INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/106

KINGDOM OF NETHERLANDS—THE NETHERLANDS

March 2023

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE NETHERLANDS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with The Netherlands, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 27, 2023, consideration of the staff report that concluded the Article IV consultation with The Netherlands.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 27, 2023, following discussions that ended on December 9, 2022, with the officials of The Netherlands on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 8, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for The Netherlands.

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

Selected Issues

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR23/63

IMF Executive Board Concludes 2022 Article IV Consultation with the Netherlands

FOR IMMEDIATE RELEASE

Washington, DC – March 9, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Netherlands.

The Netherlands was more resilient than its peers during and after the pandemic. Reflecting the prevalence of telecommuting and a strong fiscal response, the Dutch economy experienced a less severe recession followed by a more robust recovery than in the euro area. Real GDP grew by 4.9 percent in 2021, surpassing its pre-pandemic level, as private consumption staged a vibrant recovery boosted by the release of accumulated savings and a strong labor market. By end-2022, inflation had eased after a record high in September, but remained elevated, largely driven by energy prices. The labor market is tight with a low unemployment rate and high vacancies, although wages have not picked up strongly so far. Overall, the economy appears to be overheating.

Russia's invasion of Ukraine is posing new challenges, but the Netherlands has suffered a smaller decline in the terms of trade compared to the rest of the euro area. The current account surplus is expected to have declined to 5.5 percent of GDP in 2022, from 7.2 percent of GDP in 2021, mainly driven by deteriorating terms of trade The government has taken several measures to address the rising cost of living, and higher public gas revenues and the strong post-pandemic growth have strengthened the fiscal balance. The financial cycle has started to moderate, accompanied by rapid cooling of a richly valued housing market.

Growth is projected to slow to 0.6 percent in 2023 from 4.2 percent in 2022, as high inflation weighs on consumption, external demand wanes, and financial conditions tighten. Over the medium term, growth will be underpinned by public investment and reforms. Headline inflation is expected to moderate in 2023 with the activation of the energy price ceiling, while core inflation is projected to peak in 2023 at about 7.3 percent. The fiscal deficit is projected to increase to 2.8 percent of GDP in 2023, mainly reflecting government measures to cushion the impact of high energy prices and the economic slowdown. However, the Dutch fiscal position remains strong, with the public debt to GDP ratio expected to remain below 50 percent over the medium term.

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Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They took positive note that the Dutch economy showed impressive resilience during and after the pandemic, supported by a strong policy response. Nevertheless, the energy shock caused by Russia's invasion of Ukraine, elevated inflation, and tighter financial conditions, as well as lower external demand and a cooling housing market, pose challenges.

Directors considered that a non-expansionary or modestly contractionary fiscal stance is called for in 2023 to help monetary policy fight high inflation amid a tight labor market. They stressed that fiscal policy should remain flexible, given high uncertainty. While commending the authorities for using their fiscal space to cushion the impact of high energy prices, they recommended better targeting to protect public finances from high volatility in international energy prices and to help price signals incentivize energy saving. In this context, some Directors acknowledged the authorities' view regarding the cost and implementation challenges of some targeted policies. Directors welcomed the authorities' intention to explore additional measures to offset the budgetary cost of the price cap and make the support more targeted.

Directors commended the authorities for taking measures to enhance energy security and fight climate change. Boosting investment in clean energy will also enhance energy security while contributing to the green transition. They welcomed the authorities' commitment to enhance climate policies and encouraged integrating climate adaptation in long-term planning frameworks.

Directors took positive note that Dutch financial institutions are resilient, with considerable capital buffers. Nonetheless, they underscored the need to continue to closely monitor financial sector developments given higher risks stemming from the energy crisis and tighter financial conditions. The recent flagging house price momentum has also heightened vulnerabilities. In this context, Directors welcomed the increase in the counter-cyclical capital buffer, but cautioned that a pro-cyclical stance should be avoided given high uncertainty. To fully address vulnerabilities among Non-Bank Financial Institutions (NBFIs) and mitigate the risk of tensions on Liability-Driven Investment Funds, Directors urged the authorities to continue to closely monitor NBFIs, work toward closing data gaps, and improve the supervision of these institutions, including by contributing to international efforts in this area.

Directors agreed that the Netherlands should continue to use its ample fiscal space to invest in its medium-term challenges with a view to enhancing economic and social resilience, while also contributing to external rebalancing. They welcomed spending and policies, including under the National Recovery and Resilience Plan, to advance the green and digital transitions and to tackle structural challenges in housing, labor markets, capital taxation, and the education system, as well as support R&D. Upskilling and policies to improve female labor participation will be particularly important.

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

It is expected that the next Article IV consultation with the Netherlands will be held on the standard 12-month cycle.

The Netherlands: Selected Economic Indicators, 2021–2024

(Percent change, unless otherwise indicated)

	2021	2022 Proj.	2023 Proj.	2024 Proj.
National accounts (percent change)				
Gross domestic product	4.9	4.2	0.6	1.2
Private consumption	3.6	5.7	0.8	1.3
Public consumption	5.2	0.6	3.1	2.3
Gross fixed investment	3.2	2.7	0.9	1.5
Total domestic demand	3.9	3.3	1.7	1.6
Exports of goods and nonfactor services	5.4	4.3	2.0	3.0
Imports of goods and nonfactor services	4.4	3.2	3.5	3.8
Net foreign balance[1]	1.3	1.3	-0.9	-0.3
Output gap (percent of potential output)	-1.1	1.5	1.2	1.1
Prices, wages, and employment				
Consumer price index (HICP)	2.8	11.6	4.8	3.9
GDP deflator	2.5	6.1	5.0	4.0
Hourly compensation (manufacturing)	0.2	3.9	4.2	3.5
Unit labor costs (manufacturing)	-4.8	0.6	0.7	0.7
Employment (percent)				
Unemployment rate (ILO definition)	4.2	3.7	4.1	4.2
NAIRU	5.2	5.2	5.2	5.2
External trade (percent of GDP)				
Merchandise balance	7.3	7.2	6.7	6.0
Current account balance	7.2	5.5	6.2	6.1
General government accounts (percent of GDP)				
Revenue	44.0	44.0	43.8	43.3
Expenditure	46.6	45.0	46.6	45.1
Net lending/borrowing	-2.6	-1.0	-2.8	-1.8
Primary balance	-2.2	-0.9	-3.0	-1.9
Structural balance[2]	1.6	0.1	-2.1	-2.4
Structural primary balance[2]	2.2	0.6	-1.6	-1.9
General government gross debt	52.3	48.3	48.5	47.9

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

[1] Contribution to GDP growth.

[2] In percent of potential GDP.

PRESS RELEASE

PR[23/XX]

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Growth is projected to slow to 0.6 percent in 2023 from 4.2 percent in 2022, as high inflation weighs on consumption, external demand wanes, and financial conditions tighten. Over the medium term, growth will be underpinned by public investment and reforms. Headline inflation is expected to moderate in 2023 with the activation of the energy price ceiling, while core inflation is projected to peak in 2023 at about 7.3 percent. The fiscal deficit is projected to increase to 2.8 percent of GDP in 2023, mainly reflecting government measures to cushion the impact of high energy prices and the economic slowdown. However, the Dutch fiscal position remains strong, with the public debt to GDP ratio expected to remain below 50 percent over the medium term.

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INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—THE NETHERLANDS

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

February 8, 2023

KEY ISSUES

Context. The Dutch economy was more resilient than its peers during and after the pandemic. Reflecting the prevalence of telecommuting and strong fiscal support, the economy experienced a less severe recession followed by a more robust recovery than in the rest of the euro area, with no scarring expected. The labor market is tight with a low unemployment rate and high vacancies, although wage growth has so far been moderate. After hitting a record high in September, consumer price inflation eased to 11 percent in December driven by lower energy prices, while core inflation increased to 8.4 percent y/y. The economy appears to be overheating. The war in Ukraine is posing new challenges albeit the terms of trade shock has been smaller than for the rest of the euro area.

Outlook and Risks. Growth is projected at 4.2 percent in 2022 and 0.6 percent in 2023, as external demand wanes and high inflation hurts consumption but supported by fiscal policy. With the activation of the energy price cap, headline inflation is projected to fall from 11.6 percent in 2022 to 4.8 percent in 2023, while core inflation is forecasted to increase from 5.5 percent to 7.2 percent over the same period. Downside risks dominate and stem mainly from further increases in energy prices and energy supply disruptions, as well as lower external demand and a severe correction in the housing market.

Key Policy Recommendations

Fiscal Policy

- For 2023, fiscal policy should focus on providing support to those in need and ensuring energy security, while maintaining a non-expansionary or mildly contractionary fiscal stance that aligns with monetary policy in the fight against inflation. Additional fiscal measures need to be specified to secure such a stance.

- Fiscal policy should remain flexible, given high uncertainty. Automatic stabilizers should provide a first line of response to adverse scenarios. However, a negative supply shock could still necessitate a greater fiscal adjustment compared to the baseline as inflation would rise, while a negative demand shock could call for a smaller fiscal adjustment.

- Over the medium term, continued focus on the climate transition, policies to alleviate skill shortages and boost labor participation and productivity should further improve resilience and reduce the external surplus, while they remain affordable given substantial fiscal space.

Financial Sector Policies

- Continued monitoring of financial sector vulnerabilities is warranted, reflecting risks from the cooling of a richly valued housing market, the energy crisis weighing on the debt servicing capacity of borrowers and the tightening of financial conditions.

- Macroprudential policies should avoid a pro-cyclical stance in view of a fluid macro-financial environment and a possibly sharper turn in the housing cycle. Capital buffers should be released if financial stability risks materialize. Once more clarity about the outlook resumes, the creation of additional capital buffers should be evaluated if the financial cycle continues to strengthen.

- Addressing risks among non-bank financial institutions will require heightened vigilance but also the closure of data gaps and the advancement of comprehensive macroprudential policy frameworks specifically targeted at the sector, also by contributing to international efforts in this area.

Structural Policies

- Continued progress in tackling labor market duality would help reduce skill shortages and increase resilience.

- Continued investment in energy security, green transition, and digital technologies would also help enhance resilience and productivity growth. On energy supply, the Netherlands can play an important role in bolstering energy security of other EU countries in an emergency, given domestic production, a developed gas network and increased import capacity.

- The authorities should enhance their carbon taxation to help achieve their ambitious emission reduction goals. Climate adaptation could be further strengthened by focusing government actions on adaptation with large positive externalities.

Approved By **Laura Papi (EUR) and Stephan Danninger (SPR)**	Discussions took place during November 28—December 9, 2022. The mission team comprised B. Akitoby (head), S. Armendariz, A. Geis, and A. Myrvoda (all EUR), and was assisted by Y. Chen and M. Evio (both EUR). M. Louis joined the mission in the last couple of days to moderate the press conference and assist in media relations. C. Chen, K. Kirabaeva, E. Massetti, T. Tim (all FAD), and G. Dolphin (EU) joined the mission virtually for the meetings on climate change policies. Mr. P. Hilbers and Ms. C. Eijking (both OED) participated in some of the meetings. The team met with De Nederlandsche Bank President Klaas Knot, Finance Minister Sigrid Kaag, State Secretary Marnix van Rij, and other officials from the Ministries of Finance, the Interior and Kingdom Relations, Social Affairs and Employment, Economic Affairs and Climate Policy, De Nederlandsche Bank, other government entities, and the Single Supervisory Mechanism; representatives of labor unions and employers, and representatives of private sector institutions.

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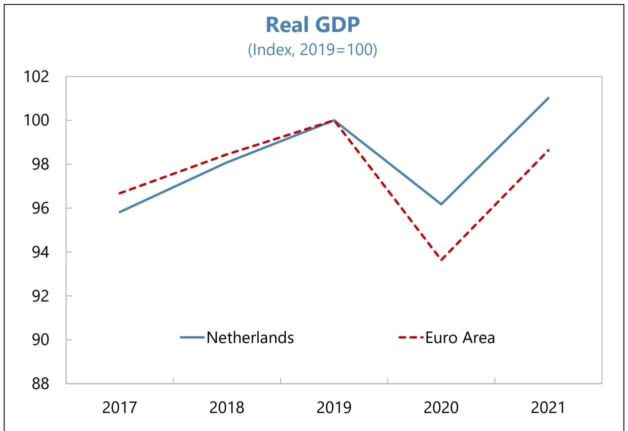
TABLES

ANNEXES

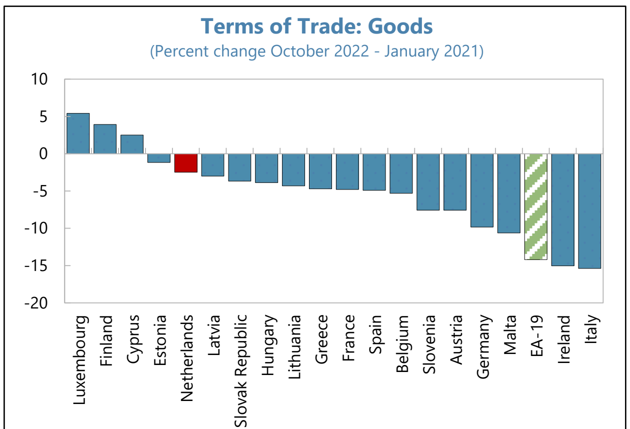
CONTEXT AND RECENT DEVELOPMENTS

1. The Dutch economy was more resilient than its peers during and after the pandemic. Reflecting the prevalence of telecommuting and strong fiscal response, the Dutch economy experienced a less severe recession followed by a more robust recovery than in the euro area. Real GDP grew by 4.9 percent in 2021, surpassing its pre-pandemic level, as private consumption staged a strong recovery boosted by the release of accumulated savings and a strong labor market. Manufacturing capacity utilization returned to pre-pandemic levels by early 2022, and real GDP returned to pre-pandemic trend in H1. The labor market is tight with a low unemployment rate and high vacancies, although wages have not yet picked up strongly. The output gap is estimated to be positive at about 1.5 percent in 2022 and in September headline inflation reached the highest level in 40 years amid rising core inflation. Overall, staff assesses that the economy appears to be overheating.



Sources: IMF WEO and IMF staff estimates and calculations.

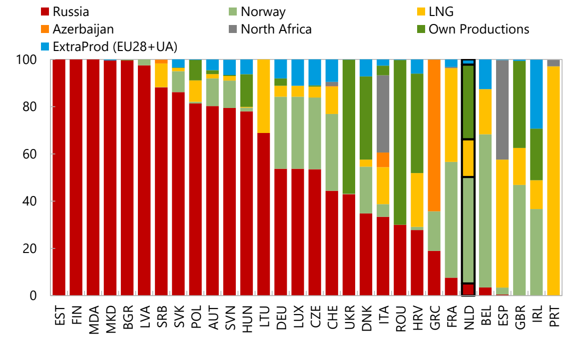
2. The war in Ukraine is expected to affect the economy mainly via indirect channels. Direct exposures to Russia and Ukraine are limited (about 3 percent of external trade), leaving confidence effects, commodity prices, and external demand as key transmission channels. The terms of trade deteriorated by 2.5 percent between October 2022 and January 2021, a less severe loss compared to the euro area average (-14 percent). Although the Netherlands ended its limited dependence of Russian gas and increased the share of renewable energy in its energy mix, it remains exposed to the European gas crisis via prices, as a net gas importer (Figure 1).



Sources: Eurostat and Haver Analytics.

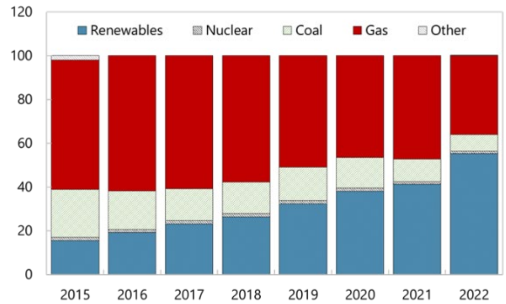
Figure 1. The Netherlands: Energy Capacity and Sources

Attribution of Gas Imports to Individual Sources in 2021
(Percent)



Sources: Bruegel based on Entso-G and Eurostat.

Electricity: Installed Generation Capacity
(Share by production type)

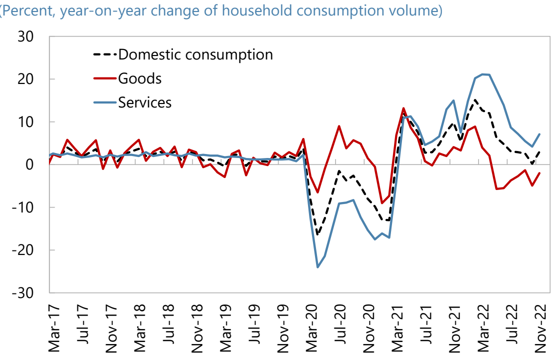


Sources: Entsoe transparency and IMF staff calculations

3. **Strong growth continued in the first half of 2022, but spillovers from the war have weakened activity in the second half.** At 6 percent year-on-year, economic growth positively surprised in 2022H1 supported by the gradual lift of COVID-restrictions, one-off investments, and net exports. However, activity eased in the third quarter of 2022 with GDP shrinking by 0.2 percent quarter-on-quarter in seasonally adjusted terms, and with high frequency indicators showing signs of some slowdown, such as negative figures on retail sales and industrial production. Moreover, the confidence drop suggests this deterioration could have lasted into Q4.

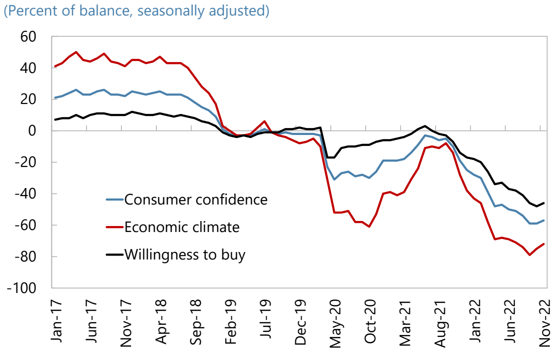
Figure 2. The Netherlands: High Frequency Indicators

Household Consumption Volume
(Percent, year-on-year change of household consumption volume)



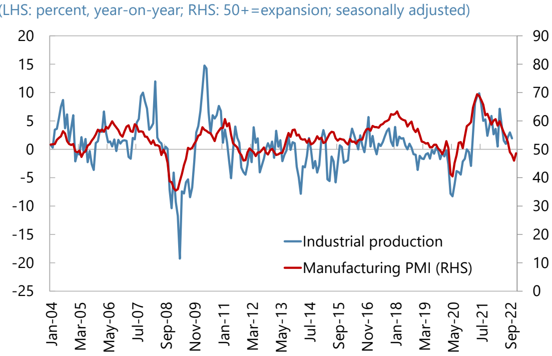
Sources: CBS; Haver Analytics; and IMF staff calculations.

Consumer Confidence Indicators
(Percent of balance, seasonally adjusted)



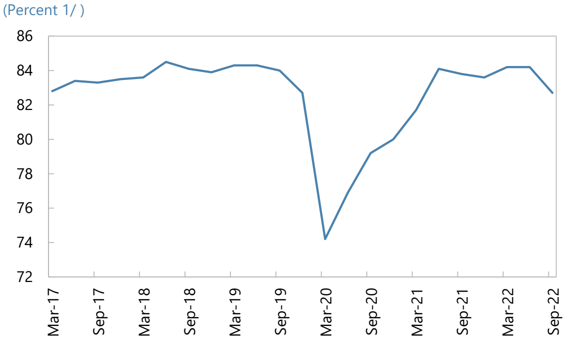
Sources: CBS; Haver Analytics; and IMF staff calculations.

Industrial Sector: Confidence and Production
(LHS: percent, year-on-year; RHS: 50+=expansion; seasonally adjusted)



Sources: CBS; Haver Analytics; and IHS Markit.

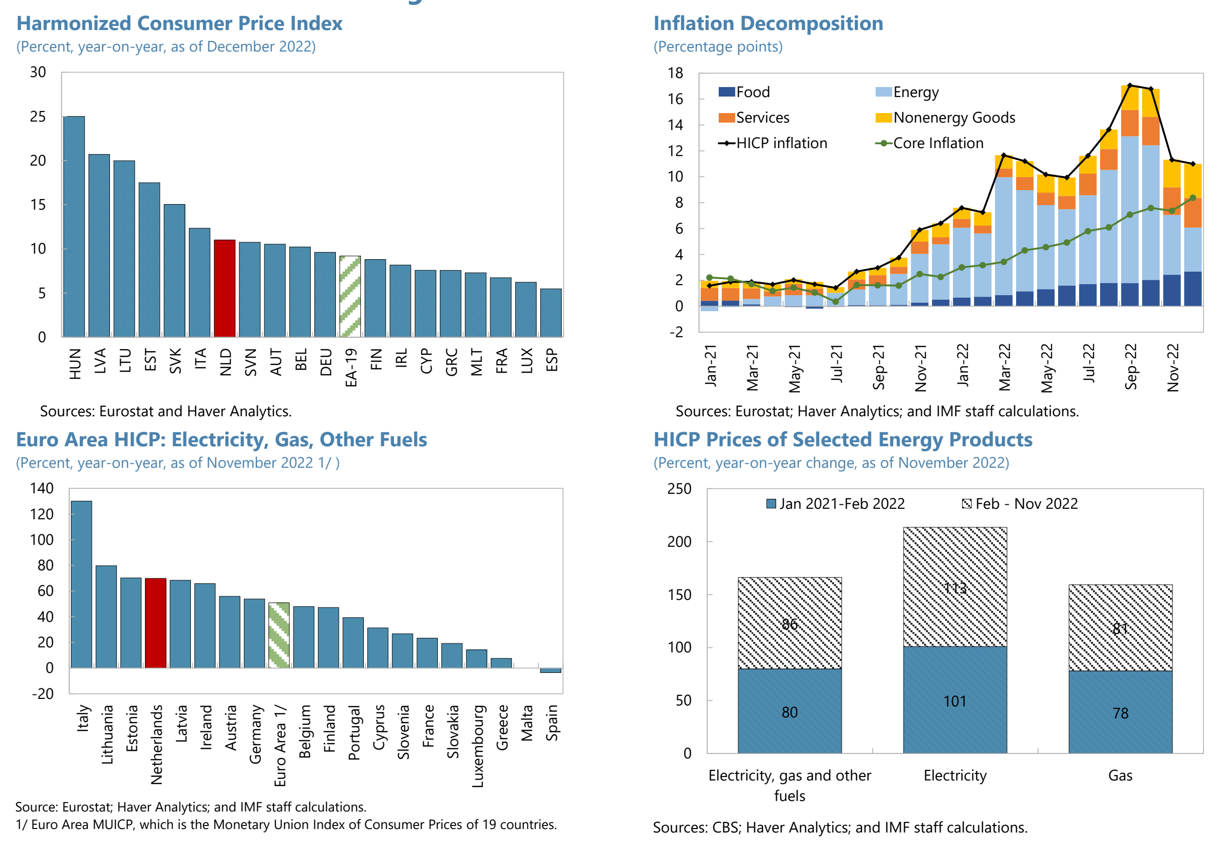
Capacity Utilization in Manufacturing
(Percent 1/)



Sources: CBS; Haver Analytics; and IMF staff calculations.
1/ Quarterly, based on CBS Business Survey.

