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Foreword

This Survey is published under the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation and policies of member countries. The economic situation and policies of the Netherlands were reviewed by the Committee on 22 April 2025. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 28 May 2025.

The Secretariat's draft report was prepared for the Committee by Daniela Glocker and Nicolas Gonne, under the supervision of Aida Caldera Sánchez. Statistical research assistance was provided by Monica Quinza Armenta, editorial assistance by Gemma Martinez, and communication assistance by François Iglesias.

The previous Survey of the Netherlands was issued in 2023. Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at https://www.oecd.org/en/topics/sub-issues/economic-surveys.html

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Basic statistics of the Netherlands, 2024

(Numbers in parentheses refer to the OECD average)

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million, 2023)	17.9		Population density per km² (2023)	531.0	(39.2)
Under 15 (%, 2023)	15.2	(16.9)	Life expectancy at birth (years, 2023, OECD: 2022)	82.0	(80.6)
Over 65 (%, 2023)	20.2	(18.2)	Men (2023, OECD: 2022)	80.5	(78.0)
International migrant stock (% of population)	16.2	(15.7)	Women (2023, OECD: 2022)	83.4	(83.2)
Latest 5-year average growth (%)	0.7	(0.4)	Latest general election	Nov-2023	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%, 2023)		
In current prices (billion USD)	1 226.6		Agriculture, forestry and fishing	1.9	(2.7)
In current prices (billion EUR)	1 134.0		Industry including construction	20.8	(27.1)
Latest 5-year average real growth (%)	1.6	(1.7)	Services	77.3	(70.2)
Per capita (thousand USD PPP, 2023)[1]	78.3	(59.0)			
GENERAL GOVERNMENT Per cent of GDP					
Expenditure	43.9	(43.7)	Gross financial debt (OECD: 2023)	47.5	(110.5)
Revenue	43.0	(38.8)	Net financial debt (OECD: 2023)	20.8	(67.2)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.92		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.77		Machinery and electronics	22.4	
In per cent of GDP			Chemicals	14.7	
Exports of goods and services	83.9	(30.5)	Fuels	14.6	
Imports of goods and services	71.9	(30.1)	Main imports (% of total merchandise imports)		
Current account balance	9.9	(-0.3)	Machinery and electronics	23.0	
Net international investment position	57.3		Fuels	17.6	
			Chemicals	12.4	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	66.2	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	3.6	(4.9)
Men	70.6	(65.4)	Youth (aged 15-24, %)	8.7	(11.1)
Women	61.8	(51.0)	Long-term unemployed (1 year and over, %, 2023)	0.5	(1.0)
Participation rate (aged 15 and over, %)	68.7	(61.0)	Tertiary educational attainment (aged 25-64, %, 2023)	44.2	(41.0)
Average hours worked per year (OECD: 2023)	1 445	(1 667)	Gross domestic expenditure on R&D (% of GDP, 2021)	2.3	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2023)	3.4	(3.7)	CO_2 emissions from fuel combustion per capita (tonnes, 2023)	6.3	(7.6)
Renewables (%, 2023)	13.9	(12.5)	Water abstractions per capita (1 000 m³, 2022)	0.5	
Exposure to air pollution (more than 10 µg/m³ of PM 2.5, % of population, 2020)	84.5	(56.5)	Municipal waste per capita (tonnes, 2023)	0.5	(0.6)
SOCIETY					
Income inequality (Gini coefficient, 2022, OECD: latest available)	0.288	(0.316)	Education outcomes (PISA 2022 score)		
Relative poverty rate (%, 2022)	7.4	(11.7)	Reading	459	(476)
Median disposable household income (thousand USD PPP, 2022, OECD: 2021)	41.5	(30.0)	Mathematics	493	(472)
Public and private spending (% of GDP)			Science	488	(485)
Health care (2023)	10.1	(9.2)	Share of women in parliament (%)	38.7	(33.3)
Pensions (2021)	7.5	(9.9)	Net official development assistance (% of GNI, 2022)	0.7	(0.4)
Education (total spending, 2020)	5.4	(5.1)			

Note: The year is indicated in parenthesis if it deviates from the year in the main title of this table. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

[1] OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Executive Summary

Key messages

- Fiscal prudence is key to supporting growth and preserving strong public finances, including by reallocating expenditure to productivity-enhancing public investments, and by containing long-term spending pressures through a balanced combination of revenue-raising measures and targeted spending cuts.
- Accelerating emission reduction efforts, addressing electricity grid congestion, and ensuring long-term policy consistency are crucial to meeting 2030 climate targets, enhancing energy security, and reaching net zero by 2050, while continuing to expand the adaptation strategy.
- Improving housing affordability requires streamlining permitting and land use policies to increase supply, while implementing long-term reforms to expand access to affordable housing and strengthen the private rental segment of the housing market.
- Preserving trade competitiveness given heightened global uncertainty necessitates continuous reforms to enhance supply chain resilience, expand digitalisation in trade, and foster a more dynamic business environment to support innovation and investment.

The economy remains resilient but faces structural headwinds

Strong institutions, advanced infrastructure, and a highly skilled workforce have contributed to the Netherlands' resilience in the face of recent economic shocks. However, as a trade-intensive small economy, the country remains vulnerable to global economic conditions. A rapidly worsening global trade landscape calls for strategies to lower trade costs and enhance resilience by diversifying trade partners. Moreover, labour market tightness, electricity grid congestion, housing shortages, and the nitrogen crisis underscore the urgency of structural reforms to strengthen growth and sustain international competitiveness.

The Dutch economy weathered severe global crises well. Robust improvements in GDP growth have followed successive shocks (Figure 1), while substantial fiscal buffers enabled the government to support households and businesses during downturns. The country also maintains a high current account surplus, reflecting strong trade competitiveness and significant re-export activities, but also sizeable corporate savings, largely owing to outward foreign direct investment by foreign multinational enterprises.

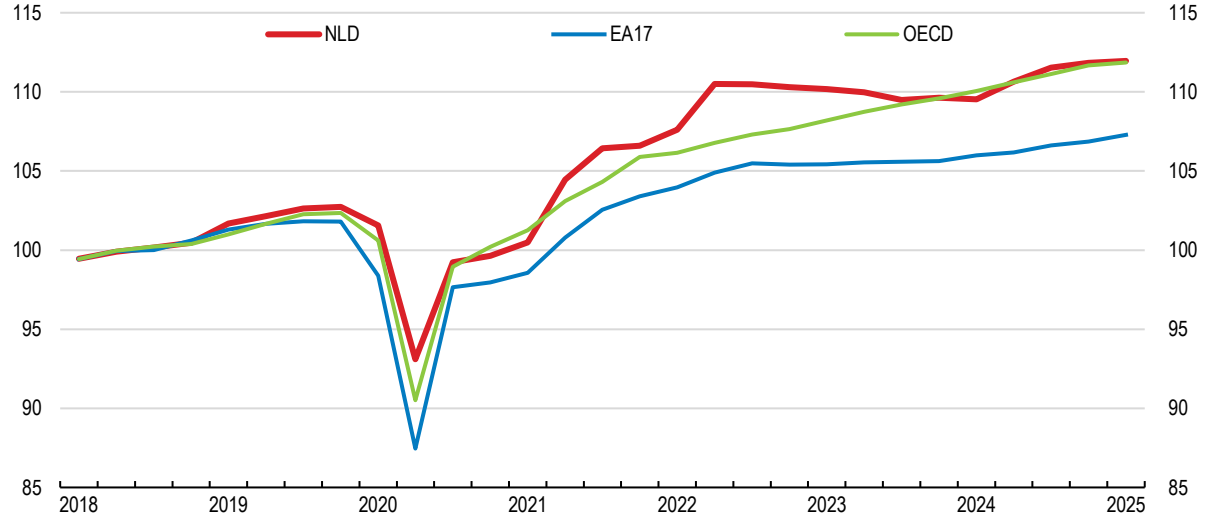
Persistent supply constraints have been weighing on potential growth, leading to labour shortages, weak investment, and sluggish productivity. Labour market tightness prevents firms from operating at their desired scale and exacerbates price pressures. Delays in enhancing the electricity grid hinder business expansion and slow the low-carbon transition. Housing remains under pressure, with supply failing to meet demand, driving up prices and limiting mobility. Skill mismatches further impede technology adoption.

Structural reforms are critical to preserve trade-driven prosperity amidst a changing global landscape. As one of the world's most trade-intensive economies and a major logistics hub, the country is exposed to supply chain disruptions, higher trade costs from increasingly protectionist policies, and a slowdown in global trade. Strengthening labour supply, safeguarding fiscal sustainability, and increasing investment and productivity are needed to maintain competitiveness and support growth.

A coherent strategy is required to alleviate the country's many interrelated challenges. Prioritisation, sequencing and whole-of-government coordination are key to managing trade-offs and reconciling potentially conflicting objectives. Examples include accelerating electrification while enhancing grid infrastructure, facilitating labour immigration while ensuring housing availability, and maintaining trade openness while bolstering resilience to external shocks. Also, political economy considerations must be taken into account.

Figure 1. The Dutch economy outperforms European peers

Real GDP (2018=100)



Source: OECD Economic Outlook: Statistics and Projections (database).

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Growth will be moderate amidst downside risks

GDP is projected to grow by 1.3% in 2025, driven by stronger private consumption owing to rising real incomes, before moderating to 1.1% in 2026 as external demand weakens. The September 2024 fiscal package supports purchasing power and exacerbates inflation risks. Rising geopolitical and trade tensions have heightened uncertainty around the economic outlook.

Strong wage growth is set to keep outpacing consumer price inflation, sustaining household incomes but maintaining price pressures, especially in labour-intensive services. Inflation will remain elevated at 2.5% in 2026 (Table 1), as service prices continue to exert upward pressure. Direct and indirect effects of slowing global trade, along with falling consumer confidence and business sentiment, are expected to weigh on GDP growth.

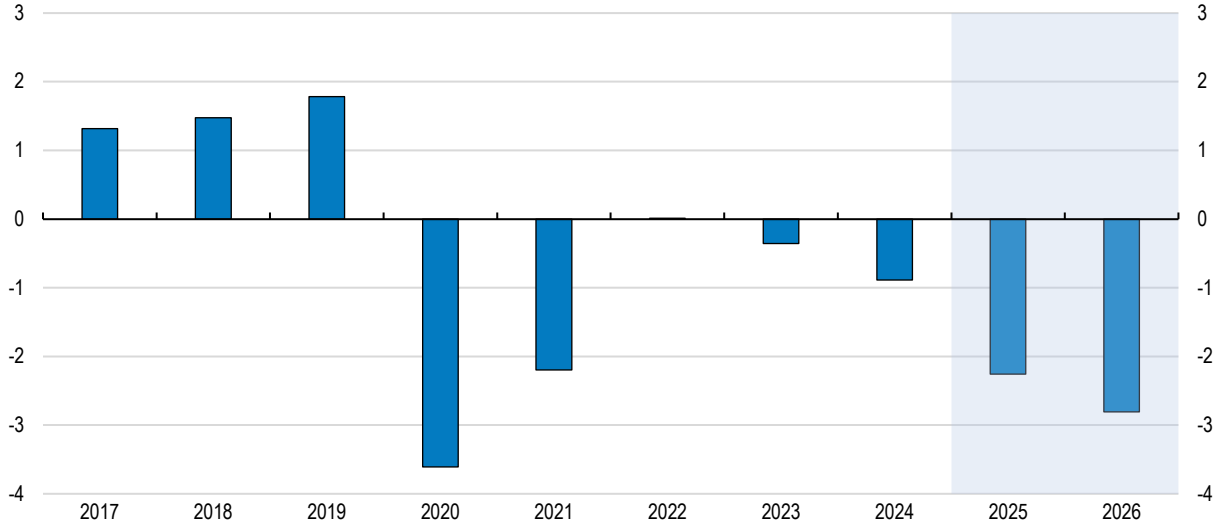
Downside risks are significant. Further weakening in global trade, disruptions to supply chains, and higher tariffs on key export sectors, such as machinery, chemicals, and electronics, could directly weigh on export growth. A sharp contraction in demand from major trading partners would not only reduce exports, but could also depress confidence, with knock-on effects on private consumption and business investment.

The fiscal stance is expansionary, with rising spending on healthcare, defence, and housing, alongside lower revenue from personal, corporate, and environmental taxation. The fiscal deficit is projected to widen from 0.9% of GDP in 2024 to 2.8% in 2026 (Figure 2). Given skills and labour shortages, the budgetary expansion will push up services price inflation, even as Euro area monetary stance might be insufficiently tight to contain price pressures in the Netherlands.

Financial risks appear contained but continued monitoring is warranted. Household mortgage debt remains high. Household borrowing has increased since mid-2023 as house prices have picked up, raising macroeconomic vulnerabilities. The Dutch central bank (DNB) extended capital buffer requirements for commercial banks, but further measures should be considered to strengthen financial resilience. Reducing the loan-to-value limit, currently at 100% and high in international comparison, could improve macro-financial stability.

Figure 2. Fiscal policy is expansionary

General government fiscal balance (% of GDP)



Source: OECD Economic Outlook: Statistics and Projections (database).

StatLink https://stat.link/voh29n

Table 1. Growth will be moderate

Annual growth rates (%), unless specified

	2024	2025	2026
Gross domestic product	1.0	1.3	1.1
Private consumption	1.0	1.5	1.6
Government consumption	3.6	2.4	1.7
Gross fixed capital formation	-0.5	0.4	1.3
Exports	0.1	0.3	1.1
Imports	0.0	0.7	1.6
Unemployment rate, %	3.7	3.9	4.0
Consumer price index	3.2	2.9	2.5
Current account balance, % of GDP	9.9	9.3	9.1
General government fiscal balance, % of GDP	-0.9	-2.3	-2.8
General government gross debt (Maastricht), % of GDP	43.3	44.7	46.8

Source: OECD Economic Outlook: Statistics and Projections (database).

Reforms are needed to safeguard public finances and support growth

The Netherlands has long maintained strong public finances and fiscal buffers. The September 2024 fiscal package marks a shift in policy priorities, with significant increases in spending on healthcare, housing, and defence, and spending cuts on knowledge, skills, and innovation. To ensure fiscal sustainability and avoid undermining growth potential, budgetary prudence is key, including reversing cuts to productivity-enhancing public investments and containing long-term spending pressures, as well as enhancing tax efficiency.

Current fiscal plans risk eroding fiscal sustainability and long-term growth. The loosening of budgetary policy raises concerns, considering spending pressures from ageing and climate change, as well as commitments to increasing defence spending. The plans are likely to breach the EU's reformed fiscal framework, requiring deficit-reducing measures to slow the growth of primary expenditure. The expansion is partly offset by spending cuts that could depress productivity, weaken trade competitiveness, and slow the green transition.

The fiscal package for 2025-2028 fails to address long-term spending pressures. Proposed consolidation measures are politically challenging, including reducing public administration staff by 20% and cutting the Netherlands' contribution to the EU multi-annual financial framework. Although operating within a robust fiscal framework, public finances are set to deteriorate beyond the government's term. The current practice of announcing fiscal measures on an annual basis, rather than pre-defining them in transparent multi-year plan, can create incentives to postpone politically difficult but necessary decisions on revenue-raising measures and spending cuts. Moreover, expenditure ceilings are fixed for the duration of the government term and not rolled forward, shortening the planning horizon each year, creating uncertainty.

The system of taxes and benefits is overly complex, discouraging labour supply despite pervasive skills and labour shortages. Individuals, especially single parents, refrain from entering the labour market or working more for fear of losing benefits. High tax wedges, cultural preferences regarding care responsibilities, and limited availability of childcare services weaken work incentives, especially for women.

Aggressive tax planning has been curbed significantly, and levels of perceived corruption are low, but gaps exist regarding lobbying regulation. There is no mandatory lobbying register for all branches of government. The only existing register, for MPs in the Lower Chamber, lacks essential information. No mechanism exists to track officials' post-tenure movements into industries they used to regulate.

Advancing climate change mitigation and adaptation policies

The Netherlands has made significant progress in decarbonisation, supported by a strong policy framework under the national Climate Act, and despite the country's industrial specialisation in emission-intensive activities and its position as a major logistics hub. Yet, strengthening mitigation and addressing electricity grid congestion is urgent to meet 2030 climate targets, achieve energy security, and reach net zero. Broadening adaptation efforts beyond water risks is essential to reduce the economic costs of climate change.

The Netherlands is unlikely to reach its 2030 climate targets due to delays in policy implementation. Additional and stronger mitigation efforts are needed. The gradual introduction of the EU Carbon Border Adjustment Mechanism could attenuate competitiveness concerns vis-à-vis non-EU countries, creating the opportunity to remove significant implicit fossil fuels support.

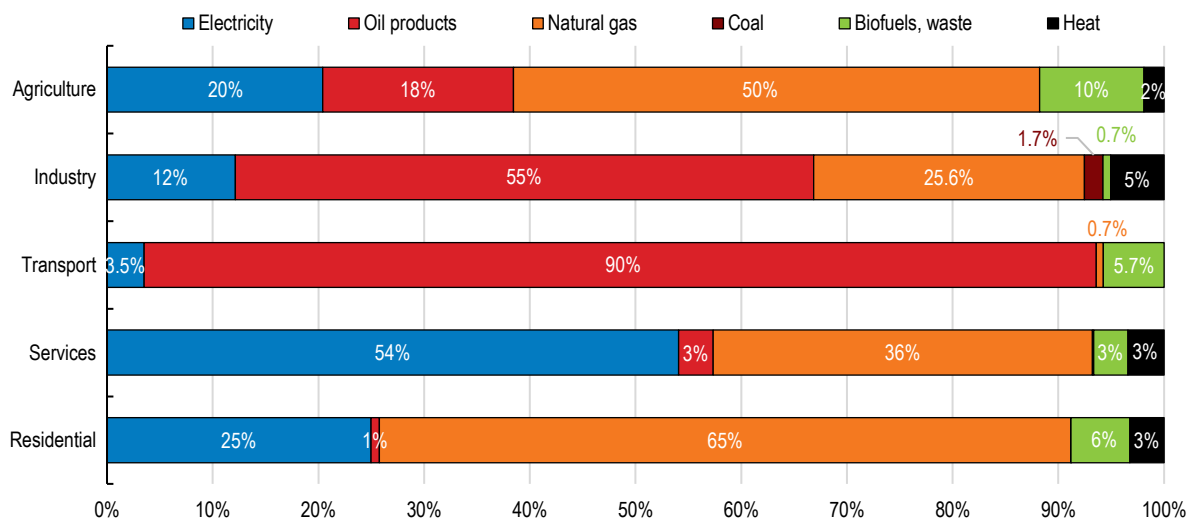
Recent shifts in climate policy create uncertainty and jeopardise the green transition, especially the goal of reaching net zero by 2050. Consistency is needed regarding policies and timelines beyond 2030. Sector-specific priorities, in line with EU impulse, are also required to provide long-term predictability and unlock the necessary investments.

Severe grid capacity constraints are a critical obstacle to electrification (Figure 3), delaying the net zero transition and heightening energy security risks. Ensuring that all permitting processes are performed at the regional level, and standardising application requirements and assessments across regions would facilitate coordination between government agencies, system operators, and end users.

Adaptation measures for non-water climate risks remain underdeveloped, even as Dutch water resilience strategies are among the most advanced globally. Expanding adaptation policies to address heat stress, drought, and extreme rainfall can significantly reduce the cost of climate damage from an estimated EUR 8.1-9.6 billion per year by 2100 to less than EUR 2 billion.

Figure 3. Electrification is lagging across sectors

Energy consumption, by sector and source (% of total, 2023)



Source: IEA World Energy Balances (database).

StatLink https://stat.link/6ktcdm

Towards a more accessible and sustainable housing market

Housing supply has not kept up with demand and changing demographics (Figure 4), resulting in an estimated housing shortage of about 400 000 homes. Housing affordability has emerged as a key challenge, further aggravated by policy distortions favouring homeownership over rental housing. Expanding housing supply through streamlined permitting and land-use policies against land speculation is essential, but these measures must be complemented with long-term housing market reforms.

Housing policies strongly favour homeownership, with generous tax advantages, such as mortgage interest deductibility and low imputed rents. Additionally, a borrower friendly mortgage market and affordability measures for first-time buyers further drive up demand and housing prices. Reducing homeownership tax advantages is essential to create a more balanced housing market and reduce wealth disparities between homeowners and renters.

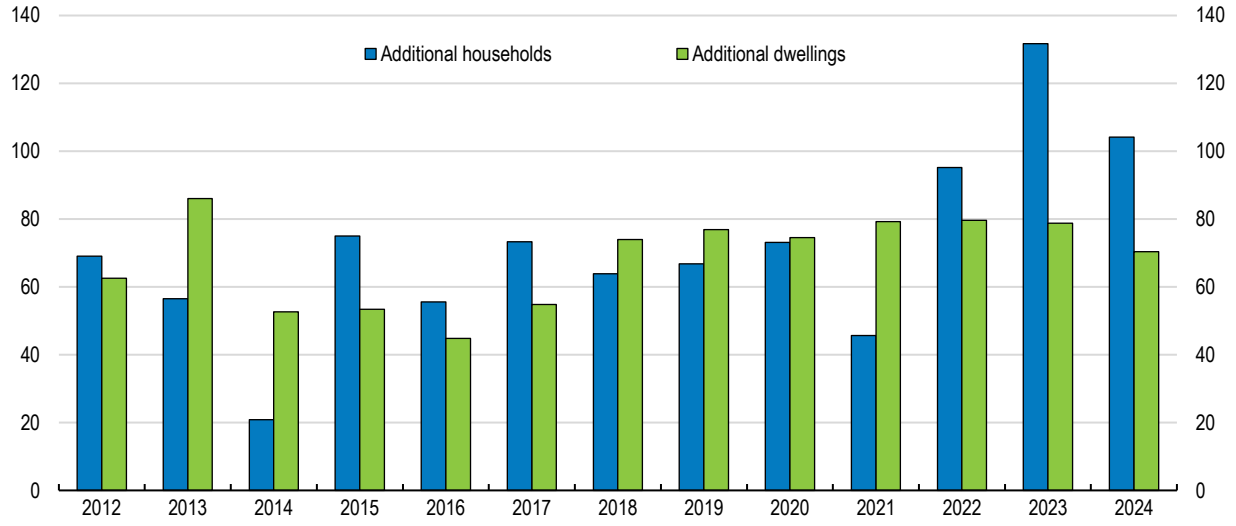
The private, non-regulated rental market is small, providing limited housing options for middle-income households. Frequent policy changes, including the recent expansion of rent controls to the mid-price segment, have further deterred investment and reduced landlords' incentives to keep their property in the rental market. A stable long-term housing strategy is essential to balance investment incentives in the rental market with reducing fiscal support for homeownership to ensure a sustainable supply of affordable housing.

A complex regulatory framework further dampens housing supply and increases costs. Stringent zoning laws, building regulations and long appeal procedures lengthen permitting timelines. Recent uncertainty regarding the allocation of nitrogen rights also weighs on housing development.

Construction has been held back by land speculation, where underdeveloped residential land is held for profit rather than for development. Implementing a one-off levy on increases in land-value ensuing from land-use changes could undermine speculation and accelerate construction.

Figure 4. Housing supply has not kept up with changing demographics

Growth in the number of households and new dwellings (thousands)



Source: Statistics Netherlands (CBS).

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Preserving trade competitiveness amidst increasing global fragmentation

The Netherlands' export performance is strong, benefiting from the country's strategic location as Europe's gateway, low trade barriers, and efficient border procedures. However, strong reliance on trade and global value chains exposes the economy to global shocks, geopolitical fragmentation, and supply chain disruptions. Sustaining trade competitiveness calls for continuous reforms to strengthen supply chains, leverage digitalisation for trade, and improve the domestic business environment to boost innovation.

The strong integration into global value chains creates vulnerabilities, especially due to external dependencies and supply chain disruptions. Growing geopolitical fragmentation and the potential weakening of trade linkages underscore the need for robust monitoring systems. Continuing to enhance data collection and regularly update the monitoring framework is not only key to identifying emerging vulnerabilities in supply chains but should also inform the development of a national trade risk strategy to prepare and minimise the exposure to global trade disruptions.

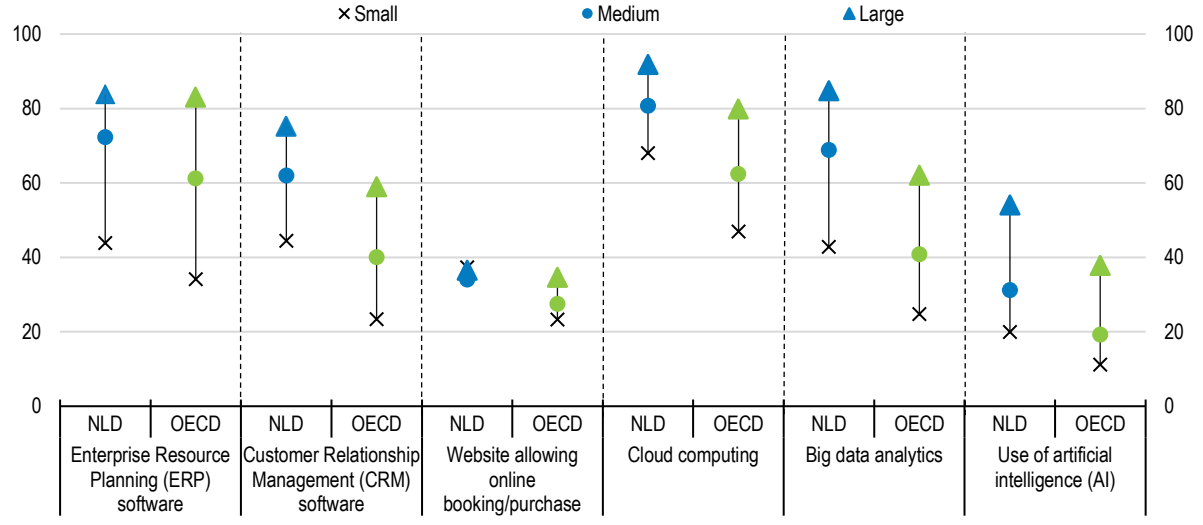
A rapidly changing global economy has shifted the Netherlands' focus towards enhancing economic resilience and international competitiveness. The ongoing update of the country's industrial strategy should prioritise fostering innovation and competition. Support measures should be competitively and transparently targeted, avoiding excessive market intervention that favours incumbents or discourages new entrants. A non-distortive approach would also limit the inherent risks to industrial policies of potentially undermining economic resilience and incurring substantial fiscal cost.

A dynamic business environment is crucial to remain competitive internationally, yet business dynamism is low compared to peer countries. Access to financing for enterprises with high investment needs, but also high risk of potential failure remains a challenge. Ensuring that budget cuts on innovation programmes do not impede on a balanced approach to business funding for companies across different growth stages would support the development of innovative enterprises.

Dutch businesses are well placed to raise competitiveness through digitalisation and adoption of new technologies. However, digital adoption rates remain uneven, with small and medium-sized enterprises lagging larger firms (Figure 5). Persistent labour shortages in ICT fields and a significant share of workers reporting insufficient computer and software skills further limit the ability of firms to integrate automation and digital tools. Expanding targeted training programmes to bridge digital skills gaps will be essential to support SMEs' participation in trade and ensure that digitalisation translates into trade competitiveness gains.

Figure 5. Smaller firms less commonly use digital technologies than larger ones

% of firms, 2024 or latest year available



Note: Small firms have 10-49 workers, medium-sized 50-249, large 250+; OECD refers to the average of OECD countries with available data.
Source: OECD ICT Access and Usage by Businesses (database).

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MAIN FINDINGS	KEY RECOMMENDATIONS
Supporting growth while preserving strong public finances	
The September 2024 fiscal package boosts purchasing power in the short run, but raises concerns about inflationary risks, compliance with EU fiscal rules, fiscal sustainability, and long-term growth.	Adopt a more prudent fiscal stance by reconsidering costly and untargeted expansionary measures and implementing targeted deficit-reducing measures, including removing inefficient tax expenditures.
The shift in economic priority away from policies that support productivity, enhance competitiveness, and accelerate the green transition risks undermining long-term growth and prosperity.	Reconsider proposed cuts to public spending on education and research and development, and instead increase cost-effective public investment in knowledge, skills, and innovation.
High housing prices have led to high and rising debt-to-income ratios, which increases risks of default and price correction.	Gradually lower the maximum loan-to-value ratio.
Expenditure ceilings are fixed for the duration of the government and not rolled forward, while fiscal measures are announced on an annual basis, limiting the fiscal framework's ability to address long-term fiscal pressures due to ageing or climate change, and creating incentives to postpone politically difficult but necessary tax and spending decisions.	Consider adopting a rolling multi-year fiscal framework, by adding one additional year annually to the expenditure horizon.
While the reform to make childcare free for all working parents is delayed, the complexity of the tax-benefits system and other barriers continue to deter labour market entry, especially for single parents for fear of losing benefits, or working more, especially for second earners, mostly women.	Lower effective tax rates on labour income, and streamline income-dependent allowances into a simpler and more transparent system based on a limited number of household characteristics, e.g., income, assets, and children, as part of a broader reform to promote labour supply.
Perceived corruption levels are low, but lobbying regulation is weak, and officials' post-tenure movement into the private sector are not tracked.	Establish a publicly accessible and detailed lobbying register for all branches of government, and implement the OECD-aligned rules to regulate the movement of officials into private sector roles.
Advancing climate change mitigation and adaptation policies	
Substantial fossil fuel support measures distort price signals, keep fossil fuel consumption high, and raise the overall cost of mitigation.	Phase out reduced rates and tax exemptions on the use of fossil fuels, while maintaining a level playing field with other EU countries.
Grid congestion slows the rollout of renewables, limits business expansion, and impedes housing developments.	Expedite procedures and delivery for grid expansion, including by coordinating permitting and execution at the regional level.
Policy changes and uncertainty about sector-specific decarbonisation paths hinder the green investments necessary to achieve energy security and reach net zero by 2050.	Swiftly expand the climate strategy beyond 2030 and ensure policy consistency with climate neutrality by 2050 to unlock long-term investment in deep decarbonisation technologies.
Adaptation to water risks is adequate but non-water risks management is less developed, even though hazards from increasingly frequent extreme weather events are high.	Swiftly implement the updated National Adaptation Strategy, including measures to address heat stress, drought, and peak rainfall.
Towards a more accessible and sustainable housing market	
Housing support policies are imbalanced and the non-regulated private rental market is small. Tax incentives for home buyers are generous, while the financial responsibility for affordable rental housing falls largely on housing associations and private investors. Frequent changes to housing policies have increased uncertainty and reduced investment.	Develop a transparent long-term strategy to strengthen the private rental market, including a clear timeline for gradually phasing out rent controls and the ban on buy-to-let properties, as well as a policy path to gradually reduce support measures for homeownership.
Housing construction has been held back by a complex regulatory framework governing housing development, with bureaucratic delays stemming from overlapping planning processes, stringent zoning laws, and policies to reduce nitrogen depositions.	Streamline the planning process by expanding the use of parallel planning, allowing infrastructure and housing development to run simultaneously.
Land speculation has contributed to inflating land prices, which increases the cost of construction and holds back housing development.	Introduce a one-off levy on land value increases associated with administrative decisions to change land use, such those allowing for housing development.
Preserving trade competitiveness amidst increasing global fragmentation	
The Netherlands is deeply integrated into global value chains, deriving significant gains from trade but exposing the economy to vulnerabilities.	Develop a national trade risk strategy that integrates scenario analysis and crisis response mechanisms to prepare for global trade disruptions.
The Dutch government is updating its industrial strategy and the top sector programme to ensure economic resilience in response to geopolitical shifts.	Maintain a non-distortive approach to industrial policy that fosters innovation and competition rather than excessive market intervention.
The funding landscape for innovative enterprises is in general well developed, but newly introduced funding schemes for high-risk, high-cost investments are partially offset by budget cuts to innovation programmes.	Regularly evaluate whether funding programmes for innovative enterprises effectively address financing gaps across all stages of company growth.
Dutch businesses are well-positioned to improve competitiveness through digitalisation, but persistent ICT workforce shortages are holding back SMEs from fully utilising new technologies and digital tools.	Develop targeted training programmes to bridge digital skills gaps and increase SMEs' adoption of AI and other digital tools.

1 Supporting growth while preserving strong public finances

Daniela Glocker, OECD

Nicolas Gonne, OECD

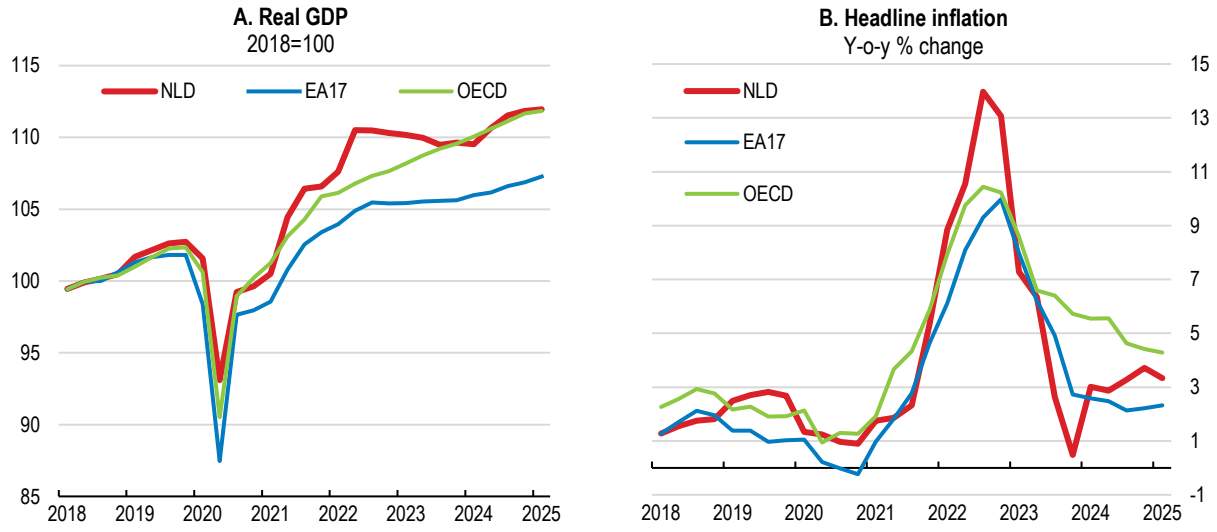
The Dutch economy has shown resilience but faces headwinds. Inflation remains elevated, reflecting persistent wage pressures and supply constraints. Significant uncertainty surrounds the growth outlook, largely due to rising geopolitical tensions and global trade fragmentation. The fiscal stance has shifted to expansion, driven by increased spending on healthcare, housing, and defence, as well as reductions in personal, corporate, and environmental taxes. While spending cuts on education, research and development, and climate policy partially offset the fiscal cost, they undermine long-term growth prospects and the transition to net zero. More prudent budgetary policy is necessary to sustain the recovery and maintain strong public finances. Fiscal adjustments are needed to tackle long-term spending pressures, including through streamlining tax expenditures, containing rising long-term care costs, and further strengthening the fiscal framework. Enhancing tax efficiency would support productivity, by aligning taxation across forms of employment, removing the tax preference for illiquid wealth, and addressing arbitrage between capital and labour income taxation. Further tax reforms could support labour supply and growth potential, notably by simplifying the tax-benefits system.

1.1. The Dutch economy remains resilient

1.1.1. Growth picked up again

Following a strong post-pandemic recovery, GDP stagnated due to the energy crisis, before picking up from the second quarter of 2024 (Figure 1.1, Panel A). Since then, growth has been converging towards its pre-pandemic trend, in contrast to several other Euro area economies (OECD, 2024[1]). Consumer price inflation eased significantly from mid-2023, owing to falling energy prices (Figure 1.1, Panel B). GDP and price developments largely reflect changes in the Euro area monetary stance, as tighter financial conditions raised borrowing costs and slowed credit growth over 2023, before successive cuts in the policy rate contributed to an easing of the overall economic environment.

Figure 1.1. The Dutch economy continued outperforming European peers



Note: "EA17" refers to the average of OECD Euro area countries. Panel B: Figures refer to the Harmonised Index of Consumer Prices for the Netherlands and for the average of OECD Euro area countries, and to the Consumer Price Index for the OECD average; series for the Netherlands include a methodological break in June 2023.
Source: OECD Economic Outlook: Statistics and Projections (database).

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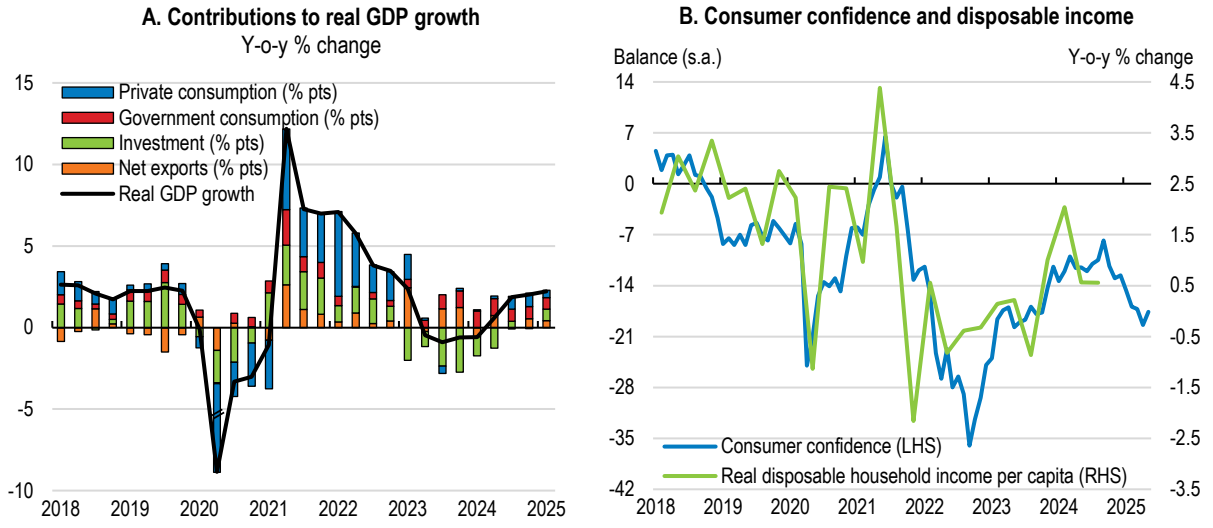
Government consumption supported the economy at the height of the energy crisis, when private consumption plummeted due to falling purchasing power (Figure 1.2, Panel A). Over the same time, net exports contributed increasingly positively to GDP growth as global trade improved, while the contribution of investment remained depressed, reflecting tighter financial conditions. Then, from the second half of 2024, private consumption strengthened, reflecting rising real incomes and improving consumer confidence as price pressures eased (Figure 1.2, Panel B). Investment picked up at the same moment, largely owing to monetary easing, while international trade continued supporting the Dutch small open economy.

Figure 1.2. Consumption has been supporting GDP



Source: OECD Economic Outlook: Statistics and Projections (database); and OECD Main Economic Indicators (database).

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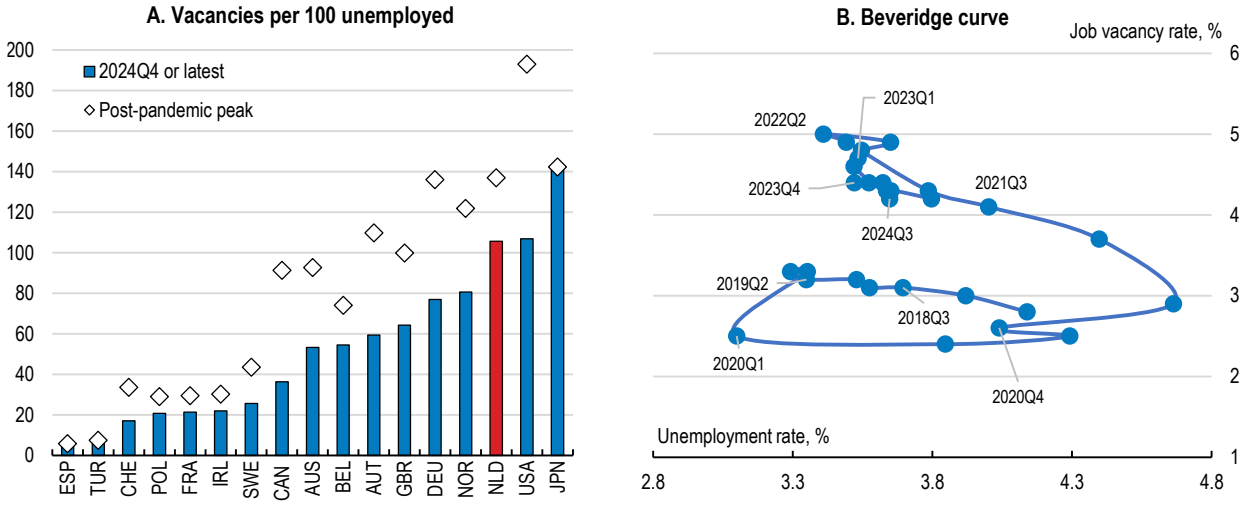
1.1.2. The labour market remains tight

The unemployment rate at 3.8% in the first quarter of 2025 is relatively low and the job vacancy rate remains high, although below its post-pandemic peak (Figure 1.3, Panel A). Enduring labour shortages weigh on economic activity across sectors, with about one third of businesses reporting a lack of staff as the main obstacle to carrying out operations at the beginning of the second quarter of 2025 (Statistics Netherlands, 2025[2]). While labour market tightness over 2021-22 was largely due to the unprecedented speed of the post-pandemic recovery, later developments appear mostly driven by long-standing structural factors, including population ageing and low average hours worked. Even though the overall employment rate is one of the highest in the OECD, widespread part-time work, especially for women, and lower participation among certain groups, like the foreign-born, further exacerbate labour shortages, as analysed in depth in the previous *Economic Survey of the Netherlands* (OECD, 2023[3]). The government has been seeking to address labour market tightness (SWZ, 2024[4]), albeit with little success.

The outward shift in the Beveridge curve, which captures the negative relationship between vacancies and unemployment, points to a decline in matching efficiency between firms and workers (Figure 1.3, Panel B). The digital and low-carbon transitions contribute to disparities between the type of skills increasingly sought by employers and those possessed by workers. Green skills are in particularly high demand, given the country's ambitious climate goals (Chapter 2), while more STEM and ICT graduates are needed to maintain trade competitiveness through continued digitalisation (Chapter 4). Ageing also contributes to skills mismatch, both because older workers' skills become obsolete and due to rising labour needs in care industries.

Figure 1.3. The labour market remains tight



Note: Panel A: Figures refer to the ratio of job vacancies (s.a.) to the unemployed (s.a.) aged 15 and over; job vacancies comprise newly created, unoccupied and about to become vacant paid positions, except for Australia, Switzerland, the United Kingdom and the United States, where job vacancies refer to an estimate of unfilled vacancies, and for Japan, where job vacancies refer to active job openings.
Source: OECD Labour Force Statistics (database); Eurostat Job Vacancy Statistics; Japan Institute for Labour Policy; and Statistics Canada.

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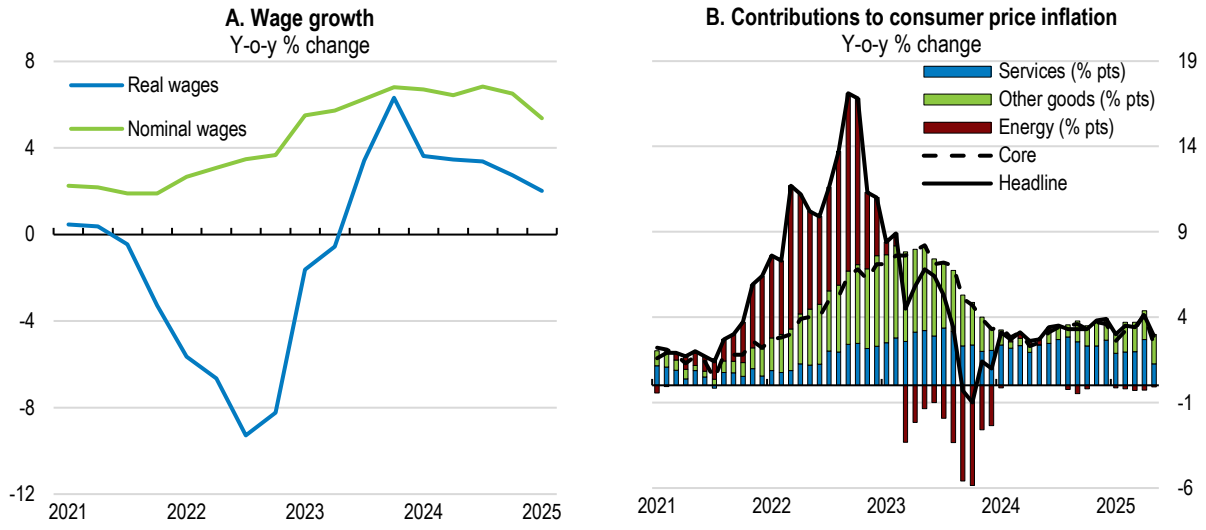
1.1.3. Strong wage growth sustains inflation

After slowing significantly from mid-2023 thanks to base effects from energy prices, consumer price inflation edged up in the second half of 2024, with the headline rate at 3.3% in the first quarter of 2025 (Statistics Netherlands, 2025[5]). Core inflation converged to the headline rate, as nominal pay eventually rose from early 2023 after sluggishly reacting to the inflationary shock in 2022 (Figure 1.4, Panel A). Nominal wages continued to grow steadily after catching up with falling consumer price inflation from mid-2023, partly reflecting labour market tightness, with annual growth in collectively negotiated wages reaching 6.6% in 2024 (Statistics Netherlands, 2024[6]).

Labour costs per unit of output have been increasing relatively fast and catching up with previous growth in unit profits (OECD, 2024[7]), pushing up the cost of labour-intensive services and maintaining strong price pressures (Figure 1.4, Panel B). Yet, the risk of second round effects remains limited, thanks to strongly institutionalised collective wage bargaining, which tends to favour wage moderation to support competitiveness. Moreover, increases in the statutory minimum wage (on which many collective labour agreements are indexed) were limited in 2024, and real wages in the first quarter of 2024 remained close to their level from the last quarter of 2019 (OECD, 2024[8]). However, strong wage moderation also supports labour demand, which can slow labour market clearing through prices and maintain labour market tightness (OECD, 2023[3]).

Figure 1.4. Strong wage growth sustains inflation



Note: Panel B: Figures refer to the Harmonised Index of Consumer Prices; series include a methodological break in June 2023.
Source: Statistics Netherlands (CBS); and OECD Eurostat Harmonised Index of Consumer Prices (database).

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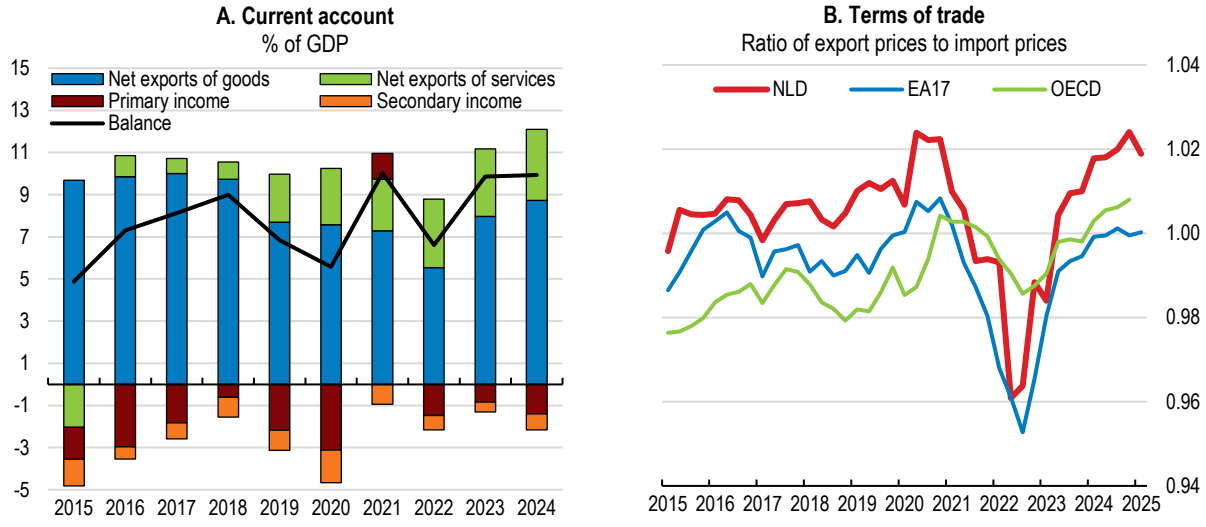
1.1.4. Trade integration is deep

The substantial and persistent current account surplus reflects high competitiveness and significant re-export activities. Net exports, including re-exports and the increasing share of services exports, accounted for more than 12% of GDP in 2024 (Figure 1.5, Panel A), despite the overall slowdown in economic activity in that year. The trade surplus was little affected by the sharp deterioration in the terms of trade in 2022, pointing to strong non-price competitiveness (Figure 1.5, Panel B). The country's strong external position also reflects the country's role as a hub for multinational enterprises' headquarters and subsidiaries, as their foreign direct investment (FDI) income is recorded as retained earnings in the Dutch primary income balance.

Figure 1.5. The external position is strong



Source: Central Bank of the Netherlands (DNB); and OECD Economic Outlook: Statistics and Projections (database).

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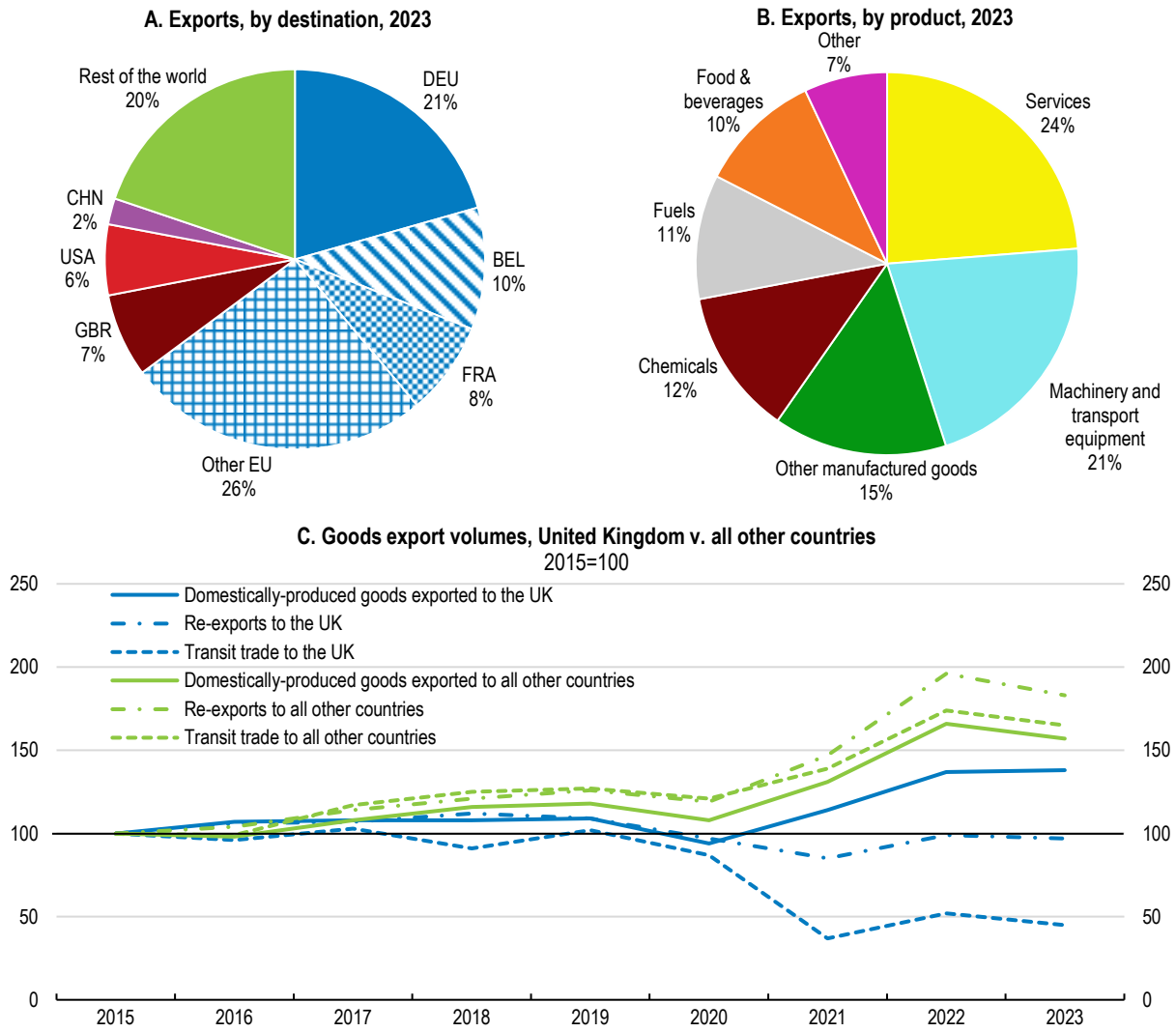
As a small and very open economy, with one of the highest trade intensities in the world, the Netherlands is exposed to rising trade tensions and tariffs, including through supply chains and external dependencies (Chapter 4). Despite increasing diversification, the country remains particularly dependent on its main trading partners (Figure 1.6, Panels A and B), within the European Union (mostly Germany and Belgium) and outside (mostly the United States and China).

