OECD Economic Surveys
NETHERLANDS

MARCH 2016

OVERVIEW

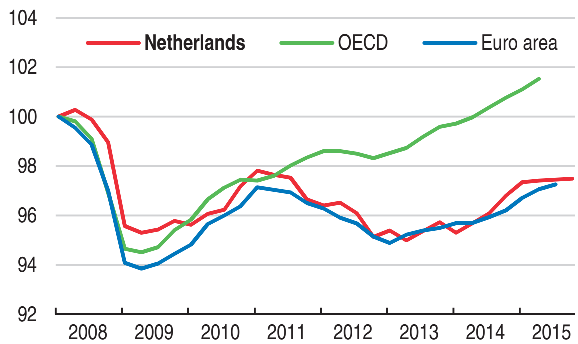
Executive summary

- *Sustaining the recovery*
- *Enhancing private investment*
- *Boosting skills for all*

Sustaining the recovery

Real GDP per capita

Index 2008 Q1 = 100



Source: OECD (2016), *OECD National Accounts* (database), February.

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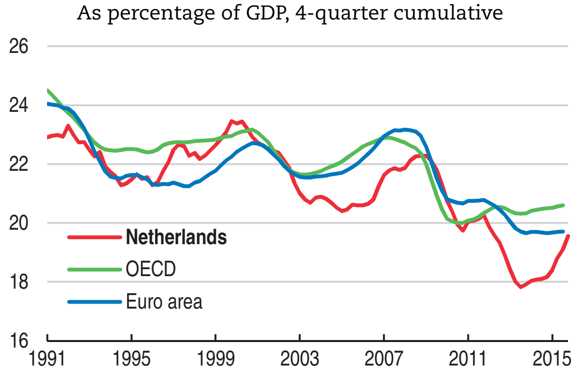
Significant structural reforms have recently been implemented. Growth is picking up, although unemployment is falling only slowly and labour productivity has been flat. Public finances have improved significantly and the return to the previous fiscal framework based on spending control is welcome. Policies to reform the tax system need to be revived to make it more efficient, equitable and environmentally-friendly. Incentives for self-employment should be reviewed.

Enhancing private investment

Total investment

As percentage of GDP, 4-quarter cumulative



Source: OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), February.

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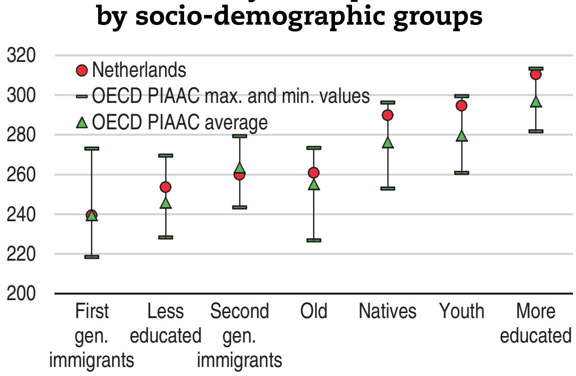
Private investment is strengthening along with stronger growth. Lowering the costs of doing business, further limiting rental regulation and providing more financing for SMEs would spur investment. It is also necessary to boost investment in green infrastructure and support a shift towards renewable energy. Lifting investment in research and development would help the Netherlands to remain among the innovation frontrunners.

Boosting skills for all

Literacy score-point by socio-demographic groups



Source: OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills.*

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The overall skill level is high, but will need to continue to improve. Higher quality of childcare facilities would help less privileged families. With rising demand for complex skills, greater emphasis is needed on generic skills. On-the-job learning should be boosted by encouraging the development of businesses, further lowering barriers to permanent contracts and improving training. Strengthening programmes for those not working, especially for new immigrants and long-term unemployed, would raise living standards. Several of these measures would reduce labour market mismatches, thereby boosting productivity.

Main Findings and Key Recommendations

Fiscal policies	
The fiscal position has strengthened considerably, but expected tax reforms were not achieved.	Increase tax efficiency, notably by accelerating the reduction of mortgage interest rate relief and phasing out the lower VAT rate, while keeping the tax reform fiscally neutral.
The rapid rise in self-employment promises a more responsive economy, but also poses challenges for the social insurance system.	Reconsider the degree of tax incentives for self-employed, and explore alternatives for ensuring they build adequate savings for disability, and ageing risks if needed.
Enhancing private investment	
The private rental market falls short of rising demand.	Support the supply of rental housing by further limiting strict rent regulation in the private market.
Meeting environmental targets is difficult.	Ensure stronger investment in renewable energy and energy efficiency by improving cost-effectiveness of existing instruments and possibly increasing their scale.
Private spending on R&D is low.	Step up efforts to strengthen innovation performance by increasing direct public support for R&D.
SMEs face difficulties getting credit.	Increase competition in the market for SME loans by considering the creation of a credit register for companies, based on standard reporting data if possible.
Boosting skills for all	
Overall level of skills is high, but the skills of some groups are lagging behind.	Raise the quality of early childhood education and care further, and foster generic skills in vocational education and training. Further raise teachers' qualification, in particular in disadvantaged schools, and subsequently their wages.
Many businesses remain small.	Enhance entrepreneurial skills by further evaluating the effectiveness of programmes in formal education, developing online stand-alone training programmes, and promoting peer-to-peer learning.
Some vulnerable groups are less attached to the labour market.	Strengthen the provision of public employment services, and create programmes combining work experience and on-the-job training as well as language courses for immigrants.
Permanent contracts facilitate access to formal lifelong learning but are difficult to obtain because of employment protection legislation. Labour mobility is low, which restricts informal on-the-job learning.	To ensure higher prevalence of permanent contracts while enhancing resource allocation in the economy, further ease employment protection legislation on permanent contracts by continuing to reduce the cap on severance payments.

Assessment and recommendations

- *Sustaining the recovery*
- *Maintaining healthy public finances*
- *Enhancing private investment*
- *Boosting skills for all*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

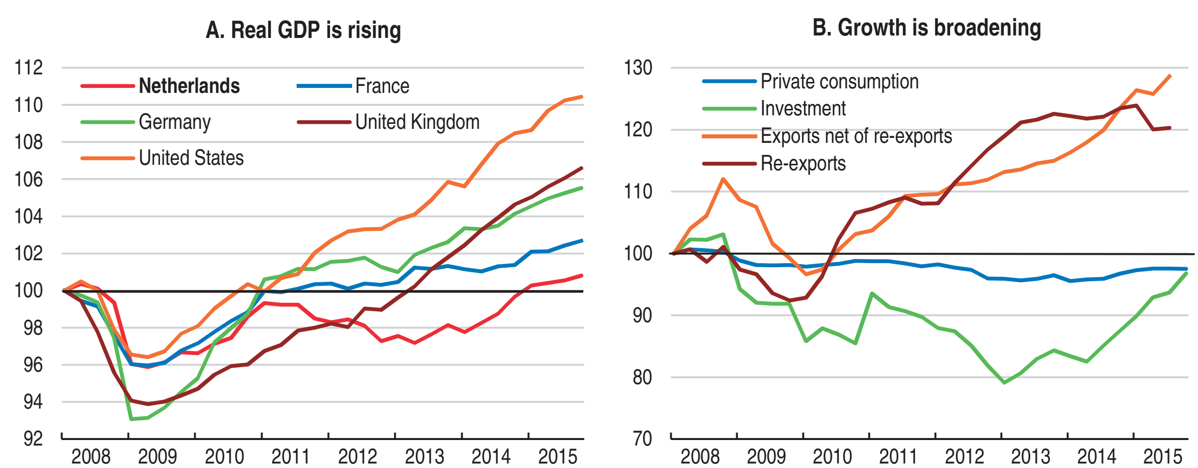
Sustaining the recovery

Key challenges for sustainable and inclusive growth

Following a period of muted economic activity in the wake of the global downturn, growth has picked up since 2014, and gross domestic product (GDP) has recently overtaken its pre-crisis peak (Figure 1, Panel A). Growth has broadened from exports to domestic demand (Figure 1, Panel B). Monetary conditions have been very expansionary for some time, contributing to the revival of the housing market and lifting exports through currency depreciation. The budget deficit has been reduced to below 3% of GDP, and fiscal policy has moved from a restrictive to a neutral stance. Since the 2014 *Economic Survey*, the authorities have adopted a number of structural reforms, recording the largest increase in the *Going for Growth* reform responsiveness index in the OECD (OECD, 2015a), the lowest value of the OECD Product Market Regulation indicator, and the 5th best competitiveness position in the latest World Economic Forum ranking. Reform efforts have supported a business-friendly, competitive and innovative environment, boosting consumer confidence and entrepreneurial spirits.

Figure 1. **Growth has picked up**

Index 2008 Q1 = 100



Source: OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), February and DNB (2016), "Balance of payments and international investment position statistics", *Statistics DNB*, De Nederlandsche Bank, February.

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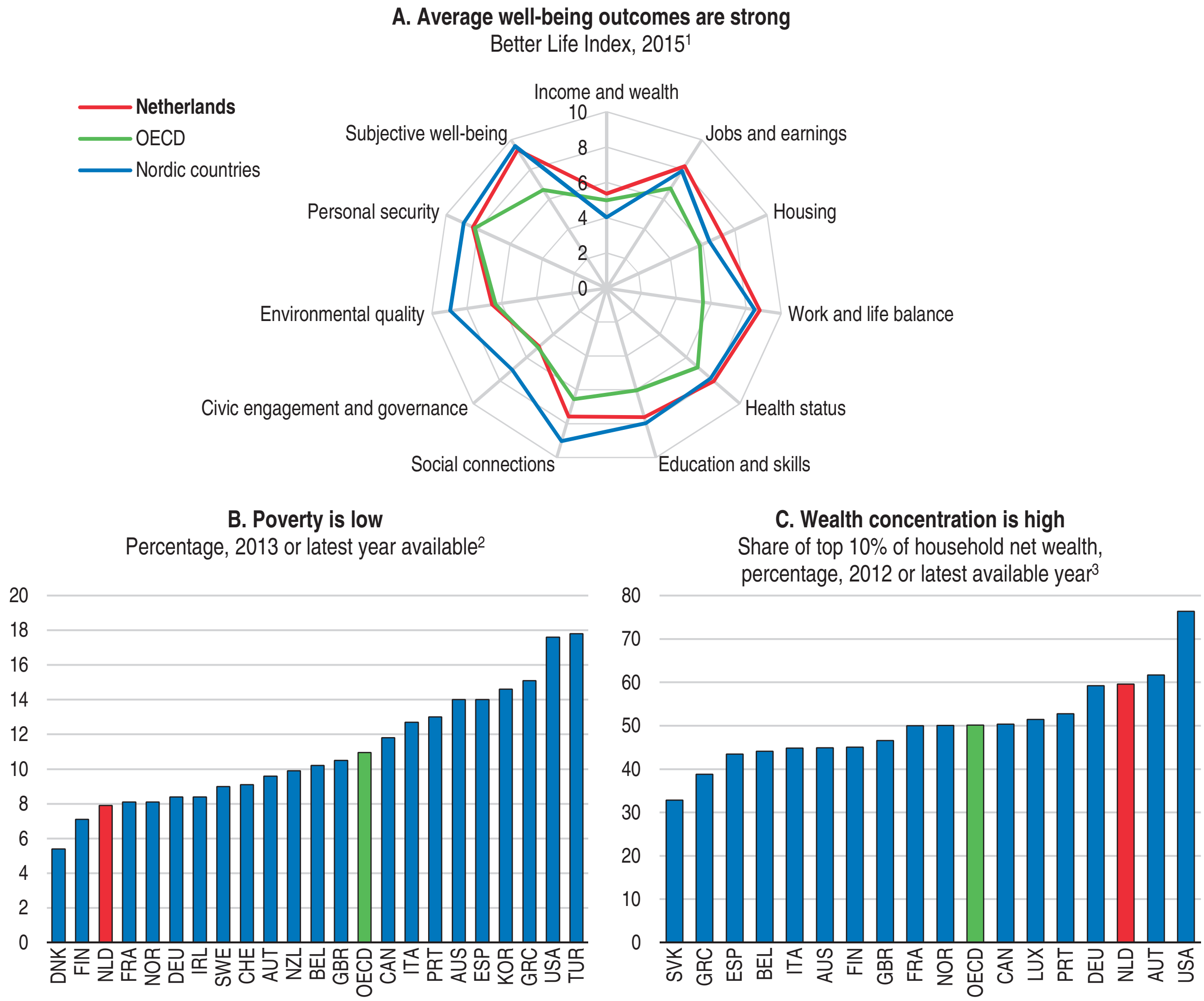
Well-being outcomes are above or equal to the OECD average, although somewhat weaker than in the Nordic countries (Figure 2, Panel A). Poverty is among the lowest in the OECD (Figure 2, Panel B). Income inequality is below the OECD average according to the Gini coefficient, but nearly 25% of total income accrues to the richest 10%, which is close to the OECD average (OECD, 2015b). Wealth is highly concentrated (Figure 2, Panel C), although

Figure 2. **Social indicators are relatively good overall**



1. Each well-being dimension is measured by one to four indicators from the OECD Better Life Index set. Normalised indicators are averaged with equal weights. Indicators are normalised to range between 10 (best) and 0 (worst) according to the following formula: (indicator value – minimum value)/(maximum value – minimum value) x 10. The aggregate for Nordic countries (i.e. Denmark, Finland, Norway and Sweden) is calculated as an unweighted average.
2. The relative poverty rate is based on 50% of the median disposable income (adjusted for family size and after taxes and transfers) of the entire population. 2011 for Canada. The OECD aggregate covers 32 countries and it is calculated as an unweighted average.
3. Wealth refers to net private household wealth and excludes pension wealth. Data refer to the shares of the richest 10% of wealth holders. The OECD aggregate is calculated as an unweighted average of the data shown.

Source: OECD (2015), *OECD Better Life Index*; OECD (2015), "Income Distribution Database", *OECD Social and Welfare Statistics*, October; and OECD (2015), *In It Together: Why Less Inequality Benefits All*.

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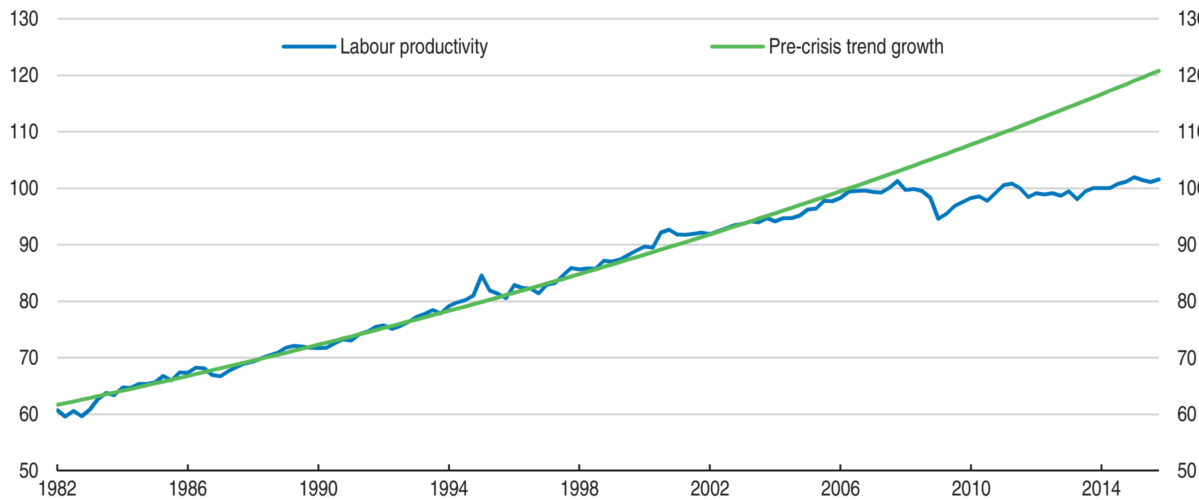
less so if pension wealth, which is substantial, is included (Caminada et al., 2014). The authorities' plans to make the occupational pension system actuarially fairer would reduce saving transfers from younger (poorer) cohorts to older (wealthier) cohorts, evening out wealth distribution across generations and over lifetime.

Labour productivity growth has been weak since the onset of the crisis, as observed in many OECD countries, leading to a shortfall of over 15% relative to what would have happened if productivity had continued to rise at the same pace as its pre-crisis trend growth rate of around 2% per year (Figure 3).

Figure 3. **Labour productivity is flat**

Output per hour, index 2007 = 100[1]



1. Labour productivity is defined as real GDP divided by total hours worked. Pre-crisis labour productivity trend growth is calculated between 1982 Q1 and 2007 Q4, and is projected from 2008 onwards.

Source: OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), February.

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The main messages of this Survey are:

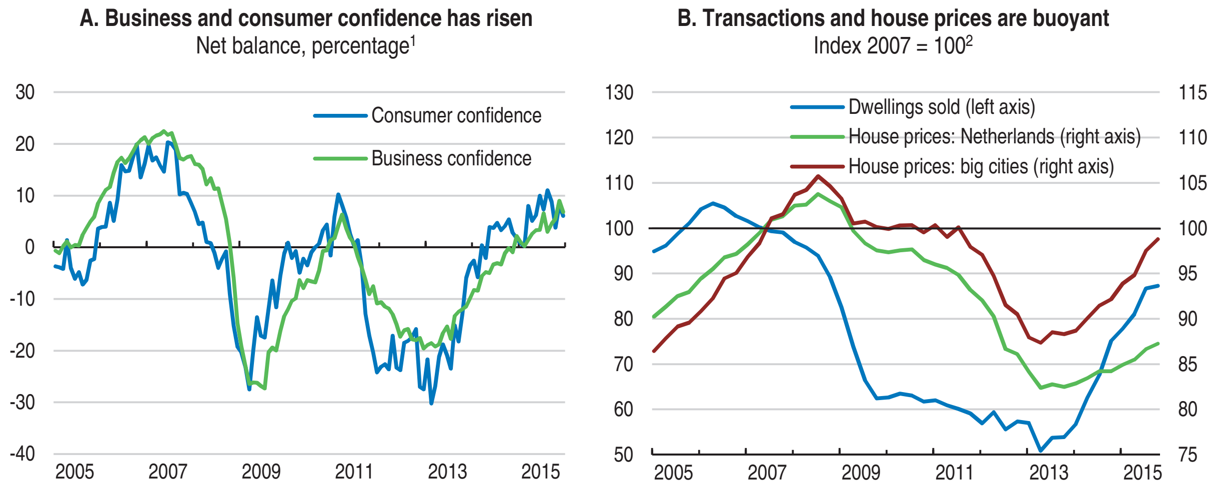
- Economic activity has picked up and macro-financial vulnerabilities have been significantly reduced since 2007, putting GDP growth on a sustainable and inclusive footing.
- Raising private sector investment, notably in innovation and business capital, would help to restore productivity growth.
- Continuing to improve skills in school and in the workplace, and better matching skills to jobs, would raise productivity and help to ensure that everyone enjoys the fruits of higher growth.

