OVERVIEW
Executive summary

- Economic growth is strong, although there are significant near-term risks.
- Non-standard forms of work have risen, creating opportunities but also challenges for job quality.
- Labour markets can be made more inclusive by lowering the gender gap in part time work and supporting employment of vulnerable workers.
The economy is in the midst of a strong expansion (Figure A). Improved global economic developments have led to solid export growth. In turn, high domestic and external demand and still favourable financial conditions have stimulated private investment. Positive labour market developments, supportive fiscal policy and a stronger housing market have boosted private consumption growth.

Underpinned by high confidence, growth is projected to remain robust. Household consumption growth should contribute strongly to economic activity, notably as the unemployment rate falls further below 4% (Table A). Although moderating from a strong 2017, business investment growth is set to remain elevated. A tighter labour market is projected to put upward pressure on wages. Consumer price inflation is set to rise from very low levels to 2 ½ per cent in 2019.

There are important risks to the outlook. Low interest rates have hampered the profitability of financial institutions and the life insurance sector faces severe stress. Rapidly rising house prices point to a potential risk to the growth outlook in case of a turnaround. Rising global protectionism would be a major shock to economic activity, given the Netherlands’ position as a major European and global trading hub. In case Brexit results in significant trade barriers, the impact would be felt disproportionately in some Dutch sectors, such as agriculture and food, while other sectors, such as financial services, would potentially benefit from diverted trade in the European Union.

<table>
<thead>
<tr>
<th>Table A. Economic outlook is robust</th>
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<tr>
<td>Annual percentage change, volume (2010 prices).</td>
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<tr>
<td>2017</td>
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<tr>
<td>Gross domestic product (GDP)</td>
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<td>Private consumption</td>
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<td>Government consumption</td>
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<td>Gross fixed capital formation</td>
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<td>Exports of goods and services</td>
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<td>Imports of goods and services</td>
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<tr>
<td>Unemployment rate</td>
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<tr>
<td>Consumer price index</td>
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</table>

Source: OECD Economic Outlook database.

The fiscal balance is set to remain in surplus in the medium term. The government plans a slightly stimulatory stance in the near term, but strong growth and fiscal surpluses are setting the public-debt-to-GDP ratio firmly on a downward trend. In the context of high economic uncertainties, potential economic shocks could lead to a significant fall in fiscal revenues. It is important to continue to increase fiscal buffers in good times.

Population ageing raises debt sustainability challenges, which are manageable. Older workers have increased their workforce participation in response to a higher minimum retirement age. The Netherlands is set to see a further rise in the retirement age, reflecting its link with life expectancy (Figure B). Older workers should enjoy greater flexibility in tasks and hours worked to sustain their employment.

The tax system should support growth and be adapted to a changing global and digital environment. Progress in implementing measures to avoid tax base erosion and profit shifting (BEPS) should continue. The Dutch government recently announced a new policy agenda to tackle tax evasion and avoidance, which is welcome. With this policy agenda, the government wants to overturn tangibly the Netherlands’ image as a country that makes it easy for multinationals to avoid taxation. The government has announced that an expansion to non-EU countries of the zero tax rate on
outbound dividend distributions will be accompanied by measures that deny the zero rate in case of abusive situations or of distributions to low-tax jurisdictions. The dual rates for the VAT should be streamlined to reduce inefficiencies in the tax system by phasing out the lower rate and, if need be, compensating the potential monetary losses incurred by low-income households. The number of tax exemptions or tax expenditures needs to be reduced.

**Figure B. Substantial increase in expected retirement age**

For men entering labour market at age 20

![Figure B. Substantial increase in expected retirement age](image)


*StatLink* [http://dx.doi.org/10.1787/888933774982](http://dx.doi.org/10.1787/888933774982)

**Wages have not grown one to one with productivity**

Wage growth is slower than productivity developments. The level of labour productivity is high by international standards and growing but this has not translated into higher real wages to the fullest extent (Figure C).

**Figure C. Wages and productivity**

Index 1990=100

![Figure C. Wages and productivity](image)

*Note: Labour productivity refers to real GDP per total hours worked. Wages of employees are divided by total hours worked by employees and deflated by GDP deflator.*

*Source: Statistics Netherlands (CBS).*

*StatLink* [http://dx.doi.org/10.1787/888933775001](http://dx.doi.org/10.1787/888933775001)

Social partners and the government should work together to support a better sharing of productivity gains. One avenue would be to lower the tax wedge of low-income employees by scaling down social security contributions. Another avenue would be to review incentives for non-standard forms of employment, which may exert a downward pressure on wages.

**Non-standard forms of work have risen, putting downward pressures on wages and job quality**

Non-standard work has risen considerably in the Netherlands. Temporary contracts and self-employment have become more pervasive (Figure D). Minimum wage requirements do not apply to self-employed, which could also hold back wage growth. Moreover, growing ranks of self-employed raise competition on the labour market and may reduce the ability of dependant workers to obtain pay rises.

The development of self-employment could also result in lower job quality. The self-employed do not contribute to sickness and invalidity insurances, where coverage is mandatory for employees. Consequently they are exposed to greater financial losses associated with health-related risks.

**Figure D. Non-standard work has become more prevalent**

Share of self- and temporary employment as a percentage of total employment

![Figure D. Non-standard work has become more prevalent](image)

*Source: OECD Employment and Labour Market Statistics database.*

*StatLink* [http://dx.doi.org/10.1787/888933775020](http://dx.doi.org/10.1787/888933775020)
Reducing excessive incentives to self-employed

Self-employed should be supported in a more balanced way. Self-employed take risk and could bring benefits to the society by developing entrepreneurship. This justifies some support from public policies, but not to the extent it deteriorates job quality. However, generous tax incentives for the self-employed do little to spur genuine entrepreneurship, but contribute to a large difference in taxation compared to employees (Figure E). Introducing minimum social security coverage for self-employed workers, and gradually reducing the size of the tax incentives would diminish the gap in tax treatment between worker types.

Regulatory reform in the labour market should continue. The strictness of employment protection of permanent contracts should be lowered to reduce dualism and increase labour market flexibility. The dismissal system should be made more flexible by lowering severance pay for employees dismissed under reasonable grounds, as unemployment benefits already provide adequate income support to these workers.

Figure E. The tax incentives for self-employed are high

Tax wedge as a percentage of net income, 2017

Note: Tax wedges for self-employed exclude pension and insurance contributions. “Average wage” represents the modal wage.
Source: NLD Government.
StatLink ₁ http://dx.doi.org/10.1787/888933775039

Making the labour market more inclusive

Part-time work is widespread, notably among women. High rates of part-time employment to some extent reflect personal preferences. However, women disproportionately work part-time throughout their careers when compared to men. As women work fewer hours than men, their earnings are lower and the gap in pension entitlements between men and women is amongst the highest in the OECD (Figure F). Greater gender equality in using part-time work could be achieved by introducing a longer paid paternity leave entitlement than planned by the government.

Figure F. Large gender gap in pension wealth

Difference in pension entitlements, in per cent, 2014 or latest available

Note: The OECD aggregate is calculated as an unweighted average and it covers 25 countries.
StatLink ₂ http://dx.doi.org/10.1787/888933775058

Activation policies need to be better targeted. The national government should work toward a more coordinated approach in delivering support across regions. Disadvantaged groups should also benefit from stronger activation policies to raise their job prospects.

Skills investment is strong, except for disadvantaged groups. Low-skilled workers, older workers and individuals with migrant backgrounds are under-represented in different learning programmes. This situation can be improved by targeting the planned individual lifelong learning accounts to low-skilled workers to increase their qualifications and job opportunities. Older workers should receive more training to support them in adapting to dynamic workplace changes. New migrants, particularly refugees and asylum-seekers with low skills, should receive targeted and front-loaded training to better improve their ability to integrate into society.
### Fiscal policy

**Main Findings**

- Economic uncertainties are high (e.g. rising trade protectionism and Brexit). Potential economic shocks could lead to a significant fall in fiscal revenues.
- The tax system is overly complex and a broad reform of the tax system has not been implemented. The dual rate for the VAT contributes to inefficiencies in the tax system.
- Despite progress to combat base erosion and profit shifting (BEPS), the Netherlands could still be seen as a conduit of BEPS by multinational corporations.

**Key Recommendations**

- Maintain the trend-based fiscal policy in order to continue to increase fiscal buffers in good times.
- Reduce the number of exemptions and other tax expenditures. Phase out the dual rates for the VAT by raising the lower rate. If needed, introduce targeted income support to compensate low-income households for the potential income loss.
- Carry out plans in the new policy agenda to tackle tax evasion and avoidance that has recently been sent to Parliament by the Dutch State Secretary for Finance. Ratify the BEPS multilateral instrument and impose a withholding tax on dividend, interest and royalty earnings transferred to low-tax and non-cooperative jurisdictions, as planned.

### Financial stability

**Main Findings**

- While macro-financial vulnerabilities have diminished significantly, household debt is still high by international standards and house prices have sharply increased, especially in large cities. As of yet, this has not been accompanied by an increase in credit growth.

**Key Recommendations**

- Continue the gradual phasing out of mortgage interest deductibility. Consider taking appropriate macroprudential actions.

### Making employment more inclusive

**Main Findings**

- The self-employed pay less tax and social contributions, lowering the inclusiveness of social insurance and pension systems.
- The tax burden on employees is high, particularly for the low-skilled, mainly due to high social security contributions.
- Despite recent reforms, severance pay remains high, especially when considering the generous unemployment benefits that workers can access following a dismissal.
- Spending on employment or reemployment support is low, notably to help properly disadvantaged individuals. Many activation programmes are carried out at the local level with little coordination.
- There exists a large gender disparity in part-time work with women accounting for most of the part-time positions.
- Overall investment in skills and workers' training is high in the Netherlands. However, older workers, individuals with migrant backgrounds and low-skilled individuals do not have sufficient support to improve their job prospects.

**Key Recommendations**

- Phase out the permanent self-employment tax deduction. Introduce minimum coverage for sickness and disability insurance for workers regardless of their contract.
- Lower social security expenses, for instance by reducing the generosity for sickness insurance.
- Reduce severance pay for employees who are dismissed under reasonable grounds.
- Improve the targeting of employment support policies to vulnerable groups. Work toward a more coordinated approach, in implementing activation policies across regions.
- Increase the period of paid paternity leave to encourage greater participation of fathers in childcare responsibilities. Maintain existing provisions to keep childcare affordable and ensure the high quality of services.
- Introduce individual lifelong learning accounts targeted specifically at vulnerable workers.

### Addressing population ageing

**Main Findings**

- Older workers face disincentives to remain in the labour market.
- The Netherlands has an adequate supply of properly trained physicians, although population ageing and an official limit on new medical students could imply insufficient supply in the future.
- The sustainability of most occupational pensions is at risk as depressed returns on investment do not match generous pension promises. The lack of harmonisation of pension parameters across funds also hinders labour mobility.

**Key Recommendations**

- Allow more flexibility in tasks and hours worked for senior persons.
- Periodically assess the need for new health professionals and adjust the institutionalised limit on medical students accordingly.
- The government should encourage social partners to agree on a new pension contract to ensure pension funds’ sustainability and facilitate transfers of pension rights across funds.
Key Policy Insights

- Macro-financial developments
- Medium-term challenges: towards more inclusive growth
- Structural focus: addressing population ageing
Macro-financial developments

The Netherlands is experiencing vibrant economic activity, with gross domestic product (GDP) at about 8% above its pre-crisis peak and the unemployment rate below 4% (Figure 1). Growth picked up to above 3% in 2017, which was well above the euro area and OECD averages. This sharp economic recovery has been broad-based, with spending by businesses and households contributing to growth while external demand, mainly from other European countries, has also had a positive impact. Despite moderating somewhat in upcoming years, growth is projected to remain strong at around 3% on average in 2018 and 2019. The fiscal balance is in surplus and public debt has fallen to below 60% of GDP.