While the overall direct impact of US tariffs on Dutch trade might be limited, as the United States only accounts for approximatively 6% of the Netherlands' total exports (and 5% of goods exports) in 2023, certain sectors are more vulnerable due to their higher dependence on exports to the US (Box 1.1). Moreover, the country plays a crucial role in the global semiconductor supply chain, as the world's leading supplier of extreme ultraviolet lithography machines. In addition, indirect effects could be significant, given the country's position as a global trading hub, as shown by the sharp fall in transit trade to the United Kingdom since Brexit (Figure 1.6, Panel C). The rapidly deteriorating global trade landscape urgently calls for strategies to lower trade costs, enhance resilience by diversifying trade partners, and boost competitiveness through non-tariff measures (Chapter 4).

Figure 1.6. Dependence on main trading partners and key exports is significant



Note: Panels A and B: Figures refer to total exports of goods and services. Panel C: Figures refer to goods exports only.
Source: UN Comtrade; and Statistics Netherlands (CBS).

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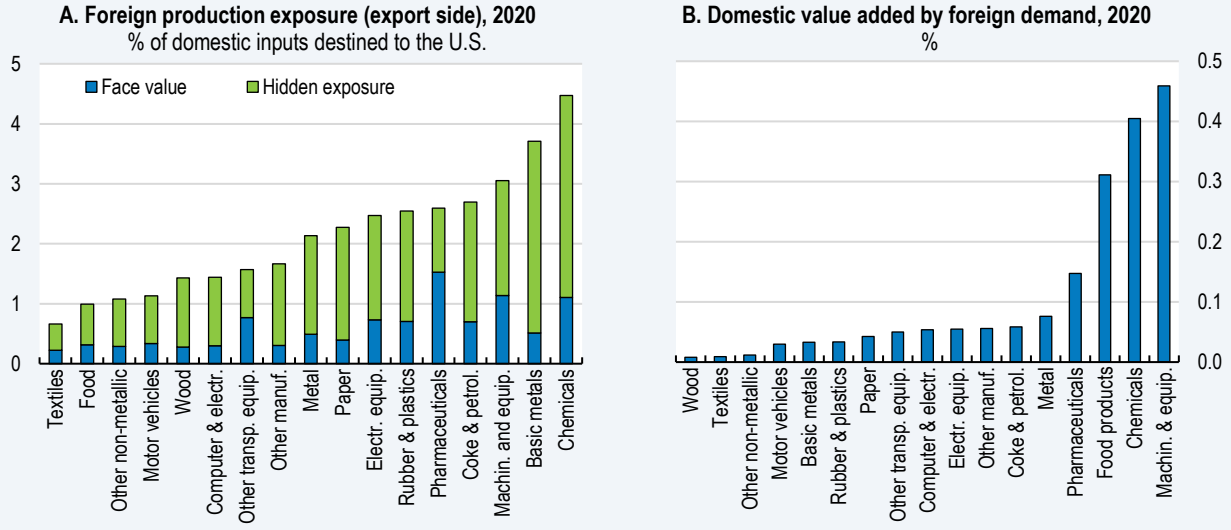
Box 1.1. US tariffs and Dutch trade: exposure and impact

As of early June, the average effective tariff rate faced by Dutch goods exporters on US markets overall is estimated to have increased by about 7.5 percentage points since the beginning of the year (OECD, 2025[9]). This reflects new tariffs of 25% on cars and car parts, 25% on steel and aluminium, and 10% on all other goods exports to the United States other than exempted items, such as semiconductor and pharmaceutical products. While the European Commission detailed plans for retaliatory tariffs, implementation is pending while negotiations are underway.

The US market was the destination of about 5% of Dutch goods exports in 2023 and the Netherlands is highly integrated in global value chains (Chapter 4). Therefore, the effect of US tariffs would not only be direct, but also indirect. OECD Trade in Value Added data show the share of domestic inputs that are directly (face value) and indirectly (hidden exposure) exposed to a demand shock (Figure 1.7, Panel A), as well as the share of domestic value added within these sectors (Figure 1.7, Panel B).

Figure 1.7. Dutch exports are exposed directly and indirectly to a decline US import demand



Source: OECD Trade in Value Added 2023 edition (database).

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However, the total effect on the Dutch economy would also depend on tariffs on other trading partners and possible retaliation. While not affecting Dutch exports directly, these may be passed through global supply chains and raise Dutch import costs. Tariffs and retaliatory measures could also affect the Netherlands indirectly by displacing trade flows, given the country's position as a global trading hub, or by limiting access to critical imports.

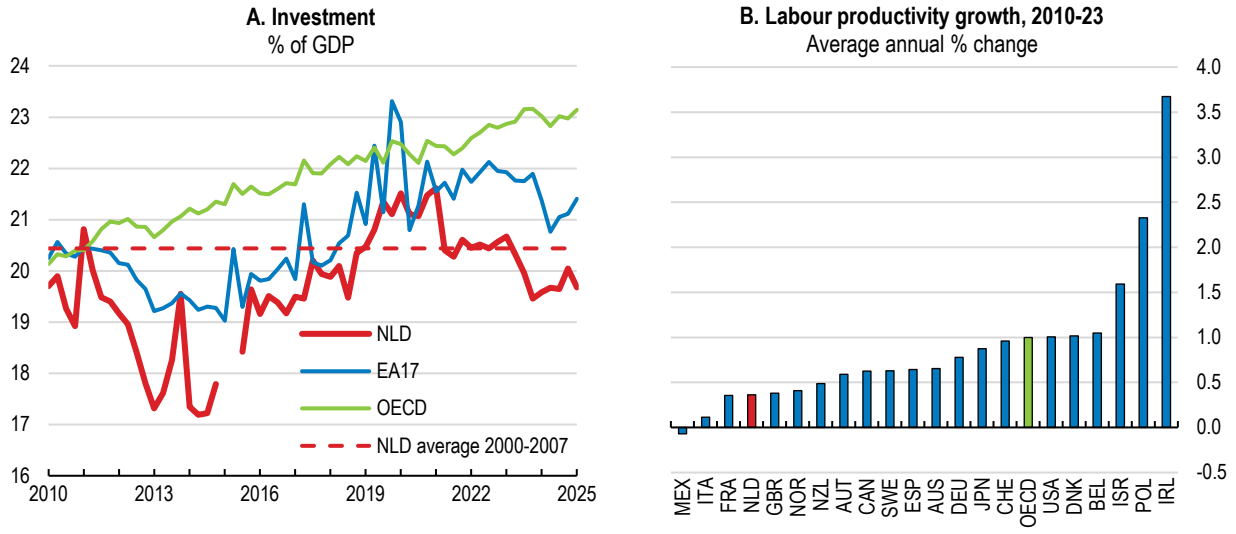
According to an early assessment by the Netherlands Bureau for Economic Policy Analysis (CPB), US tariffs are expected to reduce Dutch GDP growth by one percentage point cumulatively over 2025-26, mostly reflecting lower exports and lower investment (CPB, 2025[10]). The CPB assessment assumes tariffs as announced on 2 April, which were later reduced. In the longer run, the analysis suggests that tariffs entail lower trade intensity and significant cross-industry reallocation in the Netherlands, with a contraction of manufacturing and an expansion of services.

1.1.5. Investment and productivity growth are sluggish

The large current account surplus mirrors a significant domestic savings-investment gap, pointing to both large savings, mostly by corporations, and to relatively low domestic investment as a share of GDP (Figure 1.8, Panel A). Both business and government investments are held back by labour shortages (OECD, 2023[3]), congestion on the electricity grid (Chapter 2), and the adverse and disproportionate knock-on impact of the nitrogen crisis (Box 1.2). Moreover, private housing development incentives are relatively weak, given the increasingly small size of the private (not rent-controlled) rental segment of the housing market (Chapter 3).

Low investment is a key impediment to productivity growth (Figure 1.8, Panel B), adding to compositional effects due to the expansion of low-productivity sectors (Herken, 2024[11]). The government has long recognised the issue, and implemented several investment programmes and funds to support productivity. These were spearheaded by the National Growth Fund, which subsidises projects in the areas of research, development, and innovation with a budget of EUR 4 billion per year, a policy praised in past *Economic Surveys of the Netherlands* (OECD, 2023[3]; 2021[12]). However, the government recently reduced spending on such programmes, including by phasing out the National Growth Fund, a decision that may widen external imbalances, weigh on productivity (Chapter 4), and slow the low-carbon transition (Chapter 2).

Figure 1.8. Investment and productivity growth are sluggish



Note: Panel A: Datapoints for the first two quarters of 2015 are not reported for the Netherlands, due to volatility reflecting the timing and accounting of a large foreign direct investment by a multinational enterprise. Panel B: Figures refer to GDP per hour worked; OECD refers to the simple average of 30 OECD member countries with available data.
Source: OECD Economic Outlook: Statistics and Projections (database); and OECD Productivity (database).

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Box 1.2. The nitrogen crisis: latest developments

Excessive nitrogen deposition in nature conservation areas and emissions in their proximity continues to severely limit the available space for much-needed infrastructure and housing development. Recent rulings by the Council of State (December 2024) and the District Court of The Hague (January 2025) stalled permitting, created uncertainty around past approvals, and ordered the government to take stronger action to reduce nitrogen deposition. The ensuing slowdown in new investment projects is causing adverse and disproportionate knock-on effects on the entire economy.

In January 2025, the government established the Ministerial Committee on the Economy and Nature Restoration to explore a range of legal and regulatory changes, as well as actions to reduce nitrogen emissions and

deposition. In April, the committee announced an initial package to re-enable permitting and restore nature, with EUR 2.2 billion earmarked. Measures aimed at reducing nitrogen emissions at the source include a voluntary buy-out scheme, support to extensive farming, and steps towards introducing binding emission goals at company level. The package also introduces spatial differentiation, specifically for regions where the issue is most pressing, namely De Peel and De Veluwe. The committee also intends to explore additional regulations and restrictions in the vicinity of Natura 2000 areas where the critical deposition load is exceeded. The government further stated its intention to review various aspects of the permitting framework, while the draft Climate Plan for 2025-35 includes sectoral emission targets, including for the agriculture sector (Chapter 2).

Background

Nitrogen pollution in the Netherlands primarily originates from two sources: fossil fuel combustion in energy and transport (nitrogen oxides) and manure from livestock farming (ammonia and nitrous oxide). Of the Netherlands' 162 Natura 2000 areas protected under the EU Habitats Directive, covering approximately 15% of its land, 129 are nitrogen-sensitive, and 118 exceeded critical nitrogen deposition limits as of 2018.

In May 2019, the Council of State ruled that the existing nitrogen policy framework (*programma aanpak stikstof*, PAS) failed to guarantee that nitrogen deposition would not harm Natura 2000 sites, making it incompatible with EU law. The court also determined that many mitigation measures in the PAS were essential to meeting legal conservation obligations and, therefore, could not be used to offset new nitrogen emissions. As a result, project approvals started to face delays or cancellations, as environmental impact assessments had to be conducted on a case-by-case basis, often requiring additional mitigation measures.

In response, the government established the Remkes Commission to advise on nitrogen reduction strategies. Short-term measures introduced in 2020 included lowering the highway speed limit from 130 km/h to 100 km/h during daytime and launching voluntary buyout schemes for farmers near Natura 2000 areas.

The 2021 nitrogen law set legally binding targets for reducing nitrogen deposition in Natura 2000 areas, aiming to bring the share of nitrogen-sensitive hectares below the critical load to 40% by 2025, 50% by 2030, and 74% by 2035. The law also introduced a nitrogen reduction programme, a nature restoration plan, and a system for monitoring and adjustment.

Under the 2021–25 Coalition Agreement, the government committed to an integrated, area-based approach to nitrogen, climate, water, and nature policy through the National Programme for Rural Areas. It also accelerated the target for achieving 74% of Natura 2000 areas below the critical load from 2035 to 2030. A EUR 24.3 billion Transition Fund (*Transitiefonds*) was established to support sustainable farming and ecological restoration.

Following his appointment in 2022 as mediator between the government, farmers' organisations, and stakeholders, Mr. Remkes issued a report recommending the buyout of several hundred high-emitting farms (so-called "peak loaders") to reduce nitrogen deposition and facilitate economic development. In November 2022, the government introduced a targeted approach for peak loaders, including voluntary buyouts and a contingency for mandatory measures if reductions proved insufficient. Additional regulatory and pricing mechanisms were announced to help meet nitrogen, water, and climate targets, alongside new permitting restrictions to prevent unintended increases in nitrogen deposition.

In September 2024, the government reaffirmed its commitment to addressing nitrogen pollution but provided limited policy details, increasing uncertainty. It reduced the Transition Fund, initially intended to buy out peak loaders, and instead allocated EUR 5 billion to voluntary buyouts and innovation in livestock farming. Additionally, a structural budget of EUR 500 million per year was dedicated to agricultural nature conservation.

Source: Government of the Netherlands; and OECD (2023[3]) *OECD Economic Surveys: Netherlands 2023*.

1.1.6. The economy will grow moderately amidst downside risks

GDP is set to grow moderately by 1.3% in 2025 and 1.1% 2026, driven by strengthening private consumption on the back of rising disposable household income, and government investment (Table 1.1). Private investment will also improve, supported by gradually declining interest rates, but will be dampened by global uncertainty. External demand is expected to remain subdued, reflecting ongoing trade fragmentation, tariff uncertainty and weakening global growth. Annual headline inflation is set to fall only slowly to 2.9% in 2025 and 2.5% in 2026, and core inflation is expected to remain sticky, slowing to 2.6% in 2026, with rising labour costs continuing to exert upward pressure on services prices. Bankruptcy rates will rise, but only lead to a marginal increase in unemployment, from 3.7% in 2024 to 4% in 2026, as the labour market remains tight.

Table 1.1. Macroeconomic indicators and projections

Annual percent change, unless specified

	2020 Current prices (EUR billion)	2021	2022	2023	2024	2025	2026
Output (volume, 2021 prices)							
Gross domestic product (GDP)	817	6.2	5.0	0.1	1.0	1.3	1.1
Private consumption	349	4.5	6.9	0.8	1.0	1.5	1.6
Government consumption	210	4.6	1.3	2.9	3.6	2.4	1.7
Gross fixed capital formation	174	2.3	3.4	1.2	-0.5	0.4	1.3
Housing	45	6.3	1.1	-1.7	-1.2	5.3	1.2
Final domestic demand	732	4.1	4.5	1.5	1.4	1.5	1.6
Stockbuilding[1]	1	1.8	0.5	-2.3	-0.4	0.3	0.0
Total domestic demand	733	6.1	5.0	-0.9	1.0	1.9	1.6
Exports of goods and services	663	6.8	4.5	-0.4	0.1	0.3	1.1
Imports of goods and services	579	6.5	4.4	-1.7	0.0	0.7	1.6
Net exports[1]	83	0.9	0.5	1.1	0.1	-0.3	-0.3
Potential GDP	. .	2.2	2.2	2.3	1.8	1.6	1.5
Output gap (% of potential GDP)	. .	-0.3	2.4	0.2	-0.6	-1.0	-1.3
Other indicators							
Employment (%)	. .	1.5	3.2	2.0	0.6	0.3	0.4
Unemployment rate (% of labour force)	. .	4.2	3.5	3.5	3.7	3.9	4.0
GDP deflator	. .	2.8	6.2	7.3	5.2	3.3	2.6
Harmonised consumer price index	. .	2.8	11.6	4.1	3.2	2.9	2.5
Harmonised core consumer price index	. .	1.8	4.8	6.4	3.2	2.6	2.6
Terms of trade	. .	-1.8	-2.4	2.6	1.8	-0.1	0.3
Household saving ratio, net (% of disposable income)	. .	12.3	7.1	7.5	9.4	9.7	8.8
Trade balance (% of GDP)	. .	9.7	8.8	11.2	12.0	11.4	11.1
Current account balance (% of GDP)	. .	10.0	6.6	9.9	9.9	9.3	9.1
General government fiscal balance (% of GDP)	. .	-2.2	0.0	-0.4	-0.9	-2.3	-2.8
General government primary balance (% of GDP)	. .	-1.8	0.4	0.1	-0.5	-1.8	-2.3
Underlying primary balance (% of potential GDP)	. .	-1.6	-0.9	0.0	-0.2	-1.4	-1.6
General government gross debt (Maastricht, % of GDP)	. .	50.5	48.4	45.2	43.3	44.7	46.8
General government net debt (% of GDP)	. .	32.0	24.0	23.0	20.8	21.7	23.4
Three-month money market rate, average (%)	. .	-0.5	0.3	3.4	3.6	2.1	1.8
Ten-year government bond yield, average (%)	. .	-0.3	1.4	2.8	2.6	2.7	2.7

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook: Statistics and Projections (database).

The economic outlook is surrounded by significant downside risks, primarily driven by rising geopolitical tensions and trade fragmentation. As a trade-dependent economy, the Netherlands is exposed to a stronger than expected slowdown in global trade due to increases in tariffs and trade restrictions (Box 1.1). Higher tariffs on key export sectors, such as machinery, chemicals and electronics, could directly weaken export growth. An economic downturn in key trading partners, or supply chain disruptions, would amplify the impact, dampening external demand and weighing on business confidence and investment. This in turn could spill over into weaker private consumption. On the upside, trade diversion could lead to lower import prices, reducing inflationary pressures.

Domestically, labour market tightness remains a key concern. Continued wage growth could maintain price pressures, especially if Euro area policy rates are lowered while inflation remains elevated in the Netherlands. This could erode price competitiveness, weaken purchasing power, and slow private consumption. On the upside, a stronger than expected release of households' excess savings could provide an additional boost to domestic demand. Several low-probability but high-impact events could also alter the outlook significantly (Table 1.2).

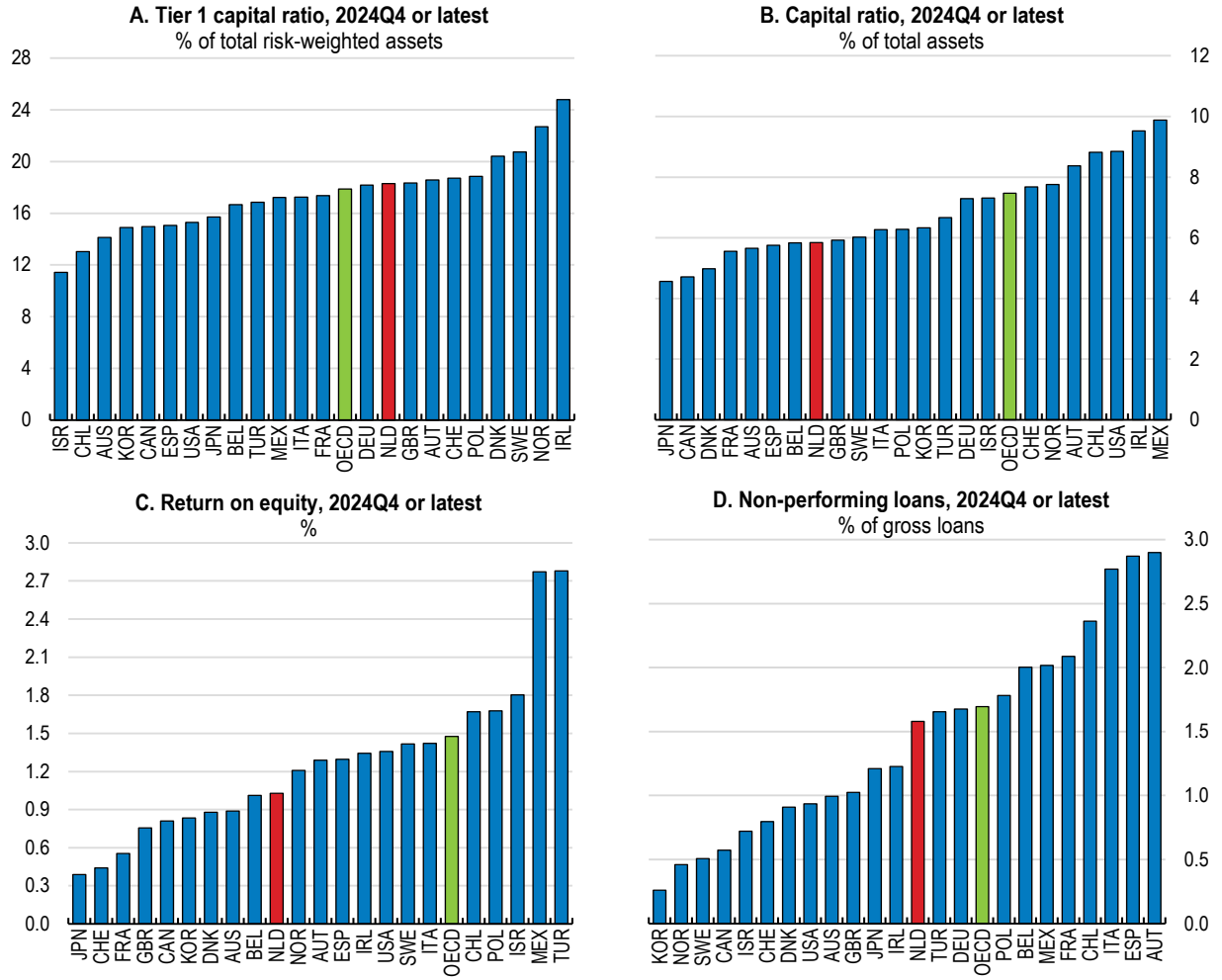
Table 1.2. Low-probability events that could lead to major changes in the outlook

Event	Possible impact
Severe correction of real estate prices.	Reduction in bank profitability and other consequences of exposed vulnerabilities in the financial system. Lower growth, as households cut consumption to service debt. Adverse impact on public finances, as automatic stabilisers push up expenditure.
Large-scale cyberattack.	Disruption of business operations. Shutdown of vital domestic infrastructure. Adverse impact on business sentiment. Heightened skills shortages, as demand for ICT experts increases.
Extreme flood events.	Temporary and local drop in output due to flood-induced disruptions. Heightened skill and labour shortages in construction-related occupations due to labour demand for rebuilding, with adverse consequences on existing housing challenges. Pressure on public finances, as physical infrastructure is replaced. Slowdown in green transition, as necessary investments are crowded out.

1.2. Financial risks appear contained but warrant continued monitoring

The Dutch banking system maintains a robust financial position, with liquidity ratios well above requirements. While banks are still highly leveraged in gross terms, the risk weighted capital ratio is just above the OECD average (Figure 1.9, Panel A and B). In May 2023, the Dutch National Bank (DNB) announced to increase the countercyclical buffer to its neutral rate of 2%, effective in May 2024. This development is welcome as pressures on the financial system in the context of high interest rates and low economic growth persist. The rise in interest rates over the last two years has contributed to higher profitability of banks (Figure 1.9, Panel C) through higher interest income, but this has also increased the risk of credit defaults, although so far, they remain below the OECD average (Figure 1.9, Panel D). However, the number of business insolvencies in the Netherlands has been on the rise in recent months, making banks vulnerable to credit losses going forward. While banks have seen their non-performing corporate loans rise only moderately to 3% by mid-2024 (DNB, 2024[13]), it remains important that developments are closely monitored and if needed capital requirements are adjusted.

Figure 1.9. The Dutch financial system remains robust



Note: Panels A, B and D: OECD average excludes New Zealand. Panel C: OECD average excludes Germany and New Zealand.
Source: IMF Financial Soundness Indicators (database).

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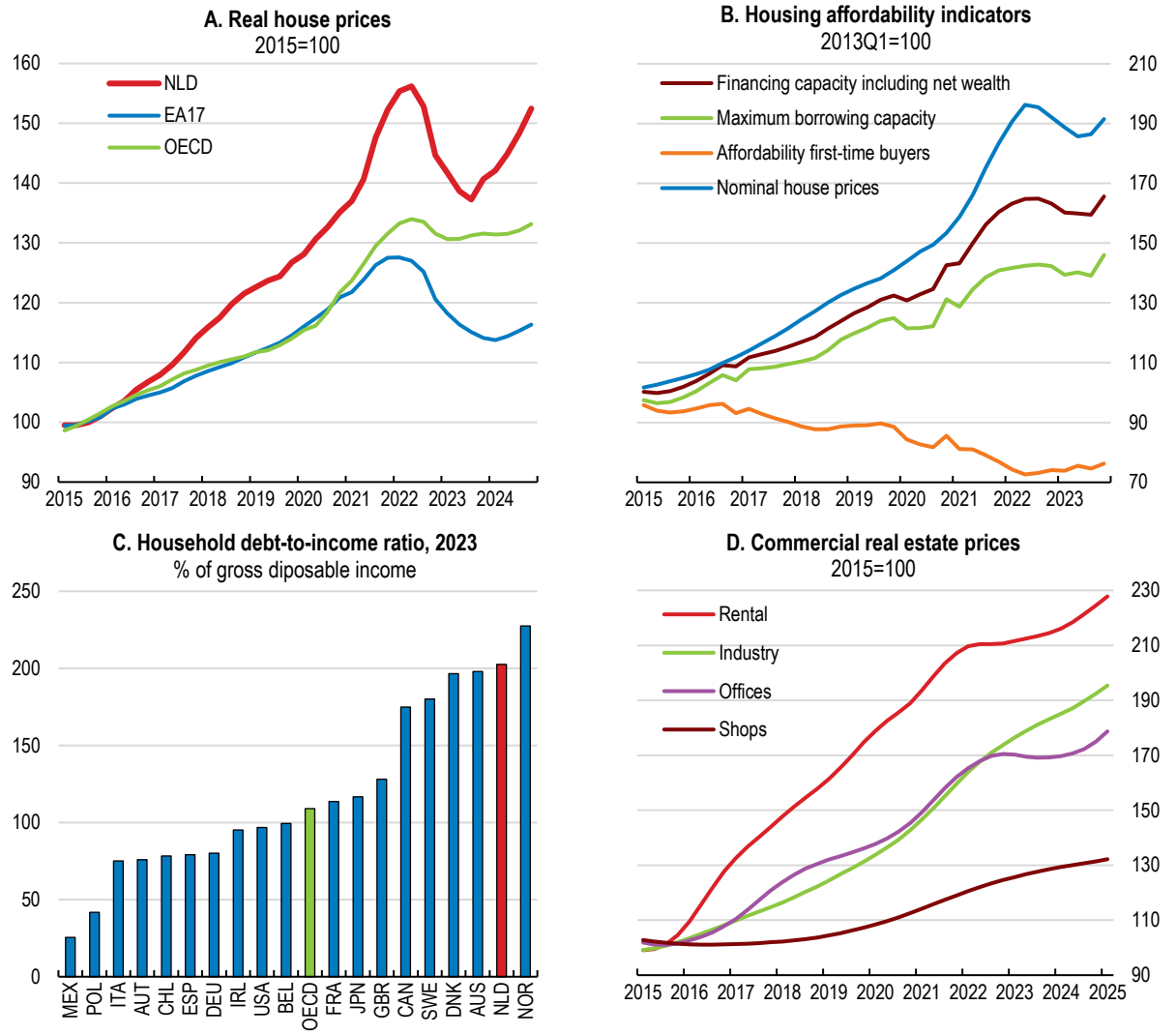
1.2.1. Close monitoring of the housing market should continue

Residential house prices have rebounded strongly since late 2023, increasing by over 11% year-on-year as of mid-2024 (Figure 1.10, Panel A). House prices remain well above the OECD and the EU average, driven by high demand stimulated through tax advantages for home ownership and housing shortages (Chapter 3), and are a significant drag on the affordability for first-time buyers (Figure 1.10, Panel B). The debt-to-income ratio at 203% remains one of the highest across OECD countries (Figure 1.10, Panel C). The Dutch National Bank assesses that the risk of a price correction in the housing market persists, with potential consequences to financial institutions, most notably banks, through both direct and indirect channels (DNB, 2024[13]). A sharp fall in prices, particularly if coupled with a rise in unemployment, could increase mortgage defaults and bank losses. In the short term, risks are largely mitigated by a large share of fixed-rate mortgages, a decline in interest-only loans, and a public mortgage-guarantee scheme (OECD, 2023[3]). While the maximum loan-to-value ratio on new mortgages was lowered to 100% since the Global Financial Crisis, it remains high by international standards of between 70 and 90% (van Hoenselaar et al., 2021[14]). To further reduce the risks from a correction in the housing market, the DNB has also extended the requirement for banks to hold a certain minimum of capital for their mortgage portfolio for another two years until 2026, which is welcome. Further tightening of macroprudential measures, gradually lowering the maximum loan-to-value ratio to 90% by 2028 as advised by the Dutch National Bank could support financial stability. This measure would make new borrowers more resilient to financial shocks by lowering their interest burdens, reducing negative home equity,

and decreasing banks' reliance on wholesale funding and their capital costs. However, it could also increase wealth inequality and delay homeownership for first-time buyers. To address these challenges, it is crucial to implement reforms that deregulate the rental market and ease restrictions on new construction (Chapter 3).

Higher interest rates have increased profitability also for pension and insurance funds, helping to weather a slowdown in office real estate prices since mid-2022 (Figure 1.10, Panel D). Prices in other segments of the Dutch commercial real estate market remained stable, contributing to a rise in transaction values of 0.6% in the second quarter of 2024, supported by lower interest rates and falling construction costs (DNB, 2024[13]). Risks in the commercial real estate market seem contained but warrant further attention. Together with Dutch banks, insurers and pension funds have a combined exposure of EUR 360 billion to the commercial real estate market. Credit risk for loans secured on commercial real estate also seems to be stabilising. Thus, the share of non-performing loans secured by commercial real estate at Dutch banks remained comparatively stable in the second quarter of 2024 (DNB, 2024[13]). Besides structural challenges, such as the rising trend towards teleworking, the main risk to recovery in the commercial real estate market is stemming from persistently higher inflation, which drives up both interest rates and construction costs. It should be monitored that investments of pension funds and insurances are sufficiently diversified to accommodate market corrections.

Figure 1.10. House prices have picked up again



Note: Panel C: Data for 2023 for Japan and 2022 for Norway; OECD refers to the simple average of 25 OECD member countries with available data.
Source: OECD Economic Outlook: Statistics and Projections (database); Central Bank of the Netherlands (DNB); OECD Household Indicators Dashboard (database); and Statistics Netherlands (CBS).

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1.2.2. A large non-banking finance market could pose vulnerabilities

High interest rates can create vulnerabilities in parts of the system of non-banking finance. The non-banking financial sector accounts for about 70% of total financial assets in the Netherlands_(Financial Stability Board, 2024[15]). More than half of the sector consists of captive financial institutions, which are not engaged in financial intermediation or in providing financial auxiliary services, but are instead primarily involved in financial transactions within a group of affiliated enterprises, and are therefore deemed not to pose material risks to financial stability. While Dutch pension funds and insurers are in a solid prudential position, according to the Dutch central bank (DNB, 2024[13]), they are exposed to market, liquidity, and inflation risk. These risks can rapidly affect the system as for example seen in early 2023 as the rapid transition to high interest rates led to the collapse of some regional banks in the United States, with consequences for global stock markets and investments of non-banking finance institutions. The vulnerabilities of the non-banking financial sector and how they propagate through the system to the financial sector are however often not fully understood. Improving data-collection and introducing system wide exploratory scenarios, following the example of the Bank of England (Box 1.3), could help to detect risks early on.

As discussed in previous *Economic Surveys* (OECD, 2023[3]; 2021[12]), occupational pension funds transition from the current defined-benefit to a defined-contribution system by 2028. While this is a welcomed development that will help improve their sustainability in the longer term, the transition and potential complexities need to be managed carefully by the DNB and the Dutch Authority for Financial Markets (AFM). The transition involves accrued benefits of over EUR 1.5 trillion, which could create short-term volatility in financial markets if pension funds shift their investment strategies from government bonds to riskier asset classes.

Box 1.3. System-wide stress-testing of NBFIs: the case of the United Kingdom

The Bank of England has pioneered exercises to better understand the risks stemming from the non-banking financial sector, as well as its interconnectedness with the financial sector that could amplify and spread financial stress. In 2024, the Bank of England launched its "system-wide exploratory scenario" (SWES) exercise aiming to:

- Enhance understanding of the risks to and from non-bank financial institutions (NBFIs), and the behaviour of NBFIs and banks in stress, including what drives those behaviours; and
- Investigate how these behaviours and market dynamics can amplify shocks in markets and potentially pose risks to UK financial stability.

Unlike traditional firm-focused stress tests, which target individual institutions, or model-based system analyses that lack direct firm participation, the SWES integrates both approaches. Around 50 financial firms, spanning diverse business models, actively engaged in the exercise. This system-wide approach provides insights into interactions across the financial system, revealing potential mismatches in firms' expectations during stress and highlighting vulnerabilities in markets core to UK financial stability and financial system.

Source: Bank of England (2024[16]).

1.2.3. Adapting supervisory toolkits to cyber risks and climate-related risks

The DNB is a frontrunner of stress-testing "non-traditional" risks, such as the effects of cybercrime and climate change. Amidst increasing geopolitical tensions, banks and other financial institutions are increasingly exposed to cyberattacks, which can be a powerful weapon to disrupt the economy and the financial system (OECD, 2024[17]). New Artificial Intelligence (AI) applications are also reshaping the cyber threat landscape, both in the number and types of cyberattacks, highlighting the need to enhance cyber reliance. The implementation of the European Digital Operational Resilience Act (DORA) since January 2025 is a welcome development, as it imposes stricter risk management guidelines, thereby ensuring robust oversight of third-party providers. This is particularly important for the Netherlands, where financial institutions often outsource part of the services and infrastructure to third parties to perform their core functions, such as payments, cloud storage and cybersecurity (DNB, 2024[13]). It remains important that the DNB continues to improve data collection and to evaluate whether risks from cyber threats could be addressed within the existing framework or whether adjustments would be needed, e.g., by limiting exposure to cyber risks by reducing the concentration of operational services.

The financial sector faces growing exposure to climate-related risks. Financial institutions, through their investments in companies, are exposed to physical risks (the impact of natural disasters) and transition risks (e.g. losses due to the declining value of investments in carbon-intensive companies). The DNB has been active in stress testing climate related risks and providing guidance. For example, it has issued guidelines to identify and manage climate and environmental risks, which offers practical tools and examples for insurers, pension funds, and other financial institutions. It outlines how these institutions can incorporate sustainability into their business models and risk management frameworks (DNB, 2023[18]). The DNB also published good practices for financial market infrastructures, offering non-binding guidance on how an FMI, including central counterparties, central securities depositories, payment systems, and securities settlement systems, can organise its processes and procedures to manage climate and environmental risks (DNB, 2023[19]). These are important developments. While the DNB benefits from close collaboration with the ECB and is included in its comprehensive stress test, the DNB could more regularly stress test climate related risks as its latest stress test was conducted in 2018. The Bank of England, for example, has committed to conducting these climate-related stress tests regularly, ensuring that financial institutions continuously reassess their exposure to climate risks as the impacts of climate change become more evident. Based on more regular stress test, the DNB could then also consider introducing sectoral risk buffers linked to climate vulnerabilities (Bartsch et al., 2024[20]).

1.3. Fiscal adjustments are required to support public finances and growth

1.3.1. Budgetary prudence is key to sustaining the recovery

The government's fiscal plans, as presented in the September package and aligned with the 2024 coalition agreement, reflect a shift in economic policy priorities, with important budgetary implications (Box 1.4). The overall emphasis is on providing "socio-economic security" and affordable housing, and helping the farming sector. While overall efforts to support low- and middle-income households are welcome and can contribute to sustaining the recovery, the package includes cuts to education spending and to research and development funding, which could slow long-term productivity growth, as well as undermine trade competitiveness (Chapter 4). Even though climate targets are maintained, lower energy taxation and the reallocation of funds away from subsidy schemes for renewable energy weaken long-term investment incentives and could slow the transition to a low-carbon economy (Chapter 2).

Box 1.4. Budgetary implications of the September 2024 fiscal package

The largest new budgetary items are as follows, as reflected in the cabinet's policy plans over 2025-28, with budget totalling EUR 515 billion in 2028:

Main items worsening the fiscal balance:

- Healthcare: EUR 4.2 billion increase in annual spending by 2028, mostly through a reduction in out-of-pocket costs of medical care;
- Defence: EUR 1.7 billion increase in annual spending by 2028;
- Labour and income taxation on households: EUR 1.6 billion decrease in annual revenue by 2028; including through changes to rates and brackets in box 1 of the Dutch income tax system;
- Housing: EUR 1.5 billion increase in annual spending by 2028, through both new housing developments and the necessary infrastructure for housing development;
- Corporate income taxation: EUR 0.8 billion decrease in annual revenue, through the reversal of the previously planned abolition of dividend tax exemption for share buyback.
- Environmental taxation: EUR 0.6 billion decrease in annual revenue, through the reversal of the previously planned increase in the energy tax on natural gas, the further decrease in the energy tax rate on natural gas in the first two consumption brackets, and a reduction of excise duty on diesel in agriculture.

Main items improving the fiscal balance:

- Climate and environment: EUR 3.5 billion decrease in annual spending by 2028, including the scraping of the EUR 3.3 billion Transition Fund;
- International co-operation: EUR 3.0 billion decrease in annual spending, including a EUR 2.4 billion cut in official development aid and an intended reduction in the country's contribution to the EU multiannual financial framework.
- Education: EUR 1.8 billion decrease in annual spending by 2028, including through a reduction in funding per student, the scraping of the extra funding for disadvantaged schools and of the teacher salary top-up in secondary schools in the Randstad, as well as cuts in general education subsidies and in funding for scientific education and research.
- Public administration: EUR 1.5 billion decrease in annual spending by 2028, mostly through a reduction in the number of civil servants.
- Research, development and innovation: EUR 1.0 billion decrease in annual spending by 2028, mostly through the phaseout of the National Growth Fund.

Below-the-line item worsening public debt:

- Innovation: EUR 1.0 billion capital increase to state-owned investment fund Invest-NL.

Source: Government of the Netherlands; and Netherlands Bureau for Economic Policy Analysis (CPB).

Adjustments were made at the 2025 Spring Memorandum, without materially altering the overall policy direction set out in the September package (Box 1.5). On the expenditure side, the decision to freeze rents in social housing over 2025-26 entails lower housing allowances, hence generates fiscal savings, but is expected to worsen the shortage of rental dwellings (Chapter 3). On the revenue side, the tax break for employees in innovative start-ups who take a stake in their business could promote scale up and productivity.

Box 1.5. Budgetary adjustments at the 2025 Spring Memorandum

Key measures are as follows, with budgetary implications where available, and with items reflecting both reallocation of existing budgets and the use of windfalls:

Expenditure:

- Housing allowance: decrease in spending of about EUR 1.5 billion over 2025-28 due to rent freeze in social housing.
- Defence: increase in spending of about EUR 1.4 billion over 2025-28.
- Youth care and municipalities: increase in spending of about EUR 3.3 billion over 2025-28, some of which offsets the cut in the Municipal fund in 2026.
- Childcare allowance: increase in spending of about EUR 2 billion over 2025-28.
- Asylum: increase in spending of about EUR 2.7 billion over 2025-2028.
- Non-indexation of departmental spending.

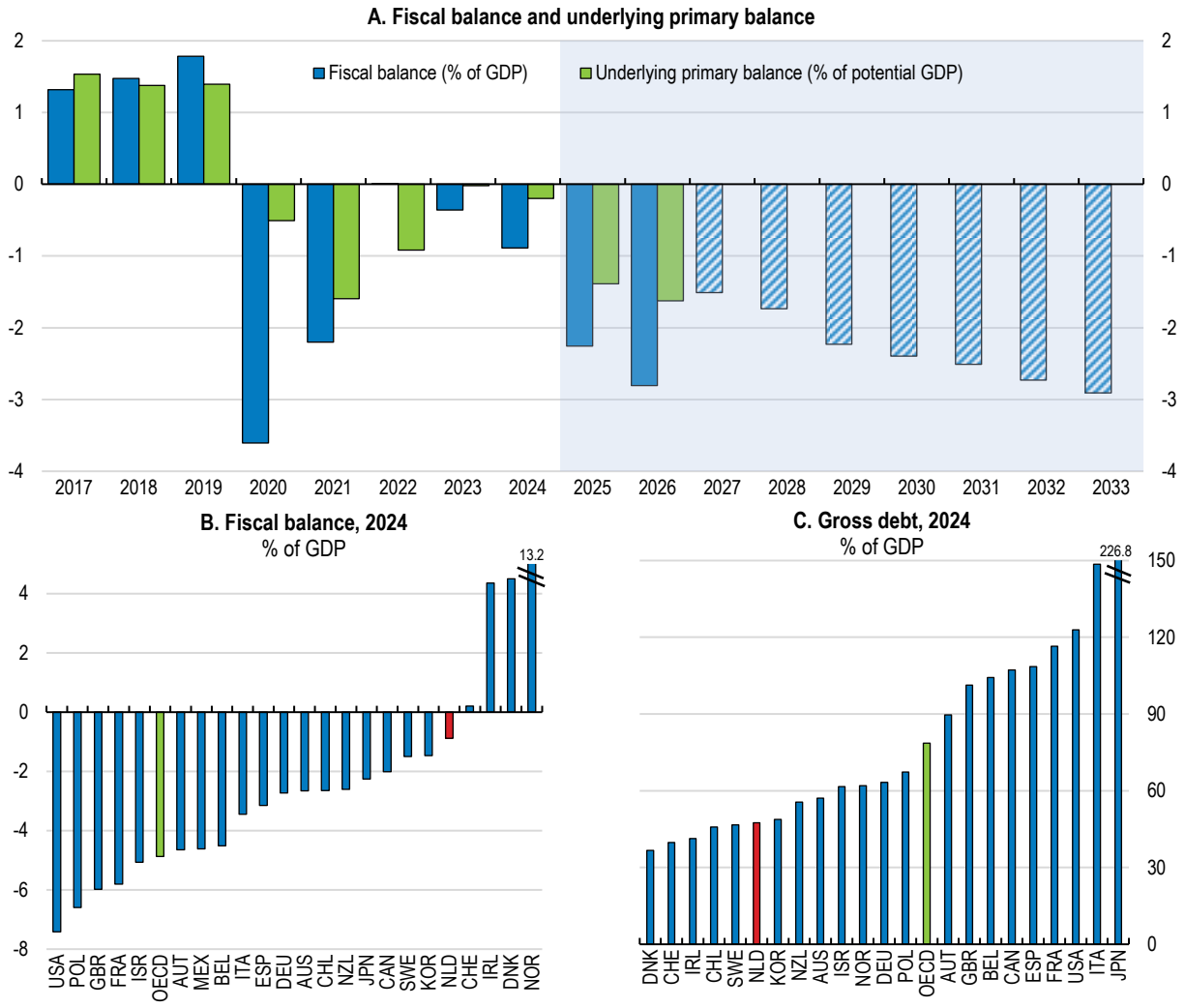
Revenue:

- Labour and income tax on households: tax break for employees of innovative start-ups taking a participation in their business.
- Environmental taxation: decrease in revenue of about EUR 0.6 billion over 2026-28 due to the reduction in the energy tax.
- Indirect taxation: decrease in revenue of about EUR 4 billion over 2026-28 due to the scrapping of the planned increase in VAT on culture, media, and sports.

Source: Government of the Netherlands.

The fiscal stance will be expansionary over 2024-26, supporting short-term economic growth but worsening the government's fiscal balance (Table 1.3). The deficit is projected to widen from 0.9% of GDP in 2024 to 2.8% in 2026 (Figure 1.11, Panel A), coming from a strong fiscal position by OECD comparison (Figure 1.11, Panels B and C). The fiscal package also risks exacerbating inflationary pressures in a tight labour market (Table 1.1, above). According to the independent assessment by the Netherlands Bureau for Economic Policy Analysis (CPB), the package raises both annual GDP growth and annual consumer price inflation by 0.1 percentage points, and the growth in median purchasing power by 0.2 percentage points (CPB, 2024[21]). At the same time, it worsens the fiscal balance in the short run, with a deterioration of 0.7 percentage points in 2025. The CPB's updated fiscal projections, which reflect the most recent economic developments and account for measures taken at the Spring Memorandum, confirm the ongoing fiscal expansion (CPB, 2025[22]; 2025[23]).

Figure 1.11. The budgetary deficit is widening, though from a strong fiscal position



Note: Panel A: Data for 2027-33 are from the Netherlands Bureau for Economic Policy Analysis' February 2025 projections (*Centraal Economisch Plan*, CEP). Panel B: Data refer to 2023 for Israel, Japan, Mexico and Switzerland, and 2022 for New Zealand. Panel C: Data refers to 2023 for Israel, Japan, and Korea.
Source: OECD Economic Outlook: Statistics and Projections (database); and Netherlands Bureau for Economic Policy Analysis (CPB).

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Table 1.3. Fiscal indicators and projections

% of GDP, unless specified

	2021	2022	2023	2024[1]	2025[1]	2026[1]
Revenue and expenditure						
Total revenue	43.7	43.3	42.8	43.0	42.3	42.3
Taxes	25.3	24.9	25.8	25.9	25.2	25.1
Social security contributions	13.6	13.1	12.6	12.5	12.5	12.5
Other	4.8	5.3	4.5	4.6	4.6	4.6
Total expenditure	45.9	43.3	43.2	43.9	44.6	45.1
Government consumption	25.4	24.3	24.7	25.5	26.0	26.1
Social transfers	10.5	9.7	10.3	10.4	11.0	11.5
Investment[2]	0.4	0.2	0.3	0.3	0.4	0.4
Debt interest[3]	0.5	0.6	0.7	0.7	0.7	0.8
Other	9.1	8.4	7.2	6.9	6.5	6.2
Balances						
Fiscal balance	-2.2	0.0	-0.4	-0.9	-2.3	-2.8
Primary balance	-1.8	0.4	0.1	-0.5	-1.8	-2.3
Underlying primary balance (% of potential GDP)	-1.6	-0.9	0.0	-0.2	-1.4	-1.6
Public debt						
Gross debt (Maastricht definition)	50.5	48.4	45.2	43.3	44.7	46.8
Gross debt (national accounts definition)[4]	64.3	52.7	49.8	47.5	48.3	50.0
Gross financial assets (EUR billion)	288.6	285.3	286.0	302.2	316.2	328.2
Net debt	32.0	24.0	23.0	20.8	21.7	23.4

1. OECD estimates except otherwise stated.
2. Gross fixed capital formation minus consumption of fixed capital.
3. General government gross interest paid.
4. National Accounts definition includes state guarantees, among other items.
Source: OECD Economic Outlook: Statistics and Projections (database).

The fiscal expansion stems from cuts in personal, corporate, and environmental taxes, as well as higher spending on healthcare, housing, and defence. Many of the expansionary measures are costly and lack targeting. The increase in healthcare spending aimed at reducing out-of-pocket payments for everyone is expected to increase expenditure by about 0.3% of GDP in 2028. Plans to support low- and middle-income household purchasing power through the introduction of a new reduced tax bracket in box 1 of the income tax system (Box 1.6) is expected to reduce revenues by about 0.4% of GDP. Additional expansionary measures include an increase in the income-dependent rent subsidy (*huurtoeslag*) and the extra payment for children of low-income families (*kindgebonden budget*). The expansion is only partially offset by spending cuts in education, research and development, climate policy, public administration, and development aid.

Box 1.6. The personal tax system: income boxes

Income and wealth taxation

Governed by the 2001 Income Tax Law, income is divided into three separate "boxes" (see Table 1.4). Each box taxes a different type of income according to different tax rules. Box 1 taxes labour income, self-employment income, (sole property or unincorporate company), pension benefits, transfer income and imputed rental income from owner-occupied housing at progressive rates varying in 2024 from 36.97% to 49.5%. Box 2 taxes profits distributed to, and capital gains realised by taxpayers who own at least 5% of a private and public limited company, called substantial ownership, at a 24,5% rate for the first EUR 67 804 of income in box 2 and a 31% rate for the income above since 2024. As long as no dividends are paid out and capital gains are not realised, income is only taxed at the corporate level. Box 3 covers all wealth except for owner-occupied housing, substantial ownership, business assets from unincorporated company and pension wealth. Among other types

of wealth, the Box 3 tax base includes bank deposits, bonds, non-substantial ownership of shares, and second homes. and other (rented or non-rented) property. Since the legal redress in 2021 (below), income in box 3 is taxed based on the actual composition of individuals' asset holdings (savings, investments and other assets and debt) and on assumed returns that are close to actual returns.

Table 1.4. The three income boxes

Boxes, rates and brackets (2024)

Box 1	Box 2	Box 3 (Bridging Act Bill, until 2026)
Employment income Business income of unincorporated firms Owner-occupied property, with imputed rent gradually increasing in property value: Up to EUR 12 500: 0%; EUR 12 500-EUR 25 000: 0.1%; EUR 25 000-EUR 50 000: 0.2% ; EUR 50 000-EUR 75 000: 0.25%; EUR 75 000-EUR 1.33 million: 0.35%; Above EUR 1.33 million: 2.35%. Mortgage rate deduction (36.97%) Pension income • Pay-out at reduced rates • Contributions are tax deductible Tax rates: 36.97% for up to EUR 75 518; 49.5% above.	Income from substantial interest or holding (at least 5%) in a limited company. Income includes: • Dividend income • Capital gains Tax rate: 24,5% up to EUR 67 000 and 31% above (in addition to corporate level taxes).	Income from assets such as savings and investments are taxed on the returns of the assets, where returns vary by type of asset and are considered as follows: • Savings: 1.44% • Investment: 6.04% • Debts: 2.61% Tax free capital limit for one person: EUR 57 000. Tax rate: 36%.

Source: Ministry of Finance.

Legal redress and transitional law for box 3

Background: In December 2021, the Supreme Court ruled that the box 3 system based on a notional return violated property rights and was discriminatory. This led to legal redress for the years 2017-22 and the introduction of a transitional law from 2023 on.

Transitional law: The box 3 transitional law came into effect in January 2023, and will remain in place until the introduction of the new system (expected in 2027 or 2028). Under this law, assets are still taxed based on notional returns, but these rates are more closely aligned with the actual returns of different asset categories. Assumed returns for 2024 are as follows: savings: 1.44%; investments/other assets: 6.04%; debt: 2.61%. Calculation is based on the actual distribution between assets but uses annually updated fixed rates.

Legal redress: Over 2017-22, compensation was provided if the actual return was lower than the assumed return. In June 2024, the Supreme Court ruled that both the legal redress and the transitional law violate European law if the actual return is lower than the notional return. The tax authorities may not levy more tax than the actual return achieved.

Counter-evidence scheme: From 2025, taxpayers can demonstrate to the tax authorities that their actual return is lower than the notional return.

Source: Ministry of Finance.

The government's plans raise concerns about fiscal sustainability, considering long-term spending pressures from ageing and climate change, as well as commitments to increasing defence spending. Public debt is projected to rise from 43.3% of GDP in 2024 to 46.8% in 2026 (Table 1.3, above). According to the medium-term forecast by the Netherlands Bureau for Economic Policy Analysis (CPB), the growth in expenditure is expected to increasingly outpace the growth in revenue under current policy settings, with the government fiscal balance deteriorating steadily until 2033. This is particularly the case beyond the government's term, from 2029 onwards (CPB, 2025[22]; 2024[21]). While the trend-based fiscal framework ensures that the growth in public expenditure remains below the

pre-agreed ceiling over the government's term, by design it does not discipline expenditure after. Therefore, there is currently no information about the necessary policy adjustments to stabilise the deficit beyond 2028.

Further uncertainty surrounds the feasibility of the government's fiscal plans. Implementation challenges are expected regarding key spending cuts, such as reducing public administration staff by 20%. While public employment increased more steadily than private employment since 2020 (Statistics Netherlands, 2025[24]), the government has neither provided a clear rationale for cuts to the headcount of public employees, nor any information regarding execution. Against that backdrop, the government should refrain from abrupt and untargeted cuts and ensure that the quality of public services is preserved. Moreover, other measures may face political resistance, such as cutting the Netherlands' contribution to the EU multiannual financial framework. Finally, supply bottlenecks, including labour shortages and the knock-on effect from the nitrogen crisis, could constrain the ability to plan and execute infrastructure investments, which may lead to underspending.

The current fiscal trajectory also risks breaching EU fiscal rules. Under the European Commission's technical information communicated to EU members as part of the reformed EU fiscal framework, the Netherlands is required to reach a structural primary balance surplus of 0.1% by 2028. However, the government's projected path for net primary expenditure growth is higher than the EU-assigned limits (Table 1.5). Without appropriate adjustment, the Netherlands may face a "Significant Deviation Procedure" under the preventive arm of the EU Stability and Growth Pact. Such a scenario is unlikely, as the government is strongly committed to remain within EU Treaty values for deficit and debt levels, and because supply bottlenecks have often led to underspending. While fiscal targets might eventually be met, proactive deficit-reducing measures would provide greater policy credibility and economic stability.

