Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
KINGDOM OF THE NETHERLANDS	Assigned Ratings/Outlook: **AAA /stable**	Type: Monitoring, Unsolicited with participation
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	26-08-2016 18-06-2021 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 18 June 2021

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "AAA" for the Kingdom of the Netherlands. Creditreform Rating has also affirmed the Netherlands' unsolicited ratings for foreign and local currency senior unsecured long-term debt of "AAA". The outlook is stable.

Contents

Rating Action 1
Key Rating Drivers 1
Reasons for the Rating Decision and Latest Developments 2
Macroeconomic Performance 2
Institutional Structure 5
Fiscal Sustainability 7
Foreign Exposure 7
Rating Outlook and Sensitivity ...11
Analysts 11
Ratings* 11
Economic Data 13
ESG Factors 11
Appendix 13

Key Rating Drivers

1. Very strong macroeconomic fundamentals, as the highly competitive Dutch economy features a high level of wealth and productivity, as well as a high degree of diversification; labor market conditions remain resilient and credit-positive; these strengths are somewhat balanced by still high private sector indebtedness, which we follow closely in light of the risk of rising insolvencies once government support measures phase out
2. While the recession in 2020 was less severe than elsewhere in Europe, also due to exceptional aid measures and strengths related to its economic resilience and flexibility, we expect a broad-based recovery this year which should accelerate in 2022
3. The Netherlands were repeatedly among sovereigns with the highest perceived institutional quality worldwide over the last two decades, also supported by extensive benefits from EU/EMU membership; trend towards increasingly fragmented political landscape continues as shown by 2021 general elections; we believe that policy-making will remain sound and responsive, paying attention to facilitating institutional quality on an ongoing basis
4. Thanks to strong consolidation efforts prior to the pandemic, the sovereign entered the corona crisis on a strong fiscal footing; the government's sizable overall fiscal package resulted in a significant deterioration of Dutch public finances, but public debt ratio still posts at prudential levels; we expect debt-to-GDP to resume a gradual downward trend from next year; fiscal risks pertaining to public guarantees and the banking sector via overheating house price dynamics are mitigated due to a strong fiscal starting position, strong and presumably further increasing debt affordability, as well as sound debt management
5. Despite the corona crisis, external risks still very limited, buttressed by the Netherlands' very strong external position against the backdrop of a long-standing track record of high current account surpluses which translate into one of the largest positive NIIPs worldwide

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

In our view, the Kingdom of the Netherlands' outstandingly high creditworthiness continues to be underpinned by its macroeconomic performance profile. Although its economy will not emerge unscathed from the corona crisis, and the short-term outlook is somewhat subdued by a mild double-dip recession and a challenging epidemiologic situation in Q1, the Netherlands' key strengths remain in place. The Dutch economy thus stands out in terms of its prosperous and highly productive economy. Further salient features are the Netherlands' high competitiveness, its flexible and still well-performing labor market, and the high degree of diversification, which also explain the fairly moderate contraction last year and the prospective swift recovery. The government's support measures have been extended into Q3, pushing back the inevitable increase in corporate insolvencies and concurrent redundancies. We think that rising bankruptcies from record-low levels and higher unemployment will not significantly hamper medium-term growth. That said, very high private debt remains a pocket of vulnerability in this respect, with existing weaknesses exacerbated by the Covid-19 pandemic.

After showing solid growth in the run-up to the corona crisis (2015-19 average: 2.2%), the Netherlands experienced a serious recession in 2020. However, the economic damage induced by the pandemic turned out significantly less severe than expected and was relatively moderate from a European perspective. Dutch real GDP shrank by 3.7% as compared to a decline of 6.6% in the euro area (EA) as a whole. European peers such as Germany (-4.8%), Belgium (-6.3%), and France (-8.1%) were affected to a much greater extent. In addition, last year's outturn was on par with the 2009 outturn during the global financial crisis.

Held back by containment measures and economic uncertainty, private consumption bore the brunt of the decline in total output, falling by 6.4% and shaving off 2.8 p.p. of GDP growth. Investment activity was also down by 3.6%, but suffered to a lesser degree than during the impact of the second wave, which took off in Q4-20 and was primarily absorbed by the retail and services sectors. Gross fixed capital formation was certainly constrained by uncertainty and low capacity utilization, thus resulting in postponed or cancelled investment decisions, but increased by 1.7% q-o-q in Q4, lifted by machinery and equipment investment. The same applies to export growth, which grew by 8.0% and 1.0% in Q3 and Q4 thanks to merchandize exports, so that exports fell by 4.3% on the whole.

Economic fallout was contained by the swift implementation of several government aid packages. To shield employment and safeguard corporate liquidity, the government adopted a wage subsidy scheme to support businesses in paying wages (NOW), social assistance to the self-employed (TOZO), as well as reimbursements to SMEs in specific sectors (TVL, TOGS). Also, decision-makers put in place sizable guarantees for SME loans, and enabled the deferral of payments for income, corporate, turnover, energy, and wage taxes.