Domestic policies have contributed to the rapid pace of economic expansion, as the Dutch consensus-driven policy framework facilitates the implementation of structural reforms. In the aftermath of the global financial crisis and the European debt crisis, the Netherlands undertook a number of structural reforms to heal public finances, strengthen the banking sector, foster competition and address some long-standing challenges in the labour and housing markets.

Despite an overall strong performance of the Dutch economy, some important challenges remain in a context where globalisation and digitalisation continue to deeply alter the functioning of the world economy. Reform efforts should continue to address potential vulnerabilities associated with the housing market and the financial sector, given the importance of both for the Dutch economy. Real wages have grown at a slower pace than the growth in output per hour, implying that workers have not enjoyed the full benefits of increased spending power commensurate with a comparatively high level of labour productivity in the OECD. Large increases in non-standard forms of work, notably self-employment, may have put a downward pressure on wages, reflecting weak representation in the consensus-driven collective bargaining system, lower safety nets and possibly a weaker productivity relative to dependent employment. Non-standard forms of work could also have a negative impact on job quality if they are involuntary and prevail among vulnerable groups. Population ageing creates pressures on the pension and healthcare systems, while the rising retirement age will require steps to ensure that older workers remain attached to the labour market.
Against this backdrop, the main messages of this Survey are:

- Policy-makers should continue to monitor and address potential risks to financial stability notably implied by low interest rates and sharp rises in housing prices, which could be dealt with by relaxing housing supply constraints.

- The rise in flexible forms of work, presents opportunities but also challenges. In particular, a combination of tax and regulatory reforms would ensure a better job quality for the self-employed and workers on temporary contracts without discouraging these types of work.

- The ageing of the workforce and increases in the retirement age require a more transparent pension system and improved job mobility of older workers.

### Strong economic outlook

Growth has been robust with average annualised quarterly growth at 3.1% since the beginning of 2016 (Figure 1, Panel A). All-time high levels of business and consumer confidence, strong labour market and rising purchasing power have supported household consumption (Figure 1, Panel B). A bright economic outlook and narrowing capacity utilisation have sustained strong business investment growth (Table 1). House price inflation, particularly high in large cities, has stimulated residential investment growth to record-high rates, but new construction developments have been weaker (Figure 2). This gap could be accounted for by housing transactions, with fees of real estate agents being statistically recorded as investment for the service they provide. Fiscal policy has been accommodating, and public consumption and investment have been making a positive contribution to growth.
Growth is projected to be strong and broad-based in 2018 and 2019 (Table 1). Private consumption should continue to expand at a robust pace, underpinned by further increases in employment, higher wage growth supported by a tighter labour market, continued rises in house prices and a small fiscal stimulus announced in the recent Coalition Agreement for 2018-21 (Box 1). Robust domestic demand, growing export markets and tightening capacity constraints are expected to sustain business investment. The Netherlands should continue to benefit from a stronger global trade outlook, being a trade-oriented economy and a European markets gateway. Wages are projected to pick up as labour and product markets tighten. Inflation is expected to gradually increase from a very low level to 2½ per cent, given the weak link between inflation and economic slack. Fiscal policy is projected to remain expansionary over the projection horizon, in line with the Coalition Agreement. This should help to reduce the current account surplus, which will remain sizeable in the absence of structural measures to incentivise non-financial businesses to pay higher dividends.
Table 1. Macroeconomic indicators and projections

Annual percentage change, volume (2010 prices)

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<td><strong>Gross domestic product (GDP)</strong></td>
<td>663.1</td>
<td>2.3</td>
<td>2.1</td>
<td>3.3</td>
<td>3.3</td>
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<td>Private consumption</td>
<td>296.7</td>
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<td>1.1</td>
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<td>3.0</td>
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<td>11.0</td>
<td>5.2</td>
<td>5.7</td>
<td>6.1</td>
<td>5.4</td>
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<tr>
<td>Housing</td>
<td>20.1</td>
<td>20.9</td>
<td>19.0</td>
<td>12.7</td>
<td>8.8</td>
<td>6.9</td>
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<td>Business</td>
<td>76.1</td>
<td>10.1</td>
<td>3.1</td>
<td>3.9</td>
<td>3.2</td>
<td>5.6</td>
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<td>Government</td>
<td>23.3</td>
<td>5.5</td>
<td>-0.3</td>
<td>4.0</td>
<td>5.6</td>
<td>2.6</td>
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<td>Final domestic demand</td>
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<td>3.2</td>
<td>2.2</td>
<td>2.6</td>
<td>3.6</td>
<td>3.2</td>
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<td>Stockbuilding</td>
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<td>0.1</td>
<td>-0.4</td>
<td>0.2</td>
<td>0.1</td>
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<td><strong>Total domestic demand</strong></td>
<td>591.2</td>
<td>3.3</td>
<td>1.7</td>
<td>2.4</td>
<td>3.7</td>
<td>3.2</td>
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<tr>
<td>Exports of goods and services</td>
<td>547.7</td>
<td>6.5</td>
<td>4.1</td>
<td>6.4</td>
<td>4.0</td>
<td>3.8</td>
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<tr>
<td>Imports of goods and services</td>
<td>475.8</td>
<td>8.4</td>
<td>3.9</td>
<td>5.7</td>
<td>4.7</td>
<td>4.3</td>
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<tr>
<td>Net exports</td>
<td>71.9</td>
<td>-0.7</td>
<td>0.6</td>
<td>1.2</td>
<td>0.0</td>
<td>0.1</td>
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<tr>
<td><strong>Other indicators</strong> (growth rates, unless specified)</td>
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<tr>
<td>Potential GDP</td>
<td>. .</td>
<td>1.5</td>
<td>1.7</td>
<td>1.9</td>
<td>2.0</td>
<td>2.1</td>
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<tr>
<td>Output gap</td>
<td>. .</td>
<td>-2.3</td>
<td>-1.8</td>
<td>-0.5</td>
<td>0.8</td>
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<td>Employment</td>
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<td>1.0</td>
<td>1.3</td>
<td>2.1</td>
<td>2.2</td>
<td>1.8</td>
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<tr>
<td>Unemployment rate</td>
<td>. .</td>
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<td>6.0</td>
<td>4.9</td>
<td>3.9</td>
<td>3.5</td>
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<td>GDP deflator</td>
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<td>0.8</td>
<td>0.6</td>
<td>1.1</td>
<td>2.0</td>
<td>2.3</td>
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<tr>
<td>Consumer price index (harmonised)</td>
<td>. .</td>
<td>0.2</td>
<td>0.1</td>
<td>1.3</td>
<td>1.6</td>
<td>2.4</td>
</tr>
<tr>
<td>Core consumer prices (harmonised)</td>
<td>. .</td>
<td>0.9</td>
<td>0.6</td>
<td>0.8</td>
<td>1.2</td>
<td>2.1</td>
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<tr>
<td>Household saving ratio, net²</td>
<td>. .</td>
<td>6.5</td>
<td>6.4</td>
<td>6.1</td>
<td>6.1</td>
<td>6.1</td>
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<tr>
<td>Current account balance</td>
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<td>8.7</td>
<td>8.5</td>
<td>10.2</td>
<td>10.5</td>
<td>10.3</td>
</tr>
<tr>
<td>General government fiscal balance</td>
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<td>-2.1</td>
<td>0.4</td>
<td>1.1</td>
<td>0.7</td>
<td>0.9</td>
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<td>Underlying general government fiscal balance</td>
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<td>1.4</td>
<td>1.3</td>
<td>0.3</td>
<td>0.0</td>
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<td>Underlying government primary fiscal balance</td>
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<td>-0.4</td>
<td>2.2</td>
<td>2.1</td>
<td>0.9</td>
<td>0.6</td>
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<tr>
<td>General government gross debt (Maastricht)</td>
<td>. .</td>
<td>64.6</td>
<td>61.8</td>
<td>56.7</td>
<td>54.2</td>
<td>51.6</td>
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<td>General government net debt</td>
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<td>42.4</td>
<td>40.6</td>
<td>36.1</td>
<td>33.6</td>
<td>31.0</td>
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<td>Three-month money market rate, average</td>
<td>. .</td>
<td>0.0</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.2</td>
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<tr>
<td>Ten-year government bond yield, average</td>
<td>. .</td>
<td>0.7</td>
<td>0.3</td>
<td>0.5</td>
<td>0.7</td>
<td>0.9</td>
</tr>
</tbody>
</table>

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.
5. On May 24, Statistics Netherlands (CBS) and De Nederlandsche Bank (DNB) published a revision of the Dutch external account statistics. For the year 2015, the current account surplus was revised downwards to 6.3%. A large part of the downward revision is nonrecurring.


The current account surplus remains unprecedentedly large. A savings-investment approach points to high net savings of Dutch corporations to be the main driver, mostly accounted for by retained earnings of the non-financial corporate sector (Figure 3). In particular, multinational enterprises tend to have large savings, as a result of a high profitability and low levels of profit distribution (European Commission, 2018[1]). The persistent and large current account surpluses are not always concomitant with...
improvements in the net international investment position of the Netherlands, and could in part reflect the international tax planning practices of large multinational corporations (see below).

**Figure 3. High net lending of non-financial corporations is driving the current account surplus**

As a percentage of GDP

*Note:* Net lending (+) or net borrowing (-) is the balancing item on the current and the capital account. Households also include non-profit institutions serving households.


StatLink: [http://dx.doi.org/10.1787/888933775115](http://dx.doi.org/10.1787/888933775115)
Box 1. Key policy measures announced in the Coalition Agreement for 2018-21

The new government has outlined its planned tax and regulatory policy reforms between 2018 and 2021, as part of the Coalition Agreement announced in October 2017. The Netherlands Bureau for Economic Policy Analysis (CPB) estimates that the stimulatory nature of the policies will result in the fiscal surplus being on average 0.6 percentage point lower per year throughout the 2018 and 2021 period than otherwise (CPB, 2017[2]). Some of the key fiscal measures include:

Fiscal framework

- The cyclical part of unemployment benefit and social assistance benefit will be removed from the capped expenditure system that underlies the trend-based fiscal policy framework. The interest expenditure on national debt and any fiscal consequences associated with natural gas extraction will now be considered in spending ceilings.

Tax and regulatory policies

- **Mortgage interest deductibility.** The previously planned reduction in mortgage interest tax relief will be accelerated. Homeowners will be partially compensated through a reduction in the imputed rent tax.

- **Personal income tax brackets.** The number of personal income tax brackets will be reduced to 2, the lower bracket will be 36.93% applied to earnings below EUR 68 600 and the upper bracket will be 49.5% for earnings above this threshold.

- **Increase in the reduced VAT rate.** The low rate for the VAT will be increased from 6% to 9% in 2019. The high VAT rate will remain at 21%.

- **Corporate income tax reduction.** The corporate income tax (CIT) rate will be gradually reduced from 25% to 21% by 2021. The lower CIT rate, which applies to the first EUR 200 000 of earnings, will likewise be reduced from 20% to 16%. This will be mostly financed by a broadening of the tax base.