Table 1.5. Net primary expenditure growth

	2024	2025	2026	2027	2028
Government's forecast of net primary expenditure growth:					
Annual (%)	6.9	6.8	3.5	2.1	4.3
Cumulative (%)	6.9	14.1	18.1	20.7	25.9
EU assigned maximum net primary expenditure growth:					
Annual (%)	6.6	3.5	3.3	3.0	3.0
Cumulative (%)	6.6	10.3	14.0	17.4	20.9

Note: Annual and cumulative refer to changes from the previous year and since 2023, respectively; cumulative is not the sum of annual.
Source: Government of the Netherlands.

A more prudent approach to fiscal policy is also needed to keep inflation in check while supporting economic growth. The current expansionary fiscal stance, combined with a tight labour market, risks prolonging domestic price pressures. While consumer price inflation is expected to return to the 2% target in the Euro area, and even fall below target in a few major Euro area economies, the European Central Bank's monetary stance may be insufficiently tight to contain price pressures in the Netherlands. Thus, fiscal policy should play a complementary role in stabilising inflation by shifting towards a neutral or mildly contractionary stance.

To close the fiscal gap, the government could prioritise revenue-side adjustments. Some revenue-raising measures are ripe for swift implementation. Phasing out generous mortgage interest deductions, which distort the housing market and disproportionally benefit higher income households, could raise revenues while reducing housing market imbalances (Chapter 3). Reinstating the planned increases in energy taxes could boost revenues, while ensuring alignment with climate targets by reducing fossil fuel support (Chapter 2). The government could also accelerate the phaseout of self-employment tax deductions, which distort the labour market (below). Some recently introduced tax measures that increase disposable income across the board, such as the change in the tax rate reduction for labour income and pension benefits in box 1 of the Dutch income tax system, should be more targeted towards low-income households.

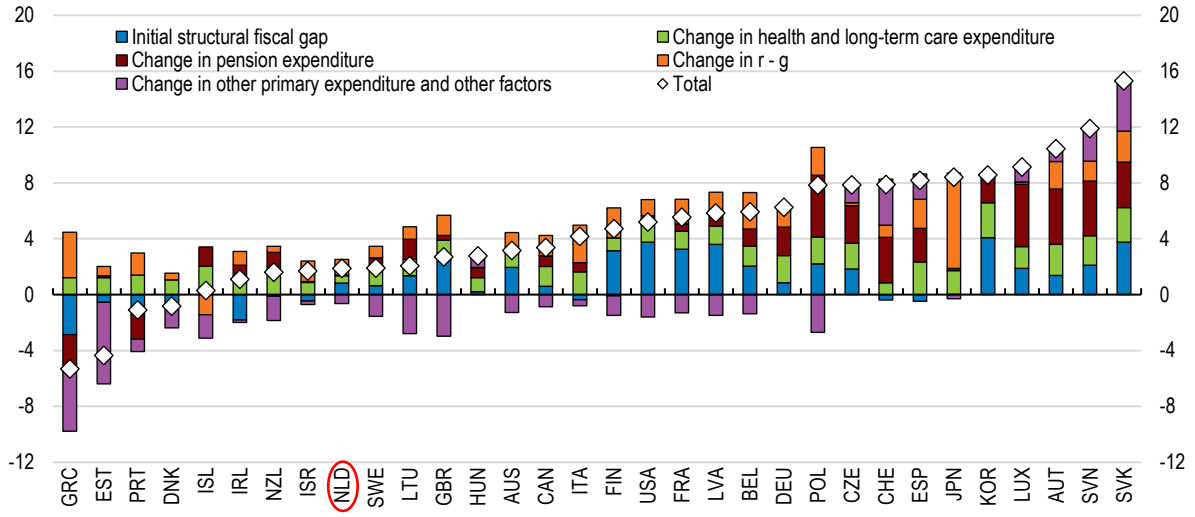
On the spending side, the government should ensure that cuts do not weaken long-term productivity, by focusing on efficiency improvements rather than across-the-board cuts. The planned spending cuts to education and to research, development and innovation risk undermining productivity and long-term growth, and should be reversed.

1.3.2. Reforms are necessary to safeguard public finances

In addition to short-term risks, rising long-term spending pressures could challenge the sustainability of public finances. These pressures primarily stem from demographic shifts, the rising cost of servicing public debt, and necessary investments in climate change mitigation and adaptation (Chapter 2). Even though spending pressures in the Netherlands are moderate by OECD comparison (Figure 1.12) and gross debt is low, keeping the debt-to-GDP ratio stable near its current value over the long term would require structural primary revenues to increase by about 1.8% of GDP, or equivalent savings. Without timely reforms, the combination of rising spending pressures and fiscal expansion could raise borrowing needs and strain public finances.

Figure 1.12. Structural fiscal adjustments are needed to stabilise public debt over the long run

Required change in fiscal pressure, 2025-50 (% of potential GDP)



Note: Figures refer to the change in the ratio of structural primary revenue to potential GDP that is required between 2025 and 2050 to stabilise the debt-to-GDP ratio at 2025 level.
Source: OECD calculations based on OECD Long-Term Baseline (database); and the OECD Long-Term Model.

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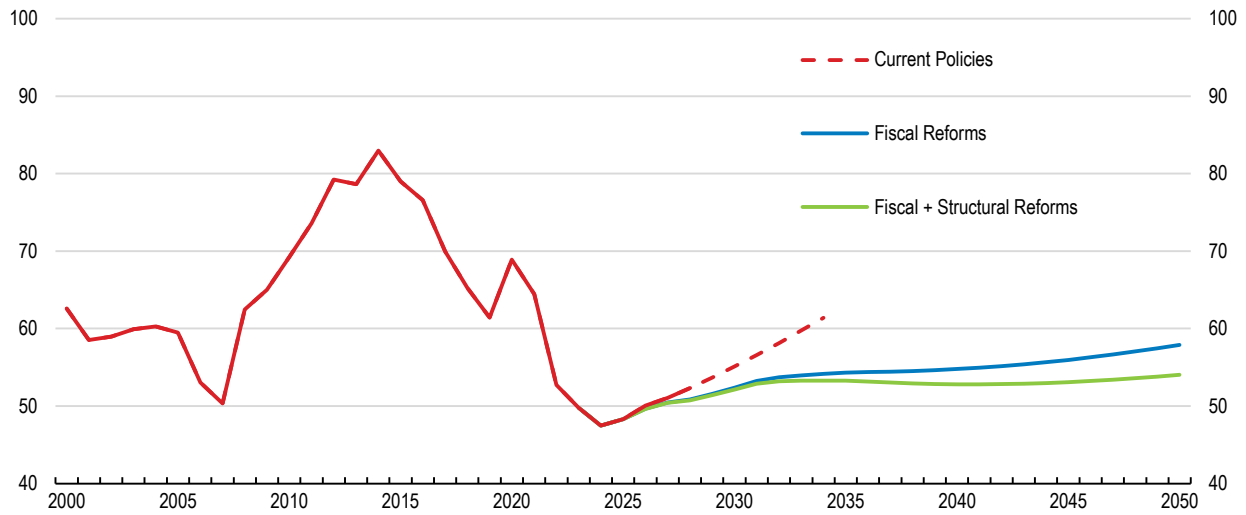
Under current policies based on the government's September fiscal package for 2024-28, public debt as a share of GDP (national accounts definition) would surge from below 50% in 2024 to above 60% by the mid-2030s, and would remain on an unsustainable trajectory (Figure 1.13, red line). The growing fiscal burden stems from rising healthcare and long-term care spending linked to ageing, from increased pension-related expenditure, and from higher interest payments, as borrowing costs rise relatively to GDP. This baseline scenario may even underestimate future fiscal pressures, as it excludes the additional expenditure needed for climate change mitigation and adaptation (Chapter 2), as well as potential increases in defence spending.

Figure 1.13. Fiscal and structural reforms can help tackle rising ageing costs

Gross debt (% of GDP)



Note: All scenarios account for ageing costs. The "Current Policies" scenario assumes existing spending and tax policies based on the government's fiscal plans for 2024-28. The "Fiscal Reforms" scenario assumes the implementation of fiscal recommendations listed in Table 1.5. The "Fiscal + Structural Reforms" scenario further assumes a gradual increase of 0.66% points in potential GDP growth due to growth-enhancing reforms listed in Table 1.6; it does not account for potential improvements in the primary balance due to higher GDP growth.
Source: OECD calculations based on OECD Long-Term Baseline (database); and the OECD Long-Term Model.

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To ensure long-term debt sustainability, fiscal policy adjustments will be necessary. Implementing fiscal policy reforms could help contain pressures on public finances. Key reforms include phasing out fossil fuel support; reducing the favourable tax treatment of owner-occupied housing; phasing out reduced VAT rates; and reversing the reduction in out-of-pocket payments for medical care (Table 1.6). Under this "Fiscal Reforms" scenario, fiscal policy changes would generate approximately 1.7% of GDP in structural primary revenue or equivalent savings, which would help to contain the rise in the debt-to-GDP ratio (Figure 1.13, blue line). This scenario is also aligned with the European Commission's reformed economic governance framework, ensuring compliance with net primary expenditure targets until 2028.

While fiscal measures will help contain debt growth, further structural reforms will be needed to ensure that the debt-to-GDP ratio stabilises in the long run. These include reversing proposed cuts in R&D support; lowering effective marginal tax rates on labour income and simplifying income-dependent allowances; and improving tax neutrality across forms of employment, types of asset, and sources of income (Table 1.7). Under this "Fiscal + Structural Reforms" scenario, potential GDP growth would gradually increase, supporting fiscal sustainability (Figure 1.13, green line). While these growth-enhancing reforms will have a long-term positive impact, short-term fiscal adjustments remain necessary to stabilise debt dynamics.

Table 1.6. Estimated budgetary impact of selected fiscal policy recommendations

Selected fiscal policy recommendations	Estimated savings (+) and costs (-), % of GDP
Revenue	
Phase out of fossil fuel support measures (1)	+1.8
Reduce favourable tax treatment of owner-occupied housing (2)	+0.6
Phase out reduced VAT rates (3)	+0.5
Lower effective marginal tax rates on labour income (4)	-0.5
Reduce discrepancies in tax treatment across types of work contracts (5)	+0.1
Remove profit tax exemption in agriculture (6)	+0.1
Phase in land value tax (7)	(+)
Spending	
Reverse proposed cuts in R&D spending and education, and increase R&D spending to OECD average (8)	-0.5
Reverse proposed cuts in climate policy spending, and increase spending on adaptation (9)	-0.5
Reversal of the reduction in out-of-pocket payments for medical care (10)	+0.4
Increase income-dependent rent allowance (11)	-0.3
Total estimated impact on fiscal balance	**+1.7**

Note: Estimates show direct medium-term budgetary impact. Assumptions: (1) 50% reduction in tax expenditure on fossil fuel support measures; based on data from OECD Fossil Fuel Support database. (2) 50% reduction in tax expenditure for home ownership; based on data from the 2021 OECD Questionnaire on Affordable and Social Housing; see also Chapter 3. (3) 50% reduction in overall tax expenditure from reduced VAT rates; based on figures from the Ministry of Finance. (4) Adjustments to rates and brackets in box 1 of the Dutch income tax system. (5) Based on estimates published by the Ministry of Finance (2022[25]). (6) Based on figures from the Ministry of Finance. (7) No estimate available. (8) Re-instatement of EUR 1.2 billion National Growth Fund, reversal of EUR 1.8 billion cut in education spending, and EUR 4 billion increase in R&D spending; based on OECD calculations and on figures from CPB. (9) Re-instatement of EUR 3.5 billion in climate policy spending, and EUR 2.7 billion increase in spending on adaptation; based on figures from CPB; see also Chapter 2. (10) Based on figures from CPB. (11) Shifting half of the reduction in tax expenditure for home ownership into higher housing allowances (*huurtoeslag*).
Source: OECD calculations.

Table 1.7. Estimated growth impact of selected structural policy recommendations

Selected structural policy recommendations	Estimated growth impact, % pts
Reverse proposed cuts in R&D spending and education and increase R&D spending to OECD average (1)	+0.3
Lower effective marginal tax rate on labour income and streamline the tax-benefits system (2)	+0.3
Align taxation across types of work contracts, attenuate tax preference for illiquid assets, reduce arbitrage incentives between labour and capital income, and reduce tax avoidance	(+)
Total estimated impact on potential per capita GDP growth	**+0.6**

Note: Figures show estimated impact after 10 years. (1) Increase by about 0.4% of GDP. (2) By adjusting rates and brackets in box 1 of the Dutch income tax system, simplifying the system of income-dependent allowances, and other pro-work reforms.
Source: OECD calculations based on Egert (2018[26]).

1.3.3. Implementing fiscal reforms to tackle spending pressures

Strengthening the multi-year fiscal framework

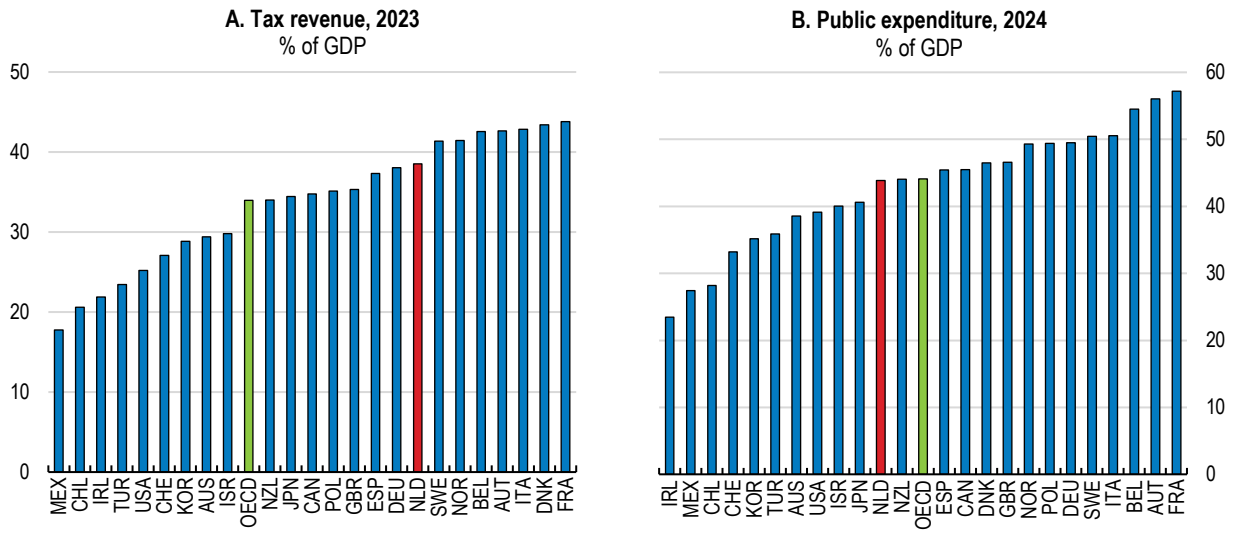
The Netherlands operates a multi-year fiscal strategy, under a trend-based expenditure framework which allocates expenditure ceilings by line ministry over the government's term. Most aspects of this strategy are regarded as best practice under the OECD Spending Better Framework. However, the expenditure framework is fixed over the government's term, reflecting a political consensus on the principle that a government cannot impose financial obligations on future governments in ways that binds their policy choices. While the principle intends to preserve political flexibility over tax and spending decisions, it may have the opposite effect: if current policies are sustainable only in the short term, future governments may have to enact tax increases or spending cuts when entering office.

The government's fiscal plans incorporate medium-term planning thanks to the trend-based fiscal policy framework, which sets maximum net primary expenditure for each year over 2024-28. However, because expenditure ceilings are fixed for the duration of the government and not rolled forward, the planning horizon gets shorter each year. This limits the framework's ability to address longer-term fiscal pressures, such as those due to population ageing or climate change. In addition, the practice of announcing fiscal measures on an annual basis, rather than pre-defining them in a transparent multi-year plan, can create incentives to postpone politically difficult but necessary decisions on revenue-raising measures and spending cuts. For example, current fiscal plans frontload income tax cuts, while postponing VAT increases. Therefore, essential fiscal adjustments may not be fully implemented, potentially worsening public finances. The fact that expenditure ceilings are allocated by line ministry can complicate adjustments further and create tax and spending inefficiencies, as it largely prevents cross-ministry reallocation.

The government should consider evolving its current framework into a rolling multi-year framework, by adding one additional year annually to the expenditure horizon. This would provide greater predictability, support long-term sustainability, and enhance transparency, while keeping the benefits of the current framework, including fiscal discipline on the expenditure side and macroeconomic stabilisation on the revenue side. The Netherlands could draw on the experience of the United Kingdom, where binding expenditure ceilings (excluding cyclical spending, such as spending for welfare and pensions) are set for three years and updated every two years through a formal spending review process. Implementation could be supported by strengthening the role and resources of the independent Netherlands Bureau for Economic Policy Analysis (CPB), leveraging its world-renowned expertise and key institutional role in Dutch economic policy making.

In the short term, particularly over 2025-26, the fiscal strategy should focus on credibility and compliance with the EU fiscal rules, ensuring a balanced and predictable fiscal path. To contain the deficit, the government should implement targeted fiscal adjustments, particularly by phasing out inefficient tax expenditures (see below). The government could leverage its long experience in integrating spending reviews in the budgetary process to evaluate fiscal priorities and improve spending efficiency, particularly on healthcare and pension, which are expected to rise due to ageing. As tax revenue and public expenditure are already sizeable (Figure 1.14, Panels A and B), priority should be given to reducing tax expenditures, as well as addressing areas of spending inefficiency within the public sector. The strategy should also preserve public investment in areas and policies that enhance productivity and sustainability, including skills, education, infrastructure, innovation, and the low-carbon transition.

Figure 1.14. The public sector is sizeable



Note: Panel A: Data for Australia and Japan refer to 2022. Panel B: Data refer to 2023 for Australia, Canada, Chile, Israel, Japan, Korea, Mexico, New Zealand, the United States, and 2020 for Türkiye.
Source: OECD Revenue Statistics (database); and OECD National Accounts Statistics (database).

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Containing long-term spending pressures

Pension-related fiscal pressures in the Netherlands remain lower than in many other advanced economies, as retirement age is linked to life expectancy and thanks to the large fully-funded second-pillar pension system. However, long-term demographic shifts may still put pressure on pension adequacy and require further adjustments, especially for lower-income retirees.

Rising healthcare and long-term care spending presents the most pressing long-term fiscal challenge, as demand increases due to ageing and costs grow due to labour intensity. Moreover, the government's planned reduction in out-of-pocket medical costs will likely increase healthcare demand, while shortages of care staff add further pressure. The annual growth in public spending on healthcare is expected to accelerate by about 0.9 percentage point over 2024-28, from 2.9% to 3.8% (CPB, 2024[21]). While ensuring access to healthcare is a priority, and part of the country's structural reform objective under NextGenerationEU plans, such untargeted budgetary expansion raises fiscal sustainability concerns.

To contain spending pressures in healthcare, the government should swiftly reverse its policy of reducing out-of-pocket payments for medical care. In case supporting access further remains necessary, a higher income-dependent healthcare allowance (*zorgtoeslag*) could be contemplated, but disincentivising effects on labour supply should be carefully considered.

Efficiency improvements in the delivery of long-term care (LTC) would also contribute to reducing costs overall. While the scope for productivity gains in LTC is limited, ensuring an appropriate allocation of recipients between institutional care and home-based care based on needs can contribute to efficient delivery. Moreover, expanding preventive care can reduce hospitalisation and other high-cost medical procedures.

Climate-related fiscal pressures for mitigation and adaptation are also expected to increase, by about 0.5% of GDP annually until 2050 (CPB, 2023[27]). Reducing fossil fuel support measures, which amounted to about 3.5% of GDP in 2023, could offset some of these costs, however only imperfectly as the fossil fuel tax base will shrink over time as fossil fuel use falls (Chapter 2).

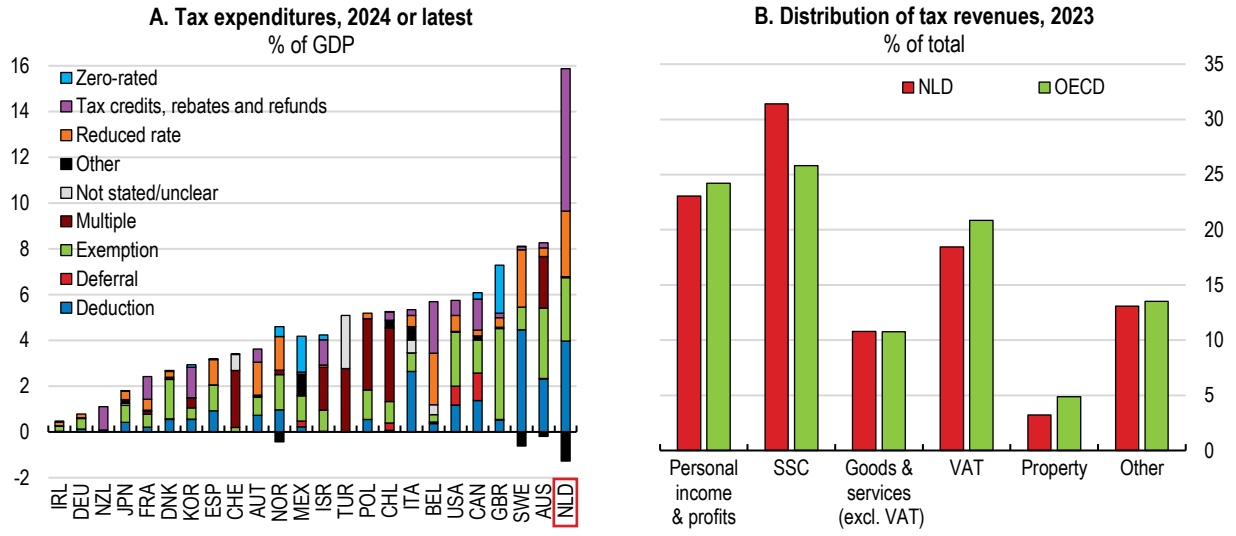
Defence spending, slightly above 2% of GDP in 2024 in line with NATO's guidelines, may have to increase given international commitments and heightened geopolitical tensions. Any additional defence spending should be integrated into a multi-year fiscal framework, ensuring it is fully financed.

Streamlining tax expenditures

The Dutch tax system features many tax exemptions, allowances, and reduced rates. According to the Ministry of Finance, they amount to an estimated EUR 150 billion in foregone tax revenue in 2023, equivalent to about 40% of the total tax revenue (even though such a large figure partly reflects the specific tax benchmark used to define tax expenditures in the Netherlands). Other sources, such as the Global Tax Expenditure Database, suggest that Dutch tax expenditure as a share of GDP is one of the highest in the OECD (Figure 1.15, Panel A). While some tax expenditures serve legitimate policy goals, such as strengthening work incentives or incentivising R&D, a review by the Ministry of Finance found that many schemes are ineffective, unjustified, or excessively complex. Among the 116 existing schemes, the review identified 20 schemes with no measurable positive effects, 17 schemes without a clear rationale, and 24 schemes with excessive administrative complexity (Ministry of Finance, 2023[28]). Ongoing evaluations depict an unchanged picture. A significant portion of tax expenditures is related to implicit fossil fuel support measures (about 3.5% of GDP in 2023; Chapter 2) and tax relief for home ownership (almost 1.2% of GDP; Chapter 3).

The government should prioritise streamlining tax expenditures by eliminating inefficient schemes first. Besides phasing out fossil fuel support measures and tax relief for home ownership, removing reduced value added tax (VAT) rates should be considered as part of a comprehensive reform. VAT tax revenue is relatively low by international comparison, while the tax system is currently biased against labour income (Figure 1.15, Panel B). The newly generated VAT revenue from normalising the reduced rates could be used to rebalance the overall system. Further removing sector-specific corporate tax reductions, such as reduced profit taxation in the agriculture sector, would also generate extra revenue to this end. A well-design revenue-neutral reform could broaden the tax base while allowing lower effective marginal tax rates on labour.

Figure 1.15. Both tax expenditures and labour taxes are high



Source: Global Tax Expenditure Database; and OECD Revenue Statistics (database).

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Box 1.7. Dutch value added tax: rates, exemptions, and revenue ratio

Rates

Headline rate: 21%.

Reduced rate: 9% on food items and water supply; goods and services for the disable, medicine, aids for the visually disabled; books; certain electronic publications and e-books, lending of books, newspapers, magazines; entrance fees for sports events, amusement parks, museums, cinemas, zoos and circuses, use of sports accommodation; art and antiques; catering; restaurant, and hotel meals, hotel and holiday accommodation; passenger transport (except passenger transport by air); thermal insulation of dwellings; cut flowers and plants, certain labour-intensive services, e.g., maintenance and cleaning of dwellings, hairdressing.

Zero rate: supply and installation of solar panels on or near a home.

Exemptions

Postal services; transport of sick/injured persons; hospital and medical care; human blood, tissues and organs; dental care; charitable work; education; non-commercial activities of non-profit making organisations; insurance and reinsurance; financial services; betting, lotteries and gambling; certain fund-raising events; burials; cremations; public broadcasting; sports clubs; the services of composers, writers and journalists.

Revenue ratio

The Netherlands has a VAT revenue ratio (VRR) of 0.55, close to the OECD average of 0.58. The VRR is calculated as the ratio of collected VAT revenue to what would theoretically be collected if VAT were applied at the standard rate to the entire potential tax base in a "pure" VAT regime. The difference between the two measures reflects the loss of revenues due to exemptions, reduced rates, fraud, and non-compliance.

Source: OECD (2024) *Consumption Tax Trends 2024*

1.3.4. Enhancing tax efficiency to support growth

Reducing distortions in capital and labour taxation can strengthen growth. At the same time, complementary measures to support labour supply are necessary to alleviate shortages, as discussed in depth in the previous *Economic Survey* (OECD, 2023[3]). Scaling up skills policy, better integrating migrants, and streamlining the migration system would also help addressing labour market tightness, while further improving the business environment can enhance productivity (Chapter 4).

Reform prioritisation matters, as some tax distortions are more pressing than others. Tackling labour market distortions should come first, given the knock-on effect of labour shortages on the entire economy. Other reforms, such as reforming capital taxation and closing corporate tax loopholes, could come next.

Aligning taxation across forms of employment

Disparities in labour taxation across different forms of employment can undermine productivity growth and fiscal fairness. The current system incentivises self-employment through preferential tax treatment, contributing to a rise in false self-employment and entailing one of the largest regulatory gaps between regular and non-regular employment (OECD, 2023[3]). While non-standard work arrangements offer flexibility, they reduce incentives for skills development, which can weigh on long-term productivity. Moreover, labour market segmentation weakens job security, which can lead to higher income inequality.

The Commission for the Regulation of Work (Borstlap Commission) recommended a gradual reduction of tax advantages for the self-employed, which the government has started to implement. These include progressively reducing the self-employment deduction, introducing mandatory insurance for the self-employed, and legislating a stricter employment definition to prevent abuse. The government should continue efforts to align tax and regulatory treatment across contracts for the same type of work, including by swiftly delivering on its proposed labour market package. Fully implementing the recommendations from the Commission is key to achieving the desired convergence in a balanced way. Specifically, while the government reduced tax and social security incentives favouring flexible work already, much remains to be done to increase the flexibility of regular employment contracts.

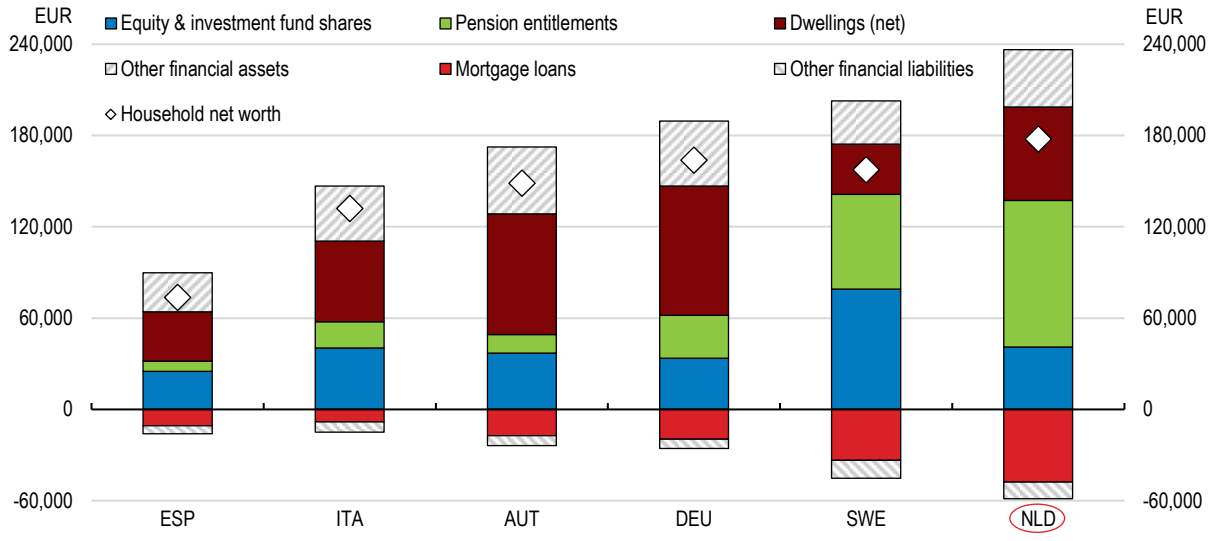
Reforming the tax preference for illiquid wealth

The tax preference for illiquid assets, such as owner-occupied housing and pensions, distorts capital allocation and limits investment in productive assets, weighing on economic growth (OECD, 2023[3]). Dutch households invest disproportionally in housing and hold a low share of net assets into equities and bonds (Figure 1.16), constraining business investment and reducing the availability of finance, especially for SMEs. Moreover, while pension funds partly fund business investment, they disproportionately do so abroad (DNB, 2025[29]). The government plans to tax capital income based on actual returns by reforming box 3 of the Dutch income tax system (Box 1.6, above). This will reduce distortions in capital taxation, which is a step in the right direction. However, the implementation of the reform has been delayed from 2026 to 2027.

The transition to actual return taxation should be expedited, and further reforms to remove distortions in the taxation of capital income should be considered. For example, moving the taxation of home equity from box 1 of the Dutch income tax system to box 3 to ensure alignment with the taxation of other investment assets would be welcome (Chapter 3). The government could use the opportunity of the court-imposed change to the taxation of capital income to consider a broader reform that harmonises tax rates across sources of capital income to promote allocative efficiency, based on an in-depth review of the overall tax system. Additionally, loopholes in the taxation of closely held companies, which allow for deferred tax payments on retained profits and lower rates on dividends, should be closed to increase fiscal fairness and reduce tax avoidance, without increasing headline tax rates, as discussed in the previous *Economic Survey of the Netherlands* (OECD, 2023[3]).

Figure 1.16. Capital is invested in illiquid assets

Distribution of household assets and liabilities per capita, 2023 or latest



Note: Figures show net worth excluding land and machinery assets. Dwellings (net) is equal to its gross value minus its value of consumption of fixed capital (depreciation).
Source: OECD Annual Financial Balance Sheets (stocks) consolidated (database); and OECD Annual Balance Sheets for Non-Financial Assets (database).

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Addressing arbitrage between labour and capital taxation

The Dutch tax system creates incentives for business owners (holding at least five percent of the shares) to report business income as profits (in box 2 of the Dutch income tax system) instead of salary (in box 1), due to lower tax rates on profits and dividends. Moreover, taxes on profit can be deferred until the payout of dividends, or until shares are sold and are liable for capital gains tax. The reduced corporate income tax rate for business income makes the rate difference even larger, strengthening tax avoidance incentives. This tax arbitrage discourages businesses from growing and encourages splitting firms into smaller entities, reducing overall productivity.

The government has already lowered the ceiling for reduced corporate income tax rates and increased rates on income reported in box 2 of the Dutch income tax system. This is welcome, but more is needed. To further remove distortions, the government could eliminate the reduced corporate income tax rate, while considering a moderate decrease in the headline rate to avoid increasing tax pressure. Another, complementary reform would be to increase the minimum share of business income that must be paid as salary, reducing incentives for tax-driven income classification.

Attenuating implicit gender biases in taxes and benefits

The complexity of the system of income-dependent allowances (*toeslagen*) discourages labour market participation, especially for low-income and vulnerable workers. The system comprises different income-dependent schemes that interact non-linearly at different income thresholds. In the absence of clear information, some individuals avoid entering the labour market for fear of losing benefits. Income-dependent benefits also lead to relatively high participation tax rates for single parents, often women, with close to two thirds of earnings lost to higher taxes, lower benefits, and net childcare costs when a single parent with young children takes up full-time employment and uses full-time centre-based childcare (Figure 1.17, Panel A).

The government should reform income-dependent allowances through consolidation into a simpler and more straightforward benefits system where benefits depend on a limited number of household characteristics, e.g., income, assets, and number of children, as recommended in the previous *Economic Survey* (OECD, 2023[3]). Clearer communication tools would help individuals to better understand the financial impact of labour supply decisions.

High effective tax rates on additional hours worked implicitly reinforce cultural preferences for the "one-and-a-half worker household" model, where one partner (often a man) works full-time and the other partner (often a woman) works part-time (Figure 1.17, Panel B). Despite various attempts at introducing tax incentives for second earners to work more, including stronger in-work benefits (*Inkomensafhankelijke combinatiekorting*, IACK), a childcare allowance, and limits on the transferability of the general tax credit between partners, the gender gap in hours worked remains among the highest in the OECD (Figure 1.17, Panel C). This suggests that tax incentives alone are unlikely to achieve the desired change in individuals' labour supply in the Netherlands, and should instead be part of a broader set of complementary reforms to lift labour supply, as discussed in depth in the previous *Economic Survey* (OECD, 2023[3]).

Adjusting the income tax schedule to reduce effective marginal tax rates would alleviate the bias, promote labour utilisation, and reduce gender inequalities in employment and earnings. However, as discussed in depth in the previous *Economic Survey*, the tax system has gone relatively far already in providing tax incentives for second earners to increase their labour input (OECD, 2023[3]). The government intends to prepare an overhaul of the income support system to incentivise workers to increase hours worked. In the meantime, programmes such as More Hours Works! (*Meer Uren Werkt!*), which aims to identify and reduce barriers that hold back labour supply with a budget of EUR 75 million, are steps in the right direction.

Care responsibilities remain a major barrier to full time employment (Figure 1.17, Panel D), especially for women. While the 2022 childcare reform subsidising 96% of childcare costs (up to a ceiling) for all working parents is a step forward, the rollout was delayed to 2029 due to staff shortages and increased demand (Table 1.8). As argued in the previous *Economic Survey* (OECD, 2023[3]), a gradual phasing in of the reform with prioritisation is necessary. However, the government has ruled out re-instating a link between childcare subsidies and hours worked after the fallout from the recent childcare benefit scandal, whereby parents were unduly court-ordered to repay parts of their childcare benefits.

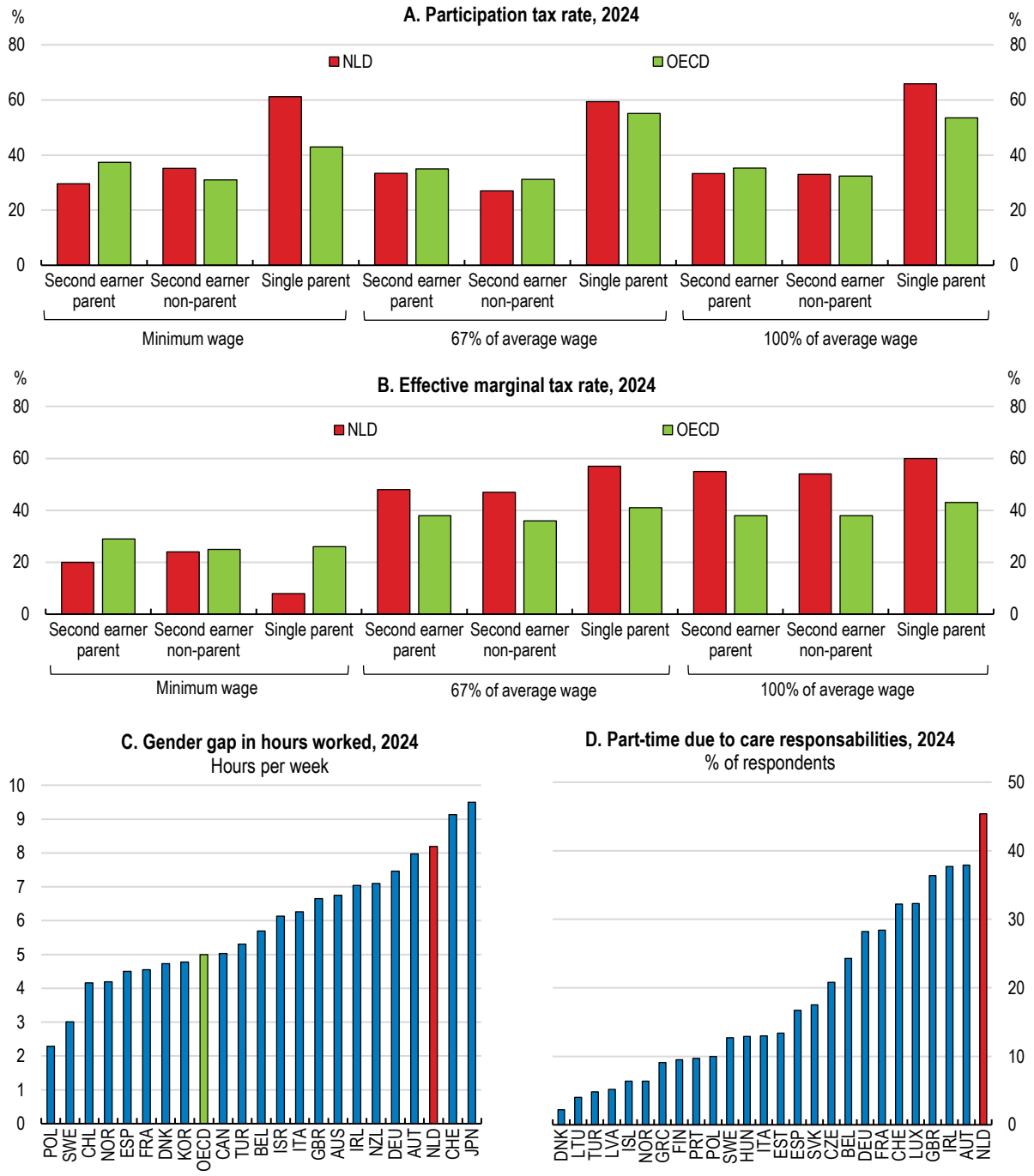
An impetus remains needed to alleviate the so-called "maternity penalty", as discussed in depth in the previous *Economic Survey* (OECD, 2023[3]). However, the Netherlands lacks a mandatory, whole-of-government gender impact assessment framework to identify budgetary measures that have an impact on gender gaps and barriers, even though some ministries perform ex-ante gender impact assessments (OECD, 2023[30]). The government could consider adopting gender budgeting to systematically embed gender equality assessments into budgetary decision making. The experience of Canada's Gender-Based Analysis Plus (GBA+) framework, whereby all budget proposals are assessed for gender impacts before approval, could help.

Table 1.8. Past recommendations on the tax-benefits system and on childcare

Recommendations in previous *Surveys*	Actions taken since last *Survey*
Keep lowering the effective tax rate on moving from part-time to full-time employment while delivering on the childcare overhaul.	- The reform of the rental allowance (*huurtoeslag*) adopted in parliament will lower the effective marginal tax rate. - The government is preparing an overhaul of the tax-benefits system. - The planned gradual increase in childcare benefits will attenuate the cost of moving from part-time to full-time employment.
Streamline existing income-dependent benefits into a system of fewer allowances and tax credits based on a limited number of household characteristics.	- The government is preparing an overhaul of the tax-benefits system, in view to simplifying the system for both individuals and providers, reducing uncertainty for benefit recipients, and lowering marginal tax rates. - The government intends to send draft legislation to parliament over the summer of 2025.
Phase in the childcare reform gradually, monitor access and evaluate the repeal of the link between hours worked and the amount of the childcare support.	- The rollout of the 2022 childcare reform subsidising 96% of childcare costs (up to a ceiling) for all working parents was postponed to 2027 and then again to 2029 due to supply constraints. - Childcare benefits will gradually increase towards the high income-independent benefit in 2029. - Developments regarding access to childcare will be monitored.
Provide longer, non-transferable parental leave to both mothers and fathers or introduce bonus periods, whereby parents qualify for longer paid leave if both use a given amount of shareable leave	- Parental leave has become non-transferable and available to all parents - The duration of parental leave (currently 26 weeks) has not been extended, due to a lack of financial resources.

Source: Ministry of Economic Affairs; Ministry of Social Affairs and Employment; and Ministry of Finance.

Figure 1.17. The tax-benefits system features implicit gender biases



Note: Panel A: Figures refer to the share of gross earnings lost to changes in tax liabilities and benefit entitlements when a jobless person claiming social assistance and/or guaranteed minimum income benefits (GMI) takes up work; they include family benefits, in-work benefits, and rent supplements, subject to relevant income and eligibility conditions; they do not include childcare costs or benefits; where applicable, partners are assumed to earn the same salary. Panel B: Figures refer to the share of additional gross earnings lost to changes in tax liabilities and benefit entitlements when a person working two-thirds of full-time hours increases their hours to full-time; they include family benefits and in-work benefits, subject to relevant income and eligibility conditions; they do not include either social assistance and/or guaranteed minimum income benefits (GMI), or rent supplements, or childcare costs or benefits; where relevant, partners are assumed to earn the same salary. Panel C: Figures refer to the difference between men's and women's average usual weekly hours worked on the main job for the population aged 15-64, except for Canada and Japan (population aged 15+); data for Japan refer to 2020.

Source: OECD Taxes, Wages and Benefits (database); OECD Employment and Labour Force Statistics (database); and ILOSTAT (database).

StatLink https://stat.link/agouw3

Reducing tax avoidance and lobby influence

The Netherlands has made significant progress in curbing aggressive tax planning, including the implementation of the EU Minimum Tax Directive into Dutch domestic law, which ensures that multinational and domestic groups with a turnover of EUR 750 million or more pay at least a 15% effective tax rate on their profits in each jurisdiction where they operate. The directive is based on OECD Pillar Two model rules, as part of a global deal to overhaul the international tax system. The deal, agreed by 137 countries reallocates taxing rights to market jurisdictions, reduces the potential gains from profit-shifting to low-tax jurisdictions, and places multilaterally agreed limits on tax competition.

Other reforms include a new dividend withholding tax that applies to affiliated entities when payments are made to low-tax jurisdictions or tax abuse is taking place, adding to similar withholding taxes on royalties and interest payments. The government's September 2024 budget also contains, among other tax transparency measures, amendments to the Minimum Tax Agreement to reflect the latest administrative guidelines from the OECD. Moreover, the country is largely compliant regarding the exchange of information on request (Figure 1.18, Panel A). The Netherlands should continue with its strong commitment to implement and enforce international agreements.

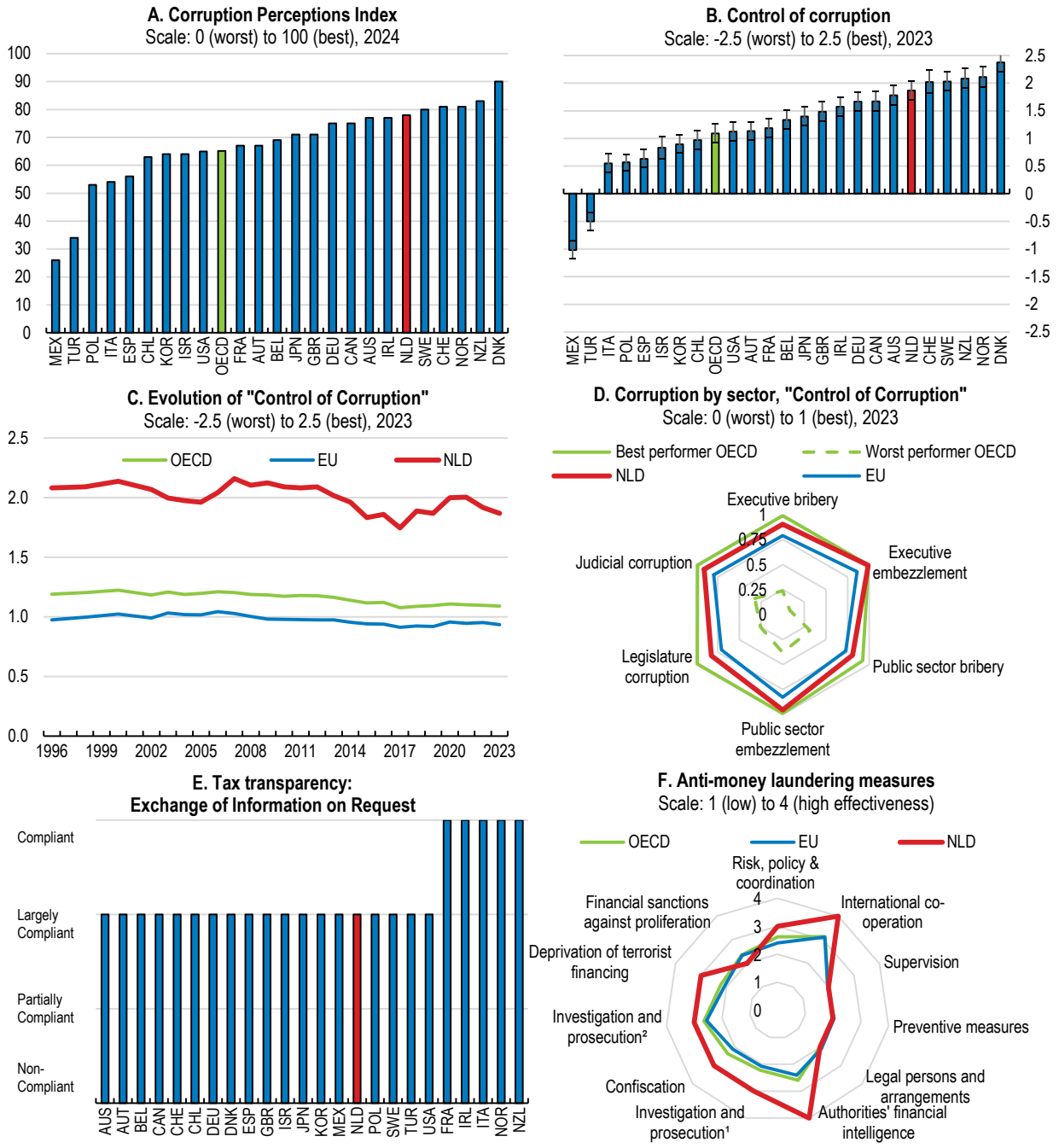
The Financial Action Task Force (FATF), the global money laundering and terrorist financing watchdog, praises the Netherlands' use of data and intelligence to combat money laundering (Figure 1.18, Panel B). However, there is room for improvement to further use technology to detect suspicious transactions, as recommended in the previous *Economic Survey*. Investing in advanced technology solutions for transaction monitoring and enforcement, and strengthening cooperation between national and international agencies could help.

Despite low levels of perceived corruption (Figure 1.18, Panels C to F), the Netherlands lags in regulating lobbying. There is no mandatory lobbyist register for all branches of government. The only existing register, for MPs in the Lower Chamber, lacks essential information about, for example, specific legislation that lobbyists target, or their sources of funding. There are also no mechanisms to track post-office movements of officials into industries they used to regulate, even though the 2022 code of conduct for cabinet members requires that meetings schedules have to be published (OECD, 2024[31]). Regulation should ensure that processes for tracking and checking lobbying of officials are adequate, and in line with the OECD Recommendation on Transparency and Integrity in Lobbying and Influence. Establishing a publicly accessible lobbying register and implementing OECD-aligned rules to track and regulate the movement of officials into private sector roles would be steps in the right direction, as they would enable citizens to better understand who is influencing policy and how and ensure a level playing field.

The OECD Public Integrity Indicators also highlight other areas for improvement. While a 2023 parliamentary letter on the integrity policy of the public administration set some strategic objectives for improving integrity policy, there is no formal integrity or anti-corruption strategy with defined activities and targets (OECD, 2024[31]). This undermines the country's ability to effectively assess and respond to corruption risks on a government-wide level and prioritise reforms. Regulations on integrity in financing of political parties and election campaigns also lack several provisions present in most OECD countries, such as a ban on donations from publicly owned enterprises and ceilings on electoral campaign expenses. This opens avenues for certain actors to exercise undue influence over policymaking via political financing.

On the other hand, the Netherlands has quite a strong internal control and risk management system in the public administration, which enables public organisations to effectively mitigate corruption and integrity risks. Regulations on internal audit and the quality of internal audit in practice are particularly strong.

Figure 1.18. Perceived corruption appears low



Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project. Panel E summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows results from the ongoing second round when available, otherwise first round results are displayed. Panel F shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing.

Source: Panel A: Transparency International (database); Panels B & C: World Bank Worldwide Governance Indicators (database); Panel D: Varieties of Democracy Project, V-Dem Dataset v12; Panels E & F: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes, and OECD, Financial Action Task Force (FATF).

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Table 1.9. Findings and recommendations on supporting growth while preserving strong public finances

FINDINGS	RECOMMENDATIONS (key in bold)
Supporting growth	
The September 2024 fiscal package boosts purchasing power in the short run, but raises concerns about inflationary risks, compliance with EU fiscal rules, fiscal sustainability, and long-term growth.	**Adopt a more prudent fiscal stance by reconsidering costly and untargeted expansionary measures and implementing targeted deficit-reducing measures, including removing inefficient tax expenditures.**
Low hours worked and skill shortages exacerbate labour market tightness, pushing up wages and labour costs.	Implement and expand measures to increase hours worked, such as more flexible schedules or information on the financial benefits of working more hours.
The shift in economic priority away from policies that support productivity, enhance competitiveness, and accelerate the green transition risk undermining long-term growth and prosperity.	**Reconsider proposed cuts to public spending on education and on research and development, and instead increase cost-effective public investment in knowledge, skills, and innovation.**
Safeguarding financial stability	
High housing prices have led to high and rising debt-to-income ratios, which increases risks of default and price correction.	**Gradually lower the maximum loan-to-value ratio.**
Potential vulnerabilities in the non-banking financial sector and how they would propagate through the entire system is not fully understood.	Continue improving data collection and availability, and introduce system-wide exploratory scenarios to improve the early detection of risks.
The macroprudential toolkit covers traditional risks, but lacks systematic inclusion of emerging risks such as cyberattacks or climate change.	Gradually incorporate cyberattacks and climate change risks in the macroprudential toolkit.
Implementing fiscal reforms	
Expenditure ceilings are fixed for the duration of the government and not rolled forward, while fiscal measures are announced on an annual basis, limiting the fiscal framework's ability to address long-term fiscal pressures due to ageing or climate change, and creating incentives to postpone politically difficult but necessary tax and spending decisions.	**Consider adopting a rolling multi-year fiscal framework, by adding one additional year annually to the expenditure horizon.**
The 2024-28 fiscal plans risk breaching EU fiscal rules and fail to address long-term spending pressures from ageing and climate change.	Continue integrating spending reviews in the annual budget process to ensure efficient allocation of fiscal resources, including over the long run.
Healthcare spending pressures are rising due to ageing, with limited scope for productivity gains.	Develop a cost containment strategy for medical and long-term care, while evaluating the impact of reduced out-of-pocket cost on demand.
Tax expenditures amount to about 40% of tax and social security revenues, and many of them are ineffective or unjustified.	Phase out ineffective tax expenditures, particularly reduced VAT and preferential profit taxation in the agriculture sector.
Enhancing tax efficiency	
Disparities in taxation and regulation across employment types distort work incentives and reduce skill development. The tax bias favouring owner-occupied housing and pensions locks capital in illiquid and less productive assets, weighing on business investment. The reduced corporate income tax rate strengthens tax avoidance incentives, discourages firm growth, and encourages firm splitting, weighing on productivity.	Continue harmonising taxation and regulation across forms of employment, including by increasing the flexibility of regular employment. Expedite the transition to actual-return taxation under box 3 of the tax system and consider taxing home equity in box 3 to align with other investment income. Remove tax disparities between different types of capital income to prevent tax arbitrage and reduce economic distortions. Increase the minimum share of business income that must be paid as salary to reduce tax arbitrage and abolish the reduced CIT rate while considering a moderate reduction in the statutory rate.
While the reform to make childcare free for all working parents is delayed, the complexity of the tax-benefits system and other barriers continue to deter labour market entry, especially for single parents for fear of losing benefits, or working more, especially for second earners, mostly women.	**Lower effective tax rates on labour income, and streamline income-dependent allowances into a simpler and more transparent system, based on a limited number of household characteristics, e.g., income, assets, and children, as part of a broader reform to promote labour supply.**
The Netherlands has made progress on tax transparency and curbing aggressive tax planning, but risks remain regarding profit shifting and tax loopholes. **Perceived corruption levels are low, but lobbying regulation is weak, and officials' post-tenure movement into the private sector are not tracked.**	Invest in advanced technology solutions for transactions monitoring and strengthen cooperation between national and international enforcement agencies. **Establish a publicly accessible and detailed lobbying register for all branches of government, and implement the OECD-aligned rules to regulate the movement of officials into private sector roles.**

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2 Advancing decarbonisation and adaptation policies

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Current climate policies are insufficient to achieve the green transition by 2050. Emission reductions remain below target in most sectors, while severe grid congestion hinders electrification and jeopardises energy security. At the same time, hazards from rising water and increasingly frequent extreme weather events are high. Urgent action is needed to meet 2030 climate targets, particularly by phasing out implicit fossil fuel support, accelerating the electrification of transport and heat generation, and expanding grid capacity and flexibility. Ensuring a stable and predictable policy path is critical to unlock long-term private investments in the energy transition. Broadening adaptation measures beyond water resilience to address heat stress, drought, and financial risks from climate change is key to reducing long-term economic costs, by strengthening the national adaptation strategy and clarifying risk-sharing between the government and the private sector.

