[7] Even if a deficit above current projections were maintained in the medium term, policy space would be more than adequate to deal with unanticipated shocks (See DSA, and Carton and Fouejieu, 2020). The extraordinarily low Dutch government bond yields provide further room for maneuver when setting medium-term fiscal objectives. Without prejudging future discussions on European fiscal rules after 2022, the structural fiscal balance would return above the pre-pandemic MTO in the medium term. Thus, policy space is available to foster a stronger and greener recovery, while contributing to address external imbalances, even as fiscal buffers are gradually replenished.

21. Raising public investment in education can help address skill mismatches and shortages accentuated by the pandemic. Already before the pandemic a significant proportion of Dutch firms found it difficult to fill ICT vacancies, and the changes in the structure of production post-pandemic may exacerbate skill shortages. Although total public spending on education is in line with the euro area average, spending in primary education has declined in recent years, while pre-primary education spending is well below the EU average. Student-to-teacher ratios in pre-primary, primary and secondary education are also significantly higher than the EU average. These factors could explain the deterioration of the Netherlands' PISA reading score in the last several years, which now falls slightly below the OECD average. Also, persistent educational achievement gaps exist among children from different socioeconomic backgrounds. The authorities' recent announcement of new spending worth 8.5 billion euros over two years (about 1 percent of 2021 GDP) to support a National Education Plan is welcome. Additional structural investment in education, while addressing potential efficiency problems, would help address these challenges and maintain the Netherlands among frontier countries in terms of educational outcomes (see Selected Issues Paper).

[7] The September 2021 projections of Netherlands Bureau for Economic Policy Analysis (CPB) are broadly similar to staff forecasts. These projections inform the discussions on the 2022 budget plan.

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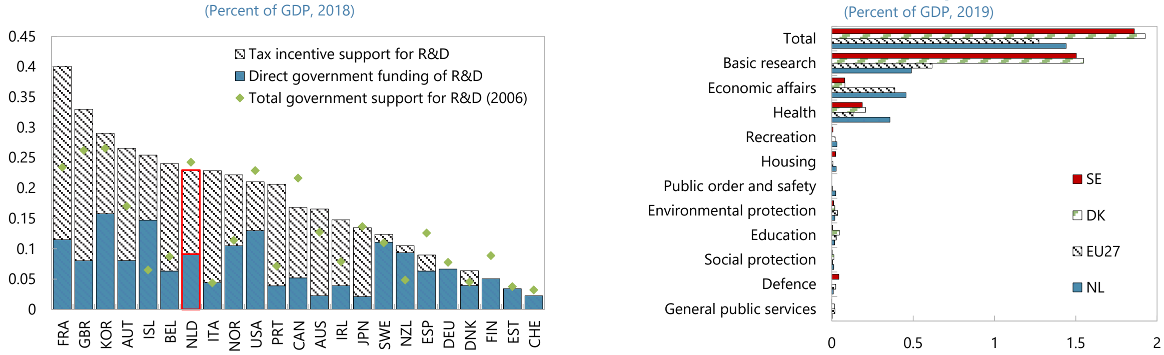
22. Increasing direct public support to R&D will generate positive spillovers and boost productivity growth. Total spending on R&D in the Netherlands is in line with the EU average, but it remains below that in frontier countries. In fact, government support for R&D in the Netherlands has declined in the past decade, while increasing in frontier countries. Increasing public spending on basic research would not only help maintain the Netherlands' position as an innovation leader, but would also generate positive spillovers, expanding the productivity frontier. The launch of the National Growth Fund, with R&D one of the main targeted areas of investment, is a welcome development. Post Covid-19, the authorities should also support further development of digitalization, which proved its worth during the pandemic. Next Generation EU funds earmarked for the Netherlands, while relatively modest, can nonetheless be useful in this area.

Government Spending and Support for R&D

Government Support for Business R&D (Percent of GDP, 2018) | **General Government Expenditure on R&D** (Percent of GDP, 2019)



Source: OECD. | Sources: Eurostat and IMF staff calculations.

23. The Netherlands has an ambitious climate change mitigation commitment and policy framework, but more needs to be done to reach its emissions reduction goals. The Netherlands is committed to reducing greenhouse gas emissions by 49 and 95 percent, by 2030 and 2050, respectively, relative to 1990 levels. These commitments are likely to be revised upward in the context of the new EU Green Deal, which envisions a 55 percent emissions reduction by 2030 relative to the 1990 level and net zero by 2050. The Dutch Climate Agreement adopted in 2019, moreover, defines targets across five sectors, with the largest emission reductions envisaged in the power sector (over 50 percent by 2030) based on a strong increase in renewable energy and the phaseout of coal generation. However, under policies adopted as of 2020, GHG emissions are

Greenhouse Gas Emissions Per Sector

(Mt CO_2 Equivalents)

	1990	2019	2030 proj (KEV)
Power	39.6	42.3	18.8
Industry	87	56.7	53.1
Built environment	29.9	23.3	18.6
Mobility	32.2	35.2	31.6
Agriculture	32.9	26.4	24.5
Land use	6.5	4.8	3.6
Total	228.1	188.7	150.2
Percent reduction relative to 1990 levels			34.2

Source: Netherlands Climate and Energy Outlook 2020 (KEV)

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projected to fall by only 34 percent by 2030.[8] Newly approved measures in 2021, including a backloaded carbon levy on industry, could reduce emissions by another 9 percentage points—leaving a 6 percentage-point gap relative to the national target. The Independent Study Group on "Implementing the Green Deal" has estimated that public spending on green investment may need to increase by between ½ and ¾ percent of GDP a year in the next decade to ensure the Netherlands meets its goals. The inclusion of additional resources for green spending in the 2022 budget is a positive step.

24. Climate change mitigation policies should be further strengthened, which would open new growth opportunities. Carbon pricing can be reinforced with feebates (revenue-neutral tax-subsidy schemes) to reduce emissions per unit of production or activity in the five sectors covered by the Climate Agreement, without a large increase in energy prices for the public at large. Carbon prices could also be better aligned across sectors to avoid distortions. The newly introduced industry carbon levy could be made more cost-effective through a revenue-neutral feebate design, which naturally embeds incentives for all firms to cut emissions and better addresses competitiveness and leakage concerns. To attain reduction targets in power generation, taxes on residential and industrial electricity could be gradually removed and replaced with additional surcharges on CO2 emissions from power generation/district heating and coal generation (Batini at all, 2021[9]). The recovery post-pandemic also provides an opportunity to foster a greener and more sustainable economy. Public support to innovation and adoption of greener technology among Dutch firms would create new growth opportunities. The National Growth Fund could be used to promote such investments.

25. The Netherlands has continued reforming its international taxation framework to reduce the scope for aggressive tax planning. The Dutch tax system has played a key role in attracting foreign direct investment (FDI) from multinational corporations (MNCs) through special financial institutions (SFIs). SFIs transact mainly with non-residents and typically have little (or no) physical production or employment in the Netherlands, thus contributing relatively modestly to the Dutch economy. Their wide use for tax planning has come under scrutiny and prompted reform initiatives by the government aimed at tightening the rules. These include the introduction of a cross-border conditional withholding tax (WHT), revisions to the Advance Pricing Agreements (APA) and Advance Tax Rulings (ATR) practice to strengthen qualifying substance requirements and presence tests, modifications to the innovation box regime, and revisions to the tax treaty policy. These efforts are welcome and should continue. While it is early to quantify the effect of the tax

[8] See PBL Netherlands Environmental Assessment Agency, TNO Energy Transition, Statistics Netherlands (CBS), and the National Institute for Public Health and the Environment (RIVM), 2020. *Netherlands Climate and Energy Outlook 2020*. Available at: https://www.pbl.nl/en/publications/netherlands-climate-and-energy-outlook-2020-summary.

[9] For a detailed discussion, see Batini, N., S. Black, O. Luca, and I. Parry (2021): "A Comprehensive Greenhouse Gas Mitigation Strategy for The Netherlands".

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reforms on the activities of MNCs, there are indications of a slight decline in the number of SFIs and of reduced benefits from using the Netherlands as a conduit since the introduction of the new conditional WHT.[10]

Authorities' Views

26. The authorities broadly agreed with staff assessment of medium-term fiscal policy recommendations. They noted that medium-term debt sustainability is not a concern at the moment. The 2022 Budget Memorandum also forecast debt-to-GDP ratio to be several percentage points below the 60 percent SGP limit in the medium term. They also see the need for additional investment in education, including to catch-up with learning losses incurred during the pandemic, due to school closure, but also to address pressing needs in the most disadvantaged schools. They noted that efforts are being made at regional levels to address skill shortages, with cooperation between regional authorities and employers in different sectors. They emphasized that National Growth Fund is aimed at supporting R&D and boost productivity.

27. The authorities agree with staff that additional measures are needed to meet the national climate targets for 2030. They believe that carbon pricing remains the most effective instrument to bring about change but might need to be complemented by expenditure measures, such as subsidies and a ramp-up in green investment, including carbon capture and hydrogen infrastructure. They also believe that there are tradeoffs between addressing the supply side of housing and preservation of biodiversity as construction is a source of nitrogen emissions. Given the disproportionate contribution to total emissions relative to GDP, it will also be inevitable to reduce farm agriculture, in particular livestock.

28. Furthermore, the authorities deem important to continue the current reforms to international taxation. They reiterated their commitment to an internationally agreed minimum income tax to help fight tax avoidance globally.

Maintaining financial stability

29. Real estate markets call for heightened vigilance and the pursuit of policies to address near-term risks and long-term challenges confronting residential and commercial properties.[11] Prices – and valuations – for housing have continued to soar during the pandemic (see chart), reflecting longstanding supply bottlenecks, low interest rates, and the favorable tax treatment of owner-occupied housing. Existing vulnerabilities have been exacerbated by a further rise in already elevated levels of mortgage debt, with some households exceedingly stretching their debt servicing capacity. Consequently, the activation of floors for risk weights applied to mortgage

[10] For a thorough discussion of issues and policy recommendations, see Klemm, A. et al. (2021): "Capital income taxation in the Netherlands", IMF Working Paper No. 21/145, 2021.

[11] For a more in-depth analysis of residential and commercial real estate markets in the Netherlands as well as associated policy challenges and recommendations, see Geis, A., and O. Luca (2021): "Real estate in the Netherlands: A taxonomy of risks and policy challenges", IMF Working Paper No. 21/206.

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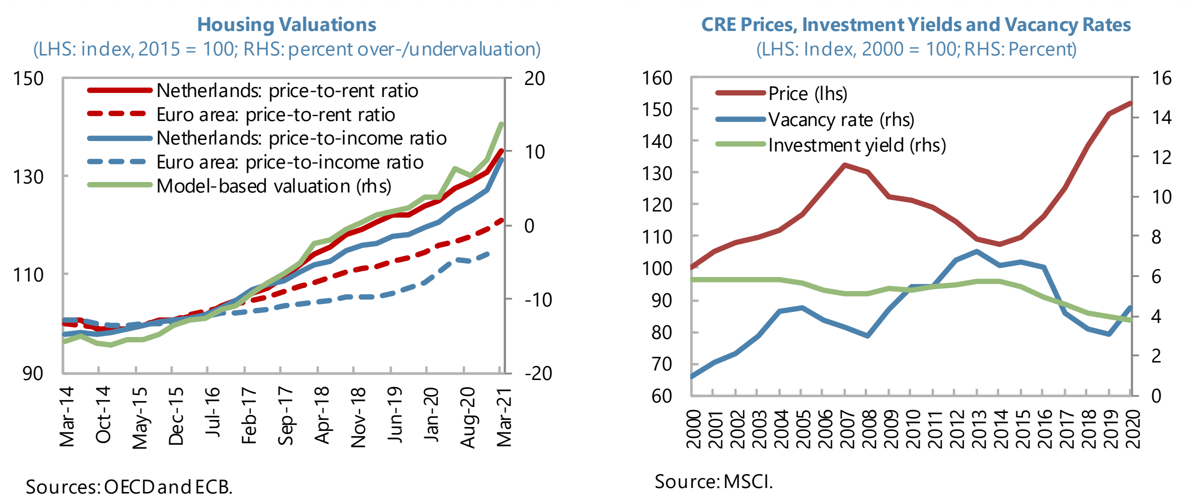
lending from 2022 is welcome and may be complemented by measures such as an additional reduction in eligible loan-to-value ratios, and reviewing the taxation of owner-occupied housing.[12] In addition, efforts to improve the elasticity of the housing supply appear warranted, as structural rigidities, such as distorted planning incentives and restrictive building or zoning laws, maintain imbalances. Such policies will also support macroeconomic stability by lessening households' exposure to house-price fluctuations, which can significantly affect consumer spending.

30. Vacancy rates for commercial properties have increased due to the recession yet with little effect on prices as investment yields have stayed attractive in relation to other assets. With banks maintaining comparatively large exposures, valuation has become a concern, especially since long-term structural change may prevent the full recovery of some property segments. The authorities should contemplate options to better steer the investment cycle of commercial real estate to avoid a build-up of financial stability risks, potentially modelled on policies in place for owner-occupied dwellings. Furthermore, incentivizing climate-friendly modernization or the rededication of obsolete structures should help preserve the value of existing buildings.

Real Estate Pricing and Valuation



[12] To make further progress with the ongoing reduction of the subsidization of owner-occupied housing, the authorities could consider options such as gradually increasing imputed rental income in Box 1 of the income tax or gradually moving the home and its corresponding mortgage to Box 3 (which covers income from assets), complementing the progressive moderation of the deduction of mortgage interest payments. Klemm at al., Op. Cit.

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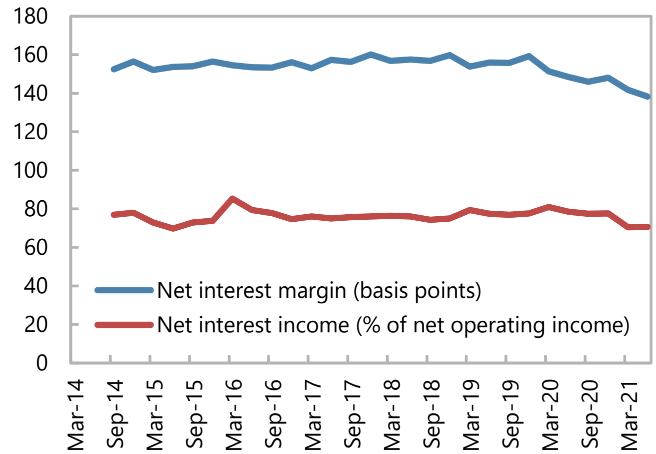
31. The crisis has exposed and compounded financial sector challenges, also by suppressing interest rates even further. Since end-2019, net interest margins of banks have declined, lowering the share of operating income originating from traditional intermediation activities. Portfolios of pension funds and insurers have shown some shift towards riskier assets by lengthening durations and reducing holdings of safer assets. Some asset management companies experienced liquidity pressures during the financial market turbulences in early 2020 while lending by other non-bank financial institutions, such as factoring companies, appears to remain brisk, also facilitated by the difficulties of some SMEs to access bank financing. Hence, the crisis has put existing financial sector challenges into sharper relief, warranting supervisory vigilance about, possibly undue, risk-taking behavior. In this context, efforts to improve the transparency of exposures, e.g., with the help of a credit registry, and the development of macro- or micro-prudential tools to address risks outside the banking sector, e.g., by creating supervisory leeway to limit investment fund redemptions at times of stress, would constitute useful complements.

