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 17-06-2022 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 17 June 2022

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.

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Key Rating Drivers

1. The Netherlands' very wealthy and productive economy weathered the corona crisis well, partly thanks to high cost and non-cost competitiveness as well as flexible and well-performing labor markets; we expect last year's sharp rebound in real GDP to be followed by continued output expansion this year and next, mainly coming on the back of domestic demand
2. Whilst adverse effects related to Russia's war against Ukraine should be mainly felt via soaring energy and raw material prices, which also intensify supply-side bottlenecks, we believe that these will be balanced by the government's aid measures and the materially ramped-up spending plans spelled out under the coalition agreement; unabated substantial house price growth coupled with high private debt levels remains a key risk to growth and financial stability
3. Dutch institutional conditions continue to be of exceptionally high quality, further supported by sizable advantages related to EU/EMU membership; despite the increasingly fragmented political landscape, government effectiveness remains very high; coalition agreement and spring budget memorandum formulated by the governing coalition formed after the 2021 election in our view pay testament to the sound, forward-looking, and consensus-based Dutch approach to policy-making
4. After the pandemic-induced weaker fiscal outcome in 2020, fiscal metrics improved last year given the strong economic recovery and lower aid measures; the raft of initiatives included in the coalition agreement implies a substantial increase in government spending over the medium term, and is presumably set to hinder the sovereign's moderate headline deficit from shifting into a surplus over the medium term; still, we are not concerned about medium-term fiscal sustainability, as we expect debt-to-GDP to move sideways at comparatively low levels, alongside very high debt affordability and sound and transparent debt management

5. Irrespective of the Dutch economy's high degree of openness, we continue to deem external risks as very low, mainly on account of extensive external buffers as mirrored by persistently high current account surpluses and the very large and positive net international investment position (NIIP)

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

Although the Dutch economy is confronted with another material exogenous shock, namely the Russian invasion of Ukraine coming on the heels of the corona crisis, the sovereign's macroeconomic performance profile remains strong and continues to back its outstandingly high creditworthiness. Strong macroeconomic fundamentals include very high per capita incomes and one of the highest productivity levels in the European Union (EU). These strengths are further supported by a high degree of economic resilience and flexibility, building on the highly competitive Dutch economy, a healthy and flexible labor market, and pronounced economic diversification. The geopolitical context carries downward risks for the further expansion of the Dutch economy, mainly related to soaring energy prices and accentuated supply-side shortages, but the government's swift and decisive policy-action, to our mind, represents an important mitigating factor. We expect the labor market to remain a key support, although labor and skills shortages add to shortages in raw materials and more structural challenges related to labor market duality remain in place. Dynamically rising risks associated with the Dutch residential property market, in tandem with high household debt levels, as well as the successful management of the twin transformation related to climate change and digitalization, are further key macro risks. Against the backdrop of these medium- to long-term challenges, we assess the policy package formulated by the new government in its coalition agreement as positive, also with a view to its support of households' purchasing power in the near to medium term.

The Netherlands' strong macroeconomic profile continues to be mainly underpinned by GDP per capita, with the Dutch population featuring one of the highest levels of wealth in the EU. According to latest IMF estimates, Dutch per capita income totaled USD 62,841 in 2021 (PPP terms), or 129% of the weighted EU27 average. Thus, GDP p.c. moves in line with other AAA peers from our rating universe, such as Germany (USD 58,378) and Denmark (USD 63,964).

The prosperous economy builds on very high productivity, a pronounced degree of competitiveness, and well-performing labor markets. As regards the former, the Netherlands' nominal labor productivity per hour worked stood 26% above the EU27 total in 2021 (PPS, 2020 levels, Eurostat data), having increased significantly in a y-o-y comparison and corresponding to the highest level since 2017.

The Dutch economy remains among the most competitive in the world, as corroborated by a rank 4 in the IMD World Competitiveness Yearbook ranking (2021, out of 64 economies) and the World Economic Forum's Global Competitiveness ranking (2019, out of 141 economies), respectively. Price competitiveness in our view also gives no reason for concern, as the Netherlands' real unit labor costs evolve broadly in line with levels observed in the euro area (EA) as a whole as well as in its European main trading partners. Last year, real unit labor costs declined by 3.3%

[1] This rating update takes into account information available until 10 June 2022.

(EA: -2.0%, AMECO data) following a strong pandemic-related increase in 2020. Over a ten-year horizon, real labor productivity (2012-21: +4.2%, EA: +3.1%) and real compensation per employee (+3.1%, EA: +2.3%) appear well-aligned. The Netherlands' outstanding competitiveness is also highlighted by its global export market share, which posted at 3.08% in 2021. Although having edged down slightly as compared to 2020 (3.20%), this represents the third-highest reading in the EU, behind Germany and France.