4. **By end-2022, inflation had eased after a record high in September, but remained elevated, largely driven by energy prices.** After reaching 17.1 percent y/y in September 2022, headline inflation eased to 11.0 percent in December 2022 driven by the slowdown of energy prices and despite the acceleration of core to 8.4 percent, as inflation has broadened (Figure 3). The reported energy price increase, the highest in the euro area, reflects largely three factors: (i) Dutch energy markets are liberalized, which results in a fast and higher pass-through; (ii) gas still constitutes 40 percent of the energy mix for electricity generation (16.4 percent in EA), although the share of renewables has risen (to 54 percent of installed capacity); and (iii) statistics are based on the price of flexible electricity contracts, whereas about half of households in mid-2022 remained on longer-term fixed electricity contracts, with some negotiated before the energy crisis.[1]

Figure 3. The Netherlands: Inflation



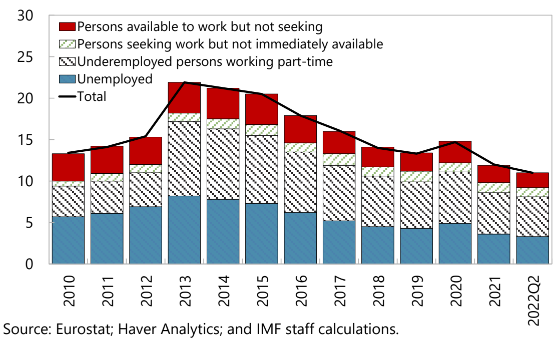
5. **A tight labor market amid rising core inflation points to overheating.** At 3.7 percent as of November 2022, unemployment remains low by historical standards, despite increasing marginally from the historically low level of 3.3 percent in mid-2022 as labor markets fully recovered from the pandemic, with the participation rate at a historical high (74.9 in Q3) (Figure 4). The vacancy rate, defined as the ratio of unfilled vacancies to total unemployment, stood at 122 percent in 2022Q3 (from 66 percent at end-2019) as companies reported labor shortages across many

[1] See Selected Issues Paper on "Dutch inflation: developments, drivers, and the risk of a wage-price spiral" accompanying the Staff Report.

sectors. Meanwhile, nominal wages started to increase but remained contained in 2022. For instance, hourly collective bargaining agreement wage growth accelerated from about 1.9 percent y/y in 2017–19 to 3.7 percent y/y in November 2022, driven by public sector wages (5.5 percent y/y). Further wage increases are likely as more negotiations take place in the context of collective bargaining agreements. The minimum wage is also set to increase by 10 percent in 2023. The minimum wage tends to track collective bargaining agreements. The government may also choose to boost the minimum wage to offset the cost-of-living increases, as it is currently the case. It is estimated that the minimum wage applies to about 6 percent of workers and typically, minimum wage increases do not have a material effect on overall wages. Nevertheless, real wages continued to decline across all major sectors, reflecting the negative terms of trade shock.

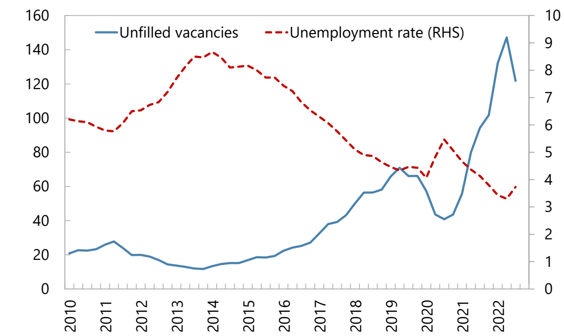
Figure 4. The Netherlands: Labor Market Indicators

Netherlands: Labor Market Slack Composition
(Percent of extended labor market force, seasonally adjusted 1/)



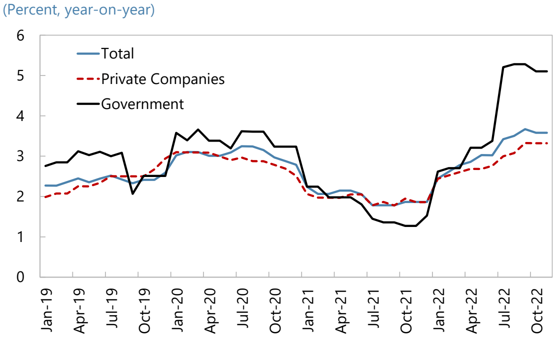
Source: Eurostat; Haver Analytics; and IMF staff calculations.
1/ Population age 15-74 years.

Unemployment and Unfilled Vacancies
(LHS: percent of unemployed, RHS: percent)



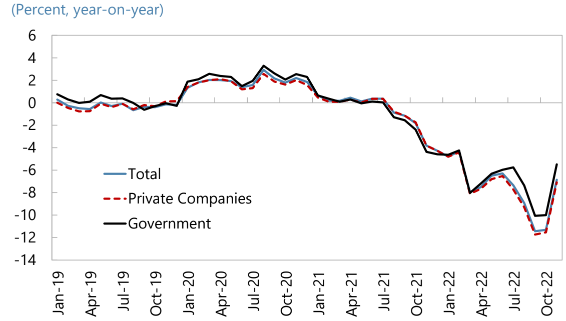
Source: CBS; Haver Analytics; and IMF staff calculations.

Nominal Wage Growth 1/
(Percent, year-on-year)



Sources: CBS; Haver Analytics; and IMF staff calculations.
1/ Hourly wages excluding special payments.

Real Wage Growth 1/
(Percent, year-on-year)



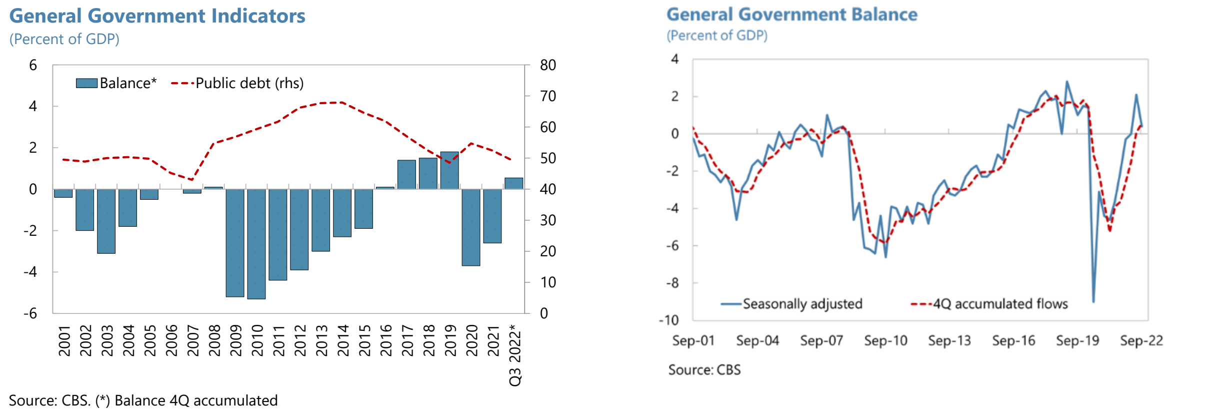
Sources: CBS; Haver Analytics; and IMF staff calculations.
1/ Hourly wages excluding special payments. Nominal wages deflated by HICP

6. Higher gas revenues and the strong post pandemic growth have strengthened the fiscal balance. From -3.7 percent in 2020, the 2021 fiscal balance narrowed to -2.6 percent of GDP despite 3.6 percent of GDP in COVID-related spending, thanks to a strong recovery and higher gas prices.[2] The continuation of these factors and the end of pandemic programs (TVL and NOW) continued to support a rapid correction of the fiscal balance in 2022, reaching 0.5 percent of GDP in

[2] Extraction of natural gas generates multiple kinds of revenues for Dutch central government, including dividends, corporate income taxes and revenues from land and mineral reserves.

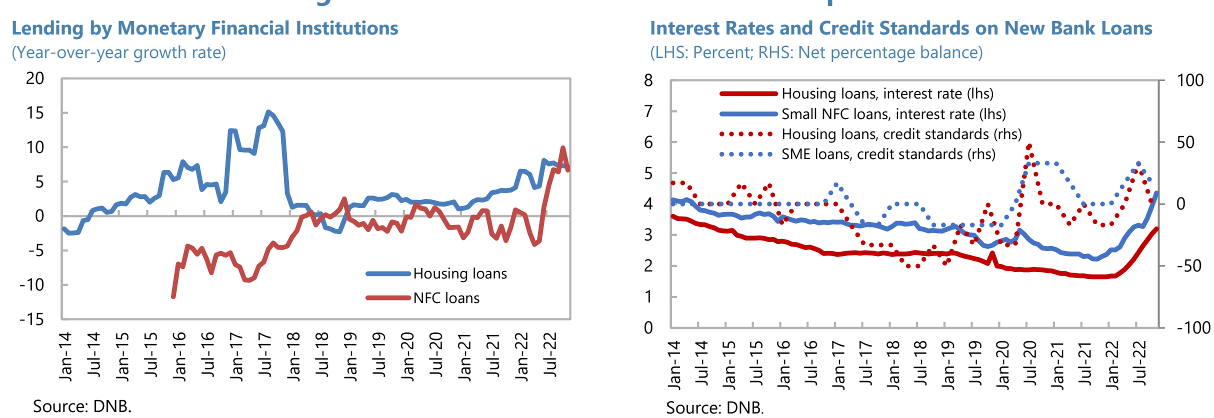
2022Q3.[3] However, the full implementation of the purchasing power package from July onwards (0.7 percentage points of GDP) and the economic slowdown may have interrupted this correction by end-2022. Government debt declined to 49.0 percent of GDP in 2022Q3, from 52.4 percent by end-2021 (Figure 5).

Figure 5. The Netherlands: Public Sector Accounts



7. Credit has grown at a robust pace, but the phase out of monetary accommodation has contributed to tighter financial conditions and the cooling of a buoyant housing market. Mortgage lending has expanded at a brisk rate (Figure 6), reflecting strong housing demand, yet prices for homes have recently started to decline, falling 2 percent below their July 2022 peak. Echoing the scaling back of monetary accommodation, interest rates for housing and corporate loans have started to rise from historic lows. At the same time, banks have tightened credit standards, primarily on the back of deteriorating risk perceptions due to an uncertain economic outlook.

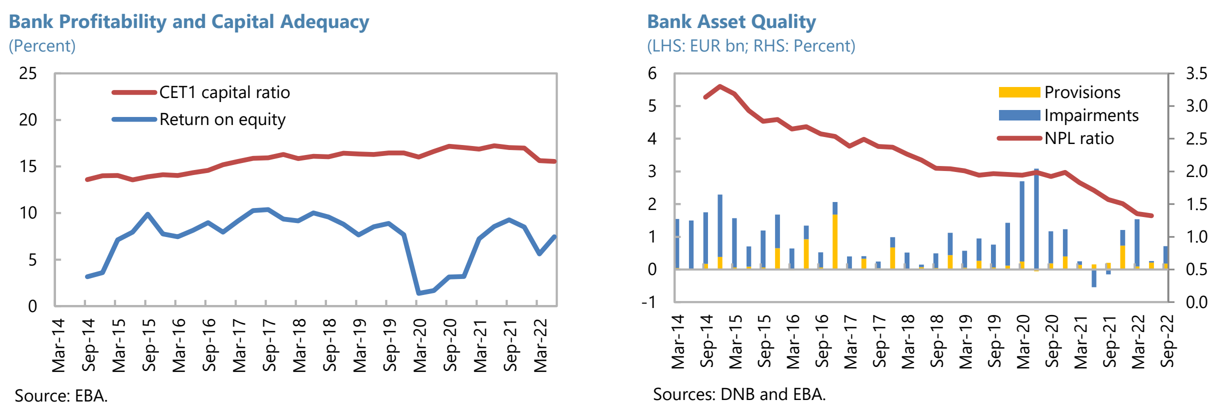
Figure 6. The Netherlands: Credit Developments



3 4-quarter cumulative.

8. The financial sector has remained resilient so far, yet systemic risks have increased, particularly in the housing market and among non-bank financial intermediaries. The banking sector remains well-capitalized and liquid, while bank profitability has rebounded from the pandemic (Figure 7). The NPL ratio has improved since end-2019, falling to 1.3 percent by 2022Q2. Ongoing implementation of 2017 FSAP recommendations (Annex VI) has also fostered resilience, yet follow-up on certain elements of staff advice, such as a more aggressive tightening of LTV limits or the setting of prudential ceilings for DSTIs, remain outstanding. Banks have recently bolstered provisions in anticipation of possible asset impairments from the energy crisis weighing on borrowers, aggravated by high household indebtedness and a rapidly cooling housing market. While the average funding ratio of occupational pension funds[4] has returned above prudential limits by a comfortable margin, recent financial market gyrations may pose renewed challenges for non-bank financial institutions.

Figure 7. The Netherlands: Financial Sector Developments

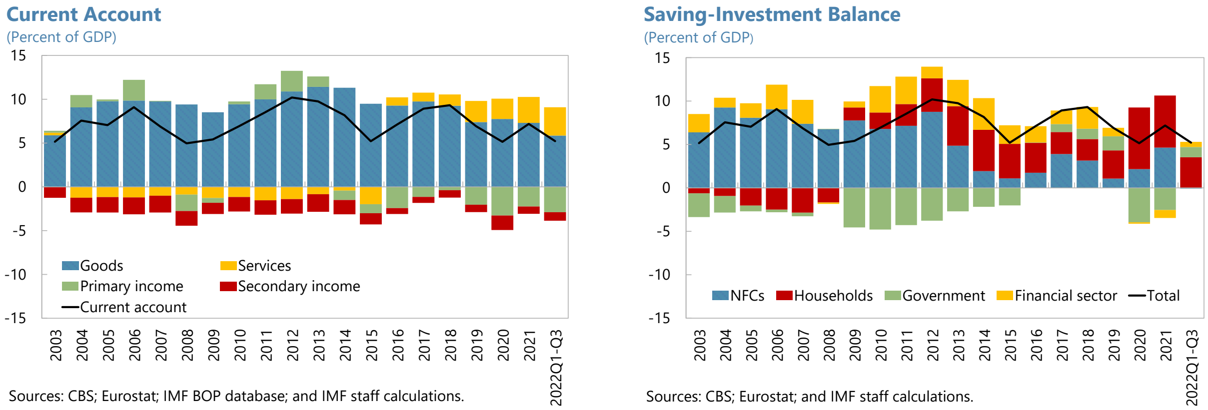


9. On preliminary estimates, the external position is anticipated to be moderately stronger than implied by fundamentals and desirable policy settings in 2022. The current account surplus is expected to have declined to 5.5 percent of GDP in 2022, from 7.2 percent of GDP in 2021, driven by deteriorating terms of trade, chiefly related to global commodity price pressures resulting from Russia's war in Ukraine, strong domestic demand, and a notable worsening of the primary income balance. Based on the projected current account surplus of 5.5 percent of GDP for 2022, staff estimates the underlying, cyclically adjusted current account surplus at 6.8 percent of GDP, implying a preliminary, staff-assessed current account gap of 1.3 percent of GDP. Using the EBA's estimated elasticities, the REER is assessed as undervalued by about 1.4–3.0 percent in 2022 (Annex II). Following a rebound to 6.2 percent of GDP in 2023, the current account surplus is projected to gradually decrease in the medium term, reaching 5.7 percent of GDP in 2028, subject to upside risks from a faster than expected closing of the positive output gap, a more rapid

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

normalization of the terms of trade or a decline in household investment in the event of a housing market correction.

Figure 8. The Netherlands: External Position



Sources: CBS; Eurostat; IMF BOP database; and IMF staff calculations.

Sources: CBS; Eurostat; and IMF staff calculations.

Authorities' Views

10. The authorities shared staff's assessment of the external position. They noted that the negative terms of trade shocks and public expenditure to foster growth and deal with the energy crisis could help rebalance the external position. They highlighted that further consideration could be given to the impact of multinational corporations in boosting the current account surplus, as well as the impact of their capital funded pension system.

OUTLOOK AND RISKS

11. Staff's baseline forecasts are underpinned by the following assumptions and policy settings. Staff assume that the war and related sanctions do not escalate, while global supply bottlenecks will continue easing. The WEO anticipates a decline in international energy prices, notably gas, but they will remain historically elevated. The ECB is expected to raise the policy rate in 2023 by around 110 bps and financial conditions are projected to continue to tighten. The fiscal stance is expected to be expansionary in 2023, on the back of a sizable fiscal impulse, at around 1⅔ percent of GDP.

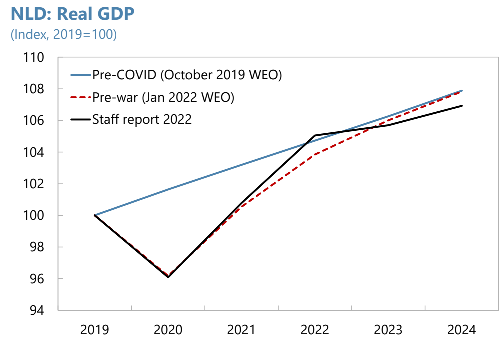
12. Growth is projected to slow as high inflation weighs on consumption and external demand softens. Real GDP growth is projected to slow to 0.6 percent in 2023 from 4.2 percent in 2022, mainly reflecting weaker demand in trading partners, reduced consumption and tight financial conditions, which are partially offset by the fiscal support measures. The effect of slower growth on the labor market could be softened, as structural labor shortages may dissuade employers from laying off workers. With potential output growth estimated at about 1.5 percent, the output gap is forecast to remain positive at 1.2 percent in 2023 and slowly close by 2028. No scarring from the pandemic is expected. Growth in the medium term will be underpinned by public investment (averaging 3¾ percent of GDP over the next 5 years) and reforms, including those in the National Recovery and Resilience Plan (NRRP).

Macroeconomic Projections and Pre/Post Pandemic Trend in GDP

Macroeconomic Projections, 2021-23

	GDP growth			Inflation		
	2021	2022	2023	2021	2022	2023
Staff report 2022	4.9	4.2	0.6	2.8	11.6	4.8
Oct 2022 WEO		4.54	0.8		12.0	8.0
July 2022 WEO update		2.5	1.0		9.7	5.3
DNB (Dec 2022)		4.2	0.8		11.5	4.9
European Commission (Nov 2022)		4.6	0.6		11.6	4.2
Joint Economic Forecast (Sep 2022)		4.7	1.0		10.8	7.6

Sources: DNB; European Commission; Joint Economic Forecast; and IMF staff



Sources: IMF Country Staff Reports; WEO; and IMF staff estimates and calculations.

13. **HICP inflation is expected to have peaked in 2022 and continue to moderate in 2023 with the activation of the energy price ceiling.** The implementation of a price cap on households' gas and electricity in January 2023 is expected to notably reduce headline inflation from the average 11.6 (11.0 eop) percent in 2022 to 4.8 (1.7 eop) percent in 2023. Core inflation is projected to peak in 2023 at 7.2 percent (5.8 eop) and recede over the medium term, but only fall to the ECB inflation target in 2026.

14. **The current account surplus is expected to fall short of its pre-pandemic peaks over the medium term but to remain high** (see Annex II). Reflecting sizable expenditure to allay housing market shortages, reinforce the education system, and advance the climate transition, the trade surplus is set to shrink, leaving the current account balance at 5–6 percent of GDP over 2022–27.

15. **Amid high uncertainty, risks to the growth forecasts are tilted downwards though they have recently become more balanced, while risks to inflation are skewed upward** (Annex III). The main risks stem from an escalation of the war and associated sanctions,[5] which could result in renewed increases in energy prices, energy disruptions in Europe and weaker external demand.[6] With further increases in commodity prices, especially if passthrough to other prices rises and if it is exacerbated by the second-round effects from wage bargaining, inflation could become persistent,

[5] In line with the EU-wide agreement, the Netherlands has imposed sanctions adopted by the EU in the context of Russia's invasion of Ukraine, including on Russia's central bank and selected banks, and restricted imports of Russian coal and oil. An analysis of the global spillovers of sanctions can be found in the April 2022 World Economic Outlook. In line with the recently revised Institutional View on the liberalization and management of capital flows, some of the sanctions imposed on Russia can be capital flow management measures (CFMs) imposed for national and international security reasons.

[6] With the Dutch natural gas storage at 77 percent capacity in December 2022, there are sufficient energy reserves to keep the country running for about 6 winter months. Even the energy outlook in the rest of Europe has improved, though energy shortages next winter elsewhere in the EU cannot be ruled out and could trigger redistribution mechanisms of energy to other countries, thus exacerbating the energy crisis in the Netherlands.

thus de-anchoring expectations, and eroding purchasing power. Two potential scenarios are considered: one driven by a further adverse evolution of the war in Ukraine, with stagflation becoming entrenched, and a second involving a global slowdown, potentially emanating from China or the U.S. In either scenario, growth spillovers from affected trading partners would place an additional drag, although in a global slowdown emanating from China or the U.S., commodity prices and headline inflation may be lower. On the domestic side, euro area monetary policy tightening could trigger a rapid and disorderly adjustment of financial conditions, heightening risks from real-financial feedback loops. Given the close synchronization of the business cycle with housing market developments, such risks are particularly prevalent for the case of a sharp downturn in house prices that would induce households to cut down on consumption to service their debts. On the upside, the use of large savings accumulated during the pandemic could help cushion private demand, the economy's resilience could surprise on the upside and some of the sources of downside risks could surprise also in the opposite direction.

Authorities' Views

16. The authorities broadly shared staff's assessment of the outlook and risks, though they are more optimistic than staff. In contrast to staff, the authorities see less persistent core inflation and project higher growth at 0.8 to 0.9 percent GDP in 2023. Whereas the authorities forecast a house price decline for 2023 and 2024, they point out that financial risks for households seem smaller than in the aftermath of the Great Financial Crisis, given lower loan-to-value ratios. A house price correction will therefore result in a smaller percentage of homeowners with mortgage debt exceeding their house value, potentially lowering the effects of a house price decline on consumption. They noted that the announced energy price cap will help support consumption in 2023. The authorities were also concerned about potential further supply shocks, risking elevated energy prices in the years to come.

POLICY DISCUSSIONS

While greater public spending to meet medium-term challenges is welcome, a non-expansionary or mildly contractionary fiscal stance in 2023 is warranted given the high inflation, the tight labor market, and the positive output gap. A close monitoring of the housing market and financial risks should continue, while macro prudential policies should avoid a pro-cyclical stance given high macro-financial uncertainty. Structural policies should remain focused on investment in energy security and green technologies, enhancing labor supply, and advancing digitalization.

A. Fiscal Policy to Manage the Cost-of-Living Crisis and Aggregate Demand

17. The 2022 fiscal stance is projected to have been broadly neutral. Staff estimates that the cyclically adjusted deficit stabilized at 1.9 percent in 2022, despite spending to deal with the high cost of living (0.7 percent of GDP) and the green transition (0.8 percent). Reflecting good revenue performance (including higher gas revenue) and lower spending than projected, the 2022 fiscal balance is expected to have been stronger than budgeted (-1.0 percent of GDP compared to -2.4 percent of GDP). Given high inflation, the decline in the fiscal deficit in 2022 is welcome.

Indicators of Fiscal Performance
(Percent of GDP)

	2020	2021	2022 (staff proj.)	2023 (staff proj.)
Level				
Overall balance	-3.7	-2.6	-1.0	-2.8
Cyclically adj balance	-1.2	-1.9	-1.9	-3.5
Structural balance*	2.2	1.6	0.1	-2.1
Change (in percentage points)				
Overall balance	-5.4	1.1	1.6	-1.8
Cyclically adjusted balance	-2.2	-0.8	0.1	-1.7
Structural balance*	1.1	-0.5	-1.6	-2.2

*Cyclically adjusted balance excluding one-offs (pandemic support measures, price ceiling costs...)
Source: Dutch authorities and IMF staff estimations

18. The 2023 budget involves a substantial fiscal stimulus, reflecting additional measures to cushion the impact of high energy prices (Table and Annex I). The 2023 budget added fiscal measures amounting 2.8 percent of GDP, of which 0.4 percent of GDP is offset through revenue measures. In addition, the gas and electricity price cap for small consumers in 2023 will add about 0.8 percentage points of GDP in 2023.[7] While some of the measures are well-targeted, there is some scope for further improvement, especially for the price cap. Ideally, measures that suppress energy prices (like the price cap) should be avoided as they distort price signals and hamper energy savings. The 2023 cyclically adjusted deficit is projected to rise to 3.5 percent of GDP, implying an impulse of 1.7 percentage points of GDP.[8] However, the government has stated its intention to explore additional coverage measures to offset the expected cost of the price cap.

[7] The government announced additional measures, notably the gas and electricity price cap, after the 2023 budget. The estimated cost of the price cap is based on TTF futures in November 2022. The measure will be active from January 1, 2023 to December 31, 2023, and will apply up to a certain level of consumption. A temporary variant was implemented in November and December 2022.

[8] Spending on climate change policy is projected at 0.7 percent of GDP in 2023.