Bank Net Interest Margin and Income
(Percent; basis points)



Source: EBA.

32. Anti-Money Laundering /Countering the Financing of Terrorism is a key financial stability and integrity issue in the Netherlands.[13] Given the open nature of its economy, the Netherlands should continuously monitor international financial flows and carry out analysis to remain agile in its risk-based supervisory activities. A central register for beneficial owners of legal persons went live in September 2020. The authorities should continue refining the accuracy of the beneficial ownership information and promptly establish the planned beneficial ownership register for legal arrangements (e.g., trusts). The Netherlands should continue to prioritize close inter-agency and international cooperation among AML and tax authorities.

Authorities' Views

33. The authorities broadly shared staff's assessment of financial sector challenges and policy priorities. They acknowledged imbalances in real estate markets as a key area of concern, requiring a combination of policies to address demand and supply side pressures while containing associated financial stability risks. Authorities highlighted the potential benefits of the introduction of a credit bureau to support SME financing. They perceived risks in the non-bank financial sector as no immediate cause for alarm but acknowledged the need to monitor developments and stressed

[13] The robustness of the Netherlands' AML/CFT framework and its effectiveness is currently being assessed by the Financial Action task Force.

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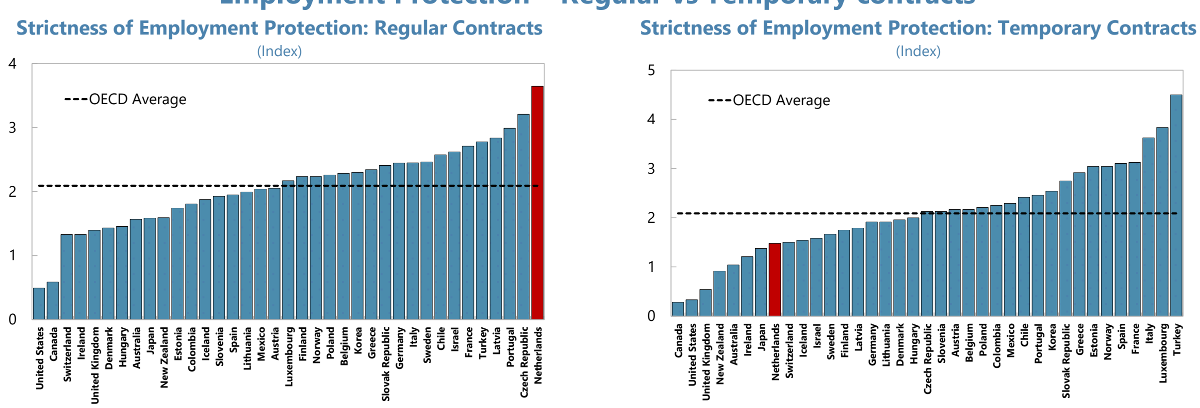
efforts to improve transparency and to consider instruments to contain potential vulnerabilities, such as borrower-based measures that would also put limits on the lending activities of non-bank financial institutions or restricting investment fund redemptions at times of stress to preserve liquidity and avoid fire sales of assets. They share the view that effectively addressing AML/CFT challenges requires international co-operation and welcome measures suggested by the EU AML Action Plan in this regard.

Addressing specific vulnerabilities in the Dutch economy

34. While the labor market proved generally resilient during the crisis, the self-employed and workers with flexible contracts were shown to be vulnerable. These groups of workers are more likely to lose their jobs and incomes, and they enjoy lower safety-net coverage in downturns, putting them at higher risk. While having one of the strictest protections for regular contracts among OECD countries, the Netherlands has a comparatively liberal framework for employment under flexible contract arrangements, leaving them vulnerable during the pandemic. In addition, sectors of activity with a high share of flexible work arrangements tend to exhibit relatively lower labor productivity levels and growth, likely reflecting lower incentives for employers to invest in the skills of workers.[14]

Employment Protection – Regular vs Temporary contracts



Source: OECD.

Source: OECD.

35. Policies to reduce labor market duality can contribute to increase resilience to future shocks and support productivity growth. Ensuring appropriate social protection, including a mandatory disability insurance and some basic pension insurance for the self-employed, as currently planned, are steps in the right direction. Continuing realigning tax and other incentives across different types of employment, by, e.g., gradually reducing the tax credit for self-employed once the pandemic has been left behind, would contribute to reducing labor market duality. Improving employment protection for workers in flexible contract arrangements could enhance the resilience of the labor market to adverse shocks, and support wage growth. Given the high prevalence of part-time employment among women, improving availability and affordability of childcare (currently, its cost exceeds EU and OECD averages) would better enable women to work full-time. Ongoing

[14] See A. Sakai (2020).

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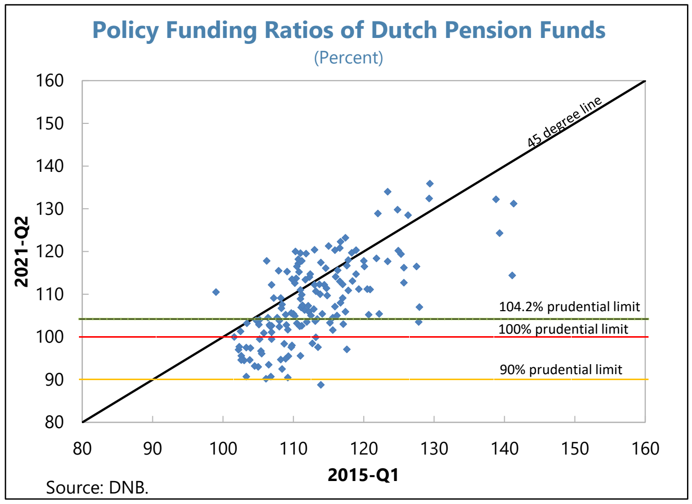
reforms of parental leave, including the expansion of paternity leave, would also facilitate full-time female labor participation. Employing a larger share of the workforce on a more permanent basis would also incentivize employers and employees to invest in training, supporting higher productivity.

36. The second pillar occupational pension system has been under stress for several years. The system is considered one of the most solid in the world, as it incorporates correction mechanisms to ensure that it can stand behind the benefits it offers. However, low interest rates have boosted liability valuations putting pressure on funding ratios.[15] As a result, painful corrections have been made, including repeated hikes to contribution rates and suspension of cost-of-living adjustments. Thus trust in the existing system has waned, resulting in a decline in active pension contributors over the past decade, especially among younger cohorts.



37. The agreement on pension reform is welcome and delays on its implementation should be kept to a minimum. In June 2019, the government and social partners signed a pension agreement, envisaging a shift of occupational pensions from a defined-benefit to a defined-contribution type model while also incorporating elements of risk sharing among members and insurance against longevity risk.[16] In May 2021, the authorities decided to postpone the date on which the reform will become effective from January 1, 2022 to January 1, 2023, mainly to allow sufficient time to address a host of technical adjustments. Consequently, present pension arrangements are now required to transition to the new system by January 1, 2027 only. The modifications to pension modalities foreseen by the legislation are anticipated to stabilize contribution rates, encourage early enrollment by acknowledging the time value of money, and may dampen some of the effects of low interest rates on consumption under the current framework.[17] They also upgrade the pension framework to deal with an evolving labor market, characterized by higher mobility and changing patterns of work. Transitional and operational aspects of the reform

[15] The authorities temporarily reduced the minimum liability coverage ratio from 104.2 percent to 100 percent in June 2019, and to 90 percent in December 2019. The policy was renewed in December 2020 to prevent pro-cyclical benefit cuts. Coverage ratios in the industry strengthened with revaluations of their investment portfolios in 2021.

[16] In addition, the agreement foresees a delay from 2021 to 2024 in the planned increase of the retirement age to 67 and will allow new retirees to claim up to 10 percent of their entitlement in a lump sum payment. Moreover, it adjusts the increase in retirement age for every 1 year rise in life expectancy to 8 months from 1 year and allows workers in physically demanding jobs to retire early.

[17] See R. Chen (2021): "A Balance-Sheet Analysis of the Dutch Economy," IMF Working Paper No. 21/255.

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need to be managed in a careful and timely manner to ensure its success. Moreover, offering additional flexibility, e.g., in contribution levels, may further strengthen incentives for participation and improve economic stability.

Authorities' Views

38. The authorities agreed that the pandemic further stressed long-standing vulnerabilities across job contracts in the Dutch labor market. They indicated that policy already initiated to reduce labor market duality (including gradually reducing tax incentives or the self-employed) will continue, as noted in the 2022 budget memorandum. In addition to the recently adopted reform of partner leave and a parental leave reform that is now being finalized in Parliament, the government is supporting municipalities through increased financing to improve childcare services. This will contribute to a more equal division of work and child care responsibilities between partners. They however stressed that more structural policies are needed to address these challenges, and the upcoming government will need to take additional steps to increase labor participation rates, and reduce the gap between flexible and permanent labor.

STAFF APPRAISAL

39. The Netherlands has weathered the pandemic comparatively well, reflecting its resilient economy and substantial policy space for effective support. A vigorous health sector response and timely sanitary restrictions helped contain the human toll of the pandemic. Economic impacts were cushioned by pervasive digitalization and fiscal backing for households and firms, also preventing adverse financial sector spillovers. With the ongoing robust recovery expected to carry into 2022, risks appear broadly balanced but are surrounded by substantial uncertainty. A potential resurgence of the pandemic and underlying private sector vulnerabilities, particularly in real estate markets, constitute the main downsides with an unexpectedly vigorous rundown of excess savings and external demand recovery providing a counterweight.

40. Near-term pivoting to more targeted aid is appropriate but should be accompanied by a readiness to reactivate broader measures if warranted. Labor market strength, supported by a successful vaccination campaign, and a return of close-to-normal operating conditions for most businesses justify the authorities' phase-out of economy-wide support. Still, uncertainty about the pandemic remains, validating government decisions to maintain loan guarantees, stretch tax debt repayments and keep support for sectors still subject to restrictions. The authorities should consider relaunching broader policy instruments if substantial downside risks materialize.

41. To guide the economy towards normalization, support for resource reallocation, viable firms, and investment is called for. Factor mobility will benefit from initiatives to support job-seekers and ensure efficient corporate restructuring or insolvency. Besides, unnecessary bankruptcies should be avoided by keeping financial sector policies appropriately set to enable the deployment by banks of available buffers for debt restructuring within established frameworks. In addition, proposals for government engagement with other creditors in restructuring efforts of viable but challenged companies deserve consideration. Public funding for R&D and selected capital

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projects as well as the establishment of a credit bureau may bolster private investment, strengthening the recovery and lifting medium-term growth.

42. **The comfortable fiscal position allows the replenishment of buffers while offering space to foster a resilient, green and inclusive economy.** With extraordinary support measures expiring, the budget deficit will decline and vanish by 2025, bringing public debt ratios to about 50 percent of GDP. In addition, ongoing efforts to reform international and capital taxation should continue, and are expected to help reduce the scope for aggressive tax planning. Available room for maneuver should be used to retain the Netherlands' position among frontier countries in terms of educational outcomes and improve on the school achievements of disadvantaged groups, with the recently announced National Education Plan a promising start. Moreover, remaining an innovation leader will require public spending on basic research. The launch of the National Growth Fund, making R&D one of its target areas, represents an opportunity in this regard but should be complemented by efforts to further develop digitalization and support green technologies, also with the help of Next Generation EU funds.

43. **Maintaining financial sector resilience warrants addressing real estate market imbalances and challenges exposed or compounded by the pandemic.** In a context of rapidly rising house prices, the activation of risk weight floors for mortgage lending from 2022 is prudent and additional measures to rein in riskier forms of housing debt should be contemplated. Likewise, modifying the income tax framework by trimming further the subsidization of owner-occupied housing would contribute to relieving demand side pressures while tackling long-standing structural rigidities would make supply more elastic. For commercial properties, the authorities should deliberate options to better steer the investment cycle and prevent the build-up of financial stability risks, potentially modelled on policies in place for residential properties. The crisis has underscored the necessity for supervisory vigilance towards undue financial sector risk taking in the low interest rate environment. Moreover, it has highlighted the need for transparency of financial exposures and for ensuring the availability of instruments to target non-bank financial sector risks.

44. **Reducing labor market duality, also with the help of ongoing pension reform, would help strengthen productivity growth and resilience to future shocks.** Plans to ensure appropriate social protection, particularly for the self-employed, are welcome. They should be complemented by the continued re-alignment of incentive structures across different types of labor contracts, also to incentivize productivity-enhancing training. Implementation of pension reform without further delay will further help deal with modern labor market dynamics, next to addressing issues of intergenerational equity and helping stabilize contribution rates, with positive effects on consumer behavior.

45. **The climate change agenda requires strengthening to meet ambitious goals.** Despite the adoption of various policy measures, the reduction of emissions seems likely to fall short of the 2030 targets. Given implementation lags, swift action is needed, with resources earmarked in the 2022 budget a positive step. In addition, the reinforcement of sectoral carbon pricing or the introduction of feebates are possible options. For the power sector, gradually shifting from consumer- to producer-based emissions charges should be considered. In the agriculture and

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building sector careful policy calibration is called for, including to take account of impacts on vulnerable population segments and interactions with structural imbalances, such as in the housing market. Overall, planning and regulation needs to be well-designed, also with an eye to making public sector efforts at greening the economy a catalyst for private investment.