The labor market is in excellent shape and we expect favorable labor market conditions to remain in place going forward, underscoring the Dutch economy's underlying strength. Over the last quarters, we have witnessed brisk employment growth, with the quarterly growth rate jumping to 4.6% y-o-y (national accounts data, domestic concept; EA: 2.9%), following growth of more than 2.5% since Q2-21. On the whole, employment grew by 1.8% in 2021 and surpassed the pre-pandemic level (2019) by 1.3%. Meanwhile, the Netherlands features the EU's highest labor participation rate, having quickly recovered after the pandemic-induced dent and posting at a record-high 83.9% in Q4-21. Unemployment is historically low and continues to fall, largely driven by the ongoing economic recovery and the labor market aid measures implemented during the corona crisis (e.g. NOW, TOZO) and which have been wound down since 01-Apr-22. The LFS-adjusted unemployment ratio thus dwindled from 5.1% in Q4-20 to 3.8% in last year's fourth quarter (Q4-19: 4.4%) and remains one of the lowest in Europe.

Labor market challenges mainly relate to significant labor shortages, and. as mirrored by surveys and vividly rising vacancies, the labor market is becoming increasingly tight. At 4.9% (Q1-22, NACE B-S, Eurostat), the job vacancy rate is high from a historical and cross-country perspective. At the same time, labor market duality remains prevalent, with the share of temporary employees (Q4-21: 27.5%, Eurostat) and self-employed (Q4-21: 14.5%) remaining very high, hampering productivity growth to some degree. That being said, the Netherlands performs very well on the European Commission's (EC) Social Scoreboard, with excellent results, in particular in the fields 'equal opportunities and access to the labor market' as well as 'dynamic labor markets and fair working conditions'.

Strong labor market performance was a driving force behind the sharp rebound in household spending in 2021, which benefited from the easing of Covid-19 restrictions and the successful vaccination campaign. Having plummeted by 6.6% in 2020, private consumption jolted in 2021, rising by 3.5% and contributing 1.5 p.p. to last year's real GDP growth, which posted at 5.0%. Dutch economic growth came in slightly below the euro area outturn (5.4%), which we deem noteworthy as the 2020 downturn was much more pronounced in the euro area as a whole, at -6.6% vs. -3.8% in the Netherlands.

Last year's economic recovery was broad-based, since the other items on the expenditure side contributed to real GDP growth as well. Net external trade made a significant contribution (1.8 p.p.) as exports (+6.6%) outgrew imports (+5.1%) in 2021, reflecting the marked recovery in global trade and weak services imports (2021: -4.0%). As supply chain bottlenecks curbed investment activity throughout last year, the recovery in gross fixed capital formation was somewhat less dynamic (+3.5%, 2020: -4.1%). Public consumption expanded by 5.5% given ongoing significant aid measures to buffer adverse pandemic-related effects.

Our economic outlook for the Netherlands is for continued, albeit decelerating growth. Due to the Russian invasion of Ukraine, prospects have weakened and economic uncertainty has been pushed up markedly. While direct trade links to Russia and exposure of the Dutch financial sector are rather limited, the Dutch economy is exposed to indirect second-round effects via global

value chains and subdued growth in its main European trading partners. Arguably more importantly, we believe that the adverse impact will be transmitted via surging energy and commodity prices, further aggravated supply-side shortages, and adverse confidence effects. The Netherlands overall exhibits a somewhat lower degree of energy dependence on gas and oil sourced from Russia than other EU peers. Gas imported from Russia accounted for 30% of total Dutch gas imports (2021, EU average 44%, EC data), whilst oil imports from Russia make up for roughly 26% of total oil imports, comparable to EU levels.

At the same time, transitory, targeted fiscal aid measures, as well as the measures included in the coalition agreement's policy package and in the May-22 budget memo (see below), are set to alleviate the economic fallout and shield vulnerable groups, leading us to expect, in view of the exceptional circumstances following the geopolitical turmoil, relatively robust growth in domestic demand. What is more, the government urges to become independent of Russian gas imports by end-2022. Hence, we project real GDP growth to increase by 3.0% this year, also boosted by a significant statistical carry-over effect from robust growth in the second half of 2021, with quarterly growth coming in at 2.0% and 1.0% q-o-q in Q3 and Q4 respectively.