Measures to Cushion High Energy Prices
(Percent of GDP)

	2022	2023
Revenue measures	**0.5**	**0.4**
Tax measures to lower energy prices final users	0.5	0.7
Additional measures vulnerable households		0.1
Other revenue measures in 2023		-0.4
Expenditure measures	**0.6**	**2.0**
Social transfers to households	0.5	1.3
Subsidies to SMEs	0.0	0.7
Additional measures for energy companies	0.1	
Total package Sep-2022	**1.1**	**2.4**
Temporary price cap (net)	0.0	0.3
Gross estimated cost price cap*	0.3	0.8
Restoration energy tax		-0.5
New solidarity levy	-0.3	
Subsidy energy-intensive SMEs (TEK)		0.2
Total package as of Dec-2022	**1.1**	**2.9**

*Includes the price cap variant in Nov-Dec 2022. Final fiscal cost dependent on gas prices in 2023

Source: Dutch authorities and IMF staff calculations

19. **A non-expansionary or mildly contractionary fiscal stance in 2023 is warranted, considering high inflation and the tight labor market.** Keeping the 2023 cyclically adjusted deficit broadly in line with 2022 would entail an adjustment of about 1½ percent of GDP given projected natural gas prices, but uncertainty is high.[9] The proposed adjustment must protect public investment on the medium-term challenges (including climate change, labor markets, housing, and education). It could be achieved through better targeting of the price cap measure, for example by compensating a lower percentage of the population or by significantly reducing the amount of energy consumption at subsidized prices.[10] Doing so will also protect public finances from fiscal risks stemming from high volatility in international energy prices, preserve price signals to a greater

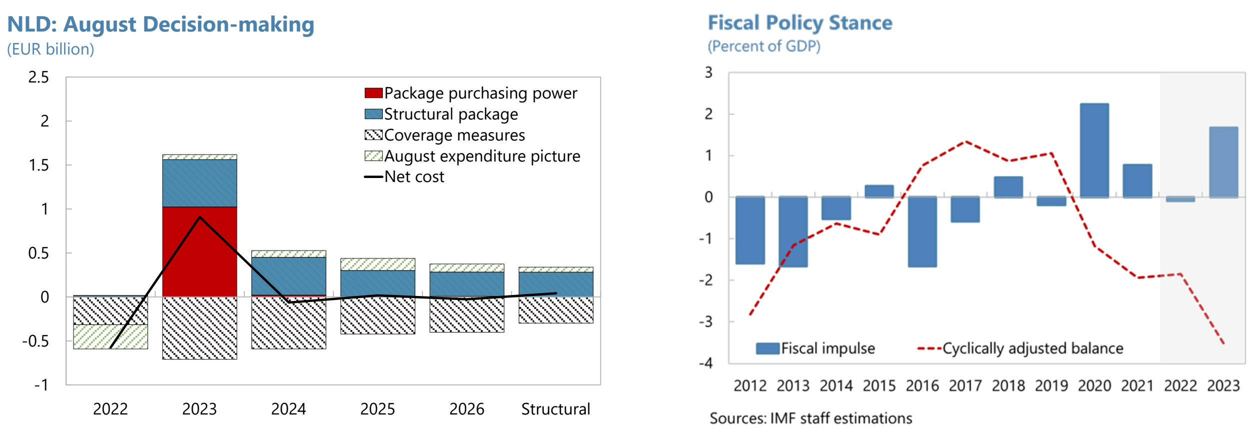
[9] Given the high volatility in international energy prices, the required adjustment may be close to zero if the price cap turns out be non-binding. In contrast, the size of the adjustment could be much higher than 1.6 percent of GDP if international energy prices turn out to be much higher than the level of the price cap.

[10] Arregui, N. et al. "Targeted, Implementable, and Practical Energy Relief Measures for Households in Europe". IMF Working Paper, 2022

extent, and incentivize energy saving. The remaining adjustment could be financed by the contemplated changes to wealth tax and/or one-time solidarity tax increases on high-incomes and businesses. The removal of non-targeted tax measures to lower energy prices (0.5 percent of GDP) and the recently announced temporary solidarity contribution from the fossil fuel sector[11] (expected to yield 0.3 percent of GDP) could help raise much-needed revenue for the large adjustment in these exceptional circumstances. However, ideally, one-off windfall taxes imposed ex-post are not preferred as they undermine tax certainty, can be complex to implement and could be challenged legally. The authorities could also consider devising a permanent, well-designed excess profit tax regime as part of regular corporate taxation.

20. Fiscal policy should remain flexible and evolve if risks materialize. An adverse shock scenario would trigger automatic stabilizers and help reduce economic hardship of households. A negative supply shock, such as the one driven by an adverse evolution of the war in Ukraine which results in stagflation with lower growth but inflation becoming higher and more entrenched, could necessitate a greater fiscal adjustment. On the other hand, materialization of a negative demand shock could call for a more limited fiscal adjustment compared to the baseline, though the bar for discretionary measures would be high unless inflation pressures were to ease substantially. A severe correction in the housing market that could jeopardize financial stability, lower private demand, and inflation, and potentially trigger a deep recession could require discretionary fiscal support.

Figure 9. The Netherlands: Fiscal Policy



Source: Ministry of Finance, 2023 Budget.

Sources: IMF staff estimations

21. The authorities command substantial fiscal space to devote to medium-term challenges. In previous Article IV consultations, staff assessed that fiscal space is available to foster a stronger and greener long-term growth while contributing to reduce external imbalances. Hence, staff welcome the deployment of a Climate and Transition Fund (4 percent of GDP), new spending over two years (about 1 percent of GDP) to support a National Education Plan, and the launch of the National Growth Fund, with R&D and knowledge development as the main targeted areas.

[11] Imposed on excess profits and consistent with the Council regulation (EU) 2022/1854 on an emergency intervention to address high energy prices.

Structural investment and reform plans to allay housing and labor market shortages, reinforce the education system, and advance digitalization also form part of the National Recovery Resilience Plan (Sections B and D).

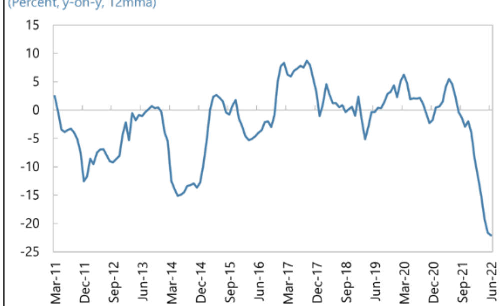
Authorities' Views

22. While taking note of the sound economic analysis behind staff's policy advice, the authorities noted that implementation will be politically difficult. The authorities aim to target cost-of-living support to most vulnerable households and lower middle-income households, but some targeted policies are costly or practically impossible to implement. Nevertheless, the authorities found it necessary to take measures into supporting the households affected by the energy price shock. Moreover, they explained that the price cap is set at a relatively high price, protecting households and a very small number of corporates for situations in which the energy price is multiple of the price levels before the war. They stressed that the purpose of the price cap is to safeguard social cohesion and protect households from unusually high price volatility. They are working on further measures to cover the budgetary costs, which will be announced in the Spring. They are also working on better targeted measures if further support is needed beyond 2023.

B. Energy Security and Climate Policy: Tradeoffs and Synergies

23. The authorities are taking several measures to further energy security and could play an important role in case of gas shortages appearing elsewhere in the EU. With the decision to end production on its main gas field, Groningen, the Netherlands became a net gas importer (Annex VII). To increase security of supply, several measures have been introduced. A new floating LNG terminal at Eemshaven doubled the gas import capacity of the country, benefitting other EU countries. Two new nuclear plants are planned, and KCB's operating life was extended beyond 2033. The authorities have established a 40 percent tax reduction for investments in gas in the North Sea to stimulate exploration and production. In June 2022, the Netherlands and Germany announced they will jointly drill for a new gas field in the North Sea, with gas production expected by end-2024. The authorities have also slowed the decline of gas production from small fields. Energy-intensive companies that comply with an emission reduction target will be partially compensated for indirect costs under the ETS. A scheme to hedge gas prices has been also implemented, supporting gas storage. On the demand side, measures to promote gas savings (by tightening energy savings targets for businesses and lifting output restrictions to coal-fired power stations) and energy efficiency (extension of the National Isolation Program) are in play. No gas shortages are expected in the Netherlands, allowing the country to support other EU countries in emergencies. The energy crisis in Europe has increased the desirability of the Netherlands gas production, the acceleration of the energy mix diversification, and energy savings.

Total Consumption of Natural Gas
(Percent, y-on-y, 12mma)



Source: CBS and IMF staff calculations.

24. While no physical gas shortage is expected for this winter, uncertainty on future supply remains. Even without Russian supply, the Netherlands can continue feeding the domestic economy and complying with export contracts. However, in October 2022, the network operator Gasunie, which is responsible for advising the authorities on how much gas will have to be extracted for security of supply, confirmed that further measures will be needed for the next winter if the supply shock persists. These would include a structural increase in supply, and a structural and significant reduction in demand in combination with network optimizations. Boosting investment in clean energy, part of the RRP, would also enhance energy security.

25. The Netherlands has a comprehensive climate policy framework.

- *The Dutch government presented in June 2022 its Climate Policy Program (CPP), an updated version and amendment of the Climate Plan 2021–30.* The target of a 49 percent reduction in 2030 will be replaced by a target of at least a 55 percent reduction. The CPP includes measures to guarantee standards and pricing (tightening of CO2 tax and introduction of a CO2 minimum price), stimulating and facilitating sustainability (generic subsidy schemes, indirect cost ETS compensation scheme, investments in sustainable infrastructure), making agreements with the largest industrial emitters, stimulating renewable generation from wind and sun, phasing out coal, and reinforcing grid capacity.
- *The National Climate Adaptation Strategy (NAS, 2016) and the Delta Program (DP, 2010) are the center of the Dutch Climate adaptation policy.* The NAS has a multi-sector approach. The DP is set up by all governmental levels in close cooperation and has a multi-level governance approach.

26. The Netherlands is committed to enhancing climate policies.[12] The RRP earmarks 48 percent of its total allocation for the green transition. The mission emphasized past recommendations on climate mitigation. These include reinforcing carbon pricing with feebates, considering country-specific institutional settings; and better aligning carbon prices across sectors to avoid distortions; replacing taxes on residential and industrial electricity with additional surcharges on CO2 emissions from power/generation/district heating and coal generation.

27. Climate adaptation could be further strengthened. While The Netherlands is at the forefront of good practices for climate change adaptation, climate adaptation could be further enhanced by holistically integrating it into long-term planning frameworks of the government. Government actions could further focus on adaptation with large positive externalities (for example, research about climate risks, updating building codes, reinforcing infrastructure, developing early warning systems), removing barriers to private adaptation and dealing with equity (for example, by compensating vulnerable parts of the population that are negatively affected by adaptation policies). The National Adaptation Plan could also benefit from highlighting the cost of market distortions for adaptation.

[12] See Selected Issues Paper on "Climate Mitigation and Adaptation" accompanying the Staff Report.

Authorities' Views

28. The authorities agreed with staff's recommendations. The Netherlands has been able to reverse gas flows from West to East, increasing export capacity, especially to Germany. Recent tax initiatives to strengthen climate mitigation policies include revisions to the carbon dioxide (CO2) levy for industry, an energy tax reform, a CO2 levy for power generation, a car tax reform, and an increase in the air passenger departure tax. Other measures include complementary investments to promote clean technology and reduce nitrogen emissions. Regarding climate adaptation policies, they noted that NAS frames adaptation to climate change as a long-term process, constantly updated to reflect new information. In addition, the revised guidelines for Multi-Year Program for Infrastructure, Spatial Planning, and Transport (MIRT) recommend that adaptation measures be part of the planning and implementation process for all major spatial investments.

C. Housing and Financial Stability

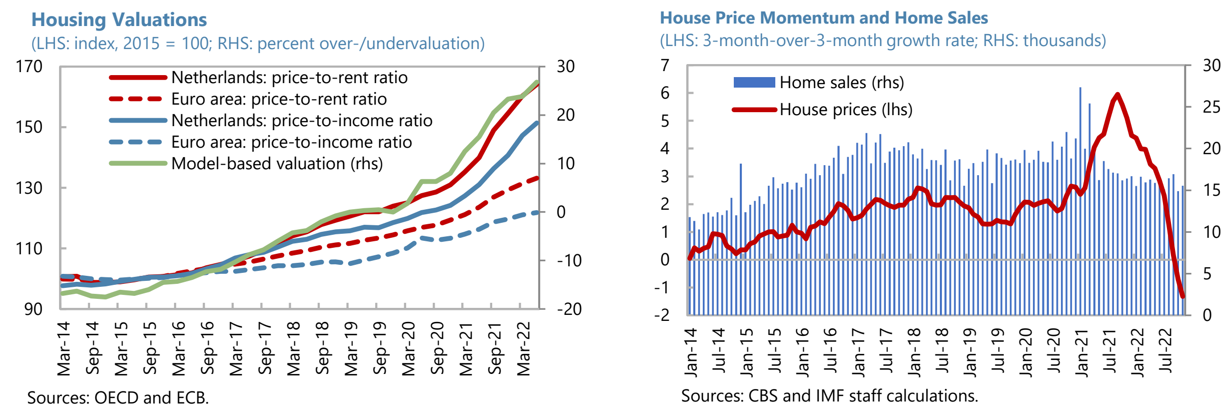
29. The cooling of a richly valued housing market calls for ongoing alertness towards emerging strains and readiness to deploy existing buffers if needed. Recently flagging house price momentum accentuates vulnerabilities from a residential real estate sector deemed overvalued on a broad range of measures (Figure 10). Household indebtedness, at more than 100 percent of GDP, is among the highest in the euro area while a large part of assets is concentrated in (illiquid) pension and insurance claims (Panel Figure 4). With house prices acting as a potential amplifier, this raises the risk of borrower distress in the event of an economic downturn, although the large share of fixed-rate mortgages (more than 90 percent of the total) and long maturities (typically 30 years) provides some comfort.[13] Still, vulnerabilities are heightened by about a quarter of outstanding mortgages facing an interest rate reset in the coming five years, overextended balance sheets of recent home buyers, a prevalence of interest-only mortgages (around two fifths of the total), and debt service to income ratios (DSTIs) becoming more binding for new mortgages due to rising interest rates. In this context, maintaining minimum risk weight floors for mortgage loans (activated in January 2022) until December 1, 2024, is appropriate as it helps stabilize the housing cycle and preserves buffers that should be released to absorb credit losses in the event of a more severe housing market downturn. Likewise, efforts to increase awareness about the risks from interest-only lending among borrowers and lenders are welcome. Structurally, the Dutch housing market remains unbalanced, requiring determined policy intervention.[14] Policy measures should strive to lessen incentives for households to live in highly leveraged, owner-occupied housing. The government's

[13] Against this background, the ESRB issued Recommendation ESRB/2019/7 to the Netherlands in 2019, reflecting concerns about elevated levels of household debt in combination with an overvalued residential real estate market. The ESRB recommendations centered on (i) complementing the recommendation powers of the Dutch Financial Stability Committee with an act or explain mechanism; (ii) tightening LTV limits and amending the setting of DSTI limits; (iii) activating capital-based measures; and (iv) broadening policy action to curb household indebtedness. In February 2022, the ESRB deemed countervailing measures taken by the authorities since then as appropriate but only partially sufficient while noting continuously high vulnerabilities related to residential real estate markets (see ESRB (2022), "Vulnerabilities in the Residential Real Estate Sectors of the EEA Countries", February).

[14] See Selected Issues Paper, "Housing Supply in the Netherlands: The Road to more Affordable Living" accompanying the Staff Report.

program to address housing shortages and ensure affordability contain important elements to tackle underlying imbalances but means-testing for social housing eligibility could be strengthened and the need for expansive rent control should be re-evaluated.

Figure 10. The Netherlands: Housing Market Valuation and Momentum



30. Risks accentuated by the energy crisis and tighter financial conditions require heightened vigilance, closing data gaps and advancing supervisory frameworks. Dutch financial institutions command considerable buffers, providing resilience.[15] Still, non-financial corporate debt of more than 140 percent of GDP, far above the euro area average, could weigh on the balance sheets of financial intermediaries as credit and interest rate risks rise. Likewise, a rapid and disorderly adjustment of yields, accompanied by high financial market volatility and/or an economic downturn, may negate the benefits of interest rate normalization for banks[16] and heighten pressures on non-bank financial institutions (NBFIs).[17] To identify areas of vulnerability at an early stage, continued close monitoring is warranted, also with the help of tailored stress tests. To contain risks among non-bank financial institutions, the authorities should stand ready to deploy existing policy levers, work towards closing data gaps and actively contribute to international efforts to develop macroprudential policy frameworks that comprehensively address non-bank financial sector vulnerabilities. While the diversified nature of the Netherlands' pension funds could mitigate the risk

Macroprudential Policies

	current calibration	notes
Capital-based measures		
Capital conservation buffer	2.5 percent	
Counter-cyclical capital buffer	1.0 percent	May 2022 (announced), May 2023 (effective)
G-SII buffer	1.0 percent	ING
O-SII buffer	1.0-2.5 percent	ABN Amro (1.5 percent), BNG (1.0 percent), ING (2.5 percent), Rabobank (2.0 percent), Volksbank (1.0 percent)
Risk weight floors on IRB mortgage exposures	12 and 45 percent	since 2022; 12 percent risk weight for up to 55 percent of collateral value, 45 percent risk weight beyond
Borrower-based measures		
Maximum LTV for residential mortgages	100 percent	since 2018
Household DSTI ratio	13.0-41.5 percent	adjusted annually
Interest-only mortgages	tax deductibility	since 2013; 30 year amortisation requirement for tax deductibility of mortgage payments
Interest-only mortgages	borrowing limit	maximum 50 percent of property value

Sources: ESRB and national authorities.

[15] For a recent stress test assessing the resilience of Dutch banks to a protracted period of high inflation and further increases in interest rates, see DNB (2022), "Financial Stability Report", pp. 34–36, October.

[16] Analysis by the DNB shows that a (sudden) interest rate shock may not be unequivocally positive for the profitability and capital positions of Dutch banks, see DNB (2022), "Financial Stability Report", pp. 31–33, June.

[17] See, for instance, DNB (2022), "Dutch Pension Funds Sell Record Amount of Assets", September.

of tensions on Liability-Driven Investment Funds, the authorities should continue to integrate lessons from such tensions witnessed outside the Netherlands and maintain close monitoring of the pension funds. Finally, occupational pension reform, currently subject to parliamentary voting, should be completed within the timeframe foreseen. By stabilizing contribution rates and appropriately acknowledging the time value of money, it will contribute to the long-term sustainability of an important pillar of Dutch household wealth.

31. With the financial cycle strenghtening, raising the counter-cyclical capital buffer (CCyB) was appropriate, but high macro-financial uncertainty calls for avoiding a pro-cyclical stance. Nominal credit growth has accelerated. Thus, lifting the CCyB from 0 to 1 percent in May 2022 was appropriate to bring it closer to the 2 percent level considered neutral by DNB (Annex VIII) and to lock-in capital buffers that can be released should financial stability risks materialize. Going forward, pausing a further tightening of capital-based macroprudential measures could be considered in view of a fluid macro-financial environment. Once more clarity about the outlook resumes, the creation of additional capital buffers should be evaluated if the financial cycle continues to strengthen. In the medium term, avenues opened by the continued evolution of the EU macroprudential policy framework, such as the option to introduce sectoral systemic risk buffers with the adoption of the Capital Requirements Directive V (CRDV) and the Capital Requirements Regulation II (CRRII), could be explored to refine and recalibrate the set of policy instruments at the disposal of the Dutch authorities.

Authorities' Views

32. The authorities largely shared staff's assessment of financial sector vulnerabilities and associated policy recommendations. The central bank's stress tests showed no direct financial stability risks from a turn in the housing cycle, although the authorities concurred that the potential second-round effects on the real economy warrant heightened vigilance. While the authorities agreed that any further tightening of the counter-cyclical capital buffer should avoid a pro-cyclical stance given high macro-financial uncertainty, they want to leave the door open to raise it further from the current level of 1 percent, to bring it closer to the 2 percent level considered neutral by the central bank. Risks among NBFIs were judged to be contained, but the authorities acknowledged limitations due to data gaps and constrained policy options owing to insufficiently developed macroprudential policy for NBFIs. Recent tensions on Liability-Driven Investment Funds, as witnessed outside the Netherlands in the second half of 2022, have prompted some NBFIs to review internal risks and stress test their liquidity contingency plans. The authorities believed that the likelihood of such tensions in the Netherlands was limited as the pension funds are diversified through investments in the Euro area.

D. Additional Structural Policies to Enhance Economic and Social Resilience

Labor Markets

33. Further progress in tackling labor market duality could further increase resilience and boost labor participation and productivity. The authorities have taken steps to reduce differences between forms of employment through accelerated phasing out of the self-employed person's tax deduction. Increases in childcare subsidies over the medium term, along with the minimum wage increase in 2023, should help offset rising costs and keep women in the labor force. Ongoing reforms of parental leave, including the expansion of parental birth leave and increasing the childcare allowance, could also facilitate full-time female labor participation. Staff welcomes the RRP's planned reforms to support upskilling and job search and improve social protection for the self-employed, including introducing a mandatory disability insurance. Staff encourage the authorities to continue to realign tax and other incentives across different types of employment to help reduce labor market duality.

Digitalization

34. The renewed emphasis on digitalization would help reduce labor shortages, and support productivity. The Netherlands ranks among the top-performers in Europe on internet access and digitalization (see Figure). This high degree of digitalization served the country well during the COVID-19 crisis. However, shortages of IT professional were reported even before the pandemic, while SMEs need faster adoption of digital technologies.[18] The RRP identifies digitalization as one of the key areas for investment. It allocates 26 percent of the financing to invest in accelerating the digital transition by investing in quantum technology and digital upskilling and improving rail connectivity.

Voluntary Assessment of Transnational Aspects of Corruption[19]

35. The Netherlands continues to develop measures and good practices to combat foreign bribery of public officials, but there are areas requiring improvement (Annex X). The OECD Working Group on Bribery (WGB) highlighted the Netherlands' efforts to raise awareness and re-organizing the enforcement agencies, including through a dedicated institutional framework to streamline investigation and prosecution of foreign bribery cases.[20] At the same time, the WGB reiterated its concerns about the still low number of concluded cases relative to the size and specific

[18]See OECD Economic surveys—Netherlands, June 2021 and EC' 20022 Country report—Netherlands.

[19] In line with the Framework for Enhanced Engagement on Governance, the Netherlands volunteered this year for the coverage of transnational aspects of corruption in its Article IV consultations. The assessment extends to: (i) the anti-bribery regime in relation to bribing of foreign public officials ("supply-side"); and (ii) the AML/CFT safeguards that help mitigate risks of cross-border concealment of the proceed of corruption by public officials ("concealment side").

[20] Information relating to supply-side corruption in this section of the Report draws on the WGB's Phase 4 Report of the Netherlands (2020), the follow up report (2021), and the follow up report (2022).

risk profile of the Dutch economy. Legal changes were also recommended with a view to ensure whistleblower protection.

36. The anti-money laundering framework establishes important safeguards against cross-border concealment of the proceeds of corruption, while there are also shortcomings.[21] Larger banks and some of the other relevant professions servicing international customers, such as trust offices, generally apply sophisticated customer due diligence measures, including for Politically Exposed Persons (PEPs). Understanding of risks and implementation of AML/CFT controls is particularly weak in the non-financial sector, including domicile providers servicing conduit companies. The authorities released an action plan in 2022 to target compliance in the non-financial sector. The identification of beneficial owners in complex international structures poses challenges across both financial and non-financial sectors. In spite of the low number of sentences, the Netherlands has strong money laundering enforcement capacities, including effective confiscation mechanisms.

Capital Taxation

37. Staff welcomes the tax reforms to reduce disparity between effective taxes on different types of incomes and firms (Annex IX). Consideration could be given to a more ambitious reform toward achieving tax neutrality. In this regard, one option would be to eliminate the reduced CIT rate altogether and consider a fundamental reform of Box 2. Other options include either equalizing the sum of the CIT and the distribution tax with the tax in Box 1 or treating Box 2 firms as passthroughs whereby profits are attributed to the owners to be taxed under Box 1. Fundamental reforms are important but can be challenging. Therefore, a less complex option within the current system is to eliminate the reduced CIT rate and the option of borrowing from one's own company including to finance home ownership. These two measures would result in fewer opportunities for tax-motivated behavior.