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

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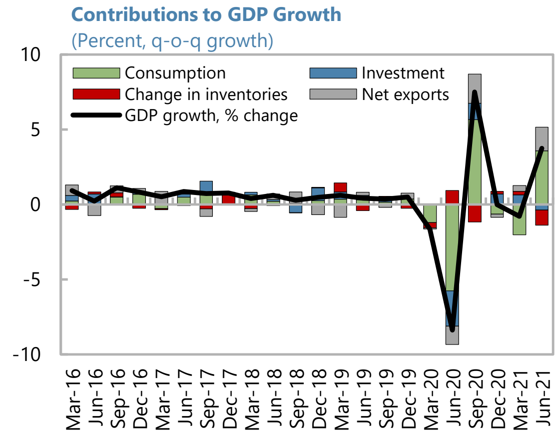
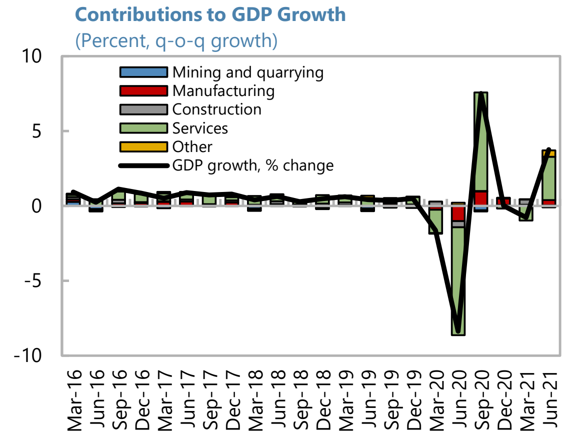
Figure 1. The Netherlands: Real Growth

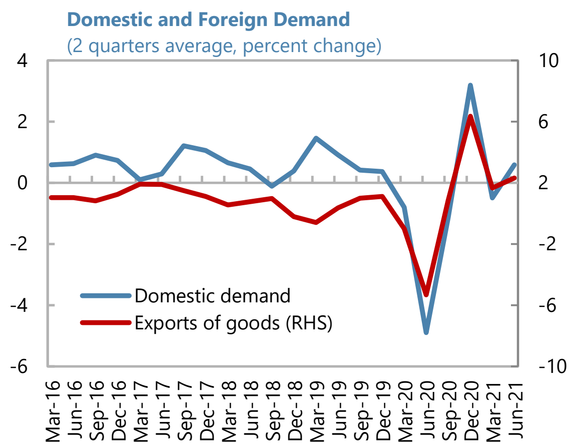
Growth was primarily driven by consumption



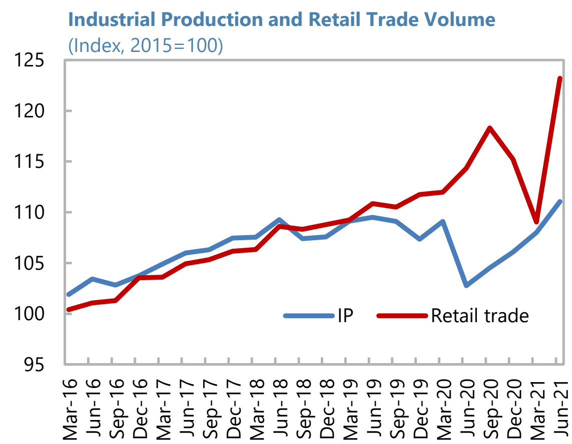
Affecting particularly the services sector



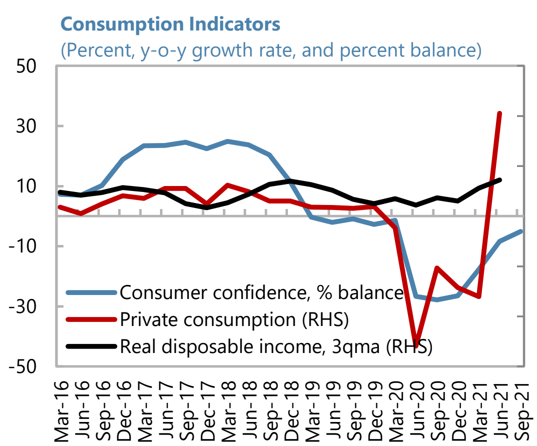
Domestic demand is recovering from a small contraction in 2021-Q1



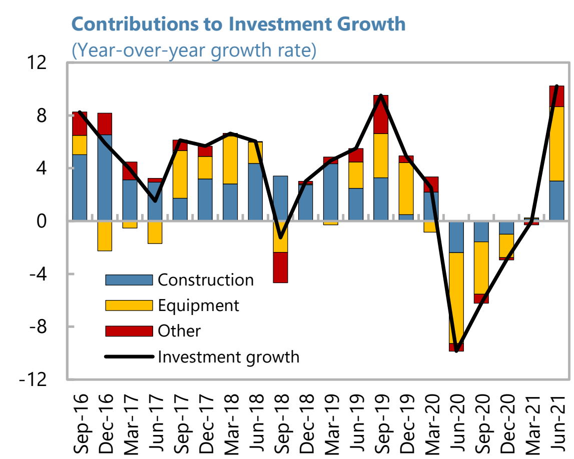
With retail trade picking up strongly



Consumer confidence improved markedly in 2021-H1, but is yet to recover to pre-pandemic levels



Investment picked up sharply in 2021-Q2



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

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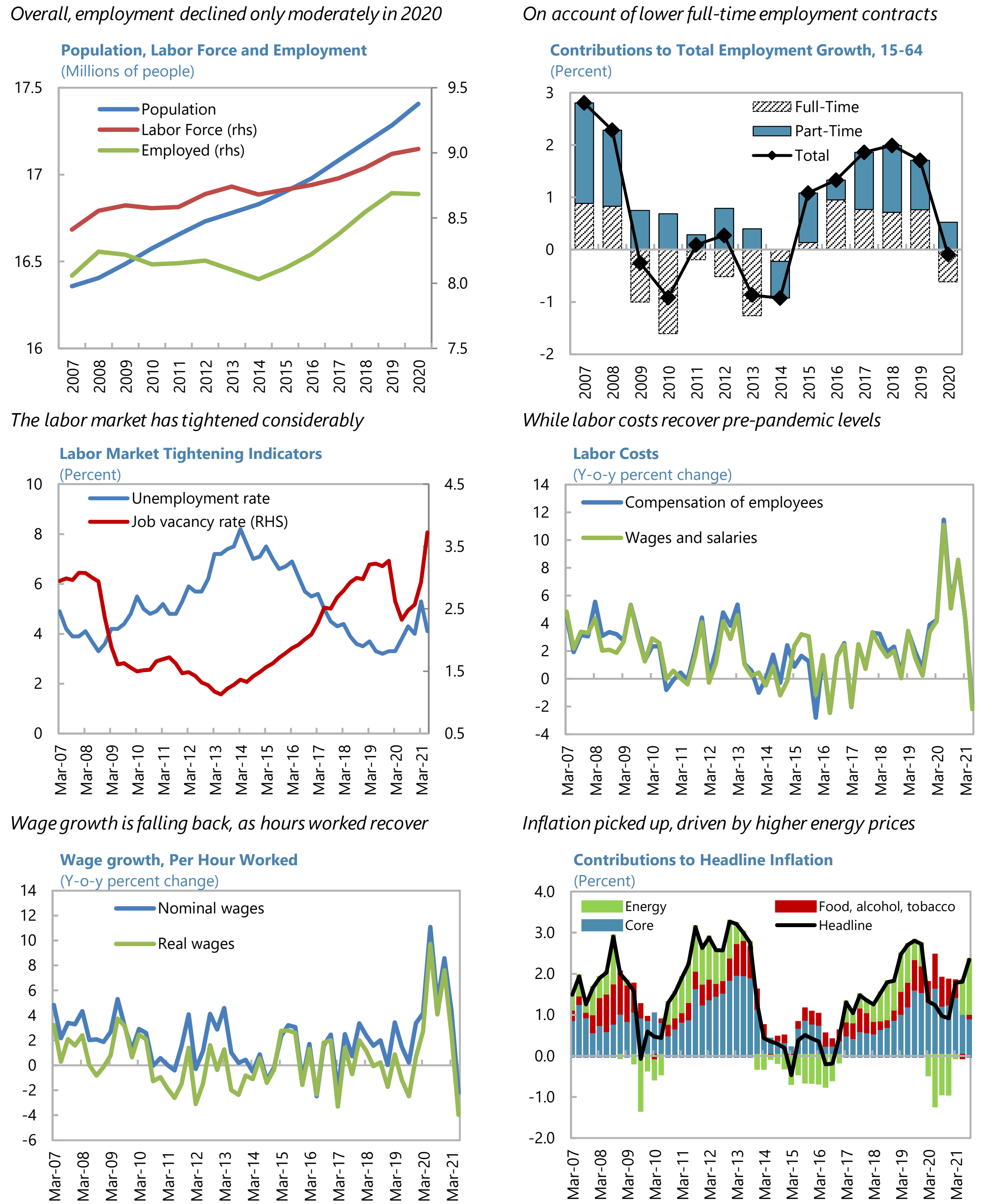
Figure 2. The Netherlands: Labor Market and Inflation



Source: CBS, Eurostat, OECD, Haver Analytics, and IMF staff calculations.

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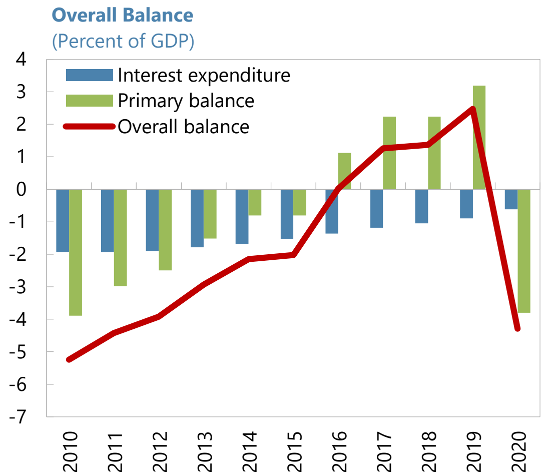
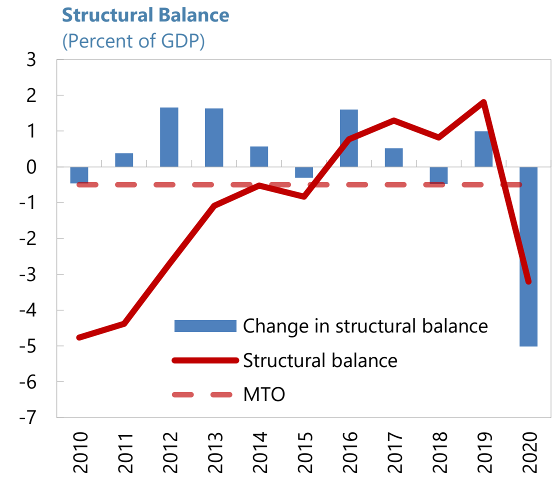
Figure 3. The Netherlands: Fiscal Developments

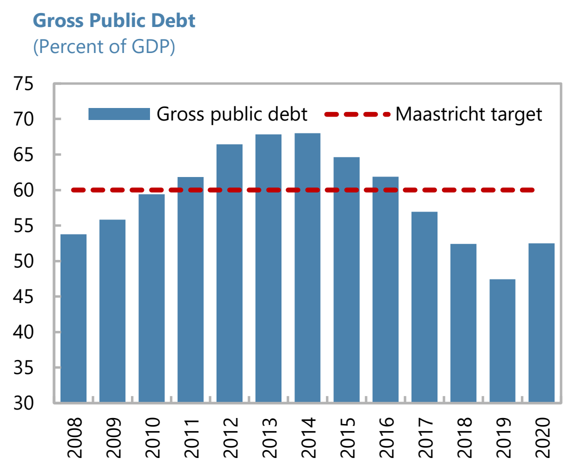
The fiscal balance deteriorated, posting a deficit of 4.3 percent of GDP in 2020



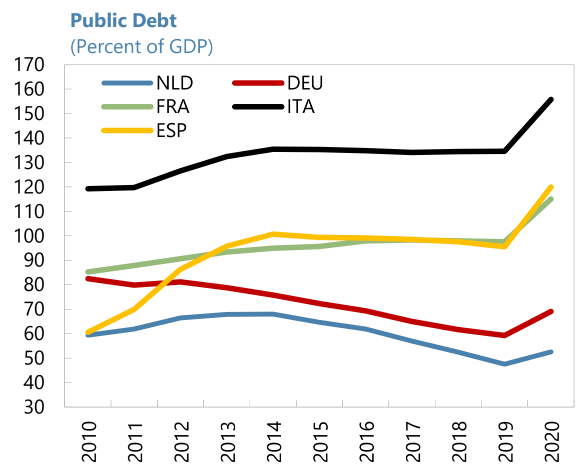
And the structural deficit was 3.2 percent of GDP



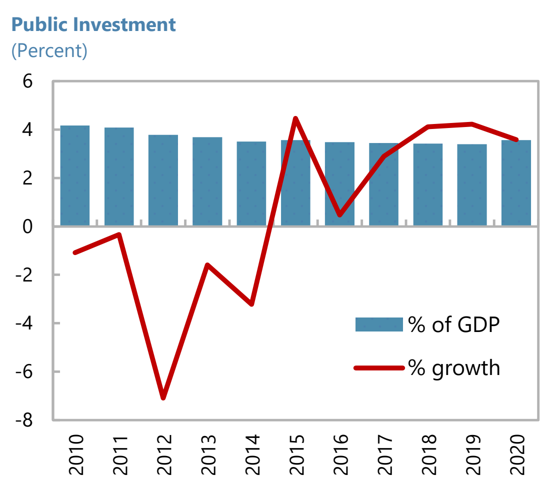
Public debt increased to about 53 percent of GDP in 2020



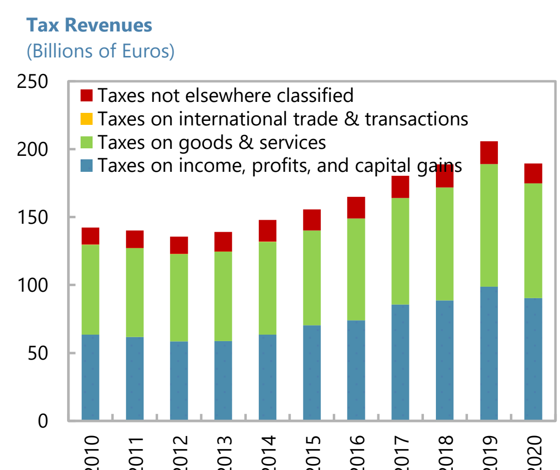
But remains comparatively low



Public investment grew moderately in 2020



While tax revenues declined, as the economy contracted



Source: CBS, CPB, Eurostat, and IMF staff calculations.

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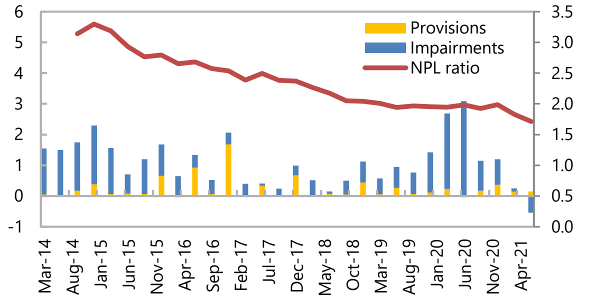
Figure 4. The Netherlands: Financial Sector Developments

Provisioning for credit losses has normalized after spiking early in the pandemic while the NPL ratio has declined.

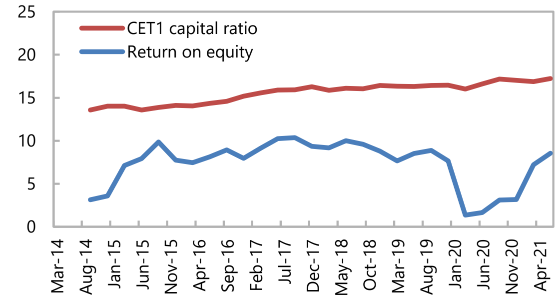
Bank asset quality
(LHS: EUR bn; RHS: Percent)



Sources: DNB and EBA.

