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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of the Netherlands

{SWD(2025) 219 final}

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.
[2] OJ L 306, 23.11.2011, p. 25, ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

legislative term. The net expenditure[3] path in these plans has to comply with the Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[4], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[5] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Netherlands added a REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(4) On 8 July 2022, the Netherlands submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 4 October 2022, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for the Netherlands[6], which was amended under Article 18(2) on 17 October 2023 to update the maximum financial contribution for non-repayable

[3] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

[5] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa. eu/eli/reg/2023/435/oj).

[6] Council Implementing Decision of 4 October 2022 on the approval of the assessment of the recovery and resilience plan for the Netherlands (ST 12275/22 INIT; ST 12275/22 INIT ADD 1).

financial support, as well as to include the REPowerEU chapter[7]. This Council Implementing Decision was amended on 17 October 2023 and again on 5 November 2024[8]. The last revision of the Council Implementing Decision was adopted on 13 May 2025. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that the Netherlands has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

(5) On 21 January 2025 the Council, upon the recommendation of the Commission, adopted a recommendation setting the net expenditure path of the Netherlands[9]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years.

(6) On 26 November 2024, the Commission adopted an opinion on the 2025 draft budgetary plan of the Netherlands. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it identified the Netherlands as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[10] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned

[7] Council Implementing Decision of 17 October 2023 amending the Implementing Decision of 4 October 2022 on the approval of the assessment of the recovery and resilience plan for the Netherlands (ST 13613/1/23, 13613/23 REV 1; ST 13613/1/23 ADD1 REV1).

[8] ST 13789/24 INIT; ST 13789/24 ADD 1 REV 1.

[9] Council Recommendation of 21 January 2025 setting the net expenditure path of the Netherlands, OJ C/2025/648, 10.2.2025.

[10] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http:// data.europa.eu/eli/C/2025/2782/oj).

with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for the Netherlands. It assessed the Netherlands' progress in addressing the relevant country-specific recommendations and took stock of the Netherlands' implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges the Netherlands is facing. It also assessed the Netherlands' progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(11) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for the Netherlands. The main findings of the Commission's assessment of macroeconomic vulnerabilities for the Netherlands for the purposes of that Regulation were published on 13 May 2025[11]. On 4 June 2025, the Commission concluded that the Netherlands is experiencing macroeconomic imbalances. In particular, vulnerabilities related to high private debt in a context of an overvalued housing market, and the large current account surplus remain relevant, despite some improvements including greater dynamism of domestic demand; these vulnerabilities have cross-border relevance. The current account surplus is among the largest in the euro area and is expected to remain high. From a savings-investment perspective, all sectors of the economy are contributing to the surplus. The corporate sector's surplus is to a significant degree driven by the activities of the non-financial corporations abroad and the contribution of multinationals' retained earnings. Even though consumption and investment growth were key drivers of the recovery from the pandemic, the Netherlands is lagging the euro area in terms of the level of corporate and public investment. Household debt remains among the highest in the EU but has decreased significantly due to denominator effects while household borrowing recovered strongly in 2024. House prices have edged up at increasing rates last year and are expected to increase strongly also in 2025 as significant structural challenges remain unaddressed. Policy progress has been limited. Some measures have been taken that could decrease the current account surplus, but their overall impact is not expected to be significant. Some measures have been taken to help boost housing

[11] SWD(2025) 71 final.

supply, but there has only been limited action to decrease incentives for household borrowing. The recent introduction of rent limits poses risks to the development of the private and social rental markets.

Assessment of the Annual Progress Report

(12) On 21 January 2025 the Council recommended the following maximum growth rates of net expenditure for the Netherlands: 3.5% in 2025, 3.3% in 2026, 3.0% in 2027, and 3.0% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to 2023 of 10.4% in 2025, 14.0% in 2026, 17.5% in 2027, and 21.0% in 2028. On 29 April 2025 the Netherlands submitted its Annual Progress Report[12], on adherence to the recommended maximum growth rates of net expenditure and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects the Netherlands' biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(13) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025.

(14) Based on data validated by Eurostat[13], the Netherlands' general government deficit increased from 0.4% of GDP in 2023 to 0.9% in 2024, while the general government debt fell from 45.2% of GDP at the end of 2023 to 43.3% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 6.8% in 2024. In the 2025 Annual Progress Report, the Netherlands estimates the net expenditure growth in 2024 at 5.7%. The Commission estimates that the net expenditure growth was higher than in the Annual Progress Report. The difference between the Commission's calculations and the estimates of national authorities is due to small discrepancies in the estimated impact of discretionary revenue measures. Based on the Commission's estimates, the fiscal stance[14], which includes both nationally and EU financed expenditure, was broadly neutral in 2024.