- **Dividend withholding tax.** The withholding tax will be abolished to counter the use of the Netherlands as a conduit jurisdiction. However, a planned withholding tax will be applied to earnings distributed to low-tax jurisdictions.

- **Innovation box tax.** The effective tax rate on earnings related to intangible assets will be increased from 5% to 7%.

Spending measures

- The government has earmarked a total of EUR 2 billion over the next three years to finance investment in infrastructure. It has also announced new investment in defence, police, healthcare and education.
Stronger global trade growth would further strengthen economic activity over the projection horizon, but rising global trade protectionism would represent a major shock to the very open Dutch economy (Table 2). The Dutch authorities are leading the Network for Open Economies and Inclusive Societies (NOEIS), which gathers 20 countries and is facilitated by the OECD. It has the dual purpose of peer learning and effective exchange of good practices, with a view to providing a new voice in the international policy arena. The Dutch authorities have been pro-active in reducing barriers to international trade and investment, as measured by the OECD product-market regulation indicator. Notwithstanding a small increase in barriers to trade in broadcasting services in 2016, restrictions to service trade are amongst the lowest in the group of NOEIS countries (Figure 4).

Figure 4. Policies aim at facilitating trade and FDI

1. The participating countries in the Network for Open Economies and Inclusive Societies (NOEIS) include Argentina, Belgium, Canada, Chile, Colombia, Costa Rica, the Czech Republic, Finland, Germany, Hungary, Japan, Latvia, Luxembourg, Mexico, the Netherlands, Norway, Peru, Poland, Spain and Sweden. FDI: foreign direct investment.
2. Data is missing for Argentina and Peru. Figures are calculated as a geometric average of all services sectors.

Source: OECD Services Trade Restrictiveness Index Database; and OECD FDI Regulatory Restrictiveness Index Database.

StatLink: http://dx.doi.org/10.1787/888933775134

There are important downside risks associated with this economic outlook. Further increases in house prices could stoke a credit boom and result in further increases in already large household debt levels (see below), weakening financial stability. Conversely, a sharp fall in house prices would negatively affect growth by weakening private consumption. The stability of the financial sector has been hampered by the low interest rate environment, with the life insurance sector facing severe stress (IMF, 2017[3]). A failure of a financial institution would send shock waves through the economy. The uncertainty surrounding the exit of the United Kingdom from the European Union (Brexit) is an important downside risk, as Brexit is likely to create frictions in bilateral trade and investment relations (see below).
Table 2. Possible shocks to the Dutch economy

<table>
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<tr>
<th>Shock</th>
<th>Possible impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rising trade protectionism</td>
<td>A sudden rise in protectionism would be detrimental for the Dutch economy, which has largely benefited from globalisation over the past decades.</td>
</tr>
<tr>
<td>Brexit</td>
<td>A significant increase in trade and investment barriers between the European Union and the United Kingdom would have major negative economic effects in the agriculture and food sectors.</td>
</tr>
<tr>
<td>Distress of financial institutions</td>
<td>A continuation of the low interest rate environment would jeopardise the solvency of insurance sectors.</td>
</tr>
<tr>
<td>Housing prices</td>
<td>A pick up in credit growth or a search for yields in a low-interest environment could spur further house price increase and overheating.</td>
</tr>
</tbody>
</table>

Preparing for Brexit

The Netherlands has important trade and investment linkages with the United Kingdom. Dutch exports across the Channel are high, and dependence on imports from the United Kingdom is also significant (Figure 5, Panel A). Outward and inward investment positions with the United Kingdom represent around 100% of Dutch GDP and are twice as high as with the rest of the European Union (Figure 5, Panel B).

Model-based scenarios, which are purely illustrative and do not represent a judgement about the most likely outcome of Brexit negotiations, suggest that several Dutch sectors would be hit – in particular agriculture and food – should the United Kingdom leave the European Union without any trade agreement (Box 2). Yet, other sectors such as financial services would likely increase their overall exports as other EU countries would divert their trade from the United Kingdom.

Figure 5. Trade and investment exposure to Brexit is important

As a percentage of respective country's GDP, 2016

![Bar chart showing trade and investment exposure to Brexit](http://dx.doi.org/10.1787/888933775153)

Note: Outward investment position in the UK refers to UK overall international investment liabilities in relation to the respective country. Inward investment position from the UK refers to UK overall international investment assets in relation to the respective country.

These results highlight the need to develop contingency plans, including *ex ante* policy offsets, to minimise possible economic disruptions in selected sectors. Some steps have already been taken to prepare for some of the disruptions that could be caused during the transition to a new economic relationship with the United Kingdom. For instance the Dutch authorities have announced plans to recruit additional customs officers as the United Kingdom intends to leave the EU customs union and single market. Support is also provided to help firms to assess the impact of Brexit on their activities and prepare accordingly.

**Box 2. Simulated impact of an illustrative worst-case Brexit scenario on Dutch sectoral exports**

The United Kingdom’s planned departure from the European Union (Brexit) could have important economic consequences for the Netherlands, given strong bilateral trade and investment linkages. The estimated economic impact on the Netherlands associated with Brexit depends on channels through which the potential shock will play out, with the GDP impact ranging from -1¼ to -4¼ per cent by 2030 (Bollen, Meijerink and Rojas-Romagosa, 2016[4]; Rojas-Romagosa, 2016[5]; Erken et al., 2017[6])

This exercise estimates the effects of a worst-case Brexit scenario through the trade channel only, focusing on Dutch sectoral exports. The modelled scenario illustrates downward risks around the outcomes of Brexit negotiations underpinning future EU-UK trade. The effects on Dutch trade will vary, depending on tariff rates and non-tariff measures (NTMs) applied to different products, different degrees of global value chain integration of various sectors, and differences in opportunities to absorb trade diversion as countries may shift away from trade with the United Kingdom.

The potential impact on the Dutch economy is quantified using the OECD METRO Model (OECD, 2015[7]). This model is a computable general equilibrium model calibrated to 9 regions (with the United Kingdom and the Netherlands disaggregated from the rest of the European Union for the purpose of this simulation), 40 sectors, and 8 production factors (land, capital, natural resources and five distinct labour types). The selected sectors correspond to the most traded products between the Netherlands and the United Kingdom, including petroleum products, horticulture, motor vehicles, meat, medicaments and processed foods (Walhout, Ramaekers and Vergouw, 2017[8]).

Under the scenario, trade relations between the United Kingdom and all of its trading partners, inside and outside the European Union, are assumed to be governed by the World Trade Organisation’s (WTO) Most-Favoured Nation (MFN) Rules. Consistent with past OECD work (Kierzenkowski et al., 2016[9]; OECD, 2018[10]), the scenario assumes that tariffs on goods imported from the United Kingdom increase to the importing country’s WTO MFN bound rates once the United Kingdom formally exits the European Union. The United Kingdom contemporaneously imposes tariffs, equivalent to EU bound rates, on good imports from its trading partners, including the European Union. The scenario additionally imposes increases in trade costs related to NTMs on imports of both goods and services bilaterally between the United Kingdom and its trading partners, incorporating new OECD NTM estimates on goods trade (OECD, 2018[11]). Increasing costs of NTMs could arise once Brexit occurs due to regulatory divergence and the associated compliance costs (e.g. through health or technical compliance reviews). Detailed technical assumptions are described in OECD (2018[12]).

The negative economic impacts of Brexit on the Netherlands through the trade channel
are estimated to be larger than on the average of all other EU countries, reflecting a higher economic exposure of the Netherlands. However, the impact on total Dutch exports is considerably weaker given that exports will increase to other EU countries, which together account for a much larger share of Dutch exports (Figure 6). The most severe contraction in exports to the United Kingdom is expected in the agricultural and food sectors, which both account to 15% of total Dutch exports, which exports to other EU countries fail to offset. This export reduction is driven in particular by decreased exports to the United Kingdom in meat products, processed foods, horticulture, and vegetables and fruits. The reduction in meat exports is in line with recent estimates showing that some of the major agricultural exports to the United Kingdom, in particular meat, would be negatively impacted from a similar “hard Brexit” scenario (Van Berkum et al., 2018[13]). The second most consequential contraction is for the electronic equipment sector, this sector would experience a large fall in total exports and production in the scenario. Financial and business services exports to the United Kingdom would also be negatively affected. However, gross exports would increase, reflecting the Netherlands’ absorption of the additional demand for these services in Europe, following the reduction of the UK services exports to other EU countries. Motor vehicles and parts and transport equipment are also likely to benefit from trade diversion outside the United Kingdom.

Turning to labour markets, employment is estimated to fall by 1.3% relative to baseline in this worst-case scenario. The declines in each category of worker would range from 0.9 – 1.5% with office managers and professionals seeing the largest reductions. At the sectoral level, four of the five sectors that record the largest declines in employment are in the agri-food sectors, which are, along with public administration, the most labour intensive sectors in the Dutch economy. The largest fall would be observed in the meat sector and would amount to almost 10% compared to baseline.

Figure 6. Brexit could have a large impact on Dutch exports

<table>
<thead>
<tr>
<th>% change in gross Dutch exports of selected sectors, by destination</th>
<th>% of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agri-culture</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Horticulture</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Vegetables and fruits</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Food</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Meat products</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Processed food</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Electronic equipment</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Gas</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Petroleum, coal products and plastic products</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Ferrous metals and parts</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Motor vehicles and parts</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Machinery</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Transport services</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Financial services</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
<tr>
<td>Business services nec.</td>
<td>% change in gross Dutch exports of selected sectors, by destination</td>
</tr>
</tbody>
</table>

Note: Transport services include air transport, sea transport and transport not elsewhere classified (nec). Chemicals, rubber and plastic products also include pharmaceuticals. Source: OECD calculations using the METRO model.

StatLink [http://dx.doi.org/10.1787/888933775172](http://dx.doi.org/10.1787/888933775172)
**Heading off macro-financial vulnerabilities**

Continued increases in house prices could trigger another rapid credit expansion, with negative implications for financial stability. Housing investment has been booming, growing between 11% and 21% per year since 2015 (Table 1), but this growth has not been sufficient to prevent large increases in house prices in major cities. One possible explanation is that additions to the stock of housing have not kept pace with the high rate of household formation. This could be to a large extent related to the high rates of net migration which accounts for most of population growth, and points to still insufficient supply in the market (Figure 7). In turn, rising house prices have induced wealth effects and supported private consumption, in particular of households with a mortgage loan and also helped to reduce the number of “underwater” mortgages (DNB, 2018[14]). However, the ratios of house prices to household incomes and rents are still low, in comparison with the pre-crisis peak in the euro and OECD areas (Figure 8).

**Figure 7. House price inflation is high in large cities**

![Chart showing house price inflation in large cities](http://dx.doi.org/10.1787/888933775191)

Note: House prices refer to price index of existing own homes that are located on Dutch territory and sold to private individuals. Nominal house prices deflated by consumer price index.

Source: CBS (2018), "Voorraad woningen; standen en mutaties vanaf 1921"; "Households; size, composition, position in the household, 1 January"; and "Existing owner-occupied homes; selling prices; region; price index 2015 = 100", Statline Database, Statistics Netherlands, June; and OECD (2018), OECD Economic Outlook: Statistics and Projections (database), June.

Despite the rise in prices, mortgage growth has been subdued so far, which suggests that house purchases have been mainly financed by cash (Figure 9, Panel A). Lending to large companies is also depressed and could reflect a broader trend of deleveraging by the banking sector (Figure 9, Panel B). Household debt as a share of GDP, however, remains amongst the highest in the OECD, in large part reflecting high mortgage debt accumulated in previous credit booms (Figure 10).
Figure 8. House prices relative to incomes and rents are still comparatively low

Index 2005 = 100

Note: Price-to-income ratio refers to nominal house prices divided by nominal disposable income per head. Price-to-rent ratio refers to nominal house prices divided by rent price indices. The Euro area aggregate covers 16 countries.