Profitability has rebounded, bolstering capital cushions that had been supported by restrictions on dividend pay.

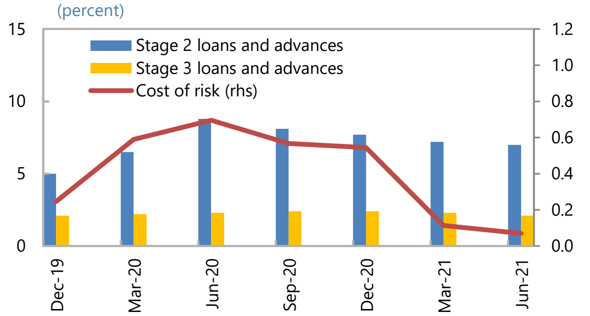
Bank profitability and capital adequacy
(Percent)



Sources: EBA.

While loan classification has improved following some deterioration in the first half of 2020...

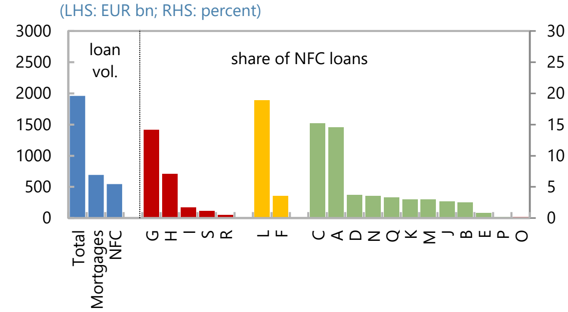
Bank loan classification and cost of risk
(percent)



Sources: EBA.

...credit exposures to businesses particularly affected by the pandemic and the real estate sector are considerable.

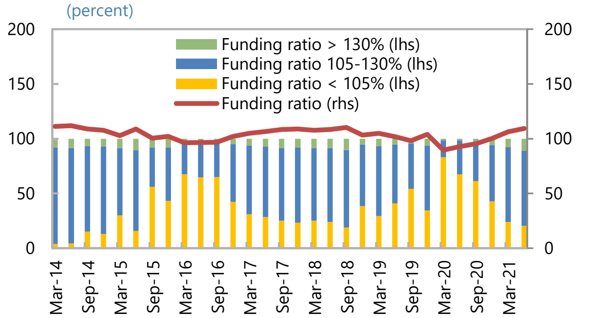
Bank loan volumes and sectoral exposures
(LHS: EUR bn; RHS: percent)



Sources: EBA.
Notes: sectors particulary vulnerable to the pandemic (red): trade (G), transport and storage (H), other services (S), hospitality (I), entertainment (R); real estate industry (orange): real estate activities (L), construction (F); other businesses (green): manufacturing (C), agriculture (A), electricity and heating (D), professions (M), health and social services (Q), mining (B), finance (K), administrative and support services (N), ICT (J), water supply (E), education (P), public sector (O).

Financial turbulences at the beginning of the pandemic affected the balance sheets of pension funds...

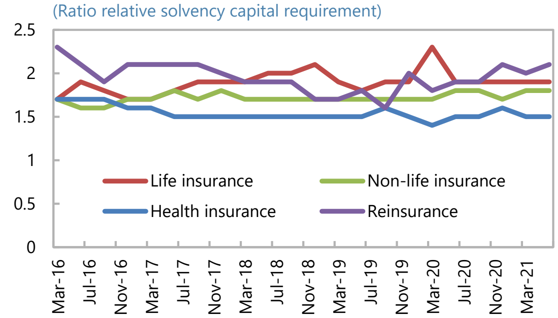
Pension fund funding ratios
(percent)



Sources: DNB.

...and insurers but have largely abated in the wake of ebbing market volatility.

Insurance solvency ratios
(Ratio relative solvency capital requirement)



Sources: DNB.

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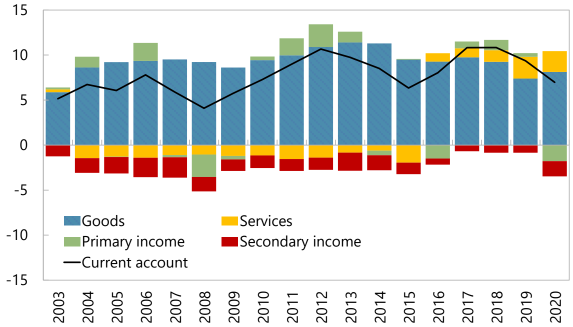
Figure 5. The Netherlands: External Sector Developments

The current account surplus shrank in 2020 as worsening income balances offset an improving trade surplus.

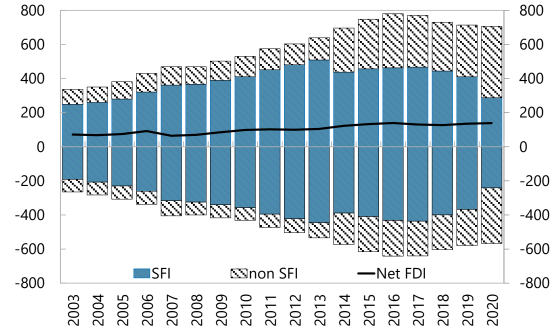
Current Account
(Percent of GDP)



Sources: CBS, Eurostat, IMF BOP database, and IMF Staff calculations.

The stock of FDI remains dominated by FDIs attributable to special financial institutions (SFIs)…

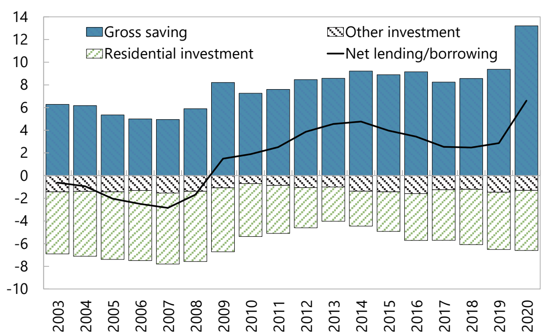
FDIs attributable to SFIs and non-SFIs
(percent of GDP)



Sources: DNB and IMF staff calculations.

…but robust household savings…

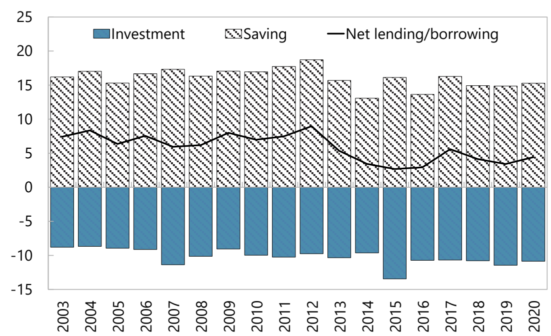
Household: Saving and Investment
(Percent of GDP)



Sources: Eurostat, CBS, and IMF staff calculations.

…and a persistent savings surplus of the corporate sector…

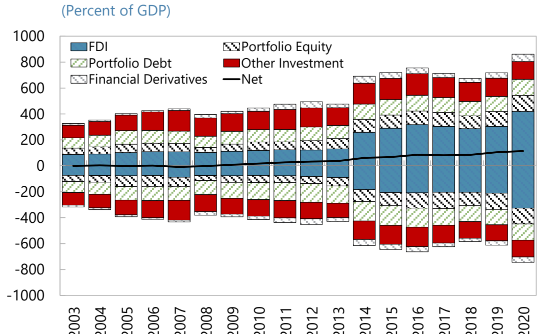
NFCs: Saving and Investment
(Percent of GDP)



Sources: Eurostat, CBS, and IMF staff calculations.

…have contributed to a sustained rise in the underlying external position in recent years.

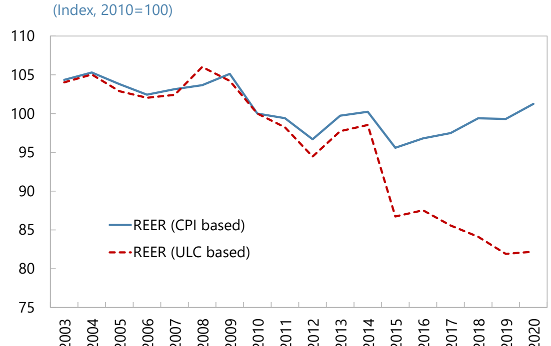
External Assets and Liabilities, excluding SFIs
(Percent of GDP)



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

While the CPI-based REER increased in 2020, the ULC-based REER stabilized after several years of decline.

Real Effective Exchange Rate
(Index, 2010=100)



Source: IMF.

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Table 1. The Netherlands: Medium-Term Macroeconomic Framework, 2017–26
(Growth rates, in percent, unless otherwise indicated)

	2017	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
National accounts										
Real GDP	2.9	2.4	2.0	-3.8	4.0	3.3	2.1	1.8	1.6	1.6
Domestic demand	2.3	2.4	3.0	-4.3	3.4	3.3	2.1	1.9	1.8	1.8
Private consumption	2.1	2.2	0.9	-6.6	4.3	4.1	2.5	2.2	2.0	2.0
Public Consumption	0.9	1.7	2.8	1.0	2.1	2.0	1.6	1.6	1.6	1.6
Gross fixed investment (total)	4.2	3.6	6.2	-4.1	4.1	3.3	2.0	1.8	1.8	1.8
Public	1.6	1.9	1.9	1.9	2.0	2.0	1.5	1.0	1.0	1.0
Private	4.8	3.9	7.0	-5.3	4.5	3.5	2.1	2.0	2.0	2.0
Residential	12.4	9.3	3.4	-2.6	3.4	3.0	2.2	2.1	2.0	2.0
Business	2.2	1.9	8.5	-6.3	5.0	3.7	2.0	1.9	1.9	1.9
Stocks (contribution to GDP growth)	0.0	0.1	0.4	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0
Exports goods and services	6.5	4.3	2.0	-4.8	5.2	4.3	4.0	3.6	3.3	3.4
Imports goods and services	6.2	4.7	3.3	-5.4	4.6	4.5	4.3	4.0	3.8	3.9
Domestic demand (contribution to GDP growth)	2.0	2.2	2.7	-3.9	3.0	2.9	1.9	1.7	1.6	1.6
External demand (contribution to GDP growth)	0.9	0.2	-0.8	0.0	1.0	0.3	0.2	0.1	0.0	0.0
Output gap	-0.1	0.7	0.6	-1.8	-1.5	-0.8	-0.6	-0.4	-0.2	0.0
Potential output growth	1.8	1.6	2.1	-1.5	3.7	2.5	1.9	1.6	1.4	1.4
Gross investment (percent of GDP)	20.6	21.0	22.1	21.7	22.4	22.5	22.4	22.3	22.3	22.2
Gross national saving (percent of GDP) 1/	31.4	31.8	31.5	28.7	30.4	31.2	31.2	30.9	30.8	30.6
Prices and employment										
Consumer price index (year average)	1.3	1.6	2.7	1.1	1.9	1.7	1.8	1.8	1.9	1.9
GDP deflator	1.3	2.4	3.0	2.3	1.6	1.9	1.7	1.8	1.9	1.8
Employment	2.1	2.3	2.0	0.0	1.0	0.0	0.6	0.6	0.6	0.4
Unemployment rate (percent) 2/	5.9	4.8	4.3	…	…	…	…	…	…	…
Unemployment rate (percent) 3/	4.9	3.8	3.4	3.8	3.4	3.8	3.7	3.6	3.5	3.5
External										
Current account balance (percent of GDP)	10.8	10.8	9.4	7.0	8.0	8.7	8.8	8.6	8.6	8.4
Public sector accounts (percent of GDP)										
Revenue	42.9	42.9	43.6	41.1	42.0	42.4	42.7	42.6	42.6	42.7
Expenditure	41.7	41.5	41.1	45.4	48.2	44.8	43.9	43.0	42.5	42.3
General government balance	1.3	1.4	2.5	-4.3	-6.1	-2.3	-1.2	-0.4	0.1	0.3
Structural balance (percent of potential GDP)	1.3	0.8	1.8	-3.2	-5.2	-1.9	-0.8	-0.1	0.2	0.3
General government debt	56.9	52.4	47.4	52.5	57.9	56.4	55.0	53.2	51.2	49.0

Sources: Dutch official publications, International Monetary Fund, International Financial Statistics, and IMF staff calculations.
1/ Value implied by investment and current account data.
2/ National definition.
3/ ILO definition.

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Table 2a. The Netherlands: General Government Statement of Operations, 2017–26

(Percent of GDP)

	2017	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Revenue	42.9	42.9	43.6	41.1	42.0	42.4	42.7	42.6	42.6	42.7
Taxes	24.5	24.4	25.3	23.7	24.2	24.5	24.8	24.9	24.9	25.0
Taxes on production and imports	11.5	11.7	12.0	10.7	11.0	11.5	11.8	12.0	12.1	12.2
Current taxes on income, wealth, etc.	12.7	12.5	13.1	12.8	13.0	12.9	12.8	12.8	12.7	12.6
Capital taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions	14.3	14.4	13.9	13.0	13.3	13.4	13.5	13.6	13.6	13.6
Grants	0.1	0.1	0.1	0.1	0.4	0.4	0.4	0.1	0.1	0.1
Other revenue	4.0	3.9	4.2	4.3	4.2	4.1	4.0	4.0	4.0	3.9
Expenditure	41.7	41.5	41.1	45.4	48.2	44.8	43.9	43.0	42.5	42.3
Expense	41.7	41.5	41.0	45.2	47.5	44.0	43.0	42.3	41.8	41.6
Compensation of employees	8.0	7.9	7.8	9.1	8.8	8.5	8.2	8.1	8.1	8.1
Use of goods and services	5.4	5.5	5.5	6.7	7.9	6.9	6.7	6.4	6.4	6.4
Consumption of fixed capital	3.1	3.1	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Interest	1.2	1.0	0.9	0.6	0.5	0.4	0.4	0.4	0.4	0.4
Subsidies	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Grants	0.9	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.1	1.1
Social benefits	21.0	20.7	20.5	22.6	23.2	21.7	21.5	21.3	21.1	20.9
Other expense	0.8	1.0	1.0	0.6	1.6	0.9	0.6	0.5	0.4	0.5
Net acquisition of nonfinancial assets	0.0	0.0	0.1	0.2	0.7	0.8	0.9	0.7	0.7	0.7
Net operating balance	1.2	1.3	2.6	-4.1	-5.4	-1.5	-0.3	0.3	0.8	1.0
Net lending/borrowing	1.3	1.4	2.5	-4.3	-6.1	-2.3	-1.2	-0.4	0.1	0.3
Net acquisition of financial assets	-1.0	-0.1	0.1	1.7	...	...	...	...	...	...
Currency and deposits	0.3	-0.1	0.1	0.7	...	...	...	...	...	...
Securities other than shares	-0.1	0.1	-0.2	-0.1	...	...	...	...	...	...
Loans	0.2	0.2	0.2	0.6	...	...	...	...	...	...
Shares and other equity	-0.8	0.0	0.1	-0.6	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Financial derivatives	-0.4	-0.6	-0.1	-0.6	...	...	...	...	...	...
Other accounts receivable	-0.1	0.2	0.0	1.8	...	...	...	...	...	...
Net incurrence of liabilities	-2.3	-1.6	-1.6	5.9	...	...	...	...	...	...
Special Drawing Rights (SDRs)	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Currency and deposits	-0.3	0.0	0.0	0.0	...	...	...	...	...	...
Securities other than shares	-1.2	-1.1	-1.5	5.9	...	...	...	...	...	...
Loans	-1.0	-0.6	0.2	-0.7	...	...	...	...	...	...
Shares and other equity	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Financial derivatives	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Other accounts payable	0.1	0.2	-0.3	0.7	...	...	...	...	...	...
Memorandum items										
Primary balance	2.2	2.2	3.2	-3.9	-5.8	-2.1	-0.9	-0.1	0.3	0.6
Structural balance (percent of potential GDP)	1.3	0.8	1.8	-3.2	-5.2	-1.9	-0.8	-0.1	0.2	0.3
Structural primary balance (percent of potential GDP)	2.5	1.9	2.7	-2.6	-4.8	-1.4	-0.4	0.3	0.6	0.7
Gross Debt	56.9	52.4	47.4	52.5	57.9	56.4	55.0	53.2	51.2	49.0
Output gap	-0.1	0.7	0.6	-1.8	-1.5	-0.8	-0.6	-0.4	-0.2	0.0
Nominal GDP (billions of euros)	738.1	774.0	813.1	800.1	845.7	890.0	924.2	957.3	990.9	1025.2
Nominal GDP growth (percent)	4.2	4.9	5.0	-1.6	5.7	5.2	3.8	3.6	3.5	3.5
Real GDP growth (percent)	2.9	2.4	2.0	-3.8	4.0	3.3	2.1	1.8	1.6	1.6
GDP deflator growth (percent)	1.3	2.4	3.0	2.3	1.6	1.9	1.7	1.8	1.9	1.8