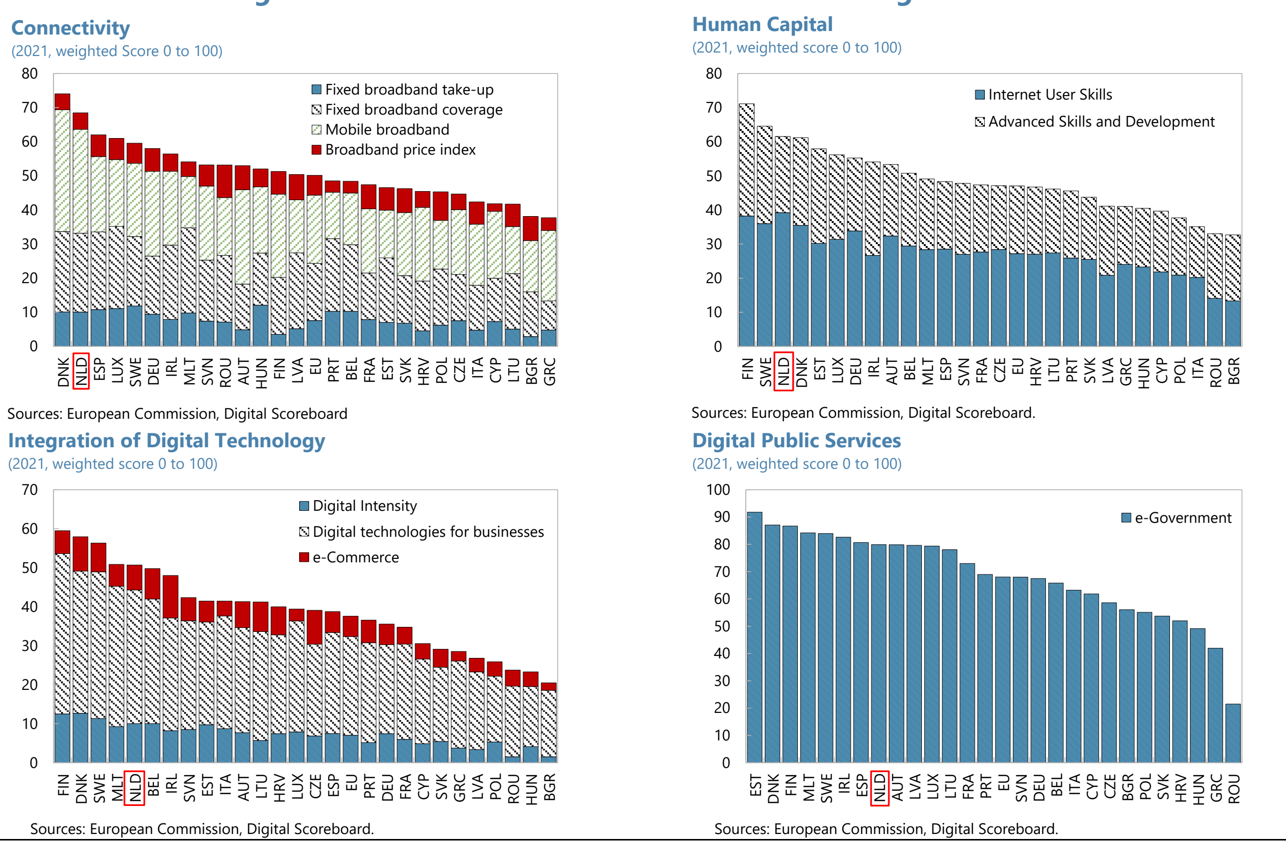
38. Regarding the housing market, tax incentives to buyers could be reformed to help reduce demand of housing. As generous deductions erode up to 90 percent of already under-valued imputed rents in Box 1, mortgage interest deductions in practice exceed the tax on imputed rent. This net housing subsidy favors excessive mortgage financing. A reform option would involve raising the value of imputed rents to market levels through moving housing to Box 3, which together with the planned taxation of actual returns, would achieve less unequitable taxation across different assets. A more uniform taxation of housing would also be possible by increasing the imputed income form housing and reducing the mortgage interest tax relief, without moving the house to box 3.

[21] Information relating to the concealment-side of corruption derives largely from the relevant parts of the 2022 Mutual Evaluation Report of the Netherlands that was conducted by the Financial Action Task Force.

Authorities' Views

39. The authorities agreed that a comprehensive reform package is needed to enhance resilience. They noted that wide-ranging reforms of labor markets and digitalization, including in the RRP, should provide further incentives for labor participation, counter the labor market duality and boost productivity. They stressed that the capital taxation reform would help reduce wealth inequality, thereby enhancing social cohesion. They welcomed the voluntary assessment of supply side corruption and reiterated their commitment to continue to strengthen the AML/CFT framework. Targeted campaigns of the Financial Intelligence Unit helped raise awareness about foreign bribery. In addition, the innovative whistleblower protection regime will further be enhanced through the implementation of the EU directive on that matter.

Figure 11. The Netherlands: Internet Access and Digitalization



STAFF APPRAISAL

40. After showing impressive resilience during and after the pandemic, the Dutch economy was hit by an energy shock caused by Russia's invasion of Ukraine. Following a strong post-pandemic recovery, real GDP returned to its pre-pandemic trend in 2022—a notable achievement. The war in Ukraine poses new challenges, but the Netherlands has suffered a smaller decline in the terms of trade, compared to the rest of the euro area. Growth is projected to slow in 2023, mainly reflecting weaker demand in trading partners, eroded purchasing power, and tighter financial conditions. After peaking in 2022, inflation is expected to moderate in 2023 as the energy price cap is activated, though it remains elevated as does core inflation. Downside risks to growth stem mainly from war-related spillovers and potentially tighter financial conditions though they have recently become more balanced. Risks to inflation are skewed upward. The external position in 2022 is preliminary assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies.

41. Extensive government measures have cushioned the impact of high energy prices, but better targeting is needed. The support package is mostly targeted and mainly consists of social transfers to households and subsidies to SMEs. However, the gas and electricity price cap for consumers in 2023 is not targeted and mutes price signals. Staff welcomes the government's stated intention to explore additional coverage measures to offset the cost of the price cap and make the support more targeted. Furthermore, greater targeting would allow the government to protect public finances from fiscal risks stemming from high volatility in international energy prices, help price signals to operate more freely, and continue to incentivize energy saving.

42. A non-expansionary or modestly contractionary fiscal stance is called for in 2023 to help monetary policy fight inflation, given high inflation and the tight labor market. Such a stance could be secured by better targeting of the price cap and/or specifying additional fiscal measures. For instance, the deficit reduction could be supported by the contemplated changes to wealth tax and/or a one-time solidarity tax increases on high-incomes and businesses. Over the medium term, the authorities could devise a permanent, well-designed excess profit tax regime as part of regular corporate taxation. The fiscal adjustment must protect public investment on the medium-term challenges. The authorities command substantial fiscal space to devote to medium-term challenges, which would also help address external imbalances.

43. Fiscal policy should remain flexible, given high uncertainty. Automatic stabilizers should provide a first line of response to adverse scenarios. However, a negative supply shock could still necessitate a greater fiscal adjustment compared to the baseline as inflation would rise, while a negative demand shock could call for a smaller fiscal adjustment.

44. Measures to enhance energy security and climate policies are commendable. The government's efforts to diversify sources of gas and stimulate exploration and production are welcome steps. Boosting investment in clean energy, part of the NRRP, will also enhance energy security while contributing to the green transition. Staff welcomes the authorities' commitment to enhance climate policies and policies for climate change adaptation.

45. The financial sector has so far weathered the crisis, but close monitoring is warranted given higher risks stemming from the energy crisis and tighter financial conditions. The Dutch financial institutions have considerable capital buffers, thus providing resilience. However, the recent flagging house price momentum heightens vulnerabilities from the housing market. While the increase in the counter-cyclical capital buffer was appropriate, a pro-cyclical stance should be avoided going forward given high uncertainty. In case financial stability risks materialize, capital buffers should be released. Once more clarity about the outlook resumes, the creation of additional capital buffers should be evaluated if the financial cycle continues to strengthen. To fully address vulnerabilities among NBFIs and mitigate the risk of tensions on Liability-Driven Investment Funds, the authorities should continue to maintain close monitoring of the NBFIs, work towards closing data gaps, and improve the supervision of these institutions, also by contributing to international efforts in this area.

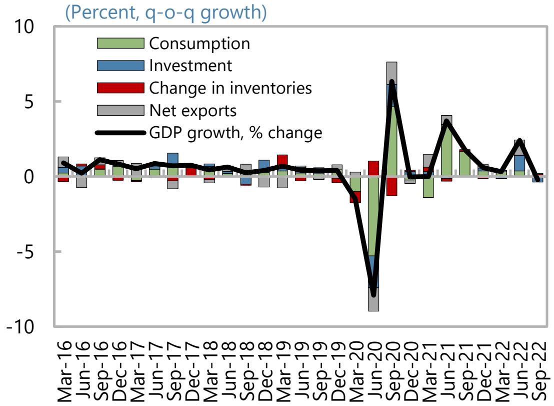
46. The Netherlands should continue to use its ample fiscal space to invest on its medium-term challenges with a view to enhancing economic and social resilience. Staff welcomes spending and policies to advance the green and digital transitions and to tackle structural challenges in housing, labor markets, and the education system. Further progress in reducing labor market duality could enhance resilience and increase labor participation and productivity. Similarly, investment in digitalization would attenuate labor shortages. The ongoing reform of capital taxation and efforts to address the inequality induced by the current tax system are important steps to further strengthen social resilience.

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

Figure 12. The Netherlands: Economic Activity

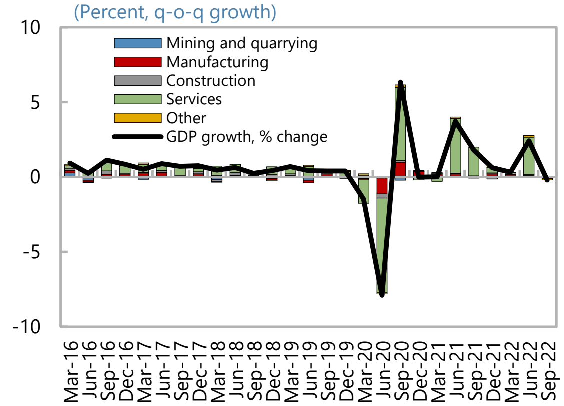
Following strong growth in the first half of 2022, economic activity slowed in Q3...

Contributions to GDP Growth
(Percent, q-o-q growth)



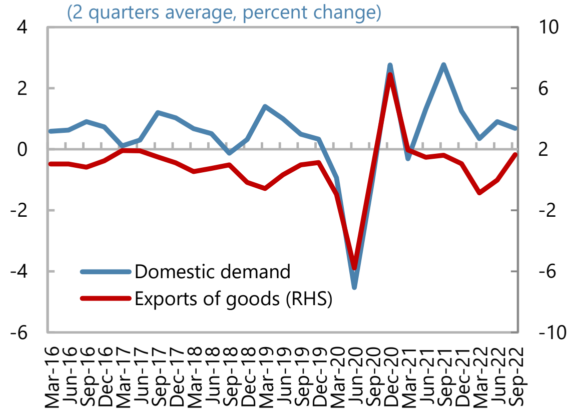
... across all sectors.

Contributions to GDP Growth
(Percent, q-o-q growth)



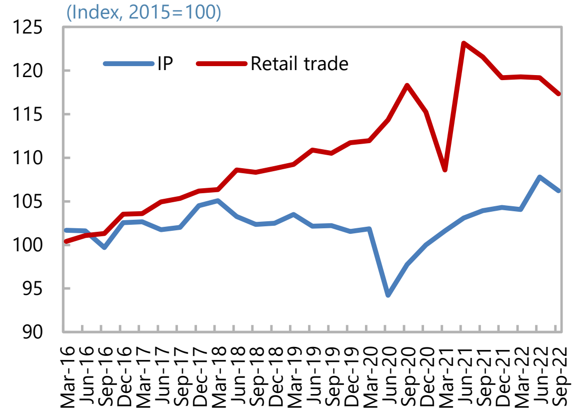
Domestic demand has been slowing recently, along with declining exports...

Domestic and Foreign Demand
(2 quarters average, percent change)



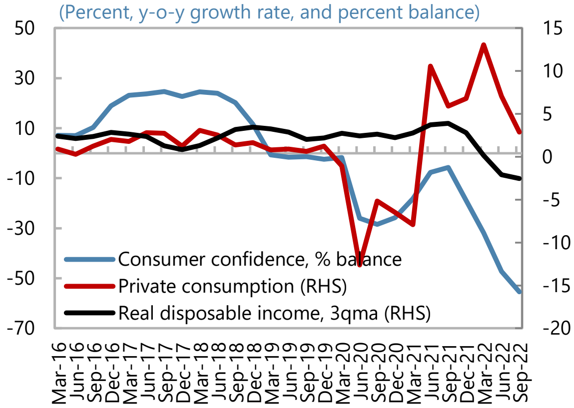
... while retail trade and IP have recovered to pre-pandemic trends.

Industrial Production and Retail Trade Volume
(Index, 2015=100)



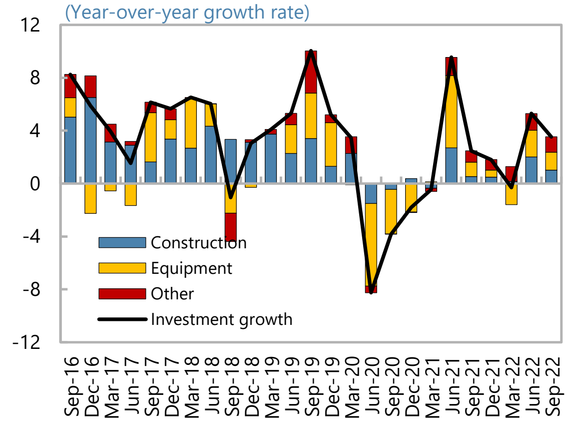
Consumer confidence reached an all-time low amid declining real disposable incomes.

Consumption Indicators
(Percent, y-o-y growth rate, and percent balance)



Investment growth slowed in 2022Q3 on the back of lower construction growth.

Contributions to Investment Growth
(Year-over-year growth rate)

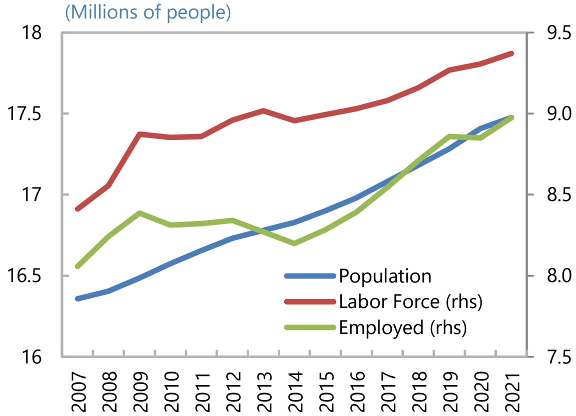


Sources: CBS; DNB; Haver Analytics; and IMF staff calculations.

Figure 13. The Netherlands: Labor Market

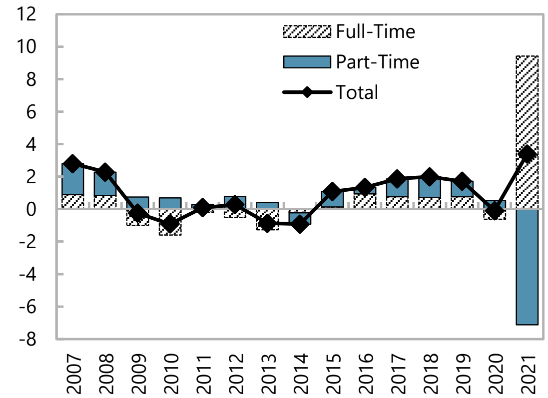
Overall, employment declined only marginally in 2020, and more than recovered in 2021.

Population, Labor Force and Employment
(Millions of people)



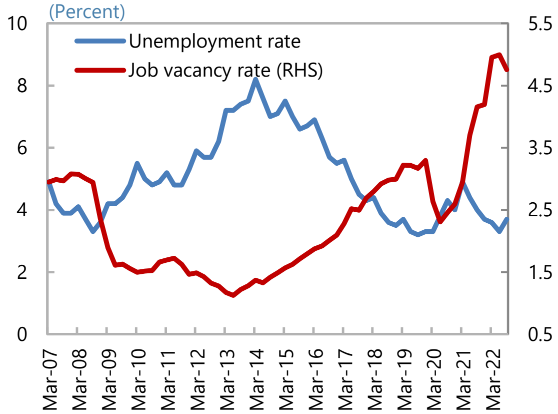
Full-time employment increased in 2021.

Contributions to Total Employment Growth, 15-64
(Percent)



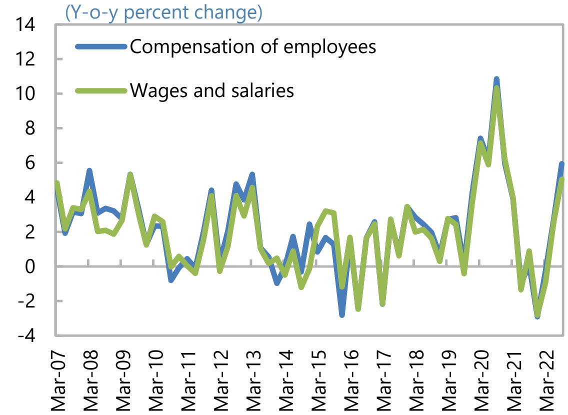
The labor market has tightened considerably, with the unemployment rate at historical low by mid-2022 since early 2000s and high vacancy rate.

Labor Market Tightening Indicators
(Percent)



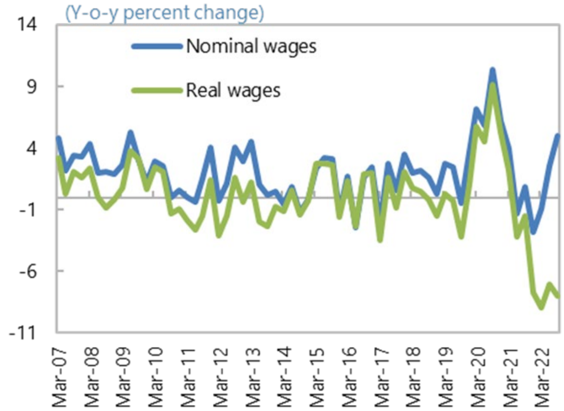
And labor costs have recovered to pre-pandemic levels.

Labor Costs
(Y-o-y percent change)



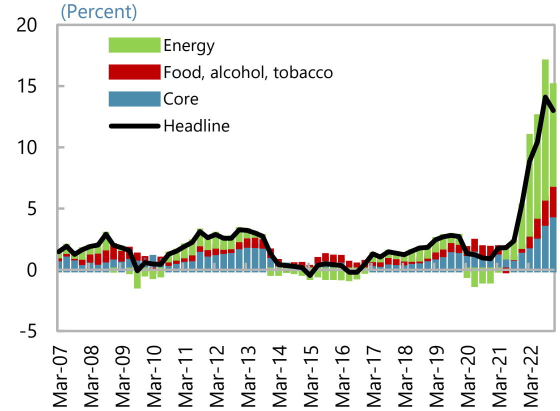
Real wages have fallen due to high inflation…

Wage Growth, Per Hour Worked
(Y-o-y percent change)



…largely driven by energy.

Contributions to Headline Inflation
(Percent)

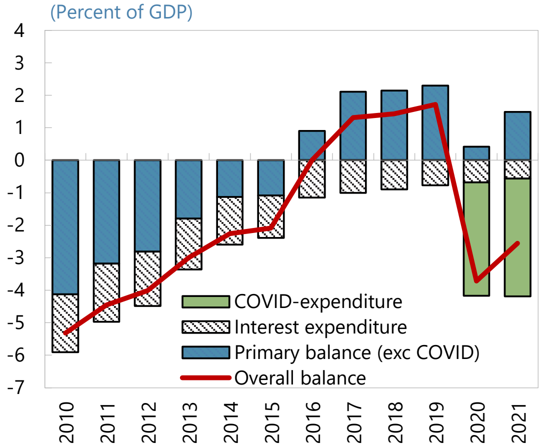


Sources: CBS; Eurostat; OECD; Haver Analytics; and IMF staff calculations.

Figure 14. The Netherlands: Fiscal Developments

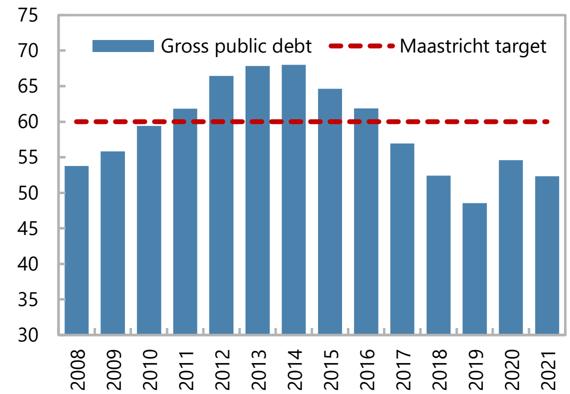
The fiscal balance strongly recovered in 2021, despite the large COVID package in place…

Overall Balance
(Percent of GDP)



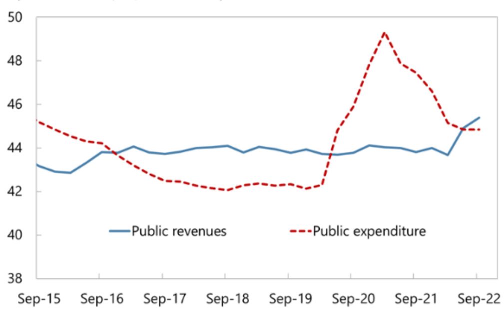
…public debt fell to 52.3 percent of GDP, below pre-pandemic level, supported by positive denominator effects.

Gross Public Debt
(Percent of GDP)



The end of pandemic programs and higher revenues helped a further correction of the deficit in 2022…

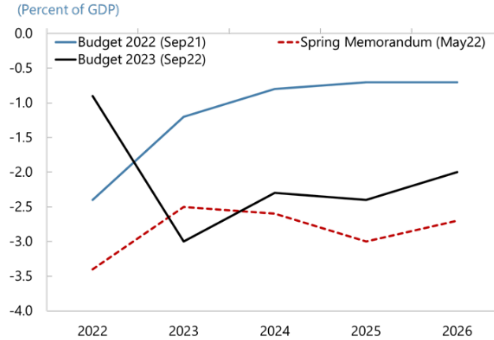
General Government Revenue and Expenditure
(Percent of GDP, 4Q accumulated)



Sources: CBS and IMF staff calculations

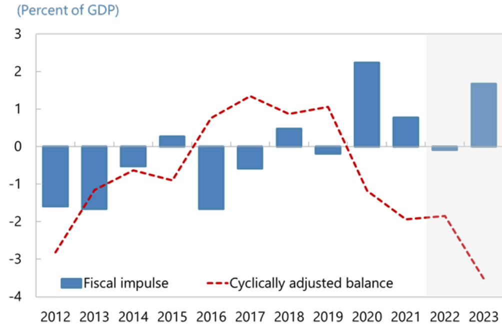
…but the strong policy response to cushion the cost-of-living crisis is expected to deteriorate the deficit in 2023 significantly.

General Government Balance: Authorities Projections
(Percent of GDP)



The strong fiscal impulse is expected to deteriorate further the structural balance in 2023…

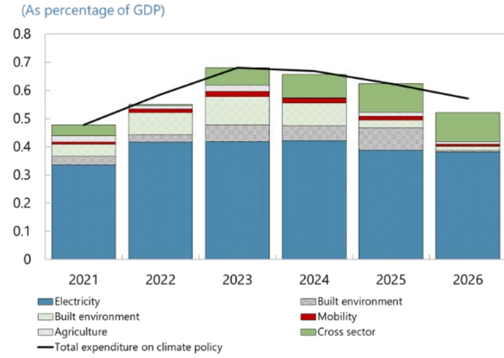
Fiscal Policy Stance
(Percent of GDP)



Sources: IMF staff estimations

…in a context of the need to promote investments aligned with the climate policy agenda.

Projected Climate Expenditure
(As percentage of GDP)

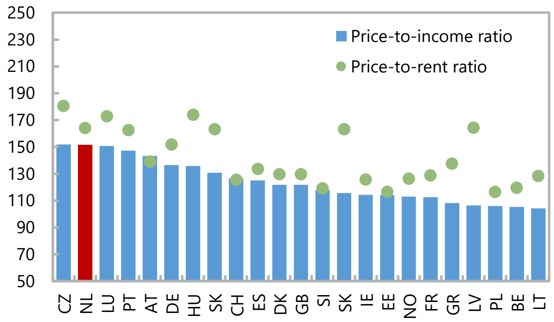


Sources: CBS; CPB; Dutch Ministry of Finance; Eurostat; and IMF staff calculations.