Emphasizing that our forecast is surrounded by unusually high uncertainty, we assume that HICP inflation will peak this year before leveling off to a still elevated level in 2023, and supply chain bottlenecks will gradually subside beyond 2022. We forecast total output growth of 1.5% in 2023, so real GDP expansion will evolve broadly in line with the euro area overall. Downside risks pertaining to the Covid-19 pandemic remain in place, but its significance as an immediate threat to economic prospects have decreased considerably in our view. Infection cases have declined rapidly over the last months, with the 14-day cumulative infection rate having plunged from a peak of 8,147 per 100,000 population in mid-February to 91 in week 22-2022 (ECDC data).

The Dutch economy was off to a weak start in 2022, with real GDP having stagnated in Q1 (0.0% q-o-q). Whilst the weaker outcome was largely driven by contracting public consumption (-4.0%), reflecting the phasing-out of Covid-19 aid initiatives, household spending remained virtually unchanged (-0.1% q-o-q) under the impression of rising prices and increasingly depressed confidence.

Looking forward, we expect private consumption to remain supportive of real GDP growth, although post-pandemic recovery will be significantly obstructed by the geopolitical situation in Eastern Europe. We thus factor in some bounce-back in household spending due to pent-up demand following the Omicron lockdown, but surging HICP inflation will materially drag on households' disposable income and will severely hit consumer confidence, the latter already having plummeted to a record-low in April 2022.

However, purchasing power will likely be sustained by fiscal measures seized by the authorities in response to the outbreak of the Russian military aggression. On top of the support measures contained in the autumn budget, policy-makers have decided on additional measures to soften the impact of soaring prices for energy and food.

As elaborated above, labor market conditions will remain favorable, as a tight labor market keeps unemployment down. Wage growth will presumably lag inflation developments, increasing more noticeably from next year. Measures stipulated in the spring budget memo are set to facilitate consumption, with the statutory minimum wage (VML) and the state pension foreseen to rise in 2023-25 (see below).

Prospects for investment activity have also deteriorated since the Russian war against Ukraine. We assume that the massive increase in uncertainty will also weaken growth in gross fixed capital formation, as many companies will tend to postpone investment projects. In addition, soaring prices for energy and raw materials will have negative repercussions on private investment. Pervasive supply chain disruptions have been exacerbated by the geopolitical situation, translating into significant shortages in material and equipment. Whilst survey data (EC) indicates that the industry and construction sectors suffer from supply bottlenecks, with already significant shortages accelerating further in the current year, confidence in these producer sectors appears to be stable so far.

Also on a brighter note, corporate insolvencies continue to post at historically low levels after the winding down of Covid-19 support schemes. Judging by Eurostat data, bankruptcy declarations fell by 0.6% y-o-y in Q1-22 and stood roughly 50% below the pre-pandemic level of Q4-19. Financing conditions should remain favorable, and capacity utilization in the industry sector posted well above the long-term average in Q2-22 (84.4% vs. 81.6% since 2000). What is more, gross fixed capital formation will experience a significant boost from public investment, in particular beginning from next year, as the new government has set up a comprehensive investment agenda in its coalition agreement. In its preliminary assessment of the effects of the coalition agreement's policy package, CPB reckons that the net increase in government spending equates to approx. EUR 26bn or 3.0% of 2021 GDP by 2025.

We expect a moderately positive growth contribution from net foreign trade this year, which is likely to turn negative next year, in tandem with strengthening import growth coming on the back of stronger investment activity. As mentioned above, the Netherlands displays comparatively small direct trade links with Russia. The Dutch central bank (DNB) puts the Russian share in the Netherlands' exports to 1.1%, whereas 3.5% of Dutch imports go to Russia. DNB further gauges indirect trade effects through global value chains, but concludes that the three most prominent flows possibly affected by the war against Ukraine are relatively small for the Netherlands.

The Dutch industry sector's export expectations for the months ahead has stayed firm up to Q2-22. However, this year's export growth should soften in view of geopolitical developments and further reinforced supply chain disruptions. According to latest CPB data drawn from the world trade monitor, annual growth in world trade dropped to 2.5% in Mar-22 as compared to 5.9% and 6.2% in January and February, respectively. Among downsides to international trade, a more entrenched geopolitical impasse and China's zero-Covid strategy feature among the most salient factors.