The economic outlook is positive

Growth reached nearly 2% in 2015, mainly driven by strengthening domestic demand. Business and consumer confidence has been rising (Figure 4, Panel A). Higher employment and stronger wage growth, notably supported by lower contributions to second-pillar pensions since January 2015, have revived private consumption. The housing market is also recovering from a deep slump (Figure 4, Panel B) and higher house prices are, in turn, supporting consumption.

As the government has started to gradually reduce gas extraction to limit the risk of earthquakes, exports of natural gas decreased and imports increased, which reduced the pace of the recovery, subtracting around 0.5 percentage point from GDP growth per year in 2014 and 2015. The current account surplus has fallen to below 10% of GDP but remains high, mainly driven by robust exports, with a significant contribution of exports net of re-exports (Figure 5). The strong current account surplus also reflects persistently higher savings than investment of Dutch corporations (Figure 6). The large saving position of non-financial corporations is mainly the consequence of comparatively low dividend payments and high foreign investments of multinationals (European Commission, 2015a). However, some small and medium-sized enterprises (SMEs) still face difficulties accessing finance

Figure 4. **Confidence and the housing market have recovered**



1. Quarterly data are calculated as unweighted average of monthly figures. Business confidence indicator is calculated as the arithmetic average of the balances (in percentage points) of the answers to the questions on: production – future tendency; finished goods stocks – level; and order books – level. Net balance is used to summarise answers to multiple-choice questions related to business tendency surveys and it takes value between -100% (unfavourable) and +100% (favourable) with a midpoint of 0. Business confidence is calculated as unweighted average of monthly figures of confidence indicators in manufacturing, construction, retail trade and services (excluding retail trade).
2. 4-quarter moving average applied to the series of dwellings sold. House prices refer to price index of existing own homes that are located on Dutch territory and sold to private individuals. House prices in big cities are calculated as an unweighted average of prices in Amsterdam, The Hague, Rotterdam and Utrecht.

Source: OECD (2016), *Main Economic Indicators* (database), January and Statistics Netherlands (2016), "House Price Index; existing, Netherlands", in Construction and housing, *Statline*, January.

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Figure 5. **Trade surplus is sizeable and rising**

As a percentage of GDP

1. Exports of goods and services.

Source: OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), February and DNB (2016), "Balance of payments and international investment position", *Statistics DNB*, De Nederlandsche Bank, February.

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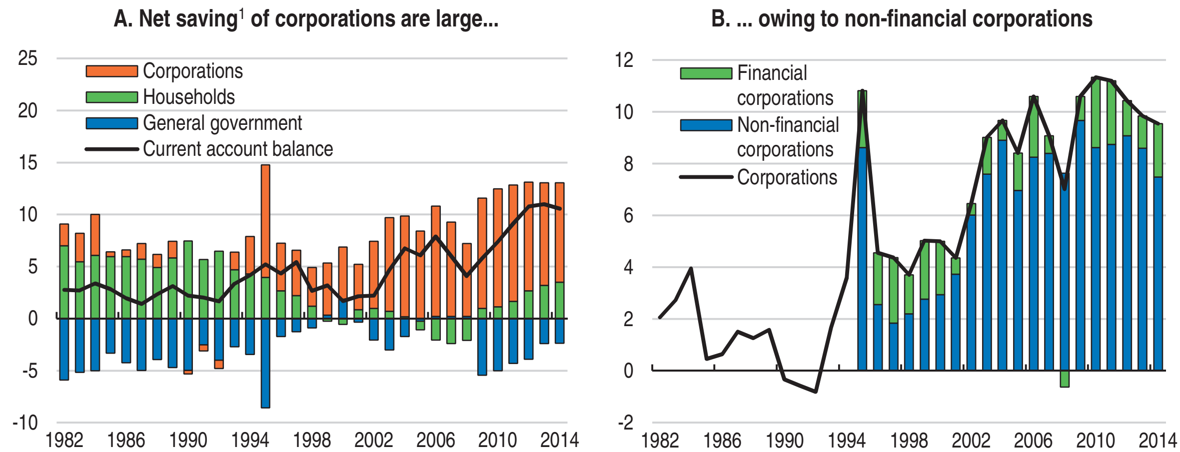
(see below), holding back their domestic investments. Sustainable increases in residential investment, which fell substantially following the housing market downturn in 2008-13, would also help to reduce the sizeable current account surplus and to address euro area imbalances.

Figure 6. **Net saving position of sectors has been rising or remained high**

As a percentage of GDP



1. Net saving is the sum of current and capital account balances. Households also include non-profit institutions serving households.

Source: OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), February; Datastream; and Statistics Netherlands (2015), "Current transactions by sectors; National Accounts" in Macroeconomics, *Statline*, November.

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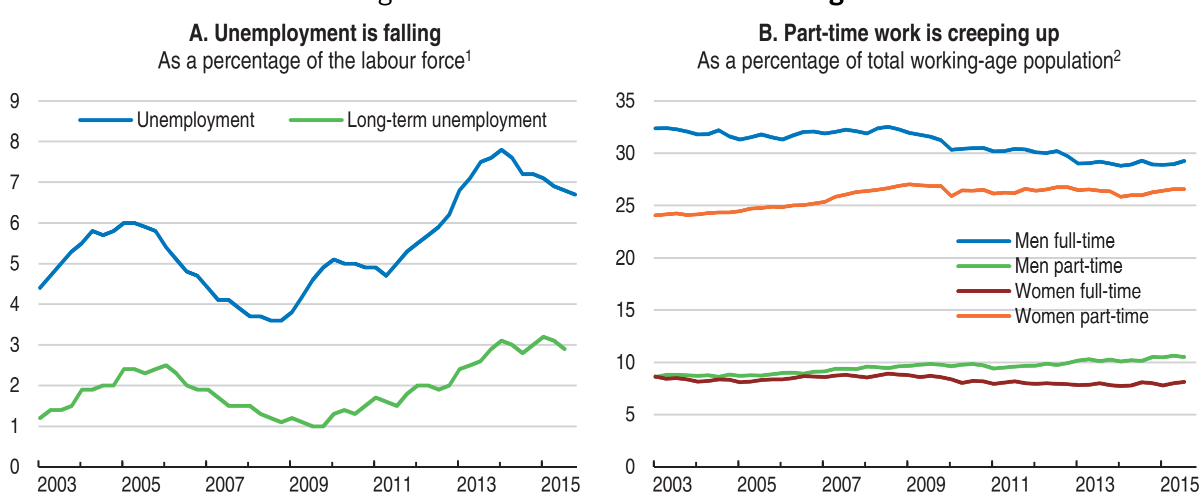
The unemployment rate has fallen to 6.5%, which is around the OECD average, but is still well above the Dutch pre-crisis low of nearly 3.5% in late 2008, and long-term unemployment has increased (Figure 7, Panel A). The fall in the unemployment rate has been driven by recovering output and demand, but labour hoarding during the downturn, which limited the rise in unemployment, may be delaying a stronger recovery in employment. Full-time employment among men has not yet recovered to pre-crisis level and part-time employment has been edging up more recently (Figure 7, Panel B).

Figure 7. **Labour market is recovering**



1. Long-term unemployment refers to those who have been unemployed for 12 months or more.
2. Data refer to working-age population aged between 15 and 64. Part-time employment refers to those who work fewer than 35 hours per week. Full-time employment refers to those who work 35 hours or more per week.

Source: Eurostat (2016), *Employment and unemployment (Labour Force Survey)* (database), January.

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GDP growth is projected to strengthen to 2.1% in 2017 (Table 1). Private consumption growth should continue to recover, supported by further improvements in the labour market. The unemployment rate is set to fall gradually, underpinned by stronger increases in employment than in the labour force. Business investment is projected to contribute positively to growth in the wake of vibrant domestic demand, and of a gradual normalisation in credit conditions. Residential investment growth should moderate, but housing construction is expected to make a stronger contribution to growth. Inflation is projected to increase somewhat, but should remain low as the output gap is not projected to close in the near term.

Table 1. **Macroeconomic indicators and projections**

Annual percentage change, volume (2010 prices)

	2012 Current prices (billion EUR)	2013	2014	2015	2016	2017
Gross domestic product (GDP)	**645.0**	**-0.4**	**1.0**	**1.9**	**1.7**	**2.1**
Private consumption	289.8	-1.4	0.0	1.6	0.9	1.3
Government consumption	169.9	0.2	0.3	0.0	0.6	1.2
Gross fixed capital formation	121.9	-4.5	3.5	10.3	7.2	5.3
Housing	22.6	-11.6	6.9	26.8	10.1	5.7
Business	75.2	-3.0	4.4	8.4	7.8	6.2
Government	24.2	-2.5	-1.9	1.8	1.5	1.2
Final domestic demand	581.6	-1.6	0.8	2.9	2.2	2.2
Stockbuilding[1]	1.6	-0.1	-0.1	-0.6	0.2	0.0
Total domestic demand	583.2	-1.7	0.6	2.2	2.4	2.2
Exports of goods and services	528.2	2.4	4.0	4.2	3.0	4.1
Imports of goods and services	466.4	1.1	4.0	4.9	4.1	4.5
Net exports[1]	61.8	1.1	0.5	0.0	-0.4	0.1
Other indicators (growth rates, unless specified)						
Potential GDP	..	0.8	0.9	1.1	1.2	1.3
Output gap[2]	..	-3.1	-3.0	-2.2	-1.7	-1.0
Employment	..	-0.8	-0.6	1.0	0.7	0.9
Unemployment rate	..	7.3	7.4	6.9	6.3	5.9
GDP deflator	..	1.3	0.8	0.3	0.7	1.2
Consumer price index (harmonised)	..	2.6	0.3	0.2	0.7	1.2
Core consumer prices (harmonised)	..	2.5	0.6	0.9	1.0	1.3
Household saving ratio, net[3]	..	7.3	8.2	8.3	8.8	9.3
Current account balance[4]	..	11.0	10.6	9.6	8.7	8.2
General government fiscal balance[4]	..	-2.4	-2.4	-2.2	-1.9	-1.5
Underlying general government fiscal balance[2]	..	-1.3	-0.9	-1.1	-1.2	-1.0
Underlying government primary fiscal balance[2]	..	-0.3	0.1	-0.1	-0.4	-0.2
General government gross debt (Maastricht)[4]	..	67.9	68.2	66.9	66.6	66.2
General government net debt[4]	..	39.9	43.7	44.9	45.8	45.9
Three-month money market rate, average	..	0.2	0.2	0.0	-0.1	0.1
Ten-year government bond yield, average	..	2.0	1.5	0.7	0.7	1.1

1. Contribution to changes in real GDP
2. As a percentage of potential GDP.
3. As a percentage of household disposable income.
4. As a percentage of GDP.

Source: OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), February.

Past subdued economic growth may have weakened the quality of balance sheets of SMEs, which could negatively weigh on their dynamism and lower economic growth. Moreover, churn in the corporate sector is structurally low, potentially holding back the reallocation of resources towards more productive uses. Further reductions in gas production would reduce growth and fiscal revenues, although lower oil prices should support economic activity. Recent fiscal decentralisation to municipalities could lead to spending overruns, but may also increase the efficiency of spending if local authorities are better tuned to local needs. The effect of past labour hoarding on the evolution of employment and unemployment is difficult to assess, although recent labour market reforms could foster employment growth more than expected. Stronger growth in the euro area would boost external demand, but subdued economic activity of emerging markets would undermine global trade and hold back Dutch exports indirectly by hurting its trading partners.

Indicators of potential macro-financial vulnerabilities have abated significantly since the crisis, although, at nearly 120% of GDP, gross household debt is one of the highest in Europe (CBS, 2015a), owing to high mortgage debt, posing a vulnerability in the event of a financial crisis. This is true even though household net wealth is also large, estimated at 400% of GDP in 2012 (according to Statistics Netherlands), because households with assets (those over 50 years old) are not the same as those holding the debt (young households), as discussed in Chapter 1 of the 2014 *Economic Survey* (OECD, 2014a). Since 2013, amortisation of new mortgages has become a precondition for mortgage interest deductibility, which should increase amortising mortgages over time as before most of the mortgage portfolio was not amortized regularly (that is, the principal was not paid down in instalments). Also, the maximum tax rate at which mortgage interest can be deducted is being lowered, but only very gradually from 52% to 38% between 2014 and 2042. Other reforms include gradual cuts in the maximum loan-to-value ratios to 100% in 2018, reductions in loan-to-income ratios to offset higher lending capacity driven by lower interest rates, and decreases in the maximum value of a mortgage eligible to public guarantees (insuring against residual liabilities left after a sale of a property).

Financial and other macroeconomic vulnerabilities have fallen since before the onset of the global financial crisis. The main exception is the still large size of the Dutch financial sector, which is well above its long-term average when considering domestic activities, although foreign activities have been reduced, the leverage ratio has increased and external bank debt has diminished relative to historical averages (Box 1).

Other indicators also suggest that banking sector stability has continued to improve since the analysis of the situation of the banking sector in the 2014 *Economic Survey* (OECD, 2014a). Un-weighted capital ratios increased to about 5%, and weighted capital ratios rose to over 15% for Tier 1 capital and close to 20% for total regulatory capital in late 2015. Non-performing loans are low and have been trending downwards, but there is scope to foster banks' capacity to absorb solvency risks as banks' capital would be cut by nearly 40% if non-performing loans were fully written off, which is high in international comparison. At about 130% in mid-2015, the loan-to-deposit ratio was high, exposing banks to potential liquidity shocks, but linking the tax deductibility on mortgage interest payments to the amortisation of new mortgages since 2013 should gradually reduce this ratio. The authorities privatised nearly a fourth of the capital of ABN AMRO in 2015, following the nationalisation of the bank early in the crisis, which was another step in

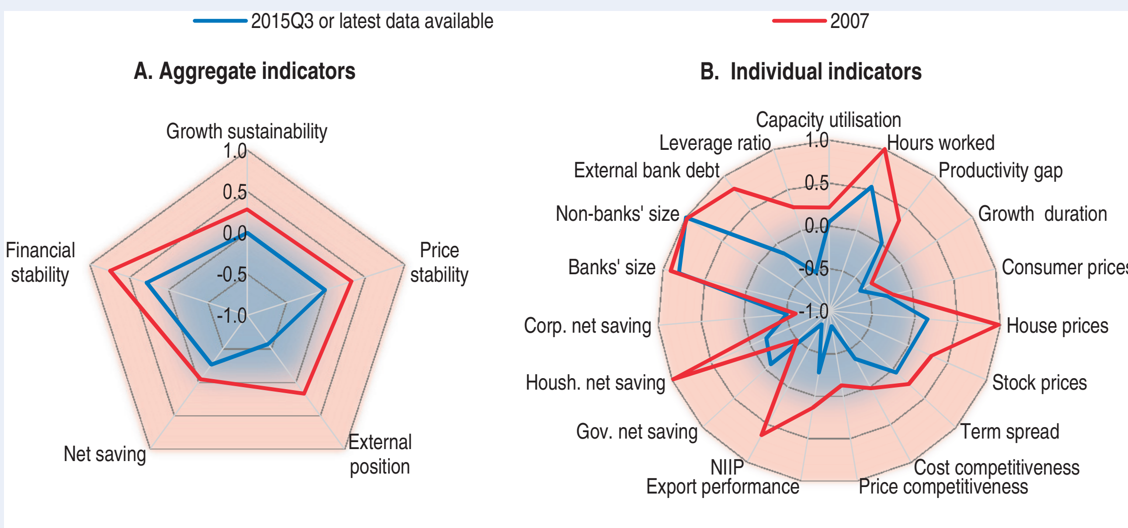
Box 1. **Assessing potential macro-financial vulnerabilities**

Potential macro-financial vulnerabilities can be measured and mapped in terms of deviations of indicators from their real time long-term averages (0), i.e. up to the point in time considered, with the highest deviations representing the greatest potential vulnerability (+1), and the lowest deviations representing the smallest potential vulnerability (-1). Deviations from real time long-term averages are used for all indicators except consumer price inflation which is measured as deviations from 2%. Selected indicators are based on recent OECD work on vulnerability indicators (Röhn et al., 2015), and the linkages between finance and economic growth (Cournède and Denk, 2015).

Potential macro-financial vulnerabilities have fallen significantly since the crisis (Figure 8). In 2007, the greatest potential vulnerabilities were in the financial sector, but there were also indications of weaker growth sustainability, price stability and external position (Figure 8, Panel A). More precisely, the size of the financial sector was large and external bank debt was high, household net saving position was poor, there were capacity pressures on the labour market, house prices were overvalued, and the net international investment position was fragile (Figure 8, Panel B). There has been a major correction of imbalances since 2007, except for the size of the financial sector, which remains large. Although the interaction of vulnerabilities may be difficult to predict, their combined effect was signaling important risks to growth in the run-up to the global crisis (Figure 9). The greatest risk exposure was in the financial sector, which only fell during the double-dip recession.