StatLink http://dx.doi.org/10.1787/888933775210

Figure 9. Credit growth to the private sector is stagnant or falling

Year-on-year percentage change

A. Growth in the outstanding amounts of loans¹

B. Growth in new loans by size²

1. Series are adjusted for securitisations and breaks. Residential mortgages extended by Dutch monetary financial institutions (MFIs) to Dutch households.
2. Series are adjusted for breaks. Volume of new loans to non-financial corporations by MFIs.
Source: DNB (2018), "Key indicators monetary statistics (Month)" and "MFI non-financial corporations deposits and loans, volumes (Quarter)", De Nederlandsche Bank, June.

StatLink http://dx.doi.org/10.1787/888933775229
Housing market reforms would improve banking sector stability (Table 3). The Coalition Agreement has proposed to accelerate the phasing out of mortgage interest deductibility, in line with previous OECD recommendations (OECD, 2014[15]; OECD, 2016[16]). However, budgetary savings are planned to be used to reduce the taxation of imputed rents, lowering the impact of the policy on influencing the incentives for housing. A buoyant housing market presents an opportunity to further reduce the maximum loan-to-value ratio on new mortgages. Its limit should be lowered below 100%, reached in 2018, to a level more closely aligned to international standards of between 60 and 85% (DNB, 2017[17]; OECD, 2017[18]). Such a measure would ensure that new borrowers are more resilient to financial shocks because of a lower interest rate burden, reduce the incidence of negative home equity, make banks less dependent on wholesale funding and diminish their cost of capital funding. However, a lower loan-to-value ratio may increase wealth inequality, and potentially increase the age by which first-time buyers can become homeowners. It thus requires an implementation of important reforms to deregulate the rental market and relax constraints holding back new construction. Housing supply could be stimulated by accelerating the delivery of construction permits, encouraging the release of land owned by municipalities or lowering sky-line restrictions, as discussed in the previous Economic Survey (OECD, 2016[19]).

Note: Data for household debt includes debt of non-profit institutions serving households and for Hungary it refers to 2015.
Potential macro-financial vulnerabilities emanating from the financial sector have diminished significantly (Figure 11). Fiscal and external positions are sound. Banks are better capitalised, have a lowered external debt and the size of the banking sector is somewhat smaller than before the financial crisis. Also, the share of non-performing loans in total assets is considerably lower than in most other OECD countries, although the amount of capital net of provisions would be high in case of losses. Credit growth remains under control, although house price growth has picked up sharply. The prevailing low interest rate environment puts pressure on the financial position of life insurance companies and pension funds, though. High growth in equity prices is also a potential source of concern.

**Table 3. Implementation of OECD recommendations on the banking sector and housing market**

<table>
<thead>
<tr>
<th>Earlier OECD recommendations</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage banks to further increase their capital adequacy ratios by issuing equity and retaining earnings.</td>
<td>Dutch banks are on course to meet the capital requirements under Basel III, by restricting dividend distribution and continuing to reduce operating expenses and other costs.</td>
</tr>
<tr>
<td>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%.</td>
<td>The Coalition Agreement foresees a major acceleration of the reduction of the rate of mortgage interest deductibility from 0.5 percentage point per year (to reach 38% in 2041), to 3 percentage points per year from 2020 onwards (to reach 37% in 2023). Yet, taxes on imputed rents are planned to be reduced accordingly, with no improvement of tax incentives for homeownership.</td>
</tr>
<tr>
<td>Support the supply of rental housing by further limiting strict rent regulation in the private market.</td>
<td>To support the provision of affordable rental dwellings in the non-regulated sector, an independent committee elaborated a report in 2017, with recommendations to increase the supply of middle-segment rental dwellings. The authorities have announced a simplification of tender procedures for housing associations.</td>
</tr>
</tbody>
</table>

**Fiscal policy**

Public finances have improved considerably, reflecting both consolidation efforts in the years following the global financial crisis and, more recently, the high pace of economic activity. The budget balance is firmly on track to remain in surplus (Figure 12, Panel A), and public debt has now fallen below 60% of GDP, after peaking at nearly 70% in 2015. The “trend-based” fiscal policy framework – whereby limits are set on individual spending items for the full five year period of government – continues to serve the Netherlands well in guiding effective fiscal management and ensuring sound public finances. The trend-based framework was indeed strengthened as part of the recent Coalition Agreement, with the removal of the cyclical part of unemployment and social benefits from spending limits, which will allow fiscal policy to play an even more stabilising role in the future. This change will strengthen the counter-cyclical role of fiscal policy, which has been limited at times (Figure 13).
Figure 11. Macro-financial vulnerabilities have significantly abated and are low

Index scale of -1 to 1 from lowest to greatest potential vulnerability, where 0 refers to long-term average, period since 2003

<table>
<thead>
<tr>
<th>Financial</th>
<th>Non-financial</th>
<th>Asset market</th>
<th>Fiscal</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>0.0</td>
<td>-0.5</td>
<td>-1.0</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

A. Aggregate indicators

B. Individual indicators

Note: Each aggregate macro-financial vulnerability dimension is calculated by aggregating (simple average) normalised individual indicators from the OECD Resilience Database. Individual indicators are normalised to range between -1 and 1, where -1 to 0 represents deviations from long-term average resulting in less vulnerability, 0 refers to long-term average and 0 to 1 refers to deviations from long-term average resulting in more vulnerability. Financial dimension includes: banks’ size (% of GDP), external bank debt (% of total liabilities of banks) and leverage ratio (capital and reserves of banks (% of total liabilities of banks) (inverted). Non-financial dimension includes: total private credit (% of GDP), household credit (% of GDP) and corporate credit (% of GDP). The asset market dimension includes: growth in house prices (year-on-year % change), house price to disposable income ratio, house price to rent ratio and real stock prices. Fiscal dimension includes: government budget balance (% of GDP) (inverted), government gross debt (% of GDP) and external government debt (% of total gross general government debt). External dimension includes: current account balance (% of GDP) (inverted), real effective exchange rate (REER) (relative consumer prices) and export performance (exports of goods and services relative to export market for goods and services) (inverted).

Source: Calculations based on OECD (2018), OECD Resilience Database, June; and Thomson Reuters Datastream.

StatLink: http://dx.doi.org/10.1787/888933775267

The healthy fiscal situation and strong economic recovery allowed for a small fiscal stimulus, through increases in spending, notably in security and education, and a number of tax cuts outlined in the Coalition Agreement in October 2017 (Box 1). The impact of policies announced in the Coalition Agreement are estimated to reduce the headline budget surplus by an average of 0.3% of GDP in 2018 and 2019, and by an average of 1% of GDP in 2020 and 2021 (CPB (2017[2]); Figure 12, Panel B). Despite the stimulatory impulse, the structural balance is projected to remain at slightly above zero in 2018 and 2019 (Figure 12, Panel A).
Figure 12. Public finances are healthy and the fiscal stance is expansionary
As a percentage of GDP\(^1\)

1. Structural budget balance is expressed as a percentage of potential GDP.
2. Based on estimates from the Centraal Planbureau (CPB).


StatLink \(^\text{http://dx.doi.org/10.1787/888933775286}\)

Figure 13. The fiscal stance is accommodative
As a percentage of potential GDP


StatLink \(^\text{http://dx.doi.org/10.1787/888933775305}\)
Strong public finances and robust growth create a unique opportunity to undertake a broad reform of the tax system to make it more inclusive and better adapt to the ongoing digital transformation of the economy. Reforms should address the discrepancies in tax treatment of different work contracts, broaden the tax base and reduce the overall complexity of the tax system. A high marginal tax wedge provides strong disincentives for workers to increase the number of hours, including low-income individuals. Tax expenditures lower taxes for households and companies by EUR 18.5 billion (3% of GDP) per year, but often benefit richer households, and do not have the envisaged effect or have not been evaluated (Algemene Rekenkamer, 2015[20]). The government should undertake a thorough review of the multiple tax deductions, with an aim of simplifying the system as a whole. The dual rate for the VAT – where a portion of goods and services are taxed at a lower rate should be simplified by introducing a single rate. Recent evidence from Europe suggests that such a measure is likely to have limited cross-border shopping linkages, except for some special items such as vehicle fuel and dental services (European Commission, 2015[21]). Reduced rates have been found to be a poor instrument to support low-income households and the negative impact of an increased lower VAT rate on low-income households could be offset by targeted transfers (OECD/KIPF, 2014[22]). Without offsetting measures, implementing these and other recommendations will have a net positive impact on the budget balance based on a back-of-the-envelope calculation of their quantitative impact (Box 3).

**Box 3. Quantifying the fiscal impact of selected recommendations**

The following estimates roughly quantify the fiscal impact of selected recommendations in this Survey, as some of them – such as the introduction of the individual learning accounts or changes to employment protections – are not quantifiable given available information or the complexity of the policy design. The estimated fiscal effects abstract from behavioural responses that could be induced from policy changes.

**Table 4. Illustrative fiscal impact of recommended reforms**

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>Annual fiscal impact, % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Additional Expenditures</strong></td>
<td></td>
</tr>
<tr>
<td>Extend paternity leave for a more equal allocation between parents</td>
<td>Double the planned parental leave allocation for fathers from 6 weeks to 12 weeks.</td>
</tr>
<tr>
<td><strong>Additional Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Adopt a single VAT rate</td>
<td>Increase the lower level rate to the higher rate (using estimates from IMF, 2016 with adjustments based on recently planned increase in the lower rate).</td>
</tr>
<tr>
<td>Lower tax discrepancies between contract types</td>
<td>The self-employed tax deduction is halved (based on estimates in: IBO, 2015).</td>
</tr>
<tr>
<td>Extend social security coverage to self-employed workers</td>
<td>All self-employed pay the basic premium of 6.27% for the WAO and WIA sickness and disability benefits (based on 2014 average self-employed worker earnings).</td>
</tr>
</tbody>
</table>
Medium-term challenges towards more inclusive growth

**Maintaining debt sustainability**

Reflecting past fiscal consolidation efforts and strong growth, the public debt-to-GDP ratio has declined significantly after peaking at around 70% of GDP in 2015. Given current fiscal policy settings and the outlook for long-term growth, the debt-to-GDP ratio is expected to fall to around 25% by the mid-2030s and rise only gradually afterwards (Figure 14). Although there could be challenges related to population ageing and the potentially negative fiscal impacts associated with current structural labour market trends, risks to the sustainability of public debt are small.

Spending on health and long-term care could rise by nearly 4% of GDP between 2020 and 2060, as a result of demographics alone (European Commission, 2015[23]). However, even without introducing countervailing policies, public debt would only rise to around 30% of GDP by 2040 and 50% by 2050, which is measured by international standards. The government has also been proactive in addressing population ageing challenges, as reflected by reforms to increase the pension age and linking it to life expectancy, and by an ongoing dialogue with social partners to further improve the sustainability of the pension system.

Increasing self-employment might also have a negative impact on government finances in the longer term through the channels of reduced revenues and a negative impact on productivity growth. In such a scenario, real GDP growth would be weaker and public spending would be slightly higher. This would, however, only push up the public debt to 45% of GDP by 2050 (Figure 14).