Besides extensive government support, we think that the comparatively moderate contraction can also be explained by some of the Dutch key rating strengths related to the sovereign's economic resilience and flexibility. The Netherlands' economic structure is well-diversified, with a limited exposure to the tourism sector, whilst displaying a high share of tele-workable business

[1] This rating update takes into account information available until 11 June 2021.

services and financial services, standing for more than a fifth of total gross value added (21.4% vs. 15.9% in EA).

Regarding remote work, the Netherlands is a European frontrunner, outpacing all other European economies when it comes to providing infrastructure for mobile working. A high digital skills level, alongside the widespread availability and use of broadband internet, are Dutch trademarks. By the same token, the share of children under the age of three in formal childcare and the proportion of employees working from home (prior to Covid-19) are also very high.

Moreover, we continue to deem Dutch labor market flexibility as credit-positive, with its labor conditions persistently outperforming the majority of euro area peers. Before the onset of the pandemic, unemployment stood at 3.4% in 2019, one of the lowest readings in the EU27. In the same vein, we observe significantly more dynamic job growth in the Netherlands, with employment increasing at an annual rate of 2.1% between Q1-16 and Q4-19.

Effective government support and buoyant business services significantly softened the blow to the Dutch labor market dealt by the Covid-19 pandemic. After a transitory spike to 4.6% in August 2020 (LFS, SA), monthly unemployment dwindled to 3.4% this April (Mar-20: 2.9%), the third-lowest level in the EU27 (EA: 8.0%). Labor participation remains broadly unaffected, even increasing from 80.9% in Q4-19 to 81.1% in last year's fourth quarter – only trailing Sweden in the EU27. Employment decreased by 0.6% in 2020, well below the 1.6% observed in the euro area overall.

Furthermore, we continue to see the sovereign's macroeconomic performance as buttressed by its highly competitive economy. While awaiting an update of the World Economic Forum's (WEF) Global Competitiveness Indicator (GCI), WEF has published an assessment on the transformation readiness of economies more recently. On both counts, the Netherlands has to be regarded as one of the most competitive economies worldwide, being ranked 4th out of 141 economies on the GCI, and 4th out of 37 economies in terms of transformation readiness.

Meanwhile, Dutch cost competitiveness weakened in the wake of the crisis, as indicated by real unit labor costs (AMECO data). Real ULC leapt by 5.8% as compared to a 2.5% increase in the euro area, or 2.8% in Germany, one of the Netherlands' main trading partners. The deterioration was largely driven by a brisk increase in real compensation per employee (2.5%, EA: -0.9%), due to wage increases which had already been fixed before the outbreak of the pandemic in Q1-20, and the positive contribution of rising social security contribution.

While real ULC should decline in 2021/22 on the back of rising productivity and receding real compensation, we note that the global export market share, one of our preferred competitiveness indicators, suggests that the Dutch economy has been able to maintain its competitiveness. The Netherlands' export market share rose from 3.07% to 3.26% in 2019-20 (3rd in the EU27), also owing to the key role of intellectual property rights in Dutch services exports.

As a corollary of the pandemic-induced economic contraction, GDP per capita experienced a notable drop. Nevertheless, Dutch per capita income is still among the highest in Europe, being estimated at USD 54,534 (IMF, PPP terms, current prices), broadly on par with AAA peer Denmark (USD 58,933) and somewhat above Germany's reading (USD 54,076). High GDP p.c. is also driven by the economy's very high productivity. Judging by latest available Eurostat data, Dutch nominal labor productivity per hour worked is among the highest in Europe, posting 22.3% above the weighted EU27 total (2019, PPS), though down from 135.0% back in 2010.

Looking forward, we expect Dutch per capita incomes to recover in line with the progressing vaccination campaign and reinvigorated economic growth. Uncertainty remains unusually high, as the pandemic may require renewed confinement measures, not least because of the circulation of mutated strains of the virus, such as the recent Delta variant. Indeed, near-term prospects still appear somewhat clouded by the epidemiological situation.

The decline in the 14-day cumulative infection rate in January proved short-lived. Despite persistently stringent confinement measures (Blavatnik School of Government data), a third infection wave began to evolve as infection rates continued to creep up between February and April. We note that the 14-day cumulative infection rate is still among the highest in Europe, drawing on ECDC data. While the infection rate has more than halved from 630.9 in week 16 to 278.1 in week 21, we caution that it has moved above 250 since the beginning of last October.