Figure 8. **Potential macro-financial vulnerabilities are low and have diminished significantly since 2007**

Deviations of indicators from their real time long-term averages (0), with the highest deviations representing the greatest potential vulnerability (+1), and the lowest deviations representing the smallest potential vulnerability (-1)[1]



1. Each aggregate macro-financial vulnerability indicator is calculated by aggregating (simple average) normalised individual indicators. Growth sustainability includes: capacity utilisation of the manufacturing sector, total hours worked as a proportion of the working-age population (hours worked), difference between GDP growth and productivity growth (productivity gap), and an indicator combining the length and strength of expansion from the previous trough (growth duration). Price stability includes: the average of overall inflation and core inflation (consumer prices), the average of house prices-to-rent ratio and house prices-to-income ratio (house prices), stock market index for all Dutch shares adjusted by nominal GDP (stock prices), and the difference between long-term and short-term government bond interest rates (term spread). External position includes: the average of unit labour cost based real effective exchange rate (REER) and consumer price based REER (cost competitiveness), relative prices of exported goods and services (price competitiveness), ratio of exports to export markets (export performance), and net international investment position (NIIP) as a percentage of GDP. Net saving includes: government, household and corporate net saving, all expressed as a percentage of GDP. Financial stability includes: banks' size (domestic activities) as a percentage of GDP, non-banks' size as a percentage of GDP, external bank debt as a percentage of total banks' liabilities, and capital and reserves as a proportion of total banks' liabilities (leverage ratio).

Source: OECD calculations based on OECD (2015), *OECD Economic Outlook: Statistics and Projections* (database), December and Datastream.

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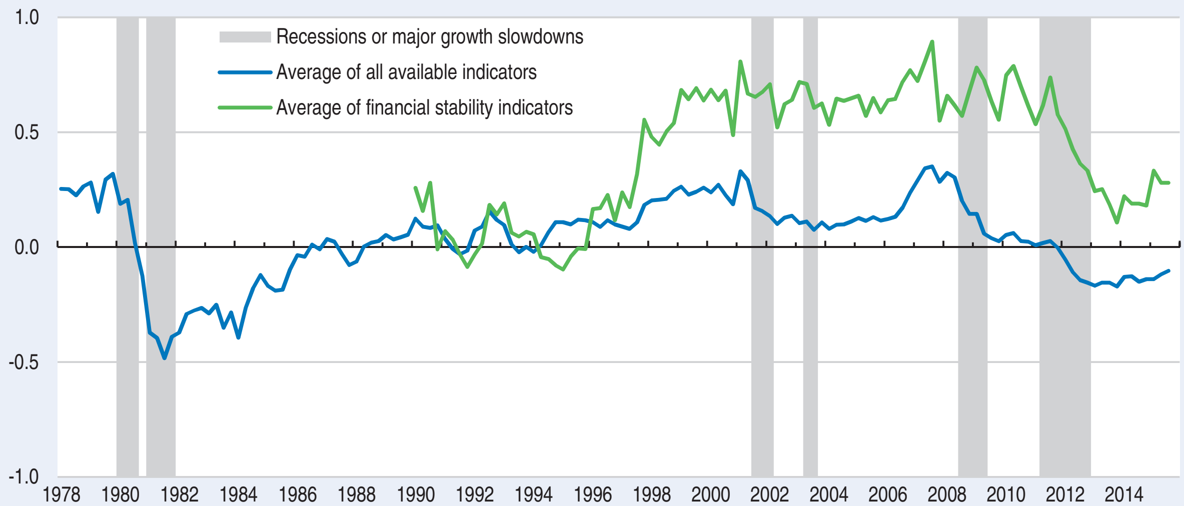
Box 1. **Assessing potential macro-financial vulnerabilities** *(cont.)*

Figure 9. **Vulnerability indicators and economic growth**

Deviations of indicators from their real time long-term averages (0), with the highest deviations representing the greatest potential vulnerability (+1), and the lowest deviations representing the smallest potential vulnerability (-1)[1]



1. Recessions or major growth slowdowns are defined as at least two consecutive quarters with a quarterly growth rate of at most 0.2%.
Source: OECD calculations based on OECD (2015), *OECD Economic Outlook: Statistics and Projections* (database), December and Datastream.

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the right direction. Finally, the Financial Stability Committee has been outspoken and pro-active about risks, for instance by recommending future governments that the ongoing gradual reduction in the loan-to-value limit to 100% in 2018 should be continued until 90% is reached in 2028.

Economic prospects are also subject to significant potential shocks, the probabilities and consequences of which are difficult to quantify in terms of risks to the projections (Box 2).

Box 2. **Possible shocks to the Dutch economy**

Shock	Possible impact
Sharp increase in immigration	A significant increase in the current wave of migrants and refugees, spurred by greater geopolitical instability in the Middle East, would intensify pressures on public spending and the housing market. However, this shock would also lift consumption in the short term and, if the immigrants are integrated into Dutch society and the economy, would raise output in the medium term.
Turbulence in the euro area and/or the European Union	Renewed financial turmoil in the euro area could result in losses for the Dutch budget and have knock-on effects on the stability of the Dutch financial sector. Impediments in the construction of the European Union could hurt consumer confidence, negatively affect domestic investment decisions of businesses, and hold back the internationalisation of Dutch multinational enterprises.
Distress of financial institutions	A protracted period of low interest rates could jeopardise the financial returns needed, or expected, by the insurance and pension sectors, resulting in potentially costly adjustment.

Maintaining healthy public finances

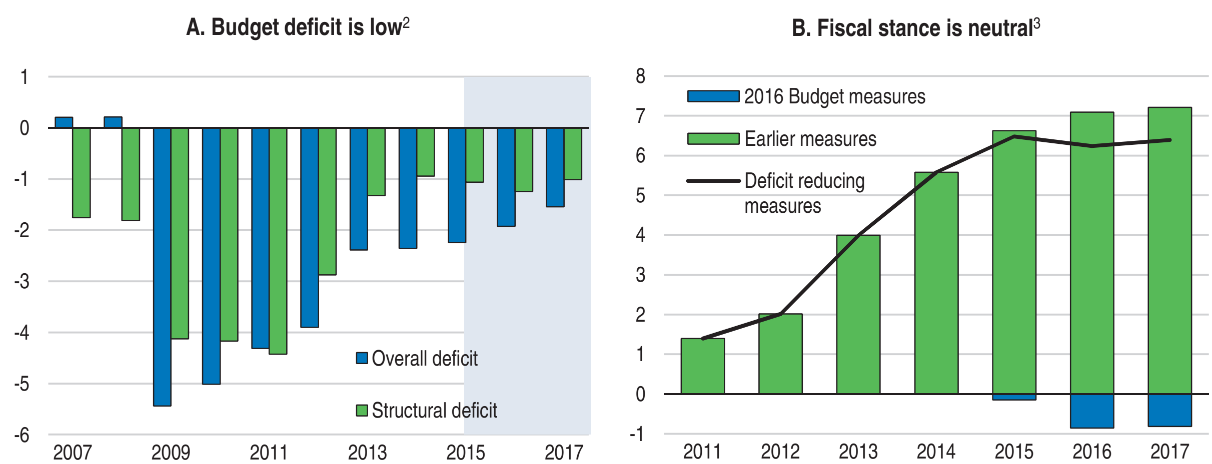
Ensuring long-term sustainability and greater efficiency

Public finances have improved significantly since the global financial crisis, owing to sizeable fiscal consolidation and stronger growth. As a result, the budget deficit is now manageable and the public debt is below 70% of GDP. Although the consolidation was procyclical, it now has allowed the government to shift to a broadly neutral stance. The fiscal framework based on a spending ceiling but allowing the automatic stabilisers to work on the revenue side, where they are in any case the most powerful, has served the Netherlands well in the past and the recent return to it is welcome and should be the guidepost for fiscal policy going forward.

The fiscal stance is expected to remain broadly neutral in the short term, which is appropriate given the positive outlook for fiscal sustainability (see below) and the early stage of recovery. Uncertainty regarding potential output is large and the structural deficit is estimated to have risen above the Medium-Term Objective (MTO) of 0.5% of GDP in 2015 (Figure 10, Panel A). However, this increase mainly reflects the government's decision to reduce gas production to limit the risk of related earthquakes which, together with lower gas prices, reduced budget revenues by more than 1% of GDP between 2013 and 2015. As the reduction in annual budget revenues linked to lower gas extraction is permanent, offsetting measures over the medium term could be needed to achieve the MTO. The budget for 2016 includes a fiscal stimulus package of EUR 5 billion (0.7% of GDP), which keeps the fiscal stance neutral as it essentially offsets consolidation measures that had been adopted earlier (Figure 10, Panel B). Moreover, public spending is also being somewhat increased to address the recent inflow of refugees (Box 3).

Figure 10. **Sizeable fiscal consolidation and the economic recovery have improved public finances**

As a percentage of GDP[1]



1. As percentage of potential GDP for structural deficit.
2. Figures for 2015, 2016 and 2017 are projections.
3. Cumulative net figures.

Source: OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), February; CPB (2015), "Macro Economic Outlook (MEV) 2016", Netherlands Bureau for Economic Policy Analysis, September; and CPB (2015), "Tekortreducerende maatregelen 2011-17", Netherlands Bureau for Economic Policy Analysis, September.

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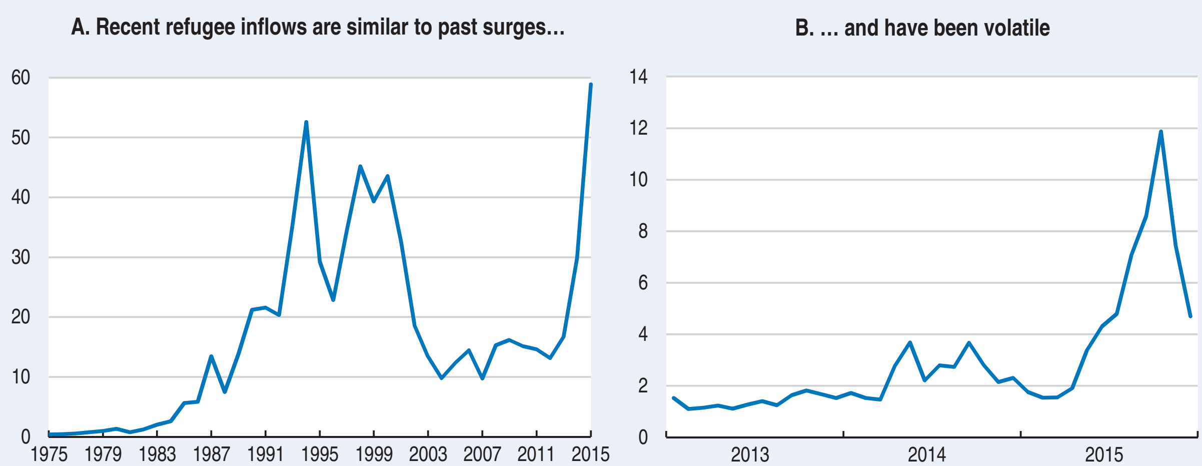
Box 3. **Recent refugee surge and its economic impacts**

Asylum requests surged in 2015, almost doubling relative to 2014, mainly owing to a large inflow of Syrian refugees (Figure 11, Panel A). Inflows have been falling more recently (Figure 11, Panel B), although they could rise again in case of greater geopolitical instability, in particular in the Middle East. It will take time and effort to integrate the refugees, as many could be traumatized by their experience of war and exodus. There are costs in the short term, but they so far have been contained, and the refugees could ultimately add to the country's economic strength. However, the impact on gross domestic product (GDP) per capita will depend on the success of labour market integration and the skills of refugees, as well as the effectiveness of related policies.

Figure 11. **Asylum requests surged in 2015**

Thousand[1]



1. Requests for asylum, including first and subsequent requests and requests for family reunification.

Source: Statistics Netherlands (2016), "Asylum requests" in Population, *Statline*, January.

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Costs associated with refugees and other migrants are uncertain given the rapidly changing numbers of new arrivals and mainly relate to housing in asylum centres, healthcare, education, and allowances, and are estimated at EUR 1 billion (0.15% of GDP) for 2015. This is twice the amount in 2014, but it is similar to the costs in, for example, 2001 when significant inflows also occurred (Figure 11, Panel A). Public spending on newly arrived migrants is set to increase further in 2016, but most likely should not exceed projected levels in other countries with large inflows, such as Austria (0.3% of GDP), Germany (0.5% of GDP) or Sweden (0.9% of GDP) (OECD, 2015). The increase in domestic public spending provides a modest stimulus for the economy; for example, the government and municipalities are investing in 3 500 additional dwellings.

Municipalities are expected to play a growing role in the management of the recently arrived refugees. All municipalities are required to take in asylum seekers, helping to spread inflows throughout the entire country. Exchanging expertise between municipalities on social and labour market integration of refugees and adopting a benchmarking system to monitor the effectiveness of measures, as in Denmark (OECD, 2016), could help to identify best practices. This would also provide guidance for municipalities on how to address medium-term impacts as some refugees become official citizens and gain further access to social assistance, child care and schooling.

Box 3. **Recent refugee surge and its economic impacts** *(cont.)*

A successful integration of refugees in the labour market is crucial to reap economic benefits. Their participation rate is around 45%, which is much lower than that of natives (Vluchtelingenwerk, 2015). Moreover, their jobs involve few hours of work and are low paid. Enhancing language training, providing assistance in the recognition of foreign diplomas and developing skills relevant for the Dutch labour market would increase the likelihood of finding jobs and jobs of better quality. The overall effects of refugees on unemployment are likely to be small but, as the example of Sweden shows, earlier immigrants from low- and middle-income countries could face stronger competition on the labour market (Ruist, 2013).

Sources: Vluchtelingenwerk (2014), IntegratieBarometer 2014 (Integration Barometer, 2014); OECD (2015), "How will the refugee surge affect the European economy?", *Migration Policy Debates*, No. 8., OECD Publishing; Ruist, J. (2015), "Refugee immigration and public finances in Sweden", *University of Gothenburg, Working paper in Economics,* No. 613; and OECD (2016), *Making Integration Work: Refugees and Others in Need of Protection*, OECD Publishing.

The EUR 5 billion stimulus package supports employment, in particular of low-income earners and women, and household consumption. A reduction of income tax rates will support purchasing power of most people. Effective tax rates on labour income will fall further as the tax credit for employed persons is raised, while the phasing out of the general tax credit is accelerated. Labour costs for employers, which increased in recent years, will be lowered from 2017 onwards for workers with incomes at or just above the minimum wage. A higher childcare subsidy and a lower effective tax rate on second earners with young children will support women's participation in paid work.

The stimulus package was originally intended to facilitate a broad tax reform. Unfortunately, political agreement on reform proved impossible. Nevertheless, such a reform is still needed, as the tax system has become much more complex since the last tax reform in 2001. Broadening the tax base would allow for lower rates and for an increase in spending on social policies for those requiring upskilling (see below). The tax reform should be taken up by the next government, but the political debate should start well in advance to ensure consensus and broad support.

The tax system can be made more efficient, equitable and environmentally-friendly. Numerous deductions, exemptions and other tax expenditures lower taxes for households and companies by EUR 18.5 billion (3% of GDP) per year. However, many measures either do not have the envisaged effect or have not been evaluated (Algemene Rekenkamer, 2015), and it is often richer households who benefit the most from tax expenditures. High mortgage interest deductibility for owner-occupied housing is distortionary and regressive as imputed rents are taxed less. Further recovery of the housing market would allow for accelerating the planned reduction (OECD, 2014a). Standard value-added tax (VAT) rate is 21%, but a 6% rate is applied to a wide range of goods and services and this proportionally benefits the rich more (OECD, 2014b) and should be phased out. Environmentally-related taxes represent nearly 3.5% of GDP, significantly more that the OECD average of about 1.5% of GDP, and constitute a large part of government revenues (OECD, 2015c). However, regressive rates apply on natural gas and electricity consumption and energy taxes are significantly lower for energy-intensive firms relative to small users, particularly households. Electricity generation is covered by the European Union's emissions trading system, but the tax exemption for the use of coal for energy production introduced in 2016 may have harmful environmental impacts which go beyond greenhouse gases

(OECD, 2015c). The advantageous tax treatment of diesel relative to gasoline should be eliminated. Accelerating the overdue upgrade of the tax authority's information and communication (ICT) systems would facilitate reform implementation.

The Netherlands has provided strong support to the OECD/G20 Base Erosion and Profit Shifting (BEPS) project. The continuation of this support will be necessary to ensure that the commitments made as part of the BEPS project are fully implemented. The authorities have been trying to ensure that subsidiaries of foreign companies are contributing to actual economic activity in terms of employment or investment, as many letterbox companies only exist to pass on interest income and royalties to low tax jurisdictions (Knottnerus et al., 2015). The planned revision in tax advantages for innovation would be consistent with OECD recommendations. Equally, it is expected that the Netherlands will swiftly put in place compulsory spontaneous exchange of information on tax rulings to help address potential harmful practices. The increasing reputational risks provide an additional incentive to intensify efforts to combat BEPS and to take appropriate domestic and treaty-based measures, in particular regarding "treaty shopping", and the authorities have announced to work in this direction.

Securing debt sustainability

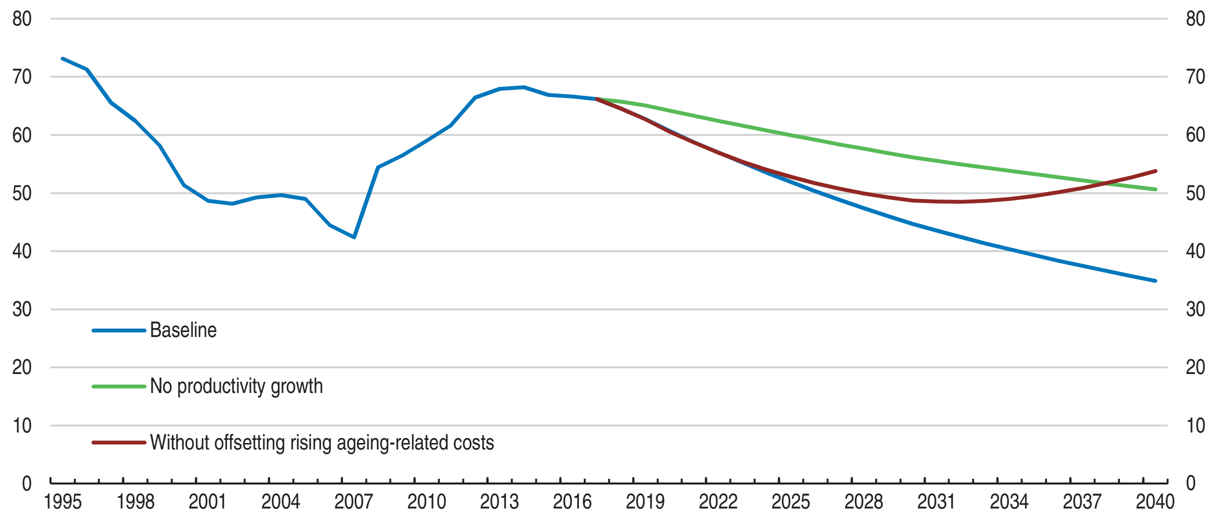
Maintaining a structural budget deficit of 0.5% of GDP, consistent with the Medium-Term Objective, would steadily reduce the public-debt-to-GDP ratio, as indicated by the baseline scenario in Figure 12. This result is quite robust. For example, even if nominal growth were to fall to just 2% – as would happen if inflation were 2% and labour productivity were zero – the debt-to-GDP ratio would fall. On the other hand, if rising ageing-related costs were not dealt with, by containing them through higher taxes or other spending cuts, then the debt-GDP ratio would begin to rise in about 15 years' time.