2.1. Climate goals appear out of reach despite progress in decarbonisation

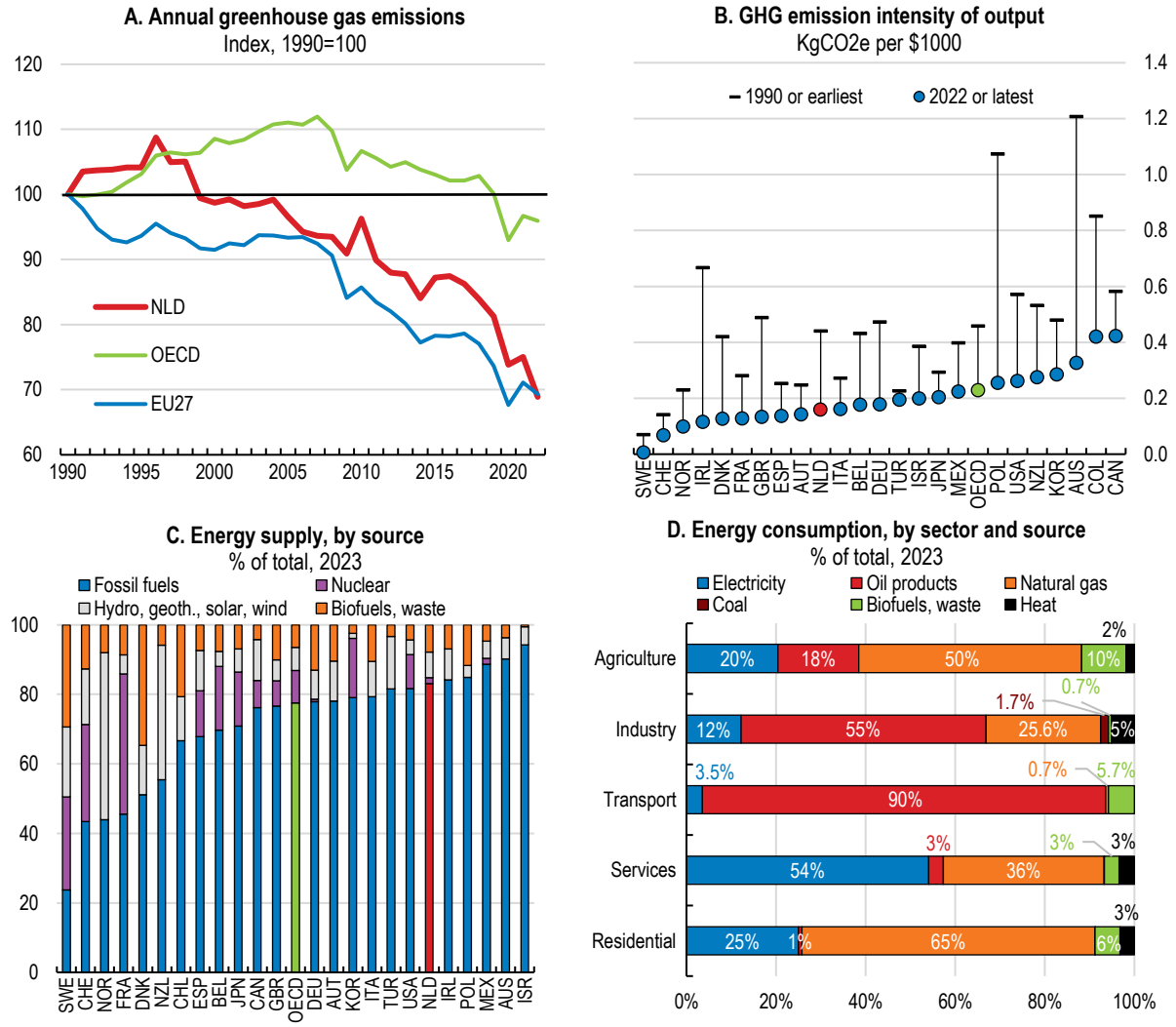
The Netherlands has achieved significant progress towards the green transition. Economic growth has decoupled from greenhouse gas (GHG) emissions in the mid-1990s (Figure 2.1, Panel A), as well as from all major pollutants and waste generation, so that the Dutch economy's emission intensity has fallen significantly from relatively high levels (Figure 2.1, Panel B). Moreover, the country has been pushing forward an ambitious climate and energy policy agenda, as reflected in the 2019 Climate Act, which sets a GHG emission reduction target of 55% by 2030 compared to 1990 levels and an obligation to reach net zero by 2050. The national Climate Plan, updated every five years, guides implementation by setting indicative sectoral targets and policies over a ten-year horizon. The Netherlands is also subject to EU legislation regarding climate and energy objectives, including 2030 targets for GHG emissions reductions, renewable energy, and energy efficiency. Finally, the Netherlands has continued updating its National Adaptation Strategy regularly, building on a storied experience in water resilience and management, as well as on the first climate risk assessment by the government's environmental agency (PBL, 2024[1]).

Continuing efforts to both mitigate and adapt to climate change remains a pressing need. Environmental pressures are particularly acute in the Netherlands, given high population density and the country's position as a major transportation and logistics hub. Per capita GHG emissions remain among the highest in the European Union from the production perspective (Eurostat, 2025[2]), largely reflecting continued reliance on fossil fuels in energy supply (Figure 2.1, Panel C). At the same time, decarbonisation could test the Dutch economy's trade-driven prosperity, as it challenges international cost competitiveness in the agricultural and industrial sectors (Chapter 4). Further pressures arise from excessive nitrogen depositions due to intensive livestock farming, which also constitute a significant obstacle to expanding infrastructure and the housing stock due to additional nitrogen emissions from the construction process (Chapter 3). Finally, with about a fifth of the population and a quarter of land area below sea level, the hazard from rising water and increasingly frequent extreme weather events, such as river flooding, is high.

Current policies appear insufficient to reach climate and energy goals, and ultimately achieve the green transition. The latest independent assessment by the government's environmental agency warns that most 2030 emission reduction targets are out of reach under current policy settings (PBL, 2024[3]), in a stark setback from previous judgements (PBL, 2023[4]; 2022[5]). A shortfall in emission reductions is expected in most sectors, due to implementation delays and the scraping of policy measures previously on the agenda, while nitrogen remains an issue (Chapter 1). Moreover, electrification lags across sectors (Figure 2.1, Panel D), chiefly due to growing congestion in the electricity grid, straining energy security (TenneT, 2024[6]). In addition, uncertainty remains as the impact of recent developments, including changes to the climate policy agenda under the coalition agreement (Chapter 1) and measures from the April 2025 climate package for green growth (Government of the Netherlands, 2025[7]), is unlikely to be confirmed until the next independent assessment due in September.

To meet its climate goals, the Netherlands must continue building on past progress and existing policy tools to accelerate the green transition. This chapter highlights key requirements, including aligning carbon pricing across sectors, accelerating the electrification of transport and heat generation, enhancing the electricity grid, providing a consistent and predictable policy environment, broadening adaptation measures, and clarifying the repartition of climate risks. At the same time, the country needs to manage trade-offs between international competitiveness and environmental sustainability (Chapter 4). In addition, maintaining favourable framework conditions and continuing to balance the use of price instruments, innovation subsidies, and regulatory standards is essential to facilitate the reallocation of capital and labour towards low-carbon activities, as recommended in previous *Economic Surveys of the Netherlands* (OECD, 2023[8]; 2021[9]) (Table 2.1). Moreover, offsetting undesirable distributional effects for households is necessary to ensure the political and social acceptability of climate policies (OECD, 2023[8]).

Figure 2.1. Growth decoupled from emissions, but the green transition remains challenging



Note: Panel A: figures refer to total GHG emissions excluding LULUCF; OECD refers to a weighted average. Panel B: figures refer to total GHG emissions including LULUCF; OECD refers to a weighted average. Panel C: figures refer to the share of total energy supply. Panel D: figures refer to the share of total final energy consumption; "Industry" includes non-energy use; "Heat" is produced from the combustion of fuels and from electrically powered heat pumps and boilers.
Source: OECD Environmental Statistics (database); and IEA World Energy Balances (database).

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Table 2.1. Past recommendations on climate and energy policy

Recommendations in previous *Surveys*	Action taken since the last *Survey*
Continue to align emission pricing across sectors and fuels, including by reducing implicit and explicit fuel subsidies, in line with EU regulation.	No action taken.
Continue helping low-income households make their homes energy-efficient, and step up information efforts and outreach for take-up.	Extra funding for insulation and bio-based insulation material in ISDE and MKI subsidy schemes; 2024 National Insulation Programme; interest-free loans for insulation investments from the National Heat Fund.
Further increase minimum energy efficiency standards for rental homes.	Energy efficiency is a key criterion in the new point system under the Affordable Rental Act.
Consolidate instruments to manage transferable nitrogen emission rights to further facilitate standardisation and transfers.	No action taken.
Expand on the current Climate Strategy beyond 2030, with further concrete deadlines, policies, and priorities in line with legal targets.	National Climate Strategy 2026-35 forthcoming. Cuts to National Growth Fund and to Transition Fund.

Provide specific support to green technologies at early stage of development, including further public investment in green infrastructure and technology deployment. Reduce fragmentation in funds and investment packages to lower the administrative burden for firms, and provide a more balanced approach that supports both emerging and mature technologies.	No action taken.
Introduce digital passports as part of EU Ecodesign and Energy Labelling Directive and Regulation to encourage recycling, reuse, and repair.	The regulatory framework for the EU's Digital Product Passport (DPP) initiative is expected to be finalised by end 2025, with phased mandatory implementation for several product categories over 2026-30.

2.2. Delivering additional and rapid mitigation to achieve 2030 targets

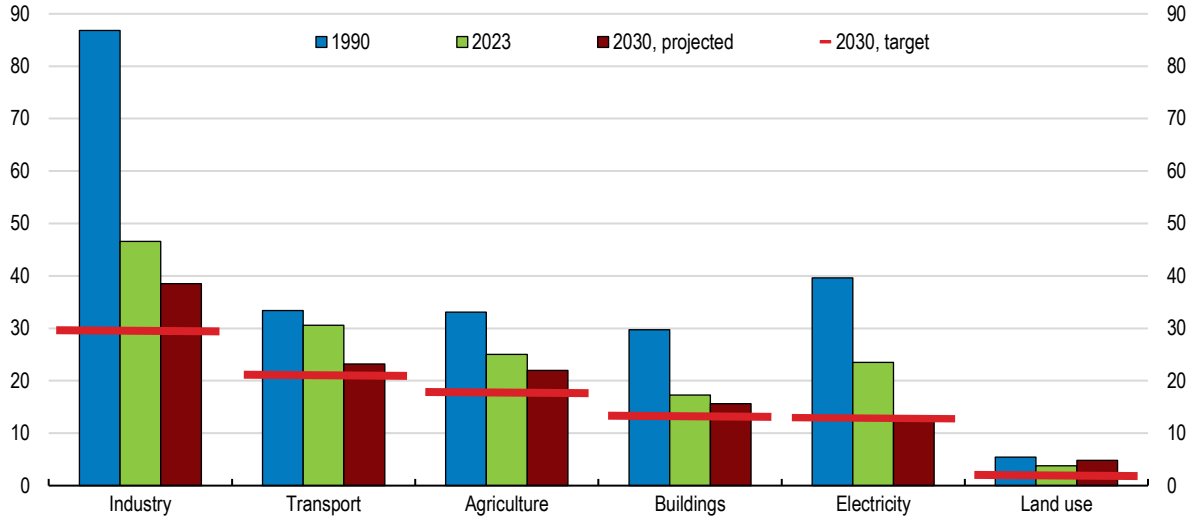
The Netherlands is unlikely to meet its nationally-legislated 55% GHG emission reduction by 2030 under current policies. Only electricity generation is on track to meet the target, while all other sectors lag (Figure 2.2). While the country is set to achieve its EU emission target under the Effort Sharing Regulation, in part due to the pandemic-induced slowdown and to the surge in energy prices, the projected emission path remains above the one set out in the directive (Table 2.2). Reaching European targets for renewable energy share and energy savings will also be challenging, after they were tightened sharply in 2023.

Both implementation delays and policy changes are weighing on decarbonisation progress. Setbacks include slower-than-projected rollout of offshore windfarms, the stagnation of green hydrogen production, and delays in tailor-made emission reduction agreements with large emitters in industry, and the scraping of the planned replacement of the motor vehicle tax by a pay-as-you-go charge (PBL, 2024[3]). Moreover, some of the most effective mitigation options for disproportionately high-emission sectors have become politically challenging, including reducing peak-hour motorway speed and buying out the most nitrogen-intensive livestock farms for closure.

Additional and effective mitigation efforts are needed immediately if the country is to meet its 2030 targets. To achieve the required mitigation efforts within political constraints, and given long lead times for new policies, tightening existing policy measures is key, mainly by strengthening both carbon pricing and support for electrification of household heat and transport.

Figure 2.2. The Netherlands is not on track to reach its 2030 emission reduction targets

GHG emissions, by sector (MtCO2e)



Note: "2030 target" refers to sectoral allocations under the 2021-30 Climate Plan; see Government of the Netherlands (2020[10]) for details.
Source: Netherlands Environmental Assessment Agency (PBL).

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Table 2.2. The Netherlands' 2030 climate and energy targets

Object	Target	Source
GHG emissions, incl. sectoral targets	55% reduction in 2030 w.r.t. 1990	National: Climate Act (2019, updated 2023)
GHG emissions in ESR sectors	830 MtCO2e over 2021-30 (–48% in 2030 w.r.t. 2005)	EU: Effort Sharing Regulation Directive (2023)
Renewable energy consumption	39% renewable energy in final consumption	EU: Renewable Energy Directive III (2023)
Final energy consumption	1609 PJ cap	EU: Energy Efficiency Directive (2023)
GHG in ETS1 and ETS2 sectors	n/a	EU: ETS Directive (2003, updated 2018)
Land use emissions	0.435 MtCO2e reduction w.r.t. 2016-18 av.	EU: Regulation LULUCF (2023)
Methane emissions	30% reduction w.r.t. 2020	Other: Global Methane Pledge (2021)

Source: European Commission; and Government of the Netherlands.

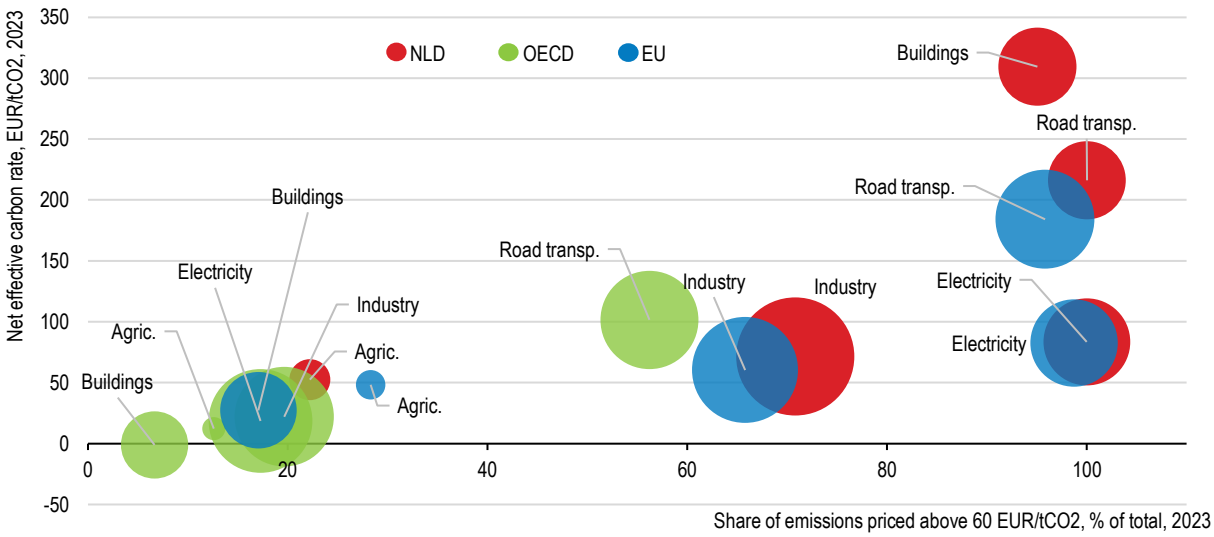
2.2.1. Phasing out implicit fossil fuel support

The Netherlands has strong carbon taxation in international comparison, with over 80% of GHG emissions and 90% of CO2 emissions from energy use subject to some form of pricing and a high net effective carbon rate (OECD, 2024[11]). However, large disparities in the price of carbon emissions across Dutch sectors and users hinder decarbonisation, a long-standing issue discussed in previous *Economic Surveys* (OECD, 2023[8]; 2021[9]). While households face high carbon taxation in buildings and road transport, carbon pricing in agriculture, industry, and electricity generation remains lower (Figure 2.3). These disparities reflect substantial fossil fuel support, which results from reduced rates and tax exemptions on the use of energy for industrial firms and electricity producers, including for the energy tax (*energiebelasting*) and the coal tax (*kolenbelasting*). The fiscal cost of support measures for fossil fuels is estimated to about 3.6% of GDP in 2023 based on the OECD inventory approach (OECD, 2024[12]), with such a large figure partly reflecting the specific tax benchmark used to define tax expenditures in the Netherlands. This implicit support is meant to address the country's concerns regarding carbon leakage and international cost competitiveness in emission-intensive trade-exposed sectors. However, fossil fuel support measures distort price signals, keep fossil fuel consumption high as users do not bear the full environmental cost, and raise the overall cost of mitigation. Moreover, agriculture is largely exempt from direct carbon pricing, even though livestock farming is a major source of methane emissions, and does not pay any tax on nitrogen deposition, despite strong environmental damage.

The country starts from a strong position to further align carbon taxation across sectors and users, thanks to a robust carbon pricing framework, as discussed in previous *Economic Surveys* (OECD, 2023[8]; 2021[9]). Carbon pricing is supported by the EU Emission Trading Scheme (ETS), which covers electricity generation and large manufacturing establishments, and by the national CO2 levy (*CO2-heffing*), which places a floor on the trajectory of carbon prices until 2030 and extends coverage to waste incineration and large nitrous oxide emitters. Complementary policies support the shift of production processes away from fossil fuel, particularly the SDE++ scheme, which subsidises the deployment of low-carbon technologies, such as carbon capture and storage, green hydrogen production, and wind power (OECD, 2021[13]). Emissions are also taxed through fuel excise, mostly in road transport, buildings, and small industrial firms, and will be subject to emission trading under the new EU ETS2 starting in 2027. Finally, the ongoing phasing in of the EU Carbon Border Adjustment Mechanism (CBAM), to apply in its definitive regime from 2026, will partly attenuate international competitiveness concerns vis-à-vis non-EU countries.

Figure 2.3. Large carbon price disparities weigh on decarbonisation

Carbon pricing and emissions, by sector (bubble size represents sectoral share of country CO2 emissions), 2023



Note: Reading: in the Netherlands in 2023, CO2 emissions from energy use in industry account most of country emissions (about twice as much as the electricity sector), with about 70% of priced at more than 60 EUR/tCO2 (the midpoint estimate of 2020 carbon price levels consistent with reaching net zero by 2050), and an average net effective carbon rate of 72 EUR/tCO2.
Source: OECD Effective Carbon Rates (database); and OECD Share of Emissions Priced (database).

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The Dutch authorities should take advantage of the opportunity presented by the EU-wide phasing in of CBAM and ETS2 to phase out fossil fuels support, while maintaining a level playing field with other member countries. To identify implicit subsidies that hinder the green transition, the government can leverage the Ministry of Finance's inventory of foregone tax revenue from measures that potentially support the use of fossil fuels (Ministry of Finance, 2024[14]). The Ministry could also use an external cost approach based on so-called "carbon price deficits" to identify implicit support. This approach, which identifies instances where emitters do not internalise the climate damage from their emissions, would be better suited for the Netherlands (Brink et al., 2024[15]). For example, lower energy tax rates for large electricity consumers are considered fossil fuel support under the inventory approach, but not necessarily under the external approach, as scrapping reduced rates would raise electricity prices, thereby slowing electrification. The current preparation of the Climate Plan for 2026-35 is an opportunity to include a phased removal of fossil fuels support.

To further incentivise reductions in nitrogen emissions and depositions in the agriculture sector, responsible for about two thirds of non-GHG emissions, the government could consider setting either clear and binding emissions and deposition limits at farm level, or a pricing system. Pricing could build on a feebate, that is, a combination of fees and rebates based on performance vis-a-vis an agreed benchmark. Specifically, farmers would be charged in case their depositions per hectare or unit of output are higher than the industry average, and rewarded in case they are lower. If designed to be revenue-neutral, a feebate could be more politically feasible than introducing an environmental tax for methane emissions and nitrogen deposition in the agricultural sector, while providing the same emission abatement incentives. However, challenges exist regarding practical implementation, including setting the appropriate benchmark and measurement, reporting and verification (MRV). In a first step, and until scientific uncertainty and legal issues regarding the current MRV system are resolved, the government could consider a pilot project with volunteer participants or focus on peak loaders. To improve political acceptability, such a reform could be negotiated as part of a comprehensive and transparent package of measures that provides long-term clarity for the farming sector, and supported by a broad coalition of farmer groups, environmental associations, and local governments.

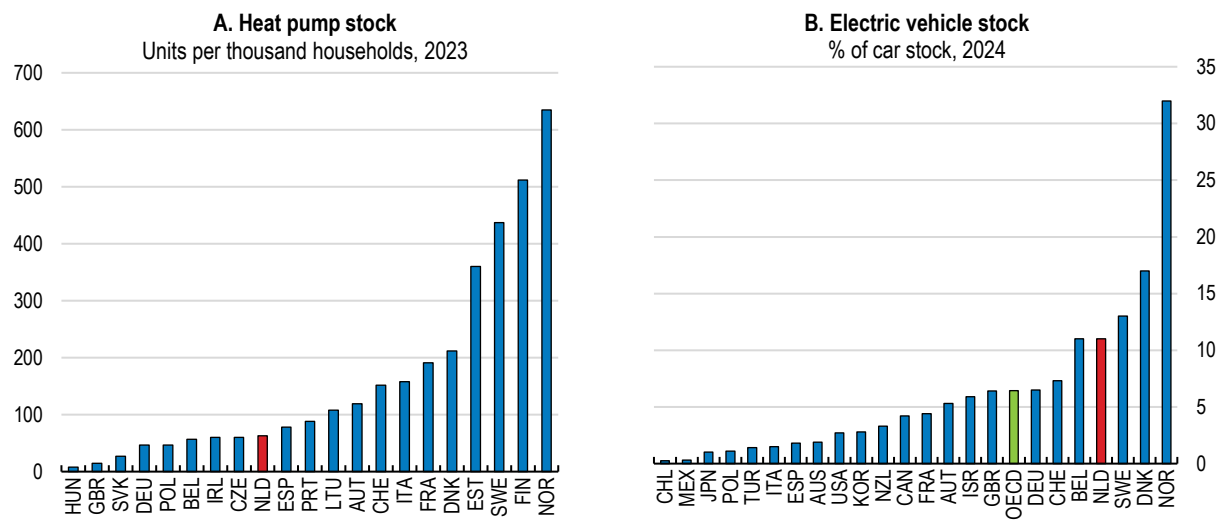
Addressing the regressive effects of higher carbon taxation is essential to ensure the social and political acceptability of climate policies. Stronger carbon taxation will likely push up prices for some necessary items, such as energy,

food, and transport, disproportionally impacting low-income households, as they tend to spend proportionally more on necessary consumption. Yet, Dutch energy and climate policies have focused on delivering fast results, without properly addressing distributional effects (IEA, 2025[16]). The Dutch authorities started embedding a stronger and more consistent emphasis on distributional considerations for policy design, implementation, and evaluation in the updated national Climate Plan for 2026-35, which is welcome. Partial, targeted, and well-designed fiscal support for low-income groups facing financial strain is necessary to avoid undermining public support for decarbonisation efforts while preserving energy saving incentives, as recommended in the previous *Economic Survey* (OECD, 2023[8]). However, compensating for regressive environmental policies is challenging in practice, as the variation in consumption patterns is generally larger within income groups than between income groups (Swierstra, Verbek and Vlekke, 2024[17]).

2.2.2. Accelerating the adoption of heat pumps and electric vehicles

The electrification of heat generation and road transport, a crucial requirement to achieve cost-effective decarbonisation, is not as fast as in top performing countries. Only 6% of households use heat pumps, below the adoption rate needed to meet sectoral targets (Figure 2.4, Panel A). At current penetration rates, assuming a 15-year lifespan for boilers and even if the 2026 ban were re-instated, only about a third of households will be equipped with a heat pump by 2030, and full electrification of household heat generation would only be achieved in 2040. While households' adoption of battery electric vehicles (EV) is relatively high (Figure 2.4, Panel B), achieving electrification as set in the national Climate Plan remains challenging. Without stronger incentives and given the relatively slow turnover of passenger car fleet, with average vehicle lifespan of 12 years, EVs would only account for about a third of the passenger car stock by 2030. Moreover, the electrification of commercial vehicles lags, with only 1.3% of the van fleet and 0.2% of the truck fleet electrified in 2022 (RVO, 2023), By contrast, the electrification of buses is well advanced, reaching 16% of buses and 25% of public buses.

Figure 2.4. The deployment of heat pumps and electric vehicles could be accelerated



Source: European Heat Pump Association; and IEA Global EV Outlook (database).

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Current policies to help households' adoption of electric technologies provide an excellent base to strengthen support, leveraging the large existing residential solar photovoltaic (PV) capacity. Measures for heat pump installation have largely removed upfront cost and financing barriers. The investment subsidy for sustainable energy (*investeringssubsidie duurzame energie*, ISDE) covers about 30% of the cost of small-scale investments in energy efficiency, including heat pumps, with a budget of EUR 600 million in 2024, while the National Heat Fund provides interest-free loans for household with gross income below EUR 60 000. Regrettably, the ban on new gas boilers, initially set to take effect in 2026 and providing a strong anchor for adoption incentives, was withdrawn, a setback

that should be reconsidered. Measures for EV adoption included a EUR 3000 purchase subsidy (*subsidieregeling elektrische personenauto's particulieren*, SEPP) per new vehicle in 2024, with a budget of EUR 58 million, and the partial exemption from road tax until 2024. Moreover, charging infrastructure is well developed, with one charging point per every four EVs, among the highest density in the European Union (European Commission, 2024[18]). The end of the SEPP purchase subsidy and the introduction of subsidies for firms to install EV charging points (SPRILA for cars and SPULA for trucks) were announced at the 2024 budget. Finally, the BAZEB (*bestuursakkoord zero emissie busvervoer*) agreement that all new buses must use 100% renewable energy or fuel from 2025 onwards boosted the electrification of public transport.

The Dutch authorities should strengthen incentives for the adoption of heat pumps and electric vehicles. Current fiscal support is generally appropriate, especially subsidies for heat pumps, which can be both effective and equitable, as studies for the United States suggest that adoption is not income-correlated (Davis, 2024[19]). The government could reform the taxation of motor vehicles (*motorrijtuigenbelasting*) to preserve incentives for the adoption of electric vehicles (EVs). The current weight-based progressive tax structure penalises EVs, as batteries are generally heavier than internal combustion engines. Introducing a feebate system, whereby higher taxes on polluting vehicles fund lower taxes on EVs, would further support cleaner vehicle adoption without increasing the overall tax burden on vehicle owners or subsidising mature technologies. Moreover, continuing to invest in charging infrastructure would support broader uptake, especially in less-deserved areas. Beyond fiscal support, providing long-term certainty regarding the timeline of the ban on the sale of new gas boilers and internal combustion engines is crucial to boost adoption, by ensuring consistent and predictable returns for households' investments in heat pumps and EVs.

To further encourage adoption, the authorities could launch national public awareness campaigns on the energy efficiency and environmental benefits of heat pumps and EVs. Communicating clear information about both long-term savings and available public support for reducing upfront cost, as done in the United Kingdom for the Boiler Upgrade Scheme (OECD, 2024[20]), can attenuate consumer hesitancy. The government could build on the existing "Flip the switch" campaign ("*Zet ook de knop om*"), currently focused on changing energy consumption behaviours, to provide relevant cost and savings information about the adoption of heat pumps and EVs.

When promoting the electrification of heating and road transport, the authorities should carefully assess the interaction between individual adoption incentives and broader policy objectives. For example, the widespread adoption of individual heat pumps can weaken the business case for district heating. Therefore, subsidies for heat pumps would be best avoided in neighbourhoods where district heating is planned or in operation. Moreover, both heat pumps and EVs can increase peak electricity demand, adding stress to the grid, as highlighted in the recent Interdepartmental Policy Research (IBO) report on financing the electricity infrastructure (below).

2.3. Stepping up electrification to deliver energy security and net zero

Faster electrification, coupled with the ongoing decarbonisation of electricity generation, is both necessary to achieve net zero and a key step towards energy security, as it reduces reliance on fossil fuels and supports renewable energy integration, particularly in heating, transport, and industry. However, the scale and lead times of required electrification investments, as well as the country's industrial specialisation in carbon-intensive activities, present significant barriers, worsened by congestion on the electricity grid.

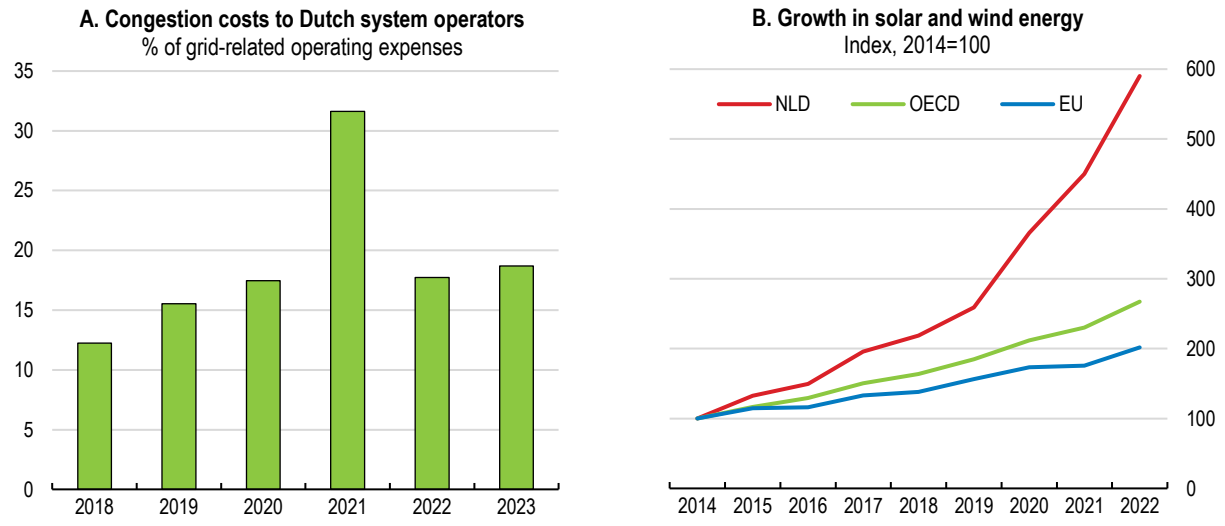
Capacity constraints on the Dutch grid constitute a major challenge to electrification, reflecting both recent developments and historic legacy. The transmission system operator estimates that grid capacity needs to nearly triple by 2050 to meet demand (TenneT, 2023[21]), but permitting delays, labour shortages, and the nitrogen issue slow grid expansion projects (Chapter 1). The required increase in grid capacity is particularly large, given prior reliance on domestically natural gas for residential heating and manufacturing processes. Another challenge is policy uncertainty, against the backdrop of recent climate policy shifts.

An enhanced electricity grid, with higher capacity and flexibility, is needed to accommodate growing volumes of electricity transmission and the rise in variable renewable energy generation. Moreover, a clear and predictable policy framework is necessary to encourage long-term investments in the green transition.

2.3.1. Increasing grid capacity and flexibility

Rapidly rising electricity demand and generation have outpaced grid capacity in the Netherlands, creating a major bottleneck for both electrification and economic activity. Capacity constraints and connection delays are slowing the rollout of both large-scale and household renewable energy installations, limiting the expansion of firms, and impeding new housing developments, including in the dense and urban Randstad. Most parts of the Dutch grid are considered congested, and waiting lists for new or increased connection include about 17 500 large users and generators (IEA, 2025[16]). Congestion pushes up end-user electricity prices, as system operators pass through the rising cost of technical and market-based interventions to manage imbalances on the grid (Figure 2.5, Panel A). Grid congestion partly reflects government support for electrification, including variable renewable energy generation through offshore wind and distributed solar PV, both large-scale and residential (Figure 2.5, Panel B).

Figure 2.5. Enhancing grid capacity and flexibility is necessary to enable electrification



Note: Panel B refers to electricity generation from solar PV, solar thermal, offshore wind, and onshore wind.
Source: IEA (2025) *Energy Policy Review: The Netherlands 2024*; TenneT Financial Reports; and International Renewable Energy Agency.

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Increasing grid capacity is key to accommodating the growth in electricity transmission volumes and enable electrification of the Dutch economy. The authorities have long recognised the challenge and taken measures to accelerate grid expansion, optimise the use of the existing grid, and improve data collection. The national action plan for grid congestion (*Landelijk Actieprogramma Netcongestie*, LAN), set in 2022, brings together public and private stakeholders, including relevant administrations in both national and provincial governments, the regulator, grid operators, and industry clusters and organisations, to develop solutions for grid congestion and make relevant information publicly available, including congestion maps. Planned investments in grid infrastructure were revised upwards significantly in 2024 (TenneT, 2024[22]), and the first connection of a large capacity battery project to the grid was recently announced for October 2025 (TenneT, 2024[23]). Moreover, the system operator is implementing various technical enhancement and smart grid measures to increase the capacity of the current infrastructure, such as reconductoring, voltage uprating, and dynamic line rating (IEA, 2025[16]). However, faster delivery is necessary to ensure energy security and deliver a net zero economy.

The Dutch authorities should continue expediating procedures and regulations for grid expansion and connection. Ensuring that all permitting processes are performed at the regional level and standardising application requirements and assessments across regions would facilitate coordination between the governments, system operators, and end users. Better coordination would allow for the introduction of parallel workflows, rather than sequential processes, help to allocate scarce technical staff across construction sites, and contribute to faster project delivery. Ongoing governance reforms that support the coordination of all stakeholders at the regional level

go in the right direction, especially the creation of regional energy boards for the management of energy infrastructure, following the successful model of water boards (*waterschap*) for the management of water resilience.

The authorities also need to expand training programs for workers in electricity- and energy-related fields to deliver on the expansion of grid infrastructure given severe labour shortages, especially for technical skills. Estimates suggest that realising the necessary investments to achieve 2030 targets requires about 28 000 technical jobs to be created and filled, above the 26 000 full-time equivalents currently employed in the Dutch energy sector, including network operators (Ecorys, 2021[24]). Shifting the composition of active labour market policies towards training, especially for technical skills related to the net zero transition, and providing stronger incentives for co-financing by employers would help, as discussed in depth in the previous *Economic Survey* (OECD, 2023[8]).

Enhancing grid flexibility based on smart grid solutions is the other key solution to address congestion. The system operator started implementing demand-side grid flexibility measures to help align electricity consumption with supply availability and grid capacity, which is welcome. After stakeholder consultations, the regulator recently broadened system operators' mandate and responsibility to implement flexibility measures (ACM, 2024[25]). Since January 2025, all large end-users are on a time-of-use contract and charged a higher price if they use full capacity during peak hours. System operators can also offer faster grid connection to new users who agree to so-called non-firm contracts, whereby users anticipatively agree to not always have access to full capacity in exchange for lower grid tariffs. Moreover, the regulator has approved a new framework in October 2024, whereby the "first-come-first-served" principle is replaced by a "priority lane", so that system operators can prioritise connections for projects that solve or limit grid congestion, such as battery systems. By contrast, supply side grid flexibility measures, which help match electricity generation and distribution with fluctuations in demand and accommodate intermittent renewable energy sources, are lagging, despite strong private sector interest for large battery parks (IEA, 2025[16]).

The Dutch authorities should promote the swift implementation of existing demand-side flexibility solutions based on smart grid and address supply side bottlenecks. The rapid integration of large-scale battery storage solutions into the grid should be a priority. To ensure that batteries enhance flexibility rather than exacerbate local grid congestions, pricing mechanisms and contracts for battery operators should reflect both local and national grid conditions, as recommended in the recent *Energy Policy Review of the Netherlands* (IEA, 2025[16]). For households, the net metering scheme for residential solar PV should be phased out in a way that addresses the regulator's concerns (ACM, 2024[26]), as it is no longer needed for profitability and adds stress to the grid. Ending net metering would also create stronger incentives for homeowners to invest in small-scale battery systems. Additional demand flexibility measures, such as time-of-use pricing, could be considered, as they have proven effective in shifting electricity demand to off-peak periods when the grid is under less strain (Bernard et al., 2024[27]).

2.3.2. Providing a consistent policy path beyond 2030

Recent shifts in Dutch climate policy create uncertainty and jeopardise the green transition, especially the long-term goal of net zero by 2050. Policy changes, such as the removal of the 35% production cap on coal-fired plants, the withdrawal of the ban on new gas boilers, or the phasing out of the National Growth Fund, undermine investors' confidence and the risk-return profile of long-term investments in low-carbon technologies. Uncertainty can lead to delays not only in the deployment of large-scale electrification technologies, but also in smaller-scale investments by SMEs, such as energy efficiency improvements, despite significant support by the Netherlands Enterprise Agency (RVO). This creates mixed signals for long-term decarbonisation efforts, undermining energy security (van der Weyde, Verstraten and Hers, 2024[28]) and weighing on energy-related investment and on productivity (Chapter 1).

Providing a consistent and predictable policy environment is key to ensuring stakeholder confidence and unlock necessary deep decarbonisation investments. Legally binding climate targets under the Dutch Climate Act constitute a strong domestic framework for the green transition, on top of the EU Green Deal. Robust governance mechanisms ensure transparency and accountability, including annual GHG emissions forecast by the independent Netherlands environmental assessment agency, annual briefing to parliament, quinquennial Climate Plans, and mandatory advice by the Council of State and the Scientific Climate Council. Substantial policy impulse through subsidies and price signals supports the deployment of both industrial-scale and household-level low-carbon technologies to achieve 2030 sectoral emission reduction targets. However, the framework lacks a clear path to net zero by 2050.

The Dutch authorities should swiftly expand the climate and energy strategy beyond 2030, based on broad multi-party agreement, with priorities, policies and timeline ensuring alignment with the Climate Act and EU impulse. The outcome of the ongoing update of the national Climate Plan will help to provide the necessary long-term predictability. The indicative sectoral targets embedded in the draft plan for 2026-35 released in March 2025 constitute a major step in that direction (KGG, 2025[29]). Clarity is also needed regarding sector-specific priorities, especially to increase demand certainty for emerging technologies such as carbon capture and storage (CCS) and green hydrogen (Chapter 4). Introducing obligations for renewable hydrogen in industrial sectors to increase demand certainty, as recommended in the recent *Energy Policy Review of the Netherlands* (IEA, 2025[16]), would help to unlock necessary investments in electrolysers and could create new export opportunities (Chapter 4). Finally, maintaining consistent policy direction regarding the electrification of transport and heating is key to supporting households' decarbonisation efforts.

The government's coalition agreement features an ambitious nuclear energy agenda. Plans consist of extending the operating lifetime for the existing reactor and building two new large conventional reactors, as well as two more reactors, possibly small modular reactors (SMR). Funding was reallocated within the Climate Fund to support nuclear investments. Nuclear power can contribute to improving energy security, and nuclear electricity production is more stable over time compared to intermittent renewables while also being low-carbon, but concerns include waste storage and high-impact negative risks in case of severe nuclear accidents. It is important for nuclear projects, as well as any other energy project, to be underpinned by transparent and comprehensive life-cycle cost-benefit analyses that inter alia account for the cost of constructing power plants, storing nuclear waste and decommissioning disused power plants. Such analysis must also consider the (direct and indirect) subsidies granted through the entire production cycle.

2.4. Continuing adaptation to contain the costs of climate change

The Netherlands excels in water resilience, but broader adaptation measures are needed to address non-water climate risks, such as storms, heat stress, and drought. Moreover, built environment vulnerabilities, including changes in ground water levels, threatens building foundations and incur high repair costs.

Increasingly frequent extreme weather events bring significant costs and knock-on effects on the economy, as seen in July 2021 when two days of heavy rainfall flooded parts of the province of Limburg, threatening dam and dike infrastructure, and inflicting an estimated EUR 400-450 million in damage to about 600 firms and 2 500 households (Kok, Slager and Hans, 2023[30]). In the long run, macroeconomic costs of climate change to Dutch households, firms, and the government under current settings are estimated at EUR 8.1-9.6 billion per year by 2100 (CPB, 2023[31]). Adaptations measures for waterlogging, heat, drought, flood protection, and freshwater supply are estimated to have the potential to reduce climate damage to EUR 1.1-1.9 billion per year by 2100 at an annual cost of about EUR 2.7 billion (CPB, 2023[31]).

2.4.1. Broadening the national adaptation strategy

The Netherlands is in an excellent position to continue developing and implementing climate adaptation measures, given strong public finances and a storied experience in adapting to its environment. Strong areas of current adaptation efforts include a comprehensive water governance program that ensures strong flood resilience, including the Delta Plans and Delta Fund, which are endowed with over EUR 25 billion. Flood risk governance is strongly institutionalised, with water safety requirements legislated in the Water Law. Innovative spatial planning initiatives integrate climate adaptation into urban development, including as part of the infrastructure and master landscaping project Room For The River. The Environmental Planning Act (*omgevingsloket*), in force since 2024, streamlines regulations for spatial planning, environmental management, and permitting. The act is the outcome of in-depth preparation since 2015.

Dutch adaptation strategies for water resilience are unrivalled, but there is a limited focus on adapting to non-water climate risks, such as heatwaves, droughts and air pollution. Moreover, the national strategy overlooks differences in risk and adaptive capacity across people and areas, leading to disparities in how adaptation benefits are realised

across regions and communities (OECD, forthcoming[32]; PBL, 2024[1]). Finally, there is insufficient integration of adaptation priorities with other policy objectives, such as addressing housing shortages (Chapter 3).

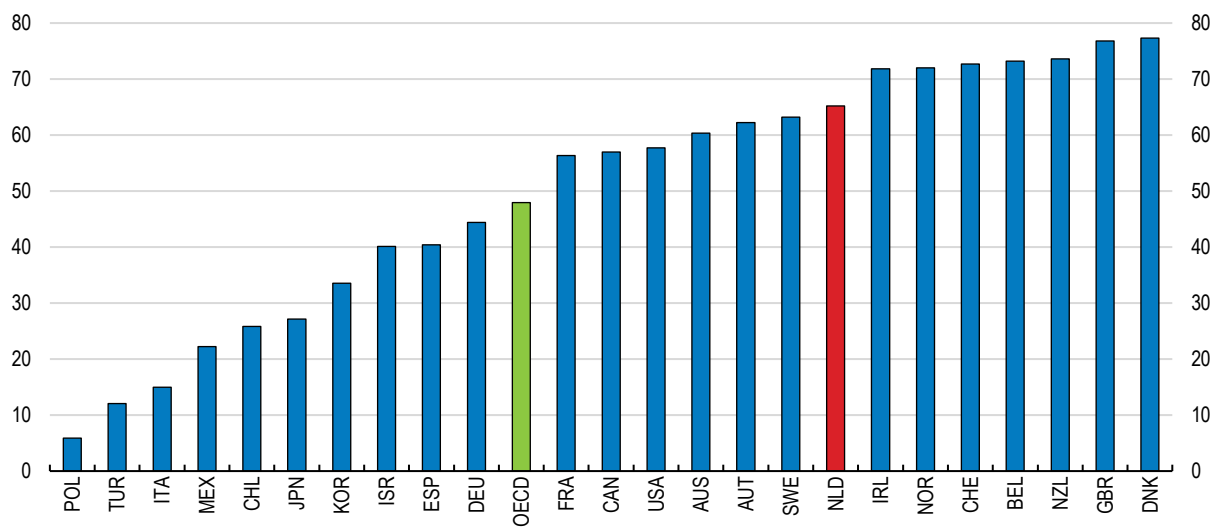
The Dutch authorities are doing well to adopt a more holistic approach for the new National Climate Strategy under preparation, expanding the focus beyond water resilience to include hazards such as heat stress, drought, and ecosystem degradation. The updated strategy due in 2026 could include in-depth analysis, clear objectives, and progress monitoring, as is the case now for water risks. The strategy could embed distributional considerations into adaptation planning to ensure equitable outcomes across regions and income groups.

2.4.2. Clarifying the repartition of climate risks

Insurance coverage against climate risk is relatively high in the Netherlands, with about two thirds of all economic losses from natural hazards since 2010 insured (Figure 2.6). Property catastrophe insurance is largely non-compulsory in the Netherlands, including against flooding, but often part of standard cover, with high market penetration (Europe Insurance, 2024). Free-riding, whereby agents underinsure because they expect post-disaster compensation by the state to cover losses, is limited thanks to a national framework for damage compensation differentiating floods from different water systems. Physical damage from uninsurable and unavoidable risk (i.e., against the sea, the rivers Meuse, Scheldt and Rhine, and large lakes), and which cannot be recovered elsewhere, are compensated by the state under the Calamities Compensation Act (*Wet tegemoetkoming schade bij rampen*, WTS). Losses from other water-related catastrophes, such as non-primary river flooding or torrential rains, are insurable on the private market and not covered by the state.

Figure 2.6. Insurance coverage against climate risk is relatively high

Insured losses from natural hazards (% of total economic losses, 2010-2023)



Note: Figures refer to the share of the sum of damages and losses.
Source: Swiss Re, sigma (database), all rights reserved.

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The two-tiered Dutch flood insurance system allocates risk efficiently in principle, but in practice some policyholders struggle to figure out their effective insurance level, due to lack of information regarding policy coverage, and the complexity of climate risks. The 2021 floods in the province of Limburg, when heavy rains swelled rivers, provide a striking example of how information gaps undermine incentives within the system. On one hand, households and firms were unsure about whether they were insured against non-primary river flooding, torrential rains, or both. On the other hand, insurers considered the event a riverine flood, so that even households and firms insured against pluvial flooding did not receive payouts, and the government ultimately stepped in to compensate the underinsured.

The Dutch authorities should clarify the repartition of climate-related risk between the state and the private sector, especially flood risk, and require insurers to provide policyholders with transparent information regarding coverage. Promoting insurance uptake and reducing insurance policy cost would contribute to better risk allocation, as behavioural changes driven by correct insurance policy pricing matter in a context of relatively high flood risk. Moreover, quick post-flooding insurance payouts have been shown to reduce business interruption duration and revenue losses (Endendijk et al., 2024[33]). Private flood insurance mandates can reduce premia but imply cross-subsidisation of the most exposed policyholders by the less exposed, requiring the enforcement of minimum adaptation measures at the policyholder level to reduce moral hazard. Other arrangements can increase insurability, including based on voluntary participation and risk-adjusted premia, but require clear definitions of required adaptation measures and a delimitation of uninsurable areas.

Tackling the growing threat to building foundations due to changing groundwater levels also requires increased coordination between the private sector and the state. An estimated 425 000 Dutch buildings, about 6% of the stock, face significant stability issues, as the wooden piles supporting old constructions and large sections of infrastructure, designed to overcome soil subsidence, are rotting due to the increased alternance of heavy rains and prolonged periods of drought, coupled with the necessary management of groundwater levels to keep both built areas and croplands dry (RLI, 2024[34]; TNO, 2021[35]). Structures built on cheaper, shallow foundations up to the 1970s are also sensitive to changing groundwater levels. Typical per-house costs of necessary repair and reinforcement are large, ranging between EUR 30 000 and EUR 120 000 (6-25% of average purchase price), but largely unknown to homeowners, due to the absence of transparent, publicly available building-level information on foundations. As such, foundations quality is not correctly priced into housing transactions, so that little incentive exists for repair work.

The Dutch authorities should require that information about the quality of building foundations be made available in the land register upon housing transactions, based on audits and technical assessments by accredited firms. Subsidies could offset most of the audit and assessment cost to homeowners. The existing Sustainable Foundations Restoration Fund, which was set to finance loans to households who cannot access the regular mortgage market, should be scaled up to accommodate the likely increase in loan demand. Close monitoring of the impact on the housing market by supervisory authorities will be required, as the realisation of latent repair costs could significantly reduce net housing equity for leveraged homeowners (Chapter 1). As mandatory assessments of foundations quality will increase labour demand in the already tight construction sector (Chapter 3), complementary labour market policies are needed, as discussed in the previous *Economic Survey* (OECD, 2023[8]).

Table 2.3. Findings and recommendations on advancing decarbonisation and adaptation policies

FINDINGS	RECOMMENDATIONS (key in bold)
Delivering additional and rapid mitigation to achieve 2030 emission targets	
Substantial fossil fuel support measures distort price signals, keep fossil fuel consumption high, and raise the overall cost of mitigation. The agriculture sector is largely exempted from direct carbon pricing, and there are significant challenges with the measurement, verification, and reporting (MRV) of methane emissions and nitrogen depositions. Higher carbon taxation will increase food, energy, and transport prices, reducing low-income households' purchasing power.	**Phase out reduced rates and exemptions on the use of fossil fuels, while maintaining a level playing field with other EU countries.** Where robust monitoring systems are in place, consider setting emissions and deposition limits at farm level, or a revenue-neutral feebate system. Provide partial and targeted fiscal support for low-income groups, while maintaining energy saving incentives.
Electrification of heat and transport is slower than in leading countries and too slow to achieve 2030 emission targets. The timeline for phasing out fossil fuels in household heat and transport remains unclear.	Strengthen support for heat pumps and maintain strong incentives for electric vehicles adoption, possibly with a revenue-neutral feebate, with higher taxes on polluting vehicles funding lower taxes on EVs. Provide certainty on the planned ban on the sale of new gas boilers and of internal combustion engine vehicles.
Stepping up electrification to deliver energy security and net zero	
Grid congestion slows the rollout of renewables, limits business expansion, and impedes housing developments. Labour shortages delay critical grid infrastructure projects. The system operator started enhancing grid flexibility on the demand side, but supply-side measures based on smart grid solutions remain underutilised, including battery storage.	**Expedite procedures and delivery for grid expansion, including by coordinating permitting and execution at the regional level.** Expand workforce training to address labour shortages in grid infrastructure. Continue strengthening demand-side flexibility measures, including through time-of-use pricing. Swiftly remove net metering as legislated to incentivise household investment in residential battery systems, while accelerating the deployment of large-scale batteries.
Policy changes and uncertainty about sector-specific decarbonisation paths hinder the green investments necessary to achieve energy security and reach net zero by 2050.	**Swiftly expand the climate strategy beyond 2030 and ensure policy consistency with climate neutrality by 2050 to unlock long-term investment in deep decarbonisation technologies.**
Continuing adaptation to contain the costs of climate change	
Adaptation to water risks is adequate but non-water risks management is less developed, even though hazards from increasingly frequent extreme weather events are high.	**Swiftly implement the new National Adaptation Strategy, including measures to address heat stress, drought, and peak rainfall.**
Some households and firms lack sufficient climate risk insurance coverage, necessitating government compensation in case of disaster and creating free-riding incentives. Changing groundwater levels threaten building foundations, but the large potential damages are not priced in housing transactions due to lack of information, reducing repair incentives.	Clarify risk repartition between the state and the private sector, and require insurers to provide standardised and transparent climate risk information to policyholders. Mandate that building foundations quality information be disclosed in property transactions and expand financing options for repairs.

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3 Towards a more accessible and sustainable housing market

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Housing affordability is a key challenge in the Netherlands, driven by persistent supply shortages. Policies favouring owner-occupied and social rental housing over private rentals have created imbalances in tenure options and reduced housing market efficiency. Short-term affordability measures often increase demand for homeownership, while strict rent controls and a buy-to-let ban discourage investment in private rentals. Expanding housing supply through streamlined permitting and measures against land speculation is essential, but a long-term strategy is also needed to align affordability policies with investment incentives to sustainably increase affordable housing.