Restrictive measures further curbed household spending. Private consumption dropped markedly by 3.5% q-o-q in Q1-21, following a 1.4% decline in Q4-20, resulting in a further real GDP contraction by 0.5% q-o-q (Q1-20: -1.6%) on the heels of a modest decline by 0.1% in Q4-20. Accordingly, real GDP stood 3.4% below its pre-pandemic level (Q4-19). The contraction was cushioned by brisk investment (+3.7%) and export growth (+1.6%).

While we expect a rebound in the second quarter, the recovery should gain strength from Q3, with most confinement measures being eased by July, in tandem with the headway being made in the Dutch vaccination program. As of 9 June, the cumulative uptake of at least one vaccine dose among adults stood at 53.0% in the Netherlands as compared to an EU average of 49.8%. With the recent firm decline of infections, the government implemented a 5-stage reopening strategy which commenced on 26 April. Since 5 June, relaxations concerning shops, hospitality businesses, sports, accommodation, museums and other cultural activities have taken effect under phase 3; the fourth stage is envisaged for 30 June.

At this stage, we project the Dutch economy to expand by 2.8% this year, before real GDP growth accelerates to 3.9% in 2022, whilst emphasizing that any forecast remains subject to abnormally high uncertainty. We assume that the recovery will be broad-based, led by domestic demand. Household spending is set to rebound strongly, as uncertainty regarding the economic outlook wanes against the backdrop of increasing vaccination coverage and the wind-down of measures. This is reflected by the stark pick-up in retail sales, which increased by 4.9% and 9.9% y-o-y in March and April respectively, and upbeat consumer sentiment. Very high savings built up over the last quarters should translate into a substantial boost via pent-up demand. The Dutch household saving rate jumped to a record-high 24.2% in Q4-20 (EA: 19.8%), up from 16.1% a year before.

As private consumption was off to a weak start into this year, we think that household spending growth should be somewhat more vivid in 2022 before taking the lead in the recovery. At the same time, we expect some headwinds, as the government's support measures will be phased out from the fourth quarter, prospectively leading to slightly rising unemployment in 2021/22, albeit from very low levels and not above its longer-term average (2011-2020: 5.4%).

Strong activity in Q1 bodes well for investment prospects. Investment activity should be buoyed by persistently low financing conditions and fading uncertainty as mirrored by survey data on new orders. In the same vein, manufacturing PMI has climbed from one record-high to the next, hitting a new series record of 69.4 in May, up from 67.2 in April, and capacity utilization in the industry sector caught up with its long-term average (1980:2020) in Q2-21 (82.2%). Construction

investment should also support gross fixed capital formation, underpinned by a buoyant residential property market. Public investment is set to rise strongly, given comprehensive investment plans regarding infrastructure and housing, as well as its National Growth Fund.

Net external trade should contribute positively to real GDP growth before turning broadly neutral next year as domestic demand-driven import growth firms up. Export growth is set to rise in lockstep with the recovery in the Netherlands' main trading partners and the easing of restrictions in the EU. We think that Dutch exports are likely to benefit from the dynamic recovery in the US and the concurrent tremendous fiscal impulse under the Biden administration. Export expectations in the industry sector have bounced back to a multi-year high after a deep trough in Q2-20. Tail risks related to a hard Brexit have dissipated, but trade with the UK will be less dynamic in the near term, as it has withdrawn from the customs union.

As indicated by CBS data, the number of bankruptcies has plummeted to a historically low level, falling by 17.0% to 3,632 in 2019-2020 (CBS data). Insolvencies have continued to edge down since the beginning of the year, with material declines of 38.9% and 54.9% y-o-y in March and April. We expect that bankruptcies will gradually increase as soon as the transitory support measures are phased out, and with it the number of job losses. That said, we believe that the bulk of corporate insolvencies will be observed in only a few sectors – those which have been most severely affected by the pandemic, namely mining, hospitality, cultural services, and transport and storage. As liquidity support, e.g. regarding tax deferrals, will not stop abruptly, households sit on a sizeable amount of precautionary savings waiting to be spent; and as revenue expectations appear to have improved, we do not think that an inevitable increase in bankruptcies will significantly dampen growth going forward. Additionally, the government has adopted a new act on out-of-court restructuring (Wet Homologatie Onderhands Akkoord) which entered into force this year and is likely to facilitate balance sheet restructuring and lower collective action problems.

Against this backdrop, however, we vigilantly monitor private sector debt, which remains a rating constraint, with the Covid-19 impact being uncertain at the current juncture. The multi-year decline in the debt of non-financial corporations had been temporarily reversed, rising from 133.7% of GDP at the end of 2019 to 138.1% of GDP in Q2-20, but continued to decrease by the end of last year, posting at 131.4% of GDP (Q4-20). While this still represents one of the highest levels in the EU27, MNEs make up for a large part of NFC debt - approx. 60% according to European Commission estimates. The main reason for concern, in our view, remains the very high household debt, with mortgage debt accounting for the bulk of it. Dutch household debt remains one of the highest in the EU27, despite government measures to limit policy distortions on the residential property market. The pandemic has not softened stretched household balance sheets so far, as household debt continued to decline as measured by disposable income, amounting to 201.1% in Q4-20, down from 205.4% in Q4-19.