**Tackling tax planning**

In the past, the Netherlands has been considered to be an important jurisdiction for multinational corporations, which created a reputational issue linked to aggressive tax planning. Dutch tax rules, designed for avoiding double taxation, are used by companies that engage in tax planning, as suggested by high levels of dividend, royalty and interest payments made via the Netherlands (European Commission, 2018). The Netherlands has, however, made significant progress to contain base erosion and profit shifting (BEPS), in line with OECD recommendations (Box 4). A new policy agenda to tackle tax evasion and avoidance was recently sent to Parliament by the Dutch State Secretary for Finance to overturn the Dutch reputation of leniency towards BEPS by multinationals. The authorities have announced further measures, whose implementation, in line with the EU’s first and second anti-tax avoidance directives, would provide rules on earnings stripping, controlled-foreign company rules to prevent shifting of profits to subsidiaries in low-tax countries, prevent the avoidance of tax through corporate emigration, provide for anti-hybrid measures and implement a general anti-avoidance rule.
Figure 14. Illustrative public debt paths

General government debt, Maastricht definition, as a percentage of GDP

Note: The baseline assumptions are in line with the long-term forecasts from the CPB, where real GDP growth averages around ¾%, inflation averages 2% and the fiscal balance remains in surplus until the mid-2030s before turning to a deficit for the remainder of the projection period. This reflects the linkage between pensionable age and life expectancy. The "Without offsetting rising ageing costs" scenario assumes that increased ageing effects could add an additional 1.2 percentage points of GDP to annual government spending by 2050, in line with European Commission (2015). The "Weaker productivity, higher expenditure" scenario assumes real GDP growth is reduced by 0.5 percentage point and public expenditure in per cent of GDP is increased by 0.25 percentage point per year throughout the simulation period.


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The Netherlands is planning to introduce a number of measures to counter the use of the Netherlands as a conduit jurisdiction, which is welcome. As part of this reform, the Netherlands announced several changes to its withholding tax regime. Under current law no dividend tax needs to be withheld if the recipient is a member of the EU or the European Economic Association (EEA). It is proposed to expand this dividend tax provision, by 2020, to third countries which have concluded a tax treaty with the Netherlands including qualifying provisions relating to dividend withholding taxes. Dividend withholding taxes would still be levied in case of abusive situations or in case of distributions to low-tax jurisdictions. This provision also applies to interest and royalty payments. In addition, the Netherlands will include anti-abuse provision in its tax treaties by means of the multilateral convention to implement tax treaty related BEPS measures.
Box 4. Progress in the implementation of the OECD Base Erosion and Profit Shifting project

The Netherlands has been a strong supporter of the Base Erosion and Profit Shifting (BEPS) project, and is active in its implementation. The Netherlands is a member of the OECD/G20 Inclusive Framework on BEPS and of its Steering Group. With its 113 members, the Inclusive Framework is monitoring the BEPS implementation and in particular it is undertaking the peer reviews of the four BEPS minimum standards.

The Netherlands has started to implement the BEPS measures in a comprehensive way. It has effectively started to exchange information on tax rulings with its partners, and none of the Netherlands’ preferential tax regimes have been considered as harmful, in line with BEPS Action 5 on harmful tax practices. In this regard, the new Dutch innovation box also follows the internationally agreed nexus approach. On Country-by-Country reporting, and in line with BEPS Action 13, the Netherlands has the domestic legal framework in place (it has signed the Multilateral Competent Authority Agreement for the automatic exchange of Country-by-Country reports) and has activated its information exchange network, ahead of the first exchanges which will start in 2018.

In addition, the Netherlands signed in June 2017 the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS, also known as the BEPS multilateral instrument. It will enter into force amongst countries that ratified it on 1 July 2018. This will allow the Netherlands to update its significant tax treaty network (close to 100 bilateral tax treaties) and reinforce it against abuse. The Netherlands has gone further in accepting the provisions of the BEPS multilateral instrument than many other countries, thereby leading by example. One of the key provisions of the instrument is an anti-abuse rule, which will be a key measure to reduce treaty shopping through the Dutch treaty network. The Netherlands has expressed its intention to ratify the convention – which has 78 signatories to date – by mid-2018.

Making the economy more inclusive and greener

Improving the inclusiveness and sustainability of economic growth has been an important policy priority in the Netherlands. Since the introduction of Sustainable Development Goals (SDG) in 2013, the country has actively pursued its achievement to ensure an inclusive and environmentally sustainable global society by 2030 (Figure 15). The Netherlands ranks highly in areas of social progress, with teenage pregnancy and early school dropout rates being the lowest in the European Union (CBS, 2018[24]). The poverty rate, measured as the share of households earning less than 50% of median earnings, remains low at around 7% and below the EU average of around 11% (CBS, 2018[24]). However, the poverty rate has been rising gradually in recent years and the share of older individuals who are at risk of poverty or social exclusion – measured as those who earn less than 60% of median earnings – doubled from 5% to 10% in 2016 (CBS, 2018[24]).

Despite progress in meeting a number of the targets related to reducing poverty and income inequality, more progress is needed in other areas. Gender inequality is important,
reflecting insufficient participation of men in household work and a persistent gender wage gap (UN, 2017[25]). The gender bias in part-time work can in part explain this, given that the Netherlands has one of the highest wage gaps in terms of annual labour income in the OECD, while the gap of full-time employee earnings is below the OECD average (OECD, 2017[26]). Furthermore, ambitious targets to improve the representation of women in senior roles have shown little progress. The target of achieving 30% female representation on the boards of large companies by 2016 was missed, and the Netherlands has recently ranked 25th out of the 28 EU countries in this area (UN, 2017[25]; CBS, 2018[24]). However, the Netherlands has made considerable headway in the representation of women in Parliament, with women making up 38% of elected representatives, which is the fourth highest percentage in Europe (CBS, 2018[24]).

Youth and high-skilled immigrants have benefitted from the robust economic recovery and associated labour-market improvements, but low-educated immigrants and long-term unemployed have benefited less. The unemployment of youth and the percentage of young people neither in employment nor in education and training (NEET) have fallen markedly. The unemployment rate of foreign-born workers declined from 13% in 2013 to 9.6% in 2016, despite a 46% increase in the number of immigrants over the same period. However, as most of the support has been directed to facilitate the integration of high-educated migrants (European Commission, 2016[27]), it is likely that the latter have benefited more from the recovery than low-skilled migrants. Immigrant youth were also still more likely to be NEET than native youth in 2016. In addition, the share of long-term unemployment in the total of unemployed has increased since 2013, contrary to what is observed in the average of OECD countries.

The Netherlands is a leading OECD country in promoting the sustainability of climate and biodiversity (Figure 15). Just over 80% of waste is recycled in the Netherlands, which is the third highest rate in the European Union. As part of its SDG implementation monitoring process, the Netherlands aims to limit the cross-border impact of environmental policies, for instance by shifting high-polluting production to a neighbouring country which would improve emissions targets in the Netherlands, but would be neutral at the EU level or for global emissions. Focusing on cross-border concerns in the monitoring of SDGs is laudable and sets a good example for other countries.

The Netherlands has been proactive in addressing certain areas of climate policy and sustainable growth and the Coalition Agreement has announced strong ambitions to reach the Paris’ agreement of maintaining global temperature well below 2 degrees. It has set an ambitious goal (49% reduction of greenhouse gases in 2030 compared to 1990), which would be achieved through a number of policies including a CO2-minimum price in the electricity sector (including coal), the closing of coal plants by 2030 at the latest and a kilometer charge for freight traffic. The government has been promoting renewable energy and a more efficient energy use (Table 6). Progress in achieving the renewable energy targets has been nonetheless slow, as the Netherlands continues to have one of the lowest rates of renewable energy production in Europe (UN, 2017[25]; CBS, 2018[24]). However, further actions are expected to be introduced in the 2018 Climate Agreement (Table 5). The Netherlands has one of the highest revenues from environmentally-related taxation (as a share of GDP) in the OECD, although some of these taxes do not provide the proper incentives to address environmental concerns. For instance, the discrepancy between the lower tax rate on diesel and higher tax rate on petrol fuel should be reduced by raising the former (OECD, 2018[23]). Furthermore, most taxation and other policies aimed at mitigating climate and environmental issues put a heavier burden on smaller
users, particularly households (OECD, 2016[19]; OECD, 2015[20]). The government should shift more of this burden onto larger businesses, by increasing rates on high-polluting energy sources used in production and abolishing the tax exemption for the use of coal in energy production.

**Figure 15. Further efforts are needed to ensure a more inclusive society**

Proportion of sub-indicators by SDG goals where progress is slow, in per cent


StatLink ➞ [http://dx.doi.org/10.1787/888933775343](http://dx.doi.org/10.1787/888933775343)

The Netherlands is on track to meet the Sustainable Development Goals related to the protection of the environment. Nevertheless, air pollution in some large cities remains a source of concern, and the country does not comply with the European Commission’s norms. In addition, intensive farming has long posed a serious challenge to improving the quality of ecosystems and water. Around a third of the country’s territory is used for agricultural purposes, and the quantity of nitrogen fertiliser and pesticides used per square kilometre of farmland is well above the OECD average (OECD, 2015[30]).
Figure 16. Green growth indicators: Netherlands

A. CO₂ intensity

CO₂ per GDP - production based (kg/USD, 2010 PPP prices)

OECD

Netherlands

B. Energy intensity

Total primary energy supply per GDP (ktoe/100 USD 2010 PPP)

% of renewables in total primary energy supply

C. Population exposure to air pollution

Mean annual concentration of PM2.5 (µg/m³)

% of population exposed to PM2.5, 2015

D. Municipal waste generation and recycling

Municipal waste generated (kg/person)

% of all technologies

E. Environment-related taxes

Environment-related tax revenue (% of GDP)

Tax rate of unleaded petrol and diesel, 2015 (USD/litre)

Inventions per capita 2012-14 (patents/million persons)

% of all technologies

F. Environment-related technologies


StatLink: http://dx.doi.org/10.1787/88933775362
Table 5. Implementation of OECD recommendations on green growth

<table>
<thead>
<tr>
<th>Earlier OECD recommendations</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure stronger investment in renewable energy and energy efficiency by improving cost-effectiveness of existing instruments and possibly increasing their scale.</td>
<td>Following an Energy Agreement from end-2015, new deals have been reached to improve energy efficiency for industrial use and to promote renewable energy. The government plans to start negotiations on a Climate and Energy agreement to lower greenhouse gases by nearly half by 2030, relative to the 1990 level. The Coalition Agreement has also announced the construction of new offshore wind parks and measures to reduce the dependency of households and firms on natural gas.</td>
</tr>
</tbody>
</table>

**Reviving labour productivity growth and sharing its benefits more widely**

The level of productivity of the Dutch economy, as measured by output per hour, is high, significantly above the OECD average and slightly below that in the United States (Figure 16). However, labour productivity has been slow to recover since the global financial crisis and an important gap persists relative to its pre-crisis trend growth rate of 2% per year (Figure 17, Panel A). Average labour productivity growth was only 0.5% per year since 2008. This productivity underperformance reflects volatile total factor productivity growth and subdued growth of capital per hour worked (Figure 17, Panel B).

The authorities have taken some steps to enhance private sector investment and skills, which were the two special topics of the previous Survey, but further measures, considered by the new government, and in line with previous OECD recommendations, have not yet been implemented (Tables 6 and 7). Social partners and the government should also work to increase the effectiveness of the so-called Polder Model, the Dutch decision-making process based on consensus, to ensure a greater responsiveness of wages to productivity developments.