Figure 15. The Netherlands: Financial Sector Developments

Housing remains among the least affordable and the most richly valued in Europe…

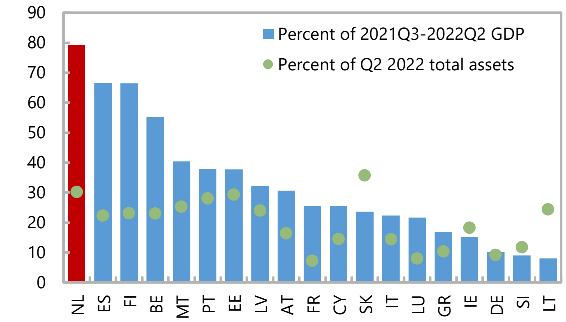
Housing Valuations, Q2 2022
(Index, 2015 = 100)



Source: OECD.

…while banks maintain a high exposure to residential mortgages.

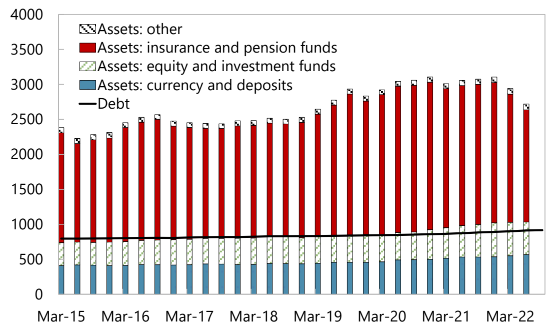
Residential Mortgage Loan Exposures of Banks, Q2 2022
(Percent)



Sources: EBA and IMF staff calculations.

Although financial assets of households far surpass their debt, a large share is concentrated in illiquid instruments…

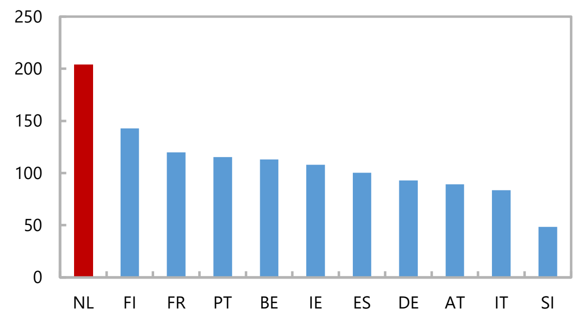
Household Debt and Financial Assets
(EUR billion)



Sources: CBS and ECB.

…heightening risks from prolonged house price declines, particularly if coupled with an economic downturn.

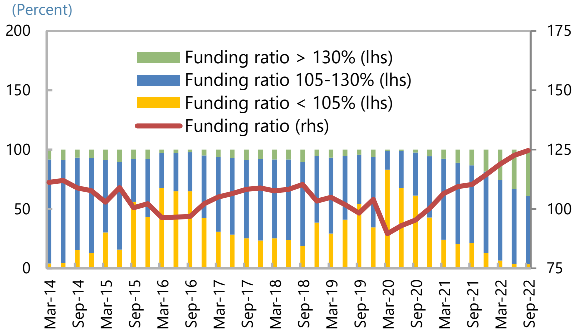
Household Debt to Gross Disposable Income, 2021
(Percent)



Sources: ECB; Eurostat; and IMF staff calculations.

Financial market developments have helped the aggregate funding ratios of occupational pension funds recover…

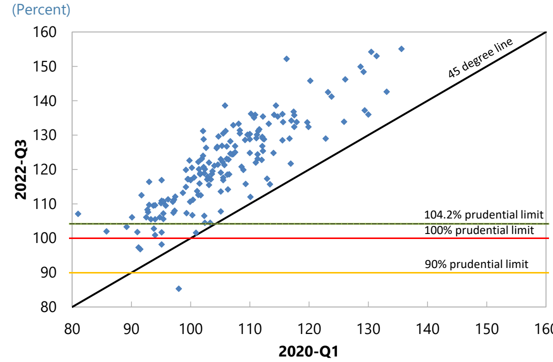
Pension Fund Funding Ratios
(Percent)



Source: DNB.

…with most providers surpassing regulatory limits in 2022Q3 for the first time in many years.

Policy Funding Ratios of Dutch Pension Funds
(Percent)



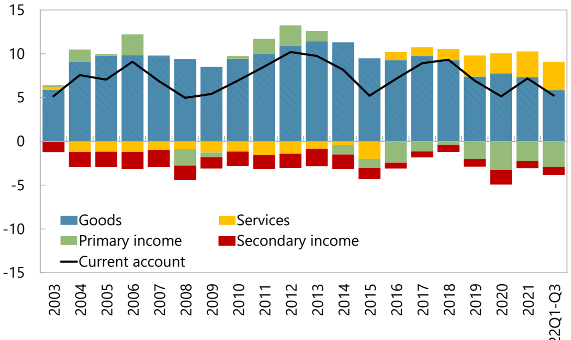
Source: DNB.

Figure 16. The Netherlands: External Sector Developments

The current account surplus declined in 2022Q1–Q3, reflecting deteriorating trade and income balances…

Current Account

(Percent of GDP)

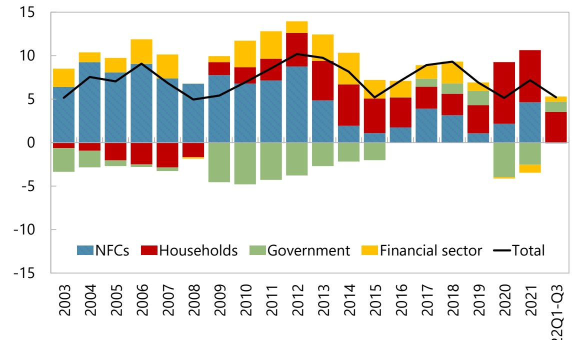


Sources: CBS; Eurostat; IMF BOP database; and IMF staff calculations.

…mainly on the back of worsening savings-investment balances of households and non-financial corporations.

Saving-Investment Balance

(Percent of GDP)

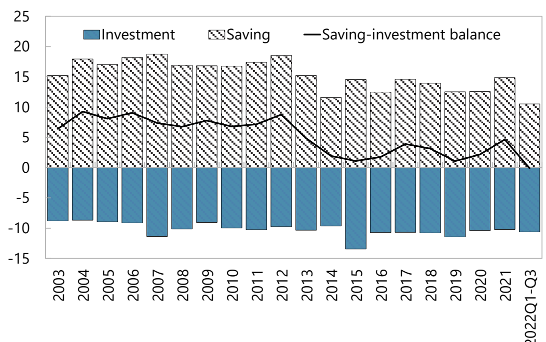


Sources: CBS; Eurostat; and IMF staff calculations.

Cost pressures reduced corporate profitability and savings while investment stayed strong.

NFCs: Saving and Investment

(Percent of GDP)

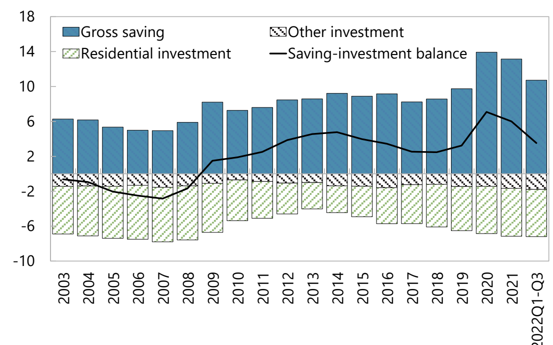


Sources: CBS; Eurostat; and IMF staff calculations.

Reflecting elevated inflation, household savings declined yet remained above their pre-pandemic levels.

Household: Saving and Investment

(Percent of GDP)

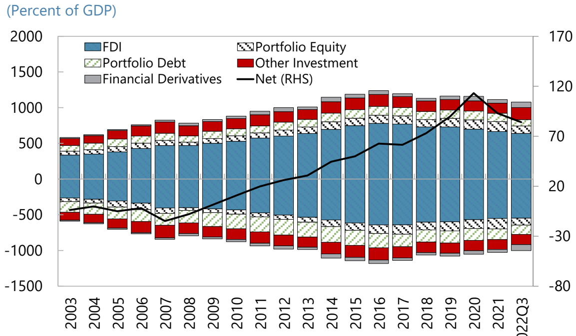


Sources: CBS; Eurostat; and IMF staff calculations.

The net IIP declined, mainly driven by net portfolio investment and financial derivate positions.

External Assets and Liabilities

(Percent of GDP)

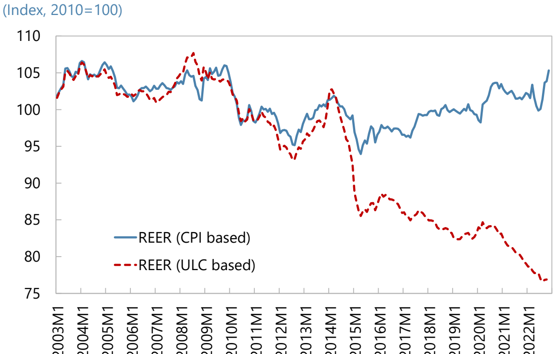


Note: Positive numbers are assets; negative are liabilities.
Sources: CBS; DNB; and IMF staff calculations.

While the CPI-based REER continued to increase, the ULC-based REER has remained on a declining trend.

Real Effective Exchange Rate

(Index, 2010=100)



Source: IMF.

Table 1. The Netherlands: Medium-Term Macroeconomic Framework, 2019–28
(Growth Rates, in Percent, unless otherwise indicated)

	2019	2020	2021	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
National Accounts										
Real GDP	2.0	-3.9	4.9	4.2	0.6	1.2	1.6	1.6	1.5	1.6
Domestic demand	3.0	-4.2	3.9	3.3	1.7	1.6	1.8	1.8	1.8	1.8
Private consumption	0.9	-6.4	3.6	5.7	0.8	1.3	1.9	1.8	1.9	1.9
Public Consumption	2.8	1.6	5.2	0.6	3.1	2.3	1.6	1.6	1.6	1.6
Gross fixed investment (total)	6.2	-2.6	3.2	2.7	0.9	1.5	1.9	2.0	1.8	1.8
Public	1.9	4.6	-2.0	-3.4	2.0	2.0	3.0	3.1	1.0	1.0
Private	7.0	-4.0	4.3	4.0	0.7	1.4	1.7	1.8	2.0	2.0
Residential	3.4	-0.7	3.3	0.0	-0.5	1.0	1.8	1.8	2.0	2.0
Business	8.5	-5.3	4.7	5.5	1.1	1.5	1.7	1.8	1.9	1.9
Stocks (contribution to GDP growth)	0.4	-0.9	0.0	-0.2	0.2	0.0	0.0	0.0	0.0	0.0
Exports goods and services	2.0	-4.3	5.4	4.3	2.0	3.0	3.3	3.3	3.3	3.2
Imports goods and services	3.3	-4.7	4.4	3.2	3.5	3.8	3.7	3.8	3.8	3.6
Domestic demand (contribution to GDP growth)	2.7	-3.8	3.6	2.9	1.5	1.5	1.6	1.6	1.6	1.6
External demand (contribution to GDP growth)	-0.8	-0.1	1.3	1.3	-0.9	-0.3	-0.1	-0.1	-0.1	0.0
Output gap	0.6	-4.2	-1.1	1.5	1.2	1.1	0.9	0.6	0.2	0.0
Potential output growth	2.1	0.9	1.6	1.6	0.9	1.3	1.8	1.9	1.9	1.8
Gross investment (percent of GDP)	22.1	21.8	21.5	21.4	21.4	21.4	21.4	21.5	21.5	21.6
Gross national saving (percent of GDP) 1/	29.0	26.9	28.6	27.0	27.6	27.5	27.4	27.4	27.3	27.2
Prices and Employment										
Consumer price index (headline, period avg.)	2.7	1.1	2.8	11.6	4.8	3.9	2.6	2.0	2.0	2.0
Consumer price index (headline, eop.)	2.6	0.8	6.3	11.0	1.7	3.7	2.5	2.0	2.0	2.0
Consumer price index (core, period avg.)	2.2	2.1	1.6	5.5	7.2	4.6	3.4	2.0	2.0	2.0
Consumer price index (core, eop.)	2.2	1.9	2.2	7.1	5.8	4.1	3.0	2.0	2.0	2.0
GDP deflator	3.0	2.0	2.5	6.1	5.0	4.0	2.7	2.1	2.0	2.0
Employment	2.0	0.0	1.5	1.9	0.2	0.4	0.2	0.3	0.3	0.2
Unemployment rate (percent) 2/	4.4	4.9	4.2	3.7	4.1	4.2	4.5	4.7	4.9	5.2
External										
Current account balance (percent of GDP)	6.9	5.1	7.2	5.5	6.2	6.1	6.0	5.9	5.7	5.7
Public Sector Accounts (Percent of GDP)										
Revenue	43.7	44.1	44.0	44.0	43.8	43.3	43.3	43.4	43.2	43.2
Expenditure	42.0	47.9	46.6	45.0	46.6	45.1	44.8	44.7	44.7	44.6
General government balance	1.7	-3.7	-2.6	-1.0	-2.8	-1.8	-1.5	-1.3	-1.5	-1.4
Structural balance (percent of potential GDP) 3/	1.1	2.2	1.6	0.1	-2.1	-2.4	-2.0	-1.7	-1.6	-1.4
Cyclically-adjusted balance (percent of potential GDP)	1.1	-1.2	-1.9	-1.9	-3.5	-2.4	-2.0	-1.7	-1.6	-1.4
General government debt	48.5	54.6	52.3	48.3	48.5	47.9	47.4	46.9	46.6	46.4

Sources: Dutch official publications, International Monetary Fund, International Financial Statistics, and IMF staff calculations.
1/ Value implied by investment and current account data.
2/ ILO definition.
3/ Structural balance excludes one-offs such as pandemic support and the price-cap measures.

Table 2a. The Netherlands: General Government Statement of Operations, 2019–28
(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	43.7	44.1	44.0	44.0	43.8	43.3	43.3	43.4	43.2	43.2
Taxes	25.4	25.8	26.1	25.6	25.5	25.7	25.8	25.9	25.9	25.8
Taxes on production and imports	12.0	12.3	12.3	11.7	11.6	12.4	12.5	12.5	12.5	12.5
Current taxes on income, wealth, etc.	13.2	13.2	13.5	13.7	13.0	13.0	13.0	13.1	13.1	13.0
Capital taxes	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Social contributions	13.9	14.1	13.6	13.1	13.0	13.0	13.1	13.1	13.0	13.1
Grants	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Other revenue	4.3	4.1	4.2	5.3	5.1	4.5	4.3	4.3	4.3	4.4
Expenditure	42.0	47.9	46.6	45.0	46.6	45.1	44.8	44.7	44.7	44.6
Expense	41.9	47.6	46.5	44.9	46.3	44.8	44.5	44.4	44.4	44.4
Compensation of employees	8.2	8.9	8.6	8.2	8.3	8.2	8.2	8.1	7.9	7.7
Use of goods and services	6.0	6.4	6.6	6.4	6.4	6.4	6.3	6.2	6.2	6.2
Consumption of fixed capital	3.0	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Interest	0.8	0.7	0.6	0.5	0.5	0.6	0.7	0.8	0.8	0.8
Subsidies	1.2	4.3	3.5	3.3	3.1	3.1	3.1	3.1	3.1	3.1
Grants	1.2	1.3	1.2	1.1	1.0	1.0	0.9	0.9	0.8	0.8
Social benefits	20.8	21.8	21.6	21.0	22.1	21.5	21.3	21.4	21.6	21.8
Other expense	0.7	1.1	1.4	1.3	1.8	1.0	0.9	0.9	0.9	0.9
Net acquisition of nonfinancial assets	0.1	0.2	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Net Operating Balance	1.8	-3.5	-2.5	-0.9	-2.5	-1.5	-1.2	-1.1	-1.2	-1.1
Net Lending/Borrowing	1.7	-3.7	-2.6	-1.0	-2.8	-1.8	-1.5	-1.3	-1.5	-1.4
Net Acquisition of Financial Assets	0.1	2.2	0.2	…	…	…	…	…	…	…
Currency and deposits	0.1	0.7	-0.7	…	…	…	…	…	…	…
Securities other than shares	-0.2	-0.1	0.1	…	…	…	…	…	…	…
Loans	0.2	0.6	0.4	…	…	…	…	…	…	…
Shares and other equity	0.1	-0.6	0.0	…	…	…	…	…	…	…
Insurance technical reserves	0.0	0.0	0.0	…	…	…	…	…	…	…
Financial derivatives	-0.1	-0.6	-0.3	…	…	…	…	…	…	…
Other accounts receivable	0.0	2.3	0.7	…	…	…	…	…	…	…
Net Incurrence of Liabilities	-1.6	5.9	2.7	…	…	…	…	…	…	…
Special Drawing Rights (SDRs)	0.0	0.0	0.0	…	…	…	…	…	…	…
Currency and deposits	0.0	0.0	0.1	…	…	…	…	…	…	…
Securities other than shares	-1.5	5.9	2.5	…	…	…	…	…	…	…
Loans	0.2	-0.7	-0.3	…	…	…	…	…	…	…
Shares and other equity	0.0	0.0	0.0	…	…	…	…	…	…	…
Insurance technical reserves	0.0	0.0	0.0	…	…	…	…	…	…	…
Financial derivatives	0.0	0.0	0.0	…	…	…	…	…	…	…
Other accounts payable	-0.3	0.7	0.4	…	…	…	…	…	…	…
Memorandum Items										
Primary balance	2.3	-3.2	-2.2	-0.9	-3.0	-1.9	-1.4	-1.1	-1.2	-1.1
Structural balance (percent of potential GDP) 1/	1.1	2.2	1.6	0.1	-2.1	-2.4	-2.0	-1.7	-1.6	-1.4
Structural primary balance (percent of potential GDP)	1.8	2.8	2.2	0.6	-1.6	-1.9	-1.3	-0.9	-0.7	-0.6
Cyclically-adjusted balance (percent of potential GDP)	1.1	-1.2	-1.9	-1.9	-3.5	-2.4	-2.0	-1.7	-1.6	-1.4
Gross Debt	48.5	54.6	52.3	48.3	48.5	47.9	47.4	46.9	46.6	46.4
Output gap	0.6	-4.2	-1.1	1.5	1.2	1.1	0.9	0.6	0.2	0.0
Nominal GDP (billions of euros)	813.1	796.5	856.4	947.3	1000.4	1052.1	1097.0	1137.3	1178.1	1220.8
Nominal GDP growth (percent)	5.0	-2.0	7.5	10.6	5.6	5.2	4.3	3.7	3.6	3.6
Real GDP growth (percent)	2.0	-3.9	4.9	4.2	0.6	1.2	1.6	1.6	1.5	1.6
GDP deflator growth (percent)	3.0	2.0	2.5	6.1	5.0	4.0	2.7	2.1	2.0	2.0

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

1/ Structural balance excludes one-offs such as pandemic support and the price-cap measures.

Table 2b. The Netherlands: General Government Statement of Operations, 2019–28

(Billions of Euros)

	2019	2020	2021	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
Revenue	355.6	351.6	376.7	416.8	438.4	455.7	475.4	493.3	509.1	527.5
Taxes	206.4	205.2	223.5	242.9	255.6	269.9	282.9	294.4	305.0	314.6
Taxes on production and imports	97.5	98.1	105.5	110.7	116.2	130.9	137.3	142.1	147.0	152.1
Current taxes on income, wealth, etc.	107.1	105.1	115.5	129.8	130.4	136.4	142.7	149.2	154.6	158.9
Capital taxes	1.8	2.1	2.5	2.4	2.5	2.6	2.9	3.2	3.4	3.7
Social contributions	113.2	112.5	116.4	123.7	130.5	137.2	143.9	148.7	152.9	159.3
Grants	1.1	1.0	1.0	0.0	1.2	1.2	1.2	1.2	0.0	0.0
Other revenue	35.0	32.8	35.8	50.2	51.1	47.5	47.5	49.0	51.1	53.5
Expenditure	341.6	381.2	398.9	426.1	466.3	474.5	491.3	508.6	526.3	544.9
Expense	340.8	379.3	398.2	425.2	463.5	471.4	488.2	505.3	522.9	541.4
Compensation of employees	67.0	70.7	73.4	77.6	82.6	86.7	90.3	92.0	93.2	94.3
Use of goods and services	48.7	50.7	56.2	61.0	64.4	67.8	69.0	70.8	72.6	75.3
Consumption of fixed capital	24.6	25.4	26.5	29.3	31.0	32.6	34.0	35.2	36.5	37.8
Interest	6.2	5.4	4.9	4.9	4.9	5.8	7.3	8.8	10.0	10.3
Subsidies	9.7	34.3	30.2	31.0	30.8	32.2	33.6	34.8	36.1	37.4
Grants	9.4	10.2	10.2	10.2	10.1	10.0	9.9	9.8	9.7	9.6
Social benefits	169.2	173.8	185.3	199.2	221.3	226.4	233.9	243.5	254.2	265.9
Other expense	5.9	8.8	11.6	12.0	18.2	10.0	10.2	10.4	10.6	10.9
Net acquisition of nonfinancial assets	0.8	1.8	0.7	0.8	2.9	3.0	3.1	3.3	3.4	3.5
Net Operating Balance	14.8	-27.7	-21.4	-8.4	-25.1	-15.7	-12.8	-12.0	-13.8	-13.9
Net Lending/Borrowing	14.0	-29.6	-22.2	-9.2	-28.0	-18.7	-15.9	-15.3	-17.2	-17.4
Net Acquisition of Financial Assets	1.2	17.7	1.3	...	...	...	...	...	...	...
Currency and deposits	0.6	5.7	-6.1	...	...	...	...	...	...	...
Securities other than shares	-1.5	-0.7	0.9	...	...	...	...	...	...	...
Loans	2.0	4.4	3.0	...	...	...	...	...	...	...
Shares and other equity	0.6	-4.6	0.2	...	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	...	...	...	...	...	...	...
Financial derivatives	-0.8	-5.1	-2.4	...	...	...	...	...	...	...
Other accounts receivable	0.2	18.0	5.6	...	...	...	...	...	...	...
Net Incurrence of Liabilities	-12.7	47.2	23.2	...	...	...	...	...	...	...
Special Drawing Rights (SDRs)	0.0	0.0	0.0	...	...	...	...	...	...	...
Currency and deposits	0.1	-0.1	0.8	...	...	...	...	...	...	...
Securities other than shares	-12.5	46.9	21.6	...	...	...	...	...	...	...
Loans	1.9	-5.3	-2.9	...	...	...	...	...	...	...
Shares and other equity	0.0	0.0	0.0	...	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	...	...	...	...	...	...	...
Financial derivatives	0.0	0.0	0.0	...	...	...	...	...	...	...
Other accounts payable	-2.2	5.7	3.7	...	...	...	...	...	...	...
Memorandum Items										
Primary balance	18.6	-25.5	-18.8	-8.4	-30.2	-19.9	-15.2	-12.8	-13.7	-13.7
Gross Debt	394.6	434.8	448.1	457.4	485.4	504.0	519.6	533.9	549.5	565.9
Nominal GDP (Euro bill.)	813.1	796.5	856.4	947.3	1000.4	1052.1	1097.0	1137.3	1178.1	1220.8

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

Table 2c. The Netherlands: General Government Integrated Balance Sheet, 2013–21
(Percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Worth	18.9	14.9	14.9	15.1	19.0	21.5	24.4	...	...
Nonfinancial assets	61.1	60.5	59.1	57.7	56.7	55.9	54.9	...	...
Net Financial Worth	-42.2	-45.5	-44.1	-42.6	-37.6	-34.3	-30.6	-35.6	-34.2
Financial assets	36.8	37.9	35.5	35.1	33.3	31.8	31.7	34.4	32.4
Currency and deposits	2.0	1.8	1.7	1.8	2.0	1.8	1.8	2.6	1.7
Securities other than shares	2.1	1.4	1.3	1.2	1.0	1.1	0.9	0.8	0.9
Loans	9.7	9.6	8.4	7.4	7.3	7.2	7.1	7.8	7.6
Shares and other equity	13.5	13.6	14.3	14.6	14.0	13.3	13.8	13.7	12.9
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	1.5	3.5	2.6	2.2	1.6	1.1	1.2	0.8	0.4
Other accounts receivable	7.9	8.0	7.3	7.9	7.4	7.3	6.9	8.8	8.9
Liabilities	79.0	83.4	79.7	77.7	70.9	66.1	62.3	70.1	66.5
Special Drawing Rights (SDRs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.2	0.2	0.3	0.6	0.3	0.2	0.2	0.2	0.3
Securities other than shares	57.5	62.3	58.6	57.2	52.3	48.8	45.9	53.3	50.7
Loans	14.7	14.3	13.8	13.1	11.6	10.4	10.2	9.7	8.7
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	6.6	6.6	7.0	6.8	6.7	6.7	6.1	6.9	6.8

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

Table 3. The Netherlands: External Sector, 2019–28
(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
Balance on Current Account	6.9	5.1	7.2	5.5	6.2	6.1	6.0	5.9	5.7	5.7
Trade Balance	7.4	7.7	7.3	7.2	6.7	6.0	5.5	5.1	4.6	4.1
Exports of goods	60.3	57.6	64.0	70.0	68.5	68.0	68.1	68.5	68.9	69.3
Imports of goods	52.9	49.9	56.7	62.8	61.7	62.0	62.6	63.4	64.3	65.2
Service Balance	2.4	2.3	3.0	2.7	2.7	3.0	3.3	3.5	3.7	3.9
Exports of services	22.2	20.6	18.9	19.0	18.8	19.7	19.8	20.0	20.2	20.4
Imports of services	19.8	18.3	16.0	16.2	16.2	16.7	16.6	16.5	16.5	16.5
Factor Income	-2.0	-3.3	-2.2	-3.1	-2.0	-1.7	-1.6	-1.4	-1.3	-1.2
Current transfers, net	-0.9	-1.7	-0.8	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Balance on Capital Account	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Balance on Financial Account	7.1	4.5	6.9	5.6	6.3	6.1	6.0	5.9	5.8	5.7
Direct investment, net	-0.8	-10.1	9.9	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Direct investment abroad	-2.5	-33.9	-4.5	14.0	14.0	14.0	14.0	14.0	14.0	14.0
FDI in Netherlands	-1.7	-23.9	-14.4	12.6	12.6	12.6	12.6	12.6	12.6	12.6
Portfolio investment, net	4.2	21.7	-9.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Financial derivatives	-0.9	-2.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	4.5	-4.6	4.3	2.6	3.6	3.5	3.5	3.4	3.3	3.2
Reserve assets	0.1	0.0	1.2	0.6	0.4	0.3	0.3	0.2	0.2	0.2
Errors and Omissions, Net	0.2	-0.6	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: DNB and IMF staff calculations.