Institutional Structure

The Netherlands stands out with regard to the very high quality of its institutional conditions, which we continue to see as a pivotal factor backing our credit assessment. We view Dutch membership in the European Union and European Monetary Union, from which it draws substantial benefits, as well as broadly synchronized movements in HICP inflation, MFI interest rates and wages with the euro area, as further credit-positive factors. The Dutch political landscape has become increasingly fragmented over recent years as reflected by this year's general election, with four new parties voted into

parliament. Nevertheless, we believe that the Netherlands retains its sound and responsive policy-making, building on a long track record of paying attention to facilitating institutional quality on an ongoing basis, and pursuing a consensus-driven dialogue with civil society.

The exceptionally high quality of the sovereign's institutional framework is possibly best reflected in the persistently strong performance on the World Bank's Worldwide Governance Indicators (WGIs). According to the WGIs, the Netherlands has been repeatedly among the countries with the highest perceived institutional quality worldwide over the last two decades, as indicated by the latest update from last fall, the Netherlands remained in the top ten alongside all dimensions we consider, outperforming respective euro area averages by a wide margin.

Dutch policy formulation and implementation, as well as the provision of public services, are characterized by a very high level of perceived quality, as suggested by a very good 8th rank out of 209 economies, the same relative rank as a year before and virtually unchanged since 2011. Likewise, the World Bank's assessment resulted in an unchanged rank 9 regarding the rule of law. When it comes to the WGIs voice and accountability, which capture the perception of freedom of media and association, control of corruption, and measuring the capture of the state by elites and private interests, the Netherlands even improved, from relative rank 7 to 6 and rank 9 to 8 respectively.

While the Dutch electoral system generally returns coalition governments, we observe that government formation has become increasingly challenging over the recent years, given an increasingly high political fragmentation as demonstrated by the recent general election which was held on 17 March. With the 2021 election, 17 parties have entered parliament, a new historical high, up from 13 parties in 2017. PM Rutte's VVD, that led the previous three governing coalitions (dubbed Rutte I, II, and III government) remained the largest party, winning 21.9% of the popular vote (2017: 21.3%). The biggest gains were achieved by the Liberals (D66) which gained the most seats (2021: 15%, 2017: 12.2%), whereas the other top-4 parties PVV (10.8%) and CDA (9.5%) lost some ground.

Government formation appears challenging, and negotiations are still underway as of 11 June. In the meantime, the former coalition consisting of VVD, CDA, D66 and CU will implement policy decisions in its caretaker capacity, in place since January this year, after having resigned in the wake of reported mismanagement of childcare benefits. Irrespective of the outcome of coalition negotiations, we expect policy-making to remain effective and policy continuity to be given. Nor will the sovereign's capacities to support the economy and deal with the Covid-19 pandemic be challenged going forward.

In our opinion, recently tabled bills hint at sustained effective policy-making. Thus, the amended Housing Act, according to which housing corporations will be enabled to make their property more sustainable, was adopted in March. The Whistleblower Act has been amended too, resulting in a strengthened mandate of the Whistleblowers' Authority.

Further progress has been made with respect to a long-awaited pension reform which aims to bolster the pension system's second pillar, e.g. by reducing intergenerational tensions as pensions are to become more contingent on life expectancy, investment returns, and contributions made. Since our last review, social partners and the government have established a consensus on the way forward in terms of transposing the 2019 pension agreement in July 2020. Furthermore, the Dutch senate enacted the 'Lump Sum, RVU and Leave Savings' bill at the beginning of

this year, giving pensioners more freedom of choice. Entry into force of the new pension legislation is likely to be delayed, as authorities have signaled they intend to implement the complex reform with care. Whereas the original intention had been that pension funds had to make all necessary adjustments by the beginning of 2026, the act will likely be phased in from January 2023, meaning that the full implementation may be expected by 2027.

The publication of a Dutch recovery and resilience plan may be expected by the end of this year, as is the application for funding via the EU's Recovery and Resilience Facility (RRF). Whilst EU member states' governments had to submit their recovery and resilience plans (RRP) 'as a rule' by the end of April 2021, the deadline is flexible. The submission of the Dutch RRP will be carried out by the new cabinet, which is yet to be formed. The bulk of the RRF funds has to be allocated towards greening the economy and digital transformation. We do not see the delay as a major reason for concern. Policy-makers launched the National Growth Fund in September 2020, foreseeing an investment of EUR 20bn into knowledge development, infrastructure and R&D. By the same token, the government has brought forward EUR 1.5bn in planned investment allocated towards infrastructure and housing.