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

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Table 2b. The Netherlands: General Government Statement of Operations, 2017–26
(Billions of Euros)

	2017	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Revenue	316.8	331.8	354.4	328.6	355.6	377.5	394.8	408.2	422.3	437.4
Taxes	180.5	188.9	205.9	189.5	204.4	218.4	229.4	238.8	247.2	256.5
Taxes on production and imports	85.2	90.5	97.3	85.4	93.1	102.4	109.4	115.1	119.7	125.2
Current taxes on income, wealth, etc.	93.5	96.7	106.9	102.8	110.0	114.4	118.5	122.2	125.9	129.6
Capital taxes	1.8	1.7	1.6	1.3	1.3	1.6	1.5	1.5	1.6	1.6
Social contributions	105.5	111.7	113.1	104.1	112.5	119.2	124.7	130.4	135.0	139.7
Grants	0.9	1.0	0.9	0.9	3.4	3.6	3.7	0.9	0.9	0.9
Other revenue	29.8	30.2	34.5	34.2	35.2	36.3	37.1	38.1	39.2	40.3
Expenditure	307.5	321.2	334.2	362.9	407.3	398.3	405.7	411.9	421.4	433.9
Expense	307.6	321.3	333.5	361.7	401.4	391.2	397.4	405.2	414.6	427.0
Compensation of employees	59.1	61.0	63.7	72.6	74.1	75.6	76.0	78.0	80.0	82.7
Use of goods and services	40.1	42.9	44.5	53.7	66.8	61.3	61.7	60.9	63.0	65.2
Consumption of fixed capital	22.9	23.7	24.6	24.7	26.1	27.5	28.5	29.5	30.6	31.6
Interest	8.8	8.1	7.3	5.0	3.9	4.0	4.0	4.0	4.0	4.0
Subsidies	8.6	9.1	9.5	10.3	10.9	11.4	11.9	12.3	12.7	13.2
Grants	6.8	8.9	9.2	9.8	10.3	10.8	11.1	11.2	11.3	11.5
Social benefits	155.4	160.1	167.1	181.0	196.1	192.9	198.4	204.1	208.9	213.8
Other expense	6.0	7.5	7.7	4.7	13.3	7.7	5.8	5.2	4.1	4.9
Net acquisition of nonfinancial assets	-0.1	-0.2	0.8	1.3	5.9	7.1	8.3	6.7	6.8	6.9
Net operating balance	9.2	10.4	20.9	-33.1	-45.9	-13.7	-2.5	3.0	7.7	10.4
Net lending/borrowing	9.3	10.6	20.1	-34.3	-51.8	-20.8	-10.9	-3.7	0.9	3.5
Net acquisition of financial assets	-7.3	-1.0	1.2	13.7	...	...	...	...	...	...
Currency and deposits	2.2	-0.6	0.6	5.7	...	...	...	...	...	...
Securities other than shares	-1.1	1.1	-1.5	-0.7	...	...	...	...	...	...
Loans	1.2	1.8	2.0	4.4	...	...	...	...	...	...
Shares and other equity	-5.7	-0.2	0.6	-4.6	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Financial derivatives	-3.0	-4.5	-0.8	-5.1	...	...	...	...	...	...
Other accounts receivable	-1.0	1.5	0.2	14.1	...	...	...	...	...	...
Net incurrence of liabilities	-17.2	-12.3	-12.7	47.1	...	...	...	...	...	...
Special Drawing Rights (SDRs)	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Currency and deposits	-1.9	-0.4	0.1	-0.1	...	...	...	...	...	...
Securities other than shares	-9.1	-8.8	-12.5	46.9	...	...	...	...	...	...
Loans	-7.2	-4.8	1.9	-5.3	...	...	...	...	...	...
Shares and other equity	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Financial derivatives	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Other accounts payable	1.1	1.7	-2.2	5.6	...	...	...	...	...	...
Memorandum items										
Primary balance	16.5	17.2	25.8	-30.9	-49.5	-18.4	-8.4	-1.3	3.3	5.9
Gross Debt	420.3	405.8	385.7	420.0	489.7	501.6	507.9	509.4	507.4	502.8
Nominal GDP (Euro bill.)	738.1	774.0	813.1	800.1	845.7	890.0	924.2	957.3	990.9	1025.2

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

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Table 2c. The Netherlands: General Government Integrated Balance Sheet, 2012–19
(Percent of GDP)

	2012	2013	2014	2015	2016	2017	2018	2019
Net Worth	19.7	19.2	15.2	15.3	15.3	19.1	21.4	...
Nonfinancial assets	60.8	61.1	60.5	59.1	57.7	56.7	55.7	...
Net Financial Worth	-41.1	-41.9	-45.2	-43.8	-42.4	-37.6	-34.3	-30.5
Financial assets	38.4	37.1	38.1	35.8	35.2	33.3	31.7	31.7
Currency and deposits	2.6	2.0	1.8	1.7	1.7	2.0	1.8	2.0
Securities other than shares	3.1	2.1	1.4	1.3	1.2	1.0	1.1	0.9
Loans	8.7	10.0	10.0	8.9	8.0	7.8	7.6	7.4
Shares and other equity	13.9	13.5	13.4	14.0	14.2	13.5	12.9	13.5
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	1.9	1.5	3.5	2.6	2.2	1.6	1.0	1.1
Other accounts receivable	8.2	8.0	8.1	7.3	7.9	7.5	7.3	6.9
Liabilities	79.5	78.9	83.3	79.6	77.6	70.9	66.0	62.2
Special Drawing Rights (SDRs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.2	0.2	0.2	0.3	0.6	0.3	0.2	0.2
Securities other than shares	58.2	57.5	62.4	58.6	57.2	52.3	48.8	45.9
Loans	15.1	14.7	14.3	13.8	13.1	11.6	10.4	10.1
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	6.0	6.6	6.5	6.9	6.8	6.7	6.6	6.0

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

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Table 3. The Netherlands: External Sector, 2017–26
(Percent of GDP, unless otherwise indicated)

	2017	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Balance on Current Account	10.8	10.8	9.4	7.0	8.0	8.7	8.8	8.6	8.6	8.4
Trade Balance	9.7	9.3	7.4	8.1	8.2	7.9	7.5	7.5	7.3	7.1
Exports of goods	62.4	62.7	60.3	57.9	63.5	64.5	64.8	65.7	66.7	67.5
Imports of goods	52.7	53.4	52.9	49.9	55.3	56.6	57.3	58.3	59.3	60.4
Service Balance	1.0	1.3	2.4	2.3	1.4	1.8	2.2	2.2	2.1	2.2
Exports of services	21.0	22.0	22.2	19.9	19.1	19.2	19.6	19.8	20.1	20.4
Imports of services	20.0	20.7	19.8	17.6	17.7	17.4	17.4	17.7	18.0	18.2
Factor Income	0.8	1.1	0.4	-1.7	-0.3	0.2	0.3	0.3	0.4	0.4
Current transfers, net	-0.7	-0.8	-0.9	-1.7	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Balance on capital account	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance on financial account	10.4	11.3	9.7	7.1	8.0	8.7	8.7	8.6	8.5	8.4
Direct investment, net	7.4	7.6	4.7	-4.6	7.8	6.2	6.8	5.9	5.7	6.1
Direct investment abroad	33.7	-31.4	-13.9	-21.2	22.6	20.6	25.1	25.8	27.8	27.3
FDI in Netherlands	26.4	-39.0	-18.5	-16.7	14.8	14.5	18.3	19.9	22.0	21.2
Portfolio investment, net	4.8	1.2	6.3	20.9	1.2	1.2	1.2	1.2	1.2	1.2
Financial derivatives	-3.9	1.2	-0.7	-3.3	-0.8	-0.7	-0.7	-1.1	-1.0	-0.8
Other investment	2.4	1.2	-0.6	-5.9	-1.7	1.7	1.2	2.4	2.4	1.7
Reserve assets	-0.2	0.1	0.1	0.0	1.5	0.3	0.2	0.2	0.2	0.2
Errors and omissions, net	-0.4	0.5	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0

Sources: DNB and IMF staff calculations.

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Table 4. The Netherlands: Monetary Survey, 2014-2020

	2014	2015	2016	2017	2018	2019	2020
				(In Billions of Euros)			
Net foreign assets	198.5	210.4	207.8	183.4	218.3	267.1	287.2
Claims on nonresidents	887.5	951.4	979.0	919.0	931.5	943.3	898.7
Central Bank	82.8	118.8	153.1	127.0	150.9	101.5	92.2
Other Depository Corporations	804.7	832.6	825.9	792.1	780.6	841.7	806.5
Liabilities to Nonresidents	-689.0	-741.0	-771.2	-735.7	-713.2	-676.2	-611.4
Central Bank	-7.5	-10.2	-27.6	-43.4	-69.0	-48.1	-57.2
Other Depository Corporations	-681.6	-730.8	-743.6	-692.3	-644.2	-628.0	-554.2
Net domestic assets	1360.7	1321.1	1375.6	1317.3	1278.5	1336.6	1399.6
Net Claims on Central Government	51.9	74.4	102.5	116.4	111.7	105.6	122.2
Claims on State and Local Government	50.9	48.9	47.2	47.6	49.1	49.1	49.1
Claims on Public Nonfinancial Corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on NBFIs	562.3	517.2	506.3	422.1	390.1	447.8	487.3
Claims on private sector	781.8	770.1	811.5	820.4	816.4	810.5	807.2
Corporates	349.9	319.3	311.8	305.7	305.6	289.1	283.0
Households	431.9	450.8	499.7	514.7	510.9	521.4	524.2
Capital and Reserves (-)	156.5	147.3	160.6	163.1	169.6	176.9	185.3
Other items, net (-)	-70.2	-58.0	-68.7	-73.8	-80.6	-100.5	-119.1
Broad Money	740.7	745.1	759.1	786.1	779.3	820.1	904.2
Currency in Circulation	52.5	55.6	58.1	60.3	63.2	68.5	76.7
Transferable Deposits	305.1	298.8	264.4	289.3	279.9	308.2	372.2
Other Deposits	383.1	390.7	436.6	436.4	436.2	443.4	455.3
Securities	17.0	10.1	13.2	3.5	10.3	7.5	4.6
Other Liabilities	801.6	776.3	811.5	711.2	707.2	776.6	774.8
				(Annual percentage change)			
Net foreign assets	37.2	6.0	-1.3	-11.7	19.0	22.4	7.5
Net domestic assets	5.8	-2.9	4.1	-4.2	-2.9	4.5	4.7
Claims on private sector	4.0	-1.5	5.4	1.1	-0.5	-0.7	-0.4
Corporates	7.6	-8.8	-2.3	-2.0	0.0	-5.4	-2.1
Households	1.2	4.4	10.9	3.0	-0.7	2.1	0.5
Broad Money	10.5	0.6	1.9	3.6	-0.9	5.2	10.3
				(In billions of U.S. dollars, end of period)			
Net foreign assets	244.8	228.9	219.0	217.0	248.5	296.8	349.6
Net domestic assets	1677.9	1437.0	1450.3	1559.2	1455.5	1485.5	1703.2
Claims on private sector	964.1	837.6	855.6	971.0	929.5	900.7	982.3
Corporates	431.5	347.3	328.7	361.8	347.9	321.3	344.4
Households	532.6	490.3	526.8	609.2	581.6	579.4	637.9
Memorandum items:							
Velocity (GDP/Broad Money)	906.7	926.0	933.2	939.0	993.1	991.4	884.8
Euros per U.S. dollar (end of period)	0.8	0.9	0.9	0.8	0.9	0.9	0.8

Sources: International Financial Statistics and IMF Staff.

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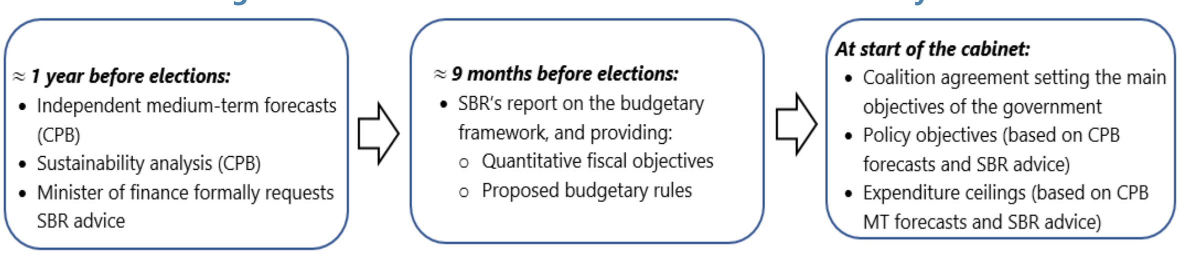
Annex I. The Dutch Fiscal Framework

The definition of national budgetary rules for a new legislature starts about a year before the new government takes office (Figure 1). The general elections were held on March 17, 2021. Every new general election entails a reassessment of the fiscal framework for the incoming government. The key inputs for this process are the medium-term macroeconomic forecasts and a long-term (intergenerational) sustainability analysis produced by CPB (the Netherlands Bureau for Economic Policy Analysis). Based on CPB forecasts, SBR (a high-level non-partisan advisory group) proposes a set of budgetary objectives for the incoming government. At the beginning of its mandate, the cabinet sets expenditure ceilings for the next four years using CPB forecasts and taking into account SBR's advice. These fiscal objectives (set within parameters consistent with the Stability and growth Pact) are published in the "Startnota."