**Figure 17. Labour productivity is above the OECD average**

GDP per total hours worked, in USD constant prices 2010 PPPs, 2017

*Note: 2016 for Australia, Belgium, Chile, Iceland, Israel, Japan, Mexico, New Zealand, Poland, Switzerland, Turkey, the United States and the OECD aggregate. PPPs: purchasing power parities. Source: OECD (2018), “GDP per capita and productivity levels”, OECD Productivity Statistics (database), June.*

[StatLink](http://dx.doi.org/10.1787/888933775381)
Dutch real wages have been growing at a slower pace than productivity over the last three decades or so (Figure 19). Accounting for wage inequality, as measured by the difference between average and median wage, would lead to an even larger gap between wage and productivity growth, as also observed in other OECD economies (Schwellnus, Kappeler and Pionnier, 2017[31]). A number of reasons have been put forward to explain this gap. One explanation is that wage developments have been lagging, and as the recovery strengthens the gap is likely to vanish. But the gap could also be explained by structural factors like the shift in the sectoral composition toward capital-intensive activities such as information and telecommunication where many occupations can be automatised, capital-augmenting technological change and globalisation. In addition, the expansion of part-time and non-standard forms of employment, with existing labour market institutions (collective bargaining, trade unionisation, etc.) becoming less widespread and attractive could also be influencing wage dynamics. Non-standard forms of employment, including self-employment and temporary contracts, have witnessed a rapid rise in recent years and now account for a large share of total employment (Chapter 1, OECD (2018[32])). Self-employed workers may have, on average, a lower productivity and do not actively participate in the collective wage bargaining that underpins the Polder Model. They are also not subject to minimum wage regulations. This could be putting further downward pressure on labour costs.

Figure 18. Labour productivity growth has edged up but remains weak

1. Labour productivity refers to real GDP divided per total hours worked.
2. Pre-crisis labour productivity trend growth is calculated between 1972 Q1 and 2007 Q4, and is projected from 2008 onwards.
3. Contributions to labour productivity growth are calculated using a weight of 0.67 for total hours worked and 0.33 for productive capital; total factor productivity is calculated as a residual. Productive capital excludes investment in housing.

Figure 19. Wages and productivity developments over the long term

Index 1990 = 100

Note: Labour productivity refers to real GDP per total hours worked. Wages of employees are divided by total hours worked by employees and deflated by GDP deflator.

Source: Adapted from Statistics Netherlands (CBS).

StatLink http://dx.doi.org/10.1787/888933775419

There is a need to level the playing field between regular workers and self-employed. This could be done by lowering fiscal incentives and establishing mandatory participation in social security programmes for the self-employed. While there are important benefits associated with the flexibility that self-employed work allows for, tax differences are also large when compared to employees, which influences the decision of more workers to shift towards self-employment. At the same time only around 2-3% of the self-employed (per year) tend to scale up their business and begin to take on staff (ter Weel et al., 2017[33]). The lack of social security coverage exposes the self-employed to the potential financial losses associated with disability risks. Many of the structural reforms recommended in the thematic chapter will improve the inclusiveness of the labour market by reducing the incentives for non-standard forms of employment. In particular lowering labour-market duality is expected to have a growth-enhancing effect in the medium to long term (Box 5).

There is also room to reduce the marginal tax wedge for employees, at low levels of income, which is higher in the Netherlands than in the average of OECD countries. This will help to bring the unemployment rate of low-skilled workers further down, but also reduce the tax gap between work types and lower the gap between productivity and real wages net of social security contributions (Figure 20). At low-income levels, the tax wedge is primarily due to employees’ social security contributions/expenses, which in turn reflects the generous social security benefits.
Figure 20. Net average and median wages

Index 1990 = 100

Note: Wages of employees are divided by total hours worked by employees and deflated by GDP deflator.
Source: Adapted from Statistics Netherlands (CBS); and OECD (2018), OECD Earnings Database, April.

Table 6. Implementation of OECD recommendations on SMEs and self-employed

<table>
<thead>
<tr>
<th>Earlier OECD recommendations</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>The Coalition Agreement is set to broaden the corporate income tax base for bigger companies only.</td>
</tr>
<tr>
<td>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.</td>
<td>The government plans to explore ways in which the coverage by disability insurance among self-employed can be increased and discuss with insurers to promote a better insurance offer.</td>
</tr>
</tbody>
</table>

Table 7. Implementation of OECD recommendations on business investment

<table>
<thead>
<tr>
<th>Earlier OECD recommendations</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step up efforts to strengthen innovation performance by increasing direct public support for R&amp;D.</td>
<td>The Coalition Agreement has announced an increase in spending on public support of R&amp;D of up to EUR 400 million (0.05% of GDP) per year by 2020. Moreover, the government plans to provide EUR 100 million (0.01% of GDP) of additional funding on research infrastructure in 2018 and 2019. Additional funds for R&amp;D and innovation could become available over the next four years as part of new spending on cybersecurity and climate change.</td>
</tr>
<tr>
<td>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.</td>
<td>The creation of a public credit register for companies is not being considered. The authorities have started a new programme to improve access to finance for SMEs through stronger competition, enhanced information availability on SME creditworthiness, greater availability of transaction data, and support for private initiatives in the field of FinTech (private platforms and credit ratings).</td>
</tr>
</tbody>
</table>
Box 5. Quantification of structural reforms

Overview of the framework

This box quantifies the effect of structural reforms for the Netherlands based on the OECD’s most recent quantification framework set out in Égert and Gal (2017[34]). The framework, like previous ones used in the OECD Economics Department (Barnes et al., 2013[35]; Bouis and Duval, 2011[36]; Johansson et al., 2013[37]), relies on a production function approach. The influence of policies on GDP is assessed through their impact on three supply-side components: i) multi-factor productivity, ii) capital deepening, and iii) employment. The overall impact on GDP per capita is obtained by aggregating the policy effects of the various channels. A large number of policy variables are included in the quantification framework. They cover product and labour market regulations and policies, and proxies for innovation, and tax policies. The effects are derived from a range of time-series cross-country reduced-form panel regressions on a sample of OECD countries. The estimated effects are allowed to vary across country as a result of difference in factor shares, the level of the employment rate and a country’s demographic and skill composition.

Effect on reforms on the level of per capita income in the Netherlands

The quantification framework can be used to assess the impact of specific (past or planned) reforms or to quantify the effect of hypothetical reform. This box assumes a reform scenario of a 10% improvement in selected policy measures.

Reforms in selected labour market policies including unemployment benefits, ALMP spending, minimum wage and the legal retirement age have a large effect on per capita income in the 5 years following the reform, with a marginally higher effect at the 10 year and in longer-term horizons (Figure 21). Pro-market reforms in product and labour market regulations show subdued effects in the medium term, although their impact increases considerably at longer time horizons. A 10% reduction in employment protection legislation restrictiveness has the second-highest impact on per capita income in the long run. Finally, higher spending on R&D and lower corporate income tax go hand in hand with a modest rise in per capita income.

The approach is illustrative and results should be interpreted with care. In addition to the usual caveats related to empirical analysis, it assumes a linear impact of structural reforms, and does not account for the interaction between structural reforms and macroeconomic settings which can play a role in the short to medium term. Confidence bands around point estimates are large.
Structural focus: addressing population ageing

In the Netherlands, like in all other OECD countries, demographic changes represent a major transformation affecting all branches of society. Population ageing poses major societal and economic challenges and will continue to do so in the future. Labour markets will need to adapt to a greying population, the pension system will have to ensure adequate pensions for an increasing number of retirees and the health system will be confronted with rising costs.

Population ageing reflects weak fertility and rising longevity. The so-called old-age dependency ratio – the number of people aged 65 and over per 100 people of working-age (25-64) – stood at close to 30% in 2015 and it is projected to reach nearly 55% by 2050 (Figure 22). Ageing prospects in the Netherlands are in line with demographic developments elsewhere, with fertility being stable at around 1.7 children per woman and life expectancy being similar to the OECD average.
Figure 22. Population ageing will be important

Old-age dependency ratio, number of people aged 65 or older per 100 people of working-age (20-64)

A. In 2050

B. Change between 2015 and 2050


StatLink http://dx.doi.org/10.1787/888933775476

Increasing employment at older ages

Over the past years, the Dutch authorities have made sizable efforts to foster employment at older ages. They increased the statutory retirement age to receive the basic pension and linked it to life expectancy, took steps to reduce the misuse of disability benefits as a pathway out of the labour market, and implemented measures to fight against the discrimination of older jobseekers. The government has also made employment of older workers more flexible. For instance, employers have large possibilities to offer temporary contracts to workers above the pension age and they need to comply with shorter periods of notice in case of dismissals.

In line with these efforts, employment at older ages has increased sharply since 2000 (OECD, 2017). While employment rates of 55-64 year-olds were below the OECD average 15 years ago, they are above-average today (Figure 23). Yet, despite these increases, the Netherlands lags behind OECD countries with the highest employment
rates among 55-64 year-olds, such as Iceland, Japan and Sweden. Moreover, employment rates among 65-69 year-olds are below the OECD average both among men and women.

The number of 20-54 year-olds is projected to decrease by around 10% between 2017 and 2050, while the number of 55-74 year-olds is expected to remain broadly stable. Assuming, for illustrative purposes, that age-specific employment rates remain as they are today, the percentage of employed people in the total population will decrease from 50% today to around 45% in 2050, thereby negatively affecting the country’s growth prospects (Figure 24). Conversely, if the employment rates of workers over 55 years were to gradually converge to the current levels of the highest-performing OECD countries, the percentage of employed people in the Dutch population would remain close to 50%, even without higher employment rates among younger age-groups.

Mandatory retirement remains a barrier to longer working lives. Under mandatory retirement provisions, employment contracts automatically end as soon as workers reach a statutory age. Employers may or may not re-employ them on new contracts afterwards. While a universal mandatory retirement age at the national level does not exist in either the public or private sectors in the Netherlands, mandatory retirement provision in collective and individual agreements are still in place. Pension dismissal clauses, i.e. automatic contract termination upon reaching the state pension age, are common (OECD, 2018[39]).

In order to foster employment at older ages, mandatory retirement should be discouraged as far as possible. Such provisions can reduce well-being by forcing people who wish to work longer to retire prematurely. The combination of mandatory retirement with high employment protection for permanent contracts in the Netherlands, grants employers little flexibility in dismissing ageing workers for poor performance and retaining those who do well (OECD, 2017[40]).

Some professions can be more difficult to pursue at older ages, requiring a change of jobs to keep working. Lifelong learning should be enhanced, rather than promoting early retirement. The abolishing of the VUT scheme (Vervroegde uittreding), which allowed people to exit the labour market before the official retirement age, is a step in the right direction. However, lifelong learning is essential, especially with increasing life expectancy, to boost employability and ensure that older workers remain competitive in the labour market until older ages. Training opportunities throughout the career can also increase mobility within and across sectors, hence facilitating job changes at older ages to less arduous jobs and jobs requiring a lower degree of physical ability; this in turn obviates the use of mandatory retirement provisions. The government, in particular the Ministry of Social Affairs and Employment, has been active in putting the issue of “Sustainable Employability” on the political agenda, addressing the potential of older workers and the threats of losing valuable skills (OECD, 2018[39]). As the Dutch population keeps ageing, reinforced training opportunities throughout the career are essential to foster longer careers.
Figure 23. Employment rates are above OECD average, but are low for 65-69

As a percentage of population by age group, 2016


StatLink http://dx.doi.org/10.1787/888933775495
Seniority wage settings are extensively used in the Netherlands (OECD, 2018[41]). They contribute to the high relative wages of workers over 50 years, and could possibly be an impediment to extended careers. Although seniority wages could be seen as the counterpart of lower wages at the beginning of the career, too low wages among young workers should be tackled rather than granting automatic pay rises as a function of age, as this might reduce labour demand for older workers substantially. The so-called “efficiency wage” theory (Akerlof and Yellen, 1986[42]) does suggest that employers might pay older workers more than their productivity, but at some point the gap may become so large that the employer will be reluctant to keep older workers on the job. A more flexible wage setting arrangement later in life might therefore be needed so that workers and firms agree to alter the wage schedule in order to make the continued employment of older workers attractive. Also a reduction in some tasks and the number of hours worked are rarely used in collective agreements, even though it could be proposed to older workers as a possible option to increase their employability (OECD, 2018[39]; van Dalen and Henkens, 2016[43]).