With a view to the aim of greening its economy, the Dutch parliament passed a Climate Act in 2019, introducing binding long-term goals for climate change-related policies. Later that year, the government legislated the end of coal use for the generation of electricity by 2029. It should be mentioned that despite its significant increase in 2010-19, having more than doubled from 3.9% to 8.8%, the overall share of energy from renewable sources is among the lowest in the EU27 (average 19.7%). Moreover, GHG emissions seem comparatively high, totaling 11.1 tons per capita (EU27: 8.2 tons p.c.). As stressed in our past reviews, the government decided to phase out gas production from the Groningen field by next year. According to an OECD/IEA assessment, however, investment allowances to foster production from other fields have been increased. At the same time, and mirroring increased political attention to climate change, the Netherlands improved significantly on the EC's Eco-Innovation Index, now scoring above the European average (8th in the EU27), though trailing peers such as the Nordics as well as Germany.

Fiscal Sustainability

Despite the significant overall costs implied by government policies to mitigate the impact of the pandemic, the sovereign's fiscal metrics remain sound and a rating strength supporting the credit assessment. The Dutch public debt ratio will rise further in 2021, but should begin to stabilize from next year. In any case, also thanks to the remarkable fiscal consolidation effort prior to the pandemic, public finances are in a significantly stronger state than in the majority of European peers. Moreover, very strong debt affordability and sound debt management are mitigating concerns with respect to increasing debt levels and fiscal risks stemming from rising public guarantees, as well as with regard to the banking sector, emanating from the residential property market which displays signs of overheating.

The sovereign's strong fiscal performance witnessed since the global financial crisis and the euro debt crisis has provided ample fiscal headroom which should prove vital going forward, as the sovereign should be able to fall back on sizable fiscal buffers to counter the pandemic shock without prompting fiscal sustainability concerns. The Netherlands thus entered the corona crisis on a strong fiscal footing, due to multi-year headline surpluses (2016-19 average: 1.1% of GDP).

While a further headline surplus would have been in the cards for 2020, the outbreak of the Covid-19 pandemic entailed considerable revenue losses amidst contracting economic activity. Together with fully operating automatic stabilizers and extensive fiscal support packages, this resulted in a sizable headline deficit, coming in at 4.3% of GDP (2019: +1.8% of GDP). The deficit turned out to be lower than in the wake of the global financial crisis (2010: -5.3% of GDP) and significantly lower than we had expected during our last review, mainly due to a less severe economic contraction and comparatively resilient tax intake. Revenues related to current taxes on income and wealth decreased only by 1.1% in 2020, compared to a decline of 4.5% in the euro area as a whole. What is more, VAT revenues have been adversely affected, but did little more than stall (+0.1%).

On the other hand, indispensable government measures led to a surge in total expenditure, which went up from 42.0% of GDP to 48.1% of GDP in 2019-20, with substantial increases in subsidies (by 3.8 p.p. to 5.0% of GDP) and the public wage bill (by 0.7 p.p. to 8.9% of GDP). Overall, measures to safeguard public health and mitigate the economic impact of Covid-19 totaled approx. EUR 28.4bn or 3.6% of GDP. The bulk of the impact came on the back of the transitory measures to help companies pay wages (NOW) which caused outlays in the amount of 1.7% of GDP. Support for the self-employed (TOZO) and the compensation of entrepreneurs in specific sectors (TVL/TOGS) accounted for another 0.4% and 0.3% of GDP respectively.

In the course of the more severe second wave, the government schemes NOW, TVL, TOZO, and TONK have been extended. Together with the other Covid-19-related aid measures, budgeted at approx. 29.7bn or 3.6% of estimated GDP in 2021. The latest extension via the May package foresees the support programs to run until the end of Q3, adding an additional EUR 6bn. Further measures have been put forward in the Ministry of Finance's (MOF) recent Spring Memorandum, which foresees a compensation in light of the challenged childcare allowance, coupled with a cancellation of related debt, as well as funds to improve information management in this respect (0.3% of GDP). Authorities will also allocate roughly 0.2% of GDP to Groningen and other municipalities in the earthquake area, and an additional 0.3% of GDP for claims and repair operations. On top of that, 0.1% of GDP and 1.0% of GDP will be made available for youth care and the National Education Program respectively.

Based on information that includes these new measures essentially pertaining to 2021, we forecast the headline deficit to widen to 6.6% of GDP. In this regard, we assume the Dutch economy will gain traction in Q2 and Q3 (see above), implying a somewhat less intense take-up in terms of program support. Also, the National Education Program may not be implemented in full in the current fiscal year, so that the budget impact thereof is also likely to be lower. With a view to public finances in 2022, we would tentatively pencil in a decline in the budget deficit to 2.2% of GDP, assuming that the economic recovery will continue as expected and that exceptional support measures will largely be wound down by the end of this year. We have to highlight that any forecast remains subject to unusually high uncertainty, essentially in view of the uncertain development of the epidemiological situation and new strains of the virus such as the Delta variant.

