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From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the economic policies of the Netherlands and delivering a Council opinion on the 2022 Stability Programme of the Netherlands

Delegations will find attached the abovementioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2022) 621 final.

COUNCIL RECOMMENDATION

of …

on the economic policies of the Netherlands and delivering a Council opinion on the 2022 Stability Programme of the Netherlands

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(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

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1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility will be updated in June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

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3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the Porto Social Commitment signed on 7 May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified the Netherlands as one of the Member States for which an in-depth review would be needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2022 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[4] ('2022 Recommendation on the euro area') on 5 April 2022 and the Joint Employment Report on 14 March 2022.

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[4] Council Recommendation of 5 April 2022 on the economic policy of the euro area (OJ C 153, 7.4.2022, p.1).

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt through, inter alia, higher prices for energy, food and raw materials, and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC[5] was triggered for the first time by Council Implementing Decision (EU) 2022/382[6], granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the labour market, healthcare, housing and social welfare.

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5 Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p.12).

6 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection (OJ L 71, 4.3.2022, p. 1).

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.

(5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled 'One year since the outbreak of COVID-19: fiscal policy response', the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council Recommendation of 18 June 2021[7] delivering a Council opinion on the 2021 Stability Programme of the Netherlands, the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed[9] primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

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7 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Netherlands (OJ C 304, 29.7.2021, p. 88).

8 The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the recovery and resilience plan and that can boost potential growth.

9 Not financed by grants under the Recovery and Resilience Facility or other Union funds.

(7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 ('the fiscal guidance') aimed at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020–2022 to a broadly neutral aggregate fiscal stance, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its European Semester spring package of late May 2022.

(8) With respect to the fiscal guidance, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the Commission's 2022 winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transitions and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second-round effects via targeted and temporary measures. Fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, including challenges that arise from Russia's war of aggression against Ukraine with regard to defence and security, and has to differentiate between Member States according to their fiscal and economic situation, including as regards their exposure to the crisis and the inflow of displaced persons from Ukraine.

(9) On 29 April 2022, the Netherlands submitted its 2022 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97. The Netherlands has not submitted a National Reform Programme yet, as the programme will be integrated in the recovery and resilience plan.

(10) The Commission published the 2022 country report for the Netherlands on 23 May 2022. It assessed the Netherlands' progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed the Netherlands' progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(11) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for the Netherlands and published its results on 23 May 2022. The Commission concluded that the Netherlands is experiencing macroeconomic imbalances. In particular, vulnerabilities relate to high private debt and a large current account surplus, which carry cross-border relevance.

(12) In its Recommendation of 20 July 2020[10], the Council recommended the Netherlands to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended the Netherlands to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, according to data validated by Eurostat, the Netherlands' general government deficit decreased from 3,7 % of GDP in 2020 to 2,5 %. The fiscal policy response by the Netherlands supported the economic recovery in 2021, while temporary emergency support measures amounted to 3,3 % of GDP in both 2020 and 2021. The measures taken by the Netherlands in 2021 were in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were temporary or matched by offsetting measures. According to data validated by Eurostat, general government debt fell from 54,3 % of GDP in 2020 to 52,1 % of GDP in 2021.

10 Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of the Netherlands and delivering a Council opinion on the 2020 Stability Programme of the Netherlands (OJ C 282, 26.8.2020, p. 122).

(13) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is realistic. The government projects real GDP to grow by 3,6 % in 2022 and 1,7 % in 2023. The Commission's 2022 spring forecast projects a similar real GDP growth of 3,3 % in 2022 and 1,6 % in 2023. In its 2022 Stability Programme, the Government expects that the headline deficit will remain at 2,5 % of GDP in 2022 and decrease to 2,3 % in 2023. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to decrease to 53,1 % in 2022, and to 52,7 % in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission's 2022 spring forecast projects a government deficit for 2022 and 2023 of 2,7 % of GDP and 2,1 % respectively. This is higher than the deficit projected in the 2022 Stability Programme for 2022, mainly because the 2022 Stability Programme only partially included measures taken in response to the high energy prices, and slightly lower for 2023, mainly due to a lower level of gross fixed capital formation and other expenditure expected by the Commission. The Commission's 2022 spring forecast projects a lower general government debt-to-GDP ratio of 51,4 % in 2022 and 50,9 % in 2023. The difference is due to a different forecast for nominal GDP. According to the Commission's 2022 spring forecast, the medium-term (10-year average) potential output growth is estimated at 1,5 %.