We have to reiterate our concerns regarding the very high level of private indebtedness in a context of tremendously high growth in residential property prices. Dutch private sector debt totaled 229.0% of GDP in 2021, continuing to represent one of the highest readings in the EU. Non-financial corporations' (NFC) debt edged down from 130.7% to a still very high 129.5% of GDP in 2020-21. As NFC debt continues to be inflated by the strong presence of multi-national enterprises, main risks to macroeconomic stability, and to some extent to financial stability, emanate from the consistently high debt of Dutch households. To be sure, household debt decreased somewhat, to 99.5% of GDP in 2021, down from 103.0% of GDP in the prior year. While remaining among the most indebted household sectors in the EU by this metric, we view household debt as set against disposable income as more worrisome. The respective ratio came in at

198.0% in the third quarter of 2021 (latest available ECB data), representing the second-highest level in the EU.

Since the majority of household debt relates to mortgage debt, we closely follow the development of the housing market, which continues to evolve dynamically, rendering the economy, and ultimately private consumption, vulnerable to shocks. Real house prices have continued their unabated, dynamic growth since our last review, rising by 13.5% y-o-y in Q3-21, by now surpassing the record-high before the global financial crisis (Q4-07) by 18% (OECD data).

The three-year-growth rate has stood at a minimum of 15% for the last 17 quarters. Concurrently, house prices have grown across the board, rather than only in the larger cities, with increasing indications of overvaluations. Moreover, the share of interest-only mortgage debt has continued to increase in all age groups, in particular in the cohort 46-55y and 56-65y respectively, as highlighted by DNB.

As recent buyers of residential property tend to utilize much of their financing leeway, they have become susceptible to adverse movements in residential property prices or incomes. On a side note, surging energy prices also have detrimental effects on the debt-servicing capacities of households. The price-to-income ratio posts 25.3% (Q3-21) above the long-term average since 1995 (OECD data).

Institutional Structure

The exceptionally high quality of the sovereign's institutional set-up, further buttressed by substantial advantages entailed by the Netherlands' membership in the EU and the European Monetary Union, remain a key rating support. Furthermore, Dutch HICP inflation, wages, and MFI interest rates have been closely aligned with the euro area over the last decade. Very lengthy negotiations have resulted in Prime Minister Mark Rutte's fourth administration, with the governing coalition holding no majority in the senate. We still view high government effectiveness as given, as underscored by the comprehensive coalition agreement as well as the spring budget memorandum, with the huge number of measures included tackling important structural challenges, in our view paving the way for continued solid economic growth. We thus think that authorities will continue on their favorable track record of sound and forward-looking policy-making which is based on a broad consensus among the stakeholders.

Following the general election in March 2021, which had resulted in a victory of incumbent PM Rutte's VVD and record-high 17 parties entering parliament, a new record in terms of the length of coalition negotiations was set up (271 days). The former members of the so-called Rutte III administration agreed on a coalition agreement in December 2021. The new government, consisting of center-right VVD, the Christian Democrats (CDA), Liberals (D66), and the conservative Christian Union (CU), was sworn in on 10 January 2022. This fourth administration under PM Rutte ('Rutte IV') holds a slim majority in the House (78/150 seats), but constitutes a minority in the Senate (32/75 seats).

Although the political landscape has become increasingly fragmented over the years, we believe that policy-making remains very effective, and we view policy formulation and implementation as very sound. The latter is also reflected in the latest edition of the World Bank's Worldwide Governance Indicators (WGIs), our preferred metrics with a view to evaluating institutional strength. The Netherlands has received consistently high scores on all WGIs we have assessed

over the last twenty years, outperforming the respective euro area median ranking by a substantial margin and moving on par with other global standard-setters in terms of governance standards, namely Denmark, Luxembourg, and Finland.

The sovereign exhibits a track record of stable and predictable policy-making, as suggested by an extraordinarily high quality of policy formulation and implementation, being listed at relative rank 6th out of 209 countries in terms of government effectiveness, up one rank as compared to last year. Ranking 9th and 12th on the respective WGIs "control of corruption" and "rule of law", the Netherlands is characterized by very low levels of corruption, while the perceived quality of property rights and courts is deemed very high. Dutch citizens enjoy extensive participation rights. The sovereign's relative ranking regarding the WGIs "voice and accountability" improved notably from 8th to 5th.

The coalition agreement, in our view, mirrors the sovereign's responsiveness to major structural challenges. A raft of measures has been sketched out aiming at key economic and societal issues, i.e. climate change, housing, education, social security, and infrastructure. While the ambitious agenda does not come without costs (see below), we think it underscores the forward-looking approach to Dutch policy-making, as tackling these challenges in a timely manner should put the Dutch economy in a position to sustain solid economic growth and keep its competitive edge, whereas pushing reforms further into the future could incur higher costs for the state.