Pension reforms have successfully contained expected increases in net pension costs. The working-age population between 20 and 64 is projected to fall by slightly more than 10% between 2013 and 2060, placing the Netherlands mid-range of European Union and euro area countries (European Commission, 2015b). The employment rate of people aged 55-64 rose by nearly fifteen percentage points between 2007 and 2014, and the effective retirement age increased to about 63.5 years for men and 62.5 for women in 2012, which is somewhat below the OECD average of respectively slightly above 64 and 63 years (OECD, 2014c). The rise in the statutory retirement age in the state pension system has recently been accelerated, which is welcome, and is set to increase to 66 years in 2018 and to 67 in 2021. The retirement age will subsequently be linked to life expectancy.

However, spending on health and long-term care is projected to rise by almost 2.5% of GDP between 2013 and 2040 (European Commission, 2015b). The rise in overall health expenditure has flattened in recent years, but this could have been caused by the protracted recession (OECD, 2015d). Budget execution therefore needs to be monitored closely and timely provision of information should be stepped up as overruns in the health budget have been common and the reporting delay of health expenditures to the central government is the longest among OECD countries (OECD, 2015e). It will be important that the recent decentralisation of disability and long-term care to municipalities generates the efficiency gains that the government expects. Therefore, it will be critical to monitor the capacity of municipalities to cope with this task, and to avoid risk that services will deteriorate (Charbit and Michalun, 2009).

Figure 12. **Simulations point to further reduction in public debt**

General government gross debt, Maastricht definition, as a percentage of GDP[1]



1. The baseline scenario shows projections based on the OECD Economic Outlook: Statistics and Projections database until 2017, and subsequent real GDP growth of 2% during 2018-40, in line with OECD estimates for long-term potential growth, and nominal GDP growth of 4%. The budget deficit is assumed to be 0.5% of GDP from 2020 onwards, excluding financial transactions. The "no productivity growth" scenario assumes real GDP growth averaging 0.1% over 2018-40, which only reflects employment growth. The "without offsetting rising ageing-related costs" scenario adds changes relative to 2017-levels of net public pension costs, health costs and long-term care costs to the baseline budget deficit, which leads to a budget deficit of 3% of GDP in 2040 and an average of 1.5% over 2018-40.

Source: Calculations based on OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), February and European Commission (2015), "The 2015 Ageing Report: Economic and budgetary projections for the 28 EU member states (2013-60)", Directorate-General for Economic and Financial Affairs.

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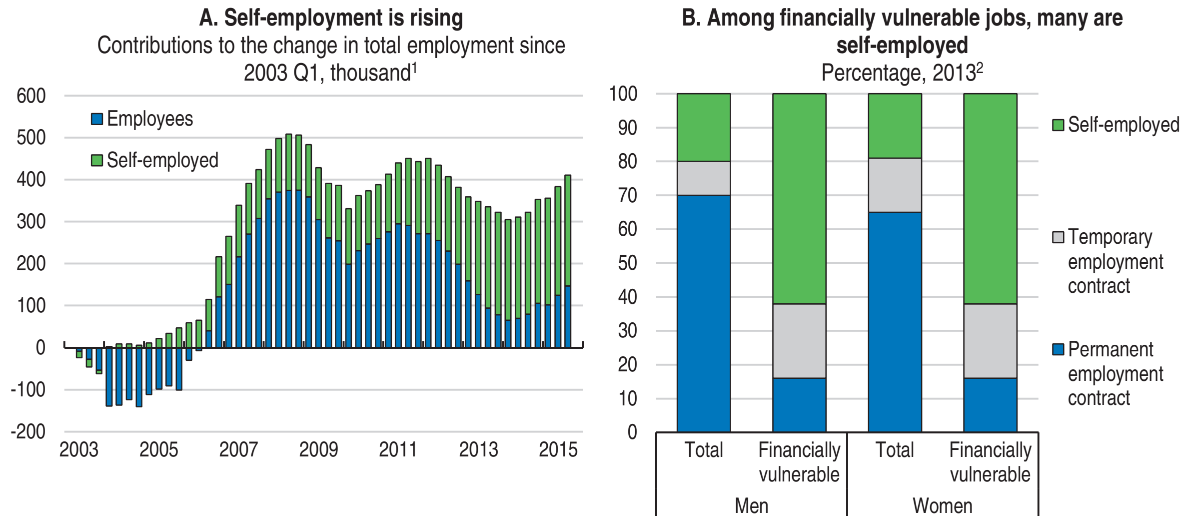
A striking development on the Dutch labour market, which may have long-term fiscal implications, is the rise in self-employment, which reached more than 1 million persons, or 17% of total employment, in mid-2015 (Figure 13, Panel A). This rise, which appears to be mainly structural as it started before the global downturn, partly reflects a shift towards entrepreneurship, which could bode well for the Dutch economy if the results were the adoption of new innovation and greater resilience. On the other hand, self-employed jobs account for around 60% of financially vulnerable positions (Figure 13, Panel B). But rising self-employment also reveals efforts to avoid the high protection granted to permanent contracts and to benefit from substantial fiscal reliefs accorded relative to employees (Figure 14). Self-employed do not have to participate in collective insurance schemes for disability and a substantial expansion of self-employment would undermine the viability of the disability system if a disproportionate share of good risks were to leave it, although so far there is no evidence of this happening (Josten et al., 2014). Such expansion could also generate an unrecognised public liability should the self-employed not insure themselves for disability risks. Moreover, this may also distort competition across firms depending on the relative size of the self-employed workforce.

In light of these issues, the authorities should consider whether the extent of the implicit subsidy to self-employment is too large, and if the protection afforded to regular employment (which raises labour costs) is too high. For some administrative purposes, the status of self-employment, and therefore the qualification for the benefits of being self-employed, currently depends on whether the individual has more than one "client", on the grounds that having only one would suggest a dependent employment relationship. Another criterion is the degree of control and independence. This test would require

Figure 13. **Self-employment is affecting employment and incomes**



1. Cumulative changes.
2. Data refer to full-time (at least 35 hours per week) working men and women between the age of 20 and 64. Those who live on annual incomes below the social security level, and as such not economically independent, are defined as financially vulnerable.

Source: Statistics Netherlands (2016), "Employment, quarterly", in Labour and social security, *Statline*, February and Marion van den Brakel (2015), "Wel werk, maar niet economisch zelfstandig", Sociaaleconomische Trends (*Social-Economic Trends*), Statistics Netherlands, June.

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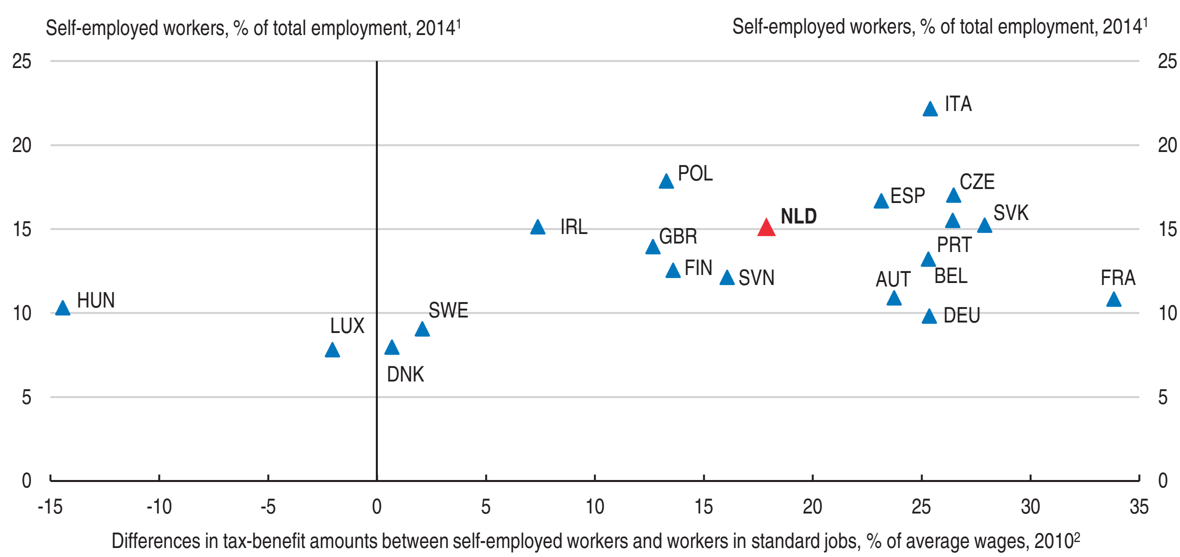
Figure 14. **Tax and benefit system favours self-employed over employees, raising self-employment**



1. Data refer to working-age population aged between 15 and 64.
2. Data refer to those self-employed who work full-time (40 hours per week) and earn between 40% and 160% of the average wage in the country.

Source: Eurostat (2015), *Employment and Unemployment (Labour Force Survey)* (database), December and OECD (2015), *In It Together: Why Less Inequality Benefits All.*

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tighter implementation to distinguish whether the employment relationship in fact resembles dependent employment or not and the authorities are taking steps in this direction. However, it is necessary to find the right balance between higher administrative burdens and the identification of genuine self-employed.

Self-employed are eligible to first pillar pensions, but do not make mandatory contributions to the second pension pillar, which generates a gap in replacement rates relative to workers (OECD, 2015f). The authorities should monitor and raise awareness about the need to build up additional "third pillar" savings, to ensure the self-employed have sufficient pension adequacy in old age and to head off the risk of spending pressures on future budgets. Several OECD countries have such schemes to augment, or even to some extent replace, the first two pillars of universal public pensions and occupational pensions. As part of the National Pension Dialogue, the authorities have started discussing options to strengthen pension savings of self-employed and workers on temporary contracts.

Key fiscal policy recommendations

- Increase tax efficiency, notably by accelerating the reduction of mortgage interest rate relief and phasing out the lower VAT rate, while keeping the tax reform fiscally neutral.
- Reconsider the degree of tax incentives for self-employed, and explore alternatives for ensuring they build adequate savings for disability, and ageing risks if needed.

Enhancing private investment

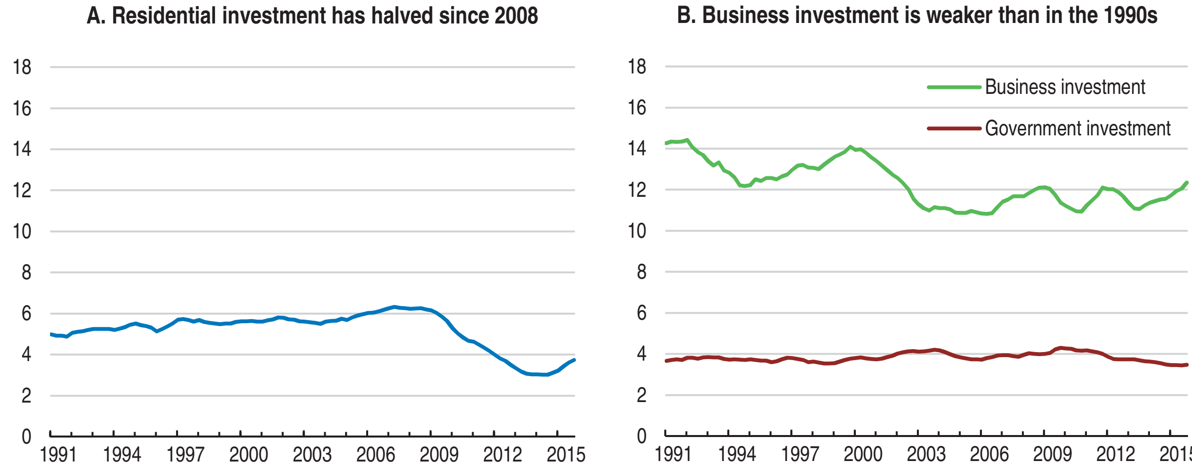
Private-sector investment was hit by the recent crisis, but had already been weakening before. During 2008-13, residential investment almost halved (Figure 15, Panel A) as house prices fell by 20% from peak to trough. Business investment had already softened before the global downturn, but held up well subsequently (Figure 15, Panel B). By contrast, government investment has been stable over time, despite the fiscal stimulus in 2009 and consolidation afterwards.

Investment has been firming recently, but needs in the coming years remain considerable. New construction is picking up, but housing investment has to increase substantially to accommodate the expected 10% increase in the number of households from now to 2030 (CBS, 2015b), the increasing demand for rental dwellings, and the needs of the recent influx of migrants. The shortfall in non-residential investment is estimated at 15% (about 2.5% of GDP), even when taking into account the latest pick-up in investment (Figure 16). Spending on research and development (R&D) is only around 2% of GDP and below the Dutch official target of 2.5% of GDP for 2020, which itself is lower than the EU-wide target of 3% of GDP. Private investment in R&D as a proportion of GDP is significantly below the OECD average.

Further efforts are needed to enhance investment in green innovation and clean energy. The Netherlands fell from 7th to 13th place in the European Union (EU) eco-Innovation Scoreboard (EIO, 2014), and a more active and integrated eco-innovation policy is needed to reverse this trend (OECD, 2015a). Investment in renewable energy has raised the share of renewables in gross final energy consumption to 5.5% in 2014 (CBS, 2015c), but meeting the official targets of 14% in 2020 and 16% in 2023 could be challenging. Carrying out the evaluation of support measures, planned for 2016, in a thorough, independent and transparent manner would help to make current instruments more efficient and identify where further efforts are needed.

Figure 15. **Investment developments have been uneven**

As a percentage of GDP[1]



1. In nominal terms. Investment refers to gross fixed capital formation. 4-quarter cumulative data.

Source: OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), February.

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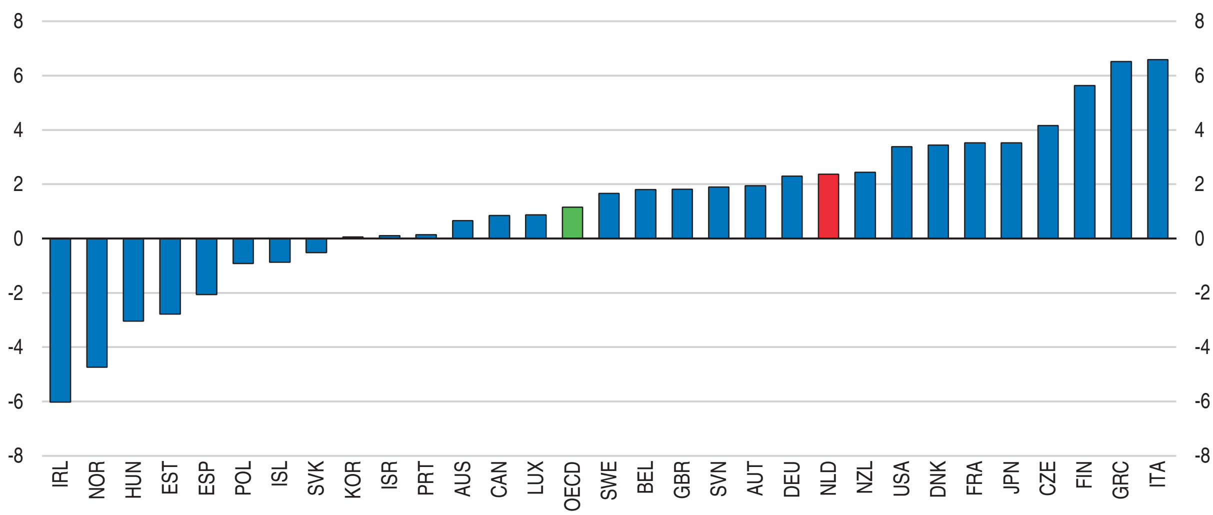
Figure 16. **Gap between non-residential investment needs and actual investment is substantial**

Estimated gap between steady-state needs and non-residential investment as a percentage of potential GDP, 2014 Q4 – 2015 Q3[1]



1. 2014 for Hungary and Poland. The OECD aggregate covers 30 countries and it is calculated as an unweighted average of the data shown.

Source: OECD (2015), *OECD Economic Outlook, Volume 2015 Issue 1*, June and OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), February.

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Promoting private rental investment

New construction is picking up, but still amounts to only half of pre-crisis activity, well short of housing demand. Municipalities in the economic core (Randstad) are set to expand more rapidly than in the rest of the country, but the authorities see sufficient scope to accommodate the construction of new dwellings in urban areas, in particular if some of the stringent local planning regulations are relaxed.

The private rental sector is small, accounting for only 20-25% of rental dwellings and 10% of all dwellings, as housing policies contributed to underinvestment. Stringent rent regulation applies to both social housing and to private dwellings with monthly rents below EUR 710 and covers over 90% of rental dwellings. The rent controls reduce returns for landlords and hold back private investment, in particular in single-person housing, as almost all of it falls below the EUR 710 rent control threshold. The supply of more expensive, unregulated rental housing is also relatively small, crowded out by subsidies for renting regulated dwellings and for home-ownership.

The scarcity of private rentals hampers the functioning of the housing market (De Boer and Bitetti, 2014) and contributes to traffic congestion and suboptimal labour market outcomes, as discussed in Chapter 4 of the 2010 *Economic Survey* (OECD, 2010). Moreover, demand for rental housing is set to increase as a further reduction of mortgage interest relief and tighter loan-to-value requirements force first-time buyers to wait longer to build a down payment. In parallel, recent reforms increasing rents in social housing add to the demand for private rentals, and scarcity is pushing up unregulated rents.