(14) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency measures are projected to decline from 3,4 % of GDP in 2021 to 0,9 % in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission's 2022 spring forecast are estimated at 0,7 % of GDP in 2022 and phased out in 2023[11]. Those measures mainly consist of social transfers to poorer households and cuts to indirect taxes on energy consumption. Those measures have been announced as temporary. However, in the event that energy prices remain elevated in 2023, some of those measures could be continued. One of those measures is not targeted, in particular the cut to indirect taxes on energy consumption. The government deficit is also impacted by the cost of offering temporary protection to displaced persons from Ukraine, which in the Commission's 2022 spring forecast is projected at 0,1 % of GDP in both 2022 and 2023[12], as well as the increased cost of defence expenditure by 0,1 % of GDP in 2023.

(15) In its Recommendation of 18 June 2021, the Council recommended that in 2022 the Netherlands pursues a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserves nationally financed investment. The Council also recommended the Netherlands to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.

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11 The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

12 It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the Union as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

(16) In 2022, according to the Commission's 2022 spring forecast and including the information incorporated in the Netherlands' 2022 Stability Programme, the fiscal stance is projected to be supportive, at -2,6 % of GDP, as recommended by the Council[13]. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to remain stable compared to 2021[14]. Nationally financed investment is projected to provide a neutral contribution to the fiscal stance of 0,0 percentage points in 2022[15]. Therefore, the Netherlands plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 2,0 percentage points to the overall fiscal stance. That significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0,7 % of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0,1 % of GDP), while, amongst others, additional climate measures aimed at reduction of greenhouse-gas emissions, and at the promotion of sustainable energy as well as measures in the field of education (reskilling and training of teachers) are also projected to contribute for 0,3 % of GDP and 0,2 % of GDP respectively to the growth in net current expenditure.

13 A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionaryfiscal policy.

14 These are Commission projections based on a linear expenditure profile. The Commission has not yet received the Recovery and Resilience Plan for the Netherlands.

15 Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,5 percentage point of GDP. This is partially explained by investment funds made available to municipalities for the implementation of climate policy and additional funding for youth.

(17) In 2023, the fiscal stance is projected in the Commission's 2022 spring forecast at +0,5 % of GDP on a no-policy change assumption[16]. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to remain unchanged compared to 2022. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0,1 percentage point in 2023[17]. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 1,0 percentage point to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0,7 % of GDP).

(18) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 2,5 % of GDP in 2024, before rising to 2,9 % by 2025. Therefore, the general government deficit is planned to remain below 3 % of GDP within the 2022 Stability Programme horizon. These projections assume some additional fiscal consolidation measures that are not yet specified. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to increase by 2025, specifically increasing to 53,1 % in 2024 and further to 54,4 % in 2025. According to the Commission's analysis, debt sustainability risks appear medium over the medium term.

16 A positive sign of the indicator corresponds to a shortfall of primary expenditure growth compared with medium-term economic growth, indicating a contractionary fiscal policy.

17 Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,4 percentage point of GDP. This is partially explained by investment funds made available to municipalities for the implementation of climate policy and additional funding for youth.

(19) Distortions in the housing market contribute to rapidly rising house prices and high household indebtedness, which makes households vulnerable to economic shocks. House price growth surged in 2021 with an annual growth rate of 15 % and there are increasing signs of overvaluation in the housing market, which increases risks and vulnerabilities. While mortgage interest tax deductibility is being reduced gradually, the reduction is only partial, with the tax relief it provides on mortgage payments remaining generous. Together with relatively high borrowing limits (loan-to-value), this continues to contribute to a strong debt bias for households. At the same time, the private rental market remains small and underdeveloped. The lack of a well-functioning middle segment on the rental market encourages households to buy rather than rent, contributing to high debt-to-income ratios and financial vulnerability. Rigidities on the supply side add to the distortions in the housing market. The relatively inelastic supply of homes increases the risk that policies meant to make housing more affordable end up stimulating demand and ultimately drive house prices up further, thereby undermining the policies' original objective.