The "Startnota" sets multi-annual net real expenditure ceilings for the state budget, social security, and healthcare. These ceilings are revised annually in the new budget to reflect recent macroeconomic developments and updated forecasts (the ceilings are adjusted for cyclical components of unemployment and social security benefits, inflation, and other statistical corrections). While fiscal revenues are allowed to fluctuate with the cycle (under the constraint of the fiscal balance objective set in the budget memorandum), expenditure ceilings are expected to be respected, although they can be modified when there is political agreement that changes are warranted.

The latest SBR recommendations were made in the context the pandemic. The 16th SBR report, released in November 2020 stressed three priorities for the incoming government. First, to allow full operation of automatic stabilizers and take discretionary fiscal measures to cushion the impact of the pandemic, and to avoid premature fiscal consolidation in the medium-term. Second, to ensure long-term public debt sustainability and to retain buffers against future downturns. Third, to avoid automatic increases in specific expenditure categories (notably in health expenditure) or cuts in tax revenue, while providing room for public investments that support long-term economic growth.

Figure A1. The Dutch Fiscal Framework and Election Cycle



SBR (*Studiegroup Begrotingsruimte*) is a non-partisan national advisory group which provides fiscal policy advice. It consists of high-level officials from various ministries and includes the president of the Dutch central bank and the director of CPB.

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Annex II. External Sector Assessment

<table>
<tr><td colspan="8">Overall Assessment: The external position in 2020 was stronger than the level implied by medium-term fundamentals and desirable policies. The Netherlands' status as a trade and financial center makes an external assessment particularly challenging.

Potential Policy Responses: The use of available fiscal buffers by the authorities to provide ongoing support to the health care sector and to households and businesses affected by the Covid-19 pandemic remains appropriate, also against the backdrop of the additional space provided by the sustained activation of the escape clause from the EU Stability and Growth Pact. Even after the pandemic subsides, the government will have ample room to pursue a growth-oriented fiscal policy. Policies should avoid premature consolidation, thereby safeguarding the recovery; fostering investment in R&D, advancing the green-digital transformation, and following-through with pension reform offer scope to bolster potential growth, while also contributing to external rebalancing.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="7">Background. The NIIP of The Netherlands reached 113.9 percent of GDP at the end of 2020, reflecting gross assets and liabilities of 1,165.5 and 1,051.6 percent of GDP, respectively, rising from a nearly balanced NIIP at the end of 2009. The largest component of the NIIP comes from the net FDI stock—about €1,111 billion (138.9 percent of GDP) at the end of 2020. According to the latest Coordinated Direct Investment Survey, the inward and outward FDI positions of The Netherlands were second only to those of the United States at the end of 2019, with the largest gross bilateral stocks accounted for by the United States (US$1.85 trillion), the United Kingdom (US$1.06 trillion), and Luxembourg (US$0.87 trillion). The central bank's net TARGET2 claims on the ECB amounted to €38 billion at the end of 2020. Reflecting a persistent CA surplus, the NIIP is expected to increase as a ratio to GDP in 2021, likely keeping it considerably above the 100 percent mark in the absence of large revaluation effects, despite a rising denominator on the back of a rebound in GDP.

Assessment. The Netherlands' safe haven status and its sizable foreign assets limit risks from its large foreign liabilities.</td></tr>
<tr><td>2020 (% GDP)</td><td colspan="2">NIIP: 113.9</td><td>Gross Assets: 1,165.5</td><td colspan="2">Debt Assets: 260.6</td><td>Gross Liab.: 1,051.6</td><td>Debt Liab.: 308.2</td></tr>
<tr><td>Current Account</td><td colspan="7">Background. In 2020 the CA surplus, in place since 1981, declined to 7.0 percent of GDP (7.5 percent cyclically adjusted). The historically positive goods and services balance, primarily the result of surpluses vis-à-vis EU trading partners, improved at the margin. By contrast, the primary income balance turned into a 1.7 percent of GDP deficit in 2020, despite the positive NIIP, as lower net investment income on FDI was only partly compensated for by a reduction in payouts on net portfolio investment. Likewise, the secondary income balance deteriorated to −1.7 percent of GDP, mainly on the back of other current transfers by the nongovernment sector abroad. Substantial FDI outflows have been the key driver of the financial account since 2000, constituting the counterpart to high nonfinancial corporate net saving (gross saving minus domestic business investment), whereas household net saving (gross saving minus residential investment) has played a comparatively smaller role due to the offsetting impact of substantial mandatory contributions to second-pillar pension funds and high real estate investment. The Netherlands' status as a trade and financial center and natural gas exporter also contribute to a structurally strong external position. In 2021 the CA surplus is projected to rebound to 8 percent of GDP.

Assessment. The EBA CA model estimates a CA norm of 3.4 percent of GDP and a CA gap of 4.0 percent of GDP in 2020, with an unexplained residual of 1.1 percent of GDP that primarily reflects the high gross saving of multinationals based in The Netherlands. In addition, measurement errors or biases in official statistics may also contribute to an overstatement of the net accumulation of wealth that is attributed to Dutch residents, an issue of particular relevance for The Netherlands as the foreign ownership of publicly listed Dutch corporations has been consistently above 85 percent over the past 10 years. An IMF staff adjustment of −1.4 percent of GDP to offset this bias is approximated with the help of historical data about the foreign ownership structure of Dutch firms provided by the central bank.[1] Moreover, another −0.2 percent of GDP adjustment is applied to account for the (temporary) effects of the Covid-19 pandemic, reflecting lower spending on travel services, including tourism, by Dutch residents abroad (−0.3 percent of GDP) and higher-than-usual trade in medical goods (0.1 percent of GDP). Taking these factors into consideration, and against a norm in a range of 1.4 to 5.4 percent of GDP, the IMF staff assesses a CA gap of 0.4 to 4.4 percent of GDP.[2]</td></tr>
<tr><td>2020 (% GDP)</td><td>CA: 7.0</td><td>Cycl. Adj. CA: 7.5</td><td>EBA Norm: 3.4</td><td>EBA Gap: 4.0</td><td>Covid-19 Adj.: −0.2</td><td>Other Adj.: −1.4</td><td>Staff Gap: 2.4</td></tr>
</table>

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Real Exchange Rate	**Background.** The annual average CPI-based REER appreciated by 2.0 percent in 2020, with part of the rise in the euro NEER offset by inflation in The Netherlands staying below that of its trading partners, while the average ULC-based REER appreciated by 3.8 percent. However, drawing conclusions from both indicators about shifts in competitiveness in 2020 is hampered by the distortions the Covid-19 pandemic implied for the measurement of consumer prices and ULCs across different countries. As of July 2021, the CPI-based REER was nearly unchanged from its 2020 average. **Assessment.** Assuming a semi-elasticity of 0.7, the IMF staff CA gap of 2.4 percent of GDP implies a REER undervaluation of about 3.5 percent. The EBA REER models indicate an overvaluation between 4.2 percent (level model) and 17.8 percent (index model) in 2020, predominantly reflecting unexplained residuals. Taking into account all estimates and the uncertainty surrounding the EBA REER results, the IMF staff views the REER as undervalued by about 0.5 to 6.5 percent, with a midpoint of 3.5 percent, based on its assessment of the CA gap and its range.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net FDI and portfolio outflows dominate the financial account. FDI outflows are driven by the investment of corporate profits abroad, largely by multinationals. More than 40 percent of gross FDI assets and liabilities are attributable to subsidiaries of multinationals. **Assessment.** The strong external position limits vulnerabilities from capital flows. The financial account is likely to remain in deficit as long as the corporate sector continues to invest substantially abroad.
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by euro area economies are typically low relative to standard metrics, but the currency is free floating.

[1] Official statistics attribute certain corporate saving to Dutch shareholders which should more accurately be attributed to foreign investors holding stakes in Dutch companies. The adjustment uses data provided by DNB to correct for this bias. The adjustment is symmetric, as it also estimates saving by non-resident corporations which should be attributed to Dutch investors with stakes in those corporations.

[2] A sizable portion of the CA surplus reflects corporate saving of multinationals based in The Netherlands. Due to the volatility of such savings, the assessment of the EBA-estimated current account gap is particularly uncertain, justifying a wider-than-usual CA range.

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Annex III. Risk Assessment Matrix

Sources of Risks	Relative Likelihood	Impact and Policy Response
Global conjunctural risks		
Global resurgence of the Covid-19 pandemic. Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	Medium	High: As a small highly open economy, the Netherlands is sensitive to fluctuations in global demand associated with the resurgence of the pandemic. ***Policy response*** If adverse risks materialize, automatic stabilizers and additional broad-based and targeted government support programs, taking advantage of the ample available fiscal space, would help limit their economic impact.
Disorderly transformations. Covid-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution frameworks. This, coupled with a withdrawal of Covid-19-related policy support, undermines growth prospects and increases unemployment, with adverse social/political consequences. Adjustments in global value chains and reshoring (partly driven by geostrategic and national security concerns) shift production activities across countries.	Medium	
Cyber-attacks on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	Medium	Medium: this will create disruptions in the economic activity, especially in some sectors, given the Netherlands' high degree of digitalization. **Policy response** The authorities should remain vigilant and perform coordinated cyber security tests regularly, especially on strategic infrastructures, as it is done under DNB's oversight in the financial sector.
Domestic risks to economic outlook		
Larger-than-anticipated scarring in the corporate sector and labor market. Significant increase in bankruptcies and unemployment post-pandemic, possibly triggered by structural changes and withdrawal of the pandemic support programs.	Medium /Low	Medium: this will delay the pace of the recovery. ***Policy response*** Provide additional and targeted support to firms and workers, as needed, and reinforce policies to facilitate mobility of factors of production.

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Risk to the financial sector		
Rising vulnerabilities in the commercial real estate market. Although net yields have only declined marginally during the pandemic, the commercial real estate market has felt the impact of the crisis, with an increase in vacancy rate (especially in the retail segment). Potential valuation risks can affect banks given their comparatively large exposure to commercial real estate.	Medium	Medium: Banks have a strong capital position which will help them absorb adverse shocks, if they materialize. ***Policy response*** Financial supervisors should continue to monitor these risks closely and take appropriate regulatory measures to contain them, if warranted. They should also accelerate the implementation of macroprudential measures aimed at lessening household financial vulnerabilities. Timely implementation of the agreed pension reform will help reduce the adverse effect of low interest rates on pension funds' liabilities.
A rapid correction of house prices. Highly indebted Dutch households are vulnerable to a downward correction in the housing market. This could also affect banks adversely given their high exposures to mortgage loans.	Medium	
Low for too long. Prolonged low interest rates depress the investment returns of pension funds and life insurers, whereas their long-term liabilities grow faster. This may incite risker investment behaviors. Low interest margins may also weigh on bank profits.	Medium	

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Annex IV. Public Debt Sustainability Analysis

Figure A1. The Netherlands Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

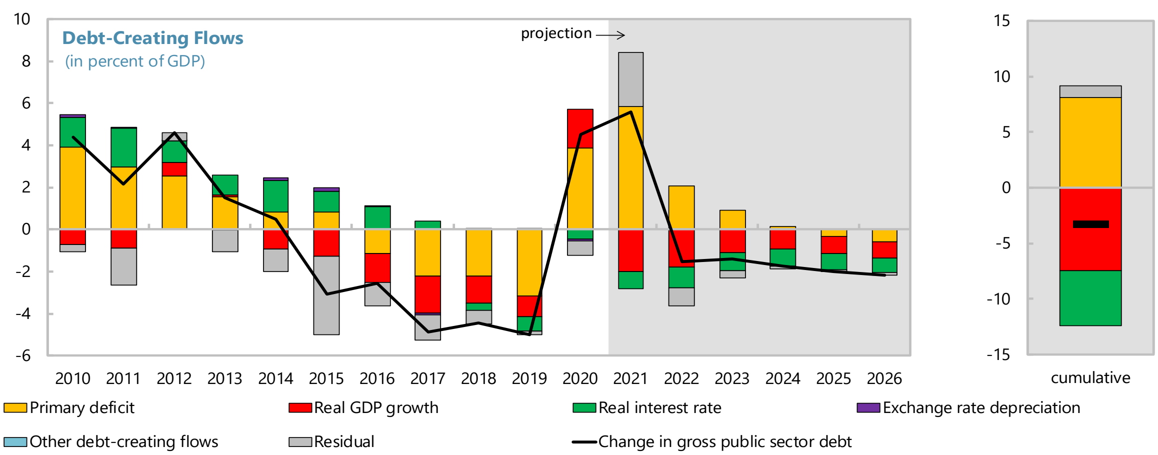
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2010-2018 [2]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	62.0	47.8	52.3	57.9	56.4	55.0	53.2	51.2	49.0
Public gross financing needs	11.3	3.6	10.1	9.2	7.5	6.4	5.0	3.5	3.2
Real GDP growth (in percent)	1.4	2.0	-3.8	4.0	3.3	2.1	1.8	1.6	1.6
Inflation (GDP deflator, in percent)	1.0	3.0	2.3	1.6	1.9	1.7	1.8	1.9	1.8
Nominal GDP growth (in percent)	2.4	5.0	-1.6	5.7	5.2	3.8	3.6	3.5	3.5
Effective interest rate (in percent) [4]	2.6	1.8	1.3	0.0	0.2	0.2	0.3	0.4	0.5

As of September 30, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		0
5Y CDS (bp)		10
Ratings	Foreign	Local
Moody's	Aaa	Aaa
S&Ps	AA+	AA+
Fitch	AAA	AAA

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	-0.2	-5.0	4.5	5.6	-1.6	-1.4	-1.7	-2.0	-2.2	-3.3	
Identified debt-creating flows	1.0	-4.8	5.2	3.0	-0.7	-1.0	-1.6	-1.9	-2.0	-4.3	
Primary deficit	0.8	-3.2	3.9	5.8	2.1	0.9	0.1	-0.3	-0.6	8.1	-1.5
Primary (noninterest) revenue and grants	42.0	43.4	40.9	41.9	42.2	42.6	42.5	42.5	42.5	254.1	
Primary (noninterest) expenditure	42.8	40.2	44.7	47.7	44.3	43.5	42.6	42.1	41.9	262.2	
Automatic debt dynamics [5]	0.2	-1.6	1.3	-2.8	-2.8	-2.0	-1.7	-1.6	-1.5	-12.4	
Interest rate/growth differential [6]	0.2	-1.6	1.4	-2.8	-2.8	-2.0	-1.7	-1.6	-1.5	-12.4	
Of which: real interest rate	1.0	-0.7	-0.5	-0.8	-1.0	-0.8	-0.8	-0.8	-0.7	-4.9	
Of which: real GDP growth	-0.8	-1.0	1.9	-2.0	-1.8	-1.1	-1.0	-0.8	-0.8	-7.5	
Exchange rate depreciation [7]	0.0	0.0	-0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	-1.2	-0.2	-0.7	2.6	-0.8	-0.3	-0.1	-0.1	-0.1	1.1	
o/w interest income	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.0	