(15) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by the Netherlands expects real GDP growth at 1.9% in 2025 and 1.5% in 2026, while HICP inflation is projected at 3.0% in 2025 and 2.4% in 2026. The Commission Spring 2025 Forecast projects real GDP to grow by 1.3% in 2025 and 1.2% in 2026, and HICP inflation to stand at 3.0% in 2025 and 2.0% in 2026.

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12 The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

13 Eurostat-Euro Indicators, 22.4.2025.

14 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

(16) In the Annual Progress Report, the general government deficit is expected to increase to 2.3% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 45.0% by the end of 2025. These developments correspond to net expenditure growth of 7.9% in 2025. The Commission Spring 2025 Forecast projects a general government deficit of 2.1% of GDP in 2025. The increase of the deficit in 2025 mainly reflects personal income tax cuts, increasing government spending on compensation of employees and intermediate consumption due to a higher-than-expected base in 2024 and a reduction of some revenue components due to anticipation effects that boosted revenue in 2024. According to the Commission's calculations, these developments correspond to net expenditure growth of 7.0% in 2025. These lower projections of net expenditure growth than in the Annual Progress Report are due to a higher level of underspending assumed in the Commission's estimates as well as small discrepancies in the impact of discretionary revenue measures. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary, by 0.6% of GDP, in 2025. The general government debt-to-GDP ratio is set to increase to 45.0% by the end of 2025. The increase of the debt-to-GDP ratio in 2025 mainly reflects the budget deficit as well as stock-flow adjustments.

(17) General government expenditure amounting to 0.1% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.1% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of the Netherlands.

(18) General government defence expenditure in the Netherlands remained stable at 1.3% of GDP between 2021 and 2023[15]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 1.5% of GDP in both 2024 and 2025. This corresponds to an increase of 0.2 percentage points of GDP compared to 2021.

(19) According to the Commission Spring 2025 Forecast, net expenditure in the Netherlands is projected to grow by 7.0% in 2025 and 14.3% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of the Netherlands in 2025 is projected to be above the recommended maximum growth rate, corresponding to a deviation[16] of 1.4% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also projected to be above the recommended maximum growth rate, corresponding to a deviation of 1.4% of GDP. The projected deviations exceed the 0.3% of GDP threshold for the annual deviation and the 0.6% of GDP threshold for the cumulative deviation. Overall, this means there is a risk of deviation from the recommended maximum net expenditure growth, when outturn data for 2025 will be available next spring.

(20) In the Annual Progress Report, the general government deficit is projected to increase to 2.8% of GDP in 2026, while the general government debt-to-GDP ratio is projected to increase to 47.8% by the end of 2026. After 2026, in the Annual Progress Report,

[15] Eurostat, government expenditure by classification of functions of government (COFOG).

[16] From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

the general government deficit is projected to decrease to 2.0% of GDP in 2027 and 2.2% 2028. In turn, after 2026, the general government debt-to-GDP ratio is projected to increase to 48.5% in 2027 and 49.2% in 2028. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a general government deficit of 2.7% of GDP in 2026. The increase of the deficit in 2026 mainly reflects a reform of the military pension system which requires a lump-sum transfer of the government to a pension fund that is outside of government control with a budgetary impact of 0.7% of GDP, which is recorded as a one-off measure. Without this transaction, the government balance would improve moderately as VAT rates on certain goods and services are increased, and personal income tax brackets are not fully adjusted to inflation. These developments correspond to net expenditure growth of 3.8% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be broadly neutral in 2026. The general government debt-to-GDP ratio is projected by the Commission to increase to 47.8% by the end of 2026. The increase of the debt-to-GDP ratio in 2026 mainly reflects the budget deficit as well as stock-flow adjustments.

Key policy challenges

(21) The Dutch system of private income taxation treats certain assets differently from the rest, affecting the allocation of capital and distorting economic decisions. Housing wealth and pension contributions are given preferential treatment, boosting demand in the owner-occupied housing market and lowering disposable incomes of households due to high pension contributions. In addition, holding assets in closely held companies (a company in which the majority of its shares are owned by only a few individuals) allows taxpayers to delay tax payments on such returns, while still benefiting from those returns through tax-free loans from the company. Furthermore, households with financial market assets are taxed at assumed rates of return, which is unfavourable when the actual return is lower. As a result, household wealth in the Netherlands is highly concentrated in illiquid types of wealth, such as housing or pensions. This exposes households to greater economic risk during economic shocks and in many cases may not lead to an optimal consumption pattern over their lifetime as disposable incomes are squeezed by high pension contributions and mortgage payments during working age. The unequal tax treatment within and across asset types gives rise to tax arbitrage, reduces the ability of the tax system to act as an automatic stabiliser, exacerbates economic inequalities and can skew the efficient allocation of capital. As a result, this unequal treatment is also relevant when it comes to addressing macroeconomic imbalances.