To address reigning in residential property prices, the government inter alia plans to build 100,000 new homes per year and streamline planning processes at the municipal level. Funding shall be increased for child care as well as for welfare and disability benefits. Also, measures are planned to enhance the quality of education and create a more level playing field in terms of equal opportunities.

We take away that authorities envisage further landmark reforms regarding the management of the green transformation. Policy-makers have committed to allocate substantial funding, inter alia geared towards implementing the required energy infrastructure and providing sustainable transport. It is noteworthy that the Netherlands has installed a dedicated minister for climate and energy.

The coalition agreement foresees an adjusted target for greenhouse gas (GHG) emissions in the Climate Act, from 49% to at least 55% by 2030, which is to be ensured by aiming for an ambitious 60% carbon emission reduction by 2030. Among others, the target is to be achieved by a significant increase of renewable energy. Indeed, the Netherlands has room to improve in terms of the overall share of energy from renewable sources, which posted at 14.0% in 2020, markedly up from 8.9% in 2019, but well below the EU average of 22.1%. In the same vein, GHG emissions dropped from 11.1 tons p.c. to 9.8 tons, representing one of the more elevated readings in the EU (avg. 7.5 tons p.c.).

While still awaiting the publication of the Dutch Recovery and Resilience Plan (RRP), the new government presented a first draft containing just short of 40 initiatives to parliament at the end of March, with a second draft planned to be sent to the Council of Ministers this June. The RRP is envisaged to be formally submitted to the EC by July 2022.

We observe relentless efforts to further strengthen the already high quality and efficiency of the sovereign's judicial system. As pointed out in the EC's Rule of Law Report (Jul-21), authorities plan a constitutional revision with the aim to increase independence in appointing Supreme

Court judges. By the same token, the Council for the Judiciary implemented a new procedure for appointing court management board members.

Recalling irregularities concerning the Dutch childcare allowance that ultimately prompted the Rutte III administration's resignation at the beginning of last year, we take the view that preceding parliamentary investigations, as well as the institutional response following the irregularities, pay testament to the high quality and efficacy of the Dutch checks and balances.

Finally, we note that the Netherlands strongly supports international initiatives geared towards AML/CFT and aggressive tax planning, although the 5th AML Directive still remains to be transposed into national law. On the other hand, the government agreed on a proposal to broaden the application of its withholding tax on dividend payments to low-tax jurisdictions and jurisdictions on the EU list of uncooperative jurisdictions as of 1 January 2024. The Trust Register, with the aim to increase transparency regarding ultimate beneficial owners of trusts, was legislated last November.

Fiscal Sustainability

The Kingdom of the Netherlands' AAA rating continues to be backed by its sound public finances. Authorities mobilized significant public support to limit economic and health consequences entailed by the pandemic and are now deploying considerable fiscal resources to shield the private sector from the economic fallout stemming from Russia's invasion of Ukraine. In addition, the new government envisaged a marked increase in net spending to tackle economic and societal challenges. At the current juncture, however, we are not concerned that fiscal sustainability will be at risk over the medium term, largely for three reasons: Firstly, the sovereign commands over plenty of fiscal headroom as a result of the still low public debt levels we expect over the medium term and highly affordable debt, although much of the coalition's agreed policy package remains to be fleshed out in more detail going forward; secondly, the government features a track record of prudent fiscal policy-making and sound debt management. Thirdly, ramped-up spending will likely facilitate economic and employment growth. Fiscal risks mainly relate to possibly more adverse economic consequences in the wake of the geopolitical turmoil, public guarantees, and dynamically rising residential property prices.

The strong economic recovery and lower aid measures associated with the Covid-19 pandemic led to improved fiscal metrics in 2021. After the headline balance had shifted from an annual average surplus of 1.5% of GDP in 2017-19 to -3.7% of GDP in 2020, the deficit narrowed to -2.5% of GDP in 2021. The improvement was driven by a strong tax intake which benefited from vigorous economic growth last year, with taxes on income and wealth rising by 10.1% on the year and the VAT intake jumping by 9.4%. At the same time, general government expenditure grew by 4.7%, but significantly slower than economic activity. In this regard, we note that subsidies dropped by 13.0%, and interest outlays came in 11.3% below the previous year's outcome.

We expect public finances to remain in good shape, as the solid growth momentum together with the well-performing labor market should cater for robust revenue growth. That said, the Russian war against Ukraine and its effects on economic activity and energy and food prices will not leave the sovereign's budget unscathed. We tentatively project the headline deficit to widen slightly to 2.9% of GDP this year, and to decline to 2.1% of GDP in 2023.