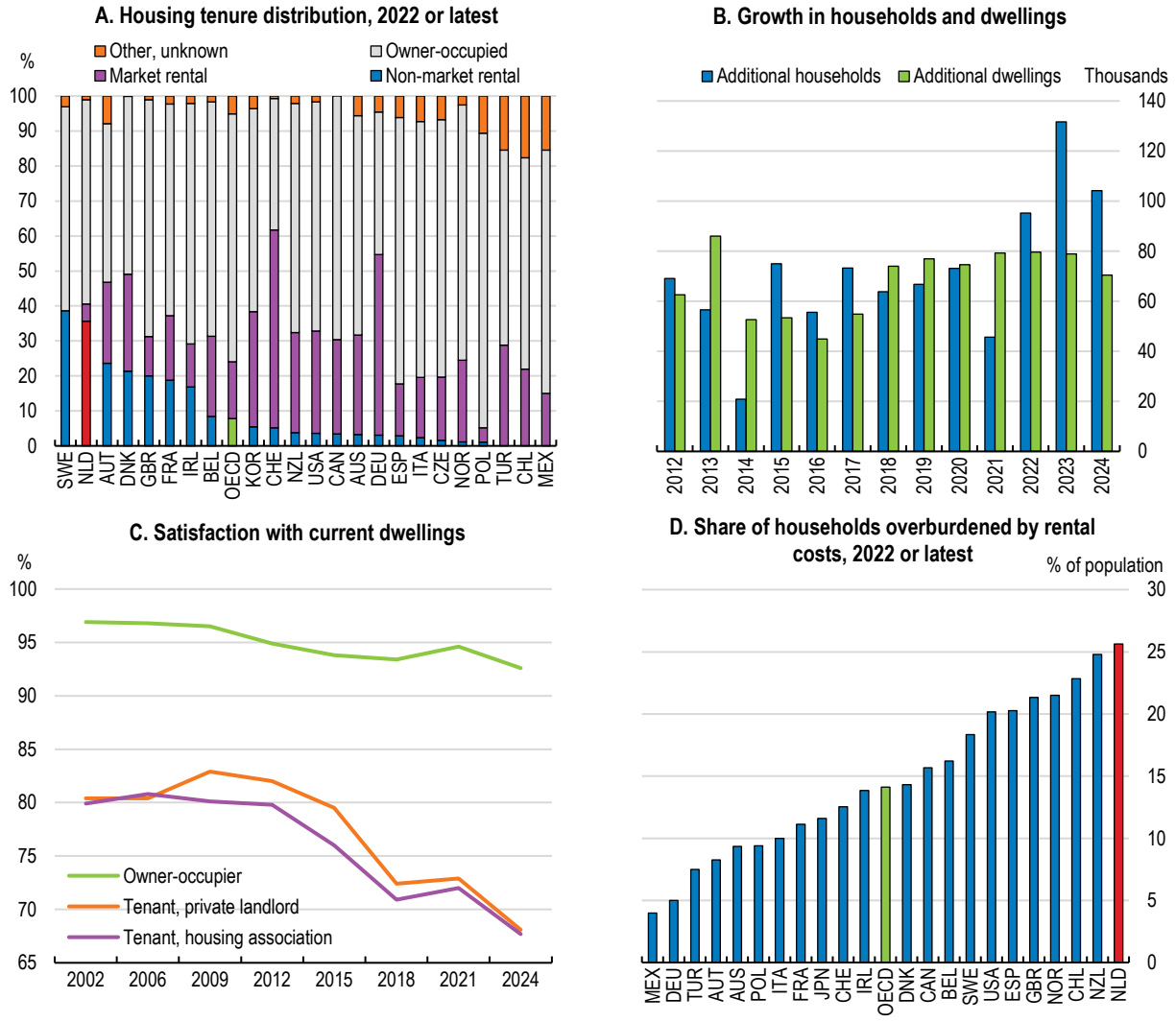
3.1. The Netherlands is struggling with a lack of affordable housing

The Netherlands is facing a significant housing challenge, marked by persistent supply shortages, affordability concerns and an imbalance between housing tenures. Decades of policy interventions have encouraged owner-occupied and non-market rental housing, while neglecting the private rental market (Figure 3.1, Panel A). As a result, the housing market has become misaligned with a three-tiered structure: a large owner-occupied segment benefiting from generous tax advantages, an extensive but increasingly strained non-market rental sector and a squeezed private rental segment that struggles to accommodate the needs of lower to middle-income households. Housing supply that has been slow to respond to rising demand (Figure 3.1, Panel B), as well as long waiting lists for social housing exacerbate affordable housing challenges. These developments have made households across the housing market increasingly dissatisfied (Figure 3.1, Panel C), particularly renters who are also facing a significant housing cost burden (Figure 3.1, Panel D).

The Dutch government has an ambitious plan to build 100 000 new homes annually, with two thirds designated as affordable for low- and middle-income households for both buying and renting. While the government has announced plans to ease permitting for new housing construction and to strengthen co-operation across the entire housing supply chain, important barriers remain. Measures to increase affordability in the short term might hamper increasing affordable housing supply in the longer term. Investment in owner-occupied housing is incentivised by mortgage interest deductibility, favourable transaction taxes, and lenient mortgage borrowing, which are pushing up prices. At the same time, pervasive rent controls dampen private sector incentives to invest in rental housing despite government support for construction. The 2024 Affordable Rent Act (*Wet betaalbare huur*) effectively reduced the already small private rental market segment (Box 3.1), which could exacerbate shortages going forward. Moreover, efforts to increase housing supply are held back by persistent labour shortages, slow permitting procedures, restrictions on construction activities due to the obligation to reduce nitrogen depositions (Chapter 1), and growing bottlenecks to connect new housing to the electricity grid (Chapter 2), all of which are pushing up construction costs and delaying the completion of new dwellings.

This chapter outlines a comprehensive strategy in line with findings from OECD's comprehensive cross-country analysis of housing policies *Brick by brick* (OECD, 2023[1]; 2021[2]) to address the key challenges of the Netherlands' housing market by focusing on three interconnected priorities. First, it emphasises promoting a balanced housing market across tenures by further reducing tax distortions favouring owner-occupied housing, while moving towards a supportive framework for investing in affordable rental housing both in the non-market and the private sector. Second, it explores measures to boost the responsiveness of housing supply, including by streamlining permitting procedures, reducing speculative land hording and strengthening incentives for municipalities to enable faster housing development. Finally, the chapter highlights the importance of balancing affordability measures with supply incentives, advocating for calibrated rent control policies that preserve affordability while maintaining investment incentives and targeted subsidies to ensure housing is both accessible and financially sustainable to households most in need.

Figure 3.1. Housing affordability is challenged by a squeezed market rental segment and subdued housing supply



Note: Panel A: Figures refer to the share of households, except for Australia, Austria, Canada, Colombia, Denmark, New Zealand and the United States, for which the non-market rental segment is proxied by the difference between the share of households in the aggregate rental segment and the share of social housing in the housing stock; OECD average refers to member countries for which all tenure types are available; see source for data limitations. Panel B: Additional dwellings take into account changes to the housing stock in the Netherlands through new construction, other additions, demolition, other withdrawals, and corrections. Panel C: Figures refer to the share of households in the Netherlands that reported being "satisfied" or "very satisfied" with their current dwelling in Statistics Netherlands' Housing Survey (WoON). Panel D: Figures refer to the share of households in the market rental segment spending more than 40% of disposable income on rent; see source for data limitations.
Source: OECD Affordable Housing (database); and Statistics Netherlands (CBS).

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Box 3.1. The 2024 Affordable Rent Act

The recent Affordable Rent Act (*Wet betaalbare huur*), in force since July 2024, extends the existing rent control system to a larger segment of the rental housing market, with the objective to make rental housing more affordable for people with middle incomes.

Specifically, the existing WWS points system (*Woningwaarderingsstelsel*), which determines the maximum rent based on dwelling characteristics has been updated to better reflect energy efficiency measures, shared outside spaces amongst already used characteristics such as size or property value. Further, it is extended to rentals

beyond social rentals (*sociale huurwoning*) to include rental dwellings in the so-called middle segment (*middenhuurwoning*). This effectively raises the rent ceiling up to which rent control applies (*liberalisatiegrens*), thereby shrinking the private rental market segment (*vrijesectorwoning*). Some exemptions were included for new dwellings, which are permitted to 10% higher rents for a period of 20 years within the rent controlled system. The reform comes with measures to monitor and strengthen enforcement of rent control by the Commission on rent (*Huurcommissie*) and by municipalities.

The government updates thresholds, ceilings, and maximum rent levels for new leases annually. For ongoing leases in the social segment, the government sets maximum rent increases; in the middle segment, rents can be indexed by the growth rate of collectively bargained wages (*CAO-lonen*), plus one percentage point; in the market segment, rents can be indexed by the lower of consumer price inflation and collectively bargained wages, plus one percentage point.

Source: Ministry of Housing and Spatial Planning (VRO) (2024[3]).

3.2. Promoting housing tenure neutrality

The Dutch housing market has been shaped by policies that favour owner-occupied housing and social rental housing over private rentals, leading to imbalances in tenure options and reduced housing market efficiency. Generous tax incentives, including tax deductibility of mortgage interest payments combined with low taxation of imputed rents, exemptions from capital gains taxes, state guarantees for buyers, and high loans-to-value mortgages have promoted homeownership as a favourable investment, driving up prices and widening wealth inequalities. Meanwhile, strict rent regulation and favourable financing conditions for housing associations discourage private investment in rental housing.

Limited affordable housing options create significant challenges for households and the broader economy. The private rental sector is small (Statistics Netherlands, 2025[4]), increasing pressure on social housing, with long waiting times as people whose income situation improved continue to occupy non-market rental dwellings. Additionally, middle-income households, often ineligible for social housing and unable to afford homeownership or high private rents, face limited housing options. Furthermore, the lack of flexibility in the housing market hampers labour market mobility, making it harder for workers to relocate for job opportunities. These imbalances deepen socio-economic divides, amplify inequality, and reduce the resilience of the housing market. Addressing these challenges requires targeted efforts to move towards policies that are neutral regarding housing tenure.

3.2.1. Phasing out favourable tax treatment for owner-occupied dwellings

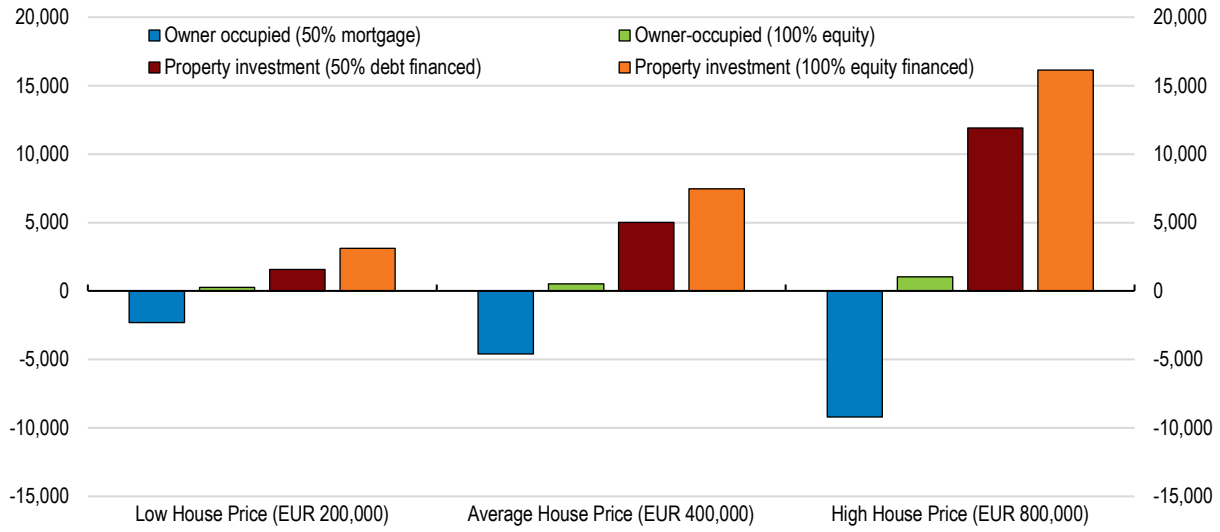
Owner-occupied housing enjoys significant tax advantages compared to rental properties and other investments. On top of this, additional policies like exemptions from transfer tax under some circumstances (Table 3.1), and measures to improve affordability for first-time homebuyers, such as a national mortgage guarantee, drive up demand and push home prices even higher as sellers price in these advantages in the asking price. This bias towards ownership versus renting introduced by the tax system creates wealth inequalities between those who rent and those who own their home.

Despite some reforms, owner-occupied housing remains under-taxed compared to other assets. In the Dutch tax system, homeowners pay income tax in box 1 based on a small, estimated rental value of their home (*Eigenwoningforfait*). This imputed rent is much lower than the higher assumed returns that are taxed in box 3, which applies to other types of investments like private rental properties or second homes or stocks (Chapter 1 and Box 1.6). Additionally, homeowners can deduct mortgage interest payments from income that is taxed in box 1, such as labour income, making debt financed homeownership a significantly more attractive investment (Figure 3.2). Since 2018, the mortgage interest deduction has been gradually reduced from 52% to 36.97% in 2024, aligning it with the basic income tax rate. However, this change was partially offset by a reduction in the imputed rental value rate. For example, for properties valued below EUR 1.31 million the imputed rental value rate dropped from 0.7% to a maximum of 0.35% over the same period, leading to a significantly lower estimated taxable value. By contrast, for real estate taxed in box 3, the assumed rate of return has increased from 5.3% in 2018 to 6.04% in

2024, and the tax rate in box 3 increased from 30% to 36% over the same period. Furthermore, the introduction of a new bracket at the bottom of box 1 income tax schedule in 2025 has also led to changes in the mortgage interest deduction. While the mortgage interest deduction rate has further decreased to 35.82% in the lowest bracket, it has increased to 37.48% in the higher brackets, thereby partially offsetting some of the previous progress.

Figure 3.2. Simulations of required tax payments for housing

By type of financing and use, EUR



Note: A negative value implies that the amount can be deducted from other taxable income, while a positive value indicates the amount that needs to be paid as additional tax because of the investment. Simulations assume for owner occupied housing that 50% of the property value is financed through a mortgage at a 3% interest rate. The imputed rental value (Eigenwoningforfait) is set at 0.35% of the property value, which applied in 2024 for homes between EUR 75 000 and EUR 1.31 million. Mortgage interest payments are deductible in box 1. The homeowner's taxable income from the property is determined as the imputed rental value minus deductible mortgage interest which is taxed at 36.97%. If the deduction exceeds the imputed rental value, the taxable income is reduced to zero. In the Scenario of owner-occupied housing fully paid by equity, the homeowners taxable income is determined based on the imputed rental value which is taxed at 36.97%. For property investments not for owner occupation, the scenario with debt financing assumes that 50% of the property value is financed with a loan, and deductible debt is adjusted for the threshold (EUR 3 700 for a single taxpayer). The assumed return on investments and other assets is 6.04%, while the return on deductible debt is -2.47%. The tax-free allowance for box 3 is EUR 57 000. The taxable return is calculated based on the proportion of net assets (after deducting debts and allowances) relative to total assets. A 36% tax rate applies to the taxable return. For the fully equity financed property investment, no debt is deducted from the taxable income.
Source: Authors calculations based on 2024 tax rates as published on https://www.belastingdienst.nl/.

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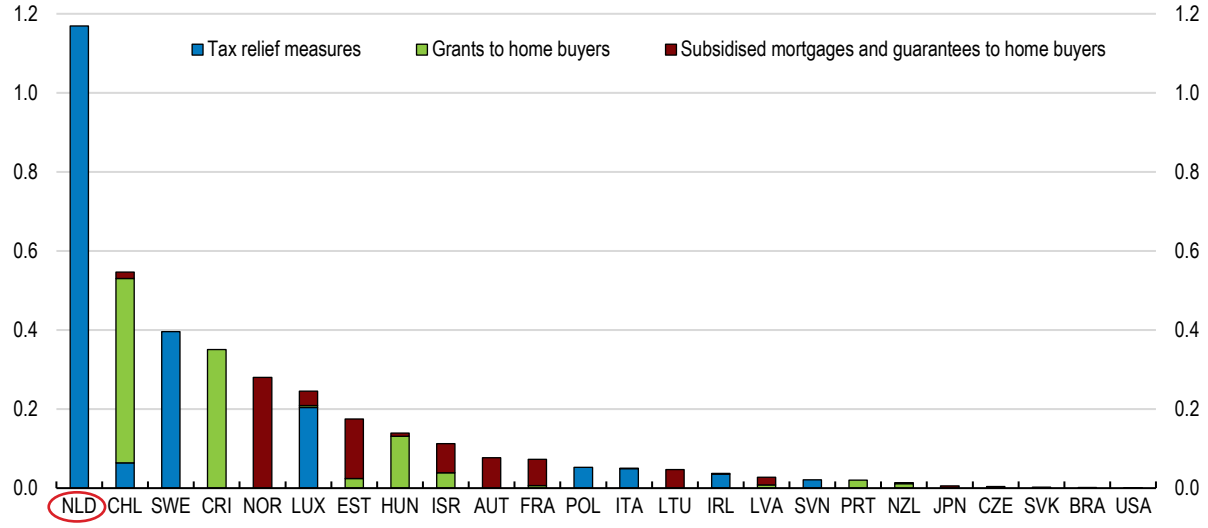
The Netherlands offers one of the most generous tax reliefs for homeowners in the OECD (Figure 3.3), contributing to rising inequalities between homeowners and renters. Homeowners, whose homes served as collateral for a mortgage, face a significantly lower housing cost burden than renters. Between the bottom and the top income quintile, the median mortgage cost as share of disposable income was 10.7% (top) and 13.1% (bottom) for homeowners in 2022, a significant decline since 2010, where the difference was 17.5% (top) and 23.7% (bottom) indicating a decline in inequality between income groups (OECD, 2024[5]). However, for renters not only has the housing cost burden increased across income quintiles, but also the inequality between income groups. While in 2010, the cost of rent as share of disposable income ranged from 14.4% in the top quintile to 31.7% in the bottom quintile, the shares were respectively 13.5% and 35.7%in 2022.

Addressing tax distortions that favour homeownership is essential to create a more balanced housing market in the Netherlands. The reform of box 3 taxation demanded by the Dutch Supreme Court in December 2021 offers the opportunity to move home equity to box 3 taxation together with other investment assets such as private rental properties and second homes (Chapter 1, OECD (2023[6])). At a minimum, the imputed rent rates on owner-occupied housing should be increased to align with other assets to increase fairness and reduce the distortive impact on the market. Further reducing the mortgage interest deduction rate would reduce the tax bias for homeownership, while

making housing taxation more progressive (Causa, Woloszko and Leite, 2019[7]). However, the current government has committed in its coalition agreement to not alter the fiscal position of the owner-occupied home. As a result, the current regulation regarding mortgage interest deduction and owner-occupied home allowance remains unchanged. Since the large fiscal outlays in the current framework benefit to a substantial degree better-off households and could be better used to address shortcomings in other parts of the housing market, the government should re-evaluate this position. To reduce financial stability concerns emerging from a correction in the housing market, these tax advantages should be phased out gradually and predictably. In a first step, the government should re-evaluate the mortgage interest deductibility rate introduced with the new tax brackets and focus on phasing out housing support for higher income households and basing it on the home value, for example by capping the amount of mortgage rate payments that can be deducted, as is done in Denmark.

Figure 3.3. Tax relief for homeowners is high in the Netherlands

% of GDP, 2022 or latest available year



Note: Data refer to 2022 for Latvia, Luxembourg, New Zealand, Portugal, United States, Norway, Slovak Republic, Lithuania, and Ireland; to 2021 for Poland and Austria. For selected countries, spending data refers to different calendar years depending on the measure: for the Netherlands, 2021 and 2020; for Chile, 2022 and 2021; and for Israel and Croatia, 2023 and 2022. Data for Sweden, Cost Rica, Estonia, Hungary, France, Italy, Slovenia, Japan, Czechia, and Brazil refer to the 2021 QuASH.
Source: OECD (2023), 2021 OECD Questionnaire on Affordable and Social Housing (QuASH).

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Table 3.1. Support for homeowners and homebuyers

Instrument	Description	Eligibility
National mortgage guarantee (National Hypotheek Garantie)	Government-backed guarantee (via the Homeownership Guarantee Fund, NHG) that protects mortgage lenders if homeowners face financial difficulties due to circumstances beyond their control, such as job loss, disability, divorce, or the death of a partner.	The property must meet specific value, size, and location criteria. In 2025, the maximum eligible property value is EUR 450 000. Homebuyers pay a one-time premium for this protection.
Mortgage-interest-deductibility (Hypotheekrenteaftrek)	Allows homeowners to deduct mortgage interest payments from taxable income, with a maximum deduction rate of 36.97% (2024). Deductibility applies only to loans with an annuity-based repayment schedule over 30 years.	Applicant must hold citizenship/permanent residence.
Exemption transfer-tax (Vrijstellling overdrachtsbelasting)	First-time homebuyers aged 18–35 are exempt from paying transfer tax on homes valued up to EUR 525 000 (2025), provided they declare intent to live in the home and have not previously used this exemption.	Applicant must hold citizenship/permanent resident and be a first-time homebuyer.

Source: OECD (2024[8]).

3.2.2. Improving incentives in both non-market and market rental segments

Rental housing provision in the Netherlands is divided into two distinct segments: the non-market rental segment, comprising rent-regulated housing primarily provided by housing associations, and the private rental segment, where rents are set by market forces (Box 3.2). The non-market rental segment provides housing for about 34% of households (Figure 3.1, Panel A), and plays a vital role in ensuring affordability, but housing associations are increasingly constrained by rising costs and limited financial flexibility. The private rental segment accommodates less than 5% of households, primarily middle- and high-income, but faces low investor confidence due to expanded rent controls and frequent policy changes targeting speculative investment. Addressing the challenges across all rental segments is crucial to expand rental housing supply, improve affordability and create a balanced and sustainable housing market.

Box 3.2. Structure of the rental housing market in the Netherlands

The Dutch rental housing market is segmented based on the characteristics of a dwelling and by ownership. A detailed point system based on market value, size, amenities and energy efficiency categorises dwellings into non-market rentals, if they score below a specified threshold, and private rental market dwellings, if they score above the threshold.

Non-market rentals are dwellings scoring below a certain threshold and are regulated with respect to the maximum monthly rent and annual rent increases. Differences in the allocation of dwellings apply based on ownership:

- provided by housing associations (social housing): A minimum of 85% dwellings must be allocated based on means-tested income of tenants. In 2024, tenants with an income of max EUR 47 699 for single-person households, and of max EUR 52 671 for multi-person households were considered eligible. The remaining dwellings could be allocated to tenants above those income thresholds.
- provided by private investors: Not bound to allocate the dwelling based on the tenant's income.

Private rental market are dwellings scoring above a certain threshold. Regulation only limits the annual rent increase, whereas monthly rents can be freely set, and tenants can be freely chosen by the landlord.

Source: OECD (2024[8]).

Challenges in the non-market rental segment

The Netherlands employs a detailed points-based system to classify rental dwellings, assessing properties based on market value, size, amenities, and energy efficiency. Dwellings scoring below a specified threshold are categorised as rent-controlled housing, where regulation limits the maximum monthly rent and annual rent increases. Differences in terms of available financing support and allocations rules exist depending on the type of ownership.

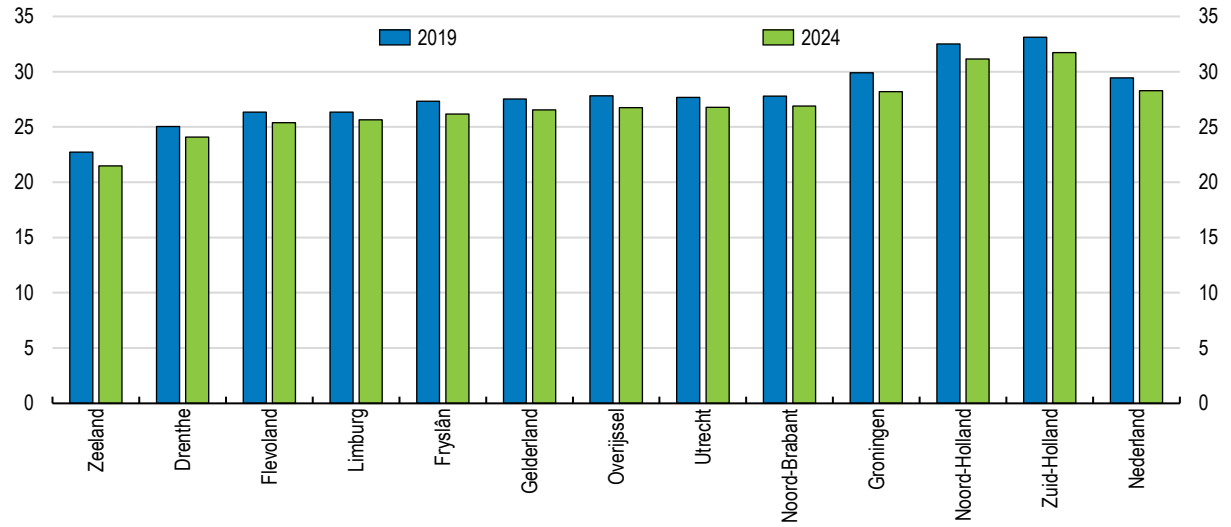
Non-profit housing associations own most dwellings in the non-market rental segment in the Netherlands (Government of the Netherlands, 2024[9]). These associations operate under a public service mandate, offering affordable housing to eligible households, primarily determined by income (Box 3.2). They also address the needs of priority groups, such as the elderly, and contribute to creating liveable neighbourhoods. In return, housing associations benefit from a state guarantee on loans and may receive preferential access to land from municipalities at below-market prices.

Housing associations play a critical role in providing affordable housing for low-income households but have been struggling with insufficient returns to meet rising costs. As a result, dwellings supplied by housing associations as share of total housing stock have declined over time (Figure 3.4). Reforms under the 2015 Housing Act (*Woningwet*), implemented to comply with EU State Aid rules, likely contributed to the decrease, as it narrowed housing associations' mandate to providing quality and affordable social housing for people on a limited rental budget, reduced the commercial activities of housing associations, and added a levy on landlords (the latter was scrapped in 2023). These reforms reduced possibilities of cross-subsidisation, weighing on housing associations' capabilities

to expand the social housing stock. Furthermore, rapidly rising costs of construction, maintenance and capped rents make it increasingly difficult for housing associations to invest and develop new housing (Government of the Netherlands, 2024[10]). Measures announced in the 2025 Spring Memorandum 2025 include a rent freeze (Box 1.5), which would add further pressure on housing associations' financial viability.

Figure 3.4. The share of rental dwellings owned by housing associations has declined

% of total dwellings, by provinces



Source: Statistics Netherlands (CBS).

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Strengthening the viability of the housing associations is key to maintain and expand the stock of the non-market rental segment. The government's recent budget (Ministry of Finance, 2024[11]), which sets an impetus on housing development and includes significant funding for housing, will contribute to making affordable housing development financially viable, an important step in the right direction. However, structural issues in the revenue-cost-relation of housing associations need to be addressed as well. The government should ensure that the annual rent indexing for non-rental market housing reflects rising costs so that housing associations can sustain their operations. For that, the points system, which controls the maximum monthly rent and annual rent increases, should reflect cost developments to prevent a divergence between housing associations income and expenses.

Dutch housing associations are allowed to implement income-dependent rent increases for existing tenants, but implementation is challenged by administrative complexities. The underlying law (*inkomensafhankelijke huurverhoging*) implemented already in 2013 aimed to encourage higher-income households to move out of social housing and make room for lower-income households in need. However, to implement income-based rent adjustment, housing associations must rely on income data provided by the Dutch tax authority, which creates administrative complexities and delays. The government should consider moving to a system where housing associations must set rents on a cost basis. In Austria, for example, the principle of cost recovery is enshrined in the Limited-Profit Housing Act, which sets out the governance principles for Austrian housing associations. Cost recovery entails the calculation of rents based on actual costs, including construction and maintenance (OECD, 2023[1]). This would help to reduce the administrative burden for housing associations that occurs from implementing income-dependent rent increases. To limit affordability concerns due to higher rents, the government could consider compensating low-income households through the existing rental allowance scheme (*huurtoeslag*) (Table 3.2). However, the impact on work incentives, as well as the fact that this could add to the complexity of the tax-benefits system should be carefully considered (Chapter 1).

Table 3.2. Support and regulation for rental housing

Measure	Description
Non-market rental housing	A dwelling is considered 'social' when it is rented below a specific rent level. This level is EUR 879.66 in 2024. In that case, regulation is applicable including a cap on the maximum yearly allowed rent increase. The maximum rent increase is inflation +1%. Allocation for non-market rental housing provided by housing associations: Minimum 85% of dwellings: For tenants with an income (2024): 1. of max EUR 47 699 for single-person households 2. of max EUR 52 671 for multi-person households Maximum 15% (if there are agreements about the performance of local parties) and maximum 7.5% without agreements: For tenants with an income (2024): 1. Higher than EUR 47 699 for single-person households 2. Higher than EUR 52 671 for multi-person households Rents in this sector are adjusted based on income, such that lower income households pay less than the maximum allowed rent. Allocation for non-market rental housing provided by non-housing association is not subject to income thresholds.
Rent controls	Rental units in the private sector are regulated with a cap on the maximum yearly allowed rent increase. The maximum rent increase is inflation +1%, or wage development +1% when the wage development is lower than the inflation.
Minimum quality regulation for rental dwellings	The quality of all buildings in the Netherlands must conform to the Bouwbesluit (based on the Woningwet / Housing law). Other requirements include connections to utility-functions, the entrance of daylight, and escape routes for cases of emergency.
Housing benefit (*Huurtoeslag*)	Housing benefit is based on current rent levels and taxable income. The underlying principle is that every household always pays part of the rent itself. This is referred to as the "standard rent" (basishuur), whose amount varies depending on the income and composition of household. There is a higher standard rent for people with a higher income.

Source: OECD (2024[8]).

The lack of mobility in housing provided by housing associations also reflects the need to address challenges in a holistic way, considering trade-offs with other segments of the rental market. Thus, the government's ambition to encourage households to move out of non-market rental housing supplied by housing associations as their income improves has not been successful due to limited housing alternatives in the rental market. In addition, incentives to move are small given considerable price differentials between the non-market and the private rental market, which contributes to rationing, long waiting lists and undermines the policy's goal of freeing up social housing for lower-income households.

Non-market rental dwellings provided by private investors are not allocated based on income or priority needs, offering housing solutions for middle income households that are not eligible for non-market rental housing provided by housing associations. However, less than 5% of all non-market rental dwellings are owned by for-profit firms and individual landlords. Investment into smaller more affordable housing units is hampered by low returns as the allowed maximum rents are set by the points system. Moreover, investors aiming to nevertheless invest in more affordable housing units face an even competition with housing associations, who can benefit from state guarantees and the possibility to buy land from the municipalities at below market price.

The government needs to ensure that investments into smaller, more affordable units remain profitable for investors. In the short term, temporarily raising the monthly maximum rent for non-market rental dwellings not provided by housing associations could be considered to make the investment viable. Announcements in the 2025 tax plan, such as e.g. the reduction in the property transfer tax rate for acquiring residential properties not intended for the buyer's long-term occupancy, which will decrease from 10.4% to 8% from 2026 onwards, are a positive step. Further, the government's Affordable Rent Act implemented in 2024 (Box 3.1), which allows a surcharge on the maximum rent for new builds, goes into the right direction, but should be implemented for all existing non-market rental dwelling owned by the private sector. Higher rents should be cushioned by a more generous, but means-

tested, rental allowance. Over the medium-to longer term, the number of rent-controlled accommodations could be narrowed to create incentives for the private sector to complement the efforts by housing associations to provide rental housing for middle income households.

Strict tenant regulation within the rent control system should be reviewed to maintain incentives for the private sector to invest in maintenance and home improvements of non-market rental dwellings. The housing sector is central to achieving climate goals (De Mello, 2023[12]), and while the split-incentive often discourages energy efficiency upgrades, as landlords bear the costs while tenants benefit from lower energy bills, this is partly addressed through the Dutch rent control system. Within the points system, higher scores are awarded to energy-efficient homes, allowing landlords to charge higher rents. However, this incentive does not apply to homes with sitting tenants. If a property is initially rented at or below the rent control threshold, it remains in the regulated sector until the tenant moves out, regardless of improvements that would otherwise increase its score. Adapting the parameters of the points system could help to stimulate home improvements benefitting renter satisfaction and well-being, while also advancing the decarbonisation of the housing sector.

Challenges in the private rental market segment

Dutch housing policies' focus on raising affordability through regulating the rental market and stringent rent control policies has constrained the development of the private rental sector, which is small, and rents are high. Moreover, frequent changes to policies have increased uncertainty and made investment into rental housing unattractive.

Policy uncertainty about the taxation of private rental properties in box 3 and the development of rent controls has further reduced the investment value of rental units in the mid-price segment. Thus, if the ongoing reform of box 3 takes place, private rental properties will be taxed based on their actual cash return, In addition, the Affordable Rent Act (Box 3.1) that came into force in July 2024 and expanded regulation into the middle-price segment took many private landlords and for-profit investors by surprise. While the government's ambition was to increase the number of affordable rental units, first numbers indicate that since the Affordable Rent Act was implemented, private landlords have been selling off their property (Netherlands' Cadastre, Land Registry and Mapping Agency, 2025[13]). While this increased the affordable units available for home buyers, it further reduced affordable rental options. The effects of the Act need to be monitored to ensure that the expansion of rent controls to the mid-price market segment does not reduce supply in the long term.

The private rental market has also been suppressed by municipalities' ban on buy-to-let housing investment. Moreover, in many municipalities, a self-occupancy requirement has been introduced, especially for newly built homes or homes below a certain price threshold, where owners need to live in the property themselves and cannot rent it out for a specific period, typically three to five years. Finally, since January 2022, municipalities can designate neighbourhoods or housing types where the buy-to-let of existing homes is prohibited, to prevent investors from purchasing homes to rent them out, which has been argued to drive up housing prices and limits opportunities for first-time buyers. However, as these policies stifle supply in the private rental market, the government should consider to gradually phase out the ban on buy-to-let property to allow for investment into the private rental market.

The Netherlands should review housing and investment policies in the rental market. To create a supportive framework for private investment, a transparent long-term strategy should outline the roles for housing associations, non-market rental dwellings provided by the private sector, and the private rental market. Balancing support for housing associations to ensure the provision of affordable housing, with ensuring viable investment incentives in the non-market rental and private rental sector is needed to accommodate households not eligible for social housing. Such a strategy should also clearly define how measures to increase affordability in the short-term, such as rent controls, are to develop once housing supply increases, a necessary condition to sustainably increase housing affordability (see below).

Table 3.3. Past recommendations on balancing the housing market

Recommendation	Action since last Survey
Phase out the favourable tax treatment of owner-occupied housing.	In 2025, the mortgage interest deduction rate will be aligned with the new income tax brackets. For incomes up to EUR 38 441, the deduction rate will be 35.82%, while for higher incomes, it will be 37.48%; compared to a uniform rate of 36.97% in 2024.
Gradually limit rent controls to a narrower part of the market.	Rent controls have been expanded to the mid-priced segment since July 2024.
Cancel proposed legislation allowing municipalities to ban buy-to-let housing investments	No action taken
Evaluate how housing corporations affect the overall housing market and ensure that enough space is left for a private rental market.	The Dutch government has conducted several studies to evaluate the social housing market and the rental market.

3.3. Ensuring that housing supply is sufficient to meet demand

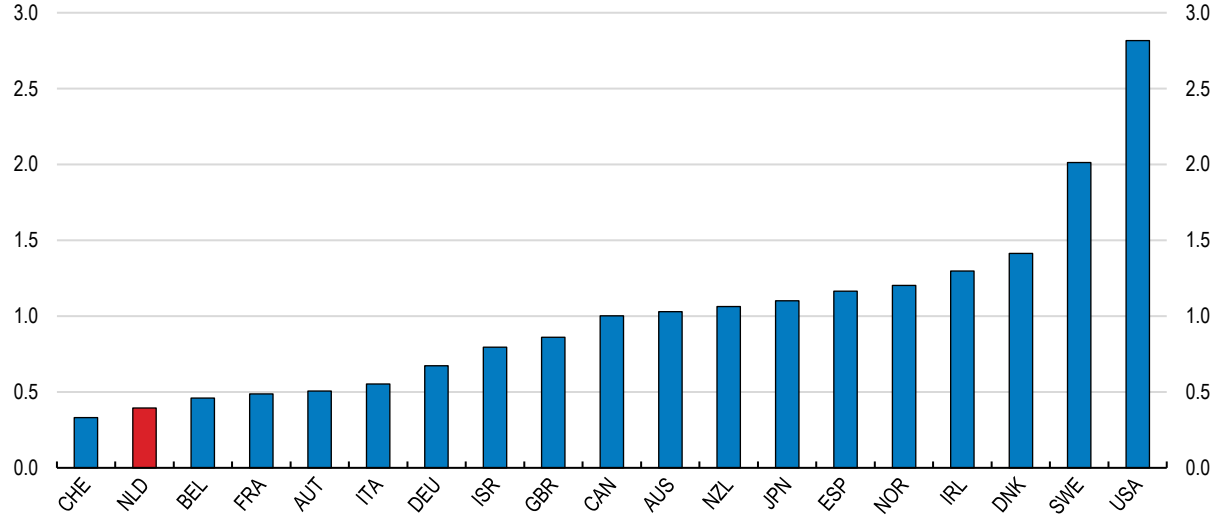
The persistent housing shortage in the Netherlands stems from a combination of regulatory bottlenecks, environmental constraints, and unresponsive housing supply. Despite the government's ambitious target of constructing 100 000 new dwellings annually, supply has been insufficient to meet growing demand. Moreover, the type of housing needs is also evolving. Continuous demographic changes, especially ageing and migration, will add to the ongoing need for smaller and more accessible dwellings.

3.3.1. Streamlining permitting procedures and regulations

A complex regulatory framework governing housing development has been depressing the responsiveness of housing supply over past decades (Figure 3.5), adding to the present significant housing shortages. Complex permitting procedures delay housing construction. Additionally, stringent zoning laws, and environmental policies to mitigate high nitrogen depositions further constrain development (Government of the Netherlands, 2024[14]). These bottlenecks do not only slow down housing construction but also increase costs. In addition, the permitting process has been slowed down in recent years due to uncertainties on how to correctly accommodate nitrogen emissions, which had a dampening effect on the realisation of new construction at specific locations (Chapters 1 and 2).

Figure 3.5. Housing supply has been unresponsive to prices contributing to the housing shortage

Housing supply elasticity, %, 1980-Q1 - 2017-Q4



Note: Figures refer to estimates of long-run supply elasticities by country using the CCE MG approach in an unbalanced panel dataset of 25 countries from 1980Q1 to 2017Q4; see Cavalleri., Cournède & Özsöğüt (2019) for details.
Source: Cavalleri, Cournède & Özsöğüt (2019) "How responsive are housing markets in the OECD? National level estimates".

StatLink https://stat.link/xmhfos

Increasing housing supply depends on the collaboration of many parties, such as landowners, developers and different levels of government, each facing different incentives and constraints. The government announced intentions to work more intensively with municipalities, companies and housing associations to identify, reduce and change the rules and procedures that hold back housing construction. Following a housing summit at the end of 2024, the government announced plans to speed up construction by setting parallel planning as a standard, whereby multiple planning processes, such as spatial planning, environmental assessments, and permitting, are conducted simultaneously rather than sequentially, aiming to reduce the development time from six to two years (Ministry of Housing and Spatial Planning, 2024[15]). Parallel planning will become a standard condition for government programmes to support affordable housing development, including the Housing Construction Incentive (*Woningbouwimpuls*) (Table 3.4), which is welcome, but should be expanded to be the standard for all construction projects.

Table 3.4. Government programmes to support affordable housing development

Measure	Description	Types of property developers	Requirements applying to the dwelling and/or households	Type of aid	Administrative level
Start-of construction incentive (Startbouwimpuls)	2023 initiative aimed at accelerating the construction of new homes that were at risk of delay due to changing economic conditions, such as rising interest rates and increased construction costs.	Property developers involved in projects that are already sufficiently advanced but face financial feasibility challenges due to economic conditions	Projects must be sufficiently advanced in their planning to commence construction by 2024 or 2025. Eligible projects are those facing financial feasibility issues due to changing economic conditions, such as rising interest rates and increased construction costs. These challenges should pose a risk of delays or halts in the project's progression. Municipalities must apply for the SBI funding on behalf of the projects within their jurisdiction.	Grant	Joint (shared across levels of government)
Public Housing Fund (Volkshuisvestingsfonds)	Multi-year fund to enhance safety and quality of life in vulnerable neighborhoods through investments in housing stock, public space, and the living environment.	Local governments	Projects must show a financial deficit; beneficiaries must cover at least 30% of the shortfall, with the fund covering up to 70%. No income threshold for end-users.	Grant	Joint (shared across levels of government)
Financing facility to transform urban locations (*Transformatiefaciliteit binnenstedelijke transformatie*)	Provides short-term loans for the early phases of redevelopment, enabling faster conversion of non-residential sites into housing.	Legal persons/entities	Projects must involve the transformation of sites (e.g., former factories, offices) into affordable housing. Income thresholds apply for end-users.	Loans	National/Federal
Housing incentive (*woningbouwimpuls*)	Subsidy for municipalities to bridge financial gaps in public investments for housing projects (e.g., land remediation, infrastructure, business relocation).	Local authorities	Developments must include at least 500 dwellings, with at least 50% classified as affordable (social rent, mid-rent, or owner-occupied up to €355,000). Some affordable housing must be provided by social housing associations and allocated to low-income households. Income thresholds for end users apply.	Grant	National/Federal

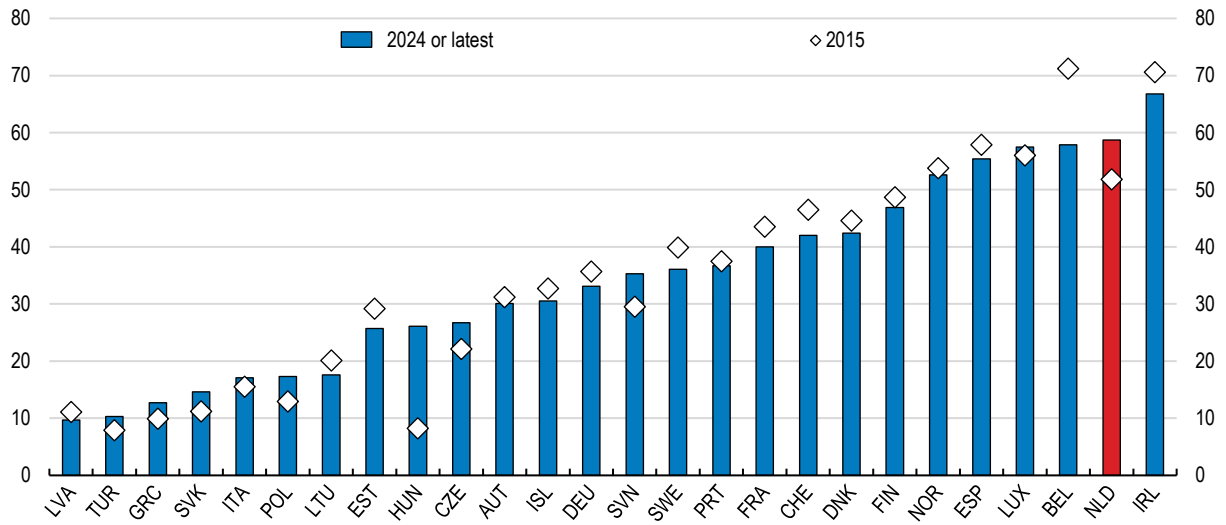
Note: All measures are for both affordable owner occupied and rental dwellings.
Source: OECD (2024[16]) ; Ministry of Housing and Spatial Planning (2025[17]).

The national objective of increasing housing construction is welcome, but should be aligned with incentives and capacities at lower levels of government to ensure effective delivery. Municipalities have no financial incentive to allow housing construction on privately owned land as they bear a large part of its economic and political costs, e.g., by having to provide the needed infrastructure or overcoming opposing interests of existing parties against additional buildings. Municipalities do not benefit from an increase in the value of the land, which accrues to the private owner and the higher property tax revenue resulting from new construction is largely equalised across municipalities via the municipal fund. It is therefore welcome that the government announced new incentives for municipalities to encourage new construction through a realisation bonus for municipalities for every completed affordable housing unit. To strengthen the implementation capacity of municipalities, the government is providing a total of EUR 600 000 to municipalities to foster cooperation between municipalities and between government and the private sector, including sharing knowledge, aiming for standardisation in permitting processes and increasing digitalisation (Ministry of Housing and Spatial Planning, 2024[15]). It remains important to monitor that these financial incentives aimed at increasing housing supply are sufficient to increase housing construction (Table 3.4). For the longer term, the government should evaluate whether municipalities' incentives could be strengthened through the allocation mechanisms of the municipal fund, allowing them to capture a larger share of the extra tax revenue generated when more people move into an area.

It should also be monitored that housing development is meeting demand, both in terms of location and type of housing. To recoup rising construction costs, developers tend to build mainly expensive homes, while there are too few affordable homes for low- and middle-income people (Government of the Netherlands, 2024[14]). However, demand for smaller units has been increasing as the size of households has been declining. Already, the share of under-occupied dwellings is high in the Netherlands compared to other EU countries (Figure 3.6), which is significantly higher for people living in owner occupied housing (69%) compared to rental housing (35%) (Eurostat, 2025[18]). The government is revising legislation to give municipalities more control over determining the number, location, and type of homes to be built. A key component is the requirement that two-thirds of new homes are affordable for lower- and middle-income households, both for rent and for sale (Ministry of the Interior and Kingdom Relations, 2024[19]). The revised legislation will allow for flexibility in achieving the aggregate target and will not apply at the development project level, as some locations already have a large stock of social housing.

Figure 3.6. Too many houses are under-occupied

% of people living in under-occupied dwellings



Note: Comparing data between 2015 and 2023 or latest for the following countries should be done with caution due to break in series (year in parenthesis): Belgium (2016 and 2019), Germany (2020), Ireland (2019 and 2020), France (2020 and 2022), Luxembourg (2016, 2020, 2021 and 2022), Netherlands (2016), Poland (2020 and 2023), and Norway (2021).
Source: Eurostat (database).

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Ensuring that the existing housing stock is used efficiently is also important to ensure adequate supply of housing. Currently, 15-20% of new housing comes from repurposing existing buildings. To further expand housing availability, the government plans to review laws and regulations to make better use of the current housing stock. This includes converting commercial buildings into homes, expanding and subdividing existing properties, and making it easier for families to live together and for homeowners to rent out rooms (*hospitaverhuur*).

3.3.2. Broadening land value capture tools

High land values and increased construction costs make new developments less attractive as housing associations and private investors face difficulties to recoup the costs of new constructions, particularly for affordable housing. Landowners that hold or trade undeveloped properties profit from rising values contributing to inflated land prices (Government of the Netherlands, 2024[10]). The problem is particularly acute in urban areas, where high demand and limited land availability further amplify price pressures.

Further efforts are needed to discourage land speculation. Land value capture tools (Table 3.5) can help municipalities manage rising land prices and generate revenue from housing and infrastructure projects. These tools help recover a portion of the increase in land value that results from public investment or infrastructure decisions, such as zoning changes and infrastructure improvements. They help ensure that private landowners and developers contribute to the costs of public projects that benefit them, while also discouraging speculation and land hoarding. The Netherlands is already implementing an array of land value capture tools (OECD/Lincoln Institute of Land Policy, PKU-Lincoln Institute Center, 2022[20]). Developer obligations are part of the regular planning procedure and strategic land management is a prominent feature of the country's active land policy. The infrastructure levy, while theoretically in place, is rarely implemented in practice due to disputes over the calculation method. Following recommendations from the recent interdepartmental policy report (*interdepartementaal beleidsonderzoek*, IBO), the government is considering to charge a one-off levy on the increase in land value ensuing from administrative decisions to change land use into allowing for housing development (*planbatenheffing*) (Government of the Netherlands, 2024[14]), as for example implemented in Brazil (Table 3.5). This measure should be implemented to reduce speculation incentives. In addition, the government should strengthen rules for land-use changes to be clearer, more transparent and predictable to further reduce speculative behaviour.

The government could also consider the option of introducing a land value tax (grondbelasting) to speed up development. A land value tax, as for example implemented in Estonia, is a recurrent tax on landowners based on the value of undeveloped land and is often considered as economically efficient as it provides incentives to develop the land based on its best use. However, it is rarely put into practice, as it requires a comprehensive up-to date land registry and forward planning of land use at plot level, the provision of a well-resourced and informed valuation profession, and resources to undertake robust valuations which separate the value of land from the value of improvements for developed plots based on highest and best use (Hughes et al., 2020[21]). However, the Netherlands is well-positioned to implement a land value tax due to its strong municipal tax system, established land-use planning framework, and political momentum for curbing speculation and improving housing affordability. Still, a shift towards a land tax would require significant legal and administrative adjustments, particularly to separate land and building values in the property tax system and shift towards a current-use valuation model. Resistance from landowners and developers, who benefit from rising land values, could create political and legal challenges. Additionally, unintended consequences, such as discouraging land sales if tax burdens shift unpredictably, would need to be carefully managed. Thus, a land value tax requires careful planning, legal adjustments, and political coordination for successful implementation (Government of the Netherlands, 2024[10]). The government could evaluate whether a phased approach would be feasible, with pilot programs and clear enforcement mechanisms, to help mitigate these risks and ensure effective adoption.

Table 3.5. Land value capture tools

Tool	Description	Comment	Examples
Infrastructure levy	An infrastructure levy is a tax or fee levied on landowners possessing land that has gained in value due to infrastructure investment initiated by the government	Tax based	Colombia
Developer obligations	A developer obligation is a cash or in-kind payment designed to defray the costs of new or additional public infrastructure and services private development requires.	Development based	Germany
Charges for development rights	Charges for development rights are cash or in-kind contributions payable in exchange for development rights or additional development potential above a set baseline.	Development based	Brazil
Land readjustment	Land readjustment is the practice of pooling fragmented land parcels for joint development, with owners transferring a portion of their land for public use to capture value increments and cover development costs	Development based	Japan
Strategic land management	Strategic land management is the practice of governments actively taking part in buying, developing, selling and leasing land to advance public needs and recoup value increments borne through public action.	Development based	The Netherlands
Land tax (pure land value or split-rate property tax)	Tax on land value or a higher tax for land than for buildings. Considered less distortionary, more progressive and efficient than the composed property tax (land + building) and the tax on commercial activities or labour	Tax based	Pure land tax in Australia, Denmark, Estonia Split-rate in Belgium and France

Source: OECD and Lincoln Institute of Land Policy (2022[20]) OECD (2017[22]).

Table 3.6. Past recommendations on increasing housing supply

Recommendation	Action since last Survey
Increase the supply of housing by speeding up land use planning and building procedures, designating housing construction locations, and making binding agreements with all parties involved	On December 11, 2024, a housing summit was held with all parties along the housing production chain. Agreements were made to accelerate the construction of 75 000 new homes, primarily in the Utrecht-Nieuwegein region, aiming to reach the government's target of 100,000 new homes per year.

3.3.3. Increasing labour supply and productivity in construction

Addressing labour shortages in the construction sector is necessary to deliver on the required increase in the housing stock. The job vacancy rate in the Dutch construction industry is 6.7%, the highest level in the EU in the third quarter of 2024 (Eurostat, 2024[23]), corresponding to about 25 000 open positions (Statistics Netherlands, 2024[24]). Ensuring the availability of medium skills is key. Using data-driven analysis to identify critical skill shortages in the construction sector and designing targeted labour market policies to address them, such as training or improved job placement, can help alleviate workforce gaps. Easing conditions for labour migration in sectors and occupations facing structural shortages could help, including by eliminating the labour market test for shortage occupations, as recommended in the previous *Economic Survey* (OECD, 2023[6]).

Increasing productivity in the construction sector is also important, as high construction costs can weigh on the financial viability of construction projects. The development of standardised dwellings can support scale economies, possibly informed by audits on construction costs (Box 3.3). Modular construction, whereby building components are prefabricated offsite in manufacturing facilities before being transported and assembled onsite, can contribute to higher construction productivity. Green modular innovations can also reduce the cost of greening the housing sector, thanks to modular renewable energy systems, modular bathroom pods, and modular photovoltaic roofs (van Oorschot, Halman and Hofman, 2021[25]). The government stated its intention to leverage modular construction to make housing construction faster, more affordable, and more sustainable (Government of the Netherlands, 2024[14]). The authorities should rapidly detail policy measures to promote modular construction. These could include modularity requirements for social housing developments, fast-track approval track for permitting modular construction, or awareness campaigns to educate developers, municipalities, and the public on the speed, cost efficiency, and sustainability of modular homes.

Box 3.3. Addressing high construction costs: the case of Germany

To address rising construction costs, Germany set the Commission on Construction Cost Reduction (*Baukostensenkungskommission*) in 2015. The Commission developed 71 recommendations for the federal, regional and municipal governments, housing and construction industries, planners, researchers and others. Recommendations for policy-makers included: i) conducting a mandatory impact assessment of housing costs for all drafts of laws, regulations and standards; ii) harmonising existing building regulations, approvals and quality requirements, for instance by adopting model building regulations, iii) improving the evidence base of construction costs, drawing on completed construction projects, observation of cost influencing factors, contribution of innovative manufacturing processes; iv) setting minimum and uniform standards for social housing; and v) defining quality standards for simplification and rationalisation. The recommendations were followed up by setting up a special office to support implementation and the strengthening of standardisation and an expanding share of modular building. The increase in construction costs has been slightly lower in Germany than the EU average since 2015.