(22) In addition to the tax incentives mentioned above, overvaluation in the housing market has been fuelled by a shortage of new dwellings. The government could advance its plans to increase housing supply by means of comprehensively removing obstacles that are currently holding back residential construction, and, in particular, simplifying planning and permitting processes that on average take up to 6-7 years to complete, out of a total construction period of 10 years. This would help mitigate macroeconomic imbalances.

(23) The underdeveloped private rental market, characterised by high costs and limited options for tenants, poses significant challenges as regards affordability and increases poverty risks for low- and middle-income households. Recent policy developments, including the extension of rent price controls, bans on buy-to-let properties, and changes to the tax treatment of rental properties, have exacerbated existing supply shortages in the private rental sector. The scarcity of affordable rental housing hinders

labour mobility and competitiveness. To address this issue, rebalancing incentives between homeownership and renting, and making investments more attractive by allowing market forces to operate to a greater degree in the sector, could help expand the private rental market. This, in turn, would help mitigate macroeconomic imbalances.

(24) The Dutch long-term care system faces significant challenges from an ageing population, costly institutional care and generous coverage of dependents. The Netherlands fares well compared to most Member States in terms of adequacy, availability, and quality of the long-term care system as well as the size of the workforce in the field. However, the system is increasingly putting pressure on the government budget. In 2022, total long-term care spending in the Netherlands stood at 3.8% of GDP, the highest value in the EU by a wide margin. Furthermore, the Commission’s 2024 Ageing Report expects the increase in long-term care spending by 2070 in the Netherlands to be one of the largest in the EU. Measures to address this could include aligning co-payments, i.e. own contributions by patients, to the cost of the care they receive across different types of benefits. The system would work more efficiently if patients determined their choice of care setting based on their individual care needs, instead of choosing a setting that minimises their co-payments. Additional investments in prevention to delay the onset of long-term care needs and further improving the delivery of community-based care could also help reduce costs. These improvements could ensure that the benefits of the system are allocated more efficiently without compromising the high coverage and quality of the system.

(25) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan, including the REPowerEU chapter, is essential to boost the Netherlands’ long-term competitiveness through the green and digital transitions, while ensuring social fairness. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(26) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+), has accelerated in the Netherlands. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. The Netherlands is already taking action under its cohesion policy programmes to boost competitiveness and growth. At the same time, the Netherlands continues to face challenges, and there could be scope to further boost competitiveness, including by up- and reskilling of vulnerable groups and developing and manufacturing critical technologies. In accordance with Article 18 of Regulation (EU) 2021/1060, the Netherlands is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific

recommendations. The Commission proposals adopted on 1 April 2025[17] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. It also provides flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition.

(27) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. The Netherlands could use these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(28) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, the Netherlands faces several additional challenges related to: i) R&D investments, ii) access to finance, iii) reliance on fossil fuels, iv) electricity congestion, v) excessive nitrogen deposits, vi) labour and skills shortages, vii) basic skills, and viii) participation in science, technology, engineering, and mathematics (STEM) programmes.

(29) The Netherlands has a well-performing research and innovation system, ranking fourth in the Summary Innovation index. However, recent trends indicate public and private R&D intensity has fallen below the EU average and globally, which can hinder long-term competitiveness. In particular, sectors such as manufacturing and information and communications technologies (ICT) face significant investment gaps, with investment as a share of value added being lower than in the euro area. R&D investment as a share of gross value added in the private sector lags behind other European innovation leaders. At the same time, public R&D investment is falling below the EU average and the recent budget cuts to the National Growth Fund have further reduced public support to innovation. To address these challenges, a targeted approach is needed, focusing on key competitive areas, investing in research and testing facilities, and promoting priority technologies outlined in the National Technology Strategy, including quantum technology, semiconductors, AI, and data science. By strengthening public support for innovation, the Netherlands can boost the innovation landscape and maintain its position as a European innovation leader.