In this regard, we emphasize the very high uncertainty around these estimates. The forecast is highly dependent on the unfolding geopolitical situation and the repercussions sent through

the global economy. Furthermore, new measures related to Covid-19 are not factored in at present, but uncertainty surrounding consequences of new virus variants remains in place. Aid measures seized in response to the corona crisis have been discontinued since April, so that pandemic-related outlays should come in somewhat lower than the roughly EUR 11bn included in the budget for this year (Stability Program 2022, SP22), also comprising initiatives to mitigate backlogs in education as a result of the pandemic.

The Ukraine war will involve additional budgetary effects feeding through the revenue and the spending side. On top of the support package contained in the autumn budget (EUR 3.2bn), policy-makers have decided on additional measures worth EUR 2.8bn. Excise duties on petrol and diesel will be cut temporarily as of 1 April, concomitant with temporarily lower VAT on energy as of 1 July, and a top-up of the one-off energy benefit for low-income households. What is more, higher outlays will have to be incurred related to the reception of refugees from the Ukraine.

In the near to medium term, measures outlined in the coalition agreement and somewhat more substantiated in the spring budget memorandum from May-22 will entail deficit-increasing effects going forward. While the Supreme Court reportedly decided that non-litigants against the wealth tax ('Box 3') liability do not have to be compensated, the government will shell out a one-off compensation in the amount of EUR 2.8bn or 0.3% of our estimated 2022 GDP for taxpayers objecting to basing wealth taxation on fictitious returns. Spending on defense will be structurally stepped up by EUR 2.2bn (approx. 0.2% of GDP) to reach the NATO goal (i.e. 2% of GDP), starting next year (EUR 0.6bn). Moreover, the statutory minimum wage (VML) is foreseen to rise by 2.5% in 2023 and 2024 respectively, and by 2.32% in 2025, whilst the state pension (AOW) will be linked to the staggered VML increase, also rising by a cumulative 7.5% by 2025.

To balance these funding needs, authorities envisaged raising labor income and capital gains taxes for directors/majority shareholders (DGA), implying the introduction of two tax brackets in Box 2 (tax rate 29.5% from EUR 67,000) and a lower efficiency margin (25% to 15%), with the consequence that directors/majority shareholders will have to pay more taxes under Box 1. In addition, the increase in the Box 3 tax-free amount will be cancelled, the tax-deferred retirement reserve (FOR) abolished, and the general real estate transfer tax rate raised (from 8% to 10.1%).

Meanwhile, the threshold of the 15% corporate income tax bracket will be cut almost in half to EUR 200,000 as of 2023 (25.8% for profits larger than EUR 200,000), generating approx. EUR 1.3bn to compensate the foregone revenue estimated by the government which arises from the delay of the OECD BEPS Pillar 2. As of 04-Nov-2021, 137 member jurisdictions passed the document which sets out the OECD/G20 inclusive framework on BEPS. The major reform consists of a two-pillar solution. Under the first pillar, taxing rights over 25% of the residual profit of very large and profitable MNEs will be reallocated to the jurisdiction where their customers/users are actually located. As regards pillar 2, a minimum tax of 15% on all MNEs with an annual turnover of more than EUR 750mn will be established. Due to discussions on the international political level this May, its implementation seems to have been pushed back to 2024 at the earliest.

Policy-makers plan to reduce support for the Climate Fund (by EUR 880mn), as well as for the Nitrogen Fund and the Growth Fund (by EUR 660mn each). To be sure, and as elaborated above, public investment will be substantially increased, essentially concerning the green transformation. As foreseen in the coalition agreement, a whopping EUR 35bn spread over ten years is envisaged to be invested in the Climate Fund, while EUR 25bn is to be allocated to the Transition

Fund. Large sums will also be absorbed by R&D (EUR 5bn), the Mobility Fund (EUR 7.5bn), and infrastructure (EUR 1.25bn), as per SP22.

Against the backdrop of moderate, albeit persistent headline deficits coming on the back of sizeable net spending increases, coupled with solid nominal GDP growth and low interest expenditure, we expect the Dutch debt-to-GDP ratio to trend sideways over the medium term, but remain comfortably below the 60% threshold. In 2021, general government debt equated to 52.1% of GDP, down from 54.3% of GDP in 2020, largely driven by the robust growth outturn and the lower primary deficit. We forecast the public debt ratio to tick up to 52.2% of GDP this year and fall to 51.5% of GDP in 2023.