Source: IMF staff.
1/ Public sector is defined as general government.
2/ Based on available data.
3/ Long-term bond spread over German bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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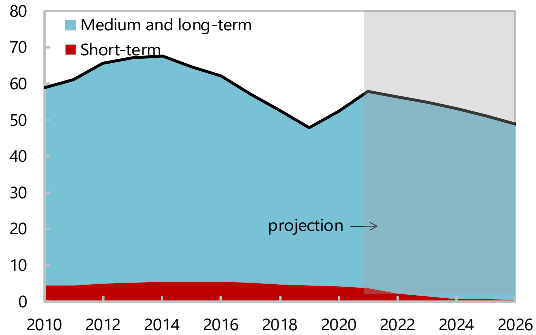
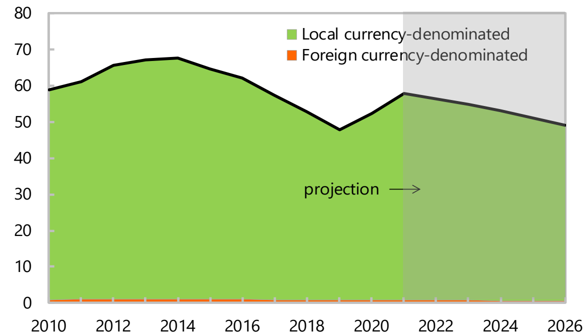
Figure A2. The Netherlands Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Original Maturity
(in percent of GDP)



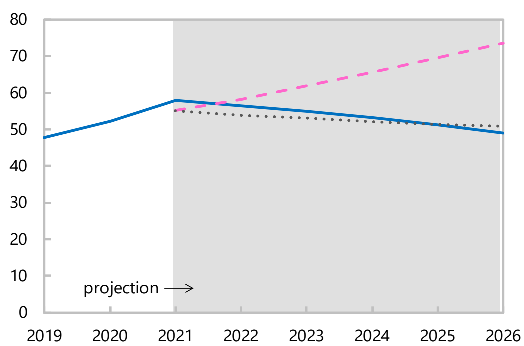
By Currency
(in percent of GDP)



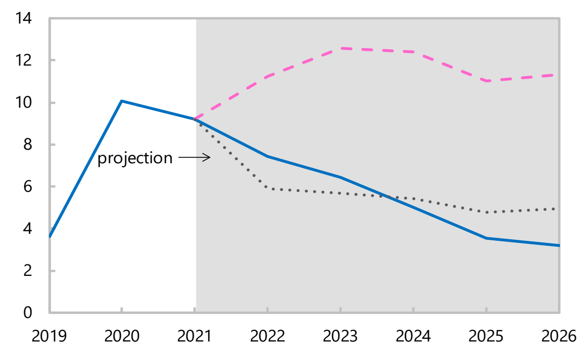
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	4.0	3.3	2.1	1.8	1.6	1.6
Inflation	1.6	1.9	1.7	1.8	1.9	1.8
Primary Balance	-5.8	-2.1	-0.9	-0.1	0.3	0.6
Effective interest rate	0.0	0.2	0.2	0.3	0.4	0.5
Constant Primary Balance Scenario						
Real GDP growth	4.0	3.3	2.1	1.8	1.6	1.6
Inflation	1.6	1.9	1.7	1.8	1.9	1.8
Primary Balance	-5.8	-5.8	-5.8	-5.8	-5.8	-5.8
Effective interest rate	0.0	0.2	0.4	0.5	0.7	0.8

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	4.0	0.9	0.9	0.9	0.9	0.9
Inflation	1.6	1.9	1.7	1.8	1.9	1.8
Primary Balance	-5.8	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	0.0	0.2	0.5	0.8	1.1	1.4

Source: IMF staff.

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Annex V. Past IMF Policy Recommendations

IMF 2019 Article IV Recommendations	Implementation
Fiscal Policy	
Fully use substantial fiscal space to support potential growth and rebalancing.	Taking advantage of low debt and deficit ratios, and of the activation of the escape clause in the European budgetary rules, the government mounted a vigorous fiscal response to the pandemic crisis and established the National Growth Fund, whose three main investment areas are: 1) knowledge development; 2) R&D and innovation; 3) physical infrastructure.
Further reduce the labor tax wedge (by focusing on supporting low income and second earners) and household debt bias (by further phasing down mortgage interest deductibility).	Since 2019, the government has increased the labor tax credit, focusing on low-income and second earners. The programmed gradual reduction in the extent of mortgage interest deductibility continued.
Harmonize tax benefits and social security contributions for different types of employment to reduce labor market duality while increasing overall labor market flexibility.	Several steps have been made, including gradual reductions of the standard income tax deduction for self-employed (mainly own-account) workers in 2019 and 2020. The introduction of a mandatory disability insurance scheme for the self-employed was agreed upon as part of the (preliminary) Pension Agreement with the social partners in 2019. The Law for a Balanced Labor Market, taking effect from 2020, changed various regulations to make permanent contracts more attractive to employers, and flexible contracts less attractive. Lastly, the Independent Commission on the Regulation of Work issued its report, recommending reducing differences in regulatory treatment between the legal forms of employment. The cabinet has published a document in which the Commission's recommendations have been worked out into more concrete policy measures.

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Structural Reforms	
Push forward with second-pillar pension reform to improve pension transparency and flexibility, clarifying transition costs, and designing a compensation package for those adversely affected by the transition.	In June 2020, the government signed an agreement with trade unions and employers on pension reform—a major breakthrough after 10 years of negotiations. The agreement affects all three pillars of the pension system, but agreements have also been made about sustainable employability and early retirement. Enactment of pension reform legislation is expected in 2022 so it can go into effect on Jan. 1, 2023, with full operation of the new system expected by Jan. 1, 2027 at the latest.
Financial Sector Policies	
Continue tightening macro-prudential policies to reduce households' indebtedness, and expedite reforms to increase housing supply, particularly in the private rental market	The majority of household debt consists of mortgages for residential real estate. The mortgage debt as a percentage of GDP has decreased from around 106 percent in 2012 to 93 percent in 2020. The most important policy measures that have contributed to this decline are tightening the legally binding loan to value (LTV) limit from 106 percent in 2013 to 100 in 2018. In addition, the Dutch government has introduced restrictions on non-amortizing mortgages since 2013. The introduction of minimum risk weights for mortgages was suspended during the pandemic, but is now expected to go into effect at the start of 2022. The government has set up a policy agenda for housing supply together with subnational governments ('woondeals'). These include agreements for housing targets with municipalities in the areas with the greatest housing shortage and provinces. The 2022 budget also includes new resources to support the construction of social housing.
Revive SMEs dynamism and business investment, including by increasing direct support to Research and Development (R&D) and establishing a credit bureau.	• Several funds were launched that support innovative SMEs and allow them to invest more in R&D for the technologies of the future (Deeptech Fund & Dutch Future Fund) • The Dutch Alternative Credit Instrument (DACI) was launched to further strengthen the accessibility of SMEs to alternative financing sources • A study on the usefulness and necessity of a credit register was conducted and sent to Parliament. • In 2020 the Dutch government launched the National Growth Fund (see above).

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Annex VI. FSAP Recommendations

Recommendations	Time[1]	Status
Financial Risks and Stability Analysis		
Enforce an industry-wide approach to informing IO mortgagors of estimated repayment shortfalls.	I	AFM and SSM (DNB/ECB) have worked towards an industry-wide approach to informing IO mortgagors about their estimated repayment shortfalls. Efforts are on track to reach all IO mortgagors in the course of 2022.
Continue to build capital buffers to ensure all banks remain above minimum leverage ratio thresholds in the case of severe adverse events.	NT	The Dutch authorities remain supportive of an O-SII leverage ratio buffer and note that the Basel 3.5 standards will also contribute to higher leverage ratios of certain Dutch SIFIs. The four largest Dutch SIFIs maintain leverage ratios above 4% and have performed well under the adverse scenario of the 2021 EBA stress test.
Macroprudential Policy Framework		
Strengthen the FSC by establishing it under primary law and vest it with "comply-or-explain" powers.	NT	Progress has been delayed as the Dutch Council of State signaled a material conflict between a proposed embedding of the FSC in primary law and the Dutch constitutional system. An amended legislative proposal explored by the Dutch government is foreseen to be submitted to Parliament in autumn 2021. As an 'act or explain mechanism' does not fit in with the Dutch constitutional system, an alternative accountability mechanism will forward FSC recommendations to Parliament where the responsible ministers may be questioned.
Accelerate the phase-out of MID and reduce the final tax rate to a neutral level.	NT	The phasing down the mortgage interest deductibility has been accelerated from 0.5 to 3 percentage points annually starting in 2020 until the base tax rate level of 37.05% is reached in 2023. However, the tax treatment of owner- occupied housing remains favorable compared to other forms of property.
Continue gradually reducing maximum limits on LTV ratio to no more than 90 percent after 2018, and place prudential ceilings above which DSTI limits (by income group) cannot be relaxed.	NT	The maximum LTV-ratio was reduced to 100% in 2018. No further reduction is foreseen yet LTV-ratios have decreased due to rising house prices and the amortization requirement for MID eligibility. No changes have been made in the setting of DSTI limits.
Cross-cutting Supervisory Issues		
Further enhance supervisory oversight of loan classification and strengthen internal model validation by providing Joint Supervisory Teams more support from risk specialist divisions.	I	The powers of DNB and AFM to introduce technical regulations have not been enhanced. No actions to do so are currently foreseen. DNB and AFM already have the ability to involve outside expertise in conducting their supervisory examinations.
Exclude the DNB and AFM from the proposed salary cap, and provide them with greater autonomy in setting their supervisory budgets.	I	The Ministry of Finance has not provided DNB and AFM with greater autonomy in setting their supervisory budgets. No actions to do so are foreseen.

[1] Immediately (I) is within one year, near term (NT) is 1–3 years.

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Recommendations	Time[1]	Status
The DNB and AFM to undertake a cross-sectoral review of credit underwriting standards of mortgages	I	Several on-site examinations in financial institutions' mortgage portfolios have been carried out in the recent past. Moreover, DNB collects loan level data on the mortgage exposures of banks, insurers, and pension funds to continuously monitor mortgage lending standards
Ensure that reliable and complete data is available on a timely basis to support off-site supervision.	NT	The DNB and AFM are actively investigating and applying supervision techniques involving data-driven analytical approaches. In collaboration with the Ministry of Finance, the AFM is exploring an additional legal basis for periodic data requests. Insurers and pension funds: DNB continues to conduct rigorous checks on the quality, consistency and plausibility of the data it receives from insurers and pension funds, also with the help of on-site examinations. AFM is investigating the possibility for a yearly inquiry into complaints about pension funds. Banks: A recent exercise regarding banks' credit underwriting standards has revealed issues with data availability and aggregation related to the transformation of legacy IT infrastructure. DNB and AFM conduct rigorous checks on the consistency and plausibility of data with the help of analytical tools and on-site examinations. DNB initiatives on Data Driven Supervision have been implemented. Collective investment schemes: Several actions have been taken by DNB and AFM to ensure reliable and complete data is available on a timely basis.
Banking Supervision and Regulation		
Further enhance supervisory oversight of loan classification and strengthen internal model validation by providing Joint Supervisory Teams more support from risk specialist divisions.	NT	Supervisory oversight of loan classification: The Ministry of Finance has signaled openness to discuss the DNB's request to allow the imposition of binding requirements on the size of banks' impairment charges. In line with EC guidance, DNB is stimulating the usage of article 104 CRD where possible to allow competent authorities to intervene in the case of inadequate provisioning policies and advocates the concept's inclusion in supervisory manuals. Internal model validation: procedures are in place to provide Joint Supervisory Teams with support for internal model validation.
Encourage a more active role of the Supervisory Board of Dutch banks via ongoing engagement.	NT	Engaging the SB is part of ongoing supervision through e.g. periodic interviews and the annual SB self-assessment. Furthermore, DNB discusses the outcomes of the annual Supervisory Review and Evaluation Process (SREP) with the SB's of all LSI's it supervises. In addition, the SSM wide Targeted Review of Internal Models (TRIM) will put the supervisory findings on banks' internal models on the SB agenda.

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Insurance and Pension Supervision and Regulation		
Monitor closely and take a series of well-defined actions, under Pillar 2, at different levels of VA and UFR impact on insurers' solvency position.	I	DNB has worked on a new supervisory approach to be implemented in the second half of 2021 to address the problems surrounding the UFR. The new approach is forward-looking, anchored in the current legal framework and takes a step away from the current SCR ratio ex VA and UFR approach. It will analyze solvency levels and probability distributions around them to assess the sustainability of the future statutory solvency and the capacity to compensate for the UFR shortfall. It will support a dialogue with insurers at risk to take measures to improve the sustainability of the capital and solvency position.
Recommendations	**Time[1]**	**Status**
Harmonize the relevant laws on the quality of advice and suitability of products and provide authority for group supervision in the pension law.	NT	No mechanisms have been introduced to ensure pension participants receive financial advice. Supervisory powers for group supervision are not foreseen under the new pension system because of the pension fund structure in the Netherlands.
Securities Supervision and Regulation		
Broaden the supervisory authority of the AFM with regard to loan-based crowd-funding platforms.	NT	In October 2020 Regulation 2020/1503 on European crowdfunding service providers for business was published, introducing a fully harmonized regime for the provision of crowdfunding services in the EU. The regulation will apply from 10 November 2021.
Require prompt public disclose of auditor changes or resignations.	NT	The prompt public disclose of auditor changes or resignations is already sufficiently covered by existing rules and regulations. No actions are foreseen.
Financial Market Infrastructure		
Augment the supervisory resources devoted to the oversight of European Central Counterparty (EuroCCP).	I	The staff resources devoted to EuroCCP supervision have been expanded from 2 FTE to 3 FTE. More generally, the staff resources devoted to ICE Clear Netherlands supervision have been expanded from 1 FTE to 3 FTE, bringing the total for CCP supervision to 6 FTE.
EuroCCP to strengthen its review of its stress testing and margin models methodology and develop a comprehensive recovery plan.	I	EuroCCP has enhanced its reverse stress testing approach to consider a wider set of market price scenarios and combinations of participant defaults that would exhaust its financial resources. Its margin model methodology has also been improved. Sensitivity analyses have been developed to examine how the parameters and assumptions affect the outcome of its stress tests. EuroCCP has developed a comprehensive recovery plan, reviewed annually, ahead of the EU legislation on CCP recovery and resolution.