Further limiting strict rent controls in the private rental sector would boost residential investment, while enhancing the functioning of the housing market (De Boer and Bitetti, 2014). Some recent reforms have aimed to support the development of the private rental market. For example, housing corporations have to administratively or legally separate the provision of social housing from their activities in the unregulated segment from 2017 onwards. Another reform has made the maximum initial rent of regulated dwellings partly dependent on the house value since October 2015. Increasing the weight put on this factor would support the provision of rentals in areas with high market demand, such as the main cities.

Stepping up investment in energy efficiency improvements of dwellings would help to meet energy reduction targets. The Dutch housing stock provides ample room in this respect (Meijer et al., 2010), and a number of funds and subsidies exist at the national level for energy efficiency improvements of both rental and owner-occupied housing. Increasing public support for energy-enhancing investments in existing housing regardless of tenure and extending it to cover new construction that replaces old dwellings would help to reduce final energy consumption by the committed 1.5% per annum, and to reach the 2020 reduction target for greenhouse gas emissions. Positive economic effects could limit the budgetary costs (Ecofys, 2015), although the experience of other countries indicates that the subsidies need to be carefully designed to achieve planned reductions in energy use (OECD, 2015c).

Providing the right incentives for business investment

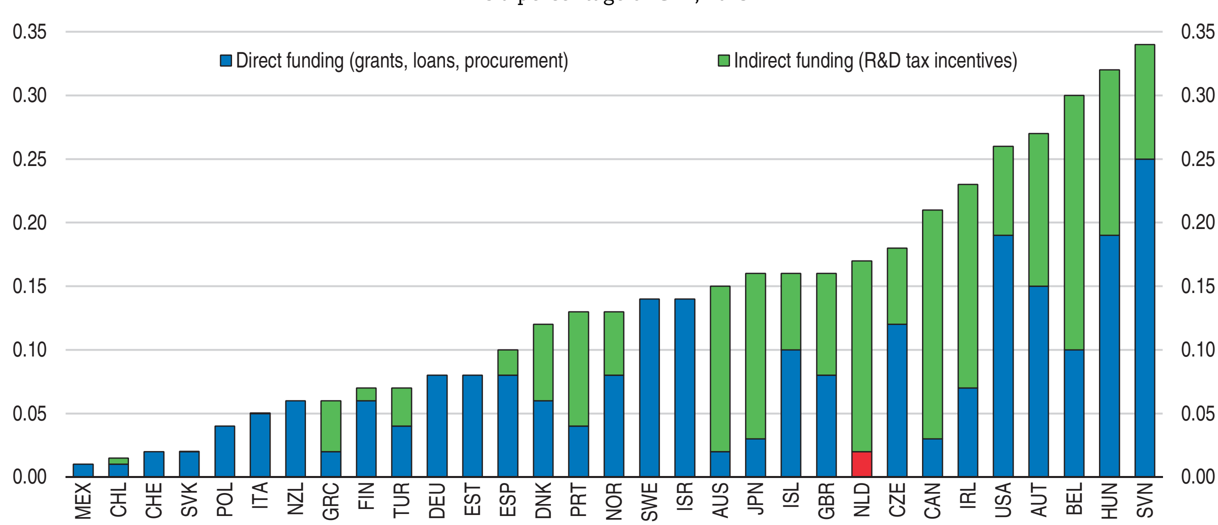
While the improved demand prospects are likely to be the main driver of investment in the coming years, the already good framework conditions for business investment could be further improved to help support investment decisions. Legal barriers to entrepreneurship are comparatively low, as assessed by the OECD Product Market Regulation indicator, but issuing licences automatically after a statutory response period ("silence is consent") would further reduce the gap with the best-performing OECD countries, as discussed in Chapter 2 of the 2014 *Economic Survey* (OECD, 2014a). Other potential reforms to strengthen business conditions include lowering the costs of starting a business, getting construction permits, and registering property; accelerating connection to electricity; improving the quality of judicial processes when enforcing contracts and lowering related costs; and strengthening the protection of minority shareholders (World Bank, 2015).

Business innovation is supported by the so-called top sector approach, which is focused on a number of so-called top sectors. Extending coverage and transferring valuable experience and policy lessons to other sectors would mitigate the risk of overlooking promising developments in other sectors (OECD, 2014d). SMEs are active in all the top sectors, but their large number and diversity warrants continuous efforts to improve their representation, especially given their importance for generating economic growth (Adalet McGowan et al., 2015). There is scope to better align sector policies with initiatives of subnational authorities, such as joint programmes funded by the European structural funds, national government and regions that focus on innovation and top sectors and the recent programme "SME Innovation Promotion Regions and Top Sectors". Efforts to strengthen the cross-regional policy dimension of the top sector approach are welcome, but the focus on innovation should remain the predominant objective (OECD, 2014e). The creation of StartupDelta, an initiative to detect innovative start-ups and to help them to address barriers that hinder their development, is a useful complement to the top sector approach, and the authorities should ensure a follow-up after its dissolution planned for 2016.

Generic support for innovation and R&D is more concentrated on tax incentives, as opposed to direct funding, than in most other OECD countries (Figure 17; OECD, 2014f), and the overall mix may excessively favour incumbents and be less suited for more risky and longer-term innovation activities. Tax incentives of the main programme are well designed, however, direct funding as a share of GDP is low and the impact of the innovation box remains uncertain despite the planned changes. Stepping up R&D support with a more specific focus, such as for example the recently announced EUR 130 million programme for

Figure 17. **Support for business R&D is skewed towards tax incentives**

As a percentage of GDP, 2013[1]



1. 2012 for Belgium, Ireland, Israel, Spain, Switzerland and the United States. 2011 for Australia, Iceland and Mexico. Estonia, Germany, Mexico, New Zealand, Sweden and Switzerland did not provide information on expenditure-based research and development (R&D) tax incentives for 2013. For Israel, the R&D component of incentives cannot be identified separately at present. No data on the cost of expenditure-based R&D tax incentive support are available for Poland. Estimates do not cover sub-national and income-based R&D tax incentives and are limited to the business sector (excluding tax incentive support to individuals). Data refer to estimated initial revenue loss (foregone revenues) unless otherwise specified.

Source: OECD (2015), *OECD Science, Technology and Industry Scoreboard 2015: Innovation for growth and society.*

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healthcare innovation, could help to leverage private sector innovation in promising sectors and potentially "disruptive" technologies. The higher budget in 2016 for the main tax incentive programme, which makes up for the discontinuation of a corporate income tax advantage for R&D will be particularly beneficial for SMEs and start-ups without profits.

The quality of infrastructure is perceived as the world's fourth best (WEF, 2015), but the budget for infrastructure investments in the coming years appears tight relative to the pipeline of projects. Maintenance spending already accounts for 40% of the budget and is set to grow further, which risks crowding out new investment as needs remain important. For example, the economic recovery is increasingly leading to traffic jams, and in particular the access to cities could become a bottleneck. The foreseen budget does also not provide much room to act adaptively to challenges posed by a changing economic and spatial structure on existing infrastructure, and to opportunities stemming from new information technology. Stepping up the public budget for infrastructure, in particular later on in the planning period, would be an option, assuming that there is sufficient fiscal space.

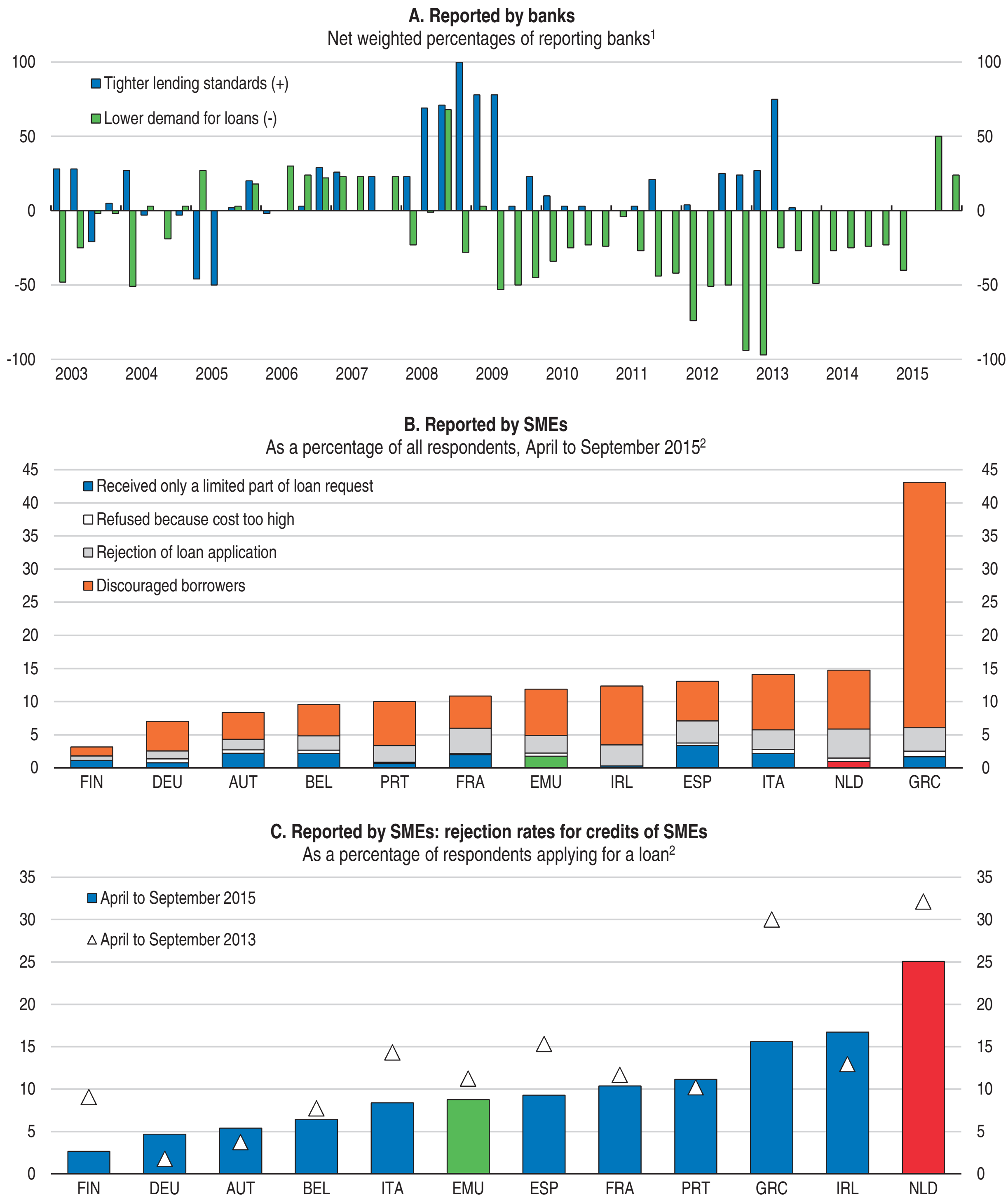
Expanding financing for SMEs

During the crisis, the depressed business outlook reduced companies' appetite for investment, which was further constrained by reduced access to external financing. Banks have been reporting falling loan demand until recently, and lending standards have remained tight (Figure 18, Panel A). Dutch SMEs carry out 50% of overall business investment and about 15% of them have difficulties for getting a loan with most of them being discouraged (Figure 18, Panel B), although this percentage is now smaller than in the recent past. The proportion of rejected SME loan applications has also fallen despite remaining the largest in the euro area (Figure 18, Panel C), but this could also partly reflect improved risk selection of banks since the crisis. As a result, bank lending has continued to fall until recently, although the decline has been mitigated by various public programmes (OECD, 2014a).

Banking sector concentration is high, holding back competition in the market for retail loans. Lending to SMEs is hampered by the relatively high interest rates for small loans, significantly higher than for large loans (Figure 19). Around 90% of bank loans to SMEs are extended by one of the three big banks (ACM, 2015). No new banks have entered the market for retail loans in more than a decade and some foreign banks have left the Dutch market (DNB, 2015). More competition would increase efficiency of the banking sector (DNB, 2015), but potential entrants to the Dutch banking market indicate that the procedure to obtain a licence is long, while ambiguity regarding some conditions contributes to the uncertainty of the application's outcome (ACM, 2014).

Establishing a credit register would help lenders to assess the creditworthiness of SMEs. Estimating the creditworthiness of small firms is particularly difficult and costly, and the related uncertainty drives up interest rates and tightens lending conditions. A credit register for companies, similar to the one that already exists for individuals, would lower these costs by disseminating needed information to all lenders (SER, 2014), and it exists in most European countries (Rothemund and Gerhardt, 2011). The government has a project to allow company information obtained through the Standard Business Reporting to be used for loan applications. However, it is not fully clear that the Reporting data will allow the creation of a credit register, and the authorities should look into the feasibility of this approach with a view to creating a proper credit register.

Figure 18. **Bank lending constraints for small and medium-sized enterprises (SMEs) remain high**



1. The values of net weighted percentages may vary between +100% (i.e. all banks tighten their lending terms and conditions/all banks record an increase in demand for loan) and -100% (i.e. all banks ease their lending terms and conditions/all banks record a decrease in demand for loan). The answers of the participating banks are weighted by their respective market share. SMEs are defined as having a net annual turnover of less than or equal to EUR 50 million.
2. SMEs are defined as having 0-249 employees. EMU: Euro area.

Source: DNB (2016), "Domestic MFI-statistics", *Statistics DNB*, De Nederlandsche Bank, January and ECB (2016), "Survey on Access to Finance of Enterprises", *Statistical Data Warehouse*, European Central Bank, January.

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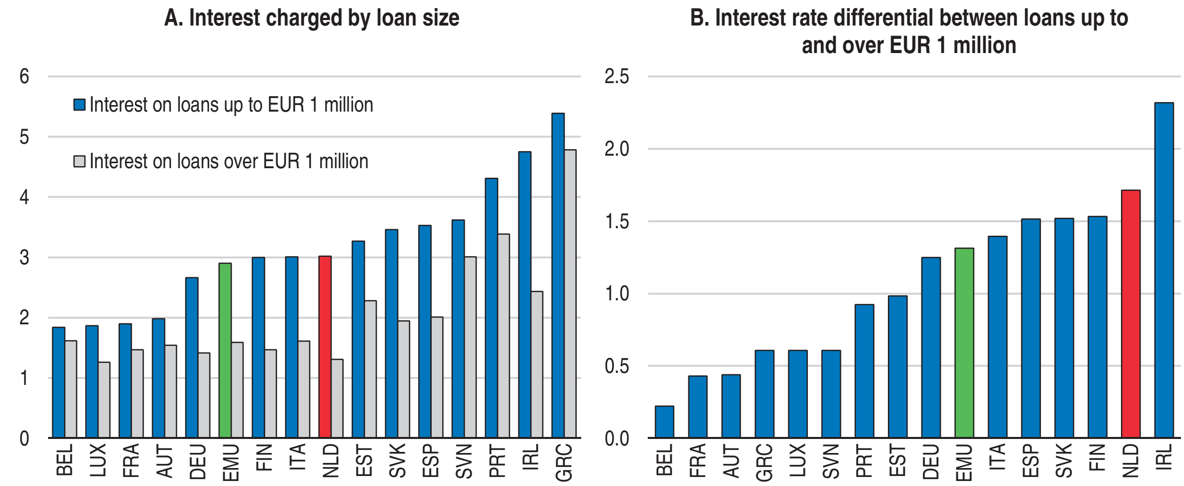
Figure 19. **Small bank loans are relatively expensive**

Percentage points, average between December 2014 and November 2015[1]



1. At floating rate and up to 1 year initial rate fixation. EMU: Euro area.
Source: ECB (2016), "Monetary and Financial Statistics: Bank Interest Rates Statistics", *Statistical Data Warehouse*, European Central Bank, February.

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Deepening non-bank financing and increasing awareness about alternative financing providers would also support businesses financing and investment (OECD, 2014a). Bank lending is not always suitable for financing innovative start-ups, young firms and SMEs with growth ambitions, due to the high risks involved, while expanding equity financing would support growth (Cournède and Denk, 2015). Alternative financing instruments are generally available, although some markets can be developed further. For example, high public involvement is still necessary to support the venture capital market, and venture funds are still mostly small, limiting their ability to support growing firms. Establishing a regulatory framework for new financing instruments such as crowd funding and credit unions would support the sustainable growth of these new markets. Since September 2015, a website supported by the Ministry of Economic Affairs helps entrepreneurs to understand the many types of financing that are available to them. Requiring banks to accompany a loan refusal with information on other financing options, as will be done in the United Kingdom, would further raise awareness and encourage SMEs to step up their search activity, which is needed as almost 70% of SMEs apply for a loan at only their own bank (GfK, 2014).

Key policy recommendations to enhance private investment

- Support the supply of rental housing by further limiting strict rent regulation in the private market.
- Ensure stronger investment in renewable energy and energy efficiency by improving cost-effectiveness of existing instruments and possibly increasing their scale.
- Step up efforts to strengthen innovation performance by increasing direct public support for R&D.
- Increase competition in the market for SME loans by considering the creation of a credit register for companies, based on standard reporting data if possible.

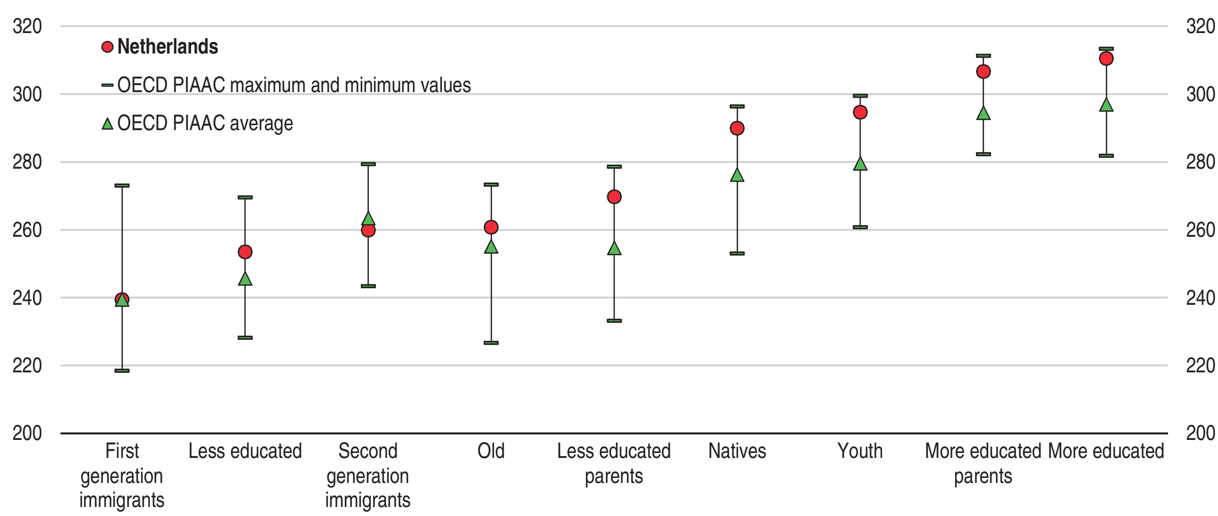
Boosting skills for all

Strong and adequate skills are essential to support productivity and employment, and to make growth more inclusive. The results of the OECD Programme for the International Assessment of Adult Competencies (PIAAC) show that adults aged 16 to 24 have among the highest cognitive skills in the OECD (OECD, 2013a). Dutch adults aged between 16 and 65 also have above-average skills in the OECD, with almost 20% reaching the highest levels of proficiency in literacy and numeracy, and another 40% are at the mid-level.