Hence, fiscal sustainability risks continue to appear moderate at the current juncture, owing to the low current and prospective debt level. In light of this, we have to point out that debt-to-GDP came in well below the peak in 2014 (67.9%) despite the severe corona shock. Alternative metrics, such as the debt-to-revenue ratio (2021: 1.19, 2011-20 avg. 1.39) also paint a rather benign picture.

Furthermore, there is broad-based consensus to remain firmly committed to fiscal sustainability and the sovereign's debt management remains very sound. According to DSTA's medium-term policy framework for debt management in 2020-25, the DSTA aims to extend the average weighted maturity to a minimum of eight years, from 6.6 years at the beginning of the new policy framework. Judging by ECB data, average weighted maturity posted at 8.4 years in Mar-22, up from 7.5 years in Mar-21. Further to the structure of the sovereign's debt portfolio, we note that the share of general government debt held by DNB and the foreign official sector totaled 64% at the end of 2021 (Q4-20: 59%, IMF data).

We expect debt affordability to remain a key mitigating factor, as interest outlays continue to diminish, having declined to a historically low 1.28% of general government revenue in 2021 as compared to 1.55% in 2020. The Netherlands continues to demonstrate its ability to issue long-term debt at very low rates. That said, the interest rate environment is set to become increasingly less benign. At the beginning of June, Bund spreads are still relatively low, but Dutch 10-year government bond yields stood at their highest level since mid-2014 (03-Jun-22: 30bp, 1,575%, weekly quote).

Following its June monetary policy meeting, the ECB Governing Council announced in a much anticipated step that the ECB intends to begin normalizing its monetary policy. The ECB thus envisaged ending its net asset purchases under the Asset Purchase Program (APP) in Jul-22 and to hike its key interest rates by 25bp, with a further 50bp rise likely to take place in Sep-22. The Governing Council plans to reinvest principal payments from maturing securities purchased under the APP for an extended period of time, whilst reinvesting principal payments purchased under the PEPP until at least end-24. We note that cumulative net purchases under the APP (Apr-22 data) and the PEPP (Mar-22 data) combined make up for approx. 48% of Dutch general government gross debt, the highest reading in the euro area.

Besides the geopolitical turmoil, fiscal risks mainly relate to contingent liability risks stemming from public guarantees and overheating residential property prices. According to the SP22, public guarantees totaled EUR 211.8bn in 2021, of which roughly EUR 41bn are associated with the corona crisis. In terms of GDP, public guarantees decreased from 29.2% to 24.6% of GDP in 2020-21.

At the same time, soundness metrics of the very large Dutch banking sector (Q3-21: 330% of GDP) remain healthy, hinting at strong credit quality and significant capital buffers. The NPL ratio amounted to 1.5% at the end of 2021 (EBA data), well below the EU average of 2.0%, and banks exhibit a sufficient and stable degree of capitalization, with the CET 1 ratio at 17.0%, the same level as in Q4-20 (EU avg. 15.7% in Q4-21).

As regards financial stability risks engendered by residential real estate, mortgage lending has remained relatively moderate as compared to previous episodes such as the global financial crisis, and less than 10% of total outstanding mortgage debt features an LTV of more than 80% (DNB data). On top of this, authorities are well aware of the challenges at hand. DNB announced that it will raise the CCyB to 1% as of May-23, while having implemented a floor for mortgage loans' risk weighing from 01-Jan-22.

Foreign Exposure

We continue to view the Netherlands' external position as a credit strength, mainly due to the very high and positive NIIP and our expectation of sustained very high current account surpluses over the medium term. Although the Russian war against Ukraine causes some weakening in the Netherlands' terms of trade, as well as high uncertainty, the sovereign's safe haven status and its substantial gross asset position provide for contained risks to eternal sustainably.

The Netherlands' current account surplus was back to its pre-pandemic level last year after a transitory Covid-19 related drop in 2020. Following a decline from 9.4% of GDP to 7.0% of GDP in 2019-20, the Dutch current account was thus up to 9.5% of GDP in 2021 (2011-20 average: 9.0% of GDP), the second-highest current account surplus in the EU.

While the structural external strength mainly boils down to the Netherlands' very high trade in goods surplus, which came in at 8.1% of GDP in 2021 (2020: 8.1% of GDP), movements in the current account over the last two years were largely driven by the income balances. The corona crisis prompted stark declines in the incomes earned by residents from foreign equity holdings, stronger than earnings from foreign investors from equity holdings in the Netherlands. Profits from foreign holding of Dutch investors recovered in 2021, leading to a narrowing of the primary income deficit by 1.0 p.p. to 0.7% of GDP. Also, the secondary income balance was back to -0.9% of GDP after a temporary dip to -1.7% of GDP in 2020.