(30) Despite having well-capitalised financial markets that provide a stable source of funding to the economy, as well as one of the deepest venture capital markets in the EU, some start-ups and scale-ups face difficulties in accessing funding. In particular, there is a funding gap for start-ups with capital needs above EUR 10 million and scale-ups seeking funding above EUR 50 million before large-scale commercialisation. They rely heavily on foreign investors. The Dutch government has announced several initiatives to facilitate scale-up investments through Invest-NL and Dutch Venture Initiative, but these initiatives need to be implemented and monitored effectively. The current funding gap could hinder innovative investment and long-term competitiveness, as start-ups and scale-ups show higher productivity growth than other new businesses. To address this issue, the Netherlands can benefit from using

17 Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review - COM(2025) 123 final.

financing tools and schemes such as guarantees, or fund-to-fund instruments to channel funding resources and attract institutional investors such as domestic pension funds, which are the largest in the euro area.

(31) The Netherlands still relies heavily on fossil fuels. In 2023, oil and natural gas accounted for 43.9% and 33.8%, respectively, of the country’s overall energy mix, while the share of renewables amounted to only 13.8%. This makes the Dutch economy vulnerable to global price developments and hinders the transition to a green economy. Despite the Netherlands advancing the roll-out of renewable energy sources, particularly offshore wind, its renewable energy share is still below the EU average and below EU targets. Additional efforts are therefore needed for the Netherlands to ensure further roll-out of renewables and to achieve the EU 2030 renewable energy targets. This could include measures to reduce financial risks in the offshore wind sector to maintain the attractiveness of investments in the sector.

(32) The congestion of the electricity grid has worsened, affecting both rural and urban areas, and both the transmission and distribution networks. This hinders the clean energy transition, constrains economic activity, and undermines the Netherlands’ competitiveness. Network operators are frequently forced to refuse grid access requests from new electricity producers and consumers. Whereas grid congestion is being addressed through a combination of investments in grid and regulatory initiatives, it is expected that grid congestion will continue being a major challenge in the short to medium term, therefore requiring continued attention and action. The Netherlands could benefit from increasing the capacity of its transmission and distribution grid, implementing flexibility solutions and reducing the level of loop flows in a structural manner to maximise cross-zonal electricity trading over existing cross-border infrastructure.

(33) Excessive levels of nitrogen deposition, resulting mainly, but not exclusively, from the intensive agricultural sector, remains a significant environmental challenge that impacts the Netherlands’ economy at large. Excessive nitrogen deposition leads to the over-fertilisation and acidification of soil and water bodies, while at the same time putting significant constrains on the permitting of construction activities, delaying needed infrastructure and impacting the country’s competitiveness. Surface and ground water quality also remains a concern, with many water bodies failing to comply with the Water Framework Directive and the Nitrates Directive. Therefore, additional measures are needed to structurally address excessive nitrogen deposition by the emitting sectors and to drive a transition to sustainable agriculture, including organic farming. In particular, the Netherlands could benefit from adopting farming practices that aim to cut nutrient and pesticide pollution and greenhouse gas emissions.

(34) The share of Dutch workers with flexible or temporary contracts is nearly double the EU average. In addition, there are various incentives in the Dutch labour market that create an unequal playing field between employees and self-employed persons without employees, enabling bogus self-employment and resulting in a relatively high share of self-employed in the Dutch labour market. The widespread use of flexible employment has contributed to labour market segmentation (i.e. the division of the jobs market into different categories of workers with different levels of job security and/or access to social and other benefits) and disproportionately affects vulnerable groups such as workers with lower levels of skills and people with a migrant background. These workers are more likely to be trapped in precarious jobs with limited access to training, inadequate social protection, and a higher risk of in-work poverty and social exclusion. The high prevalence of self-employed and flexible employment can also

influence productivity growth, as these forms of employment often have fewer opportunities for learning, development and training. The government is implementing a package of measures to reduce incentives for self-employment and flexible employment. This includes: i) various legislative changes to limit bogus self-employment and reduce the differences between the self-employed and employees, which are all covered by the Dutch recovery and resilience plan; and ii) a bill that aims to provide job security for those working under flexible employment contracts. Implementing these plans in a comprehensive and speedy manner is crucial to address these persistent issues in the Dutch labour market.

