Recovery and Resilience Plan
The Netherlands

Budget

The Dutch Economic Recovery Plan has a total budget of **€5.4 billion in grants**, and it did not include a request for REPower EU pre-financing.

The Dutch Plan has been structured with a comprehensive approach to tackle key challenges in the housing market and to make the built environment more sustainable.

Key Priorities

Priority 3 of the Dutch Recovery Plan, which focuses on improving the housing market and enhancing the sustainability of the built environment, is organized into two main components:

1. **Improving the Housing Market**
2. **Making the Built Environment More Sustainable**

Improving the Housing Market

This priority focuses on crucial reforms and targeted investments to address long-standing issues in the housing sector. The estimated total cost for these measures is **€538 million**.

Key Reforms:

- **Abolition of the Empty Value Ratio**: This reform ensures that rental income from private investors' properties is taxed more fairly, reflecting actual market values.
- **Abolition of the Extended Donation Exemption for Owner-Occupied Homes**: This measure aims to reduce housing market inequality by removing a gift tax exemption that primarily benefited wealthier households.
- **Management of the Housing Supply**: The Dutch government has set performance agreements with provinces to construct 900,000 new homes by 2030, focusing on affordable housing to meet the demands of various groups, including the elderly and status holders.

- **Tightening Income-Related Higher Rent Increases**: Landlords are now allowed to apply higher rent increases based on tenants' income, ensuring that rental prices are more closely aligned with household incomes.

Key Investment:

- **Housing Construction Impulse**: This investment accelerates the construction of affordable homes by providing municipalities with financial support for housing projects that include a significant percentage of affordable housing.

Challenges in the Housing Market

The Dutch housing market faces significant challenges, including growing inequality between homeowners and renters, with homeowners holding substantially more wealth. House prices have nearly doubled since 2013, further exacerbating the gap between buyers and renters. The Central Planning Bureau (CPB) emphasizes the importance of addressing these disruptions for a more balanced housing market.

Making the Built Environment More Sustainable

This priority aims to reduce CO_2 emissions and improve energy efficiency in line with European and Dutch climate goals. The total estimated cost for these measures is €849.3 million.

Key Investments:

- **Subsidy Scheme for Sustainable Social Real Estate**: This scheme provides financial support to make social real estate more energy-efficient, including measures like insulation, heat pumps, and energy-efficient lighting.
- **Investment Subsidy for Sustainable Energy and Energy Saving (ISDE)**: A €288 million investment to promote the installation of hybrid heat pumps, which significantly reduce CO_2 emissions compared to traditional heating methods.

Challenges in Sustainability

Making the built environment more sustainable is a complex challenge due to the unique combination of real estate and its users in each situation. CO_2 emissions in the built environment have decreased by about 25% since 1990, but a faster pace of sustainability improvements is needed to meet future targets.

Link with the European Semester

According to the 2022 European Commission's analysis of the Dutch RRP, the latter is expected to address a significant subset of the challenges identified in the relevant 2019, 2020 and 2022 country-specific recommendations. The plan includes an extensive set of mutually reinforcing reforms and investments aimed at fostering the green, digital and energy transitions, supporting sustainable agriculture, transport and research and innovation.

As such and taking into account the size of the financial contribution, the plan satisfactorily addresses most of the 2019, 2020 and 2022 country-specific recommendations (CSRs). However, in some cases, **the measures in the plan alone are not sufficient to ensure that the CSRs are addressed adequately**:

- This is notably the case for the CSR related to the debt bias and distortions in the housing market which has only been addressed in a partially satisfactory manner as the plan does not sufficiently address the debt bias in the housing market, where generous mortgage interest deductibility remains in place.

Measures and investments linked to the CSRs and relevant to housing include:

- Reforms and investments **to accelerate the development of renewables** and **improve energy efficiency, in particular in buildings** (CSR 3 in 2019, CSR 3 in 2020 and CSR 4 in 2022).
- Measures aimed at increasing public and private investment and promoting research and innovation (CSR 3 in 2019 and CSR 3 in 2020). **In the area of housing, the plan includes an investment project aimed at unlocking housing construction.**
- Measures to unlock investments in the green transition, including removing obstacles for the development of offshore wind farms and stimulating the roll-out of heat pumps. The plan **partially addresses the challenges related to the housing market and high private debt in the Netherlands** (CSR 1 in 2019 and CSR 1 in 2022).
- Extensive proposals to boost housing supply, through investment support and reforms to speed up the planning process. On the demand side, **the possibility of tax-free donations for house purchases is abolished**, thereby **lowering the incentive to take a large debt to purchase a house**. The plan also contains measures with regard to the rental market, **to reduce distortions in the social rental market** and **reform the taxation of private rental houses**. However, several distortions in the housing market remain unaddressed by the plan. The debt bias created by the generous mortgage interest deductibility remains in place, despite a gradual reduction in the deductibility rate in recent years. Borrowing limits also remain high in international comparison. This creates incentives for households to hold large debt positions, which makes them vulnerable to economic shocks. Finally, the plan does not contain measures to significantly expand the private rental market, which is expected to remain small and therefore rather expensive.