(20) While the pension system performs well on pension adequacy and fiscal sustainability, the occupational pension system (second pillar) has drawbacks in terms of intergenerational fairness, transparency of pension rights and flexibility. Second-pillar pension contributions are high and potentially large adjustments to contributions could be needed to absorb imbalances in pension funds' balance sheets. The large mandatory savings also contribute to the current account surplus. A reform of the pension system could make pension funds more resilient to shocks. Following a framework agreement on broad principles for pension reform in 2019, the government and social partners agreed on a new second-pillar contract structure in June 2020. Overall, the planned reform aims to address the pension system's key vulnerabilities. Legislative measures to implement the agreed pension reform are set to be discussed and adopted by the Dutch parliament in the course of 2022. The main challenge will then be to implement the reform in full, which will need to be carefully monitored.

(21) The Netherlands submitted the cohesion policy programmes, provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council[18], on 22 December 2021, 23 December 2021 and 22 March 2022. In line with Regulation (EU) 2021/1060, the Netherlands is to take into account the relevant country-specific recommendations in the programming of the 2021–2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting coordination, complementarity and coherence between those cohesion policy funds and other Union instruments and funds. The successful implementation of the cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transitions and balanced territorial development.

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18 Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

(22) The share of flexible employment remains high and represents a substantial share of the labour market in the Netherlands. This points to an increasing risk of labour market segmentation. The use of these types of employment is to a considerable extent influenced by institutional factors and national policy choices such as differences in tax treatment (for the self-employed without employees), social security coverage and labour protection regulations. These distinct drivers and institutional factors create large financial (dis)incentives, with particularly distortive effects at the margins of the labour market. The COVID-19 pandemic also highlighted the risks of a segmented labour market and the unfavourable employment and social situation of certain groups, as well as the significant challenges in terms of access to adequate social protection for the self-employed, who are often underinsured against sickness, disability, unemployment and old age. In addition, further measures to clarify the qualification of the working relationship of self-employed and enforcement of applicable rules could help reduce bogus self-employment.

(23) Labour shortages have increased further and have become more general across sectors in line with the overall economic recovery and pick-up in labour demand. Labour-market forecasts point to a continued tight labour market in the future and in particular in education, healthcare, technical jobs and in the Information and communication technologies sector. In the near term, shortages are also very high in construction. The tight labour market risks hampering the large investments needed as part of the green and digital transitions. At the same time, there is untapped or underutilised labour, in particular in light of the lower employment rate for people with a migrant background and the high share of part-time employment. Incentivising an increase in the number of hours worked by part-time workers, many of whom are women (62,5 % of employed women worked part-time in 2021), could further reduce the existing labour market shortages and reduce the average gender pay and pension gap. Activating and upskilling or reskilling of the inactive (those neither working nor seeking work), those in long-term unemployment and those at the margins of the labour market via targeted and tailored actions could help alleviate labour and skills shortages while fostering equal opportunities and active inclusion.

(24) In response to the mandate by the Union Heads of State or Government set out in the Versailles Declaration, the Commission’s proposal for a REPowerEU plan aims to phase out the Union’s dependence on fossil-fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil-fuel imports away from Russia.

(25) Dependence on fossil fuels is very high. According to 2020 data[19], dependence on fossil fuels from Russia is at the same level as the Union average for coal (54 %) and crude oil (26 %) and lower for natural gas (30 % versus 44 %). The shares in the energy mix of oil (39 % versus 33 %) and natural gas (44 % versus 24 %) are both above the Union average, while the share of coal is lower (6 % versus 11 %). The reliance on fossil fuels could be lowered overall by increasing investment in renewables and electrification, addressing infrastructure bottlenecks and boosting energy efficiency. Stepping up efforts to meet the Union 2030 renewable energy targets is crucial. The Netherlands was the fifth-worst-performing Member State in terms of the share of renewable energy in gross final energy consumption in 2020, and has one of the largest gaps between the 2020 share of renewable energy and the Union 2030 renewable energy targets. Additional investments are needed to increase renewable energy deployment, as well as to increase the grid capacity necessary to transmit renewable energy from production sites to consumption sites. Building up grid capacity is especially important given that capacity constraints in the electricity grid continued to increase in 2021, leading to implementation delays for renewable energy projects. Administrative procedures for deploying renewable energy capacity could be further simplified and streamlined. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels. Moreover, increasing energy efficiency provides a cost-efficient opportunity to further reduce carbon emissions and dependence on fossil fuels, including on imports from Russia. In particular, there is scope for improvements in relation to building renovations and the roll-out of heat pumps and district heating in the building sector, as well as through the electrification and provision of clean energy for energy intensive industries.