Table 4. The Netherlands: Monetary Survey, 2015–2021

	2015	2016	2017	2018	2019	2020	2021
	(Billions of Euros, end of period)						
Net Foreign Assets	210.4	207.8	183.4	218.3	267.1	284.2	283.9
Claims on nonresidents	951.4	979.0	919.0	931.5	943.3	898.7	951.4
Central Bank	118.8	153.1	127.0	150.9	101.5	92.2	65.7
Other Depository Corporations	832.6	825.9	792.1	780.6	841.7	806.5	885.7
Liabilities to Nonresidents	-741.0	-771.2	-735.7	-713.2	-676.2	-614.4	-667.5
Central Bank	-10.2	-27.6	-43.4	-69.0	-48.1	-60.2	-69.7
Other Depository Corporations	-730.8	-743.6	-692.3	-644.2	-628.0	-554.2	-597.8
Net Domestic Assets	1321.1	1375.9	1317.4	1278.5	1337.1	1399.4	1425.5
Net Claims on Central Government	73.6	102.5	116.4	111.7	103.8	121.9	160.5
Claims on State and Local Government	49.6	47.2	47.6	49.1	50.9	49.5	49.2
Claims on Public Nonfinancial Corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on NBFIs	517.4	506.7	422.1	390.1	440.3	474.9	468.7
Claims on private sector	770.0	811.6	820.4	816.4	818.5	819.3	837.0
Corporates	319.3	311.9	305.7	305.6	297.1	284.3	288.6
Households	450.8	499.7	514.7	510.9	521.4	535.0	548.4
Capital and Reserves (-)	147.3	160.6	163.1	169.6	176.9	185.5	194.3
Other items, net (-, including discrepancy)	-57.8	-68.6	-73.9	-80.6	-100.5	-119.2	-104.4
Broad Money	755.2	772.2	789.5	789.6	827.6	908.8	982.5
Currency in Circulation	55.6	58.1	60.3	63.2	68.5	76.7	82.9
Transferable Deposits	298.8	264.4	289.3	279.9	308.2	372.2	438.3
Other Deposits	390.7	436.6	436.4	436.2	443.4	455.3	460.4
Securities	10.1	13.2	3.5	10.3	7.5	4.6	0.9
Other Liabilities	776.3	811.5	711.2	707.2	776.6	774.8	726.8
	(Annual percentage change)						
Net Foreign Assets	6.0	-1.3	-11.7	19.0	22.4	6.4	-0.1
Net Domestic Assets	-2.9	4.1	-4.3	-3.0	4.6	4.7	1.9
Claims on private sector	-1.5	5.4	1.1	-0.5	0.2	0.1	2.2
Corporates	-8.8	-2.3	-2.0	0.0	-2.8	-4.3	1.5
Households	4.4	10.9	3.0	-0.7	2.1	2.6	2.5
Broad Money	-0.3	2.3	2.2	0.0	4.8	9.8	8.1
	(Billions of U.S. dollars, end of period)						
Net Foreign Assets	228.9	219.0	217.0	248.5	296.8	345.9	320.9
Net Domestic Assets	1437.0	1450.6	1559.3	1455.5	1485.9	1703.0	1611.3
Claims on private sector	837.6	855.6	971.0	929.5	909.6	997.1	946.1
Corporates	347.3	328.8	361.8	347.9	330.2	346.0	326.2
Households	490.3	526.8	609.2	581.6	579.4	651.1	619.9
Memorandum Items:							
Velocity (GDP/Broad Money)	0.9	0.9	0.9	1.0	1.0	0.9	0.9
Euros per U.S. dollar (end of period)	0.9	0.9	0.8	0.9	0.9	0.8	0.9

Sources: International Financial Statistics and IMF Staff.

Table 5. The Netherlands: Financial Soundness Indicators, 2015–2021

	2015	2016	2017	2018	2019	2020	2021
Core FSIs							
Regulatory capital to risk-weighted assets	20.1	22.4	22.0	22.3	22.9	22.8	22.4
Tier 1 capital to risk-weighted assets	16.2	17.7	18.4	18.8	18.9	19.3	19.3
Common Equity Tier 1 capital to risk-weighted assets	...	...	...	...	16.8	17.4	17.4
Nonperforming loans to total gross loans	2.7	2.5	2.3	2.0	1.9	1.9	1.8
Return on assets	0.6	0.6	0.7	0.7	0.6	0.3	0.7
Return on equity	10.8	10.1	12.8	11.7	7.6	3.3	8.8
Interest margin to gross income	73.5	64.8	73.5	54.8	54.9	54.1	47.7
Noninterest expenses to gross income	77.9	78.8	71.7	72.2	68.5	71.6	70.5
Liquidity coverage ratio	...	...	...	...	138.6	169.1	163.3
Net stable funding ratio	...	...	...	...	168.5	150.1	135.9
Additional FSIs							
Gross asset position in financial derivatives to capital	95.4	80.0	54.2	43.6	42.0	50.7	35.6
Gross liability position in financial derivatives to capi	113.6	96.6	67.3	53.7	55.4	67.0	43.5
Customer deposits to total (noninterbank) loans	...	...	...	...	63.4	63.2	75.4
Residential real estate loans to total gross loans	23.5	24.4	27.3	24.4	38.2	36.4	44.0

Sources: IMF Financial Soundness Indicators.

Annex I. Measures to Mitigate the Impact of High Cost of Living and Energy Security

Measures Taken to Mitigate the Impact of Higher Energy Prices

Measures to Mitigate the Price Effect

- Reduced electricity tax. The electricity tax was temporary reduced by the previous cabinet by about $^2/_3$ points in 2022.
- Reduced VAT. Lower VAT on energy (natural gas, electricity, and district heating) from 21 percent to 9 percent, from 1 July to 31 December 2022.
- Reduced excise duties. Reduced excise duty on petrol and diesel by 21 percent (from April 1 to December 31, 2022). In 2023, the excise duties will be kept at the same amount as in 2022 during the period January to June. In the second half of 2023, the excise duty reduction will be gradually reduced.
- Temporary rise in energy tax credit by €265.

Additional Energy Package to be Considered in 2023 Budget

- Temporary tariff cap. The authorities want to introduce a tariff ceiling with a maximum tariff for electricity and gas that applies to the median consumption. A compensation scheme for utility companies is also defined.
- Closure Policy Adjustments. Agreement on a temporary broadening of the situations in which energy suppliers are not allowed to cancel the contract during the coming winter period.
- Permanent contracts on electricity and gas for households—fixing the variable price for a period of time—will be offered again in 2023.
- Accelerate energy saving and sustainability. Provision of advice on energy-saving, for example by deploying local fixe brigades and energy coaches.
- Additional €300 million to the National Insulation Program in 2023–24. The number of subsidy applications for cavity wall insulation, heat pumps and solar boilers has doubled in recent months.
- €5 million in subsidies to ensure that households gain more insight into their financial position, equipment for (local) volunteers to guarantee support for people who need help.

- Early warning to prevent disconnection. €35 million for municipalities in incidental resources to offer targeted assistance both through early detection and special assistance based on energy suppliers monthly early warning collection process.

- One-off energy allowance. People who live on 120 percent of the social minimum will receive a second one-off transfer of 1.300 euros in 2023 (same amount and targeted group as in 2022)

- Subsidy scheme for energy-intensive SMEs (TEK). Temporary and partial compensation for the increase in energy costs, based on energy-costs as a percentage of turnover.

- Resources for making SMEs more sustainable. Guarantee to facilitate SMEs to attract credit for sustainability investments.

Income Support Measures

- Increase in health allowance. One-off increase in health care allowance by €412 euros.

- 10 percent increase of the statutory minimum wage, including social benefits and old-age pensions.

- Increase in the child-related allowances, all child amounts, and single parents. The reimbursement percentage of the childcare allowance will be increased from 95 percent to 96 percent as of 2025.

- Reduction in the first bracket of the Personal Income Tax by 0.11 percent.

- Increase of the housing allowance.

- Extension of income-related rent reduction until July 2023.

- Increase in the employed person's tax credit. The second and third tipping points are increased by €89, and the reduction percentage increases to 6.51 percent.

Measures to Support Firms

- Reduced incapacity for work (Aof) premium for small employers and expansion of the work-related costs scheme (WKR).

- Increase of the energy investment allowance (EIA), the environmental investment allowance (MIA) and the arbitrary depreciation of environmental investments (VAMIL).

- Energy cost contribution scheme (TEK). Energy-intensive SMEs -SMEs with energy costs over turnover above -7 percent will receive compensation for 50 percent of the increase in the energy costs above a fixed threshold (€1.19 per cubic meter of gas and €0.35 per kilowatt hour of electricity).

Measures Taken to Secure Energy Supply

Measures to Reduce Consumption

- Tightening energy savings targets for businesses.

- Lift output restriction on coal-fired power stations for 2022–24, which will be enabled to operate at full capacity to generate electricity, substituting gas-fired stations sources.

- Additional measures to compensate coal-fired power stations for the extra CO2 emissions (announced but not specified).

- "Dial it down" (*Zet ook de knop om*) energy saving campaign provides energy saving advice for businesses and households. It includes a particular tool for SMEs to assess energy savings and sustainability measures, and subsidies available for that purpose.

Measures to Promote Energy Efficiency

- Urgent call to save energy and national energy saving target.

- Temporary gas saving scheme major gas consumers. Scheme to compensate for indirect costs under the ETS those energy-intensive companies that comply with an emissions' reduction target, a minimum share of carbon free sources on their electricity consumption, and investments to reduce GHG emissions.

Additional Measures

- Gas Protection and Recovery Plan (BH-G). Three levels of risk defined: *alert*, *crisis*, and *post-crisis* phase. Activation in June 2022 of the first level, the early warning, in which gas firms will have to share daily information on gas supplies and stocks with the authorities.

- Filling of the gas storage facility Bergermeer. The aid will take the form of insurance against negative winter-summer gas price spreads. The public support includes provisions to limit undue distortions of competition, including a profit-sharing mechanism with the Dutch government in case of excessive unexpected profits.

Annex II. External Sector Assessment

<table>
<tr><td colspan="8">Overall Assessment: On preliminary estimates, the external position in 2022 is anticipated to be moderately stronger than the level implied by medium-term fundamentals and desirable policies. The Netherlands' status as a base for multinational corporations and as a trading hub and financial center makes the external assessment particularly challenging. In the medium term, the current account surplus is expected to shrink moderately as population aging and fiscal loosening reduce domestic saving.

Potential Policy Responses: To bring the external balance to a level in line with medium-term fundamentals and desirable policies, fostering investment in physical and human capital, also by facilitating access to finance, particularly for SMEs, should take priority. Against this background, structural investment and reform plans by the government to allay housing market shortages, reinforce the education system, and advance the climate transition and digitalization are welcome.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="7">Background. The NIIP of The Netherlands reached 92.7 percent of GDP in 2022Q3, reflecting gross assets and liabilities of 1,116.2 and 1,023.5 percent of GDP, respectively, compared to a nearly balanced NIIP at the end of 2009. The largest component of the NIIP comes from the net FDI stock—about €858.9 billion (93.3 percent of GDP) in 2022Q3. According to the latest Coordinated Direct Investment Survey, the inward and outward FDI positions of The Netherlands were second only to those of the United States at the end of 2020, also reflecting its role as the seat for several large multinational corporations and its importance as a financial center, with the largest gross bilateral stocks accounted for by the United States (US$1.98 trillion), the United Kingdom (US$1.23 trillion), and Luxembourg (US$0.77 trillion). Reflecting a persistent CA surplus, the NIIP tends to increase as a ratio of GDP over time in the absence of large valuation effects. The relocation of Shell's headquarters to the United Kingdom may dampen NIIP fluctuations going forward by substituting portfolio investment liabilities (Shell's foreign shareholders) with less volatile FDI liabilities (Shell's ownership of its Dutch operations).

Assessment. The Netherlands' safe haven status and its sizable foreign assets limit risks from its large foreign liabilities.</td></tr>
<tr><td>2022Q3 (% GDP)</td><td>NIIP: 92.7</td><td colspan="2">Gross Assets: 1,116.2</td><td>Debt Assets: 256.6</td><td>Gross Liab.: 1,023.5</td><td colspan="2">Debt Liab.: 286.7</td></tr>
<tr><td>Current Account</td><td colspan="7">Background. Statistical refinements by Statistics Netherlands applied over the period 2015–2021 resulted in a downward revision of the current account surplus from 9.0 to 7.2 percent of GDP in 2021, primarily reflecting a better alignment of earnings between corporate and national/external accounting frameworks as well as a more appropriate classification of Dutch subsidiaries of foreign companies. In 2022, the CA surplus is expected to shrink to 5.5 percent of GDP (6.8 percent cyclically adjusted). Deteriorating terms of trade, chiefly related to global commodity price pressures resulting from Russia's war in Ukraine, strong domestic demand and a notable worsening of the primary income balance are estimated to be key drivers of the decline. Moreover, Shell's relocation to London is estimated to lower the current account surplus by an additional 0.2 percentage points. The Netherlands' role as a trading hub and financial center also contributes to a structurally strong headline external position. In particular, multinationals based in The Netherlands are recording profits at their Dutch headquarters while channeling a large part of their investment abroad in the form of FDI, keeping nonfinancial corporate saving high. Relatedly, measurement biases of portfolio equity retained earnings in official statistics may also contribute to an overstatement of the net accumulation of wealth that is attributed to Dutch residents, an issue of particular relevance for a country where the foreign ownership of publicly listed corporations has remained consistently above 85 percent.

Assessment. The EBA CA model estimates a CA norm of 5.0 percent of GDP. Based on a projected cyclically adjusted current account surplus of 6.8 percent of GDP in 2022, the CA gap is preliminarily assessed to reach 1.3 percent of GDP. The CA gap is attributable to policy gaps amounting to 2.3 percent of GDP, primarily reflecting a relatively tighter fiscal stance and a negative credit gap that remains wider than abroad. Adjustors applied in 2020 and 2021 to correct for the (temporary) effects of the COVID-19 pandemic are preliminarily assessed to be close to zero. The portfolio retained earnings bias is preliminarily assessed to be -0.5 percent based on the provision of granular data by the Dutch central bank which allowed for the translation of the balance of payments revisions performed by Statistics Netherlands to the net savings of different segments of the corporate sector. Taking these factors into consideration, and against a norm in a range of 4.5 to 5.5 percent of GDP, the IMF staff assesses a CA gap of 0.8 to 1.8 percent of GDP.</td></tr>
<tr><td>2022 (% GDP)</td><td>CA: 5.5</td><td>Cycl. Adj. CA: 6.8</td><td>EBA Norm: 5.0</td><td>EBA Gap: 1.8</td><td>COVID-19 Adj.: 0.0</td><td>Other Adj.: -0.5</td><td>Staff Gap: 1.3</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="7">Background. By October 2022, the annual average CPI-based REER appreciated by 1.8 percent when compared to its 2021 average, with the depreciation of the euro NEER over the period offset by inflation in The Netherlands staying above that of its trading partners. At the same time, the average ULC-based REER depreciated by 4.8 percent as elevated rates of consumer price inflation were only partially reflected in corresponding labor cost increases, resulting in some gains in external competitiveness.

Assessment. Assuming a semi-elasticity of 0.6, the preliminary IMF staff CA gap of 1.3 percent of GDP implies a REER undervaluation of about 2.2 percent. EBA REER model estimates for 2022 range from an overvaluation of 7.7 percent (level model) to 22.4 percent (index model), largely reflecting unexplained residuals. Consistent with the preliminary staff CA gap, the IMF staff assesses the REER as undervalued by about 1.4 to 3.0 percent, with a midpoint of 2.2 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="7">Background. A considerable share of gross foreign assets and liabilities are attributable to special-purpose entities, financial vehicles with marginal operational footprints in The Netherlands that contribute to substantial yet hard-to-interpret capital flow volatility. A notable part of capital outflows represents the channeling of corporate profits by multinationals abroad as FDI.

Assessment. The strong external position limits vulnerabilities to capital outflows. The financial account deficit is primarily the flip side of a CA recording sustained—and structural—surpluses.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="7">Background. The euro has the status of a global reserve currency.

Assessment. Reserves held by euro area economies are typically low relative to standard metrics, but the currency is free floating.</td></tr>
</table>

Annex III. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Time Horizon	Impact	Policy Response
Global Conjunctural Risks				
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. **Europe:** The fallout from the war in Ukraine is exacerbated by a gas shutoff by Russia, resulting in acute gas shortages and further supply disruptions, which triggers an EU recession.	**Medium** **High**	**ST, MT**	**High** Sharp drop in economic activity, domestic and external demand. Energy dependence on Russia and *direct* trade and financial links with Russia, and Ukraine are relatively limited. However, *indirect* links and spillovers are important; depressed activity in key trading partners (e.g., Germany) is likely with disruption of energy supplies from Russia. Falling commodity prices may alleviate inflationary pressures.	Automatic stabilizers should be left to operate. More active support, if deemed necessary to cushion the impact on the most vulnerable groups, should be well-targeted, limited in scope to preserve fiscal room for maneuver in future crises and to allow for efficient resource reallocation, and offset by adjustments in other areas.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	**Medium**	**ST, MT**	**Medium** Demand cooling after policy tightening by central banks, that may lead to further pressures on borrowers, given elevated private debt.	Make use of available macro-prudential buffers to absorb losses and sustain credit provision.
Structural Risks				
Deepening geo-economic fragmentation and geopolitical tensions. Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	**High**	**MT**	**Medium** The Netherlands is vulnerable to supply disruptions and weaker confidence, due to strong cross-border real and financial linkages and the presence of large multi-national corporations and financial institutions, heightening risks to economic dynamism and financial stability. Financial sector resilience and EU/euro area membership provide support.	Strengthen international competitiveness and accelerate diversification of export markets by advancing product market reforms. Continue to enhance financial sector resilience by keeping an eye on emerging vulnerabilities, build appropriate buffers and develop adequate contingency plans.
Cyberthreats. Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability and disrupt economic activities.	**Medium**	**ST, MT**	**Medium** Possible disruptions in economic activity, given the Netherlands' high degree of digitalization. Weaker confidence may lead to capital outflows.	The authorities should remain vigilant and perform coordinated cyber security tests regularly, especially on strategic infrastructures, as it is done under DNB's oversight in the financial sector.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly

Sources of Risks	Relative Likelihood	Time Horizon	Impact	Policy Response
Domestic Risks to Economic Outlook				
Labor force shortages.	Medium	ST/MT	Medium Ambitious investment and reform agenda to address structural challenges on climate policy and under-supply in the housing market can be compromised in the absence of labor force.	Increase intensive margins in domestic employment to reduce the gap between supply and demand of labor force.
A rapid correction of house prices.	Medium	ST/MT	Medium Highly indebted Dutch households are vulnerable to a downward correction in the housing market. This could also have adverse effects on macro-financial stability, given their high financial sector exposures to mortgage loans and households cutting consumption to service their debts.	Heightened vigilance of financial sector risks, especially those arising from the stretched housing market and higher interest rates. Make use of available macro-prudential buffers to absorb losses and sustain credit provision.