Source: OECD Economic Surveys: Ireland 2025 (OECD, 2025[26]).

3.4. Towards a comprehensive longer-term strategy for the housing sector

Increasing housing supply is a necessary condition to raise affordability across the different segments of the housing market. However, reducing the housing shortage will take time, and therefore a longer-term strategy is needed, that not only focuses on measures to increase supply, but that also outlines the policy path for measures that support affordability. In the context of a tight housing market, affordability measures, such as rent controls, can be seen as essential for protecting vulnerable households. Yet, they can unintentionally discourage private investment into rental housing and further reduce the rental market segment in the longer term. Similarly, measures to raise the affordability of homeownership through generous tax subsidies and a borrower friendly mortgage market can inflate demand and thereby raise prices.

To balance these competing goals, the Dutch government should outline a policy path for housing to strengthen the rental market as well as the gradual reduction of fiscal support for homeownership. As the Dutch housing market is highly regulated and complex, policy changes are challenging as any reform will create both winners and losers. This calls for careful planning, clear communication, and strategic timing. It will be important to gradually phase out market-distorting policies, while continuous efforts to increase housing supply are needed to sustainably achieve housing affordability.

In the short term, the government should review who carries the financial burden of ensuring housing affordability. Thus, in the rental market, housing associations and the private sector carry the financial burden through limits on the maximum monthly rent that can be charged. The government should evaluate options to ensure housing associations charge cost-reflecting rents and allowing to temporarily raise the maximum rent ceilings in the non-market segment owned by the private sector to ensure their investment is viable. To mitigate affordability concerns, the government should increase means-tested rental allowances. Policies directly targeting affordable rental housing should also be reviewed and aligned with respect to investment incentives created through the tax system.

In the medium to longer term, and conditional on housing supply increasing, the government could consider strengthening housing associations' role in providing housing for low-income households. This would require regularly reviewing tenants' eligibility criteria for non-market rentals provided by housing associations. Current income thresholds for being eligible for non-market rentals provided by housing associations are above the median income, opening the sector to large parts of the population (OECD, 2021[27]). Instead, eligibility should be limited to households for which the provision of housing on below-market terms is necessary out of socio-economic considerations. In addition, eligibility for non-market rentals is only assessed by housing associations at the time the rental contract is signed, and therefore any income improvements thereafter are not considered. Although housing associations can raise rents based on income as discussed above, regularly reviewing eligibility could help to better allocate non-market rentals to the ones most in need. Based on regularly reviewed eligibility, two

alternatives are possible: First, households that no longer qualify for below-market rental housing could be required to pay market rent while remaining in their allocated apartment, allowing them to maintain social connections in the neighbourhood. Lower-income households would then be allocated to different housing. Second, households that no longer meet eligibility criteria could be required to move out, freeing up the apartment for lower-income households. However, either approach is only feasible once there is an adequate supply of affordable rental properties both within and outside the non-market rental segment.

Table 3.7. Findings and recommendations towards a more accessible and sustainable housing market

FINDINGS	RECOMMENDATIONS (key in bold)
Promoting housing tenure neutrality to strengthen the market rental segment	
Housing support policies are imbalanced and the non-regulated private rental market is small. Tax incentives for home buyers are generous, while the financial responsibility for affordable rental housing falls largely on housing associations and private investors. Frequent changes to housing policies have increased uncertainty and reduced investment. Measures to raise the affordability of homeownership through generous tax subsidies and a borrower friendly mortgage market have inflated demand and price.	**Develop a transparent long-term strategy to strengthen the private rental market, including a clear timeline for gradually phasing out rent controls and the ban on buy-to-let properties, as well as a policy path to gradually reduce support measures for homeownership** Temporarily raise the maximum rent ceilings for existing dwellings in the non-market segment provided by private investors to discourage sell-offs driven by unprofitable returns. Evaluate options to ensure housing associations charge cost-reflecting rents and ensure affordability by increasing means-tested rental allowances. Gradually reduce the mortgage rate tax relief while increasing imputed rental taxation on owner occupied housing.
Ensuring that housing supply is sufficient to meet demand	
Housing construction has been held back by a complex regulatory framework governing housing development, with bureaucratic delays stemming from overlapping planning processes, stringent zoning laws, and policies to reduce nitrogen depositions.	**Streamline the planning process by expanding the use of parallel planning, allowing infrastructure and housing development to run simultaneously.** Digitalise permitting to accelerate administrative processes.
Housing policies and planning spans over different levels of government. National objective of increasing housing construction is not always well aligned with incentives and capacities at lower levels of government. Municipalities bear much of the cost of connecting new developments with infrastructure and providing services to new residents, while not being compensated through the municipal fund. The government announced to provide municipalities with a financial bonus for each realised new construction.	Monitor and regularly review that the financial bonus for municipalities is sufficient to offset incurred cost of infrastructure development and service delivery. Strengthen capacity building programmes for municipalities.
Land speculation has contributed to inflating land prices, which increases the cost of construction and holds back housing development.	**Introduce a one-off levy on land value increases associated with administrative decisions to change land use, such those allowing for housing development.** Evaluate the introduction of a land value tax to incentivise development on underutilised land.
The construction sector faces severe labour shortages.	Use data-driven analysis to identify critical skill shortages in the construction sector and design targeted labour market policies to address them, such as training or improved job placement. Ease labour migration restrictions for construction workers, including eliminating the labour market test for sectors experiencing shortages.

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4 Preserving trade competitiveness amidst increasing global fragmentation

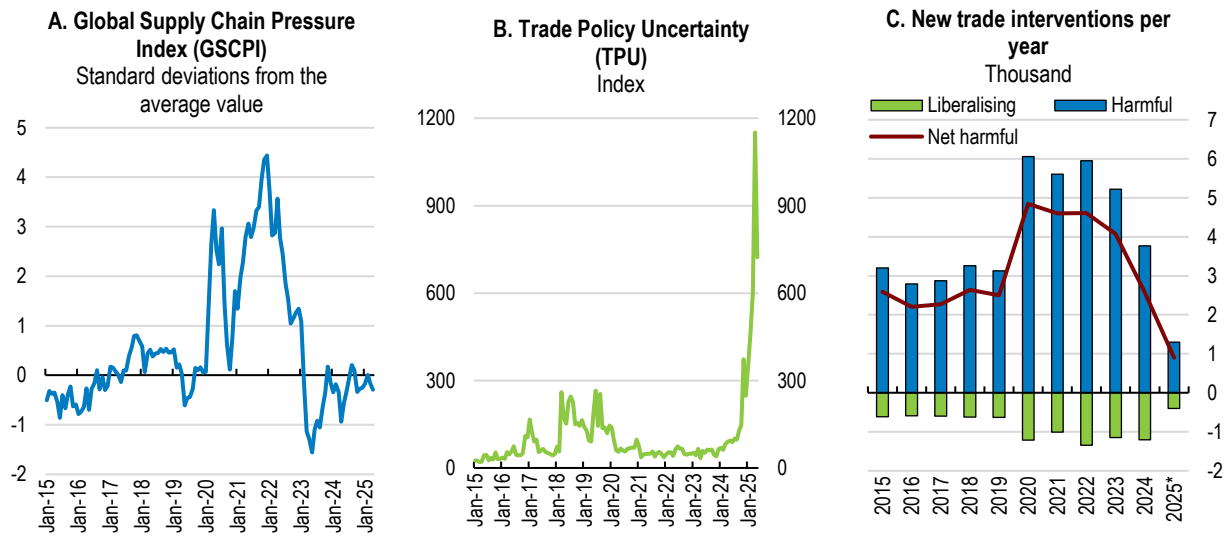
Daniela Glocker, OECD

The Netherlands is a highly open economy and deeply integrated into global value chains, owing to its strategic location as Europe's gateway, low regulatory burden on trade, and efficient border procedures. However, rising geopolitical tensions and a global shift towards protectionism present urgent challenges for the Dutch economy. This calls for strategies to enhance resilience by diversifying trade partners, lower trade costs, and boosting competitiveness through non-tariff measures. To strengthen resilience, the Netherlands must diversify and reduce the reliance on geographically concentrated critical raw materials, and strengthen domestic framework conditions to support competitiveness. Small and medium sized enterprises (SMEs) play an important role in domestic supply chains, innovation and productivity. However, administrative burdens, a rigid insolvency framework and financing constraints during critical growth phases have hindered their ability to enter and expand. Lacking digital skills amid a tight labour market further hamper businesses to reap competitiveness gains from digitalisation and adoption of new technologies. Addressing these challenges requires targeted policies to diversify trade, strengthen supply chains, and enhancing domestic competition through a lean regulatory environment, improved access to finance to encourage innovation and growth, and improving access to digital skills.

4.1. Adapting to a changing global trade landscape to remain competitive

The Netherlands is a small yet highly open economy and Europe's gateway for trade due to its strategic location and world class infrastructure. Historically, trade has been a cornerstone of its economy, driving innovation, productivity, and economic growth. From its dominance during the Dutch Golden Age to its central role in global value chains, the Netherlands has consistently leveraged trade to achieve one of the highest standards of living globally. However, its heavy reliance on international trade also exposes the economy to global fluctuations, geopolitical fragmentation and supply chain disruptions. The COVID-19 pandemic and Russia's war of aggression against Ukraine underscored these risks, putting pressure on global supply chains (Figure 4.1, Panel A) and highlighting the Netherlands' dependence on key suppliers for essential resources such as energy and raw materials.

Figure 4.1. Trade barriers and disruptions have increased globally



Note: In Panel A, GSCPI readings measure standard deviations from the index's historical average. In Panel B, the TPU index is derived from automated text searches across the digital archives of seven newspapers: The Boston Globe, Chicago Tribune, The Guardian, Los Angeles Times, The New York Times, The Wall Street Journal, and The Washington Post. It is calculated by determining the monthly proportion of articles that discuss trade policy uncertainty relative to the total number of published articles in each newspaper. The index is then standardized to a value of 100 for every one percent share of such articles. Latest data is preliminary. In Panel C, liberalising and harmful interventions are considered according to the relative treatment of foreign versus domestic commercial interests, including both tariff and non-tariff measures. Reporting lags understate the total for recent years. *2025 refers to trade interventions implemented until 28 May 2025.

Source: Federal Reserve Bank of New York; Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2020[1]), "The Economic Effects of Trade Policy Uncertainty," Journal of Monetary Economics, 109, pp.38-59; and Global Trade Alert Global Dynamics (database).

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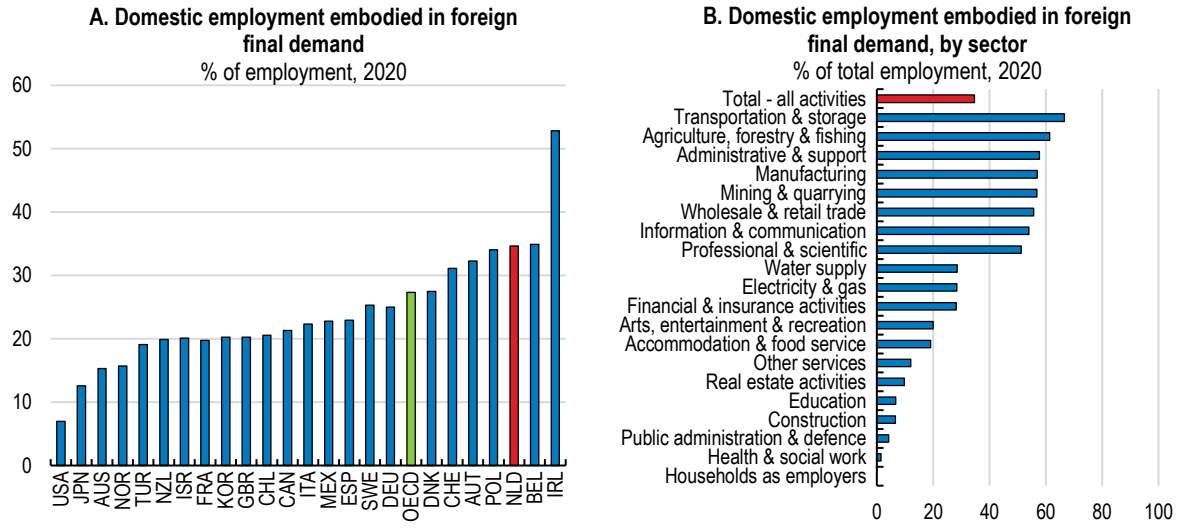
Looking ahead, the Netherlands must navigate an increasingly complex global landscape. Trade policy uncertainty has risen sharply since the beginning of 2025 (Figure 4.1, Panel B) amidst geopolitical fragmentation, and on the back of shifting trade alliances and rising trade protectionism (Figure 4.1, Panel C). As reflected in Chapter 1, recently imposed tariffs could not only affect the Dutch economy directly through weaker external demand, but also indirectly as higher costs are passed through the value chain, calling for strategies to enhance resilience by diversifying trade partners, lower trade costs, and boosting competitiveness through non-tariff measures. Trade is also evolving due to the green and digital transitions, requiring businesses to reduce carbon emissions, integrate circular economy practices and adopt new technologies to maintain competitive. Additionally, supply chain vulnerabilities have come to the forefront, particularly for critical raw materials and digital infrastructure components that are geographically concentrated and for which global demand is intensifying. Domestically, the Netherlands faces widespread and persistent labour shortages and an ageing population, which are pushing up labour costs and constraining business expansion (Chapter 1). The challenge of transitioning to a low carbon economy further increases production costs, particularly for the Netherlands' emission intensive industries, which are critical for exports but face rising carbon pricing under the EU Emissions Trading System (EU-ETS). Addressing these challenges is essential to maintain the Netherlands' trade competitiveness in the coming years.

Trade remains a fundamental pillar of the Dutch economy, with earnings from exports of goods and services accounting for more than a third of domestic GDP (Statistics Netherlands, 2024[2]). Dutch trade activities support a substantial number of jobs across various industries (Figure 4.2, Panel A), particularly in logistics, manufacturing, and services (Figure 4.2, Panel B), as well as contribute to broader economic spill-overs by boosting competition, fostering innovation and enhancing efficiency. Trade opens access to foreign markets, allowing firms to specialise in high-value production segments, enhancing productivity. At the same time, trade improves consumer welfare by offering a wider variety of goods at competitive prices. Openness to trade and strong integration into value chains have enabled the Netherlands to consistently rank among the most prosperous economies, benefiting from economies of scale, technological exchange, and availability of diverse products and services. However, in a rapidly changing global trade landscape, securing these advantages requires a proactive approach to strengthen economic resilience and maintain international competitiveness.

Figure 4.2. Exports are a significant source of employment



Note: In Panel B, values refer to within sector shares.
Source: OECD Trade in Employment (TiM) 2023 edition (database).

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This chapter provides a comprehensive analysis of the Netherlands' trade performance, with a focus on its integration into global value chains, supply chain dependencies, and the challenges posed by emerging trade trends. It aims to propose actionable policy measures to enhance the Netherlands' trade competitiveness. While trade policy falls under the responsibility of the European Union, the Dutch government can strengthen competitiveness and thereby trade by ensuring robust domestic framework conditions that promote competition and innovation. The chapter starts by examining the Netherlands' trade and investment performance and integration into global value chains. It then discusses policies to strengthen supply chain resilience, diversify trade and export markets, leverage digitalisation for trade, and improve the business environment to boost innovation, and address labour market constraints and developing talent to increase digitalisation. By adopting a forward-looking strategy that strengthens productivity, enhancing investments in innovation, digitalisation, education and leveraging artificial intelligence, the Netherlands can reinforce its position as a global trade leader while safeguarding its economic prosperity.

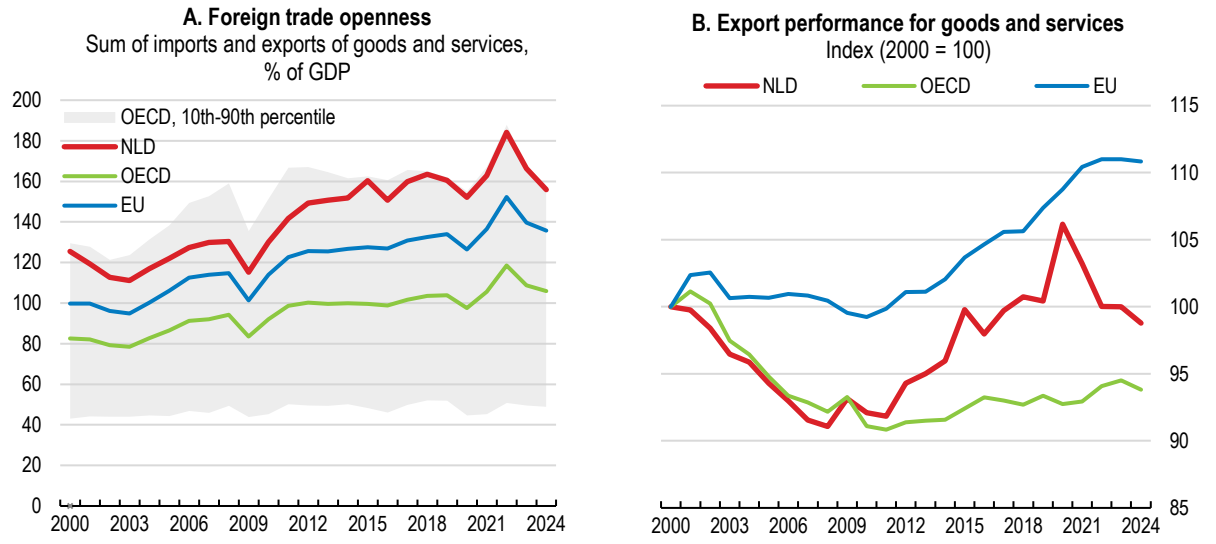
4.2. The Netherlands' competitiveness is underpinned by its open economy

The Netherlands consistently ranks among the most open economies globally, with trade and capital flows playing a critical role in its economic success. This high openness is underpinned by its strategic location, low regulatory burden to facilitate trade, and deep integration into global value chains. However, a high openness and deep integration into global markets expose the Dutch economy to risks from supply chain disruptions and increasing protectionism.

4.2.1. Trade openness shapes economic performance

Over the past decades, the Netherlands has experienced a significant increase in the trade of goods and services. In 2024, the value of exports and imports were at an impressive 159% of GDP, far exceeding the OECD average of 106% and the OECD EU average of 136% of GDP (Figure 4.3, Panel A). The Netherlands' increasing trade openness since the early 2000s has been fuelled by growth in global trade on the back of advancements in transport and communication technologies, alongside considerable trade liberalisation efforts (Franco-Bedoya and Frohm, 2021[3]). Lower trade costs have enabled the development of global value chains (GVC), which have played a pivotal role in the country's economic growth. Participation in GVCs has enhanced productivity, spurred investment, and boosted income per capita (Ignatenko, Raei and Mircheva, 2019[4]; André and Gal, 2024[5]), contributing to the Netherlands' high standard of living. However, despite its strong position as a global trade hub, the country's export performance has declined in the past few years (Figure 4.3, Panel B). This development is not only mirroring a slowdown in the global economy (OECD, 2025[6]; 2024[7]), but also reflects domestic challenges such as labour market constraints (Chapter 1), skill mismatches, and low business dynamism (discussed below).

Figure 4.3. The Netherlands is highly open to trade



Note: OECD is a simple average across OECD countries and EU is a simple average across OECD EU member countries. In panel B, export performance is calculated by comparing the growth of a country's export volumes with that of its export market. This shows whether the country's exports grow faster or slower than its market, i.e. if over time it is experiencing market share gains or losses.
Source: OECD National Accounts (database).

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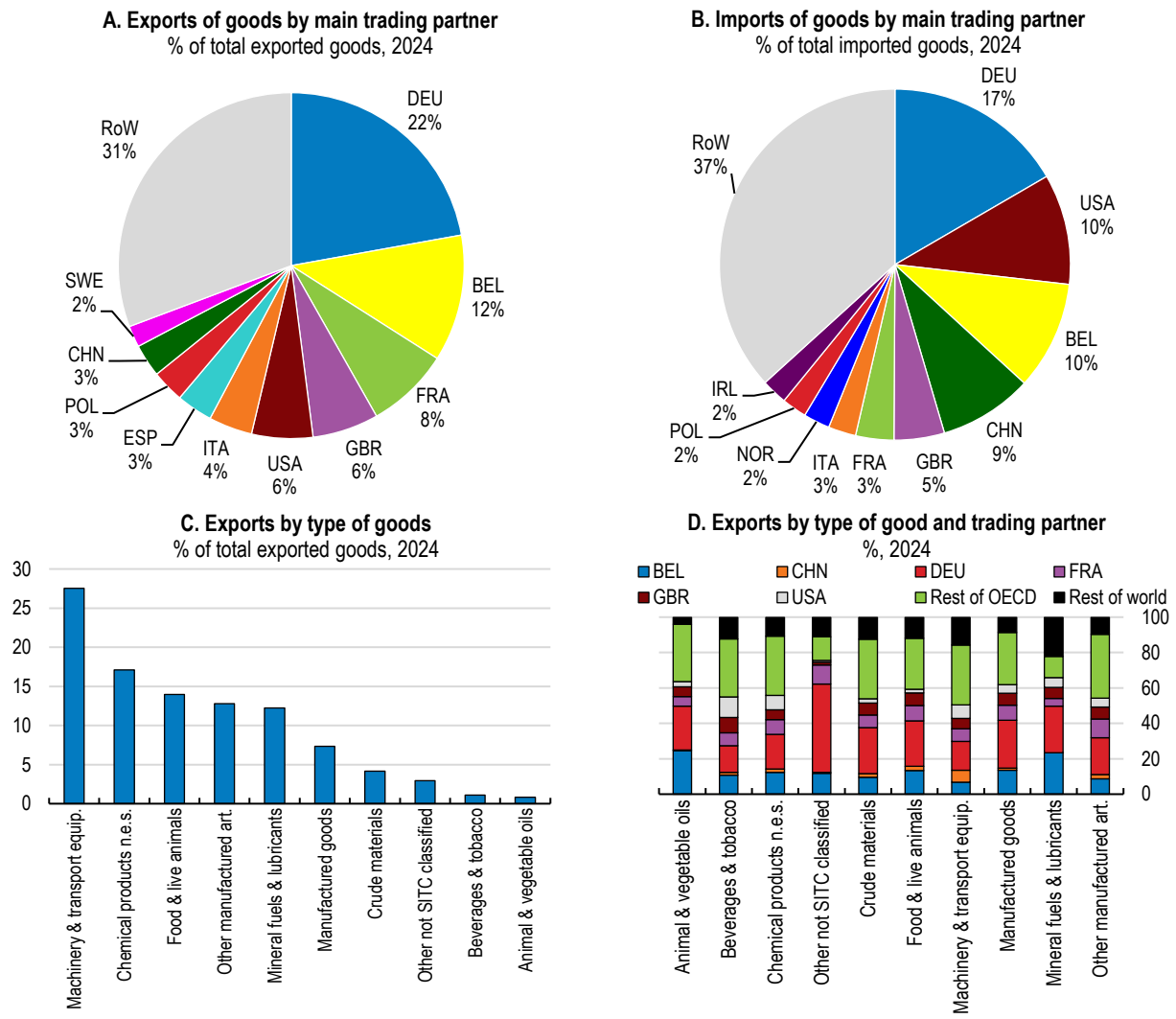
The Netherlands' trade network is heavily concentrated within the European Union, with 70% of exports going to and 42% of imports coming from EU countries in 2024. Germany, the Netherlands' largest trading partner, accounts for significant trade in machinery, chemicals and automotive products, while Belgium and France are also key partners (Figure 4.4). Despite its departure from the European Union Single Market, the United Kingdom remains an important trading partner, particularly for refined petroleum, broadcasting equipment and medicinal and pharmaceutical products. Agricultural products contribute about 14% of Dutch goods exports, with about two-thirds going to other EU countries and the United Kingdom, highlighting not only the Netherlands' global importance as key agricultural supplier but also manifests the country's importance in ensuring food security.

Outside the European Union, the United States and China are key partners for the Netherlands. The United States accounts for 6% of Dutch goods exports, while China accounts for 3%, with trade largely concentrated in high value goods. About 2.1% of total Dutch good exports is machinery to the United States and about 1.9% to China, while chemical products account for 1.4% and 0.3%, respectively. The Netherlands' reliance on imports of natural liquified gas (LNG) from the United States, which increased significantly from 8.5% to 10.4% of imports in 2023, highlights the evolving trade landscape following Russia's invasion of Ukraine. Imports from China, primarily of electronics and consumer goods, demonstrate the interconnectedness of the Netherlands with global supply chains (Statistics Netherlands, 2024[2]).

Figure 4.4. Key trading partners are located within the European Union



Source: UN Comtrade (database).

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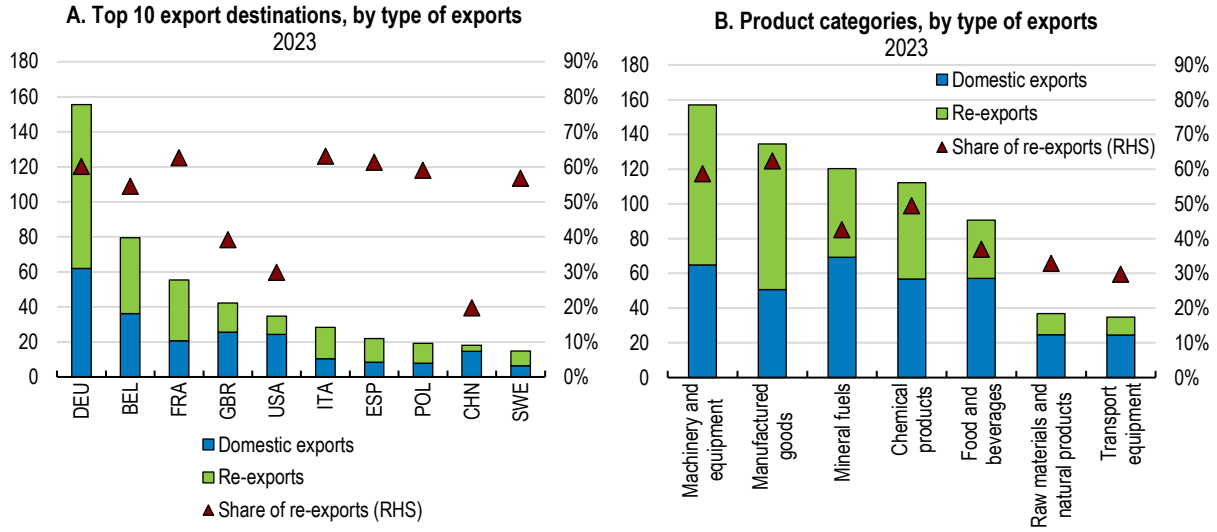
A large part of Dutch goods export consists of low value-added re-exports, where the goods have been imported by a person or company established in the Netherlands and are exported without significant processing. In 2023, about 49% of total exports were re-exports with most of them destined to EU member states (Statistics Netherlands, 2024[2]). Particularly to close neighbours like Germany, France and Belgium the shares of re-exports are high, at 60%, 63% and 55%, respectively, highlighting the Netherlands' function as a European trade hub (Figure 4.5, Panel A; Box 4.1). A large part of re-exports are machinery and equipment (59%), and manufactured goods (62%) (Figure 4.5, Panel B). Typical products are computers, telephones and laptops, clothing and various consumer articles, which are imported from countries such as China and the United States. As these products do not undergo significant processing, the value added from re-exported goods is significantly lower (EUR 0.11 per euro of exports) than for domestic goods exports (EUR 0.53) or services exports (EUR 0.64) (Statistics Netherlands, 2024[2]).

Figure 4.5. Re-exports to EU member countries are large



Source: CBS (2024), Dutch Trade in Facts and Figures 2024.

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Trade in services plays an increasing role for the Dutch economy. Between 1995 and 2022, the contribution of service exports to Dutch GDP almost doubled from 7% to almost 14%. By contrast, domestic goods accounted for about 17% of GDP and re-exports about 4% of GDP in 2022 (Statistics Netherlands, 2024[2]). Key partners in services trade include the United States, Germany, United Kingdom, Ireland and France, with most imports and exports in business services, transport services, and telecommunications, computer and information services. Of all globally exported services, the Netherlands contributed 3.8% making it the ninth-largest services exporter in the world. Similarly, the Netherlands is also a significant consumer of international services (Statistics Netherlands, 2024[2]). In 2022, the country imported 4% of all globally imported services, making it the seventh-largest services importer in the world by value, favoured by low regulatory burden as captured by the OECD Services Trade Restrictiveness Index (OECD, 2024[8]).

Box 4.1. The Port of Rotterdam – A strategic trade hub for the Netherlands and European Union

The Port of Rotterdam is the largest seaport in Europe and a critical gateway for international trade. Handling over 435 million tonnes of cargo in 2024, it functions as a primary entry and exit point for goods not only to and from the Netherlands, but also for much of continental Europe, particularly Germany, Belgium, and northern France (Port of Rotterdam, 2025[9]).

As a deep-sea port with excellent hinterland connectivity via rail, road, and inland waterways, Rotterdam serves as a central logistics and transshipment hub. Almost 30% of all EU container traffic passes through the port (European Commission, 2024[10]), and it is integrated into key Trans-European Transport Network (TEN-T) corridors, including the Rhine-Alpine corridor. This connectivity is vital for maintaining efficient and sustainable supply chains across the European Union.

Economic Role:

- In 2024, the direct added value of the Rotterdam port has been EUR 18.6 billion. Also including indirect added value, the Rotterdam port contributed EUR 29.6 billion, about 2.9% of GDP. The Rotterdam port offers direct and indirect employment to 192 364 employees (Port of Rotterdam, 2025[9]).
- The port plays a crucial role in supporting industries such as petrochemicals, agriculture, and manufacturing, both domestically and across the European Union (Port of Rotterdam, 2025[9]).
- Enables access to global markets, especially for bulk goods, energy products, and industrial inputs (Port of Rotterdam, 2025[9]), enhancing the competitiveness of European industries.

Implications for Trade Statistics:

Rotterdam's role as a transshipment hub introduces statistical complexity in interpreting national and EU trade data. Known as the "Rotterdam Effect", Dutch trade statistics often overrepresent Dutch exports and imports because goods transiting through Rotterdam may be registered in Dutch trade figures—even if they are destined for or originate in other EU countries. This statistical distortion affects bilateral trade balances and can inflate Dutch trade volumes, making it important for analysts to distinguish between gross flows and final destinations or origins. The OECD recommends using corrected trade data to account for these flows (OECD, 2023[11]).

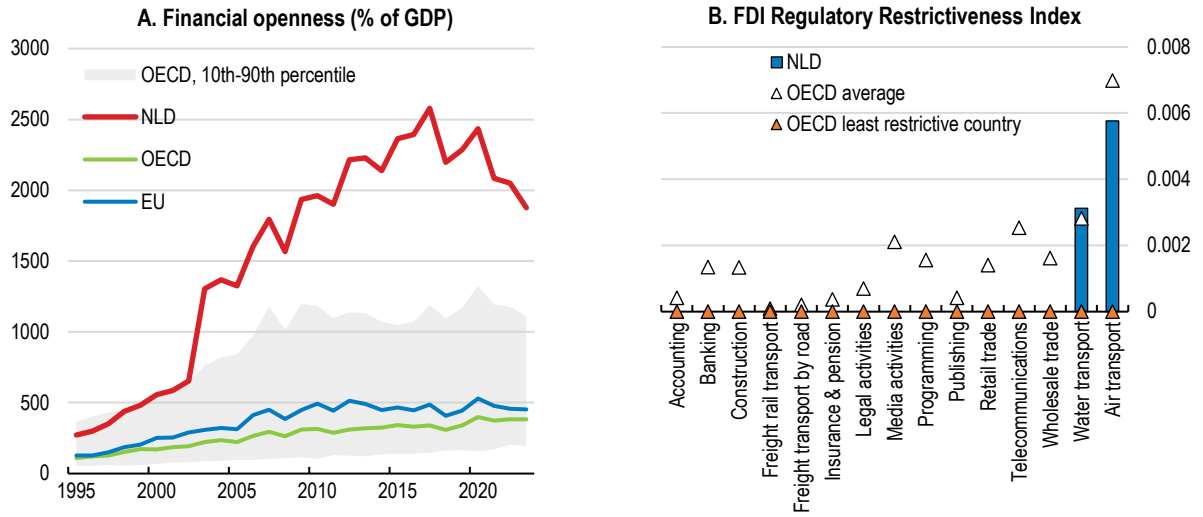
Source: Port of Rotterdam (2025[9]), European Commission (2024[10]), OECD (2023[11]).

4.2.2. A strategic hub for capital and foreign direct investment

The Netherlands is a key financial centre and investment hub in Europe. External assets and liabilities stood at about 1800% of GDP in 2023 (Figure 4.6, Panel A), the third highest among OECD countries. The country has one of the largest pension systems in the world relative to GDP, is a key international location for insurance companies and hosts some of the world's largest commodity trading companies.

Foreign direct investment (FDI) assets and liabilities contribute strongly to the country's financial openness. Despite a drop in foreign direct investment flows in 2023, likely due to the introduction of the global minimum tax of 15% on the profits of multinationals (Chapter 1), inward and outward FDI stocks stood at 241% and 288% of Dutch GDP, respectively. The Netherlands is therefore placed second in the world with respect to its FDI outward and fourth with respect to its FDI inward position (OECD, 2024[12]). The United States and the United Kingdom are key investment partners, with the Netherlands investing about 10% and 14% of total direct investment in the two countries, respectively. Inflows are even larger, with direct investments from the United States (21%) and the United Kingdom (18%) indicating a strong FDI inward partner concentration (European Commission, 2024[13]; DNB, 2024[14]; DNB, 2024[15]). This warrants continuous monitoring as an economic downturn or policy shifts in one of those partner countries could lead to a sudden withdrawal or reduction of investment with negative consequences for the Dutch economy.

Figure 4.6. The Netherlands' financial openness is supported by lean regulations on FDI



Note: Panel A: Financial openness is measured as financial assets and liabilities as % of GDP. OECD refers to the median of OECD member countries and EU is the median across OECD EU member countries. Panel B: OECD FDI Regulatory Restrictiveness Index (FDIRRI) by sector, from 0 ("fully open to FDI") to 1 ("fully closed") for 2023.
Source: External Wealth of Nations (database); and OECD FDI Regulatory Restrictiveness Index (FDIRRI) (database).

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The Netherlands' international investment position has been supported by its central location, good infrastructure, highly educated workforce, a stable legal system, and a lean regulatory stance towards FDI (Figure 4.6, Panel B) that have attracted multinational enterprises (Statistics Netherlands, 2024[2]). Nevertheless, FDI faces challenges in the current geopolitical climate, with increased scrutiny, particularly in knowledge sensitive sectors like semiconductors, that could deter inflows.

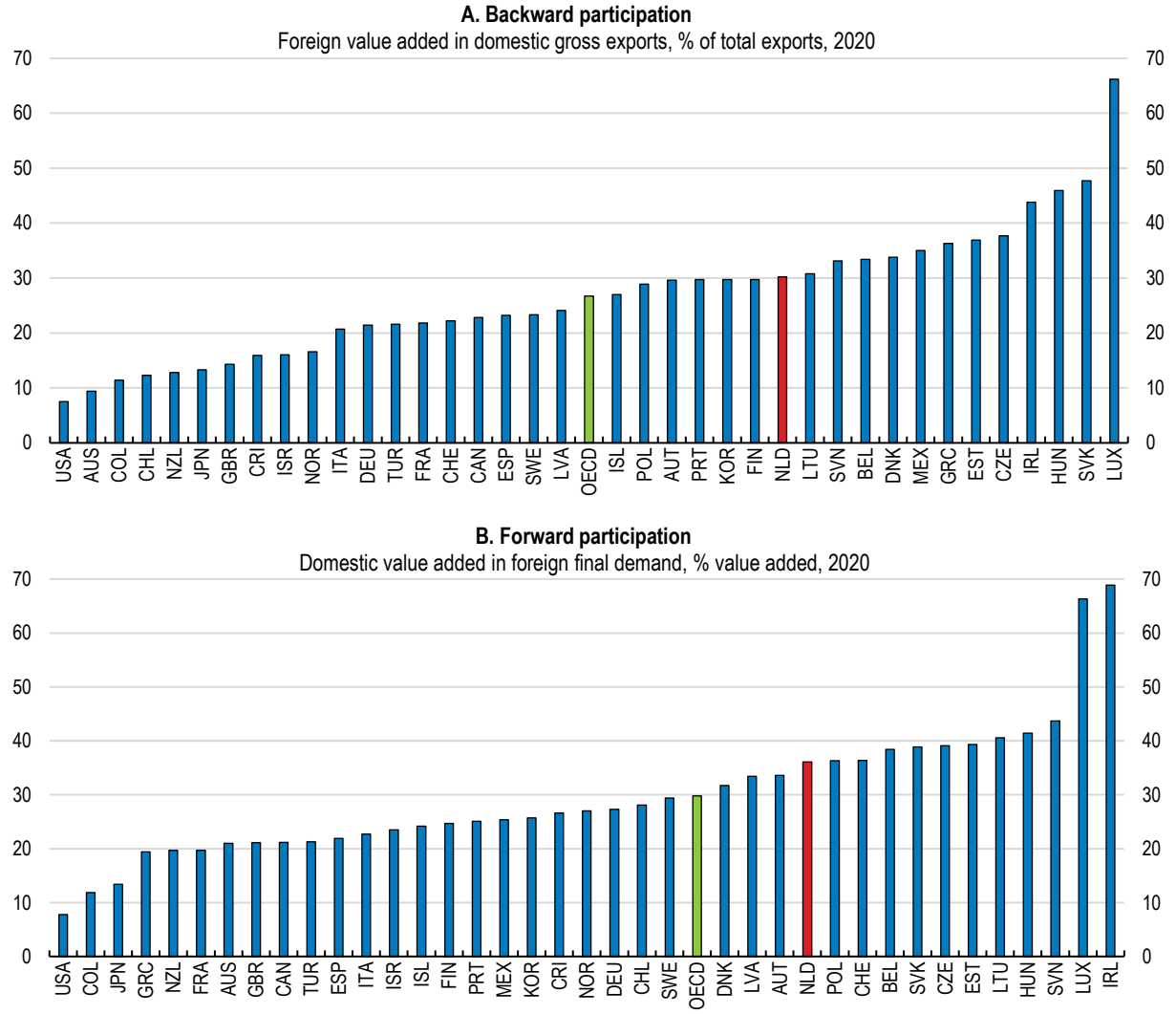
While the Netherlands remains broadly welcoming towards greenfield investment, tighter investment-screening rules and increased regional scrutiny of non-EU inflows reflect a more interventionist approach due to concerns over intellectual property leakage. In June 2023, the Security Assessment (VIFO) Act, which implements EU investment screening regulations, came into effect. This legislation covers most investments and acquisitions involving Dutch-domiciled firms, namely when controlling a stake 10% or more in companies with "very sensitive technologies", having a controlling stake in "vital suppliers", or in companies involving "sensitive technologies". In late 2024, the Dutch government has additionally announced plans to further expand its investment screening regulations to include artificial intelligence and biotechnology to safeguard knowledge security and leveraging the VIFO Act to prevent undesirable investments, mergers and acquisitions. It is important that new legislation on FDI remains narrow in scope and carefully balances the need for economic efficiency and national security needs. Misplaced impediments can curtail investments, dampen productivity growth, and ultimately undermine resilience.

4.2.3. Strong global value chain integration contributes to competitiveness

The Netherlands is highly integrated into global value chains, with strong backward and forward linkages that enhance its trade competitiveness. Access to foreign markets exposes Dutch companies to greater competition, fostering innovation and efficiency. Additionally, importing immediate goods and services enables firms to specialise in high-value segments of production, a key driver of productivity growth. Since 2000, the Netherlands has significantly increased its backward participation in GVCs, with the share of foreign content in its exports rising from 25% to 30% in 2020, above the OECD average of 26.7% (Figure 4.7, Panel A). Forward linkages are also high in international comparison, with 36% of the Netherlands' domestic value added driven by foreign final demand, compared to the OECD average of 29.8% (Figure 4.7, Panel B). The Dutch economy has also experienced a notable shift towards services within GVCs for manufactured goods. Services, such as research and development, logistics, and marketing, are playing a growing role in the production and export of manufactured products (Wache et al.,

2024[16]). These trends reflect the evolving nature of the Netherlands' participation in global trade, underscoring the increasing importance of services in driving economic value.

Figure 4.7. The Netherlands is deeply integrated into GVCs



Note: Backward participation is the foreign value added embodied in a country's exports as a share of this country's total exports. Forward participation is the domestic value added driven by foreign final demand. Data does not account for re-exports.
Source: OECD Trade in Value Added (TiVa) 2023 edition (database).

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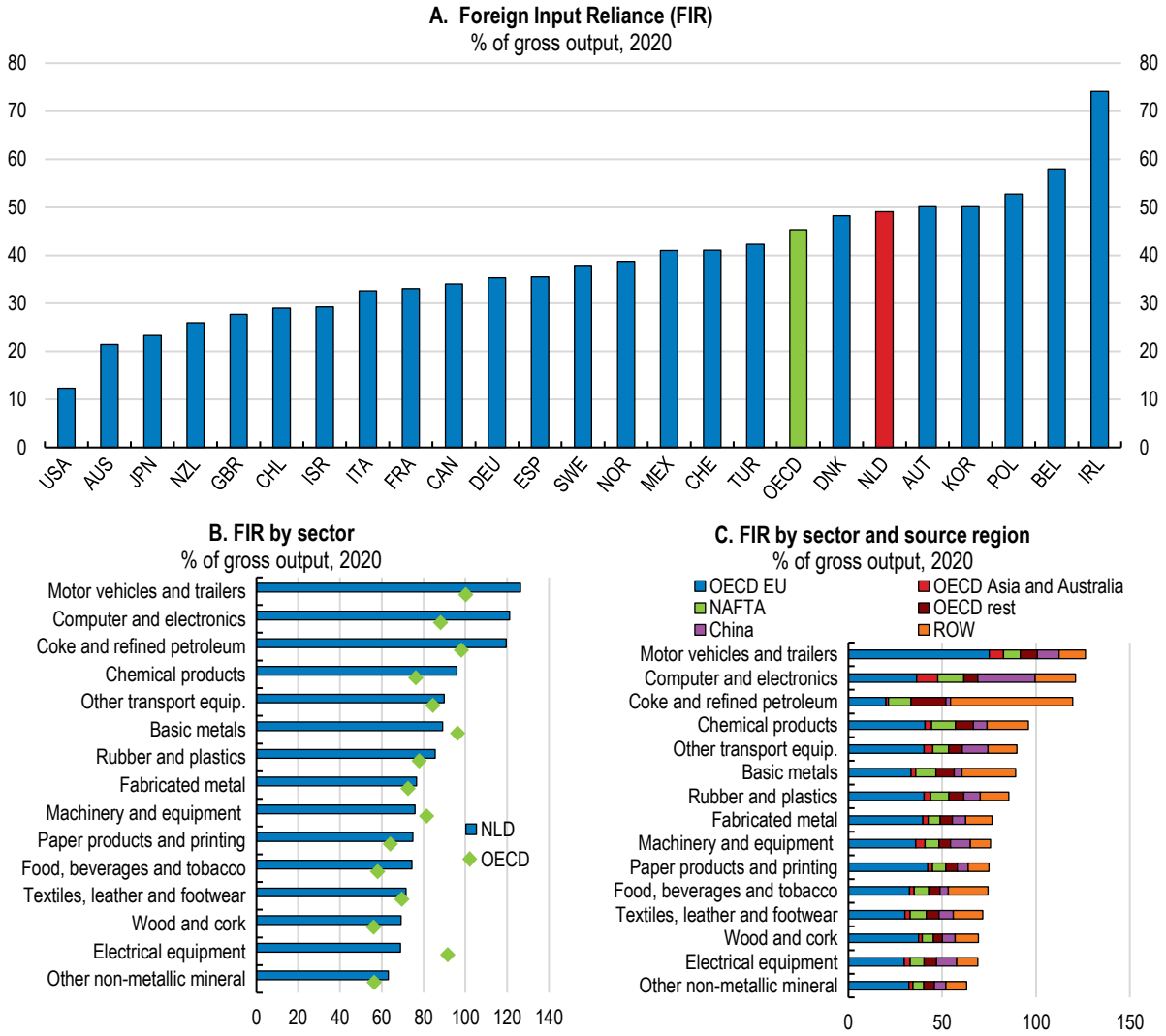
The Netherlands' critical role in global production networks is highlighted by its reliance on imported components and raw materials for its manufacturing activities, which is higher than the OECD average (Figure 4.8, Panel A and B). The manufacturing sectors most dependent on foreign inputs are motor vehicles, computer, electronic and ICT, coke and refined petroleum, chemicals, and other transport equipment (Figure 4.8, Panel B). A significant portion of these inputs is sourced from suppliers within the European Union, alongside contributions from other OECD member countries (Figure 4.8, Panel C). However, there are two notable exceptions. The manufacture of computer, electronic and ICT relies heavily on inputs from China, while coke and refined petroleum largely depended on Russia in 2020. Before Russia's invasion of Ukraine, it was the Netherlands' largest supplier of natural gas, accounting for around 20% of the country's energy imports. By the end of 2023, this share had fallen to below 5% as the Netherlands diversified its energy sources, turning to suppliers like the United States for liquefied natural gas (LNG) and Norway for pipeline gas (Statistics Netherlands, 2024[2]).

Figure 4.8. The Netherlands strongly relies on foreign inputs for its production



Note: The FIR is an import side measure that can be interpreted as the share of total domestic output exposed to upstream foreign disruptions in GVCs, accounting for the size of direct and indirect exposure to a partner in the value chain; and the distance to this partner in the value chain. As it is a gross trade indicator, meaning that the intermediate inputs sourced from a specific partner country may be counted more than once when goods or services cross borders multiple times, the FIR can take values greater than 100%. Panel C: OECD EU refers to the 22 OECD EU countries, OECD Asia and Australia refers to Australia, Japan, Korea, and New Zealand; NAFTA refers to USA, Canada, and Mexico.
Source: OECD (2024), Gross Output Flows in Global Value Chains.

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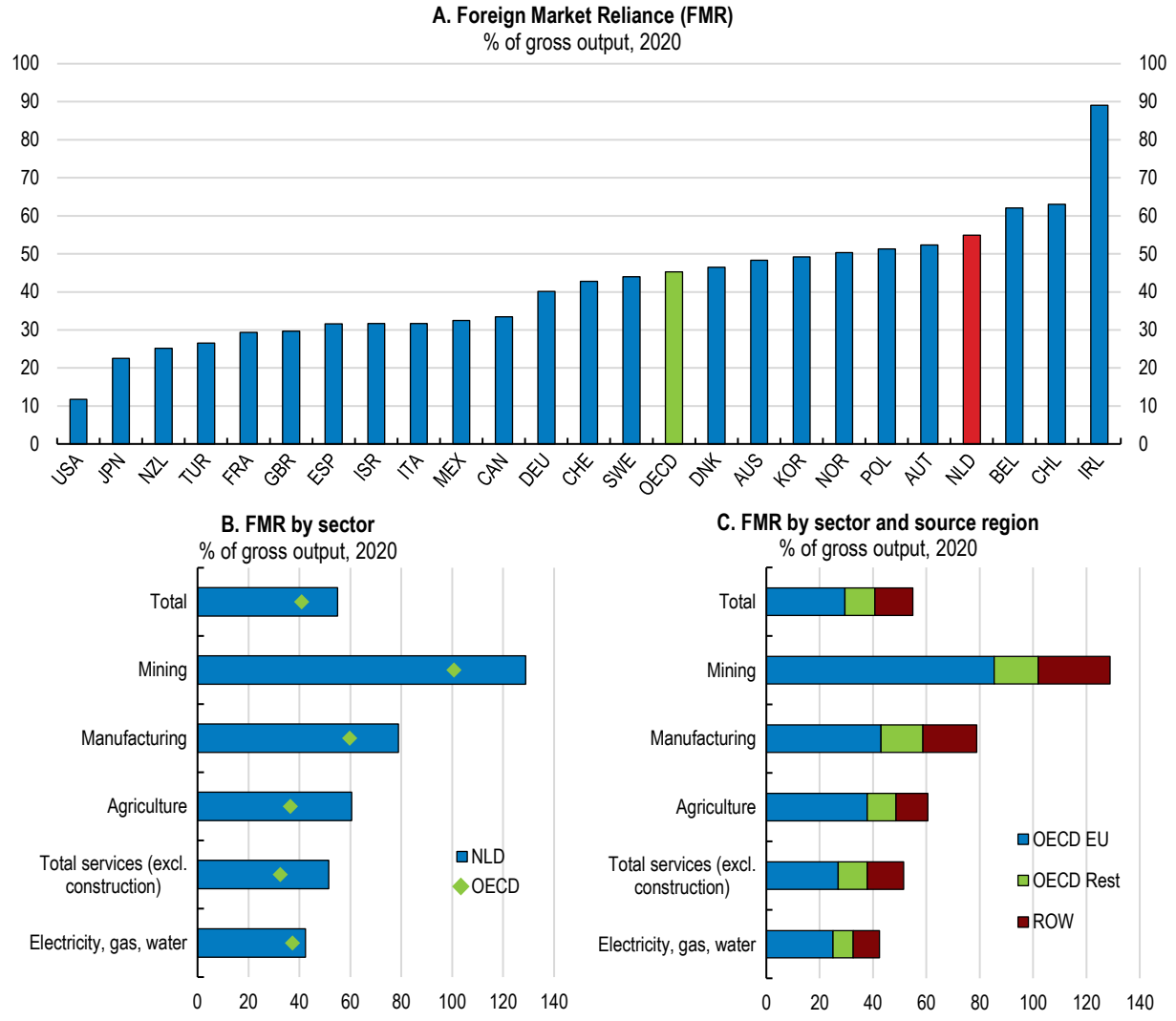
Given its small domestic market, the Netherlands relies more heavily on foreign markets than most OECD economies (Figure 4.9, Panel A). Approximately one-third of the country's GDP is earned through exports (Statistics Netherlands, 2024[2]), making the Dutch economy particularly sensitive to fluctuations in global demand and economic uncertainties, as seen in recent years (Chapter 1). Reliance on foreign markets is especially pronounced in the mining, manufacturing and the agricultural sector, with key export destinations concentrated in the European Union (Figure 4.9, Panel B and C). Structural shifts in demand within key markets could reverberate through global value chains and affect the Dutch economy, emphasising the need for careful monitoring. For instance, recent OECD research (Smith, Huang and Dlugosch, 2024[17]) highlights that population ageing, a challenge not only for the Netherlands' production capacity, but also for key trading partners such as Germany, could negatively affect Dutch exports. Mitigating these risks requires robust contingency planning and diversification of export markets.

Figure 4.9. The Netherlands relies more on foreign markets than most OECD countries



Note: The FMR is an export side measure that can be interpreted as the share of total domestic output exposed to downstream foreign disruptions in GVCs accounting for the size of direct and indirect exposure to a partner in the value chain; and the distance to this partner in the value chain. As it is a gross trade indicator, meaning that the intermediate inputs sourced from a specific partner country may be counted more than once when goods or services cross borders multiple times, the FMR can take values greater than 100%.
Source: OECD (2024), Gross Output Flows in Global Value Chains.

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The Netherlands' strong integration into global value chains increases its economic vulnerability to external factors. Supply chain disruptions, whether due to geopolitical tensions, natural disasters, or global pandemics, can cascade through these chains, causing delays in production, increasing costs, and leading to potential loss of market share. The Dutch National Bank (Bolt et al., 2023[18]) explored the risks of global value chain disruptions, finding that a negative trade shock in form of higher non-tariff trade barriers between the United States, the European Union and the Rest of the World, would not only lead to a fall in Dutch exports by a maximum of almost 4% and imports by nearly 10%, but also decrease GDP by about 1.7% in the medium-term, while inflation would go up, driven by higher trade and production costs. The Netherlands is more exposed to trade shocks than the average European Union country due to its high openness, and while simulation models of unilateral trade shocks also indicate that the source country of the unilateral action would be negatively affected (Box 4.2), strategies to reduce exposure are needed, especially in the context of rapidly rising trade protectionism and tensions.

Box 4.2. The Dutch economy is highly exposed to trade shocks – An overview of different scenario analyses

United States introduction of 10% universal import tariff

Research modelling the economic impact of potential US import tariffs, including a general 10% and sector-specific increases, on the Netherlands and the European Union have been found to have modest direct effects on the Dutch Economy with a total reduction of trade of about 1% (Boeters and Meijerink, 2024[19]). Certain sectors in manufacturing are however more exposed. For instance, machinery, electronics, and vehicles face export declines of 5-6% each. By contrast, the Dutch services sector benefits from improved international competitiveness as US service costs rise.

At the EU level, similar trends emerge: manufacturing sectors like vehicles and pharmaceuticals experience losses, while services gain. Trade flows within the EU and to other regions are expected to partially offset reduced exports to the United States. Nevertheless, simulating retaliatory measures by the EU, such as a matching 10% tariff, is estimated to have limited additional impact but could escalate trade tensions.