(35) Labour and skills shortages remain a significant challenge in the Netherlands, affecting a wide range of sectors including healthcare, education, technology and ICT. The Netherlands also stands out in this regard compared to peers, with Dutch companies significantly more likely to report hiring difficulties compared to the EU average. There are several structural factors affecting labour shortages, including demographic trends, slow workforce growth and the low average number of hours worked. These constraints are hampering productivity and competitiveness. Despite high participation rates, the Netherlands has an untapped labour potential, especially among people with a migrant background and part-time workers, particularly women. To increase labour supply, people could be encouraged to work more hours, including through policy measures that enables them to combine work with family and care responsibilities and by promoting quality of work and better working conditions. Attracting talent can also increase labour supply. Addressing labour shortages will require a multifaceted approach that targets sector-specific barriers, and boosts productivity-enhancing investments. Strengthening upskilling and reskilling opportunities, particularly for people at the margins of the labour market, will be essential to alleviate shortages, encourage sectoral mobility, and support long-term economic resilience. Policy measures on the demand side could focus on promoting high value-added sectors as well as sectors related to societal challenges, such as education and healthcare, encouraging cross-sector mobility and increasing productivity-enhancing and R&D investments.

(36) The decline in basic skills in the Netherlands is one of the largest in the EU and undermines education and labour market outcomes and competitiveness. Although the Netherlands still has a relatively high share of top performing students, the number of underachievers has sharply increased in mathematics, science and reading over the last decade. Underachievement is four times more common among disadvantaged students than among their peers. Teacher shortages are considerable and can impact student learning outcomes and hinder access to quality education for all, as they vary by the share of disadvantaged pupils in the schools and between regions. To address these issues, the Netherlands could evaluate and review existing measures to improve basic skills, such as the 'Master plan for basic skills' launched in 2022, and consider measures to improve student learning outcomes, such as making it easier to transition between different educational tracks, focusing on schools with a disadvantaged student population.

(37) The Netherlands faces a challenge in ensuring sufficient post-secondary graduates in STEM fields, exacerbating skills shortages. Despite having a tertiary attainment rate above the EU average, the country lags behind in the share of STEM graduates. In particular, women and students with a migration background are underrepresented in STEM fields. To address this issue, targeted education support can be provided, including personalised guidance and tailored teaching processes. Such initiatives can

help break down barriers and encourage underrepresented groups specifically to pursue STEM studies.

(38) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2025, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For the Netherlands, recommendations (2), (3), and (5) help implement the first euro-area recommendation on competitiveness, while recommendations (1), (4) and (5) help implement the second euro-area recommendation on resilience, and recommendation (1) helps implement the third euro-area recommendation on macroeconomic and financial stability set out in the 2025 Recommendation.

(39) In light of the Commission's in-depth review and its conclusions on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1). Policies referred to in recommendation (1) help to address vulnerabilities linked to high private debt in a context of an overvalued housing market and vulnerabilities linked to the high current account surplus. Recommendation (1) contributes to both addressing imbalances and implementing the Recommendation on the economic policy of the euro area, in line with recital 38.

HEREBY RECOMMENDS that the Netherlands take action in 2025 and 2026 to:

1. Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Ensure that net expenditure respects the path recommended by the Council on 21 January 2025. Align the taxation of different types of income from wealth, among others to reduce incentives for debt-financed homeownership. Remove obstacles for the construction of new dwellings by simplifying planning and permitting procedures. Support the development of an affordable private rental sector, including by making investments in the sector more attractive. Address the expected increase in age-related expenditure in long-term care by making the system more cost-effective, including by allocating benefits more efficiently.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, ensure the effective implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the scope provided by the InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Enhance public and private R&D intensity by targeting support to investments in key strategic technologies. Address the funding gap for late-stage start-ups and scale-ups by leveraging available financing tools and providing incentives to attract institutional investors.

4. Reduce overall reliance on fossil fuels by accelerating the roll-out of renewables and improving energy efficiency, particularly in buildings. Decrease electricity grid congestion by increasing the capacity of the transmission and distribution grid, implementing flexibility solutions, maximising cross-zonal trade, and further simplifying permitting procedures. Implement structural measures to address

excessive nitrogen deposition and the deterioration of water quality effectively, especially by making further efforts for sustainable agriculture.

5. Adopt and implement measures to reduce incentives to use flexible or temporary contracts. Implement comprehensive measures to address labour and skills shortages, including by tapping into underused labour potential, by strengthening upskilling and reskilling opportunities for all through targeted and tailored active labour market policies, and by encouraging mobility to high-productivity sectors and sectors related to societal challenges. Improve basic skills, including by addressing teacher shortages and tailored support to disadvantaged schools, and boost participation in STEM programmes by targeted educational support and career advice, especially for women and students with a migrant background.

Done at Brussels,

For the Council
The President