We expect the Dutch current account to edge down this year and next, chiefly as a result of the surging energy and raw material prices which should weigh on the Dutch trade balance. However, normalizing price levels coming on the back of subsiding supply-side shortages and unwinding geopolitical tensions in Eastern Europe should prove constructive with a view to terms of trade further out.

Over the medium term, we think that the significant investment plans contained in the coalition agreement as well as the implementation of the second pillar pension reform (see above) will put some pressure on the current account surplus from a savings-investment perspective. In any case, we believe external buffers will remain extensive, as suggested by extremely high and positive NIIP, posting at 93.8% of GDP in Q4-21 (Q4-19: 89.9% of GDP), one of the highest in the world.

Rating Outlook and Sensitivity

Our rating outlook on the Netherlands' long-term credit ratings is stable. The stable outlook reflects our expectations that the Dutch economy and the sovereign's public finances will remain resilient, as highly prudent policy-making, strong macroeconomic fundamentals, and significant fiscal headroom balance downside risks posed by the grave deterioration of the geopolitical situation in Eastern Europe. Still, we have to highlight that the assessment and interpretation of economic developments remains subject to unusually high uncertainty in light of the recent accumulation of crises, as is the case for other indicators, essentially from the fiscal realm.

Although unlikely at the current juncture, we could lower the outlook or the rating if we observe significantly lower-than-expected medium-term real GDP growth and/or if public finances derail, with the debt-to-GDP ratio rising substantially and over a prolonged period of time. This could be the case if the Ukraine war continues for a protracted period, if increasing vulnerabilities on the real estate market were to culminate in a sharp correction of residential property prices, if contingent liabilities materialize, or in the event of a global resurgence of the pandemic.

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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.

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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]	2016	2017	2018	2019	2020	2021	2022e
Macroeconomic Performance							
Real GDP growth	2.2	2.9	2.4	2.0	-3.8	5.0	3.0
GDP per capita (PPP, USD)	52,441	55,509	57,840	59,675	57,665	62,841	68,572
Credit to the private sector/GDP	155.3	147.2	137.3	130.6	118.5	126.1	n/a
Unemployment rate	7.0	5.9	4.9	4.4	4.9	4.2	n/a
Real unit labor costs (index 2015=100)	100.5	99.7	99.6	99.5	105.3	101.8	n/a
World Competitiveness Ranking (rank)	8	5	4	6	4	4	n/a
Life expectancy at birth (years)	81.7	81.8	81.9	82.2	81.4	81.5	n/a
Institutional Structure							
WGI Rule of Law (score)	1.9	1.8	1.8	1.8	1.8	n/a	n/a
WGI Control of Corruption (score)	1.9	1.8	1.9	1.9	2.0	n/a	n/a
WGI Voice and Accountability (score)	1.5	1.5	1.5	1.5	1.5	n/a	n/a
WGI Government Effectiveness (score)	1.9	1.9	1.9	1.8	1.9	n/a	n/a
HICP inflation rate, y-o-y change	0.1	1.3	1.6	2.7	1.1	2.8	8.5
GHG emissions (tons of CO2 equivalent p.c.)	12.1	11.9	11.5	11.1	9.8	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	0.0	1.3	1.4	1.7	-3.7	-2.5	-2.9
General government gross debt/GDP	61.9	56.9	52.4	48.5	54.3	52.1	52.2
Interest/revenue	2.6	2.3	2.1	1.8	1.5	1.3	n/a
Debt/revenue	141.9	130.3	120.0	111.0	123.7	118.9	n/a
Total residual maturity of debt securities (years)	7.1	7.3	7.4	7.6	7.3	7.9	n/a
Foreign exposure							
Current account balance/GDP	8.1	10.8	10.8	9.4	7.0	9.5	n/a
International reserves/imports	0.1	0.1	0.1	0.1	0.1	0.1	n/a
NIIP/GDP	62.3	61.1	72.8	89.9	113.9	93.8	n/a
External debt/GDP	554.3	516.1	489.4	457.4	443.8	412.8	n/a

Sources: IMF, World Bank, Eurostat, AMECO, ECB, CBS, IMD Business School, 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
Monitoring	17.06.2022	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 Ministry of Finance (MoF) participated in the credit rating process as the authorities commented on a draft version of the report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of MoF during their review. However, the rating outcome as well as the related outlook remained unchanged.

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, IMD Business School, 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).

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.

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