For the United States, the tariffs are projected to boost domestic production in key sectors like vehicles and textiles. However, these gains are counterbalanced by higher consumer prices and reduced competitiveness, particularly in services. The overall economic benefit to the U.S. is marginal (+0.2% real output), and efficiency losses are estimated to be significant.

A 25% reduction of trade between EU members and China

The Netherland Bureau for Economic Policy Analysis in conjunction with Statistics Netherlands studied China's economic interwovenness with the EU and the Netherlands using a combination of approaches (Freeman et al., 2022[20]). Using an international input output analysis with a nonlinear optimisation framework to allow for industry response, they measured the degree of Dutch-China dependency using a potential impact factor (PIF) which measures the change in gross production (output) of an industry relative to the size of the shock — which was assumed to be a 25% reduction in trade between the EU Members and China. For the Netherlands, the estimated potential impact factor was estimated to be around one, meaning that a 25% reduction in trade between the EU and China would lead to a 25% reduction in production, though the effect would vary across sectors.

A 10% reduction of trade between OECD and emerging non-OECD economies

Recent OECD work by Arriola et al (2024[21]) has modelled the impact of a scenario of a 10% reduction of trade between OECD and emerging non-OECD economies (MNOEs) on the Dutch economy. While the Netherlands would be stronger affected than the EU average, with a decline in GDP of about 0.6% compared to a decline of about 0.5% at EU average, the effect is moderate compared to OECD countries hit most. Thus, under the same scenario, Korea would see a decline in its GDP of about 1.4%, Australia of 1.2% and Japan of 0.6%. The Netherlands' reduction in GDP is mainly driven by a decrease in trade with China, with whom it has strong trade linkages. However, because of strong interconnectedness, the model also shows that the impact of the trade shock is more pronounced for MNOEs than for OECD countries, indicating that MNOEs are more economically dependent on trade with the OECD countries than the other way around (Arriola et al., 2024[21]).

Source: Boeters and Meijerink (2024[19]), Freeman et al (2022[20]), Arriola et al (2024[21]).

4.3. Making supply chains more resilient

The Netherlands' strong integration into global value chains exposes its economy to vulnerabilities, especially from external dependencies and supply chain disruptions. While businesses themselves are usually well-placed to assess the risk in their individual operations, they can overlook the broader consequences of their actions on the overall economy and society (Acemoglu et al., 2012[22]). Particularly in areas of strategic national interest, there is scope for the Dutch government to strengthen its multipronged strategy including developing robust monitoring systems, mitigating dependences on raw materials and fossil fuels, and supporting diversification of trade partners.

4.3.1. Strategies to mitigate supply chain risks can be strengthened further

The Dutch government has developed several strategies to improve the resilience of its supply chains, particularly in response to risks associated with natural resource dependencies, economic shifts, and global disruptions. Notably, in 2022, the government initiated a task force to explore strategic dependencies and identify potential policy solutions to mitigate risks from critical dependencies (Ministry of Economic Affaires and Climate Policy, Ministry of Foreign Affaires, Ministry for Foreign Trade and Development Cooperation, 2023[23]). The task force highlighted the need for early intervention, with a strong focus on the identification and monitoring of high-risk dependencies, as well as measures to reduce resource dependencies through the National Raw Materials Strategy (see below). Moreover, the taskforce highlighted that businesses should have the primary responsibility to mitigate risks in their supply chains, in line with the OECD policy toolkit on resilient supply chains (Box 4.3), in order to avoid unnecessary and costly state intervention. It is welcome that private-sector forums and stakeholder consultations are in place to facilitate knowledge sharing and risk management, particularly for SMEs that lack the capacity to independently address supply chain risks. Building on these initiatives, the Netherlands should further strengthen policies to anticipate risks and minimise exposure to shocks as discussed below.

Box 4.3. Increasing supply chain resilience - The OECD policy toolkit

Modern supply chains face increasing disruption from factors like geopolitical conflicts, natural disasters, and cyber threats. To address these risks, governments and private sectors are implementing strategies to boost resilience. Key strategies include:

- **Risk anticipation**: Governments are encouraged to use risk assessment and early warning systems to understand and prepare for potential disruptions. This includes scenario planning and data-driven analyses to predict and mitigate impacts from different types of shocks. Supply chain due diligence, in line with OECD standards on Responsible Business Conduct, can further help unlock responsible, reliable and diversified global supply chains.
- **Minimise exposure to shocks**: Investment in critical infrastructure (both physical and digital) enhances resilience by supporting uninterrupted flows of goods and services. Streamlined regulations and trade facilitation practices can further help to minimise disruption.
- **Public-private partnerships**: Governments can play a supportive role by fostering trust and collaboration with the private sector. Frameworks for information sharing through platforms and preparedness conferences are recommended to ensure faster and more effective responses. Working closely with the private sector to design efficient stockpiling systems and co-ordinating selective stockpiling on international or regional levels could be considered.
- **Strengthen international co-operation**: Maintaining open markets, regulatory harmonisation, and transparent trade policies is vital for resilient global supply chains. Agreements and collaborations, such as those facilitated by the WTO, help countries align on standards and co-ordinate crisis responses.

Notes: OECD standards on Responsible Business Conduct include: The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct and the OECD Due Diligence Guidance for Responsible Business Conduct, as well sectoral due diligence guidance for the minerals, agriculture, financial and garment and footwear sectors.
Source: OECD (2024[24]).

4.3.2. Enhancing monitoring of high-risk dependencies in supply chains

Dependencies are not inherently problematic, as mutual dependencies are the foundation of the global trade system. They foster specialisation, drive innovation, keep products affordable, facilitate the exchange of scientific knowledge and enhance purchasing power. However, strategic dependencies can pose significant vulnerabilities when they affect critical sectors that underpin national interests, such as healthcare, energy and security. Recent global events that have disrupted international markets and supply chains have heightened concerns about supply chain resilience and the risks transmitted through international trade linkages. In the context of growing geopolitical fragmentation and the potential reduction in trade linkages underscores the need for robust monitoring systems. These systems should identify trade linkages and dependencies that could have adverse economic effects if disrupted (Arriola et al., 2024[21]), allowing for early intervention.

The Netherlands developed the national 2023 Geo-Economic Monitor (Bijlsma et al., 2022[25]) to assess trade dependencies and related economic vulnerabilities. This is a key step forward allowing policy makers to better identify high-risk sectors and develop mitigation strategies. The monitor has identified 21 product groups in which the Netherlands has a strategic dependency on a non-EU country, and 11 product groups in which a possible strategic dependency exists. According to the monitor, China plays a crucial role in supplying antibiotics, rare earth materials, and digital components, which are essential for healthcare, food security and the digital transition. Similarly, the United States is identified as a key supplier of defence-related technologies, critical to national security.

The government should continue to enhance data collection and regularly update the monitor to identify emerging vulnerabilities in supply chains. The 2023 Geo-Economic Monitor faces several data limitations. An effective monitoring system for supply chain vulnerabilities should leverage all available data sources, acknowledging their respective strengths and limitations, and facilitate information-sharing between private and public sector stakeholders to address emerging challenges. Timely private-sector data can track developments in near real-time, while global input-output tables can provide insights into sectoral interlinkages across the global economy. Harmonised international trade statistics, on the other hand, offer a detailed view of vulnerabilities at the product level. However, private-sector data often lack consistent statistical classifications, making it challenging to align with official sources. Additionally, constructing and releasing global input-output tables requires extensive data, strong assumptions, and often takes several years. Moreover, trade in services and investment flows is difficult to accurately measure, making it challenging to identifying dependencies in these segments (Bijlsma et al., 2022[25]).

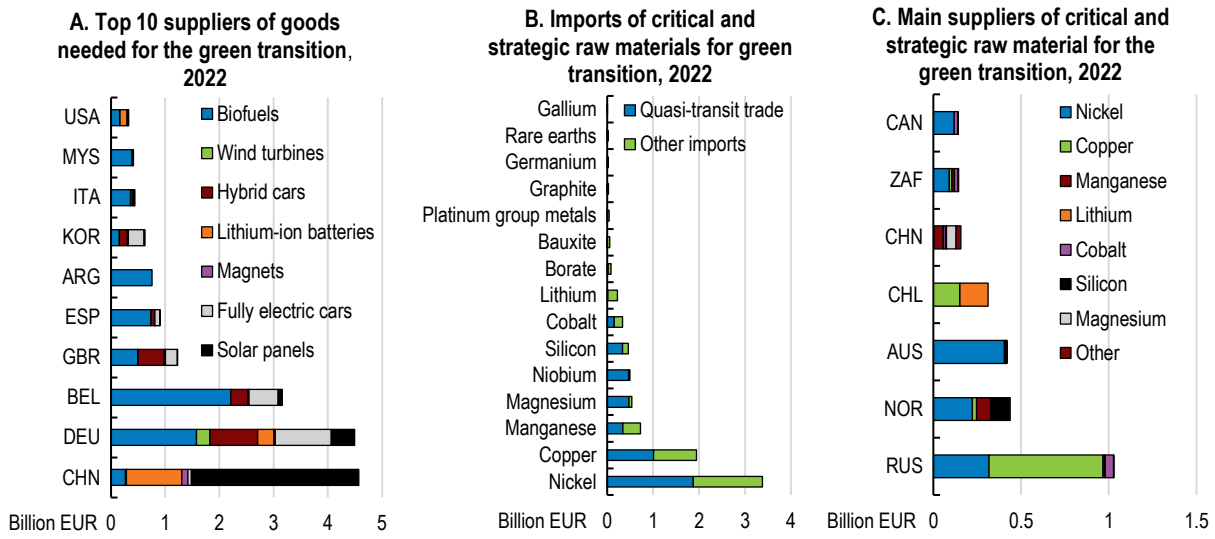
In the context of heightened geopolitical fragmentation and increasing protectionism (Box 1.1. in Chapter 1), the government should use the findings from the monitor to conduct scenario analysis to identify the nature and severity of potential trade shocks on the Dutch economy (Box 4.2). Developing a national trade risk strategy that integrates regular scenario analysis would allow to better identify reasonable crisis response mechanisms to prepare for global trade disruptions. While direct trade responses must be decided at the EU level, a national trade risk strategy should focus on identifying and reducing exposure to potential shocks. Key measures include reducing logistics frictions, promoting regulatory co-operation and flexibility, and maintaining regular contact with public and private stakeholders to strengthen coordination and preparedness for future crises. (Thakur-Weigold and Miroudot, 2024[26]). A clearer understanding of the economic impact of different types of trade shocks, such as supply disruptions or rapidly rising trade costs, can help to distinguish between routine business risks and those requiring government intervention.

A national trade risk strategy can also support the identification of the most vulnerable sectors. It would further help to assess whether government support could be justified to ease short-term adjustments. However, drawing on lessons learned during the pandemic and the energy crisis, such measures—if used—should be temporary and well-targeted, taking into account their cost and benefits. Over the longer term, the government should use the assessment of regular scenario analysis to minimise exposure to risks through structural responses such as diversifying trade, strengthening innovation and investment, and reducing regulatory barriers within the EU single market as they will be more effective in enhancing resilience and competitiveness.

4.3.3. Reducing dependence on critical raw materials for the digital and green transition

Critical raw materials are a key compound for emerging technologies such as artificial intelligence, quantum computing, big data, as well as clean energy technologies, healthcare and defence. These materials, both in primary but also processed form are very concentrated geographically, with a significant amount of minerals being extracted and processed in China. Rapid demand growth is putting the global supply-demand balance at risk (IEA, 2022[27]), with additional challenges posed by the limited diversification opportunities of suppliers (Figure 4.10). Moreover, as critical raw materials are positioned upstream in the international supply chain, suppliers used export restrictions to support downstream domestic sectors. For example, China substantially increased the number of restrictions, growing by a factor of nine between 2009 and 2020, establishing itself as the country with the most extensive array of export restrictions on critical raw materials (Draghi, 2024[28]).

Figure 4.10. China and Russia are key suppliers for Dutch imports of critical raw materials needed for the green transition



Note: Panel A and B exclude quasi-transit trade.
Source: CBS (2023), Dutch Trade in fact and figures 2023.

StatLink https://stat.link/h6qvr3

The Netherlands is aiming to improve its critical raw material supply security and reduce dependencies, also in the context of limited diversification opportunities. The National Raw Materials Strategy (*Nationale Grondstoffenstrategie*) is aligned with the 2023 European Critical Raw Materials Act (CRMA) (see Box 4.4), by promoting refining and circularity of critical raw materials, building strategic alliances, stockpiling critical raw materials, and knowledge building and monitoring. From the Dutch perspective, most efforts should be complemented with action at the European level, including building strong alliances with trusted suppliers to minimise disruptions caused by geopolitical or market shifts, and exploring stockpiling possibilities at the EU level. The Netherlands complemented these welcomed collective efforts at the European level with a recently launched Netherlands Materials Observatory (NMO), which aims to monitor supply risks, assesses vulnerabilities, and provide early warnings when disruptions in critical raw material supply chains occur, and collaborate with national observatories of other EU member states. While understanding the supply and availability of critical and strategic raw materials is crucial to reduce the dependence on non-EU suppliers, domestic policies to further promote recycling and substitution of critical raw materials can complement these efforts.

Box 4.4. The EU Critical Raw Materials Act

The EU Critical Raw Materials Act (CRMA), implemented in April 2024, is a comprehensive policy framework aimed at securing sustainable and resilient supply of critical raw materials (CRMs) essential for Europe to meet its climate and digital objectives.

1. Diversification of Supply Chains: The CRMA sets a target to extract 10% of the EU's demand of minerals domestically, and to process 40%, and recycle 25% of it domestically by 2030; and source no more than 65% of any single CRM from outside the EU to reduce the dependency on any one country. The EU promotes partnerships with reliable international suppliers, while enhancing domestic extraction and processing capabilities.
2. Strategic CRM Reserves: The Act encourages EU member states to establish strategic stockpiles of the most critical raw materials, ensuring supply chain resilience during global disruptions, particularly for materials like lithium, cobalt, and rare earth elements.
3. Boosting Circular Economy and Recycling: The CRMA emphasises recycling and reusing CRMs, setting goals to recover more materials from waste. The CRMA sets a target to recycle 30% of the EU's demand of minerals domestically by 2030. The EU supports technologies for recycling batteries, electronics, and other products, reducing the need for primary raw material imports.
4. Support for innovation and substitution: To decrease reliance on CRMs, the Act funds research into alternative materials and technological innovations that reduce or replace CRM usage, particularly in high-demand sectors like renewable energy, automotive, and electronics.
5. Streamlining permits and reducing barriers: The Act aims to streamline the permitting process for CRM projects within the European Union, shortening approval times to encourage investment in local mining, refining, and recycling facilities.

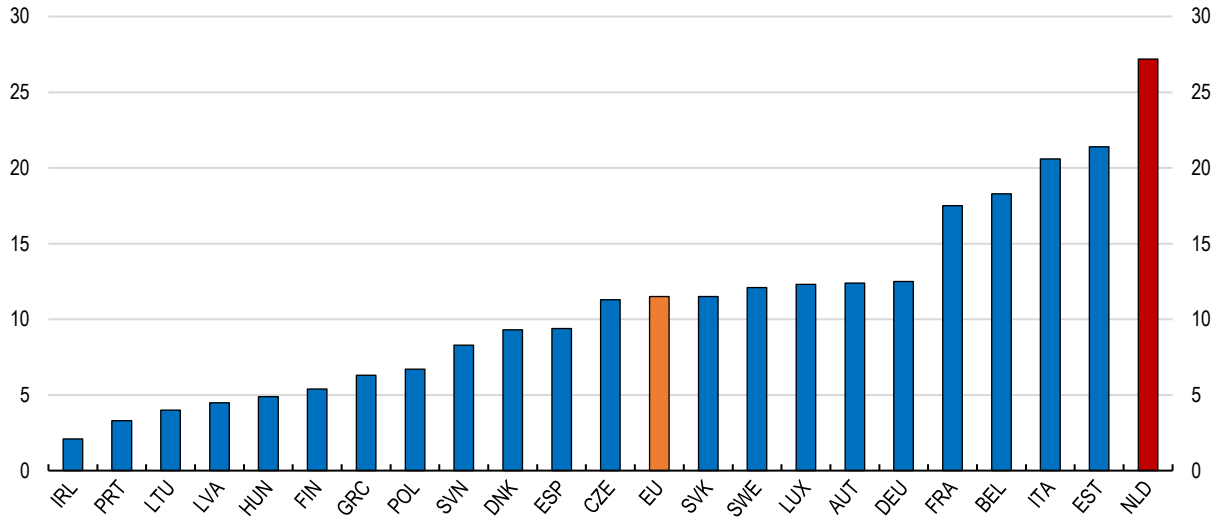
Source: European Commission (2024[29]).

The circular economy is critical for the Netherlands's strategy to enhance trade resilience and reduce dependency on critical raw materials. Despite limited diversification opportunities, the Dutch government is actively seeking strategic bilateral partnerships for critical raw materials, for example with South Korea, which is welcome. The government is also working on "roadmaps" to enhance the circularity of critical raw materials in prioritised value chains, such as the production of electrolysers, windmills, solar-PV and military ships. However, these efforts should be complemented with further reducing the need to use critical raw materials. With 27% of material recycled and reintroduced into the economy, the Netherlands is a frontrunner within the European Union (Figure 4.11). This position points to the country's potential to continue its shift towards a circular economy. Not only will such a shift be beneficial in terms of environmental considerations, but also insure against supply risks particularly for geographically concentrated critical raw materials.

The National Circular Economy Programme (NCEP), in place since 2016, aims to halve the use of primary resources by 2030 and achieve full circularity by 2050. This ambitious agenda emphasises smarter product design, extending product lifecycles through repair and reuse and minimise demand for new materials. As part of broader European ambitions, the upcoming EU Digital Product Passport (DPP), which begins mandatory implementation for various product categories between 2026 and 2030 (Ministry of Infrastructure and Water Management, 2023[30]), will further strengthen the Netherlands' efforts in incentivising eco-design practices.

Figure 4.11. The Netherlands is a leading EU country in the use of circular material

% of material recycled and fed back into the economy, 2022



Note: EU is a weighted average of EU member countries.
Source: Eurostat (database).

StatLink https://stat.link/jmwr7f

Despite strengthening policies in the updated National Circular Economy Programme (2023-2030), the Netherlands is not yet on track to meet the 2030 target (PBL, 2023[31]). The updated programme includes a mix of standard-setting, price-fixing and incentives aiming to minimise the environmental footprint and improve the supply security of materials (Ministry of Infrastructure and Water Management, 2023[30]). However, the recycling and reuse of critical raw materials is insufficient (OECD, 2024[32]). The government should introduce stronger incentives to encourage businesses to adopt sustainable practices and increase the reuse of critical raw materials. For example, within the Extended Producer Responsibility (EPR), which relies on the polluter-pays principle, and thereby encourages manufacturers to assume responsibility for the environmental impacts of their products throughout the whole product lifecycle, producers could face variable fees depending on recyclability, toxicity, and material content (OECD, 2020[33]). By adjusting the EPR fee based on how circular a product is, a price incentive for companies is created to design better, longer-lasting, and more recyclable products, while also helping level the playing field for circular solutions. The government could also consider integrating eco-design principles into public procurement, as it is for example done in Sweden (Box 4.5). Finally, regulations should be conducive to circular initiatives and activities (PBL, 2023[31]). For example, the government could mandate manufacturers to provide detailed product information that facilitates repairs and extends product lifespans, also for product categories not yet covered by the EU Digital Product Passport. Furthermore, the government could consider gradually introducing requirements for products to contain a certain percentage of recycled materials, while ensuring alignment with WTO trade rules particularly with respect to imports. These measures may also incur costs for businesses, including upfront investments, operational expenses, workforce re- and upskilling, and compliance with administrative requirements. Therefore, these factors should be taken into account when prioritising and phasing in potential actions.

Box 4.5. Measures to incentivise the adoption of Eco-design principles – The example of Sweden

Sweden has incentivised the adoption of eco-design principles through a combination of policy measures, financial incentives, and industry collaboration.

Key Measures:

Eco-design Regulations and Circular Economy Policies: Sweden has aligned its policies with the EU's Eco-design Directive, which sets minimum environmental requirements for products. The country has also gone beyond EU requirements by promoting a circular economy and sustainable consumption models.

Tax Reductions and Financial Incentives:

- Sweden introduced tax breaks on repairs for consumer goods, including electronics and household appliances. This incentivizes both manufacturers to design longer-lasting products and consumers to repair rather than replace.
- A lower VAT rate (12% instead of 25%) on repair services has helped extend product lifespans and foster a market for eco-friendly services.

Extended Producer Responsibility (EPR) Schemes: Sweden has strong EPR programs that require manufacturers to take responsibility for the lifecycle of their products. This has pushed companies to design products with recyclability and reusability in mind.

Public Procurement and Industry Engagement: The Swedish government has integrated eco-design principles into public procurement, ensuring that products purchased by the state meet strict environmental criteria. This creates demand for sustainable products and encourages private companies to follow suit.

Research and Innovation Support: Through funding programs such as those from Vinnova (Sweden's innovation agency), businesses receive support for developing sustainable design solutions.

Source: https://sweden.se/climate/sustainability/sweden-and-sustainability.

To meet the 2030 and 2050 circular economy targets, the government should adopt a cross-sectoral policy approach that integrates the energy, industrial and circular transitions given their strong interlinkages. For instance, the circular transition supports the energy and industrial transition by minimising raw material use and integrating recycling into industrial processes. To stimulate investment and research, a clear strategy with priorities, policies, and timeline compatible with targets for the circular transition should be implemented. Within this strategy, it should also be ensured that sufficient structural funding for the circular transition is made available to meet envisioned targets based on a cost benefit analysis. As the transition to a circular economy can impede on trade competitiveness, such a strategy should be aligned with the policy framework at the EU level.

Dutch industries are recognised for their commitment to sustainability and could leverage that advantage to export advanced circular technologies or products, generating new export opportunities, for example in recycling systems, sustainable materials and eco-design technologies.

The government's mission-driven "Top Sectors" programme and Innovation Policy already support Research and Development (R&D) in circular technologies, including, amongst others, recycling and waste valorisation (e.g. breaking down complex materials), circular manufacturing to extend the life of products, and developing alternatives to fossil-based materials, such as bioplastics. The Netherlands has also made significant advances through its Green Deals, which aims to address non-financial circular economy barriers. It provides a platform for the government to directly communicate and engage with stakeholders, and support innovation domestically by providing support to test circular ideas with help from the government in pinpointing solutions to regulatory and administrative hurdles. Since its start in 2011, the Green Deal programme has given about 240 green initiatives the space to grow (Rijksdienst voor Ondernemend Nederland, 2024[34]). While this approach was found to add value to innovation with respect to multiparty agreements and cooperative sharing to achieve a circular economy, the government could do more in terms of scaling-up. Additionally, the government should consider expanding on these

efforts to also include programmes focussing on export promotion as global demand for sustainable goods is growing. Building on some existing private initiatives, integrating circularity more broadly into trade missions can further open business opportunities for Dutch exporters to new markets and promote Dutch expertise globally. Sweden for example, integrates its ambition to export its knowledge and solutions in waste-to-energy technologies to other countries it its export strategy (Box 4.6).

Box 4.6. Smart City Sweden – Sweden's export strategy on waste-to-energy technologies

Established in 2016, Smart City Sweden is a state-founded export platform that initiates cooperation between Sweden and other countries within smart and sustainable city solutions, including waste-to-energy (WtE) technologies. It serves as a hub for promoting innovation, fostering international collaboration, and supporting Swedish companies in exporting their technologies globally.

Key Contributions:

- Demonstration Projects: Smart City Sweden highlights successful WtE projects, such as facilities turning waste into district heating, to inspire international adoption.
- Knowledge Sharing: The platform organises workshops and training sessions to share Sweden's technical expertise and policy frameworks with global partners.
- Facilitating Partnerships: By connecting Swedish technology providers with international stakeholders, Smart City Sweden helps implement WtE solutions in other countries.

Through initiatives like Smart City Sweden, WtE technologies not only help manage waste sustainably but also contribute to global energy transitions by showcasing scalable and effective solutions.

Source: Smart City Sweden, https://smartcitysweden.com/about/

4.3.4. Reducing dependencies from fossil fuels

Reducing fossil fuel dependency is not only critical for the Netherlands to meet its climate goals, and improve energy security, but also to maintain its trade competitiveness. Net energy imports, mainly oil and gas account for 88% of the country's total energy supply (IEA, 2025[35]). While the Netherlands has made significant progress in diversifying its energy supply, further steps are needed. Owing to its energy-intensive industries, the Netherlands remains heavily reliant on fossil fuels (OECD, 2023[36]). As discussed in Chapter 2, transitioning away from fossil fuels will require greater investments in renewable energy generation and the electricity grid. Stepping up renewable energy production could not only reduce the need to import fossil fuel energy, but also create new export opportunities as potential demand for clean energy is high in neighbouring countries.

The Netherlands' energy intensive industries, such as chemicals, steel and refining, play a vital role in the economy. The top five greenhouse gas (GhG) emitting manufacturing industries in the Netherlands account for 5% of the value added in the economy and 15% of the value added from trade (Table 4.1). High energy costs and EU regulations, such as the European Emissions Trading System (ETS), have created price asymmetries between Dutch producers and their non-EU competitors. A key concern not only in the Netherlands, but also in the European Union has been carbon leakage, where strict EU-CO2-emission limitations are circumvented by moving production to non- EU countries with weaker environmental regulation (Teusch et al., 2024[37]).

To balance climate policies with trade competitiveness, the Netherlands has been a strong advocate for the Carbon Border Adjustment Mechanism (CBAM), implemented at the EU level to address carbon leakage. CBAM applies a carbon price on imports of certain goods, equalising costs with EU producers and discouraging offshoring to countries with weaker regulations (see Box 4.7). Studies suggest that CBAM will effectively reduce leakage (Dechezleprêtre et al., 2025[38]) and may increase the Netherlands' production and exports of CBAM products, particularly in intra-EU trade (Olijslagers et al., 2024[39]). However, the impact will vary across sectors (Box 4.8), as energy intensity of production varies within the European Union. Carbon emission pricing is set to increase over the longer term under the EU ETS. Furthermore, the Netherlands has implemented a carbon levy on industrial emissions that sets out a price trajectory until 2030, such that emitters pay the differential to the floor price if the EU ETS prices

fall under a certain level (OECD, 2023[36]; 2021[40]). In the absence of successfully reducing emissions, this will lead to shifts in the trade balance, with emission-intensive industries, such as chemicals and chemical products, becoming less competitive. Remaining price competitive within the European Union and globally will therefore require continued investments in decarbonisation and renewable energy.

Table 4.1. Dutch energy intensive industries are important for the country's exports

2020

Sector	Total Value Added		Export			Production based GHG
	USD millions	% of total value added	Gross exports USD	Domestic Value-Added USD	% of total domestic value added	Tonnes of CO2-equivalent
Chemical and chemical products	13576	1.6	36760	19462	5.9	20.5
Coke and refined petroleum products	1789	0.2	14634	4759	1.4	10.3
Basic metals	2543	0.3	4290	2485	0.8	6.2
Food products, beverages and tobacco	20311	2.4	39077	23086	7	4.3
Other non-metallic mineral products	2891	0.3	1374	961	0.3	1.3

Note: Only the five largest GhG emitting manufacturing sectors are shown.
Source: OECD Trade in Value Added (TiVA) 2023 edition (database).

Box 4.7. The EU Carbon Border Adjustment Mechanism (CBAM)

The EU's Carbon Border Adjustment mechanism (CBAM) is a key part of the European Green Deal, designed to tackle carbon leakage and promote global climate action. Carbon leakage occurs when companies move production to countries with less stringent climate policies, undermining efforts to reduce emissions. CBAM addresses this by imposing a carbon price on imported goods initially only from carbon intensive industries, such as steel, aluminium, cement, and fertilizers, ensuring these imports face the same carbon costs as products made within the EU under its Emissions Trading System (ETS).

How CBAM works:

- Importers of carbon intensive goods into the EU must purchase CBAM certificates to cover the embedded emissions in these products.
- The cost of the certificate mirrors the carbon price under the EU ETS, levelling the playing field for EU industries that already pay for their emissions.
- If a producer has already paid a carbon price in their country of origin, the CBAM charge will be reduced accordingly, encouraging other nations to adopt similar climate measures.

Phased in introduction:

A transitional phase form October 2023 to 2026 will allow importers to report emissions without paying CBAM costs. Full implementation is expected in 2026. This gradual introduction of the CBAM is aligned with the phase-out of the allocation of free allowances under the EU Emissions Trading System (ETS) to support the decarbonisation of EU industry.

Source: European Commission (2025[41])

Diversifying energy resources and stepping up renewable energy production could not only reduce the need to import fossil fuel energy and thereby increase energy security but also create new export opportunities. The Netherlands has made significant progress in renewable electricity production (Chapter 2). Although electricity trade is still modest compared to fossil fuels, the country became a net electricity exporter in 2023 (Statistics Netherlands, 2024[42]). While this highlights the potential for renewable electricity exports to play a larger role in the Dutch trade portfolio, it would require significant investment into the power grid as discussed in Chapter 2.

The Netherlands' strategic location, great offshore wind resources and an established position as an energy-trading hub provide the Netherlands with favourable conditions to becoming a large producer and importer of low-emission hydrogen (IEA, 2025[35]). This clean energy carrier could be key to meeting domestic demand, particularly in decarbonising hard-to-abate sectors like steel and chemical production, which are important to Dutch exports. While prices for clean hydrogen are still higher than for carbon intensive hydrogen, in the medium to longer term, the Netherlands also has substantial potential for hydrogen production linked to renewables, particularly through synergies between electrolysis and offshore wind development. (IEA, 2025[35]). In addition, hydrogen offers significant opportunities to further strengthen the Netherlands' role as trading-hub. The Port of Rotterdam envisions a strong role within the hydrogen supply chain, supplying 4.6 megatons per annum (Mtpa) of hydrogen to Europe by 2030, out of which just 0.6 Mtpa is domestic and the remaining 4 Mtpa are transit trade (Port of Rotterdam, 2024[43]; 2022[44]). Hydrogen could become a significant export opportunity, also due to increasing demand in neighbouring countries. For instance, Germany's Hydrogen Import Strategy anticipates that 50-70% of its hydrogen needs by 2030 will have to be imported, with this share likely to increase further thereafter. However, recent set-backs in hydrogen developments in neighbouring countries and uncertainty with respect to the Netherlands hydrogen strategy have held back investment such that prices are still comparatively higher than carbon intensive hydrogen (IEA, 2025[35]). As discussed in Chapter 2, the development of clear industrial decarbonisation strategies and introducing obligations for low-emission hydrogen in key industries can increase demand certainty and help unlock necessary investment into R&D and infrastructure, which could bring prices down in the longer term. As the expansion of hydrogen production facilities would consume a significant portion of the generated electricity, such a strategy should be accompanied and coordinated with a stable, long-term framework for offshore wind development.

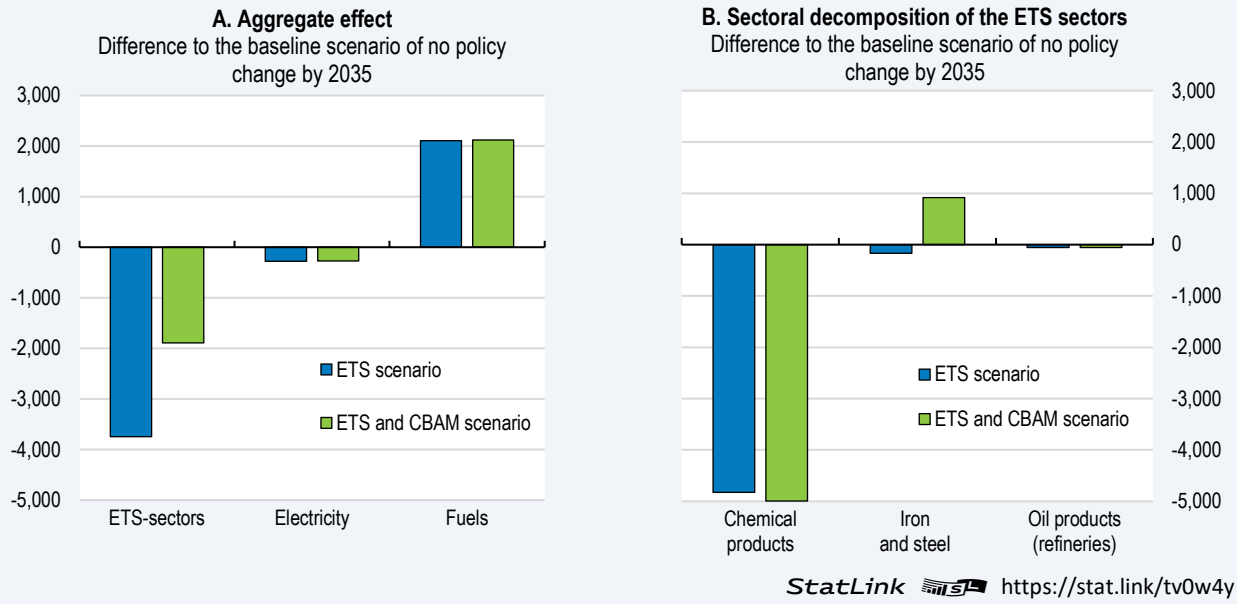
Box 4.8. The link between the green transition and the Netherlands' export performance

Both the EU and the Netherlands aim for a net carbon-free economy by 2050, shifting energy use from oil and gas to renewable sources. This transition is expected to affect trade balances, both through relocation effects and leakage within the energy-intensive industries, and because the countries who are exporting oil and gas may differ from those countries who are exporting renewable energy. For the Netherlands, this shift could have a significant impact. Oil and gas account for 77% and 20% of energy imports, respectively, comprising 16% of total imports of goods and services. At the same time, the country still has a significant industrial base with a relatively large share of emission-intense production.

To better understand the impact of emission pricing on the Netherlands' trade performance, a dynamic applied general equilibrium model (GREEN-R) designed to assess the economic and environmental impacts of climate policies, has been used to model different scenarios. The preliminary findings suggest that the energy transition will have profound effects on energy intensive sectors, affecting production in domestic industries leading to shifts in trade flows (Glocker, Sommer, van der Wal, 2025 forthcoming). Rising energy costs from carbon taxation under the EU-ETS, when compared to a no-policy-change scenario, indicate a worsening trade balance due to a decline in price competitiveness (Figure 4.12). However, the introduction of the EU Carbon Border Adjustment Mechanism (CBAM) partially offsets these negative effects.

A closer look at sectoral impacts reveals that the chemical industry, one of the most emission-intensive sectors in the Netherlands, is the primary driver of this shift. Since chemical production in other EU countries is generally less emission-intensive, some production is expected to relocate abroad, even with the EU CBAM in place. A large share of this negative effect on the trade balance is, however, balanced out by a lower dependence on fossil fuel imports. The improvement in the trade balance of fuels nearly matches the negative effect from the ETS sectors.

Figure 4.12. Higher emission prices are expected to shift the trade balance in the medium term



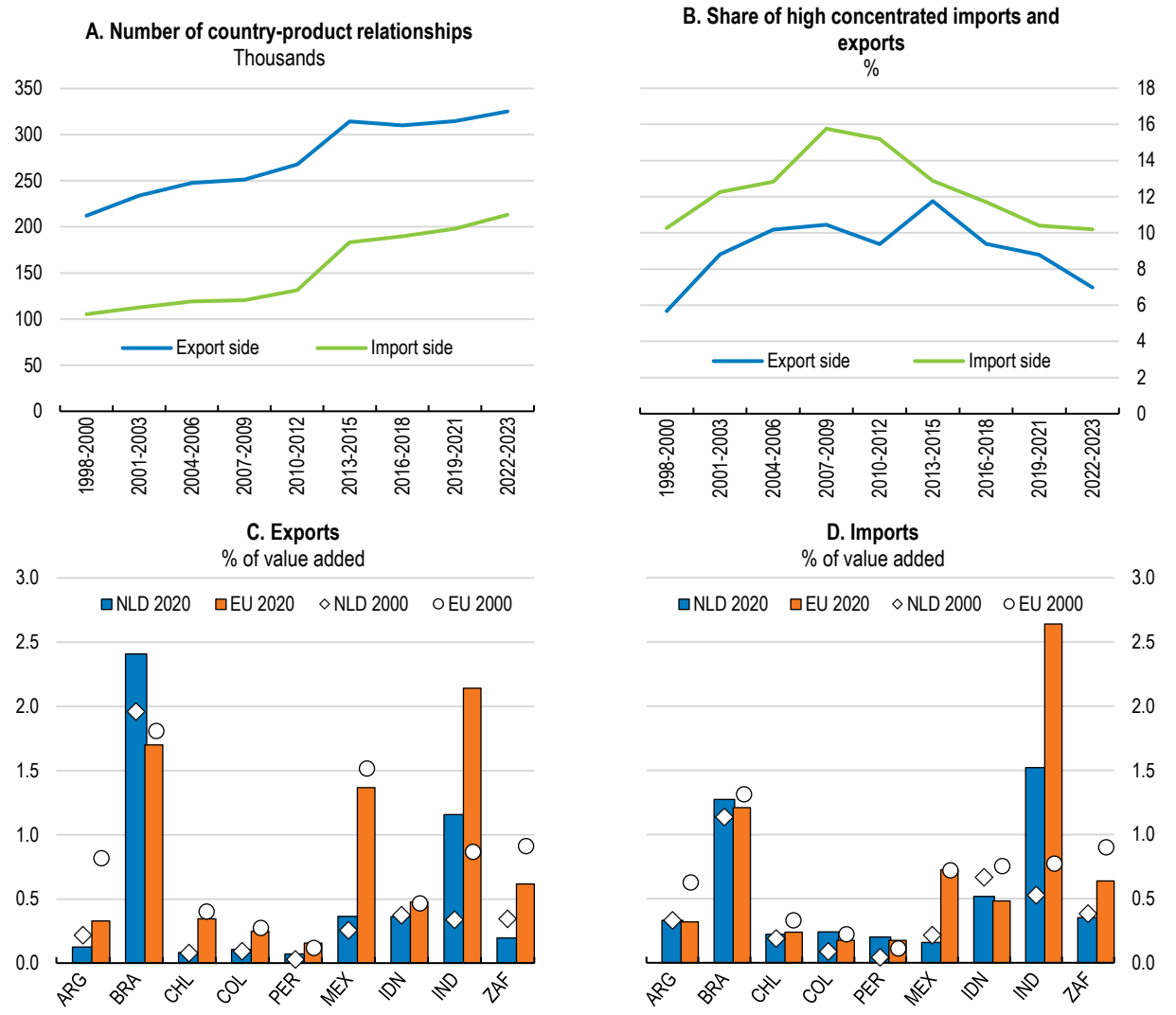
Source: Glocker, Sommer, van der Wal, 2025 forthcoming.

4.3.5. Supporting firms in diversifying trade relations

While strengthening supply chain resilience is crucial for reducing exposure to trade disruptions, further broadening trade relationships will also help. Expanding into new markets, while also removing remaining barriers in the EU internal market, can reduce dependency on a few suppliers, enhance market access and create new trade opportunities. A continued trade diversification strategy and efforts to support trade agreements at the EU level is therefore essential to complement on-going efforts in strengthening supply chain resilience.

The Netherlands has seen a strong diversification in trade relations over the past two decades. Not only has the number of trade partners across product groups more than doubled between 1995 and 2022, but also have dependencies of Dutch importers and exporters on specific partners declined (Figure 4.13, Panel A and B; Arriola et al. (2024[21])). The diversification in trade partners has been supported by the EU expansion and a range of policies aimed at reducing initial barriers to access new markets. The Netherlands Enterprise Agency has facilitated diversification by providing market research, organising trade missions, and offering logistical support to Dutch businesses exploring new markets, both within the EU and with non-EU economies. Between 2008 and 2022 there were 192 different trade missions with over 4 000 Dutch firms participating at least once (Statistics Netherlands, 2024[45]). An initial evaluation of these trade missions indicates that participation increased the likelihood that firms will do business in the host country by over 7%, and the likelihood that they will invest there by 2% (Statistics Netherlands, 2024[45]). In addition to these large-scale trade missions led by ministers, the Netherlands Enterprise Agency organises about 30 small-scale business development trade missions annually, as well as a comparable number of small-scale innovation missions that focus on innovation co-operation where about 10-15 companies participate. These developments are welcome. In addition to have further deepened trade relations within the EU single market, these efforts have also supported trade with emerging economies (Figure 4.13, Panel C and D). However, efforts to further encourage diversification with emerging markets, which offer significant growth potential could be strengthened.

Figure 4.13. The Netherlands has diversified its trade relationships, also through increased trade with some emerging economies



Note: In Panels A and B, 1998-2000', '2001-2003', etc., denote the averages for the three-year periods 1998,1999 and 2000; 2001, 2002 and 2003. Panel B: This measure is obtained by calculating, first, for each HS6 product and, for exports (imports), each exporting (importing) country an index of concentration (HHI) across all importers (exporters) from (to) that country, and second by calculating the share of HS6 products with a HHI greater or equal than 0.4 on all products. Panels C and D: Data refer to selected emerging economies. EU is a simple average of OECD EU member countries.
Source: OECD calculations based on BACI data (2025 edition); OECD TiVA 2023 edition (database).

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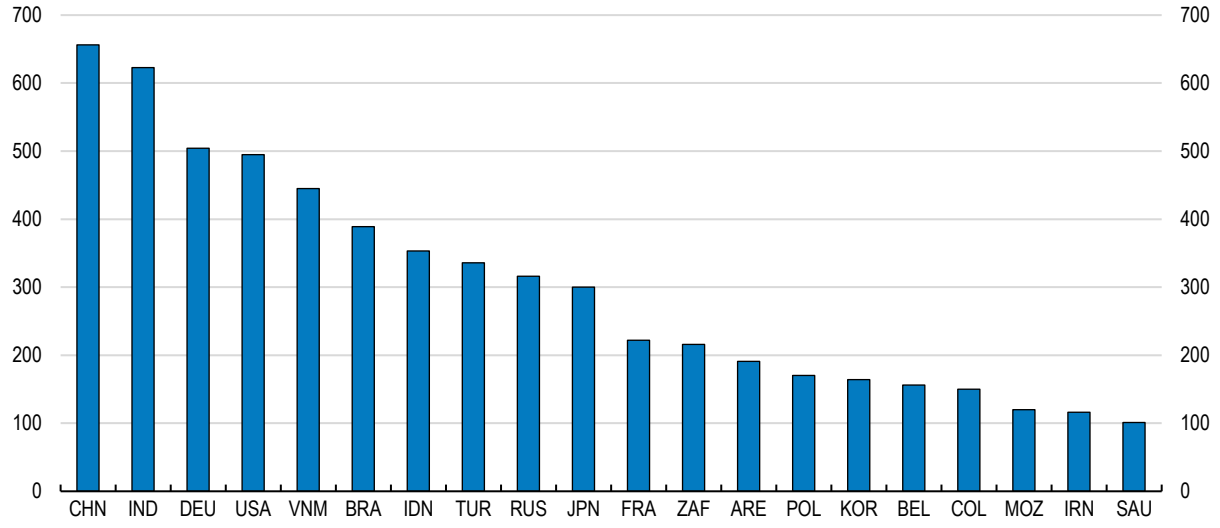
The government has highlighted its continued interest in entering relations with non-EU countries and is actively engaged in shaping EU trade policy (Government of the Netherlands, 2024[46]). This includes negotiations on trade agreements, for example with Mercosur (Argentina, Brazil, Paraguay, Uruguay, as well as associated members Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, and Suriname), and Indo-Pacific economies and complements these EU level efforts by building strong trade relationships through national initiatives such as promoting Dutch businesses abroad and organising trade missions. The government's active EU involvement as well as domestic trade initiatives are welcome, but it could further strengthen trade relationships within new trade agreements. While the government's outlined focus is particular on Asian countries, for which interest by businesses is already high (Figure 4.14), the finalisation of the EU-Mercosur trade negotiations in late 2024 could provide new impetus for the Netherlands to further intensify trade relationships with the trade block in Latin America, which already is the sixth largest trade partner outside the European Union (European Commission, 2024[47]). Economic ties with

Mexico could also be strengthened to leverage the recently updated EU-Mexico agreement that removes high tariffs on various EU exports to Mexico and ensures that EU companies receive treatment on par with Mexico's other preferential trade partners. The government should build on its successful trade programmes and further facilitate information flows and intensify the organisation of trade missions into these countries.

Figure 4.14. Participants in trade missions are highest in BRIICS countries

By destination, 2008-2022



Note: With at least 100 firms participating.
Source: CBS (2024), Trade Missions Help Firms to Get Ahead Internationally.

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Government initiatives to reduce information costs to access new markets are complemented with financial support, such as loans, export credits and guarantees, and export financing through the Dutch trade and investment fund (DTIF) and the Dutch Good Growth Fund (DGGF). The latter also offers export credit insurance and financing for Dutch businesses exporting to emerging countries. Managed by Invest International, companies can apply for investments of up to EUR 15 million under specific conditions, such as a solid business plan and compliance with Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD, 2023[48]). In 2023, about 140 projects have benefited from the Dutch Good Growth and the Dutch trade and investment Fund with a committed portfolio of about EUR 240 million, up from about 90 projects supported with EUR 211 million in 2022 (Invest International, 2024[49]). These measures are welcome as they provide critical financial support for firms, especially smaller ones, to expand internationally.

4.4. Leveraging digitalisation and AI to improve trade performance

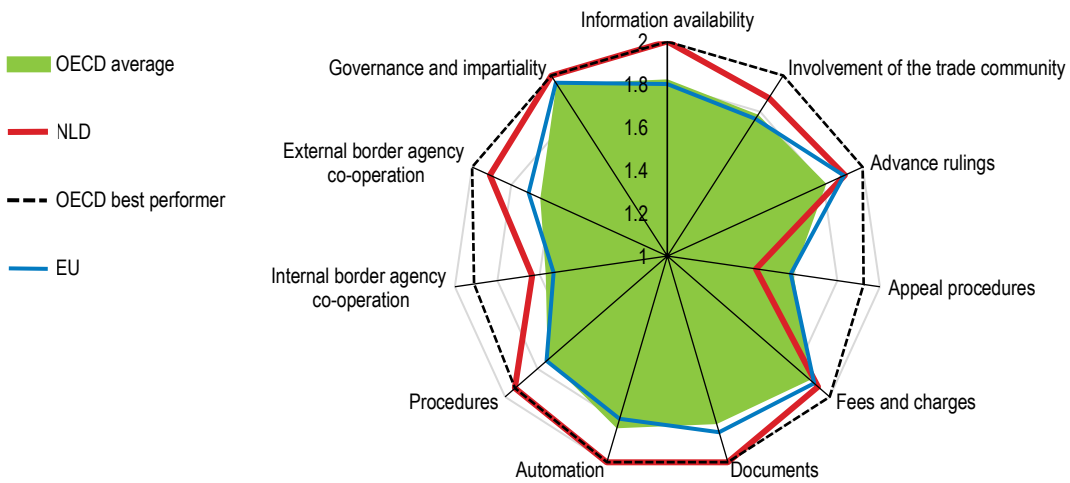
The Netherlands has low barriers to trade, but there remains room to leverage new technology to reduce remaining trade frictions. As lower trade costs raise the number of possible suppliers and buyers, this would help businesses to diversify and increase the resilience of their supply chains. Given its strong digital infrastructure and skill base (European Commission, 2024[50]), the Netherlands is well placed to benefit from technologies such as Artificial Intelligence (AI). OECD work shows that advances in AI are more prominent in tradeable sectors (Ferencz, López González and Oliván García, 2022[51]), having the potential to rapidly transform global trade by streamlining operations and reducing administrative compliance costs.

4.4.1. Streamlining border procedures

The Netherlands has effective technical and legal border procedures for products, faring better than the average OECD and EU country. However, according to the OECD Trade Facilitation Index, the country lags behind best performers in areas such as internal and external border agency cooperation and appeal procedures (Figure 4.15), where it resolved less than the EU average of cases handled through SOLVIT in 2023 (European Commission, 2024[52]). The Netherlands should strengthen efforts in implementing and correctly applying EU laws, as well as aiming for a faster processing time for dealing with appeal procedures, for example by investigating the use of new technologies. Using AI for automated legal and compliance checks to help identifying missing documentation or procedural errors could reduce delays in appeal procedures. Improving communication and information exchange between border agencies could reduce processing times and further facilitate trade operations. More generally, the feasibility of using new technologies to reduce compliance costs while accelerating processing times should be evaluated, such as automated document processing, whereby an AI tool could scan and extract data from trade documents, cross-check it against regulatory databases, and flag inconsistencies for review (Ferencz, López González and Oliván García, 2022[51]). These efforts to reduce delays and compliance costs would particularly benefit smaller companies (López González and Sorescu, 2019[53]), helping SMEs internationalise further and enable them to diversify supply chains. Continuing its efforts to harmonise AI and trade regulations with EU standards will further facilitate cross-border cooperation and ensure ethical AI use.

Figure 4.15. The Netherlands is a top performer in trade facilitation

OECD Trade Facilitation Indicators, from 0 to 2 (best performance), 2022



Note: EU is a simple average of OECD EU member countries.
Source: OECD Trade Facilitation Indicator (database).

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4.4.2. Increasing logistical efficiency in key transport hubs

AI technologies are transforming logistics and transportation, two vital areas for the Netherlands as a global trade hub. By integrating AI, the Netherlands can enhance supply chain resilience, optimise transportation routes, and anticipate risks like port congestion or weather disruptions using real-time monitoring and predictive analytics. Additionally, predictive maintenance systems can improve reliability by identifying and addressing potential equipment failures before they cause costly delays.

The Netherlands has made significant advances in using AI to streamline logistics in critical transport infrastructure. Through the National Growth Fund, substantial funding has been directed towards building digital infrastructure and supporting AI innovations. The port of Rotterdam is a leading example at the forefront of AI integration (see Box 4.9). It is welcome that the Dutch government has put forward initiatives like the AIC4NL, a merger of the Dutch

AI coalition and the AI-Ned growth fund, which is fostering collaboration between businesses, academia, and government to develop AI applications, also for trade. As the National Growth Fund has been phased out (see Chapter 1), the government should review and expand funding opportunities to ensure that key logistic infrastructure and custom procedures continue to benefit from developments in AI applications.

Box 4.9. Artificial Intelligence at the Port of Rotterdam

The Port of Rotterdam, Europe's largest seaport, is at the forefront of integrating Artificial Intelligence (AI) to enhance efficiency, sustainability, and innovation in its operations.

Key AI applications that are being developed:

- Digital Twin Development: The port is constructing a digital replica of its infrastructure, enabling real-time monitoring and predictive maintenance. This digital twin facilitates the efficient management of port activities and supports the integration of autonomous logistics.
- Smart infrastructure: By embedding sensors and IoT devices throughout the port, AI systems can analyse data to optimise traffic flow, predict equipment failures, and improve overall operational efficiency.
- AI Port Center: A partnership between Delft University of Technology and Erasmus University Rotterdam focuses on AI research tailored to port environments. This collaboration aims to drive innovation and practical applications of AI within port's operations.

Source:https://www.portofrotterdam.com/en/port-future/innovation/artificial-intelligence-port; https://www.portofrotterdam.com/en/port-future/smart-infrastructure; https://convergence.nl/ai-port-center/

4.4.3. Reducing vulnerabilities to cyberattacks that could harm trade and supply chains

As global trade becomes increasingly reliant on digital technologies, the threat of cyberattacks poses significant risks to supply chain security and trade operations. Cyberattacks can disrupt critical infrastructure, compromise sensitive data and cause significant financial and reputational damage to businesses. For the Netherlands, such disruptions could have widespread effects, not only for domestic firms, but also for its role as a global logistics and trade hub.

Larger enterprises are already investing heavily in cybersecurity systems, but smaller businesses remain particularly vulnerable due to limited awareness, constrained capacities and financial resources (OECD, 2021[54]; Statistics Netherlands, 2024[55]). Moreover, most SMEs only implement cybersecurity measures reactively, often after suffering an attack (OECD, 2021[56]). Updated security protocols are increasingly important as threats from emerging technologies, such as generative AI, evolve rapidly. The Digital Trust Center (DTC), established in 2018, provides businesses with reliable and independent information on digital vulnerabilities, practical advice and tools to assess their cyber resilience. In 2024, 32% of Dutch enterprises had an ICT security policy defined or reviewed within the last 12 month, above the EU average of 22%. However, they are behind businesses in peer countries like Finland (43% in 2022), Denmark (37% in 2022) or Sweden (37% in 2022) (Eurostat, 2024[57]). Small businesses, in particular, are falling behind, with 19% taking no action to address their digital security (Ministy of Economic Affaires and Climate Policies, 2023[58]).

To mitigate cybersecurity risks, the Netherlands must continue to strengthen existing frameworks. In 2022, the Netherlands adopted the Cybersecurity Strategy 2022-2028, allocating EUR 111 million to strengthen cybersecurity (Box 4.10). To achieve its objective of a digitally secure Netherlands that keeps pace with evolving cyber threats, the government has created one single national cybersecurity authority by merging the National Cybersecurity Centre, Digital Trust Centre and the Cyber Security Incident Response Team for Digital Service Providers. This is a positive development, but initiatives to further raise awareness among SMEs should be strengthened through targeted campaigns about cybersecurity risks and best mitigation practices, as well as accessible training for SMEs to build cyber literacy among employees. It is therefore welcome that the Dutch government announced to spend more on campaigns to increase the cyber resilience of citizens and SMEs, structurally reserving EUR 2 million annually from 2027 onwards for the campaigns (Ministry of Justice and Security, 2024[59]).