Annex IV. Public Debt Sustainability Analysis

Figure AIV.1. The Netherlands: Public Sector Debt Sustainability Analysis - Baseline Scenario

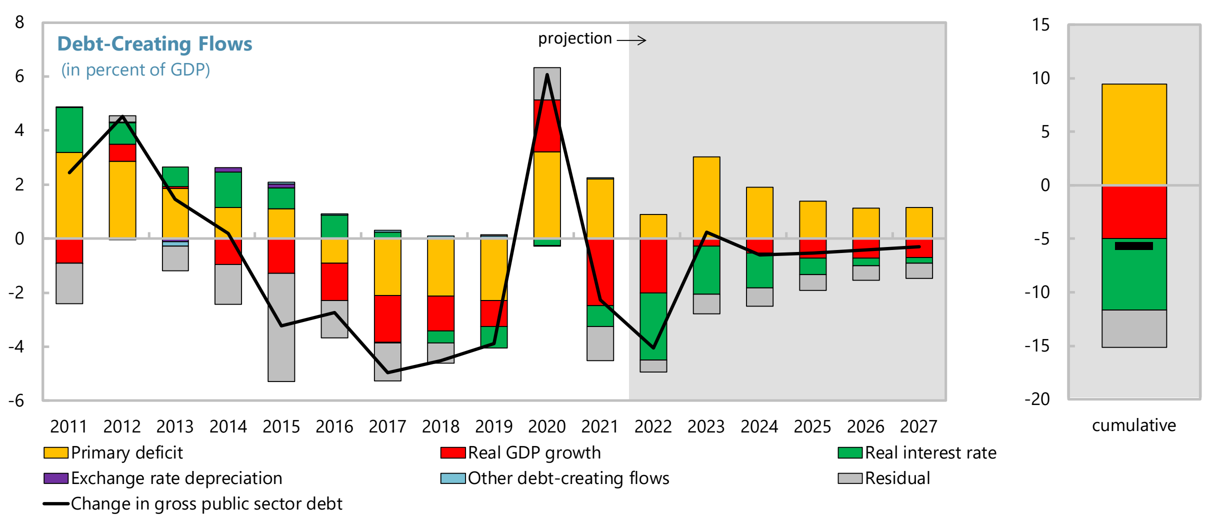
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	60.9	54.6	52.3	48.3	48.5	47.9	47.4	46.9	46.6
Public gross financing needs	9.9	9.5	10.6	6.8	6.8	7.6	5.8	5.1	5.0
Real GDP growth (in percent)	1.5	-3.9	4.9	4.2	0.6	1.2	1.6	1.6	1.5
Inflation (GDP deflator, in percent)	1.2	2.0	2.5	6.1	5.0	4.0	2.7	2.1	2.0
Nominal GDP growth (in percent)	2.7	-2.0	7.5	10.6	5.6	5.2	4.3	3.7	3.6
Effective interest rate (in percent) [4/]	2.1	1.4	1.1	1.1	1.1	1.2	1.4	1.5	1.6

As of October 08, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		0
5Y CDS (bp)		11
Ratings	Foreign	Local
Moody's	Aaa	Aaa
S&Ps	AAA	AAA
Fitch	AAA	AAA

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.2	6.1	-2.3	-4.0	0.2	-0.6	-0.5	-0.4	-0.3	-5.7	
Identified debt-creating flows	0.0	4.9	-1.0	-3.6	1.0	0.1	0.1	0.1	0.2	-2.2	
Primary deficit	0.3	3.2	2.2	0.9	3.0	1.9	1.4	1.1	1.2	9.5	-0.9
Primary (noninterest) revenue and grants	43.0	44.0	43.8	43.6	43.1	42.7	42.7	42.8	42.7	257.6	
Primary (noninterest) expenditure	43.3	47.2	46.0	44.5	46.1	44.5	44.1	43.9	43.8	267.0	
Automatic debt dynamics [5/]	-0.3	1.7	-3.2	-4.5	-2.1	-1.8	-1.3	-1.0	-0.9	-11.6	
Interest rate/growth differential [6/]	-0.3	1.7	-3.2	-4.5	-2.1	-1.8	-1.3	-1.0	-0.9	-11.6	
Of which: real interest rate	0.6	-0.2	-0.8	-2.5	-1.8	-1.3	-0.6	-0.3	-0.2	-6.7	
Of which: real GDP growth	-0.9	1.9	-2.5	-2.0	-0.3	-0.5	-0.7	-0.7	-0.7	-4.9	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-1.2	1.2	-1.3	-0.4	-0.7	-0.7	-0.6	-0.6	-0.5	-3.5	
o/w interest income	-0.3	-0.2	-0.2	-0.4	-0.7	-0.7	-0.6	-0.6	-0.5	-3.5	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

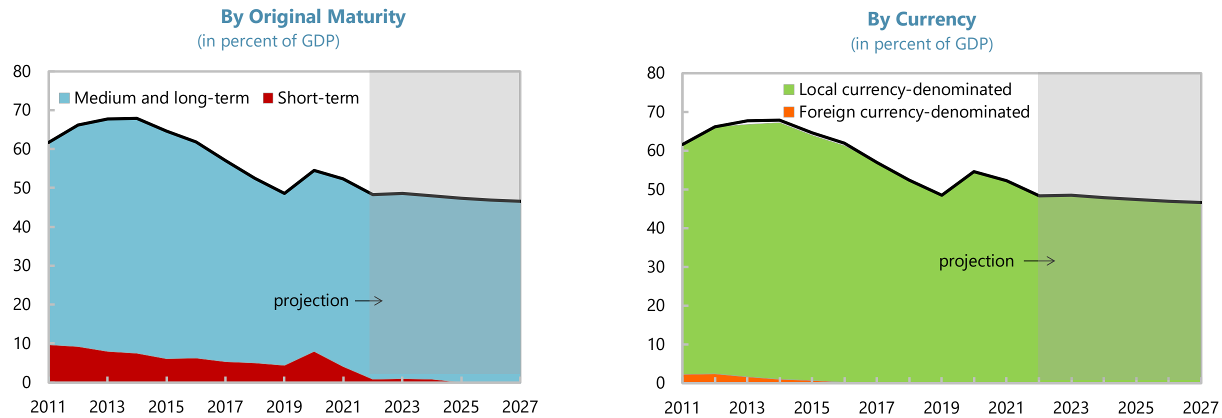
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

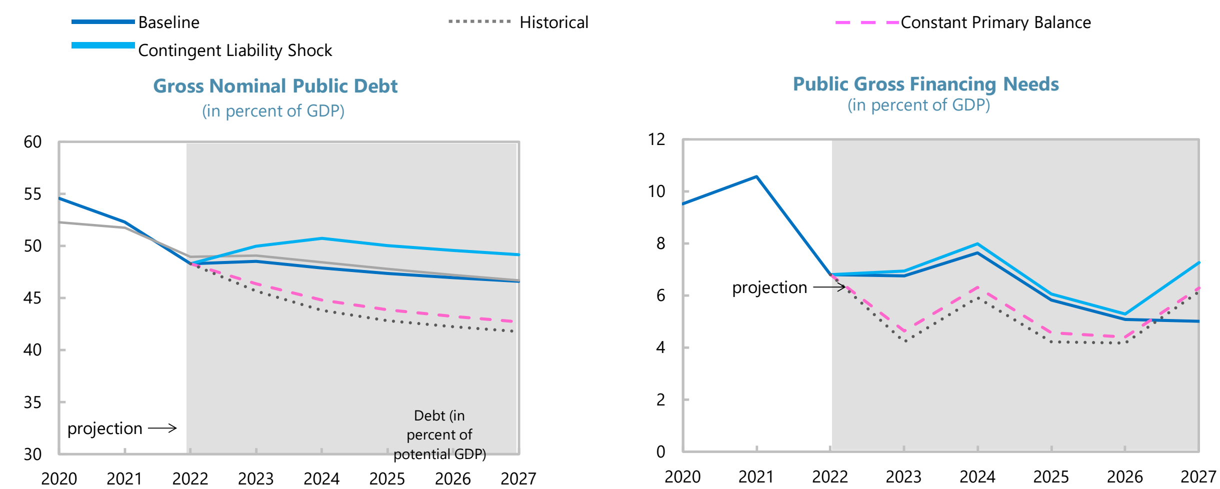
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure AIV.2. The Netherlands: Public Debt Sustainability Analysis - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	4.2	0.6	1.2	1.6	1.6	1.5
Inflation	6.1	5.0	4.0	2.7	2.1	2.0
Primary Balance	-0.9	-3.0	-1.9	-1.4	-1.1	-1.2
Effective interest rate	1.1	1.1	1.2	1.4	1.5	1.6
Constant Primary Balance Scenario						
Real GDP growth	4.2	0.6	1.2	1.6	1.6	1.5
Inflation	6.1	5.0	4.0	2.7	2.1	2.0
Primary Balance	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	1.1	1.1	1.2	1.3	1.5	1.5

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	4.2	1.3	1.3	1.3	1.3	1.3
Inflation	6.1	5.0	4.0	2.7	2.1	2.0
Primary Balance	-0.9	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	1.1	1.1	1.4	1.9	2.1	2.3
Contingent Liability Shock						
Real GDP growth	4.2	-1.8	-1.3	1.6	1.6	1.5
Inflation	6.1	4.3	3.4	2.7	2.1	2.0
Primary Balance	-0.9	-3.0	-1.9	-1.4	-1.1	-1.2
Effective interest rate	1.1	1.2	1.2	1.4	1.5	1.6

Source: IMF staff.

Annex V. Past IMF Policy Recommendations

IMF 2021 Article IV Recommendations	Implementation
Fiscal Policy	
Start the policy shift to targeted and forward-looking interventions to ease the road to normalization.	The remaining COVID-support programs ended in early 2022, and further reduction on expenditure is projected to 2023. Some pandemic-related measures will be maintained, such as the National Education Program, tests and vaccine development, representing 0.5 percent of GDP in 2023.
Use the substantial fiscal space to promote growth-enhancing interventions, including support to R&D and further investment in education.	The Resilience and Recovery Plan (RRP) includes 180 million EUR in education, including the development of a National Education Lab AI (NOLAI) and increasing subsidies for schools to support digitalization and limit learning delays with programs' implementation announced for 2022Q4.
To meet the ambitious climate policy goals and foster a greener and more sustainable recovery post-pandemic, policies should further incentivize emissions reductions and increase public support to innovation and the adoption of greener technologies.	Acceleration of the climate and energy transition through several measures included in 2023 budget. Reform of the energy tax, shifting taxation from electricity to gas. Introduction and tightening up of CO2 levy on industry, with an increase in the reduction target for the CO2 tax from 1.3 to 18.3 million ton in 2030. Extension of the promotion of the National Isolation Program and alternative energy sources (offshore wind, green energy hydrogen). Specific measures for the structural nitrogen package and the transition fund in the long term.
Structural Reforms	
Push forward with second-pillar pension reform to improve pension transparency and flexibility, clarifying transition costs, and designing a compensation package for those adversely affected by the transition.	In June 2020, the government signed an agreement with trade unions and employers on pension reform—a major breakthrough after 10 years of negotiations. The agreement affects all three pillars of the pension system, but agreements have also been made about sustainable employability and early retirement. Enactment of pension reform legislation is expected in 2022 so it can go into effect on January 1, 2023, with full operation of the new system expected by January 1, 2027, at the latest.

IMF 2021 Article IV Recommendations	Implementation
Financial Sector Policies	
Continue tightening macro-prudential policies to reduce households' indebtedness, and expedite reforms to increase housing supply, particularly in the private rental market.	The majority of household debt consists of mortgages for residential real estate. The mortgage debt as a percentage of GDP has decreased from around 106 percent in 2012 to 93 percent in 2020. The most important policy measures that have contributed to this decline are tightening the legally binding loan to value (LTV) limit from 106 percent in 2013 to 100 in 2018. In addition, the Dutch government has introduced restrictions on non-amortizing mortgages since 2013. The introduction of minimum risk weights for mortgages was suspended during the pandemic but is now expected to go into effect at the start of 2022. The government has set up a policy agenda for housing supply together with subnational governments ('woondeals'). These include agreements for housing targets with municipalities in the areas with the greatest housing shortage and provinces. The 2022 budget also includes new resources to support the construction of social housing.
Revive SMEs dynamism and business investment, including by increasing direct support to Research and Development (R&D) and establishing a credit bureau.	• Several funds were launched that support innovative SMEs and allow them to invest more in R&D for the technologies of the future (Deeptech Fund & Dutch Future Fund) • The Dutch Alternative Credit Instrument (DACI) was launched to further strengthen the accessibility of SMEs to alternative financing sources • A study on the usefulness and necessity of a credit register was conducted and sent to Parliament. • In 2020 the Dutch government launched the National Growth Fund (see above).

Annex VI. FSAP Recommendations

Recommendations	Time[1]	Status
	Financial Risks and Stability Analysis	
Enforce an industry-wide approach to informing IO mortgagors of estimated repayment shortfalls.	I	AFM and SSM (DNB/ECB) have established an industry-wide program to inform IO mortgagors about their estimated repayment shortfalls. By September 2022, SIFIs have met the targets set by the program, approaching more than 95 percent of their clients with IO mortgages while remaining mortgage providers were on track to do so by end-2022. The program is foreseen to conclude by July 2023, to be followed by ongoing supervision of IO exposures.
Continue to build capital buffers to ensure all banks remain above minimum leverage ratio thresholds in the case of severe adverse events.	NT	The Dutch authorities remain supportive of an O-SII leverage ratio buffer and note that the Basel 3.5 standards, the activation of a 1 percent CCyB and the extension of the floor on risk weights for Dutch mortgages will also contribute to higher leverage ratios of certain Dutch SIFIs. The four largest Dutch SIFIs maintain leverage ratios above 4 percent.
	Macroprudential Policy Framework	
Strengthen the FSC by establishing it under primary law and vest it with "comply-or-explain" powers.	NT	A Bill is currently debated in Parliament that will give the Financial Stability Committee a legal basis. It is expected to enter into force no later than July 1st, 2023. As an 'act or explain mechanism' does not fit in with the Dutch constitutional system, an alternative accountability mechanism will forward FSC recommendations to Parliament where the responsible ministers may be questioned.
Accelerate the phase-out of MID and reduce the final tax rate to a neutral level.	NT	The phasing down the mortgage interest deductibility has been accelerated from 0.5 to 3 percentage points annually starting in 2020 until the base tax rate level of 37 percent is reached in 2023. However, the tax treatment of owner-occupied housing remains favorable compared to other forms of investment.
Continue gradually reducing maximum limits on LTV ratio to no more than 90 percent after 2018, and place prudential ceilings above which DSTI limits (by income group) cannot be relaxed.	NT	The maximum LTV ratio for new mortgages was reduced to 100 percent in 2018. No further reduction is foreseen to not stymy access to home ownership. Average LTV ratios for existing mortgages have decreased due to rising house prices and the amortization requirement for MITD eligibility. No changes have been made in the setting of DSTI limits.
	Cross-cutting Supervisory Issues	
Enhance the DNB and AFM powers to introduce technical regulations (consistent with the SSM) and to conduct examinations using outside expertise.	I	The powers of DNB and AFM to introduce technical regulations have not been enhanced. No actions to do so are currently foreseen. DNB and AFM have already the power to adopt policy rules which are self-binding when exercising relevant supervisory powers but are not legally binding on supervised institutions. DNB and AFM will take such policy rules into account when exercising the relevant supervisory powers, making them material for supervised institutions. DNB and AFM also have the ability to involve outside expertise in conducting their supervisory examinations.
Exclude the DNB and AFM from the proposed salary cap, and provide them with greater autonomy in setting their supervisory budgets.	I	The Ministry of Finance has not provided DNB and AFM with greater autonomy in setting their supervisory budgets. No actions to do so are foreseen.

Recommendations	Time[1]	Status
		Cross-cutting Supervisory Issues
The DNB and AFM to undertake a cross-sectoral review of credit underwriting standards of mortgages	I	Several on-site examinations in financial institutions' mortgage portfolios have been carried out in the recent past. Moreover, DNB collects loan level data on the mortgage exposures of banks, insurers, and pension funds to continuously monitor mortgage lending standards
Ensure that reliable and complete data is available on a timely basis to support off-site supervision.	NT	The DNB and AFM are actively investigating and applying supervision techniques involving data-driven analytical approaches. In collaboration with the Ministry of Finance, the AFM is exploring an additional legal basis for periodic data requests. <ins>Insurers and pension funds</ins>: DNB continues to conduct rigorous checks on the quality, consistency and plausibility of the data it receives from insurers and pension funds, also with the help of on-site examinations. AFM is investigating the possibility for a yearly inquiry into complaints about pension funds. <ins>Banks</ins>: DNB has implemented multiple new and innovative information products for supervisors, also in collaboration with the ECB. DNB has implemented rigorous checks on the consistency and plausibility of data and co-operates actively with the ECB. For LSIs, DNB is implementing a system of standards and norms on the quality of regulatory reporting. DNB has participated in the ECB's thematic review on data aggregation which confirmed additional investment needs into IT infrastructure. DNB initiatives for Data Driven Supervision have been implemented. AFM has developed tools to monitor IO mortgages with coverage to be expanded to other mortgage products. <ins>Collective investment schemes:</ins> Several actions have been taken by DNB and AFM to ensure reliable and complete data is available on a timely basis.
		Banking Supervision and Regulation
Further enhance supervisory oversight of loan classification and strengthen internal model validation by providing Joint Supervisory Teams more support from risk specialist divisions.	NT	<ins>Supervisory oversight of loan classification</ins>: The Ministry of Finance has signaled openness to discuss the DNB's request to allow the imposition of binding requirements on the size of banks' impairment charges. In line with EC guidance, DNB is stimulating the usage of article 104 CRD where possible to allow competent authorities to intervene in the case of inadequate provisioning policies and advocates the concept's inclusion in supervisory manuals. <ins>Internal model validation</ins>: procedures are in place to provide Joint Supervisory Teams with support for internal model validation.
Encourage a more active role of the Supervisory Board of Dutch banks via ongoing engagement.	NT	Engaging the SB is part of ongoing supervision through, e.g., periodic interviews and the annual SB self-assessment. In 2022 DNB has observed the meetings of the Supervisory Boards of several SI's to assess their effectiveness and conducted an on-site inspection combining a focus on governance with behavioral and culture elements, also including several recommendations towards the functioning of the SB. Furthermore, DNB discusses the outcomes of the annual Supervisory Review and Evaluation Process (SREP) with the SBs of all LSI's it supervises. In addition, the SSM wide Targeted Review of Internal Models (TRIM) will put the supervisory findings on banks' internal models on the SB agenda.

Recommendations	Time[1]	Status
Insurance and Pension Supervision and Regulation		
Monitor closely and take a series of well-defined actions, under Pillar 2, at different levels of VA and UFR impact on insurers' solvency position.	I	DNB has worked on a new supervisory approach to address the problems surrounding the UFR. The new approach is forward-looking, anchored in the current legal framework and takes a step away from the current SCR ratio ex VA and UFR approach. It will analyze solvency levels and probability distributions around them to assess the sustainability of the future statutory solvency and the capacity to compensate for the UFR shortfall. It will support a dialogue with insurers at risk to take measures to improve the sustainability of the capital and solvency position.
Harmonize the relevant laws on the quality of advice and suitability of products and provide authority for group supervision in the pension law.	NT	No mechanisms have been introduced to ensure pension participants receive financial advice. A new pension system is intended to be implemented in 2023 yet supervisory powers for group supervision are not foreseen because of the pension fund structure in the Netherlands.
Securities Supervision and Regulation		
Broaden the supervisory authority of the AFM with regard to loan-based crowd-funding platforms.	NT	In October 2020 Regulation 2020/1503 on European crowdfunding service providers for business was published, introducing a fully harmonized regime for the provision of crowdfunding services in the EU. The regulation has been applicable since November 10, 2021.
Require prompt public disclose of auditor changes or resignations.	NT	The prompt public disclose of auditor changes or resignations is already sufficiently covered by existing rules and regulations. No actions are foreseen.
Financial Market Infrastructure		
Augment the supervisory resources devoted to the oversight of European Central Counterparty (EuroCCP).	I	The staff resources devoted to EuroCCP supervision have been expanded from 2 FTE to 4 FTE, including resources for quantitative risk management. A broader involvement of management is achieved through the department head of the FMI Oversight Department attending the supervisory meetings with the chairperson of the supervisory board of EuroCCP. Additional resources are available for supervision of the IT/OPS (2 supervisors).
EuroCCP to strengthen its review of its stress testing and margin models methodology and develop a comprehensive recovery plan.	I	EuroCCP has enhanced its reverse stress testing approach to consider a wider set of market price scenarios and combinations of participant defaults that would exhaust its financial resources. Its margin model methodology has also been improved. Sensitivity analyses have been developed to examine how the parameters and assumptions affect the outcome of its stress tests. EuroCCP has developed a comprehensive recovery plan that is updated annually to bring it in line with the requirements of the EU Recovery and Resolution Regulation.

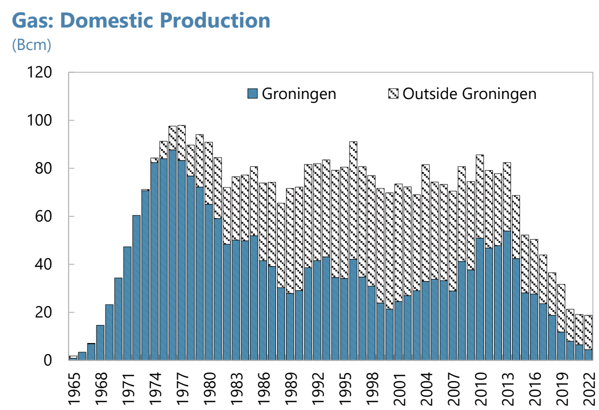
Recommendations	Time[1]	Status
Crisis management and bank resolution		
Develop adequate arrangements for systemic crisis management and make legacy frameworks for managing failing banks complementary to the new SRM framework and more transparent.	NT	Adequate arrangements for systemic crisis management: domestically, DNB focused on an update of its crisis management manual, aligning it with the SRB's. DNB and AFM have defined their roles and responsibilities in resolution and the interactions that take place between them and other institutions, also by updating the tripartite MoU enabling information sharing and delineating responsibilities for crisis management. In co-operation with the Ministry of Finance, DNB has started to address some of the challenges faced during the DGS payout following the insolvency of Amsterdam Trade Bank in April 2022. At the European level, the role and responsibilities of SRB, ECB and Dutch authorities in managing a systemic crisis are formalized in the SRB and DNB crisis management manuals, the Cooperation Framework (CoFra) and horizontal policy guidance. Dry run exercises were held in 2019 and 2020 to test the adequacy of tools and procedures and are foreseen to be repeated in the coming years. Legacy legal frameworks: The residual aspects of the former 'Intervention Act' only serve as a fallback option in the (unlikely) case that the powers of the SRM fall short.
Allow the deposit guarantee scheme to finance deposit transfers in resolution and insolvency.	NT	Since 2017, it is possible to finance the gross amount of deposits that are transferred in resolution, albeit with a cap of 50 percent of the size of the deposit guarantee fund. The possibility to allow funding by the DGS of a transfer of deposits in insolvency is a Member State option which is currently not implemented in the Netherlands. The Ministry of Finance intends to wait for the outcome of the upcoming CMDI review to make a decision on implementing this tool.

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

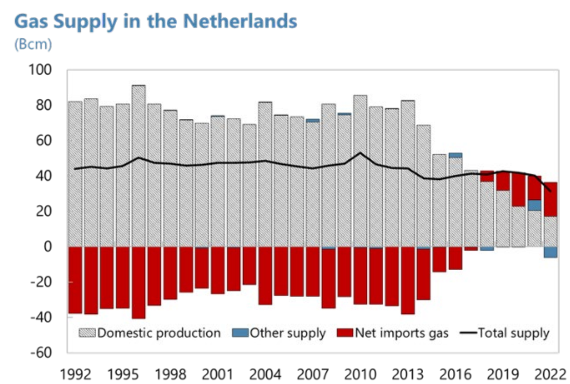
Annex VII. Groningen Gas Field

1. In March 2018, the Dutch government decided to phase out gas production completely from the Groningen field by 2030, as the consequences of extraction were no longer acceptable, especially after the 3.6 magnitude earthquake in 2012. To this end, the Mining Act was amended, so that no more gas is extracted than is necessary for security of supply, and the level of gas extraction is determined annually from 2019. From 2022–2023, the Groningen field will only be available as back-up in exceptional situations. The projected closure date is set now in 2023 or 2024. In addition, Dutch gas production from non-Groningen fields has been declining for 20 years due to natural depletion and limited replenishment from new fields. As a result, the Netherlands moved from a net exporter to a net importer of gas in 2018, though domestic production still accounted for 57 percent of supply in 2022, remaining also as a key supplier to neighboring countries.

Gas Sector in the Netherlands



Sources: CBS and IMF staff



Sources: CBS and IMF staff calculations.

2. The end of the production from Groningen accelerated the need to reduce consumption of low-calorific gas,[1] by encouraging large-scale industrial users to switch to other forms of energy, phasing out natural gas as a heating source from the built-up environment (since July 2018 there is no longer a requirement for newly built housing to have a gas connection), reducing external demand in consultation with Belgium, Germany and France, and the construction of a nitrogen plant to allow imported high-calorific gas to be converted into low-calorific natural gas.

3. Currently, the annual level of extraction in Groningen is determined by the Ministry of Economic Affairs and Climate Policy, with Gasunie advising how much gas is to be extracted for security of supply. For the gas year 2021/22 (from October 1, 2021, to September 30, 2022) the

[1] The gas extracted from this field is known as low-calorific gas, whereas the gas extracted elsewhere in the world, including from the Dutch small fields, is known as high-calorific gas. Belgium, Germany, and France will have to eliminate their dependence on low-calorific gas from the Netherlands between now and 2030.

Dutch government has decided to set the production quota at 4.5 bcm, from 6.5 bcm in 2020/21 gas year.

4. **Given the tight gas supply in the EU, the debate on a potential extension of production from Groningen is ongoing.** With the activation of the early warning phase of the emergency plan in June 2022, the authorities decided not to definitively close any drilling in 2022. However, the closure of production is still expected for 2023, and Groningen remains a very last option if the energy supply to households is seriously at risk.

Annex VIII. CCyB Adjustment in the Context of the EU Macroprudential Framework Review

1. In February 2022, the DNB revised its approach to set the CCyB, moving to a 2 percent neutral rate and considering a wider set of indicators on top of the Basel credit gap measure.[1] The DNB followed through on its March 2020 announcement when it cut the systemic risk buffer of the three largest banks while indicating its intention to compensate its easing of capital requirements with a higher CCyB in the future. Targeting a two percent CCyB in a "standard risk environment" characterized by a well-advanced balance sheet recovery and a moderately growing economic and financial cycle would address the uncertainties surrounding the measuring of cyclical systemic risk and create a buffer that could be released at times of stress. At the same time, it requires a more clear-cut identification of the phase of the cycle, therefore arguing for the use of a more expansive array of indicators, covering the macroeconomic environment, the (non) financial sector and financial markets.