Despite this good performance, improving skills of some groups is a very important challenge. First-generation immigrants and those with less than upper secondary education have literacy skill levels which are significantly lower than those of natives and tertiary education graduates (Figure 20). As some countries focus their immigration policies on skills of new migrants, this reduces comparability, but second-generation immigrants also have lower proficiency levels and are the only group with a score below the OECD PIAAC average, which is an important challenge for education and skill policies. Literacy proficiency of youth is significantly higher than that of the old, who also have lower skills relative to peers in top OECD performers.

Figure 20. **Literacy skills of immigrants, less educated and the old lag behind other groups and peers**

Literacy score-point by socio-demographic groups[1]



1. The estimates show the means for each socio-demographic group. Youth: 16-24 year-olds; Old: 55-65 year-olds; Natives: native-born and native language; First-generation immigrants: foreign-born and foreign language; Second-generation immigrants: native-born and foreign language; More educated: tertiary education; Less educated: less than upper secondary education; More educated parents: at least one parent attained tertiary education; Less educated parents: neither parent attained upper secondary education. 22 OECD countries participated in the OECD Programme for the International Assessment of Adult Competencies (PIAAC).

Source: OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills.*

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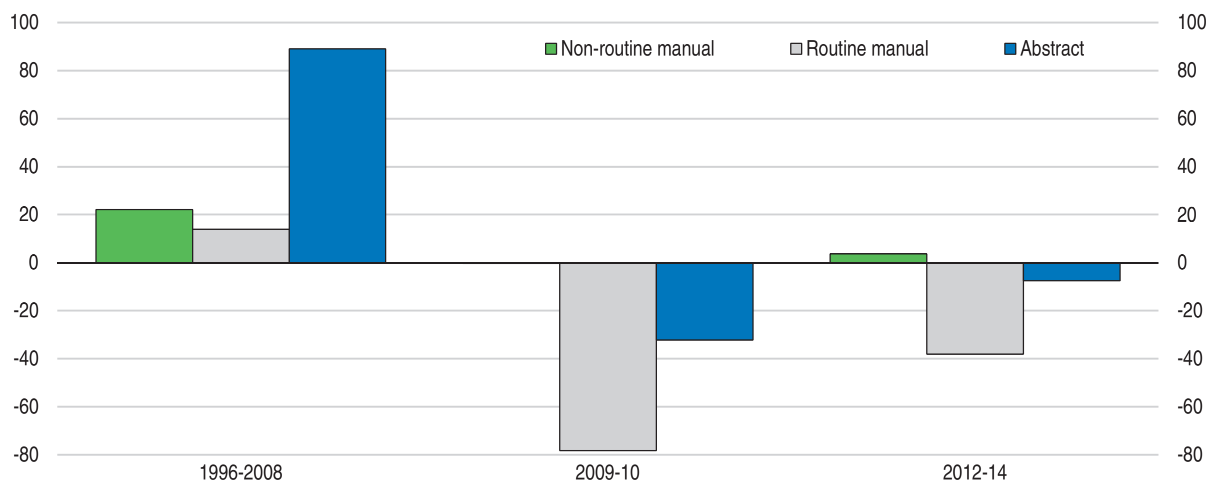
The Netherlands has been successful in rising qualification levels of its population over time, but recent and expected trends in skill demand require continuous improvement, notably to prepare for the emergence of new activities and sectors. In 2025, 45% of jobs could require higher skills in the Netherlands, against 35% now

(CEDEFOP, 2015). The Dutch labour market has been subject to a growing polarisation, although its magnitude is smaller than in other countries (Van den Berge and ter Weel, 2015). Based on recent trends, demand could remain vibrant for occupations performing abstract tasks, and also, although to a lesser extent, for occupations accomplishing manual tasks that are non-routine (i.e. requiring adaptability). Both expanded before the global downturn and have been somewhat resilient since then (Figure 21). Conversely, occupations mainly relying on routine tasks showed the weakest growth before 2008 and have been heavily hit by the crisis (Figure 21), and demand for them could fall further, with some of associated tasks being replaced by technology or outsourced to countries with cheaper labour. However, the polarisation of the labour market is unlikely to continue indefinitely, with some middle-skilled jobs that combine job-specific and generic skills being likely to persist in the coming decades (Autor, 2015).

Figure 21. **Changing demand for skills has led to a polarisation in job tasks**

Average annual change in total employment in the Netherlands by occupation categories requiring different tasks, thousand employed persons[1]



1. Refers to population aged between 15 and 64. Abstract tasks refer to problem-solving, intuition, persuasion and creativity. Occupations attached to abstract tasks include managers, professionals, technicians and associate professionals. Routine manual tasks refer to well-understood procedures such as book-keeping, clerical and administrative work, repetitive production or monitoring. Occupations attached to routine tasks include clerical support workers, craft and related trades workers and plant and machine operators and assemblers. Although plant and machine operators and assemblers also include occupations such as drivers that should be classified as non-routine manual occupations, it is classified under routine manual occupations due to lack of data at 2-digit levels. Non-routine manual tasks refer to those requiring adaptability, visual and language recognition, and personal interactions. Occupations attached to non-routine tasks include service and sales workers. Occupations such as skilled agricultural, forestry and fishery workers, elementary occupations, armed forces occupations and those with no responses are not included. There is a structural break in the data due to change in classification in 2010/11. ISCO 08 classification 1-digit level.

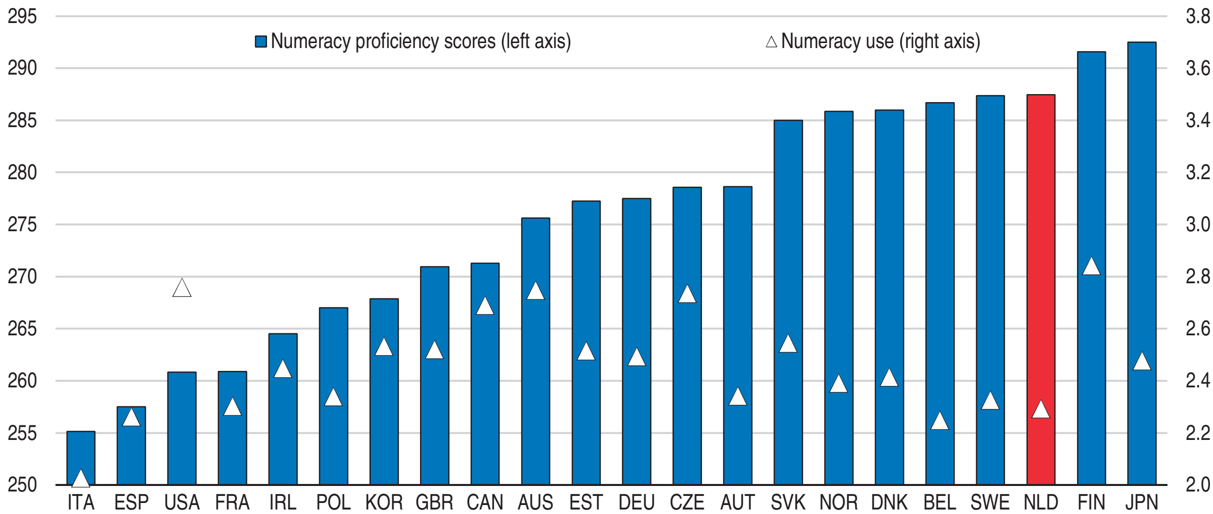
Source: Eurostat (2015), *Employment and unemployment (Labour Force Survey)* (database), October.

StatLink http://dx.doi.org/10.1787/888933334307

There is scope to use existing skills more effectively (Figure 22). Nearly 45% of employees are mismatched either because of inadequate skills, qualifications and/or field of study. This seems high in absolute terms but is in fact small relative to other countries (OECD, 2015g), and labour market mismatch can be temporary as it takes time to find a suitable job. However, according to one estimate, reducing skill mismatches could raise aggregate productivity by around 4% (Adalet McGowan et al., 2015). Owing to tight labour market regulations of permanent contracts workers do not use and develop the full potential of their skills and labour market mobility of older workers is low, which may hamper the reallocation of their skills to the most productive uses.

Figure 22. **Large gap exists between skill use and proficiency in the Netherlands**

Average numeracy scores and average skill use levels, 2012[1]



1. The following tasks are used to construct the measure of numeracy use: calculating prices, costs or budgets; use of fractions, decimals or percentages; use of calculators; preparing graphs or tables; use of algebra or formulas; use of advanced math or statistics (calculus, trigonometry, regressions). For each task, a value of 1 indicates that the task is never carried out at work; a value of 2 indicates that it is carried out less than once a month; a value of 3 indicates that it is carried out less than once a week but at least once a month; a value of 4 indicates that it is carried out at least once a week but not every day; and a value of 5 indicates that it is carried out every day. Data for Belgium refers to Flanders. Data for the United Kingdom refer to England and Northern Ireland.

Source: OECD (2015), *OECD Employment Outlook 2015*.

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Developing skills at school

Early childhood education and care (ECEC) increases academic achievement later (OECD, 2014g). Nearly all children participate in ECEC from age 4 at the latest. However, there remains scope for improving the pedagogical and educational quality of ECEC before age 4, which is a key priority (OECD, 2016). Moving towards an integrated system of pre-schools and childcare with a unified program would support quality and equity, and facilitate children's transition into primary education. Better ECEC would also help disadvantaged children to close the gap with the others, and would help immigrant children to improve language proficiency, in particular second-generation immigrants. As a result, skill gaps for immigrant students could narrow. Extending the opening hours of ECEC facilities would also expand the possibilities for those who care for children at home, who are overwhelmingly women, to work full time (Figure 7, Panel B).

The quality of compulsory education is good. The 2012 Programme for International Student Assessment (PISA) test places the mean performance of Dutch students among the top ten OECD countries in reading and science, and in the top five in mathematics (OECD, 2013b). Efforts to make the education system more equitable include social mixing in schools, lower average student-teacher ratios in disadvantaged relative to advantaged schools, and additional funds for disadvantaged schools.

There are shortages of well-qualified secondary school teachers. The proportion of teachers with university (Master) degree is just below 15% in disadvantaged schools as compared to 50% in advantaged schools, which is one of the largest gaps in the OECD (OECD, 2013b). The government has been working to improve teacher education and employment conditions (European Commission, 2015c), which is welcome and should continue. In particular, further improving the career structure of teachers by providing them greater opportunities for personal development and career advancement is important (Nusche et al., 2014; OECD, 2016). Teachers are less well paid compared to the OECD average, although the maximum possible salary is one of the highest in the OECD (OECD, 2014h). The authorities could consider raising wages of teachers who upgrade their skills. Wages increase with experience, but they are not differentiated according to the type of school (Bonhomme et al., 2012). Training teachers to work specifically with students with disadvantaged backgrounds and reflecting such skills in their wages would help to attract more qualified teachers, in particular to disadvantaged schools. School boards, which are allowed to differentiate teachers' wages, could play an instrumental role in this respect.

Increasing student mobility between tracks and raising minimum educational standards would enhance student performance more widely. Tracking and streaming of students at age of 12 used to be based on the advice of the primary school and on a comprehensive test (*Cito test*) (OECD, 2015h), but the school's opinion based on teacher's qualitative assessment has recently taken precedence over the test results. Early tracking is positive for talented pupils. However, selection weakens performance of students assigned to follow inadequate tracks, especially if subsequent mobility between tracks is not good (OECD, 2016). Ensuring high minimum curricular standards in all tracks, corroborated by regular performance assessment (such as the partially implemented *Rekentoets* test to ensure basic knowledge in mathematics at the end of high school), would improve skills. In parallel, greater curriculum alignment and differentiated teaching would support upward mobility between secondary tracks, helping to shift students to more appropriate tracks (OECD, 2016).

Vocational education and training (VET) is well established partly because of early tracking. The performance of vocational education is good according to the PIAAC survey, with mean proficiency scores above the average of countries that participated in the survey. However, the performance gap to general upper secondary education for graduates aged 16 to 29 is the highest for numeracy proficiency among OECD countries with PIAAC results, and the second-highest for literacy proficiency (after Germany). Moreover, VET graduates at or below the 25th percentile are not able to understand and respond to dense and lengthy texts, and to process less explicit mathematical information (i.e. they are at or below mid-level and 5% score at the lowest competence level). By contrast, young Dutch adults with the same position in the skill distribution, but who have completed a programme with general orientation, do not face similar problems (OECD, 2013a). Stronger emphasis on the development of generic skills in vocational tracks, without undermining the development of professional skills, would allow greater mobility across jobs over workers' professional career. Also, as technological progress is likely to continue to raise demand for more complex skills, the Netherlands should strengthen the quality and the range of postsecondary qualifications within the VET system, currently provided in the form of short private courses that lack visibility (OECD, 2014i). The authorities have been making progress in this direction, notably by developing a system of certifications.

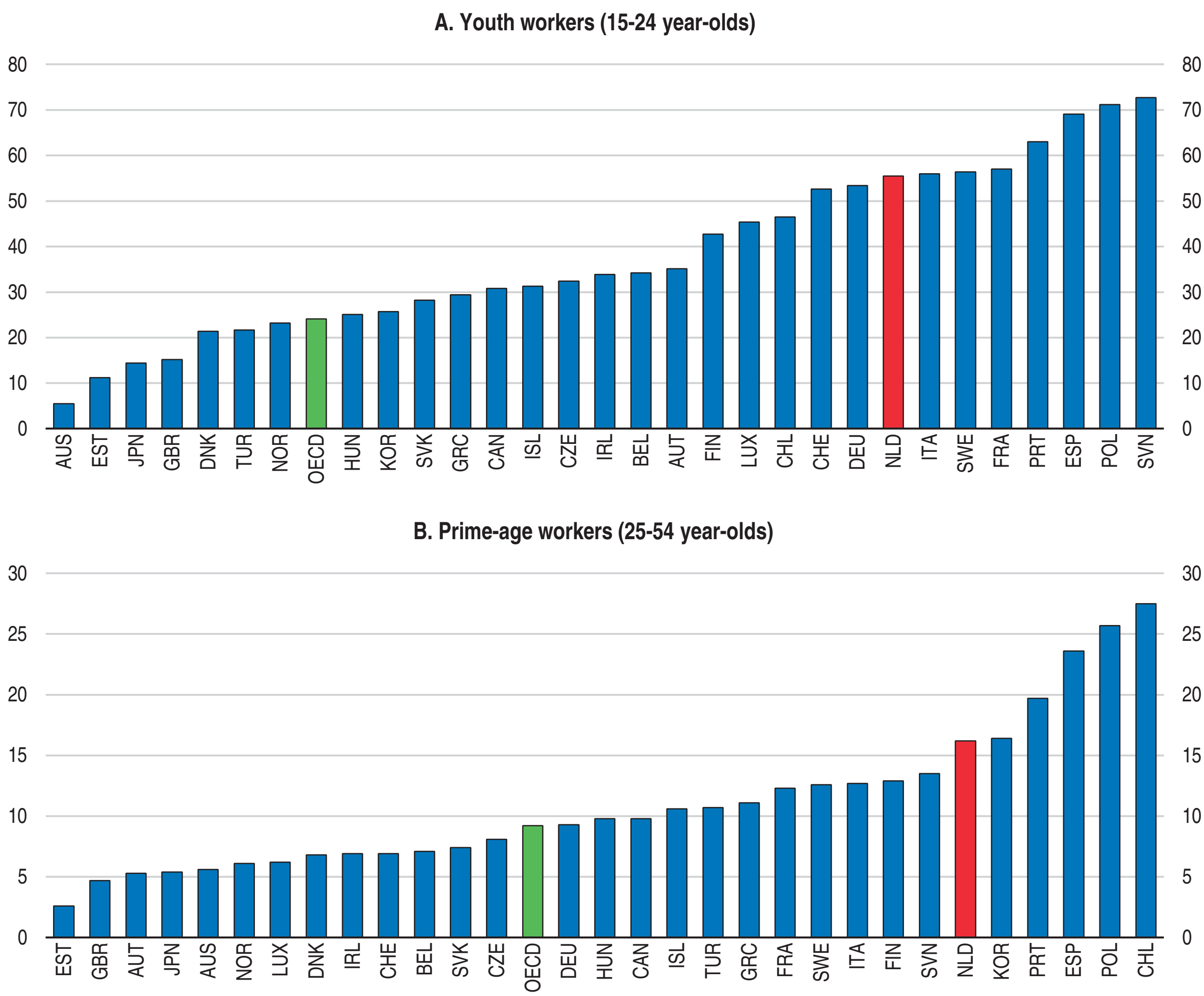
Over the last twenty years, tertiary education has expanded considerably giving solid foundations to the build-up of skills, but stronger emphasis is needed on the development of non-cognitive skills (such as collaboration, communication or creativity). Results of the PIAAC survey for Dutch workers aged 16-29 suggest that they use their problem-solving skills, as well as co-operation, self-organisation and learning at work less frequently than their peers in other OECD countries (OECD, 2013a). The authorities have recently published a strategic agenda for higher education and research over the next decade, in which they acknowledge that the current system is too focused on the acquisition of knowledge. Recent introduction of a new student loan system should release resources to explore ways in developing courses that would encourage graduates to combine their skills more productively. Boosting the supply of science and engineering skills, which until recently has been among the weakest in the OECD, is another priority and the authorities have launched a range of welcome measures with universities and businesses to address it.