After showing a material decline by 19.2 p.p. between 2014 and 2019, as compared to its European peers among the most pronounced improvements over that time, the debt trend of the Dutch public debt ratio reversed as general government debt increased from 48.7% to 54.5% of GDP in 2019-20. Owing to the mild economic contraction by European standards, the increase by 5.8 p.p. was equally moderate. Going forward, government debt should continue to rise this

year. Reinvigorated growth should cater for a rising revenue intake, which should, however, be overcompensated by the significantly ramped up spending. We thus expect the Dutch public debt ratio to edge up to 59.4% of GDP before stabilizing and beginning its gradual decline beyond 2021.

Having said this, we view risks to fiscal sustainability as largely contained, due to the strong fiscal starting position before the corona crisis on the one hand, and strong and presumably further increasing debt affordability, as well as sound debt management, on the other. To put things into perspective, we expect the Dutch public debt ratio to stay below the 60% Maastricht threshold in 2021/22, and thus substantially lower than that of most other advanced European economies. The average of the euro area as a whole amounted to 98.0% of GDP last year.

Affordability metrics continued to improve. Interest outlays followed their long-term downward path, and stood at 1.6% of general government revenues in 2020, down from 1.8% a year before (2011: 4.2%). We think that interest expenditure will continue to fall, also benefiting from historically low long-term bond yields (weekly quote 11-6-21 -0.12%) and low Bund spreads (15bp).

In our view, the interest rate environment should remain supportive in the medium term, partly due to the ECB's very accommodative monetary policy. At the last Governing Council meeting on 10 June, the ECB decided to continue net asset purchases under the PEPP with a total envelope of EUR 1,850bn until at least March 2022. At the end of May, net purchases of Dutch government bonds under PEPP totaled approx. EUR 58.0bn, roughly 5% of the total PEPP volume. Also, the ECB's net purchases under the PSPP will continue at a monthly pace of EUR 20bn. Over the twelve months up to May 2021, ECB reported net purchases of Dutch government bonds of EUR 9.2bn under PSPP, an increase by 8.0% y-o-y, taking the total cumulative net purchases to EUR 123.4bn.

As a side effect, central bank purchases of government debt put the sovereign's debt profile on a sound footing. IMF data on debt holdings shows that the DNB and the foreign official sector account for well over the half of Dutch government debt (Q3-20: 58%), stable as compared to the previous year and 5 p.p. higher than in Q3-17. Direct auctions of long-term bond issuances on the primary market since 2011 have featured a well-diversified investor base, both by investor type and by geographical breakdown. Furthermore, the average weighted maturity stood at 7.662y in Apr-21 (Germany: 7.048y), up from 7.197y in Apr-20 (ECB data).

Fiscal vulnerabilities remain in place, and have partly been aggravated by the pandemic. Risks related to the residential property market have thus increased. House price growth is overly dynamic and should remain brisk going forward, given structural factors such as favorable tax treatment of owner-occupied housing, extraordinarily low interest rates, a shortfall in residential construction, and an underdeveloped rental market. Adding to this, household demand for home ownership is rising in tandem with the increasing tendency to work remotely. OECD data shows that the 3-year-growth rate of real house prices has posted above 15% since the fourth quarter of 2017 (Q4-20: 18.3%). Concerning affordability, the Dutch price-to-income ratio is closing in on the unsustainable levels that preceded the housing crash back in 2008/09. As of Q4-20, the price-to-income ratio stood 16.4% above its long-term average (1995-2019).

That said, we deem risks to the very large Dutch banking sector (total assets 342.5% of GDP), entailed by unwinding imbalances on the housing market in conjunction with very high household debt, as tempered by persistently healthy soundness metrics at this stage. Dutch banks

supervised by EBA boast a CET1 ratio which lies structurally above the EU average, having increased by 0.5 p.p. to 17.0% in the year up to Q4-20 (EU: 15.9%). Asset quality also appears resilient to the pandemic now, certainly also due to the impact of the authorities' exceptional support measures. The NPL ratio stayed put at 2.0% in Q4-20 (EU: 2.6%). Judging by data on stage 2 loans, also sourced from EBA, asset quality prospects in the Netherlands have weakened only moderately. While the share of stage 2 loans rose from 5.0% of total loans and advances in Q4-19 to 7.7% in Q4-20, this is well below the EU average of 9.1%. Drawing on NVB data, Dutch financial institutions have provided EUR 3.4bn (0.4% of GDP) in financing to roughly 8,300 companies under various state guarantee schemes (e.g. BMKB, GO) since the outbreak of the pandemic

With regard to guarantees, continent liabilities rose from 22.3% of GDP in 2019 to 30.5% last year. The government has extended its guarantees in the wake of the corona crisis, by EUR 52.7bn or 6.6% of GDP according to the SP21. The majority of this was related to international guarantees in the context of European risk arrangements (EUR 34.8bn), while national guarantees account for EUR 15.8bn. We note that the Netherlands exhibits substantial indirect guarantees pertaining to the Homeownership Guarantee Fund (WEW) and the Social Housing Guarantee Fund (WSW), standing at an enormous EUR 202bn and EUR 81.4bn in 2020.

