COUNCIL RECOMMENDATION

of 12 July 2011

on the National Reform Programme 2011 of the Netherlands and delivering a Council opinion on the updated Stability Programme of the Netherlands, 2011-2015

(2011/C 212/04)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.

(4) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council's conclusions of 15 February and 7 March 2011 and further to the Commission's Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. It requested Member States to translate these priorities into concrete measures to be included in their Stability or Convergence Programmes and National Reform Programmes.

(5) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and their National Reform Programmes.

(6) On 29 April 2011, the Netherlands submitted its 2011 Stability Programme update covering the period 2011-2015 as well as its 2011 National Reform Programme. In order to take account of the interlinkages, the two programmes have been assessed at the same time.

(7) In spite of a previously robust performance, as the crisis unfolded, the very open Dutch economy suffered significantly: real GDP contracted by almost 4 % in 2009. The recovery started in the second half of 2009, led by a pick-up in external demand, and gained momentum in the first half of 2010, resulting in a GDP growth of 1,8 %. The impact of the crisis on the labour market was relatively contained. Unemployment is expected to decrease gradually over the next two years from 4,5 % in 2010 to 4 % in 2012. The crisis impacted Dutch public finances heavily, with the general government deficit rising to 5,5 % of GDP in 2009 and 5,4 % in 2010. Government operations to support financial institutions and stabilise the financial markets entailed an increase in the government debt ratio by 15 percentage points of GDP, with the debt ratio reaching 60,8 % of GDP in 2009.

(8) Based on the assessment of the updated Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic

(1) OJ L 209, 2.8.1997, p. 1.
(2) Maintained for 2011 by Council Decision 2011/308/EU of 19 May 2011 on guidelines for the employment policies of the Member States (OJ L 138, 26.5.2011, p. 56).

scenario underpinning the budgetary projections presented in the Stability Programme is plausible. The Stability Programme is based on slightly more prudent growth projections for 2011 and 2012 than the Commission services' spring 2011 forecast. The Stability Programme plans to reduce the general government deficit below the 3 % reference value in 2012, which would be one year ahead of the deadline set by the excessive deficit procedure. Based on the figures in the Stability Programme, the medium-term objective (MTO), namely, a structural deficit of 0,5 % of GDP, will be almost achieved by the end of the Stability Programme period, as the structural balance calculated by the Commission comes out at – 0,8 % of GDP in 2015. The budgetary strategy is fully underpinned by sufficiently specified measures up to 2015, though their implementation is subject to some risks, mainly with respect to the ability to offset health care overruns and to monitor local government expenditure. The average annual fiscal effort is 0,75 % of GDP over the period 2011-2013, in compliance with the Council Recommendation of 2 December 2009 under the EDP procedure. For the years following the deadline for correcting the excessive deficit (2014 and 2015), the recalculated structural balance is to improve by 0,25 % in 2014 and 0,5 % in 2015, thereby slightly falling short of the required 0,5 % improvement in the structural balance until the MTO is reached.

(9) The budgetary consolidation planned and implemented by the Dutch authorities strongly relies on largely structural expenditure cutbacks, amounting to approximately 3 % of GDP by the end of the Stability Programme period (2015) compared to the baseline. The resulting adjustment path envisages a reduction in the general government deficit from 3,8 % of GDP in 2011 to 2,4 % of GDP in 2012, falling further in annual steps of around 0,5 % in the period 2013-2015. The Netherlands is firmly committed to reaching those targets. Safeguarding growth-enhancing policy areas such as education from budgetary cuts would avoid hampering the future potential for economic growth, and contribute to achieving a sustainable correction to the excessive deficit.

(10) Besides short-term consolidation, one of the main challenges is improving the long-term sustainability of public finances, which is negatively affected by the strong increase in age-related expenditure. The long-term cost of ageing is clearly above the EU average, notably in long-term care and pensions. The expected increase in long-term care expenditure is the highest in Europe, as shown in the Commission's 2009 Ageing Report. The main reason for this is the existence of an already comprehensive system of formal long-term care (e.g. public long-term insurance covering personal care, nursing, assistance, treatment and stay in an institution), while informal care plays a more limited role in the Netherlands. According to the Commission's latest assessment, the risks with regard to the long-term sustainability of public finances appear to be high. Beyond its consolidation plans, the Dutch government has submitted measures to Parliament that will support long term sustainability including a rise in the statutory retirement age which has not yet been adopted.