Using skills more effectively at work

Temporary contracts are common in the Netherlands, both for prime-age workers and especially for the young (Figure 23). While temporary contracts can be a stepping-stone to permanent contracts, less than a fifth of Dutch workers on temporary contracts in 2008 moved on a full-time permanent contract three years later (Figure 24). This was the lowest transition rate in the OECD, although it could partly be explained by the high incidence of part-time work in the Netherlands and weak growth prospects of the Dutch economy

Figure 23. **Temporary employment is common in the Netherlands**

Temporary employment as a percentage of total employment, 2014[1]



1. 2013 for Australia.

Source: OECD (2015), *OECD Employment and Labour Market Statistics* (database), November.

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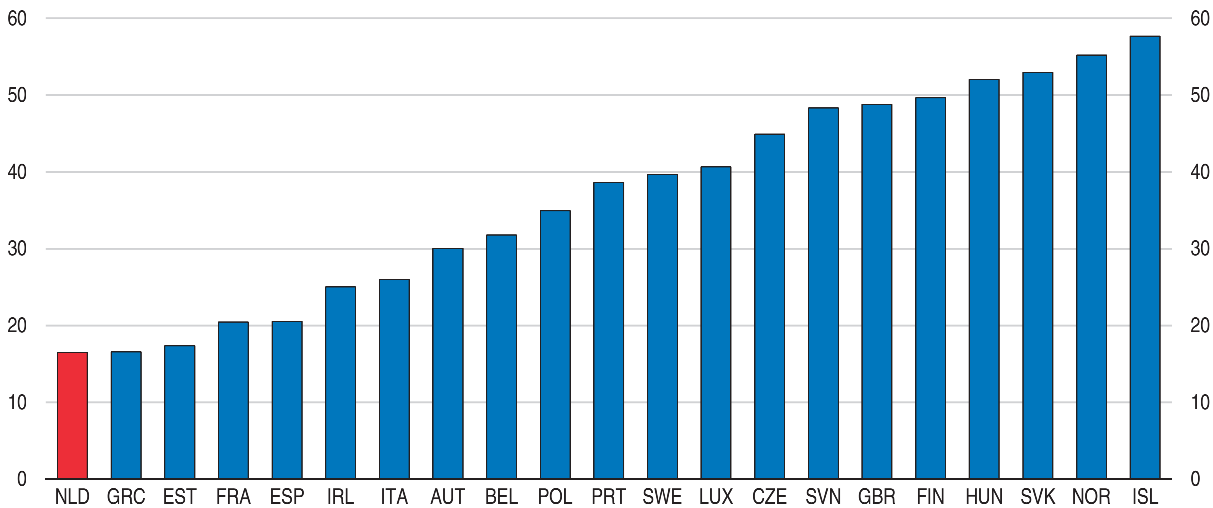
Figure 24. **Few temporary workers move to permanent full-time jobs**

Percentage of temporary employees in 2008 that were employed as full-time permanent employees in 2011[1]



1. 2007-10 for the Czech Republic, France, Greece, Sweden and the United Kingdom. 2006-09 for Norway and the Slovak Republic. 2005-08 for Ireland.

Source: OECD (2014), *OECD Employment Outlook 2014.*

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in 2011. Temporary contracts lead to a less intensive use of cognitive skills than do permanent contracts (OECD, 2015i), and in the Netherlands this difference is relatively high, in particular for the use of reading, writing and ICT skills. Temporary contracts also limit participation in employer-sponsored training, and many such contracts are associated with low incomes (Figure 13, Panel B).

In July 2015, employment protection legislation was reformed to increase the protection of employees on temporary contracts and to reduce the protection of permanent contracts. The duration of consecutive temporary contracts has been shortened from 3 to 2 years and the period between two consecutive contracts extended from 3 to 6 months. Regarding permanent contracts, the government has capped severance payments (at EUR 75 000 or a year's salary, whichever is higher) and linked them to tenure rather than age. Further narrowing the difference between the two types of employment by lowering the cap on severance payments even more and ensuring the dismissal system works efficiently could make the transition from temporary to permanent work more common, and more people on permanent contracts could increase on-the-job learning and access to training and, thereby, productivity.

Strengthening recognition of existing skills, and providing information about current and expected demand for skills would improve the efficiency of their use. Around 35% of workers are working in a field that they are not formally trained in (Montt, 2015). Maintaining strong anticipation systems of future vacancies and supplying students with comprehensive information to make informed choices would help to reduce saturation in some fields (Quintini, 2011), and the Netherlands has developed high-quality databases which could be made available more widely. In parallel, encouraging formal recognition by employers that some skills can be used across fields would promote skill transferability. Better recognition of foreign qualifications would decrease related mismatches among first-generation immigrants (OECD, 2014j) and the Netherlands has recently set up a one-stop shop for that purpose, which is welcome.

Adult learning is well developed in the Netherlands. Overall participation in adult learning is among the highest in the OECD, especially for young employees with high proficiency levels (OECD, 2014h). But training courses are short and provide training within the sector where the person works, which might limit cross-sectoral mobility. More training should be directed to workers who could face the greatest difficulties to adapt throughout their working life, including older workers, and people with low educational attainment and skills. Supporting older workers' skills through lifelong learning would ensure a better alignment of their wages and productivity, improving skill allocation. Strengthening lifelong learning for disadvantaged workers would require increasing public support for employers to provide training, and promoting cooperation between the education system and the business sector especially in tertiary education. Since July 2015, the civil code requests an employer to provide training for the current job, the continuation of employment contract or when the worker is made redundant. An employer can subtract incurred training costs from the dismissal compensation of a redundant worker, but only if the latter agrees on this and the training has broadened skills beyond what is needed for the current job.

Raising entrepreneurial skills would support alternative forms of employment and increase the incidence of fast-growing businesses. For 15% of adults self-employment is difficult owing to a lack of relevant entrepreneurship skills, almost twice as much as in the European Union (European Commission, 2013). Expanding targeted training programmes, such as the "Work for Yourself" scheme in Amsterdam, would help to start-up businesses. Creating online stand-alone programmes through web-based platforms would also be a flexible way to deliver training at low cost. The effectiveness of entrepreneurship education could be improved as the take-up rate of specific courses is one of the highest in the European Union, and the authorities plan to scale up their provision further, but so far the percentage of adults reporting that school education equipped them with competences necessary for running a business has been only about average (European Commission, 2013). Using experienced entrepreneurs for peer-to-peer learning – involving counselling, coaching and mentoring – would foster business development (OECD, 2014k).

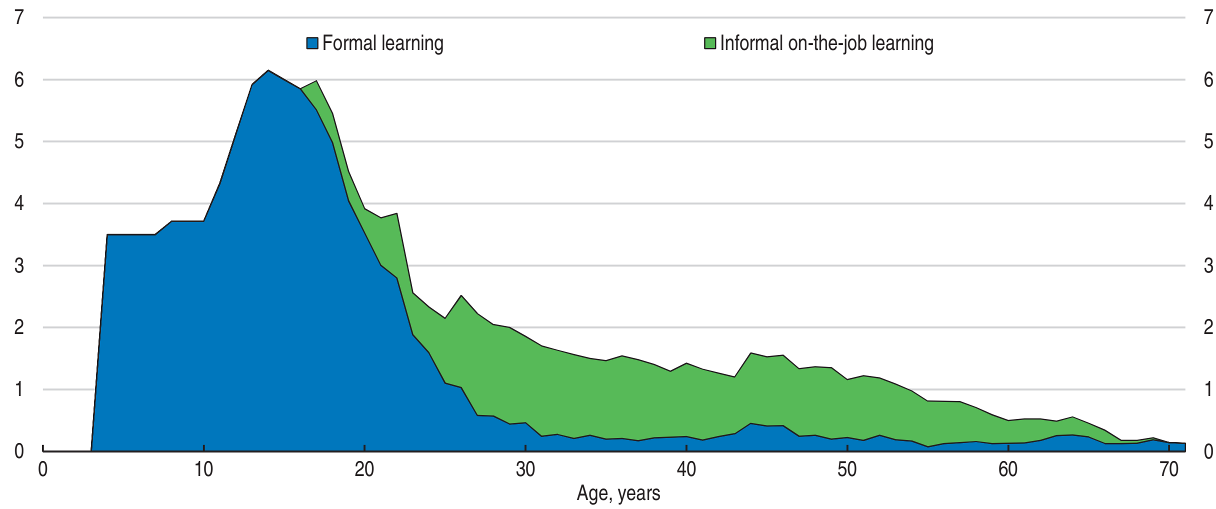
Acquiring skills through work

A large part of learning is informal and done "on the job" once initial formal education ends (Figure 25), and could represent as much as around 95% of learning according to recent studies (Borghans et al., 2014), which highlights the importance of finding employment for skill development. Although the employment rate is high in the Netherlands, there is scope to increase it more, in particular for youth, immigrants and people with health problems.

At just below 10%, the proportion of those aged 15-29 who are neither in employment nor in education or training (NEET) is lower than the OECD average of 15%, but higher than in best-performing Luxembourg (around 5%). Around 60% of Dutch NEETs are inactive and do not seek employment, against 55% for the OECD average, and their skills depreciate quickly relative to those that receive training (OECD, 2015i). Those who participated in education or training in the 12 months prior to the PIAAC survey had significantly higher literacy skills than those who did not, and this gap was larger than in other OECD countries (Figure 26). Therefore, access to social benefits should continue to be made conditional on active job-search, and on participation in further education and training (OECD, 2015i). The type of obligation should depend on an assessment of individuals' skills and specific labour market barriers.

Figure 25. **Informal on-the-job learning is dominant after the age of 25**

Average hours spent per day[1] on learning by age, 2000



1. Including all days (i.e. weekends, holidays) of the year.

Source: Lex Borghans (2007), "Zonde van de tijd; Leren in Nederland vanuit een economisch perspectief" (*Pity of the time: Learning in the Netherlands from an economic perspective*), *TPEdigitaal* 1(1), 2007, pp. 95-118.

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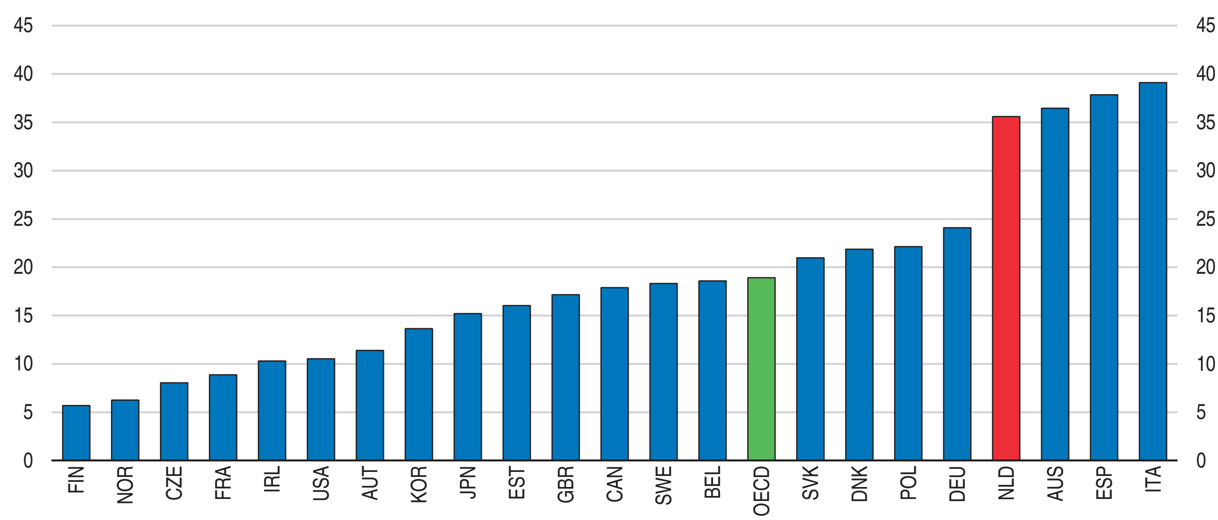
Figure 26. **Skills of young NEETs are responsive to training**

Gap between average literacy skill scores of NEETs aged 16-29 year-olds who did and did not participate in education or training in the 12 months prior to the survey, 2012[1]



1. NEET: not in employment, education or training. Data for Belgium refers to Flanders. Data for the United Kingdom refer to England and Northern Ireland. The OECD aggregate is calculated as the unweighted average of the data shown.

Source: OECD (2015), *OECD Skills Outlook 2015: Youth, Skills and Employability*.

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The unemployment benefit system has been reformed to sharpen work incentives, although there could be trade-offs between swifter job market integration and the quality of matches between skills and jobs. The duration of publicly funded unemployment benefits is to be gradually cut from 38 to 24 months between January 2016 and July 2019.

The unemployed have had to accept any job offer after 6 months (instead of 12) since July 2015, including below their professional level (or else they risk receiving lower unemployment benefits), which may increase mismatch, resulting in lower productivity. The 6 month period should be suspended when unemployed are on training. Also, older workers over the age of 60 and who become unemployed can benefit, until 2020, from an income allowance (once the regular unemployment benefit insurance has expired) which can be extended to retirement age. The allowance should be coupled with activation policies to make re-entry to work a credible option and with training linked to skills needed in a specific job (OECD, 2014c).

The Netherlands has started important reforms to digitalise public employment services (PES), and to devolve greater responsibilities to municipalities for benefit provision and labour market integration. Municipalities need to have the capacity to get people who have become detached from the labour market back to work. In 2012, the PES was involved in finding a job only in about 5% of cases (against an average of nearly 10% in the OECD) and its services were used by half of the unemployed (against by two-thirds in other OECD countries), despite spending around 0.4% of GDP more on labour market programmes and PES administration than in the OECD (OECD, 2015j). In parallel, the number of job seekers per PES staff member was relatively high compared to other OECD countries, estimated at 125 in 2011, against between 20 and 55 in the United Kingdom, Denmark, Belgium, Austria or Germany (OECD, 2014l). However, the unemployment rate has increased significantly since then (Figure 7, Panel A) and, between 2011 and 2015, the budget of the PES was halved as a result of fiscal consolidation (OECD, 2015j).

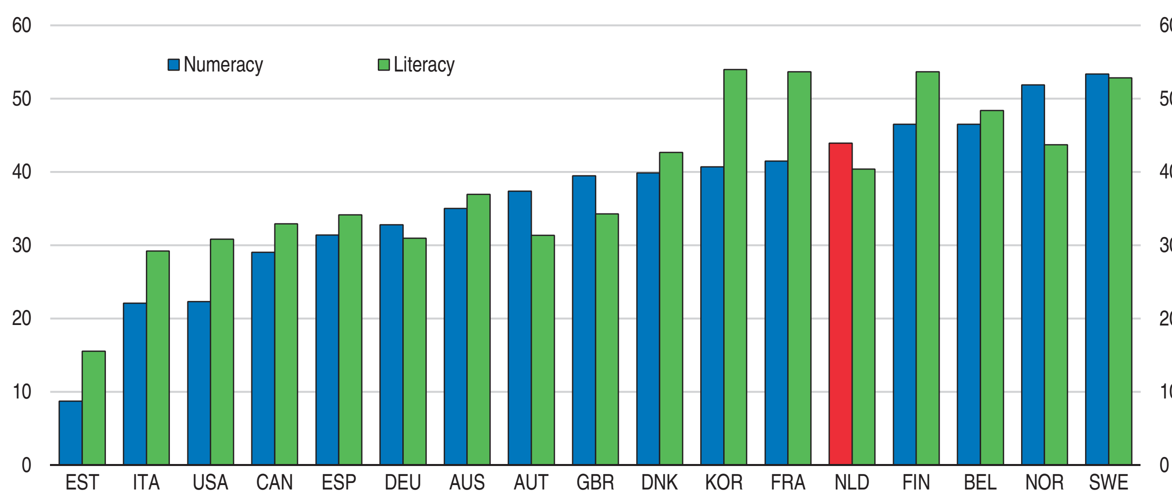
Currently, re-integration services are not provided in the first three months of unemployment insurance benefits, which saves costs because many of those who are recently unemployed find jobs anyway, but also creates risks of skill depreciation and reduced employability for workers, in particular those who turn out to have poor job prospects. Only 10% of most disadvantaged unemployed can benefit from intensive support from month four onwards (OECD, 2015j). Nevertheless, retraining possibilities have been stepped up to improve job transition for the unemployed since March 2015, which is welcome. The experience of OECD countries suggests that best-practice PES include job-search verification, early and high-intensity personalised counselling interventions, programmes developing work experience and labour market training for long-term unemployed, liaising with employers to both fill vacancies and improve the matching of jobs with skills, and performance management and evaluation of instruments to ensure that PES interventions are cost effective (OECD, 2015j).

Further policy steps are needed to reduce the risk that illness will lead to withdrawal from the labour force and to reduce disability caseload. Employers have strong financial incentives to prevent sickness absences, as they are obliged to pay a sick leave at 70% of the salary for two years (often topped up to 100% in the first year). The introduction of a collective insurance for the second year, currently under discussion, should lower this incentive, but on the other hand it should support the development of businesses, in particular of those with no employees. On the beneficiary side, lowering the initial replacement rate and then phasing it out over time would ensure the right balance between income security during sickness absence and return-to-work incentives. After sick leave, however, people can apply for disability benefits, and they often never get off that benefit. Early interventions, for instance consultations with occupational health care providers (OECD, 2014m) could reduce sickness leave further. The authorities have started to reassess work capacity of 60 000 young people, and if they can work their disability benefits will be reduced to raise work incentives. A more generic reassessment of the eligibility to disability benefits should be considered, especially for those over 50 as re-entry to work for this group is limited.