Aging costs give no reason for concern, judging by the newest edition of the EU's Aging Report. According to latest simulations by the AWG, age-related expenditure is to rise by 2.1 p.p. to 23.1% of GDP in 2019-30, by then still remaining well below the EU average (25.4%). The main drivers behind the increase are pension costs (1.3 p.p.) and long-term care spending (0.9 p.p.).

Foreign Exposure

Owing to the high current account surplus which the country has run over the last decades, and the concurrent exceptionally large and positive net international investment position (NIIP), the Netherlands has ample external buffers to mitigate shocks. Risks arising from the very large stock of gross liabilities are mitigated by the substantial gross asset position and the Netherlands' safe haven status.

Despite last year's decline, the Netherlands continues to display one of the highest current account surpluses in the world (2010-19 average: 9.0% of GDP), partly driven by re-exports and sizable MNE operations. After having peaked at 10.8% of GDP in 2017 and 2018 respectively, the surplus edged down to 9.9% of GDP in 2019 before dropping to 7.8% of GDP last year, mainly on the back of the corona crisis. Whilst the trade balance was broadly unaffected, with the goods surplus increasing from 8.4% to 8.7% of GDP and the services surplus ticking down by 0.1 p.p. to 1.9% of GDP, the decline was mainly due to the primary income balance, which shifted from a surplus of 0.4% of GDP to a deficit of 1.1% of GDP.

The swing in the primary income balance was mainly due to dividend earnings from abroad which contracted more sharply than dividend payments to non-residents, as well as a one-off current transfer from an MNE. We expect the current account surplus to increase in 2021, in line with recovering foreign earnings, and to remain broadly stable in the outer years as an improving primary income balance is offset by a lower trade surplus.

This should translate into a further increasing NIIP over the medium term. The Dutch NIIP leapt from an already high 90.0% of GDP in 2019 to an extraordinary 114.9% of GDP last year, of which net FDI formed the largest part, totaling 137.9% of GDP in 2020, up from 133.2% of GDP a year before. While the Netherlands' NIIP is the largest in Europe and among the highest in the world,

we note that its NIIP excluding non-defaultable instruments (NENDI) moved into positive territory for the first time on Eurostat records (2020: 10.6% of GDP).

Rating Outlook and Sensitivity

Our rating outlook on the Netherlands' long-term credit ratings is stable, as we believe that the significant risks posed by the Covid-19 pandemic are contained by sizable fiscal and external buffers, fundamental economic strength, and the extraordinarily high quality of institutional conditions. We have to emphasize, however, that the assessment and interpretation of economic developments remains more challenging than under normal circumstances, as is the case for other indicators, in particular from the fiscal realm.

We could consider a negative rating action if medium-term growth falls substantially short of our current projections, or if – contrary to our belief – the upward-sloping debt trend becomes more entrenched and the sovereign's debt ratio continues to rise over a prolonged period of time. Downward pressure may also arise from materializing downside risks, entailed by unwinding imbalances on the residential property market, which may trigger adverse effects on the macro and fiscal sides, or by contingent liabilities.

Analysts

Primary Analyst
Fabienne Riefer
Sovereign Credit Analyst
f.riefer@creditreform-rating.de
+49 2131 109 1462

Chairperson
Dr Benjamin Mohr
Head of Sovereign Ratings
b.mohr@creditreform-rating.de
+49 2131 109 5172

Ratings*

Long-term sovereign rating	AAA /stable
Foreign currency senior unsecured long-term debt	AAA /stable
Local currency senior unsecured long-term debt	AAA /stable

*) Unsolicited

ESG Factors

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we

explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook. For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

ESG Factor Box

Environ-mental Quality	Ecological Risks	Ressource Management	Education	Health	Demo-graphics
Labor	Equality	Technology & Infrastructure	Safety & Security	**Judicial system**	**Quality of Public Services**
Integrity of Public Officials	Quality and Efficacy of Regulations	**Civil Liber-ties/ Political Participation**	Market Access	**Business Environ-ment**	Data Transparency

Environment	Social	Governance	Highly significant	Significant	Less significant	Hardly significant

The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

Since indicators relating to the competitive stance of the sovereign such as the World Bank's Ease of Doing Business index and the World Economic Forum's Global Competitiveness Indicator add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Labor market metrics constitute crucial goalposts in Creditreform Rating's considerations on macroeconomic performance of the sovereign, and we regard the ESG factor 'Labor' as significant to the credit rating or adjustments thereof.