2. The modifications to the CCyB framework come in the wider context of an ongoing reassessment of the EU's macroprudential policy toolkit and efforts to operationalize CRDV and CRRII. While the changes to setting the CCyB adopted by the DNB are well within existing rules and similar approaches have been followed in other European countries (e.g., Lithuania, Sweden, United Kingdom), they can also be seen against the background of the review of macroprudential rules launched by the European Commission (EC) in December 2021 that is planned to close by end-2022. Indeed, in their responses to the EC, both the ECB and the ESRB propose a positive neutral CCyB and the consideration of a broader range of economic and financial indicators to gauge the stage of the credit cycle as possible options.[2] Likewise, to operationalize CRDV and CRRII, in force in The Netherlands since late-2020 and mid-2021, respectively, the DNB conducted a consultation about available national options and discretions over the summer of 2022.[3] Therefore, adjusting the CCyB framework against the backdrop of a changing macroprudential policy landscape appears a timely choice.

3. Setting the CCyB at a positive neutral level may yield several advantages which, however, need to be carefully balanced against possible drawbacks. DNB estimates indicate that a CCyB rate at 2 percent is proportional to peak accumulated losses Dutch banks experienced in previous crises, thereby also creating space for maintaining credit provision, particularly in the event of a sudden shock, such as the COVID-19 pandemic. In addition, the actual stage of the credit cycle can only be assessed with some lag and is subject to measurement uncertainty, arguing for a

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[1] See DNB (2022), "Analytical Framework for Setting the Countercyclical Capital Buffer in the Netherlands", February.

[2] See ECB (2022), "ECB Response to the European Commission's Call for Advice on the Review of the EU Macroprudential Framework", March, and ESRB (2022), "Review of the EU Macroprudential Framework for the Banking Sector – A Concept Note", March.

[3] See DNB (2022), "Consultatieversie Wijzigingsregeling Regeling Specifieke Bepalingen CRD en CRR 2021", June.

broader set of indicators to be consulted but potentially also for a positive neutral rate to remain ahead of the curve. At the same time, equity capital is expensive. Calling for a positive neutral CCyB may structurally increase the capital costs of banks and the price of lending to the private sector. It also moves the CCyB some distance away from its original intention to address cyclical rather than structural risk. In fact, other instruments, such as bank- or exposure-specific systemic risk buffers or microprudential interventions, may be more suitable to achieve the desired benefits at a lower cost. As a result, a more thorough analysis comparing the costs and benefits of maintaining a positive neutral CCyB appears advisable, also to inform the setting of the appropriate neutral rate.

Annex IX. Capital Taxation

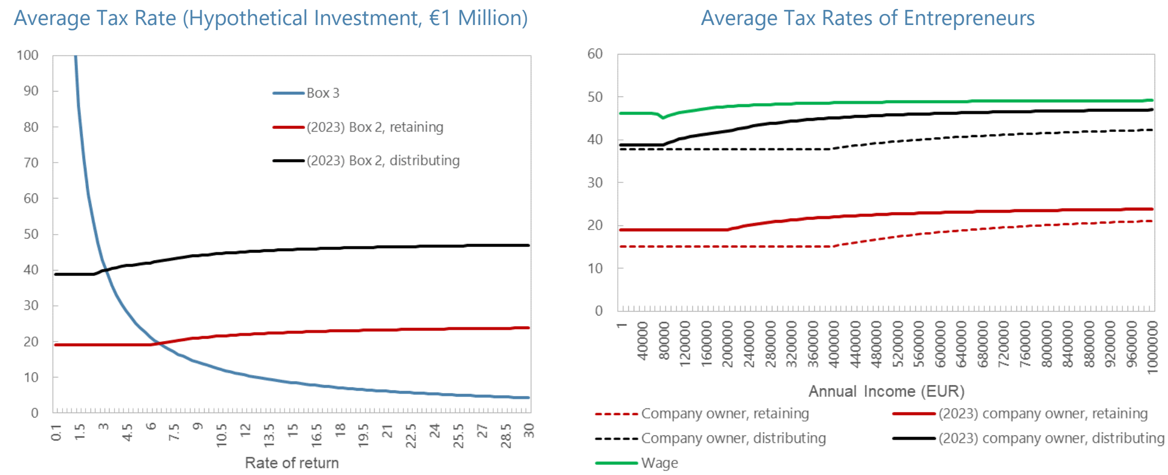
Planned tax measures will somewhat reduce the prevalent disparity between effective taxes on different types of incomes and firms—that result in distortion and ample tax avoidance opportunities, but significant scope remains for further reforms. Income is currently classified into three 'boxes': Box 1 applies a progressive schedule to labor income, sole traders, and imputed rents from owner-occupied housing. Box 2 taxes dividends and capital gains from substantive shareholdings (currently) at 26.9 percent. Box 3 taxes a deemed return to financial assets using a progressive rate schedule. Notable issues include:

- **Lack of taxation of actual capital income.** Box 3 is effectively a tax on a net wealth with a wide range of effective tax rates (left Figure below). Following the Supreme Court ruling in December 2021 that Box 3 violates the European Convention on Human Rights, the tax will be instead based on actual returns starting from 2026, with a transitory regime for 2023–2025. This reform would resolve the current concerns with a high effective tax on low returns and would also tax capital gains on accrual. The annual actual rental income on housing will also be taxed.

- **Loopholes.** The difference between the top personal income tax rate (of 49.5 percent in Box 1) and the combined rate on corporate income (25 percent) and dividends (26.9 percent in Box 2) creates an incentive for firm owners to treat most of their income as profit. This arbitrage is particularly exacerbated by a reduced corporate income tax (CIT) rate of 15 percent for profits up to €395,000, which has the additional disadvantages of discouraging firm growth and creating avoidance activities through splitting income and firms into smaller units. The system also encourages saving inside owner-run firms rather than distributing dividends to benefit from the lower taxation of retained earnings, with the common practice of owners taking loans from their companies. The 2023 Tax Plan raises the reduced CIT rate to 19 percent while lowering its applicable profit threshold to €200,000 and replaces the flat dividends tax by two brackets (starting from 2024) with a top rate of 31 percent for income exceeding €67,000 and 24.5 percent on income below this threshold. While the plan slightly mitigates differences in effective rates (right Figure), a more ambitious reform toward achieving tax neutrality would eliminate the reduced CIT rate altogether and consider a fundamental reform of Box 2. Options include either equalizing the sum of the CIT and the distribution tax with the tax in Box 1 or treating Box 2 firms as passthroughs whereby profits are attributed to the owners to be taxed under Box 1.

Effective Tax Rates

(Percent)



Sources: IMF staff calculation.

Notes: '(2023)' refers to the 2023 Tax Plan. The two-bracket taxation of dividends is envisaged to start in 2024. Taxation of actual returns in Box 3 is foreseen to start in 2026.

Annex X. Efforts to Tackle Transnational Aspects of Corruption

Voluntary assessment under the IMF Framework for Enhanced Fund Engagement on Corruption as part of the 2022 Article IV consultations.

1. The Netherlands continues to develop measures and good practices to combat foreign bribery of public officials. Staff's assessment of the supply-side of foreign bribery is based on the findings of the OECD Working Group on Bribery in International Business Transactions (WGB) Phase 4 Report on the Netherlands published in October 2020 and updated through the subsequent follow-up reports in 2021 and 2022.[1] The Netherlands took significant steps to raise awareness about foreign bribery through targeted campaigns of the Financial Intelligence Unit. Filing of suspicious transaction reports by the auditing and accounting professions increased over the years. This is a particularly relevant development given that these are considered key gatekeepers for the large population of conduit companies based in the Netherlands. Operational and institutional regimes were streamlined through the reorganization of the investigative and prosecutorial agencies and the creation of specialized teams focusing on bribery. Similarly, the investigative and prosecutorial capacities were enhanced in Bonaire, St. Eustatius, and Saba (BES). The Netherlands introduced an innovative whistleblower protection regime that provides for a dedicated authority to advise and support whistleblowers. The authorities continued to make strides to confiscate proceeds of foreign bribery from legal persons and have strong exchange of information framework and practices.

2. Effective enforcement against foreign bribery regime continues to be challenging. The WGB is concerned about the continued low level of foreign bribery cases in the Netherlands, especially given the size and specific risk profile of the Dutch economy. Since the entry into force of the foreign bribery offense more than 20 years ago, the Netherlands has concluded foreign bribery investigations with sanctions by means of non-trial resolution in five cases and not a case has been concluded following a criminal conviction at trial. Some of the relevant issues raised include the adequacy of resources at the Dutch Public Prosecution Service, delays in investigations caused by discussions on legal privilege, comprehensiveness of the framework for self-reporting and non-trial resolutions, applicability and dissuasiveness of sanctions. Moreover, the WGB recommended that the innovative whistleblower legal framework set out in the Whistleblower Authority Act be amended with the implementation of the EU Whistleblower Protection Directive to ensure that public and private sector employees that report suspected acts of foreign bribery are protected from discriminatory and disciplinary action.

3. The AML/CFT framework establishes important safeguards against concealment of foreign proceeds of corruption.[2] Customer due diligence measures are generally well

[1] Information relating to supply-side corruption in this section of the Report draws on the WGB's Phase 4 Report of the Netherlands (2020), the follow up report (2021), and the follow up report (2022).

[2] Information relating to the concealment-side of corruption derives largely from the relevant parts of the 2022 Mutual Evaluation Report of the Netherlands that was conducted by the Financial Action Task Force.

implemented by larger financial institutions, which is reflective of the significant investment made by banks in the recent years to improve their AML/CFT compliance. This entails application of enhanced due diligence in cases of higher risks, including in relation to PEPs, and automated systems to help identify high-risk customers and activities. The Netherlands has strong anti-money laundering enforcement capacities and confiscation practices, coupled with close inter-agency and international cooperation. The Netherlands does not require the establishment of a predicate offense, such as corruption, to investigate and prosecute money laundering. Its legal and institutional framework to investigate money laundering is solid with relevant expertise at both national and regional levels. There is sound cooperation and coordination between all competent authorities involved in money laundering investigations. The authorities prioritize confiscation as a policy objective with investigations into criminal assets and money flows in all criminal investigations. The Netherlands provides timely and constructive responses to mutual legal assistance and extradition requests. Simplified procedures further enhance its cooperation with EU Member States.

4. The implementation of the AML/CFT safeguards is uneven and identification of beneficial ownership remains a challenge. Financial institutions are generally compliant with their AML/CFT obligations, but recent high-profile cases identified deficiencies in customer due diligence processes. The financial institutions, including large banks, struggle with identification of beneficial owners in complex international conduit structures that are common in the Netherlands. Non-financial businesses and professions, such as lawyers, notaries, real estate agents, and domicile providers have a low understanding of money laundering risks, including from foreign proceeds of crime, and weak AML/CFT controls. They tend to rely on self-declarations of a PEP status rather than automated screening processes. There are also doubts about their application of additional requirements regarding clients from high-risk countries. This is particularly worrying in the case of notaries who often register this information in the beneficial ownership register. Conversely, trust offices are relatively compliant with their AML/CFT obligations. Nonetheless, there are issues with illegal trust services (e.g., disaggregating of services to be miscategorized as domicile providers) which are less likely to properly implement beneficial ownership obligations or report unusual transactions. The resources currently allocated to tackling illegal trust services are considered inadequate. The authorities published an action plan on September 23, 2022, aimed at improving AML/CFT compliance by non-financial businesses and professions. Finally, the level of sentencing remains low and there are concerns about the dissuasiveness of the applicable sanctions.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—THE NETHERLANDS

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 8, 2023

Prepared By European Department

CONTENTS

FUND RELATIONS

(As of January 20, 2023, unless specified otherwise)

Mission: November 28–December 9, 2022. The concluding statement of the mission is available at link.

Staff team: Messrs. B. Akitoby (head), A. Geis, and Mses. S. Armendariz, A. Myrvoda (all EUR).

Country interlocutors: The team met with De Nederlandsche Bank President Klaas Knot, Finance Minister Sigrid Kaag, State Secretary Marnix van Rij, and other officials from the Ministries of Finance, the Interior and Kingdom Relations, Social Affairs and Employment, Economic Affairs and Climate Policy, De Nederlandsche Bank, other government entities, and the Single Supervisory Mechanism; representatives of labor unions and employers, and representatives of private sector institutions. M. Louis joined the mission in the last couple of days to moderate the press conference and assist in media relations. C. Chen, K. Kirabaeva, E. Massetti, T. Tim (all FAD), and G. Dolphin (EU) joined the mission virtually for the meetings on climate change policies. Mr. P. Hilbers and Ms. C. Eijking (both OED) participated in some of the meetings.

Fund relations: Discussions for the 2022 Article IV consultation were held on November 28–December 9, 2022. The staff report for the 2021 Article IV Consultation (IMF Country Report No. 2021/243, November 2021) was considered by the Executive Board on November 10, 2021. The Article IV consultations with the Netherlands are on the standard 12-month consultation cycle. The Executive Board's assessment and staff report are available at link.

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

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	8,736.50	100.00
Fund holdings of currency	6,296.86	72.08
Reserve Tranche Position	2,441.21	27.94
Lending to the Fund	44.00	

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	13,210.17	100.00
Holdings	13,688.13	103.62

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million
Stand-By	Sep 12, 1957	Mar 12, 1958	68.75	0.00

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

	2023	2024	2025	2026	2027
Principal					
Charges/Interest	0.17	0.17	0.17	0.17	0.17
Total	0.17	0.17	0.17	0.17	0.17

Implementation of HIPC Initiative
Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI)
Not Applicable

Implementation of Catastrophe Containment and Relief (CCR)
Not Applicable

Exchange Rate Arrangements
The Netherlands' currency is the euro. The exchange rate arrangement of the euro area is free floating. The Netherlands participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies. The Netherlands maintains measures as adopted solely for national or international security reasons, which have been notified to the Executive Board in accordance with Decision No. 144-(52/51).

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

STATISTICAL ISSUES

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

II. Data Standards and Quality	
Adherent to the IMF's Special Data Dissemination Standard (SDDS) Plus since January 27, 2015. The Netherlands' latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board.	The January 2008 data ROSC is available here.

The Netherlands: Table of Common Indicators Required for Surveillance
(As of January 20, 2023)

	Date of Latest Observation	Date Received	Frequency of Data 8/	Frequency of Reporting 8/	Frequency of Publication 8/	Memo Items: Data Quality—Methodological Soundness 9/	Memo Items: Data Quality—Accuracy and Reliability 10/
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	11/22	12/22	M	M	M		
Reserve/Base Money 2/	11/22	12/22	M	M	M		
Broad Money 2/	11/22	12/22	M	M	M		
Central Bank Balance Sheet	11/22	12/22	M	M	M		
Consolidated Balance Sheet of the Banking System	11/22	12/22	M	M	M		
Interest Rates 3/	Current	Current	D	D	D		
Consumer Price Index	12/22	01/23	M	M	M	O, O, LO, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing 4/—General Government 5/	Q2/22, 2021A	11/22	Q/A	Q/A	Q/A	LO, LO, LO, O	LO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing 4/—Central Government	Q2/22, 2021A	11/22	Q/A	Q/A	Q		
Stocks of Central Government and Central Government-Guaranteed Debt 6/	Q3/22, 2021A	01/23	Q/A	Q/A	Q		

The Netherlands: Table of Common Indicators Required for Surveillance (concluded)
(As of January 20, 2023)

External Current Account Balance	Q3/22	12/22	Q	Q	Q	O, O, O, O	O, O, O, O, O
Exports and Imports of Goods and Services	Q3/22	12/22	Q	Q	Q		
GDP/GNP	Q3/22	12/22	Q	Q	Q	O, O, O, O	LO, O, O, O, O
Gross External Debt	Q3/22	12/22	Q	Q	Q		
International Investment Position 7/	Q3/22	12/22	Q	Q	Q		

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

Statement by Mr. Paul Hilbers, Executive Director,
and Ms. Carlijn Eijking, Advisor to the Executive Director
February 27, 2023

On behalf of the Dutch authorities, we would like to thank staff for their hard work and constructive policy dialogue during the Article IV mission to the Netherlands and the set of papers produced, including high-quality Selected Issues Papers (SIPs) on (i) inflation, (ii) climate change policies and (iii) housing supply policies. The Dutch authorities agree with the thrust of the staff appraisal.

Recent developments, outlook, and risks

The Dutch economy has proven to be resilient. Growth surprised positively in the last quarter of 2022, turning out 0.6% compared to the previous quarter after a small contraction in Q3 (-0.2% GDP q-o-q). Based on this preliminary estimate, GDP has grown by 4.5% in 2022 on an annual basis, slightly above staff's estimate of 4.2%. GDP growth in 2022 was primarily driven by private consumption growth and increased foreign demand, mostly for services. For 2023, growth is expected to slow down, and inflation is expected to decrease to an average of 4.9%, driven by the dissipation of energy inflation, after having peaked in 2022 at 11.5%. However, core inflation is expected to remain high after 2023, due to overcapacity and an extremely tight labor market. At 3.5%, the unemployment rate in December is exceptionally low.

Headline inflation was overestimated in 2022 due to technical reasons. This has been a consequence of a measurement method that frontloaded energy inflation. The current method assumes fully flexible (variable pricing) energy contracts, while in practice many households have fixed-price energy contracts. Under the current metric, energy inflation will soon dissipate after a year of high energy prices, compared to other countries where the pass-through to energy consumption prices was measured more gradually. In January this year, energy inflation was indeed negative in the Netherlands (-3.4%), also because of the energy price cap set by the government that took effect. Statistics Netherlands (CBS) is currently working on an alternative metric based on the actual costs of energy paid. Implementation of the new metric is expected for the second half of the year.

There are currently no signs of a wage-price spiral, although wage growth of new agreements has been high over the past months. Contractual wage growth was 3.8% in December (y-o-y). In January wage growth increased to 4.6%, which coincides with a large number of new agreements that came in effect on January 1st. Incidentally, collective agreements have been negotiated for percentages higher than 10%. Yet, the overall wage growth has lagged behind inflation significantly. While companies often pass through higher energy and food prices to consumers, automatic wage indexation was ended in 1980s and companies' stable and comfortable profit margins allow for a certain wage increase in most sectors without adding to price pressures. The current account is expected to stay within a bandwidth of 5-7% of GDP over the next years, according to both authorities and staff estimates.

The authorities broadly agree on the macroeconomic outlook and the main risks to the outlook. The authorities agree that a sharper downturn of the housing market could negatively impact growth through both residential investment and consumption growth via wealth effects. However, on a macrolevel households sustained their pandemic savings rate through 2022, providing them with some buffer to cope with unexpected headwinds. An intensification of Russia's war against Ukraine and energy security risks are seen as the main downside risks to the outlook. Differences between the authorities and staff in forecast core inflation can be explained mainly by different definitions of core inflation which, for the IMF, includes processed food.

Fiscal policies

A solid fiscal position with low public debt allowed the government to scale up public investment and introduce energy support measures for households. The coalition agreement, which is being implemented in annual budgetary plans, includes a broad investment agenda including in infrastructure, R&D, and climate. The government announced additional discretionary measures to support households with higher energy costs in the fall of 2022. The energy price cap was set at a relatively high price, whilst the cap covers total energy consumption for about 50% of the households (accounting for 83% of total energy consumption). Providing households with predictability about their energy costs has been the main motivation behind this measure. The government is analyzing whether additional support measures targeted at the most vulnerable households may be warranted after 2023. The budgetary impact of the price cap is estimated at 8 billion (about 0.8% of GDP). Since the budget is also impacted by gas prices via the gas revenues received, this provides a natural hedge to the price cap in 2023.

The government intends to cover the budgetary costs of the price cap measure in the next budget, which would also help mitigate inflationary pressures. Regular budget discussions in spring allow for another political discussion on the funding of the price cap. Further measures to better tax capital income can be considered, as well as further measures to reach the government's set climate mitigation ambitions. The government currently analyzes the options for further climate mitigation measures that are also intended to be presented and discussed in spring.

Financial sector policies

After buoyant house price developments, house prices have started to decline. After years of acceleration, especially in 2020 and 2021, house prices have started to decline in the second half of 2022 and are expected to decline further in 2023 and 2024, by about 3pp a year according to DNB's December forecast. The lower limit on LTV-ratios helped to significantly reduce the leverage of homeowners over the years, making them less vulnerable to a downturn compared to the GFC. Even a 20% house price decline would result in negative net equity for only 8% of homeowners. The renewed interest in interest-only mortgages experienced in 2021 and 2022 has likely come to a halt following mortgage rate increases since early 2022, although this has yet to be confirmed by data. Banks' communication to consumers about interest-only mortgages was improved, following the 2017 FSAP recommendation.

The authorities judge the current macro-prudential stance as broadly adequate. The banking sector is well-capitalized, and profitability has increased with rising interest rates. There has not been any significant increase in banks' non-performing loans so far. The authorities are currently reviewing the methodology and policy of structural systemic risk buffers (O-SII) and have set the sector-wide (releasable) CCyB at 1%, effective as of May 2023, as part of their redesigned policy toward an objective of 2% in a risk-neutral environment. Both this measure and the minimum risk weight floors for mortgage loans introduced in January 2022 provide the sector with a buffer for a housing market and/or cyclical downturn. The risk of large-scale arrears in mortgage debt servicing seems limited however given the high level of mortgages with fixed-rate contracts and long maturities. Moreover, the government's mortgage guarantee scheme provides certain homeowners protection against potential residual debts.

Pension funds are preparing for a transition towards a Defined Contributions (DC) system that is currently up for approval by the Dutch Senate. The new system provides for a better indexation of pension benefits. On the other hand, benefits will become more sensitive to financial market developments. Scenario analysis, undertaken by DNB and the AFM, points to liquidity risks at pension funds from a financial stability perspective, resulting from margin calls on their derivatives positions. Potential policy recommendations will be discussed in the context of the Dutch Financial Stability Committee.

Structural/housing market policies

Measures have been taken to further reduce labor market duality. The authorities agree on the importance of realigning tax and other incentives, including social protection, across different types of employment to help reduce labor market duality. A mandatory insurance scheme for the self-employed is planned to be implemented by 2029 and the self-employed person's tax deduction will be reduced significantly in the next years.

Despite overall high participation rates, the high level of parttime workers needs further attention. The Netherlands is a champion in parttime work. While this can be partly explained by expensive child-care services and a high marginal tax rate, it might also have become a socially accepted norm. The government is working on adjusting and increasing the subsidy for child-care services, intending to fund 96% of the costs of daycare for all households in 2025, which helps to keep women in the workforce. More might be needed to increase labor supply, especially given the current labor market tightness.

Affordable housing has been a top priority for the current government. There's a broad understanding that limited supply is one of the key factors putting upward pressure on house prices. Therefore, the government has announced the building of 900.000 new houses by 2030. Furthermore, the government has recently proposed regulations to take more control of the permit process which often gets protracted by conflicted interests and regulations on a decentralized level. To ensure sufficient affordable rental housing for mid-income households, an extension of price regulation to the private rental market has been announced. Once in place, the government will analyze the potential negative effects of the regulation on the supply of private rental housing.

Climate change

The Dutch government emphasizes that additional climate policy is necessary to achieve the climate goals and significant steps have already been taken. The emission reduction target in the Dutch Climate Law has been increased from 49% emission reduction compared to 1990, to 55% reduction with the government targeting a 60% emission reduction. Towards this end, a climate fund of 35 billion euro has been established. The government is also in the process of making the tax system greener, amongst others by eliminating certain tax exemptions, increasing the national carbon levy for the industry, and increasing taxes on air travel amongst others. The government recognizes that additional measures are necessary on top of the policies resulting from the coalition agreement. Additional policy options are expected mid-March, in time for the yearly (budgetary) decision-making process in spring.

We very much welcome international efforts, including by the Fund, to better calibrate climate policies. In that context, we are pleased to note that our Minister of Finance will be co-chairing the Coalition of Finance Minister for Climate Action starting in April 2023. We also very much welcome the analysis and recommendations on climate adaptation policies in the SIP. The authorities fully agree with the recommendations to focus on actions with large positive externalities and to further strengthen climate adaptation policies by holistically integrating them into long-term planning frameworks. The Dutch Environmental Agency (PBL) already started work on updating the climate change impacts and risks. Regarding infrastructure, stress tests were finalized in 2021-2022 and follow-up discussions are ongoing. The recommendation to update building codes fits in ongoing discussions on resilient building policies.