(11) The Dutch labour market is characterised by relatively high participation rates, high productivity per hour worked and low unemployment. However, the main challenge for the labour market will be to increase the utilisation of untapped labour potential, in particular to compensate for the expected decrease in the working age population as a result of ageing. The average amount of hours worked per year is the lowest in the EU, as confirmed by the latest available data. The low number of hours worked results from the very large share of people working part-time, particularly women, reflecting personal preferences but also the existence of financial disincentives for either entering the labour market or for extending the hours worked. Currently, one of the main disincentives for second-income earners to enter the labour market or to work more hours in the Netherlands is the high marginal tax rate on second incomes, which can in some cases turn out to be above 80 %, as a result of *inter alia* the general tax credit and the reduction in income-dependent benefits such as childcare subsidy.

(12) For an increasing and heterogeneous group of partly disabled, long-term unemployed who face a growing risk of structural unemployment, the implementation of active labour market policies has apparently not produced positive results. Non-EU nationals are experiencing particular difficulties, thereby amplifying the persistent employment and unemployment gaps.

(13) The Dutch research and innovation (R&I) system has succeeded in maintaining its innovative capacity, but the low share of the private sector in research and development (R&D) investment may negatively affect future economic growth and the competitiveness of the Dutch economy. The government aims to create an attractive climate for R&I-intensive firms, including firms from abroad, in terms of fiscal incentives, space for entrepreneurs and excellence of research. Due to the need for budgetary consolidation this year, some subsidies for companies may, however, not be continued while others will be streamlined and targeted towards 'top economic areas' and shifted to more generic tax instruments.

(14) The business environment is negatively affected by the congestion levels in road and rail transport. These congestion levels are among the highest in the EU. In this context, a relatively inefficient transport infrastructure negatively affects labour mobility and thus potential growth through productivity. Workers are faced with long commutes, unreliable travel times and high congestion costs. The latter are expected to increase further until 2020 in the absence of policy changes. Improvements in the efficient use of infrastructure (e.g. through road pricing measures), would contribute to increasing labour mobility and productivity and thus to potential growth.

(15) On 4 April 2011, the Netherlands announced a number of commitments under the Euro Plus Pact. These include measures to foster competitiveness (introduction of a new business policy based on more generic reductions in taxation and administrative burdens) and employment (making social security more activating and reducing dependence on unemployment benefits), to contribute further to the sustainability of public finances (anchoring the stability and growth pact in national law) and to reinforce financial stability (more power to supervisory institutions). These commitments refer to all areas of the Pact. They represent a continuation of the broader reform agenda outlined in the Stability and National Reform Programmes. However, there is a lack of detail in terms of their timing and the measures that will be needed to implement them. These commitments have been assessed and taken into account in the recommendations.

(16) The Commission has assessed the Stability Programme and National Reform Programme, including the Euro Plus Pact commitments. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in the Netherlands but also their conformity with EU rules and guidance, given the need to reinforce the overall economic governance of the EU by providing EU-level input into future national decisions. It considers that the fully specified Dutch budgetary consolidation strategy should be implemented as envisaged, while preserving expenditure in areas most conducive to long-term growth. Further steps should be taken to improve the long-term sustainability of public finances, notably in the areas of pensions and long-term care, to increase labour market participation and integration, and to address the issues arising from transport congestion.

(17) In the light of this assessment, also taking into account the Council Recommendation of 2 December 2009 under Article 126(7) of the Treaty on the Functioning of the European Union, the Council has examined the 2011 update of the Stability Programme of the Netherlands and its opinion [1] is reflected in particular in its recommendations (1) and (2) below. Taking into account the European Council conclusions of 25 March 2011, the Council has examined the National Reform Programme of the Netherlands,

HEREBY RECOMMENDS that the Netherlands take action within the period 2011-2012 to:

1. Implement the budgetary strategy for the year 2012, in line with the Council recommendations on correcting the excessive deficit, setting the high public debt ratio on a downward path. Thereafter, progress towards the medium-term objective in line with the Stability and Growth Pact requirements, respecting the overall spending ceilings and consolidation requirements, thereby ensuring that consolidation is sustainable and growth-friendly, by protecting expenditure in areas directly relevant for growth such as research and innovation, education and training.

2. Take measures to increase the statutory retirement age by linking it to life expectancy, and underpin these measures with others to raise the effective retirement age and to improve the long-term sustainability of public finances. Prepare a blueprint for reforming long-term care in view of an ageing population.

3. Enhance participation in the labour market by reducing fiscal disincentives for second-income earners to work and draw up measures to support the most vulnerable groups and help them to re-integrate within the labour market.

4. Promote innovation, private R&D investment and closer science-business links by providing suitable incentives in the context of the new enterprise policy ('Naar de top').

Done at Brussels, 12 July 2011.

For the Council

The President

J. VINCENT-ROSTOWSKI

[1] Foreseen in Article 5(3) of Regulation (EC) No 1466/97.