While Covid-19 may have significant adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing concerning economic prospects and public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2015	2016	2017	2018	2019	2020	2021e
Macroeconomic Performance							
Real GDP growth	2.0	2.2	2.9	2.4	1.7	-3.7	2.8
GDP per capita (PPP, USD)	50,419	52,441	55,509	57,847	59,517	57,534	60,461
Credit to the private sector/GDP	154.5	155.3	147.2	137.3	131.1	133.1	n/a
Unemployment rate	6.9	6.0	4.9	3.8	3.4	3.8	n/a
Real unit labor costs (index 2015=100)	100.0	100.6	99.7	99.4	99.5	105.3	n/a
Ease of doing business (score)	75.5	75.6	76.1	76.1	76.1	n/a	n/a
Life expectancy at birth (years)	81.6	81.7	81.8	81.9	82.2	81.5	n/a
Institutional Structure							
WGI Rule of Law (score)	1.9	1.9	1.8	1.8	1.8	n/a	n/a
WGI Control of Corruption (score)	1.9	1.9	1.9	2.0	2.0	n/a	n/a
WGI Voice and Accountability (score)	1.6	1.5	1.6	1.6	1.6	n/a	n/a
WGI Government Effectiveness (score)	1.8	1.8	1.9	1.9	1.8	n/a	n/a
HICP inflation rate, y-o-y change	0.2	0.1	1.3	1.6	2.7	1.1	1.5
GHG emissions (tons of CO2 equivalent p.c.)	12.1	12.1	11.9	11.5	11.1	n/a	n/a
Default history (years since default)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Sustainability							
Fiscal balance/GDP	-2.1	0.0	1.3	1.4	1.8	-4.3	-6.6
General government gross debt/GDP	64.7	61.9	56.9	52.4	48.7	54.5	59.4
Interest/revenue	3.1	2.6	2.3	2.1	1.8	1.6	n/a
Debt/revenue	151.9	142.0	130.3	120.1	111.4	124.1	n/a
Weighted average maturity of debt (years)	7.0	7.1	7.3	7.4	7.6	7.3	n/a
Foreign exposure							
Current account balance/GDP	6.3	8.1	10.8	10.8	9.9	7.8	n/a
International reserves/imports	0.1	0.1	0.1	0.1	0.1	0.1	n/a
NIIP/GDP	48.9	61.2	59.8	71.9	90.0	114.8	n/a
External debt/GDP	563.3	555.2	517.7	495.3	473.6	459.5	n/a

Sources: IMF, World Bank, Eurostat, AMECO, ECB, CBS, own estimates

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	26.08.2016	AAA /stable
Monitoring	28.07.2017	AAA /stable
Monitoring	29.06.2018	AAA /stable
Monitoring	28.06.2019	AAA /stable
Monitoring	26.06.2020	AAA /stable
Monitoring	18.06.2021	AAA /stable

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. The Dutch Ministry of Finance participated in the credit rating process as it provided additional information. Creditreform Rating AG had no access to the accounts, representatives or other relevant internal documents for the rated entity or a related third party. Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	YES
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG has used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, European Center for Disease Prevention and Control (ECDC), Blavatnik School of Government, De Nederlandsche Bank, CBS (Centraal Bureau voor de Statistiek), CPB

Netherlands Bureau for Economy Policy Analysis, Dutch Ministry of Economic Affairs and Climate Policy, Dutch Ministry of Finance, DSTA (Dutch State Treasury Agency), NVB (Nederlandse Vereniging van Banken).

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision".

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating issued by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the entity or the issue under review.

When assessing the creditworthiness of sovereign issuers, Creditreform Rating AG relies on publicly available data and information from international data sources, governments and national statistics. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. Hence, this rating is no statement of fact but an opinion. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments. Thus, no express or implied warranty as to the accuracy, timeliness or completeness for any purpose of any such rating, opinion or information is given by Creditreform Rating AG in any form or manner whatsoever. Furthermore, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings.

This report is protected by copyright. Any commercial use is prohibited without prior written permission from Creditreform Rating AG. Only the full report may be published in order to prevent distortion of the report's overall assessment. Excerpts may only be used with the express consent of Creditreform Rating AG. Publication of the report without the consent of Creditreform Rating AG is prohibited. Only ratings published on the Creditreform Rating AG web pages remain valid.

Creditreform Rating AG

Creditreform Rating AG
Europadamm 2-6
D - 41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627
E-Mail info@creditreform-rating.de
Internet www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Dr. Hartmut Bechtold
HRB 10522, Amtsgericht Neuss