The government has implemented measures to decrease financial disincentives to work longer, but monitoring their effects is crucial. For instance, to help to increase job-search efforts for both younger and older unemployed workers, unemployment benefits, which were paid for up to 38 months in the past – i.e. considerably longer than on average in the OECD – will have a maximum duration period of 24 months. However, a scheme for older unemployed (IOW) was introduced in 2006, and will run at least until 2020, which grants special benefits to older jobseekers once they are no longer entitled to...
unemployment benefits. Although its take up is low, this scheme may undermine the incentives older jobless people face to look for employment.

Working part-time is widespread in the Netherlands, but few men work part-time compared to women, and this gap persists at older ages. Also, part-time work is mainly voluntary and a higher percentage of older individuals work part-time than do younger ones. High part-time rates among older workers are consistent with gradual retirement and nearly 65% of 55-64 year-old women worked part-time in 2016, which was a higher percentage than in any other OECD country (Figure 25). By contrast, only slightly over 20% of men worked part-time in the same age bracket. It is important to assess the gap in part-time work between women and men, whether it reflects differences in employment opportunities at an older age or existing social norms, and the extent to which its closure is amenable to policy action, as discussed in the thematic chapter of this Survey.

**Figure 25. Gender gap in part-time work at older ages is high**

Share of part-time workers aged 55-64 by gender, in per cent, 2016


StatLink: [http://dx.doi.org/10.1787/888933775533](http://dx.doi.org/10.1787/888933775533)

**Making the pension system more inclusive**

The Dutch flat-rate basic pension has been successful at preventing poverty among older people – relative poverty rates in the Netherlands are among the lowest in the OECD. In addition, defined benefit occupational pensions have secured significant asset accumulation to fund generous pension promises. However, the future of pensions is debated in the Netherlands. Rising life expectancy, and therefore longer retirement periods, puts pressure on the financial sustainability of both the basic pension and occupational pensions. Pension liabilities increase with rising life expectancy and ageing has a potentially negative effect on potential growth making it difficult for pension funds to live up to pension promises. The financial crisis and low interest rates in its aftermath have prompted calls for a reform of occupational pensions.

The Netherlands is one of the few OECD countries linking the official pensionable age to life expectancy (together with Denmark, Finland, Italy, Portugal and the Slovak Republic), which will lead to a high retirement age. To ensure financial sustainability, the
Netherlands has increased the retirement age for the basic pension (AOW), which serves as an anchor for the overall pension system. The basic pension was payable from age 65 and 6 months in 2016, rising to 66 in 2018 and to 67 in 2021. Thereafter, the retirement age will be linked to gains in life expectancy. As a result, according to current life expectancy projections, the statutory retirement age will reach 71 for men in 2067 in the Netherlands, as much as in Italy and three years earlier than in Denmark, and higher than the average normal retirement age 65.8 years in the OECD (Figure 26). Therefore, maintaining robust health standards and healthy lifestyles will be critical (see below).

Figure 26. Future normal retirement age will be one of the highest in the OECD

Retirement age for men entering the labour market at age 20


StatLink: http://dx.doi.org/10.1787/888933775552

The Netherlands has the second-highest gender pension gap after Germany in the European Union (Figure 27). Theoretical future pension replacement rates for a full career are high, at nearly 100% against the average for the OECD at 53%, as they reflect a high retirement age. However, not everyone has a full (contributory) career or even a career with relatively limited employment breaks. For instance, the high prevalence of women’s part-time work in the Netherlands contributes to gender earnings gap and in turn to the high gender pension gap. In addition, the lack of mandatory survivor benefits, both in the accrual phase and at retirement, widens the gap. It would be beneficial to convert part of the pension into survivor pension benefits mandatory to smooth income for spouses after the death of their partner. This could be done through joined annuities which take into account the joint mortality risk of a couple and would therefore, for the same entitlements, lead to a lower initial pension for couples, thereby avoiding redistribution from singles to couples.

A more gender equal sharing of paid work and care activities between men and women could reduce the gender pension gaps over time (OECD, 2017[44]). Narrowing the gender pension gaps requires more women to enter paid work, work longer hours and receive equal pay. This could be facilitated by men taking on more unpaid work. The recently announced extension of paid leave for fathers or partners (to 5 days on 100% of wage income and additionally 5 weeks on 70% of wage income) in the Netherlands is a step in the right direction. These steps could facilitate women to remain in the labour market.
after childbirth, which will likely reduce the negative effects of childbirth on their careers and, at a later stage, help to narrow the gender pension gap. However, the Netherlands still lags most OECD countries in terms of paid parental leave entitlements. In addition to reducing the negative effects of childbirth on women’s careers, greater transparency regarding pay by companies and building a policy structure that facilitates women’s labour force participation is needed (OECD, 2017[45]). One way to facilitate labour force participation is to make high-quality childcare more affordable (Table 8). While Dutch children aged 0-2 are often in formal childcare, the average hours per week spent in formal childcare are very low. The cost of childcare is amongst the highest in the OECD, but large subsidies markedly lower those costs, in particular for low-income families.

**Figure 27. Women have a much lower pension than men**

Gender gap in pension payments for people aged 65 and older, in percentage of men’s average pensions, 2014

![Gender gap in pension payments for people aged 65 and older, in percentage of men’s average pensions, 2014](image)

*Note: 2013 for Austria, Denmark, Greece, Finland, Hungary, Iceland, Latvia, the Netherlands, Norway, Slovenia and Spain.

**StatLink**  
[http://dx.doi.org/10.1787/888933775571](http://dx.doi.org/10.1787/888933775571)

**Reforming occupational pensions**

The global financial crisis negatively impacted the financial health (i.e. the funding ratios) of pension funds in the Netherlands. Since returns do not always match pension promises most pension funds became underfunded as financial market turbulence depressed returns on investment (OECD, 2012[46]). This affected a large share of employees since occupational schemes are negotiated through collective agreements and approximately 96% of employees were covered by an occupational scheme at the end of 2013. Most of these schemes are defined-benefit schemes with a small but rising share of defined-contribution schemes.
Table 8. Implementation of OECD recommendations on skills

<table>
<thead>
<tr>
<th>Earlier OECD recommendations</th>
<th>Actions taken</th>
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<tbody>
<tr>
<td>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.</td>
<td>The required levels of Dutch and mathematics have been stepped up in early childhood education and care and vocational training. Teachers’ qualifications are being improved through scholarships to obtain a master’s degree, higher educational attainment of new hires. The government has agreed to promote more teachers in higher salary scales. Schools with disadvantaged students receive extra budget which they can use at their own discretion.</td>
</tr>
<tr>
<td>Enhance entrepreneurial skills by evaluating the effectiveness of programmes in formal education, developing online stand-alone training programmes, and promoting peer-to-peer learning.</td>
<td>A state-funded evaluation of the effectiveness of universities for applied sciences is being performed, using an OECD method to assess education and research in the field of entrepreneurial skills.</td>
</tr>
<tr>
<td>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.</td>
<td>The government plans to increase the funding of public employment services by EUR 40 million (0.005% of GDP) from 2019 and started several pilots to improve the link between working experience and part-time education. Local governments have the responsibility to organise language courses for immigrants.</td>
</tr>
<tr>
<td>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.</td>
<td>No action taken to reduce severance payments (or transition allowance) of maximum EUR 79,000 (gross). The Coalition Agreement plans to allow courts to award an extra allowance of up to half of the transition allowance and entitle employees to a transition allowance from the start of their employment contract (instead of after two years). However, all employees will be entitled to severance payments of one-third of a month’s salary for each year of service. This also applies to employees who have been in service for more than 10 years, who currently receive an amount of half of a month’s salary for years of service after the 10th year.</td>
</tr>
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</table>

Parametric changes to pension entitlements decided by pension funds in order to deal with solvency issues are inefficient. Such practice generates complexity and introduces distortions in switching pension funds, which could have a negative impact labour mobility. In addition, the rules concerning pension parameters (in particular the uprating mechanism, the process of revaluing past wage rates to compute the reference pensionable earnings) and the reality of persistently low interest rates have also rendered the defined-benefit system in many aspects similar to a defined-contribution system. This hybrid system is opaque and difficult to navigate for participants. Therefore, the Dutch pension system should strive to become more transparent about the mechanism governing pension benefits; either harmonising defined-benefit contracts based on stable uprating rules and well-defined sustainability factors or by switching to a truly defined-contribution system in which entitlements grow with realised returns.

In its Coalition Agreement, the government stated that it wishes to reform the pension system, rendering pension capital more “personal in nature” and sharing risks collectively (NLD Government, 2017[47]). The detailed design is still unclear, but this would mean making occupational pensions closer to options 3-5 designed by the Dutch socio-economic Council (Box 6), which would represent a shift to a defined-contribution system, with some collective elements, such as sharing of longevity risks.
In general, switching to funded defined-contribution schemes would have both advantages and disadvantages. With defined-benefit arrangements, pension providers bear the responsibility to ensure that pension claims are matched by the accumulated assets. This can threaten the solvency of such pension plans. In defined-contribution arrangements, pension members (i.e. individuals) bear most of the risks. Pension members are not able to accurately anticipate the amount of the pension benefits they will receive and may end up with benefits well below their expectations (OECD, 2016[48]). Simulations using the OECD pension model suggest that replacement ratios in a defined-contribution scheme could vary markedly depending on real investment returns. With a contribution rate of 20%, they could range from 97%, assuming real returns of 3% to 68% with real returns of 1% (Box 6). At the same time, changes in wages or price uprating in a defined-benefit system can result in similar differences in replacement rates. The choice between defined-benefit and defined-contribution schemes is ultimately a societal choice since it defines the risk-sharing between pension providers and pension members.

Box 6. Switching to defined-contribution occupational pensions

Currently, most of occupational schemes are defined-benefit schemes with a small but rising share of defined-contribution schemes. Most defined-benefit schemes calculate benefits based on lifetime average earnings whereas for less than 1% of participants the final salary is used, either as such or combined with lifetime earnings. As with most defined-benefit schemes, the accrual rates are fixed and do not vary over someone’s career. Finally, while there is no legal uprating requirement of past pension entitlements, most pension funds tend to uprate when their financial health allows for it (“uprating” refers to the process of revaluing past wage rates to compute the reference pensionable earnings).