Policy interventions for first- and second-generation immigrants would help to bridge a large gap in skills relative to natives. While general education policies are key for second-generation immigrants, targeted labour market measures and other policies (language training, recognition of foreign qualifications, etc.) are necessary in regard to first-generation immigrants. Immigrants are overrepresented among the low-educated working-age population, whereas the reverse is true for the highly educated. The results of the PIAAC and PISA surveys also show a wide skill gap between foreign- and native-born adults (Figures 27 and 28). Smaller gaps in some countries may partly reflect immigrant selection systems based on educational attainment (Canada or Australia) and immigrants to some countries may have a better prior knowledge of language. Nevertheless, a gap in PISA scores exists between natives and second-generation immigrants (Figure 28, Panel B). Poor skills help to explain one of the largest differences in employment and participation rates between immigrants and native-born in the Netherlands relative to other OECD countries (Figure 29). Developing work schemes that combine work experience – supported by state-financed work placements and/or wage subsidies – on-the-job training and language courses would be an effective policy instrument to help to upgrade the skill set of first-generation immigrants (OECD, 2014j).

Figure 27. **Natives have stronger information-processing skills than foreign-born adults**

Mean score-point differences between native-born and native language and foreign-born and foreign language adults, 2012[1]



1. Only statistically significant differences are shown. The differences between the two categories are adjusted for differences associated with all of the following variables: age, gender, education, socio-economic background, and type of occupation. Countries are ranked in ascending order of difference in numeracy scores (native-born and native language minus foreign-born and foreign language adults). Data for Belgium refers to Flanders. Data for the United Kingdom refer to England and Northern Ireland.

Source: OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*.

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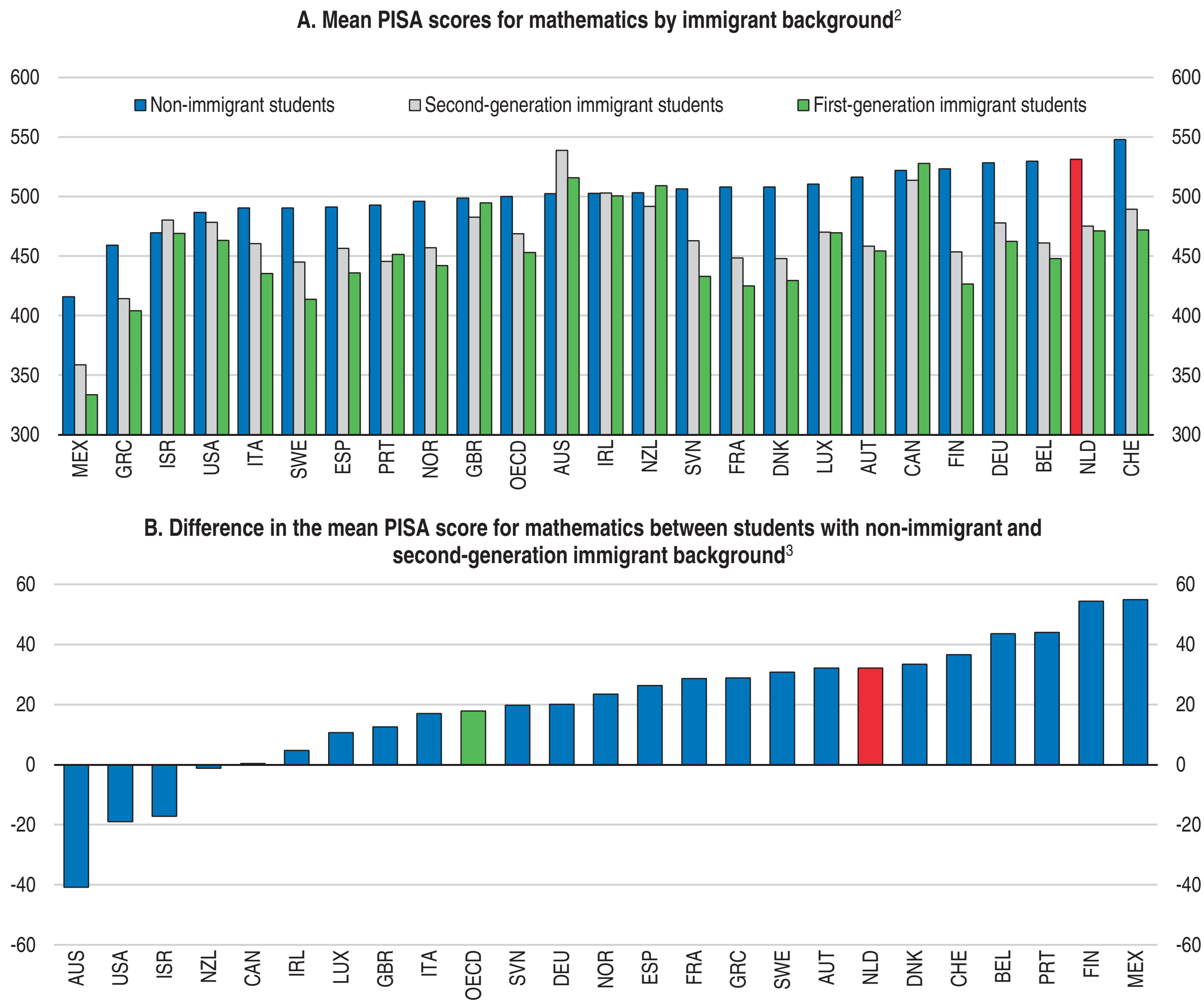
Figure 28. **Gap between native and second-generation immigrant students is important**

Mean PISA score for mathematics, 2012[1]



1. First-generation immigrant students refer to foreign-born students. Second-generation immigrant students refer to native-born students with foreign born parents.
2. Countries are ranked in ascending order of the mean PISA scores of non-immigrant students.
3. After adjusting for students' socio-economic status. Differences for Canada, Ireland and New Zealand are not statistically significant. The larger the difference in mean PISA scores for mathematics between students with non-immigrant and second- generation immigrant background, the less successful second-generation students are in closing the gap with native students.

Source: OECD (2013), *PISA 2012 Database*.

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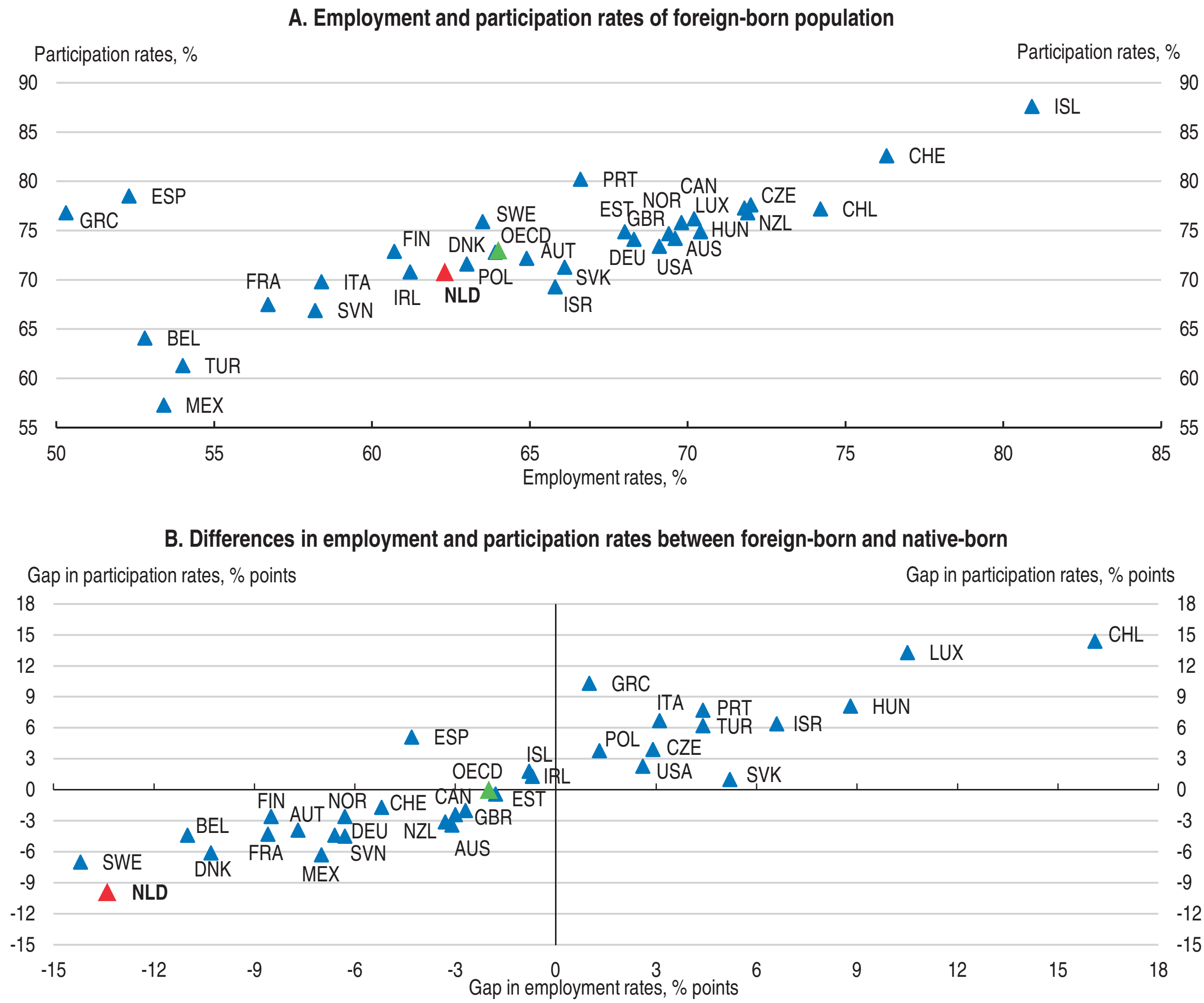
Figure 29. **Employment and participation rates of foreign-born are relatively low**

Working-age population, 2014[1]



1. 2013 for the OECD aggregate and Chile. 2011 for Israel. Working-age population refers to those aged between 15 and 64.

Source: OECD (2015), "Employment, unemployment and participation rates by sex and place of birth", *OECD International Migration Statistics* (database), October.

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Key policy recommendations to boost skills for all

- Raise the quality of early childhood education and care further, and foster generic skills in vocational education and training. Further raise teachers' qualification, in particular in disadvantaged schools, and subsequently their wages.
- Enhance entrepreneurial skills by further evaluating the effectiveness of programmes in formal education, developing online stand-alone training programmes, and promoting peer-to-peer learning.
- Strengthen the provision of public employment services, and create programmes combining work experience and on-the-job training as well as language courses for immigrants.
- To ensure higher prevalence of permanent contracts while enhancing resource allocation in the economy, further ease employment protection legislation on permanent contracts by continuing to reduce the cap on severance payments.

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ANNEX

Progress in main structural reforms

This table reviews action taken on recommendations since the Economic Survey of April 2014.

Recommendations in previous *Surveys*	Actions taken and current assessment
A. Public finances	
Return to the initial fiscal framework by adhering to medium-term spending ceilings while allowing automatic stabilisers to play fully on the revenue side.	The improved economic situation allowed authorities to return to the former fiscal framework in 2015.
Continue to actively participate in international negotiations about coordinated action to combat tax base erosion and profit shifting (BEPS) of multinational enterprises and, within this international context, take appropriate domestic measures to support such action.	The Netherlands has provided strong support to the OECD/G20 BEPS project, and is planning a revision in tax advantages for innovation consistent with OECD recommendations.
B. Labour market and social policies	
Strengthen job-search incentives of the unemployed by decreasing unemployment benefits more dynamically throughout their duration, shortening their duration and reducing their ceiling.	Social partners agreed to share the costs of unemployment benefits during the third year of unemployment, which offsets the gradual reduction in the legal duration from three to two years that starts in 2016.
Focus on measures to increase activation and hours worked. Consider making active labour market policy spending more counter-cyclical. Relax employment protection legislation and cap severance pay.	Spending on public employment services was cut by half between 2011 and 2015, notably owing to a transition to e-services. Tax disincentives for second earners to work longer hours should be further reduced in 2016. Since July 2015, dismissal procedures of regular contracts has been somewhat simplified. The severance pay has been linked to seniority rather than age and reduced to EUR 75 000 or an annual salary, whichever is higher.
C. Pension funds	
Use a more stable long-term interest rate as the discount rate to assess pension funds' solvency.	Since July 2015, a new methodology is used to calculate the discount rate, which brings its value more in line with the current low level of interest rates.
Make permanent the extension of the recovery period (from three to five years) for funds to restore solvency.	The recovery period was set to ten years (with an additional two years granted for plans made in 2015) for both reserve and coverage deficits.
Provide greater information to support informed decisions on transfer of pension rights. Allow members to leave persistently underfunded or underperforming funds.	Since January 2015, transfers of pension rights have no longer to be done within six months of starting a new job.
Strengthen the boards of the pension funds by increasing the representation of pensioners and sleepers and by making boards more professional.	Since July 2014, a new law allows pensioners to be become board members and to set up fully independent boards made of external professionals.
D. Transport system	
Implement a road pricing scheme.	No action taken.
Focus the tax-free commuting allowance on low-wage workers.	No action taken.
Taxation of diesel should be raised to better reflect the relative environmental costs of fuels.	No action taken on the taxation of diesel, but the private motored vehicle and motorcycle purchase tax has become more dependent on CO_2-emissions since January 2016, while the annual road tax for older diesel cars will increase in 2019.
Facilitate new entry in public transport.	No action taken regarding providers of public transports, but access to the payments systems has been broadened to new providers of payment services.
E. Housing market	
Focus social housing associations on providing affordable housing for low-income households. Give incentives to housing associations to sell off dwellings. Transfer associated excessive capital gains to the government. Reduce the maximum rent of social dwellings.	As of January 2017, social housing associations will have to separate social housing provision from their commercial activities administratively and/or legally. The rent control threshold will be frozen for three years since January 2016.
Continue to improve targeting of social housing to low-income households through means-tested rent increases and ease rent regulations in the private rental market by increasing the role of property's value in setting maximum rents, freeing rents in new constructions and deregulating rents for new contracts in existing dwellings.	Since January 2016, contracts for social housing can be made for a fixed term, and since October 2015 the property value is determining 25% of a properties maximum rent.

Recommendations in previous *Surveys*	Actions taken and current assessment
F. Health and long-term care	
Further improve the risk-equalisation scheme to reduce insurers' incentives for risk selection, particularly in view of the government's intention to terminate ex post compensations before 2015.	Large variation of risk-equalisation among health insurers, which could point at risk selection, has prompted The Dutch Healthcare Authority to undertake an analysis in 2015.
Lift the current capacity constraints (*numerus fixus*) for medical schools and facilitate the recognition of foreign diplomas from outside Europe.	No action taken.
Allow for-profit hospitals to enter the hospital market. In addition, the orderly exit of bankrupt hospitals should be secured via measures to guarantee access to essential facilities.	Draft legislation allowing hospitals that meet certain (financial) requirements to pay out profits has stalled.
Health insurers should not receive more responsibility for purchasing care until they are given proper incentives for cost-efficiency. In the longer term, the decentralisation of home care to municipalities could be completed and institutional patients should directly choose their care provider to push institutions to compete on quality to attract patients.	The decentralisation of home care to municipalities took place in January 2015.
Keep the cash benefits scheme for home care but combine it with better screening and monitoring to avoid unintended use. To this end, a system of vouchers directly payable to professionals and topped up by co-payments should be envisaged.	No action taken to create a system of vouchers.
G. Improving the resilience of banks	
Encourage banks to further increase their capital adequacy ratios by issuing equity and retaining earnings.	The fiscal treatment of contingent convertible bonds to promote their use was adapted in December 2014.
Once the housing market starts to recover durably, accelerate the reduction of mortgage interest relief to increase incentives for amortisation of mortgages and further lower the maximum loan-to-value ratio significantly below 100%.	No action taken.
H. Unleashing SME dynamism	
Broaden access to academic research and increase the share of direct innovation grants to SMEs.	The authorities aim to make academic publications freely accessible, and an arrangement was found with a major publisher to broaden free access.
Consider converting the two-rate corporate income tax into a single rate tax system while not increasing the tax burden on SMEs and levelling the playing field between smaller and bigger companies by broadening the corporate income tax base.	No action taken.
Reduce the gap between social security contributions and coverage of own-account self-employed and employees and consider mutualising the costs of disability through a dedicated fund for SMEs.	No major action taken on the tax treatment of self-employed relative to employees, but there are discussions to introduce a collective insurance for the second year of employee's sick leave.

Thematic chapters

OECD Economic Surveys: Netherlands

Chapter 1

Enhancing private investment

Investment has rebounded during the recent economic revival, but, from a low level. The investment slump during the crisis was mostly caused by a fall in residential investment. However, business investment has been trending downwards since 1990, holding back capital stock accumulation and productivity. Raising residential investment is necessary to meet the growing demand, and in particular more private rental housing is needed as the current small stock, which reflects rental regulation and other housing policies, hampers the functioning of the housing market. Financing of owner-occupied housing can be made more resilient by stepping up measures taken after the crisis. Regarding business investment, further reinforcing the already good framework conditions would help to turn its cyclical upswing into a durably higher level. Meeting targets on R&D expenditure and renewable energy requires lifting investments in the related areas. Financing conditions, which are widely perceived as an important bottleneck, could be improved by stimulating competition in the banking sector and the development of alternative financing sources.

Chapter 2

Boosting skills for all

Strong and adequate skills are essential to support workers' productivity and to ensure robust employment outcomes. Developing workers' skills would also increase their personal satisfaction and wages, contributing in making growth more inclusive. The Netherlands performs well in terms of competences of a large part of the population. Moreover, the country has been successful in adjusting the required level of skills over time. The education system plays a key role in developing skills and achieves good results, but there is room to make vocational education and lifelong learning less job-specific to better adapt to new economic trends. There is scope to use more effectively existing skills at work of youth entering the labour market and entrepreneurs, and to reduce labour market mismatches. Another challenge is to help some people to acquire skills by facilitating their labour market integration – in particular first- and second-generation immigrants, long-term unemployed, and people with low educational attainment and health problems –, which requires stronger targeted active labour market policies.

This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries

The economic situation and policies of the Netherlands were reviewed by the Committee on 21 January 2016. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 9 February 2016.

The Secretariat's draft report was prepared for the Committee by Rafał Kierzenkowski Sanne Zwart and Gabor Fulop under the supervision of Pierre Beynet. Research assistance was provided by Gabor Fulop and Secretarial assistance was provided by Sylvie Ricordeau. The Survey also benefitted from external consultancy work (Aleksandra Paciorek).

The previous Survey of the Netherlands was issued in April 2014.

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