Box 4.10. The Netherlands Cybersecurity Strategy 2022-2028

The Dutch government adopted the Netherlands Cybersecurity Strategy 2022-2028 in October 2022, with the objective to achieve a digitally secure Netherlands to capitalise safely on the economic and social opportunities presented by digitalisation and, at the same time, to safeguard the security and public values. The strategy formulates a series of aims on the basis of four pillars:

- Pillar 1: Improving cyber resilience through preventive measures and rapid incident recovery for government entities, businesses, and civil society organisations;
- Pillar 2: fostering cybersecurity knowledge and innovation;
- Pillar 3: Combating cyber threats from state and criminal actors through enhanced threat intelligence and countermeasures;
- Pillar 4: Advancing cybersecurity in education and the workforce development and cyber resilience of the public.

The Dutch government is therefore investing in strengthening and transforming the digital ecosystem so that no single organisation or individual can be the weakest link any more. The government's efforts are based on the following five priorities:

Be more aware of cyber threats so that we know and understand them.

6. Ensure sufficient cyber expertise is available on the labour market so that we can meet the challenges we face.
7. Be aware of and understand risks and threats.
8. Legislation to ensure that frameworks are clear and verifiable.
9. Review of national cybersecurity system to ensure effective and efficient use of cyber capabilities.

Source: Ministry of Justice and Security (2022[60]).

4.5. Raising international competitiveness by fostering a dynamic and innovative business environment

To remain competitive in a rapidly evolving global economy, the Netherlands must not only strengthen its trade policies but also ensure that its domestic business environment fosters innovation, investment and productivity growth. As global supply chains are increasingly under pressure from geopolitical rifts and industries undergo digital and green transitions, trade competitiveness will increasingly depend on the ability of firms to adapt, innovate and scale. While the Netherlands benefits from a highly skilled workforce, strong digital infrastructure and robust startup ecosystem, challenges remain in areas such as business dynamism, SMEs financing and investment in high-growth sectors. Addressing these structural barriers is critical to maintain the Netherlands' strong position in global trade.

Moreover, as international markets become more fragmented, many countries are shifting to industrial policies to prioritise economic security through increased support of domestic industries and strategic sectors (Box 4.11). While some Dutch companies may benefit from increased demand through supply chain linkages, these dynamics could also pose new competitiveness challenges, particularly when competing against subsidised foreign firms. The Netherlands is currently updating its industrial strategy and the Top Sector programme to enhance economic resilience amidst a changing geopolitical landscape. While countries may use support measures to further strategic targets, they carry the inherent risks that could potentially undermine economic resilience and result in substantial fiscal cost (Criscuolo et al., 2022[61]; Juhász, Lane and Rodrik, 2023[62]; Irwin, 2023[63]). Excessive reliance on protectionist measures or market distortions in particular risk undermining the openness and innovation that have long been central to the country's success. A well-balanced industrial strategy should reinforce competitiveness through investments in productivity, innovation and business-friendly policies, while remaining committed to WTO rules (Box 4.12, below).

Box 4.11. Recent industrial policy initiatives in the EU and the United States

The European Union

The European Chips Act, effective since September 2023, aims to double the EU's global semiconductor market share to 20% by 2030. The Act seeks to mobilise over EUR 43 billion in public and private investments, with EUR 11 billion allocated for research and development through the "Chips for Europe" initiative. Additionally, the Act allows for state aid rule exemptions for key facilities to encourage semiconductor production within the European Union.

The Net-Zero Industry Act (NZIA) and the Critical Raw Materials Act (CRM) were proposed in March 2023. The NZIA seeks to scale up the manufacturing of green technologies in Europe (solar, wind, battery/storage and carbon capture and storage technologies) to 40% of the EU needs by 2030. The CRM aims to develop a European value chain of key inputs for the green and digital transitions. Measures include the acceleration of permits and administrative procedures, facilitating the co-ordination of private funding, increasing public subsidies, changing public procurement rules to include sustainability and resilience criteria, or the creation of regulatory sandboxes to support innovation. The proposals do not allocate new EU-level funding, but countries are allowed to provide more support to cleantech production or investment projects, and to provide matching aid, i.e., the amount of support the beneficiary could receive for an equivalent investment in an alternative location.

The United States

The Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act passed in August 2022 aims to improve competitiveness, innovation, and national security in the semiconductor sector. The Act provides around USD 53 billion (0.2% of GDP) over five years for investment tax credits, R&D funding and development for education and skills. It introduces a 25% tax credit for building and equipping the plants initiated before 2027. Additionally, it boosts federal R&D funding across multiple agencies, authorizing around USD 174 billion (0.7% of 2022 GDP) through fiscal year 2027.

The Inflation Reduction Act (IRA) includes several measures to support climate mitigation, such as production and investment tax credits for clean energy manufacturing facilities. Projects that meet specific wage and apprenticeship criteria, as well as those using certain domestically produced materials (including steel), are eligible for increased incentives. The IRA also offers tax credits of up to USD 7 500 for the purchase of new electric or hydrogen vehicles. Additional tax credits are available for carbon capture and sequestration, nuclear power production, energy efficiency improvements in private homes, and clean transportation and industrial fuels.

Source: Millot and Rawdanowicz (2024[64]); Criscuolo et al (2023[65]).

4.5.1. Balancing industrial policy without distorting trade

The Netherlands has had a comprehensive industrial policy since 2011 aimed at fostering sustainable economic growth, innovation, and competitiveness, which stands out for its strong government support for SMEs and young firms and its commitment to the green transition (Criscuolo et al., 2023[65]). In recent years, the Netherlands has shifted focus to promote strategic sectors, such as semiconductors, by co-investing in technology development, sector specific interventions for growth, and supporting collaboration with neighbouring EU countries. For instance, “Project Beethoven” is a government initiative to strengthen the overall business climate, with a particular focus on the semiconductor industry. This initiative includes investments of EUR 2.5 billion in technical education, and necessary infrastructure and housing in the Eindhoven region to accommodate the rapid regional growth caused by this sector (Government of the Netherlands, 2024[66]). Selecting companies and sectors by governments come with the risk of leading to market distortions, inefficient resource allocation, waste of public resources and capture by special interests (Millot and Rawdanowicz, 2024[64]). It therefore remains important that the government continues to maintain a non-distortive approach to industrial policy that fosters innovation and competition rather than excessive market intervention through competitive and transparent targeting that avoids favouring incumbents and discouraging new entrants (Box 4.12). To ensure the efficient use of public resources, a strong emphasis should be placed on evaluation and the regular reassessment of targeted policies.

Box 4.12. Good practices on industrial policies

Effective industrial policies aim to enhance the structural performance of the domestic business sector by addressing market failures, promoting innovation, and ensuring sustainable and inclusive growth. Best practices for industrial policy design and implementation include:

- **Clear objectives and strategic coordination** – Policies should address well-defined challenges, ensuring alignment across government agencies and sectors.
- **Evidence-based design and evaluation** – Decisions should rely on data and rigorous assessments, with regular reviews to adjust ineffective measures.
- **Balancing horizontal and targeted approaches** – General business-friendly policies (e.g., R&D tax credits, competition policy) should be complemented by well-designed targeted support for strategic sectors, technologies, or regions.
- **Encouraging competition and innovation** – Policies should avoid protecting incumbents, instead fostering market dynamism and new entrants.
- **Leveraging demand-side instruments** – Public procurement, regulatory standards, and consumer incentives can accelerate industrial transformation.
- **Ensuring transparency and accountability** – Competitive selection, clear benchmarks, and sunset clauses help prevent inefficiencies and policy capture.
- **International cooperation** – Policies should align with trade rules, avoid excessive protectionism, and leverage global markets for innovation and scale.

By adhering to these best practices, industrial policies can support economic resilience, technological progress, and sustainable development while mitigating potential risks such as inefficiency, protectionism, and market distortions.

Source: Millot and Rawdanowicz (2024[64]), Criscuolo et al (2022[61])

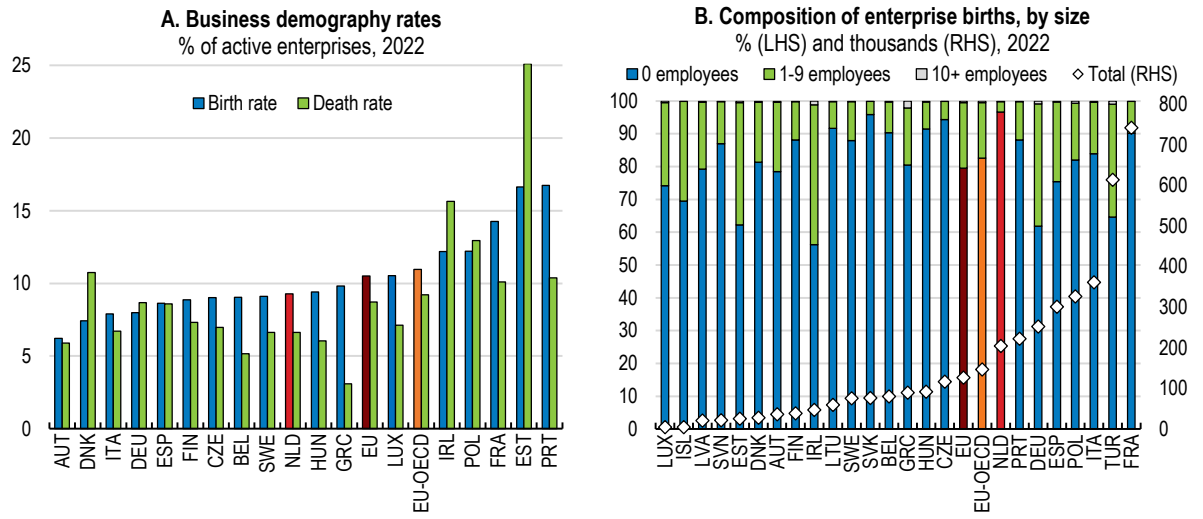
Industrial policy should be carefully designed and implemented following best practices (Box 4.12), taking into account possible negative international implications. In practice, it can be very difficult to design industrial policies in a way that dissuades retaliation in the form of trade protectionism, ensures low costs and delivers tangible benefits (OECD, 2024[67]). The government stated its intention to support domestic industries, in particular to maintain a leader in specific knowledge intensive technological fields, but also with respect to national security considerations. Thus, dual-use technologies can be used for commercial, industrial, or scientific purposes but also have the potential to be adapted for defence, intelligence, or security-related uses. Following the United States, in 2023 the Dutch government introduced and subsequently tightened regulations that control the exports of products that are used in semiconductors. While these export restrictions may support the downstream semiconductor production within the European Union and fitting in within the wider EU Industrial Strategy (Box 4.11), it should be ensured that these restrictions are aligned with global trade rules.

The design of industrial policies needs to consider trade-offs in the domestic economy. Stimulating one sector, or one type of company may come at the expense of other business activities, especially given the current tight labour market. Maintaining and enhancing the domestic competition is also a key enabler for innovation and productivity (André and Gal, 2024[5]). SMEs with less than 50 employees are the backbone of the Dutch economy, accounting for 98% of all businesses and about half of all employment. While multinational enterprises and larger companies have a pivotal role in direct trade activities, SMEs account for a significant portion of suppliers within the broader export network (Freeman, van de Plaat and Wache, 2024[68]). Enhancing domestic competition requires a more vibrant business environment that is currently held back by administrative barriers, a rigid insolvency framework and financing constraints in critical development stages.

4.5.2. Supporting business entry and growth

A strong business climate is essential for fostering entrepreneurship, enabling business growth and supporting export performance. Business dynamism in the Netherlands has declined following the COVID-19 pandemic with birth and death rates of businesses below the EU average (Figure 4.16, Panel A). Enterprise birth rates with zero employees are particularly high in international comparison (Figure 4.16, Panel B), and have been one of the key drivers of business dynamism over the past years. This development was likely influenced by a tax system incentivising employers to hire own account workers (Chapter 1, (OECD, 2023[36])). Consequently, the rates of firm entry, job reallocation, and young firms' contribution to employment growth are lower than compared to the period before the global financial crisis (Freeman et al., 2024[69]). Moreover, market exit rates have declined during and in the aftermath of the COVID-19 pandemic due to policy support and a freeze of bankruptcies procedures. Measures to revive business dynamism such as lean regulation are therefore urgently needed.

Figure 4.16. Business dynamism in the Netherlands is below EU average



Note: A birth (death) amounts to the creation (dissolution) of a combination of production factors with the restriction that no other enterprises are involved in the event. Births (Deaths) do not include entries (exits) into (from) the population due to mergers, break-ups, split-off or restructuring of a set of enterprises. It does not include entries (exits) into a sub-population resulting only from a change of activity. A birth occurs when an enterprise starts from scratch and actually starts activity. An enterprise creation can be considered an enterprise birth if new production factors, in particular new jobs, are created. If a dormant unit is reactivated within two years, this event is not considered a birth. An enterprise is included in the count of deaths only if it is not reactivated within two years. Size class of employees refer to 0+ employees.
Source: Eurostat (database).

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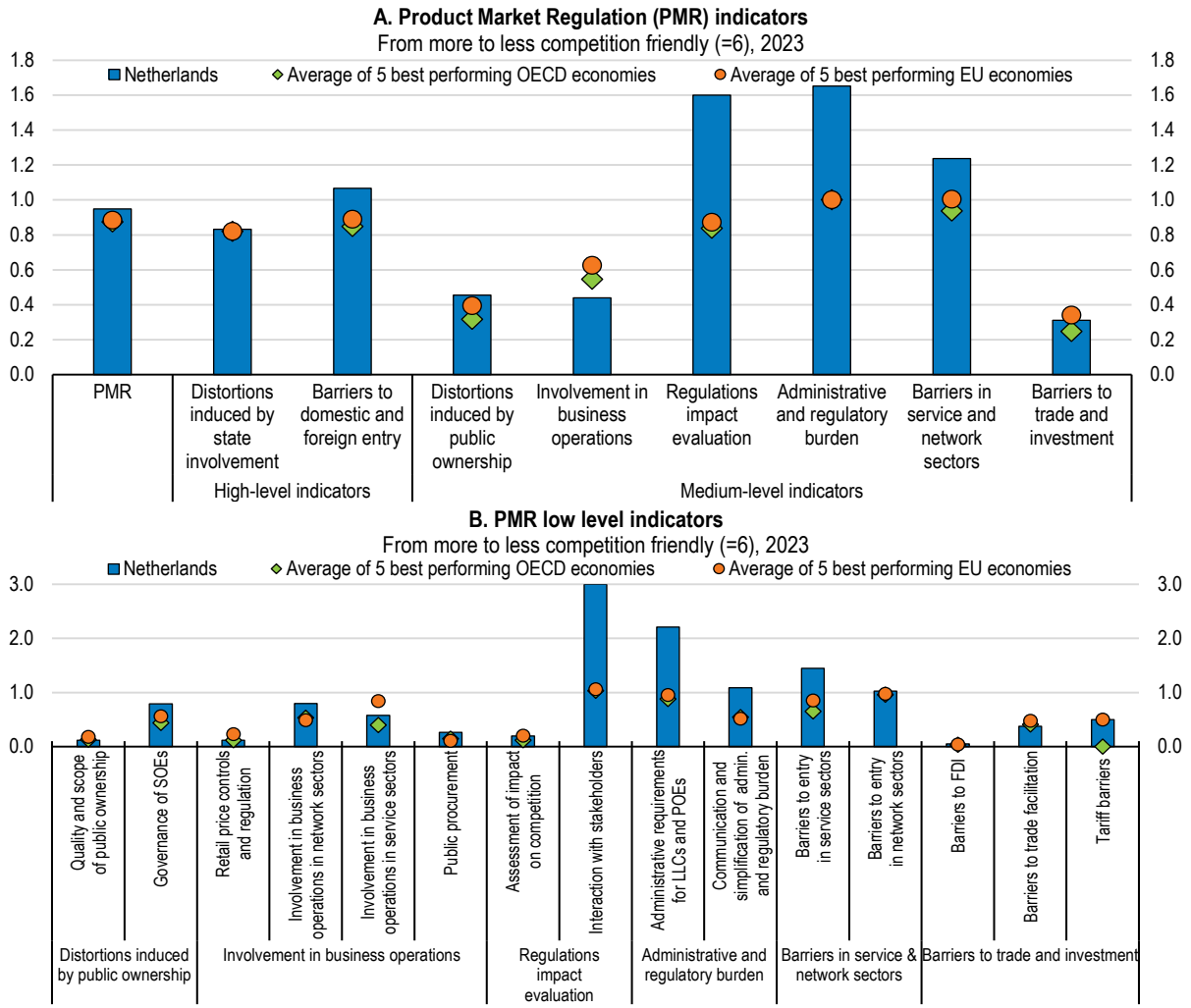
The Netherlands has a regulatory framework that is in general conducive to competition and is among the top five performers in the overall OECD's Product Market Regulation (PMR) indicators (Figure 4.17). However, the government could further simplify administrative requirements necessary to set up new businesses. The government is monitoring the cost of regulatory burden, which is welcome. To ensure that new regulations are designed to be efficient and administratively lean, the regulatory burden cost could be taken into account. Implementing simpler business registration processes, such as reducing unnecessary complexity of new regulation, i.e. in the form of permitting procedure, filling out forms, and reporting and notification requirements, while also ensuring that both information and compliance costs are low, would help in particular SMEs, who usually have less resources and capacities available than bigger enterprises.

Figure 4.17. The Netherlands has a lean regulatory framework in most areas



Note: EU is a simple average of 25 EU member countries. In Panel B, LLCs=Limited Liability Companies and POEs are "Personally-owned Enterprises". In some countries, personally-owned enterprises do not exist or are rarely used. In such instances, only the administrative requirements for limited liability companies are considered. For "Barriers to FDI", the values are derived from the OECD FDI Restrictiveness Index based on the methodology introduced in 2022.
Source: OECD Product Market Regulation (database).

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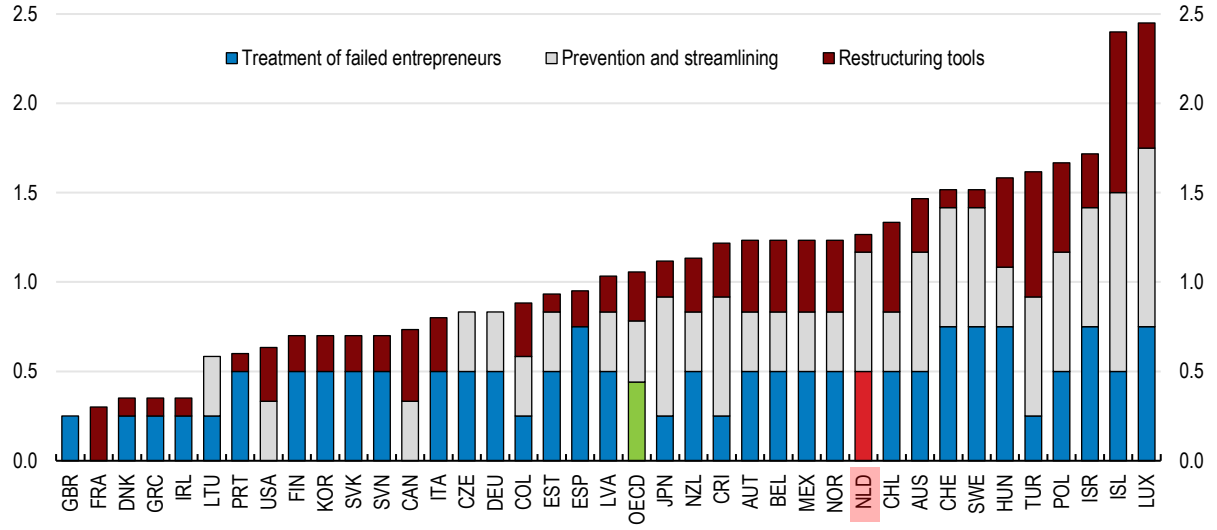
Business entry can also be stimulated through an efficient insolvency framework that reduces the cost of eventual business failure. The Dutch government has made some progress in streamlining its insolvency framework, particularly with respect to restructuring tools (Figure 4.18; (André and Gal, 2024[5])). Since 2021, the Act on Court Confirmation of Extrajudicial Restructuring Plans WHOA allows companies to propose a restructuring plan that can be binding on all creditors if approved by the court, even if some creditors dissent. This act aims to provide a flexible and efficient way for companies to reorganise and avoid bankruptcy. By preventing avoidable bankruptcies and streamlining the exit of non-viable firms, overall business dynamism and aggregate productivity can increase by enabling a more efficient reallocation of resources, reducing failure costs, and encouraging entrepreneurial risk-taking (Demmou and Franco, 2021[70]). Still, the government should further strengthen the early warning system for struggling businesses to enabling them to detect financial distress before it becomes irreversible and allowing for timely intervention and restructuring, for example through training to firms to assess their financial position and financial and debt counselling to companies with financial difficulties. As innovative projects imply a higher risk of failure, a less rigid insolvency framework could particularly have a greater impact on productivity in intangible-intensive industries (André and Gal, 2024[5]).

Figure 4.18. The insolvency framework is relatively stringent

OECD insolvency indicator main sub-components, 2022



Note: The scores for the three main sub-categories are scaled from zero to one, with lower scores indicating more favourable frameworks.
Source: André, C. and L. Demmou (2022), "Enhancing insolvency frameworks to support economic renewal", OECD Economics Department Working Papers, No. 1738, OECD Publishing, Paris, https://doi.org/10.1787/8ef45b50-en.

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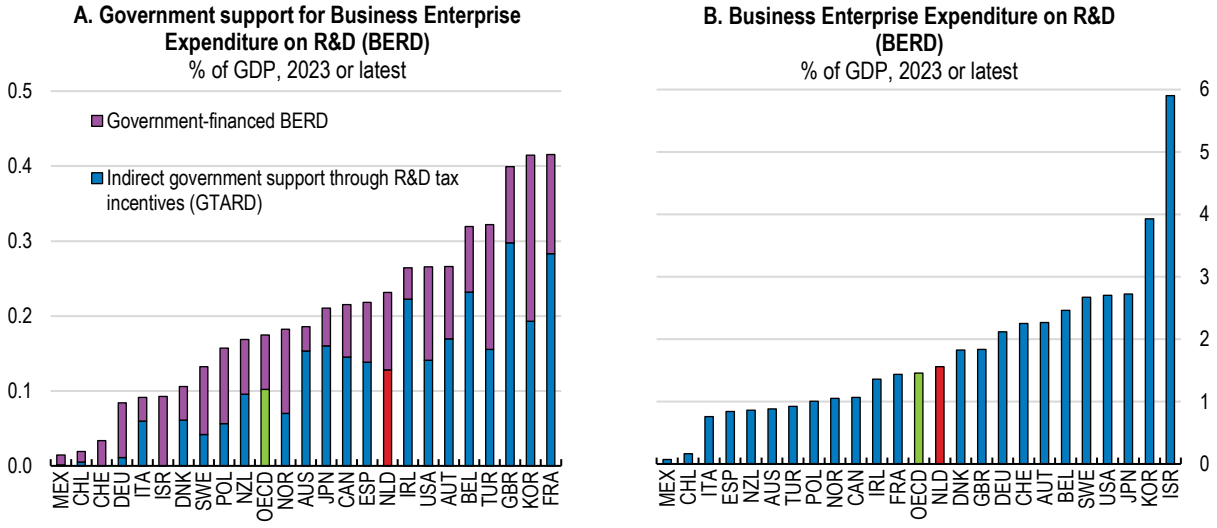
4.5.3. Boosting innovation and access to finance

The Dutch government aims to transition to a high value added, innovative economy to increase productivity and competitiveness (Government of the Netherlands, 2024[46]). Public support for R&D is above the OECD average, with 0.25% of GDP allocated through direct funding and tax support for R&D expenditures (Figure 4.19, Panel A). However, budget cuts to innovation programmes, including a EUR 5.5 billion reduction in the National Growth Fund and a EUR 1 billion decrease in education and research funding (see Chapter 1), have increased the pressure on private sector investment to finance innovation, which at 1.6% of GDP remains below the OECD average of 2% (Figure 4.19, Panel B). While the Dutch funding landscape is in general well developed, funding needs for innovative higher risk, higher investment enterprises call for continuous policy support.

Figure 4.19. R&D investment in the Netherlands is above OECD average



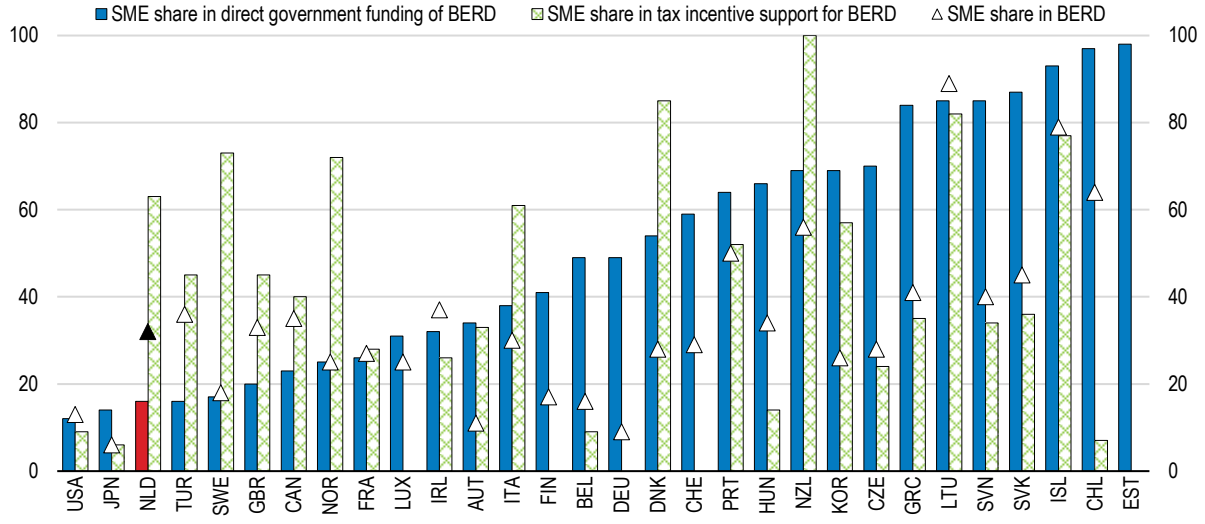
Source: OECD R&D Tax Incentives (database).

StatLink https://stat.link/huykc5

The Dutch government supports businesses to invest in innovation primarily through broad tax credits, like the Research and Development Tax Credit (WBSO) and the Innovation Box. In addition, there are several smaller funds available, not only to incentivise innovation but also for supporting businesses to expand to new markets as described above. However, varying administrative requirements and timelines make accessing these funds complex, particularly for smaller firms with limited resources. As a result, large firms receive a greater share of direct R&D funding than in most OECD countries, while smaller firms benefit comparatively more from R&D tax support through the WBSO (Figure 4.20). As detailed in previous OECD work, while the tax incentives through the WBSO and the innovation box are technology neutral, they benefit technologies that are closer to the market by design (OECD, 2023[36]; 2021[40]). Thus, the WBSO helps improve liquidity in early innovation stages, whereas income-based tax incentives like the Innovation Box are less effective for early-stage enterprises that typically have low revenues but high R&D costs. To ensure that SMEs benefit more from public funding, the government should aim to reduce fragmentation in funds and investment packages to lower administrative burden for firms as already recommended in the previous *Economic Survey* (OECD, 2023[36]). Initiatives to improve co-operation between the different agencies involved in the execution of financial instruments, such as Invest-NL, Regional Development agencies and the Netherlands Enterprise Agency is a positive first step as it could help to reduce the administrative burden, particularly for smaller businesses, through improved information exchange.

Figure 4.20. Small firms benefit comparatively more from R&D tax support than direct R&D funding

R&D policy spending by policy type, % of Business R&D Expenditure (BERD), 2021 or latest



Note: International comparability may be limited, e.g. due to differences in SME definitions for business R&D and R&D tax relief reporting purposes. SMEs figures generally refer to enterprises with 1-249 employees (i.e. excluding firms with zero employees), unless specified otherwise. For Austria, Belgium and Norway, figures refer to small enterprises rather than SMEs.
Source: OECD (2023), OECD R&D Tax Incentives Database, 2022 edition.

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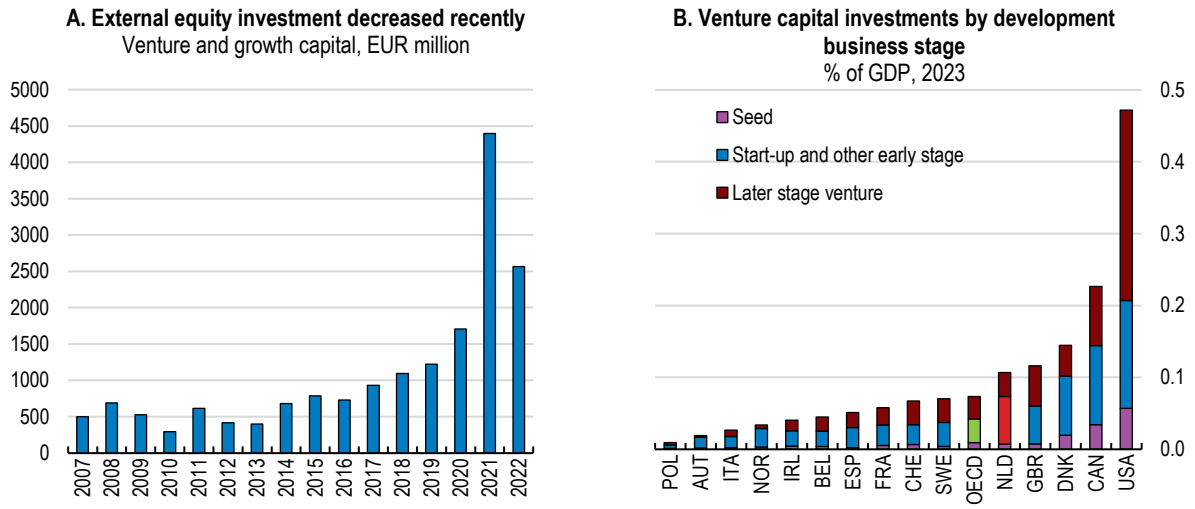
Venture capital investments in the Netherlands have increased significantly compared to other European countries, yet access to funding remains particularly challenging in the seed stage (Figure 4.21). Only 19% of Dutch firms securing seed funding manage to raise more than EUR 10 million, a lower success rate than in Germany and Switzerland (Rijksfinancien, 2024[71]). Despite initiatives like the Seed Capital Scheme, which aims to strengthen the venture capital ecosystem and thereby indirectly supports early-stage companies (OECD, 2024[72]), financing bottlenecks have been identified for firms needing over EUR 50 million before commercialisation. This challenge is particularly acute in deep tech, where high R&D costs and uncertain market timelines deter private investors (Techleap, 2024[73]). Recognising this issue, the government has introduced a new tender in 2025 specifically targeting deep-tech funds. Research by the OECD has shown that government-backed venture capital can effectively channel funding to underserved firms, especially when co-investing alongside private capital (Berger, Dechezleprêtre and Fadic, 2024[74]).This development is therefore welcome and the strengthening of Invest-NL by

EUR 900 million for 2025-2027 is another step in addressing these gaps, with about EUR 250 million allocated to realise a blended finance instrument to mobilise private capital and stimulate high-risk investment (Government of the Netherlands, 2024[46]). Monitoring implementation and ensuring that Invest-NL has sufficient resources to provide tailored financing solutions for innovative companies will remain important. Moreover, the funding for Invest-NL replaces only a small fraction of budget cuts to innovation programmes, including a EUR 5.5 billion reduction in the National Growth Fund and a EUR 1 billion decrease in education and research funding. The government should therefore regularly evaluate whether funding programmes for innovative enterprises effectively address financing gaps across all stages of company growth.

Figure 4.21. The Netherlands' venture capital market has grown, but seed financing remains limited



Note: Buyouts, turnarounds and replacement capital are excluded from venture and growth capital.
Source: OECD (2024), Financing SMEs and Entrepreneurs 2024.

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Unlocking institutional investment can further improve access to finance. The lack of strong capital markets in the Netherlands and more broadly in the European Union has been found to limit funds for high-risk, large-scale investments, leading to some of the most innovative companies to relocate abroad, particularly to the United States, for better financing options (Government of the Netherlands, 2024[46]). Underdeveloped capital markets reflect to some degree a lack of deeper pools of long-term capital provided by institutional investors. Dutch pension funds in particular could play a larger role in SME financing, as they manage substantial assets totalling EUR 1 568 billion by the end of 2024 (DNB, 2025[75]). Despite being among the largest pension investors in the European Union, both in absolute terms and relative to GDP (DNB, 2025[75]), Dutch pension funds allocate relatively little capital domestically. It is welcome that the Dutch government is committed to the development of a European Capital Markets Union (CMU) (Government of the Netherlands, 2025[76]), which could help address a lack of scale and allow SMEs to access a more diverse range of funding sources (Draghi, 2024[28]). In addition to continue developing the domestic capital market, actively advocating for a European Capital Markets Union at the EU level should be maintained. Reducing barriers to cross-border investment and investment in national capital markets could help shifting pension fund investment to Europe and to the Netherlands by reducing capital costs for firms, making capital markets more attractive for European firms who want to raise money, and offering pension funds some alternatives for equity investment to markets abroad.

A more diverse financing landscape needs transparent and easily accessible information for entrepreneurs. Already, the financing landscape for SMEs in the Netherlands has diversified with the emergence of alternative financing options over recent years. While most SMEs seeking financing under EUR 1 million continue to rely on traditional bank loans, there is a growing utilisation of non-bank funding sources, such as crowdfunding or leasing (OECD, 2024[72]). This diversification offers SMEs more choices, but also adds complexity in identifying the most suitable

financing options, thereby increasing search costs. Recognising this gap, the Dutch government, in collaborating with public and private organisations and financiers, established a centralised financing hub. This initiative aims to simplify access to financing by offering a matching tool and support services for entrepreneurs, which has been advocated by the OECD and is welcome (OECD, 2024[77]). In addition, a government subsidised organisation for alternative finance providers, the "Stichting MKB Financiering (SMF)", provides certifications for financial advisors that meet a set of criteria and are audited on a regular basis. This is welcomed, and it should be ensured that information on certified financial advisors is transparent and easily accessible to reduce search costs for entrepreneurs and allowing them to receive reliable financial support.

Table 4.2. Past recommendations on R&D investment

Recommendations from previous surveys	Actions taken since the previous 2023 Survey
Provide specific support to green technologies at early stages of development, including further public investment in green infrastructure and technology deployment, such as carbon capture, utilisation and storage.	In August 2024, the Dutch government introduced the Investment Subsidy Manufacturing Industry Climate Neutral Economy scheme, allocating EUR 148 million to support cleantech companies in producing, storing, and utilizing renewable energy. In October 2023, the government set aside EUR 250 million specifically for small-scale hydrogen projects, each with a capacity of up to 50 megawatts.
Create credit and collateral registries for companies to ease SME's access to bank loans.	Research on a credit-register concluded that it would not provide additional benefits. Rather, the Dutch government is working together with banks and alternative finance providers to open up access to relevant data sources in order to lower information asymmetry.
Include promoting competition in the mandate of the regulatory sandbox to boost alternative financing targeted to SMEs.	No action taken.

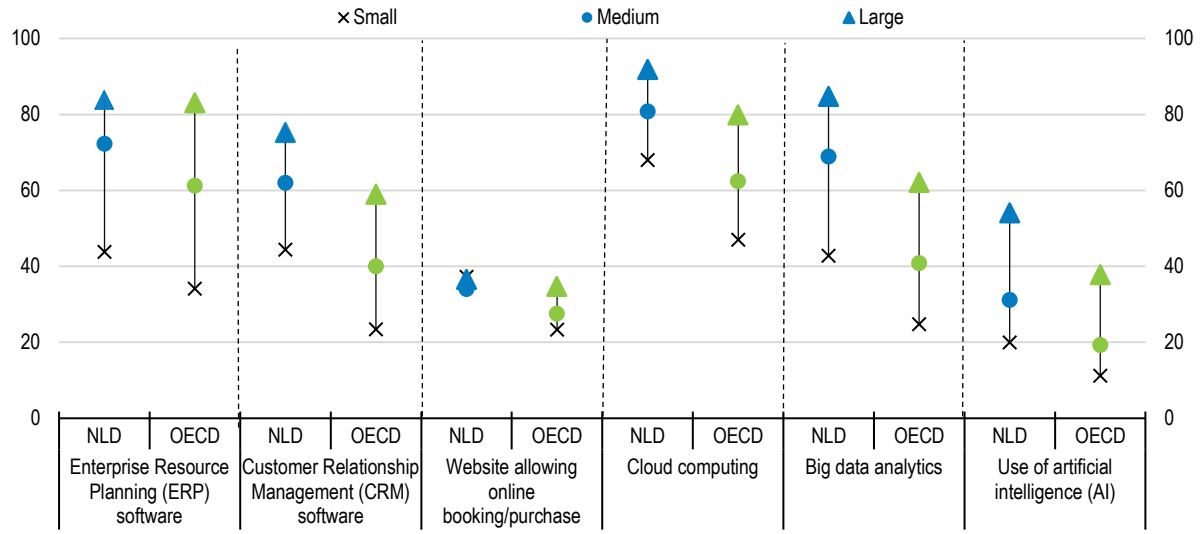
4.5.4. Supporting businesses to raise competitiveness by addressing labour market constraints and developing talent

Driving innovation, productivity, and overall competitiveness requires not only investment but also a workforce equipped with the skills to implement and adapt to new technologies and digital tools. Dutch businesses are well placed to leverage digitalisation and new technologies to enhance efficiencies and streamline operations. However, persistent labour shortages and skills mismatches, as discussed in the previous *Economic Survey* (OECD, 2023[36]) and Chapter 1, particularly in STEM fields pose challenges for businesses seeking to fully capitalise on these opportunities. Addressing these workforce constrains is critical to ensure that technological advancements translate into sustained productivity gains and long-term competitiveness.

Dutch businesses exhibit higher digital adoption rates than the OECD average, but significant disparities remain within the country. Smaller firms are lagging larger ones (Figure 4.22). Progress from initiatives like the "Accelerating Digitalisation of SMEs", launched in 2018, to equip small businesses with the tools needed to succeed in global markets, has been held back by labour shortages in critical digital fields like artificial intelligence, data analytics and cybersecurity. Given that labour participation in the Netherlands is already among the highest within the OECD (Chapter 1, (OECD, 2023[36])), the government should focus on facilitating migration for shortage occupations, particularly in the digital sector to alleviate pressures in the short-term. As proposed in the last *Economic Survey*, the government could consider streamlining and accelerating existing processes of recognising and validating qualifications obtained abroad, as well as eliminating the labour market test for shortage occupations.

Figure 4.22. Smaller firms less commonly use digital technologies than larger ones

% of firms, 2024 or latest year available



Note: Small firms have 10-49 workers, medium-sized 50-249, large 250+; OECD refers to the average of OECD countries with available data.
Source: OECD ICT Access and Usage by Businesses (database).

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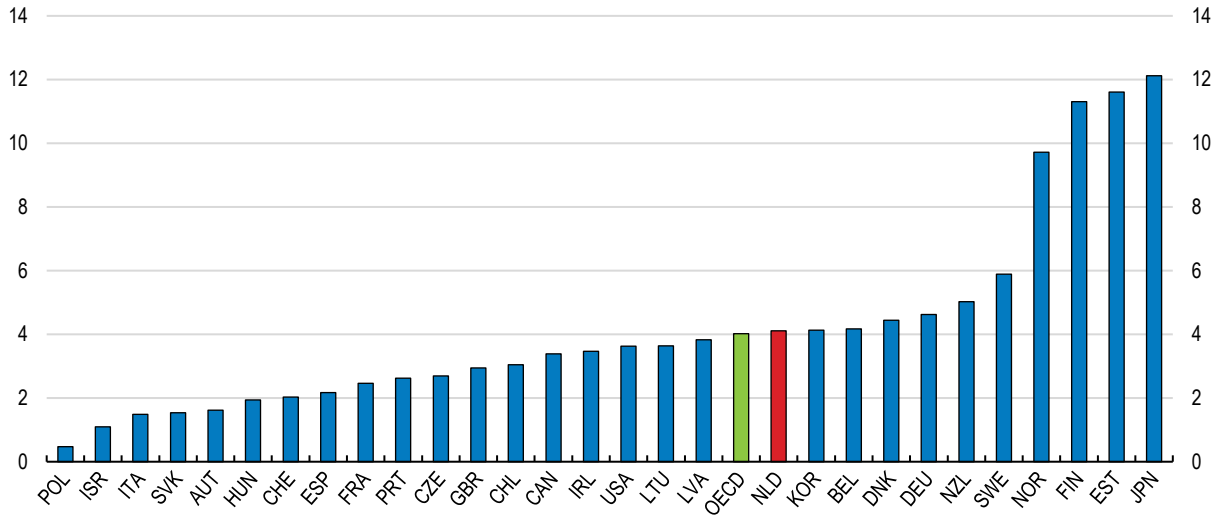
Fast-changing skill demand calls for the development of a stronger culture of lifelong learning. While adults in the Netherlands have strong competencies in literacy, numeracy and problem solving compared to the OECD average (OECD, 2024[78]), the share of workers reporting insufficient computer and software skills for their job at 4% is above peer countries such as the United States, United Kingdom and France (Figure 4.23). The government must address digital skill shortages by developing targeted training programmes to bridge digital skill gaps and increase SMEs adoption of AI and digital tools are lacking scale. While some smaller scale adult learning programmes exist, such as the National Microchip Talent Program, that aims to train 30 000 extra workers for the tech and semiconductor sector by 2030, a stronger role for government support for lifelong learning programmes with a focus on digital skills is justified by the existence of externalities from investment in industry-specific skills. In addition, smaller businesses often face higher fixed costs contributing to a significant gap in lifelong learning investment between SMEs and larger companies (Statistics Netherlands, 2024[79]). The government should consider to provide stronger incentives for co-financing by employers by leveraging potential synergies with the Learning and Development Incentive Scheme for SMEs, whereby entrepreneurs receive financial incentives to support their employees' development and to offer apprenticeships to outside workers and jobseekers, as discussed in the previous *Economic Survey* (OECD, 2023[36]).

The government has acknowledged the need for retraining and upskilling through lifelong learning. It is welcome that the Green and Digital Jobs Action Plan, which brings together employers and education exports to tackle shortages in occupations related to the green and digital transition, is continued while also exploring best practices in adult learning programmes. In 2022, an individualised training scheme (STAP) was implemented, similar to individual learning accounts that are currently implemented in Belgium or France (OECD, 2024[80]). While the STAP has performed better than previous schemes in the Netherlands in reaching individuals with secondary education and with positive perceived effects for participants (SEOR, 2024[81]; 2024[82]), the scheme was cancelled in 2023 as an austerity measure aimed at contributing to the government-wide budgetary constraints, after concerns about misuse and insufficient quality standards. As this scheme with a EUR 218 million annual budget, has not been replaced with an alternative, public spending on training in general continues to fall short of estimated requirements (OECD, 2023[36]). The recent announcement of a temporary training subsidy that is linked to socially crucial sectors is a welcomed first step (Government of the Netherlands, 2024[83]), but a more permanent solution for lifelong training is needed. Efforts to develop an adult training programme that not only incorporates quality controls but also prioritises sectors with most pressing labour needs, as extensively discussed in the previous

Economic Survey (OECD, 2023[36]), should be continued. Further, the government should shift the composition of active labour market policies towards training initiatives for digital skills to ensure workforce adaptability.

Figure 4.23. Many workers report inadequate computer and software skills for their job

Employed adults aged 25-65 who are not self-employed, 2023



Note: OECD average refers to 29 OECD member countries. Data for GBR refer to England and for BEL to the Flemish Region. Does not include adults who were only administered the doorstep interview due to a language barrier. Figure plots the share of respondents who answered, "Some of my skills are lower than what is required by my job and need to be further developed," to the question, "Overall, which of the following statements best describes your skills in relation to what is required to do your job?", and marked "Computer and software skills" in response to the question, "Which skills were you thinking of when you answered this question?".
Source: OECD (2024), Do Adults Have the Skills They Need to Thrive in a Changing World?: Survey of Adult Skills 2023.

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The increasing demand for high-skilled workers in technical fields calls for an increased focus on sciences, technology, engineering and mathematics (STEM) education. Compared to the OECD average of 27% of new students enrolled in tertiary education, relatively few Dutch students (21%) pursue degrees in STEM fields (OECD, 2024[84]). In the medium term, this will add further pressure to meet the growing demand for high-skilled workers in technical fields and risks impeding technological advances with adverse effects on trade competitiveness. As discussed in the previous *Economic Survey* (OECD, 2023[36]), Dutch universities are public and rely heavily on government financing, therefore cuts to their budgets of about EUR 235 million per year as announced in the 2024 September fiscal package, could have detrimental consequences on the offer of STEM places. In international comparison, the current core public funding allocation model is already detrimental to STEM programmes, as they are attributed a lower weight than under funding formulas in comparable OECD systems (OECD, 2024[85]). Increasing the supply of university STEM programmes should remain a government priority, with adequate funding to expand STEM program capacity and meet evolving skill demands while maintaining curriculum quality. As discussed in the previous *Economic Survey* (OECD, 2023[36]), raising the weight given to STEM students in the core funding formula could incentivise higher education establishments to increase enrolment.

Finally, basic skills are essential for all learning and professional development, serving as the cornerstone for obtaining basic qualifications. Though relatively strong by international standards, the 2022 OECD PISA results of Dutch pupils show a decline in foundational skills like math, science and reading since 2018 (OECD, 2023[86]). To ensure that the young are prepared to meet the skills for the future of work, educational curricula must be sufficiently flexible to adapt to changing skill needs and evolving technologies. For instance, the rise of generative AI models capable of handling both routine and cognitive tasks present new challenges that may require a significant rethinking of education systems, including tertiary education (OECD, 2023[87]). This may involve more focus on developing critical thinking and evidence-based research skills, enabling students to evaluate the quality and reliability of AI-generated content. The government has already taken first steps to update the curriculum in primary

and secondary education with a new core objective of digital literacy. The government should continue to align national curricula with evolving skill demands and emerging technologies, and providing sufficient funding for teachers' digital training to allow them to better prepare students for a rapidly changing technological landscape.

Table 4.3. Past recommendations on education and lifelong learning

Recommendations from previous surveys	Actions taken since the previous 2023 Survey
Reward teaching in locations and schools where shortages are the most significant with extra financial incentives or priority transfer to a school of choice after a given tenure.	The Dutch government has implemented policies to address teacher shortages by offering financial incentives, particularly in regions where shortages are most acute.
Increase mobility between academic and vocational tracks by merging some of the existing pre-vocational tracks and providing schools with incentives to organise programmes across tracks.	The VABOK subsidy program has been introduced to support collaboration between secondary and tertiary education. It aims to ensure continuous coaching, strengthen program alignment, and foster shared activities across educational levels.

Table 4.4. Findings and Recommendations to preserve trade competitiveness amidst increasing global fragmentation

FINDINGS	RECOMMENDATIONS (key in bold)
Making supply chains more resilient	
The Netherlands is deeply integrated into global value chains, deriving significant gains from trade but exposing the economy to vulnerabilities. The Netherlands has developed the 2023 Geo-Economic Monitor to assess trade dependencies and vulnerabilities, but its effectiveness is limited by data availability and accuracy.	**Develop a national trade risk strategy that integrates scenario analysis and crisis response mechanisms to prepare for global trade disruptions**. Enhance data collection and regularly update tools to assess exposure to trade dependencies and improve early detection of vulnerabilities in supply chains.
Demand for critical raw materials is rising, but primary materials are geographically concentrated posing potential supply risks. At the same time, the recycling and reuse of critical raw materials is insufficient.	Continue to diversify import sources while at the same time introducing stronger incentives to encourage businesses to adopt sustainable practices and increase the reuse of critical raw materials. Mandate manufacturers to provide detailed product information that facilitates repairs and extends product lifespans. Adopt a cross-sectoral policy approach integrating energy, industry and circular economy goals to align 2030 and 2050 transition targets.
Despite being well placed to capitalise on growing export opportunities in clean energy sources as neighbouring countries decarbonise their economies, investments in clean hydrogen remain held back by regulatory uncertainty.	Establish a stable, long-term framework for offshore wind development that is coordinated with the expansion of hydrogen production facilities. Develop clear industrial decarbonisation strategies and mandates for low-emission hydrogen use in key industries to stimulate demand and investment.
Leveraging digitalisation and AI to improve trade performance	
The Netherlands has effective border management, but lags peers in areas such as internal and external border agency cooperation and appeal procedures, creating inefficiencies in trade facilitation.	Consider introducing new technologies in border procedures to minimise errors, reduce delays, and enhance cooperation between parties. Strengthen inter-agency communication and information on border management.
The Netherlands has made significant progress in AI driven logistics and customs efficiency, particularly in critical transport infrastructure. However, funding cuts challenge ongoing collaboration between businesses, academia, and government to develop AI applications for trade.	Review and expand funding opportunities to ensure that key logistic infrastructure and custom procedures continue benefitting from AI-driven innovations.
Smaller businesses are more vulnerable to cyber threats due to limited awareness, constrained capacities and resources.	Continue to promote campaigns to increase cyber resilience of citizens and SMEs.
Raising international competitiveness by fostering a dynamic and innovative business environment	
The Dutch government is updating its industrial strategy and the top sector programme to ensure economic resilience in response to geopolitical shifts.	**Maintain a non-distortive approach to industrial policy that fosters innovation and competition rather than excessive market intervention.**
Despite lean product market regulations, business creation rates are below OECD peers, partially due to complex administrative procedures for new businesses.	Reduce administrative burdens for business creation by factoring in regulatory costs assessments for new policies. Implement simpler business registration processes to encourage entrepreneurship.
The Netherlands has improved its insolvency framework, but low exit	Strengthen the early warning system for struggling businesses to enable

rates prevent efficient reallocation of resources.	timely intervention and restructuring.
The funding landscape for innovative enterprises is in general well developed, but newly introduced funding schemes for high-risk, high-cost investments are partially offset by budget cuts to innovation programmes.	**Regularly evaluate whether funding programmes for innovative enterprises effectively address financing gaps across all stages of company growth.** Monitor implementation and ensure that Invest-NL has sufficient resources to provide tailored financing solutions for innovative companies.
The lack of strong capital markets in the Netherlands and more broadly in the EU limits funding for high-risk, large-scale investments. Institutional investors, and Dutch pension funds in particular, could play a larger role in developing domestic and EU capital markets.	Continue to develop the domestic capital market and actively advocate for a European Capital Markets Union.
Dutch businesses are well-positioned to improve competitiveness through digitalisation, but persistent ICT workforce shortages are holding back SMEs from fully utilising new technology and digital tools. Targeted training programmes to increase adoption of AI and digital tools are lacking scale and SMEs are particularly lagging larger companies in investing in lifelong learning. The individualized training scheme has been cancelled after 2 years in 2023 after concerns of misuse and of quality standards.	**Develop targeted training programmes to bridge digital skills gaps and increase SMEs' adoption of AI and digital tools.** Streamline and accelerate processes for recognising and validating qualifications obtained abroad. Eliminate the labour market test for occupations facing persistent skills shortages. Shift active labour market policies towards training initiatives for digital skills to ensure workforce adaptability. Ensure quality control of lifelong learning programmes and provide stronger incentives for co-financing by employers.
The demand for technical and AI-related skills is rising, but enrolment in STEM university programs is below the OECD average, and budget cuts limit universities' ability to expand education.	Expand university STEM program capacity by adjusting the core funding model through raising weights for STEM students.
While high by international standards, Dutch PISA scores for foundational skills needed for adopting emerging technologies have been deteriorating since 2018, raising concerns about long-term digital readiness.	Align national curricula with evolving skill demands and emerging technologies to ensure students are prepared for AI and digital economy transformations.

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The Dutch economy kept outperforming peers as it weathered global crises, but interrelated supply constraints and persistent structural challenges require continued policy action. Safeguarding strong public finances without undermining growth requires fiscal prudence and adjustments, including by reallocating spending towards productivity-enhancing investments, and containing long-term spending pressures through a balanced mix of revenue-raising measures and targeted spending cuts. As global dynamics shift, preserving trade-driven prosperity will require reforms that strengthen supply chains, expand digitalisation in trade, and create a more dynamic business environment to boost innovation and investment. Accelerating emission reduction efforts, addressing electricity grid congestion, and ensuring long-term policy consistency are critical to achieving the 2030 emission targets and the net-zero goal by 2050, while also enhancing energy security and allowing business expansion. Increasing housing supply through streamlining land use and permitting policies, in complement to long-term housing market reforms, can ease affordability concerns and support labour mobility.

SPECIAL FEATURES: ADVANCING CLIMATE CHANGE MITIGATION AND ADAPTATION POLICIES; TOWARDS A MORE ACCESSIBLE AND SUSTAINABLE HOUSING MARKET; PRESERVING TRADE COMPETITIVENESS.

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