Since the financial crisis, the second pillar of the Dutch pension system has been under severe strain. Many pension funds ceased uprating or uprated only partially during most of the crisis. Uprating is prohibited for pension funds with a funding ratio of less than 110%. In 2013, around 100 funds (representing about 40% of all pensioners) even announced average reductions by 2.25% in nominal pensions. Current rules stipulate that pension funds with funding ratios below a certain threshold (currently around 104% but dependent on the official discount rate) for more than 5 years are even forced to cut pension entitlements. Recently, the Dutch Socio-economic Council has investigated five different options to reform occupational pensions:

- Option one – to keep most of the current pension system features intact but replace the fixed accrual rate with a declining accrual rate by age. This would reflect the funded nature of the pension system in which contributions of the young have a longer time to accrue returns.
- Option two – the indexation depends directly on the funding ratio of the pension fund. If the funding ratio is below 100%, indexation will be negative.
- Option three – to switch entirely to a defined-contribution system, in which only longevity risks are shared at retirement through annuities.
- Option four – same as third option, but shares in addition investment risk after retirement.
• Option five – a defined ambitions system in which some investment risk during the accrual phase is also shared; in good times a collective buffer is built to be distributed in bad times.

The consequences on benefits of moving from a defined-benefit to a defined-contribution system can be illustrated by simulating the OECD pension model, which includes all mandatory pension schemes for private-sector workers, regardless of whether they are public (the basic pension) or private (the occupational pension). Since occupational pension schemes in the Netherlands have near-universal coverage they are included in the calculations.

The calculations show the replacement rates of an average wage earner who enters the system at age 20 in 2016 and retires after a full career. In the Netherlands under current legislation this would mean that someone would have to work until age 71 (until 2067). The replacement rates are theoretical, meaning that they assume a full career without interruptions, an average wage throughout life and no change in the pension system from its current state. They show how generous a pension system can be in theory. In reality replacement rates might differ significantly if careers are shorter, earnings vary over time or the pension system changes.

The comparisons are based on a single set of economic assumptions. In practice, the level of pensions will be affected by economic growth, rate of return on financial assets, real wage growth, the discount rate and inflation, and these will vary across countries and over time. A single set of assumptions, however, ensures that the outcomes of the various pension regimes are not affected by different economic conditions. In this way, differences across regimes in pension levels reflect differences in the pension system and policies alone.

In the calculations price inflation is assumed to be 2% per year. Real earnings are assumed to grow by 1.25% per year on average (given the assumption for price inflation, this implies nominal wage growth of 3.25%). Individual earnings are assumed to grow in line with the economy-wide average. The contribution rate in the defined-contribution scenarios is 20%. The real rate of return on defined-contribution pensions is assumed to be 3%, 2% or 1% per year in the different scenarios. Administrative charges, fee structures and the cost of buying an annuity are assumed to result in a defined-contribution conversion factor of 90% applied to the accumulated defined-contribution wealth when calculating the annuity. The real discount rate (for actuarial calculations) is assumed to be 2% per year.

The simulations assume that tax system and social-security contributions remain unchanged in the future. This constant policy assumption implicitly means that “value” parameters, such as tax allowances or contribution ceilings, are adjusted annually in line with average worker earnings, while “rate” parameters, such as the personal income tax schedule and social security contribution rates, remain unchanged.

The benefits under a defined-contribution system are estimated to differ from the benefits promised under the current system. Under the current pension system a theoretical replacement rate of almost 100% is reached through both the basic pension and the occupational pension if past entitlements are uprated with wages (Figure 28, Panel A). Under a defined contribution system this replacement rate could be reached if real returns are on average 3%. Such assumption may be questioned in the current low interest rate environment. More realistically, with returns of 2% or 1% replacement rates would drop
to 80% and 68%. However, it should be noted that these replacement rates are still well above the OECD average replacement rate (53%) and that these replacement rates do not differ much from the current system if past entitlements are only uprated with prices or not uprated at all (Figure 28, Panel B).

**Figure 28. Pension replacement ratios under different scenarios**

In per cent

<table>
<thead>
<tr>
<th>A. Defined benefit system</th>
<th>B. Defined contribution system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage uprating (baseline)</td>
<td>100%</td>
</tr>
<tr>
<td>Price uprating</td>
<td>80%</td>
</tr>
<tr>
<td>No uprating</td>
<td>60%</td>
</tr>
<tr>
<td>3% return</td>
<td>40%</td>
</tr>
<tr>
<td>2% return</td>
<td>20%</td>
</tr>
<tr>
<td>1% return</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: OECD Pension Model.

StatLink: [http://dx.doi.org/10.1787/888933775590](http://dx.doi.org/10.1787/888933775590)

**Strengthening health care**

Older people in the Netherlands are amongst the healthiest in OECD countries, especially high-educated population groups (Figure 29). One reason for the good health outcomes at older ages may be that access to health care is virtually universal today, and unmet health needs are an exception (OECD, 2017[49]).

Despite the comparatively good health outcomes, health issues remain an obstacle to longer working lives in the Netherlands. While health alone cannot account for the strong decrease in employment at older ages in OECD countries (OECD, 2017[26]), a large proportion of jobless 55-64 year-olds declare that they are not looking for a job due to health reasons. Even though the Netherlands has made major efforts to accommodate unhealthy workers and jobseekers in order to retain them on the labour market (OECD, 2018[39]), sickness as a reason for not looking for a job is more common among 55-64 year-olds in the Netherlands than personal reasons, such as care activities (Figure 30).

The Netherlands has made significant progress in terms of risk factors avoidance over the past years. Many of the leading causes of death, such as lung-cancer and stroke, are still closely connected to the prevalence of risk factors, such as smoking and excessive alcohol consumption, even though both have become less important. The Netherlands should continue to promote health risk factor avoidance through a comprehensive set of
anti-tobacco policies, including measures such as more smoke-free environments, reinforced help to quit smoking and taxes.

With population ageing, health systems will have to adapt to better manage the growing number of people living with one or more chronic conditions and who come from lower socio-economic groups (OECD, 2018[41]). In particular, health care should be better integrated across various disciplines towards a patient-centred approach; physician and nurse specialisation in geriatric care should also be further developed. There is a growing recognition that managing the care of ageing population will require changes in education and training to promote inter-disciplinary education and to ensure that health care professionals can work effectively as a team across different disciplines (social care, mental health, long-term care, medical care) (OECD, 2018[41]).

Figure 29. Older people in the Netherlands are healthy
Share of 50-64 year-olds in bad health (self-declared) by gender, in per cent, 2015

Source: Adapted from European Union Statistics on Income and Living Conditions (EU-SILC).

StatLink [image] http://dx.doi.org/10.1787/888933775609
Figure 30. Sickness is the most common reason for not looking for a job among older inactive people

Reasons why 55-64 year-old jobless people do not look for a job, in per cent, 2016

Note: Calculations exclude “retirement” as a reason for not looking for a job. "Other reasons" include personal reasons, such as care activities and other personal activities, the belief that no work is available, unavailability for work due to a spell of education and other non-specified reasons.

Source: Adapted from European Union Labour Force Survey (EU LFS).

In the Netherlands, integrated care is being addressed by concentrating several pilots for chronic diseases and care for people with multi-morbidities, and the shift of care to lower levels (OECD and European Observatory on Health Systems, 2017[50]). However, tensions are likely to persist around how to reconcile competition with the need to facilitate greater care integration and the concentration of specialist skills. The number of newly trained health professionals is limited in the Netherlands. There is an institutionalised upper limit on the number of medical students, the so-called “numerus fixus”. A low number of medical students increases the risk of a shortage of health professionals in the future, however. Raising the numerus fixus can be an important step towards a more resilient health-care system in the long run (OECD, 2012[46]). If a shortage of healthcare professionals occurs, this could also be addressed through increased international recruitment.

Long-term care is very well covered in the Netherlands and the individual financial consequences of long-term care needs are small, but the impact of recent reforms has to be monitored. The share of out-of-pocket long-term care costs is minor for low-income individuals, and it remains moderate also for those with higher incomes, avoiding a sharp fall in disposable income once long-term care costs are accounted for (Figure 31). The generous Dutch long-term care system has to be financed, however, and the Netherlands stands out as the OECD country with the highest long-term care spending as a share of GDP (Figure 32). This financial burden prompted the Netherlands to implement a major long-term care reform in 2015, as part of a broader reform of devolving the administration of social services to municipalities, aiming to contain the quickly growing costs and to make long-term care as efficient as possible. Municipalities are now in charge of social care, as a local organisation of social care was expected to be more
efficient, whereas health providers are in charge of home nursing (OECD and European Observatory on Health Systems, 2017). While the reform has also raised criticism, it is too early to evaluate its long-term effects.

**Figure 31. Individual financial consequences of long-term care needs are small**

Disposable income as percentage of the relative poverty threshold, selected OECD countries, 2016

![Graph](http://dx.doi.org/10.1787/888933775647)

**Note:** Disposable income of home care recipients with moderate needs before and after their out-of-pocket contribution to care costs. The relative poverty threshold is half the median disposable income for the whole population. 20 percentiles refer to 20th income percentile; 80 percentiles refers to 80th income percentile. Percentiles refer to the distribution of disposable income among the over 65s in each country. Analysis assumes that people do not have savings which they can use to pay for care.


**Figure 32. Spending on long-term care is high in the Netherlands**

Long-term care expenditure by government and compulsory insurance schemes, as a percentage of GDP, 2015

![Graph](http://dx.doi.org/10.1787/888933775666)

**Note:** 2014 for Japan. 2013 for Israel. The OECD aggregate is calculated as an unweighted average and it only covers the 15 countries that report both health and social long-term care.

References


European Commission (2016), Labour Market Integration of Asylum Seekers and Refugees -- Netherlands.


Annex A. Progress in structural reforms

This annex reviews the actions taken since the previous Survey that are not mentioned in the Key Policy Insights.
### Recommendations

<table>
<thead>
<tr>
<th>Fiscal policy</th>
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</thead>
<tbody>
<tr>
<td><strong>Increase tax efficiency, notably by accelerating the reduction of mortgage interest rate relief and phasing out lower VAT rate, while keeping the tax reform fiscally neutral.</strong></td>
</tr>
<tr>
<td>As planned in the Coalition Agreement income tax rates will be lowered, which will be partly financed by an increase of the lower VAT rate from 6% to 9%. In addition, the decrease of the mortgage interest rate deductibility will be accelerated.</td>
</tr>
<tr>
<td><strong>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.</strong></td>
</tr>
<tr>
<td>The Coalition Agreement has proposed reducing the tax incentives for self-employment by gradually decreasing the maximum tax rate against which those incentives can be deducted. The government will also explore ways in which the rate of disability insurance among self-employed can be increased.</td>
</tr>
<tr>
<td><strong>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.</strong></td>
</tr>
<tr>
<td>The Netherlands is one of the few countries intending to agree on all options of the multilateral treaty (BEPS), and is also implementing the EU ATAD directive with appropriate measures.</td>
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### 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.** |
| Further improvements have been carried out. No signs of risk selection have been observed. Ex post compensations have been terminated. |
| **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.** |
| No action taken. |
| **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 incentive structure for insurers has remained unchanged. The decentralisation to municipalities is underway and good progress is being made. Providers of institutional care are increasingly dependent on the choice of patients and their relatives, although waiting lists somewhat hamper the selection process. |
| **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** |
| Unintended use has been reduced by means of the introduction of centralised accounts in combination with the right for recipients to draw on their personal benefits. |

### Unleashing SME dynamism

| **Broaden access to academic research and increase the share of direct innovation grants to SMEs.** |
| Tax incentives remain the primary instruments to promote R&D by SMEs. Two thirds of the financing of the WBSO tax incentive scheme is accounted for by SMEs. The Innovation Credit can also provide up to 50% of the cost of an innovation project for SMEs. As planned in the Coalition Agreement, financing for R&D funding schemes for SMEs and more intensive of the Small Business Innovation Research Programme. |