In June 2024, the European Commission released the country report of the Netherlands highlighting that the Dutch Plan is linked to the broader objectives of the European Semester, which serves as a framework for coordinating economic policies across EU member states. The Netherlands, known for its highly competitive economy, faces several structural challenges that could hinder its long-term growth and resilience. Labour shortages, housing market imbalances, and environmental constraints are among the key issues that threaten to undermine the country's competitiveness and its ability to meet crucial policy goals.

According to the European Commission, the **overvaluation of the housing market, driven by low mortgage interest rates and insufficient housing supply, has led to a significant affordability crisis**. Although house prices fell slightly in 2023 due to rising interest rates, this decline did little to alleviate the broader issues of affordability and accessibility, particularly given the persistent shortage of housing and the high cost of construction.

The Dutch RRP, **through its focus on improving the housing market and making the built environment more sustainable, aims to tackle these issues head-on**. However, the effectiveness of these measures will depend on **how well they are integrated with broader European efforts to enhance economic resilience**. The challenges related to housing, labour markets, and environmental regulations are not isolated to the Netherlands but are part of a wider European context that the European Semester seeks to address. Therefore, the successful implementation of the Dutch RRP is not only crucial for the Netherlands but also for its contribution to the EU's collective economic stability and progress.

Link with NECP

According to its country report, the Netherlands has made **progress in the green transition**, with more action needed to develop and implement ambitious green measures, including to meet its 2030 climate target, on biodiversity and ecosystem protection, and other areas.

There is scope for increasing The Netherlands' target for renewable energy in its final updated NECP. The Netherlands' **renewable energy contribution set in its draft updated NECP, 27% by 2030, is below the required contribution of 38.8%**.

Climate target

The Dutch plan dedicates **EUR 2.25 billion to the climate objectives, which represents 47.8% of the plan's total allocation** in non-repayable financial support. This exceeds the minimum climate target of 37% as set out in the RRF Regulation. The investments included in the Component 'Promoting the Green Transition' (Component 1) make up the largest share of the total climate contribution of the plan. These investments contribute towards climate change objectives through a variety of interventions, ranging from broad investments supporting the deployment of offshore wind energy and the restoration of Natura 2000 areas, to more specific investments upscaling the production of green hydrogen and introducing sustainable mobility solutions. These investments are complemented by a package of fiscal greening reforms having the objective of setting a fair price for GHG emissions and energy consumption so that citizens, businesses and social institutions have a stronger incentive to adapt their behaviour towards supporting the green transition.

Energy efficiency

The plan earmarks a substantial financial envelope to improve the energy efficiency of the built environment. **The 'Subsidy scheme for sustainability of public sector real estate'** aims to incentivise the owners of buildings with a social function (i.e. local and regional authorities, educational institutions, health institutions and other cultural and welfare institutions) to improve the energy performance of their buildings through renovation actions. The 'Investment subsidy for renewable energy and energy savings (ISDE)', providing grants for investments in small-scale heat pumps, solar boilers, insulation measures and heat connections, is extended **using RRF funds to increase the subsidy rate for heat pumps from 20% to 30% per installation**. By reducing the energy consumption of buildings and using alternative forms of energy generation in buildings, both measures contribute towards the Netherlands' objective to achieve maximum CO2 emissions by the built environment of 10 Mton in 2030.

Dutch national targets for A CO2 free built environment in 2050

In 2030:

- 200.000 existing dwellings/year are moving away from natural gas;
- 1,5 million houses and 15 % of u-building and social property are natural gas free;
- at least 20 % of local energy consumption (including EV) within the built environment is generated sustainably.

Acceleration of energy renovations in the built environment

- Enthusiasm of building owners and users for energy renovation (MVI)
- Robotisation, digitalisation and integration of installation technology in building elements
- Energy concepts (incl. chain optimisation)

Sustainable heat (and cold) in the built environment (including greenhouse horticulture)

- Pacific, compact, smart, cost-efficient heat pumps
- Delivery, ventilation and tap water systems
- Smart compact thermal battery
- Smart low/mid-temperature heat grids
- Large-scale thermal storage
- Geothermal

Balancing the new energy system in the built environment

- Local system optimisation
- Control algorithms for saving, energy optimisation and sector coupling
- Data architecture and trading systems
- Flexibility and electricity storage

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