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Crisis management and bank resolution		
Develop adequate arrangements for systemic crisis management and make legacy frameworks for managing failing banks complementary to the new SRM framework and more transparent.	NT	Adequate arrangements for systemic crisis management: domestically, DNB focused on an update of its crisis management manual, aligning it with the SRB's. DNB and AFM have defined their roles and responsibilities in resolution and the interactions that take place between them and other institutions, also by updating the tripartite MoU enabling information sharing and delineating responsibilities for crisis management. At the European level, the role and responsibilities of SRB, ECB and Dutchauthorities in managing a systemic crisis are formalized in the SRB and DNB crisis management manuals, the Cooperation Framework (CoFra) and horizontal policy guidance. Dry run exercises were held in 2019 and 2020 to test the adequacy of tools and procedures. Legacy legal frameworks: The residual aspects of the former 'Intervention Act' only serve as a fallback option in the (unlikely) case that the powers of the SRM fall short.
Allow the deposit guarantee scheme to finance deposit transfers in resolution and insolvency.	NT	Since 2017 it is possible to finance the gross amount of deposits that are transferred in resolution. Technical discussions about allowing the DGS to fund a transfer of covered deposits in insolvency is ongoing. DNB and the Ministry of Finance are investigating technical feasibility while awaiting the outcome of the upcoming CMDI review.

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KINGDOM OF THE NETHERLANDS—

THE NETHERLANDS

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 26, 2021

Prepared By | European Department

CONTENTS

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FUND RELATIONS

(As of October 8, 2021, unless specified otherwise)

Mission: September 7–27, 2021 (virtual mission). The concluding statement of the mission is available at link.

Staff team: Messrs. A. Cuevas (head), A. Fouejieu, A. Geis, and Ms. O. Luca (all EUR).

Country interlocutors: The team met with De Nederlandsche Bank President Klaas Knot; State Secretary Hans Vijlbrief, and other officials from the Ministries of Finance, the Interior and Kingdom Relations, Social Affairs and Employment, Economic Affairs and Climate Policy, De Nederlandsche Bank, other government entities, and the Single Supervisory Mechanism; representatives of labor unions and employers, and representatives of private sector institutions. Mr. P. Hilbers and Ms. C. Eijking (both OED) participated in some of the meetings.

Fund relations: Discussions for the 2021 Article IV consultation were held virtually on September 7–27, 2021. The staff report for the 2019 Article IV Consultation (IMF Country Report No. 19/44, February, 2019) was considered by the Executive Board on February 12, 2019. The Article IV consultations with the Netherlands are on the standard 12-month consultation cycle. The Executive Board's assessment and staff report are available at link.

Membership Status: Joined December 27, 1945; Article VIII.

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	8,736.50	100.00
Fund holdings of currency	6,672.17	76.37
Reserve Tranche Position	2,065.91	23.65
Lending to the Fund	123.6	

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	13,210.17	100.00
Holdings	13,513.71	102.3

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

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Projected Obligations to Fund[1] (SDR million; based on existing use of resources and present holdings of SDRs):

	2021	2022	2023	2024	2025
Principal					
Charges/Interest		0.22	0.22	0.22	0.22
Total		0.22	0.22	0.22	0.22

Implementation of HIPC Initiative
Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI)
Not Applicable

Implementation of Catastrophe Containment and Relief (CCR)
Not Applicable

Exchange Rate Arrangements
The Netherlands' currency is the euro, which floats freely and independently against other currencies.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of arrears will be shown in this section.

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STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance	
General: Netherlands' economic and financial sector databases are generally comprehensive and high quality. Data provision is adequate for surveillance. **Government Finance Statistics:** The Netherlands compiles Government Finance Statistics in line with the European System of Accounts 2010 methodology from 1995 onwards and submits data for the annual *Government Finance Statistics Yearbook* in GFSM 2014 format via Eurostat. **External Sector Statistics:** The DNB compiles the balance of payments in close cooperation with the CBS. Balance of payments and international investment position (IIP) statistics are compiled according to the *Balance of Payments Manual, sixth edition (BPM6)* and the legal requirements of the ECB and Eurostat. The Data Template on International Reserves and Foreign Currency Liquidity is disseminated monthly, and quarterly external debt data are reported to the World Bank for re-dissemination in the Quarterly External Debt Statistics database. DNB submits timely data for the IMF's Coordinated Portfolio Investment Survey and Coordinated Direct Investment Survey. **Monetary and Financial Statistics:** The ECB reporting framework is used for reporting monetary statistics to STA through a "gateway" arrangement with the ECB. The arrangement provides an efficient transmission of monetary statistics to STA and for publication in the *International Financial Statistics* (*IFS)*. The Netherlands' monetary statistics published in the *IFS* covers data on central bank and other depository corporations using Euro Area wide residency criterion as well as based on national residency criterion. The Netherlands reports data on some indicators to the Financial Access Survey, including two indicators of the United Nations Sustainable Development Goals. **Financial Sector Surveillance:** The Netherlands disseminates quarterly data on financial soundness indicators (FSIs), including 11 core indicators and 8 encouraged indicators for deposit takers. The Netherlands also reports two encouraged FSIs for the real estate sector.	
II. Data Standards and Quality	
Adherent to the IMF's Special Data Dissemination Standard (SDDS) Plus since January 27, 2015. The Netherlands' latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board.	The January 2008 data ROSC is available here.

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The Netherlands: Table of Common Indicators Required for Surveillance
(As of October 13, 2021)

	Date of Latest Observation	Date Received	Frequency of Data 8/	Frequency of Reporting 8/	Frequency of Publication 8/	Memo Items: Data Quality—Methodological Soundness 9/	Memo Items: Data Quality—Accuracy and Reliability 10/
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	08/21	10/21	M	M	M		
Reserve/Base Money 2/	08/21	10/21	M	M	M		
Broad Money 2/	08/21	10/21	M	M	M		
Central Bank Balance Sheet	08/21	10/21	M	M	M		
Consolidated Balance Sheet of the Banking System	08/21	10/21	M	M	M		
Interest Rates 3/	Current	Current	D	D	D		
Consumer Price Index	08/21	09/21	M	M	M	O, O, LO, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing 4/—General Government 5/	Q1/21, 2019A	07/21	Q/A	Q/A	Q/A	LO, LO, LO, O	LO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing 4/—Central Government	Q3/18, 2019A	11/18, 12/20	Q/A	Q/A	Q		
Stocks of Central Government and Central Government-Guaranteed Debt 6/	Q3/18, 2019A	11/18, 12/20	Q/A	Q/A	Q		

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The Netherlands: Table of Common Indicators Required for Surveillance (concluded)
(As of October 13, 2021)

External Current Account Balance	Q2/21	9/21	Q	Q	Q	O, O, O, O	O, O, O, O, O
Exports and Imports of Goods and Services	Q2/21	9/21	Q	Q	Q		
GDP/GNP	Q3/21	9/21	Q	Q	Q	O, O, O, O	LO, O, O, O, O
Gross External Debt	Q2/21	09/21	Q	Q	Q		
International Investment Position 7/	Q2/21	09/21	Q	Q	Q		

1/ Includes reserve assets pledged of otherwise encumbered.
2/ Pertains to contribution to EMU aggregate.
3/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
4/ Foreign, domestic bank, and domestic nonbank financing.
5/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
6/ Including currency and maturity composition.
7/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.
8/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
9/ Reflects the assessment provided in the data ROSC (published on January 10, 2008, and based on the findings of the mission that took place October 3–17, 2007) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
10/ Same as footnote 9, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

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Statement by Mr. Hilbers and Ms. Eijking on Kingdom of the Netherlands - the Netherlands

November 10, 2021

On behalf of the Dutch authorities, we would like to thank staff for the constructive policy dialogue during the virtual mission to the Netherlands and the excellent set of papers produced, including the Selected Issues Papers (SIPs) on education expenditure and the Dutch labor market. We would also like to take the opportunity to thank the team for their analytical work on the Netherlands during the year, resulting in four different IMF working papers on important topics such as capital income taxation and climate.

The Dutch authorities agree with the thrust of the staff appraisal.

The Dutch economy recovered strongly in 2021. According to the CPB September projections, the economy is expected to grow by 3.9% of GDP this year after a 3.8% of GDP contraction caused by the pandemic in 2020. With that, the economy reached its pre-pandemic level in the third quarter of this year, earlier than expected. The Dutch economy weathered the pandemic relatively well, also relative to the euro area economy that contracted -6.5% in 2020. This can be explained by the country's low dependence on contact-intensive sectors and large-scale support packages to businesses and self-employed. Moreover, a high digitalization rate may have contributed to the adaptability of firms and consumers to a lock-down. A gradual reopening of the economy in spring 2021 contributed to a strong second quarter growth of 3.8% of GDP quarter on quarter (10.4% y-o-y), primarily driven by private consumption and exports.

The growth outlook of the Dutch authorities is broadly in line with that of staff. The economy is expected to grow by 3.5% in 2022, according to September projections, under the assumption that no further Covid-19 containment measures are needed. The authorities agree that risks to the outlook are balanced, with higher-than-expected pent-up demand reflecting an upward risk, and a negative trajectory of the Covid-19 pandemic and prolonged supply side bottlenecks being identified as downward risks.

Fiscal space enabled the Netherlands to provide the necessary support during the pandemic. Packages were designed to protect jobs and minimize the impact of the pandemic on employees, the self-employed and firms. In order to pay employees' salaries, broad support was provided to

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companies with 20% or more loss in turnover, while companies could also postpone their payment of taxes. Transfers were made to eligible self-employed to secure an income equal to the social minimum. The fiscal costs of these packages totaled around 28 billion in 2020 and an estimated 40 billion in 2021, increasing the debt-to-GDP ratio from 48.6% in 2019 to 54.3% of GDP in 2020 and 57.8% of GDP in 2021. With the debt ratio expected to remain well below the 60 percent SGP limit in the medium-term, the authorities expect medium-term debt sustainability not to be a concern.

In line with the economic recovery, fiscal policy support has recently become more targeted. On the back of substantial progress with vaccination, the authorities have been able to gradually lift Covid-19 containment measures since late April, allowing most firms to resume their activities. This diminished the economic rationale for broad-based support packages. Therefore, since October, direct fiscal support only continued for firms that are still affected by existing measures, mostly targeted towards the hospitality sector. The withdrawal of government support could be crucial to an efficient allocation of resources towards the most productive activities during the economic recovery phase.

We agree with staff that government support to viable, but insolvent firms might be needed. Judicial requests for debt restructuring and bankruptcy have been unusually low during the pandemic and could increase now that fiscal policy has become more targeted. In August, the number of bankruptcies reached its lowest level since December 1990. The new restructuring law that came into effect on January 1, 2021, featuring elements of the UK Scheme of Arrangements and the US Chapter 11 procedure, enables firms or its creditors to initiate an extrajudicial restructuring plan that can be binding for all creditors once the plan is approved by at least one in-the-money creditor class and confirmed by the court. The government announced in October that it would allow the tax authority to temporarily deviate from its preferential creditor status in restructuring cases for viable firms with unsustainable debt. Furthermore, selected firms will be granted further postponement of tax obligations after October 2021. At the same time, the authorities remain committed to continue reforms to the international corporate taxation framework to help fight tax avoidance globally.

Dutch banks prove to be resilient, also to a scenario of increased solvency risks among SMEs. Dutch banks' capital positions have not deteriorated since the pandemic, partly because the proportion of non-performing loans has shown only a limited rise. However, the withdrawn government support may increase the probability of default or write-downs of bank loans, as also pointed out by staff. Due to the relatively limited exposure to corporate sectors hit hard by the pandemic, banks are resilient to a solvency shock in the corporate sector (SMEs), as a DNB stress test shows. The resilience of the Dutch banking sector under severe scenarios is also shown by the July EBA stress test of European banks, having an impact on CET-1 ratios in line with that of the European average of around 5.3%.

To maintain financial sector resilience, housing market vulnerabilities need to be addressed. The recent sharp increase in house prices (in August by as much as 17.8% compared to a year earlier), leaves Dutch households and (via direct and indirect channels) financial institutions vulnerable to a price correction. With a total of 100% of GDP – of which almost 95% mortgage debt – household debt is among the highest in Europe. In order to increase banks' resilience to a house price shock, DNB plans to introduce a previously announced minimum floor for the risk weighting of bank mortgages starting January 1, 2022. However, macroprudential policies can only provide so much counterweight to the build-up of vulnerabilities. Moreover, non-bank players fall outside the

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scope of the macro-prudential toolkit. The authorities will closely monitor developments in the non-bank financial sector to decide on the need for developing macroprudential tools to contain potential vulnerabilities.

The authorities remain committed to address supply and demand mismatches in the housing market. The maximum loan-to-value ratio of 100% is still relatively high. Although tax deductibility of mortgage interest is being partly phased out since 2013, from a tax perspective mortgage loans remain an attractive means of financing an owner-occupied home. The authorities will seriously consider staff's proposals to make further progress with the ongoing reduction of the subsidization of owner-occupied housing, while investing an additional 100 million a year on average in the next 10 years to address supply shortages in the housing market.

A tight labor market might create inflationary pressures over the medium-term. The recent increase in inflation caused by rising gas prices is expected to be mostly temporary. However, the labor market may cause further inflationary pressure over the medium-term. With a record growth in new vacancies, the number of open positions exceeded the number of unemployed over the second quarter for the first time since the statistical office started their recordings in 2003. The number of vacancies as well as the number of new jobs reached a record high in June. The unemployment rate returned to its pre-pandemic level of 3.1% in July 2021. Despite an increase in labor supply, the unemployment rate has been rather stable since.

Climate is high on the agenda. No country is immune to natural disasters, especially a country like the Netherlands with more than 25% of its surface below sea level. Together with other European countries, the Netherlands has set ambitious targets to reduce its CO2 emissions and move towards greener energy sources. Over the past years, the Dutch government has taken significant steps in this direction with the adoption of a climate law and with the national climate agreement. Additional measures were announced in this year's budget, while acknowledging that more needs to be done to become climate neutral in 2050. The authorities very much welcome the proposal of a broad and ambitious policy package by the European Commission and trust that the next government will decide on further national measures to meet these ambitions.

The authorities welcome the analysis and recommendations to strengthen the education system. We are pleased to see that the Dutch education system performs well by international comparison. At the same time, we acknowledge that the Dutch education outcomes have deteriorated in some respects, as reflected in the decreasing PISA test scores. Furthermore, we see significant gaps in primary education among pupils from poorer households compared to the average. Therefore, the authorities agree with the importance of continued investment in education, especially in the quality of education and teachers, and in regions where needed most, and recognize the need to foster early childhood education to help pupils start strong in their curriculum.

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