[19] Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil. For the EU-27 average, the total imports are based on extra-EU-27 imports. For NL, total imports include intra-EU trade.

A further increase in ambition in respect of reducing greenhouse-gas emissions and increasing renewables and energy efficiency will be needed in order for the Netherlands to be in line with the 'Fit for 55' objectives.

(26) Further investments in transport infrastructure could help remove bottlenecks and support sustainable mobility. Rail and road infrastructure is congested. The Dutch railway network is the most heavily used in Europe. The Netherlands is deploying the European Rail Traffic Management System to support the increase in its railway network capacity. In 2019, road congestion, albeit slightly below the Union average, was estimated to have cost 4 % of annual Dutch GDP. Investments in sustainable mobility infrastructure can have positive spill over effects for the single market, given the importance of Dutch transport hubs (Port of Rotterdam, Schiphol airport) and reduce further the high dependency of the country towards oil (39 % of the energy mix in 2020).

(27) Excessive nitrogen deposits are harming the environment and holding back construction and agricultural activities. The nitrogen surplus is four times the Union average while ammonia emissions per hectare are the highest in Europe. Nitrogen deposition is too high to achieve biodiversity objectives, it affects the quality of water and results in the Netherlands exceeding the thresholds of Council Directive 91/676/EEC[20] ('Nitrates Directive'). Further to a ruling of the Council of State in 2019, the Dutch government needs to take action to reduce nitrogen deposition in Natura 2000 areas. To further reduce nitrogen deposits, a shift towards sustainable agriculture is needed, which requires significant investments. Agriculture is responsible for 45 % of nitrogen deposits in particular because of intensive livestock farming. This makes it the Member State with the highest livestock density in the Union.

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[20] Council Directive 91/676/EEC of 12 December 1991 concerning the protection of waters against pollution caused by nitrates from agricultural sources (OJ L 375, 31.12.1991, p. 1).

(28) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, the Netherlands can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socioeconomic impact of the transition in the most-affected regions. In addition, the Netherlands can make use of the European Social Fund Plus, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council[21], to improve employment opportunities and strengthen social cohesion.

(29) In the light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion[22] is reflected in recommendation (1).

(30) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, the Council recommended that the euro-area Member States take action to implement the recommendations set out in the 2022 Recommendation on euro area. For the Netherlands, this is reflected in particular in recommendations (1) and (3).

(31) In the light of the Commission's in-depth review and its assessment, the Council has examined the 2022 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (4). Recommendation (1) also contributes to the implementation of the 2022 Recommendation on the euro area, in particular the first euro-area recommendation. Fiscal policies and other policies referred to in recommendation (1) and (4) help address, inter alia, imbalances linked to the large current account surplus. Policies referred to in recommendation (1) also help address imbalances related to high private debt,

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21 Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

22 Under Article 5(2) of Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Netherlands take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Reduce the debt bias for households and the distortions in the housing market, including by supporting the development of the private rental sector and taking measures to increase housing supply. Enact and implement the reform of the pension system agreed in 2019 and 2020.

2. Swiftly finalise the negotiations with the Commission on the 2021–2027 cohesion policy programming documents with a view to starting their implementation.

3. Promote adequate social protection for the self-employed without employees, tackle bogus self-employment and reduce the incentives to use flexible or temporary contracts. Address labour and skills shortages, in particular in healthcare, education, digital and technical jobs and construction, including by tapping underutilised labour potential originating from the high share of part-time employment and the lower employment rate of people with a migrant background. Strengthen up- and reskilling opportunities, in particular for those at the margins of the labour market and the inactive.

4. Reduce overall reliance on fossil fuels by accelerating the deployment of renewables, in particular by boosting complementary investments in network infrastructure and further streamlining permitting procedures, improving energy efficiency, in particular in buildings, and accelerating investments in sustainable transport and sustainable agriculture.

Done at Brussels,

For the Council

The President