Creditreform Rating

Rating Object	Rating Information	
KINGDOM OF THE NETHERLANDS	Assigned Ratings/Outlook: **AAA /stable**	Type: Monitoring, Unsolicited
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 19-05-2023 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 19 May 2023

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. Wealthy and highly competitive economy boasting a flexible labor market and featuring a good degree of diversification as well as an advanced stage of digitization and innovation; having weathered the successive shocks presented by the pandemic and the war in Ukraine comparatively well, we expect the Dutch economy to post more moderate growth rates this year and next, with the relatively aggressive monetary policy tightening cycle likely to increasingly weigh on domestic demand and the housing market

2. Medium-term growth perspectives remain backed by substantial investment to drive the green and digital transition, expected to add to an already strong position in terms of competitiveness and productivity alongside one of the highest labor participation rates in the EU; downside risks related to the high level of household indebtedness could become more prominent in the event of a sharper correction of house prices

3. Exceptional institutional quality, as mirrored by consistently outstanding performance regarding the World Bank's Worldwide Governance Indicators, and bolstered by significant benefits linked to EU/EMU membership; long-standing track-record of sound and consensus-seeking approach to policy-making; in our perception, political commitment to greening the economy remains broad-based, although the implementation of ambitious plans may meet with some challenges on the way, as the recent provincial elections seem to suggest

4. Fiscal consolidation continued last year, with the general government budget turning out balanced and the debt-to-GDP ratio declining further; while we expect the headline balance to return to a deficit this year and next, public debt is set to remain relatively stable at moderate levels; fiscal sustainability risks remain low and are mitigated by sound debt management and high, albeit prospectively deteriorating, debt affordability

5. Recurrent current account surpluses have contributed to building up substantial external buffers over time; low external risks are also reflected by the very high and positive net international investment position (NIIP)

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

The sovereign's AAA rating remains underpinned by its very strong macroeconomic performance profile, bolstered by a very high GDP per capital and productivity level, as well as buoyant employment growth. Despite the successive shocks presented by the pandemic and the war in Ukraine, the Dutch GDP by and large continued to expand over recent quarters, underscoring the underlying strength and flexibility of the economy, as well as a robust competitive stance. Establishing alternative sources for importing energy has progressed, further reducing the comparatively moderate energy trade links to Russia. Apart from remaining risks related to the geopolitical situation and energy price developments, the advancing monetary policy tightening cycle tempers economic growth expectations in the short term. Medium-term growth perspectives appear constructive, backed by substantial envisaged public investment over the coming years to foster the green and digital transition, while potential difficulties to fill job vacancies could pose some constraints alongside high levels of private indebtedness. Continued signs of slowing dynamics on the housing market will have to be monitored.

The Dutch economy weathered the recent accumulation of crises well, expanding by 4.9% and 4.5% in 2021 and 2022, respectively, thus continuing to exceed euro area (EA) growth, having recorded a milder downturn in the first year of the pandemic (2020). The outcome emphasizes the general resilience of the economy, to which extensive government support to soften adverse effects on private households and businesses through the most acute phases of crisis added.

Last year's economic growth came on the back of strong private consumption (+2.7 p.p. contribution), largely bolstered by government measures to cushion the negative repercussions from the soaring energy prices as well as by robust employment growth. Gross fixed capital formation added positively as well, although to a lesser extent than net external trade, which contributed 0.9 p.p. to GDP growth.

That said, the 2022 annual growth figure masks a slowdown in economic activity in the second half of 2022. After recording q-o-q growth of 2.7% in Q2-22, the economy stagnated in the subsequent quarter, mainly due to a fall in private investments and a negative contribution from net exports, but total economic output resumed growing in last year's final quarter (+0.6% q-o-q).

Further added to by the underlying economic resilience, the Netherlands continues to feature one of the highest GDP per capita levels in the EU, representing a key strength of the Dutch macroeconomic profile. Drawing on IMF estimates, the Dutch per capita income increased by 11.1% in 2022, totaling USD 69,963 (PPP terms, current prices). With that, the respective indicator moves somewhere between AAA-peers such as Denmark (USD 70,924) and Germany (USD 63,815).

[1] This rating update takes into account information available until 12 May 2023.

Looking at the energy sector, we are aware of progress and ongoing efforts to further diversify energy supply, which should keep risks of energy shortages contained. As a case in point, a new floating LNG terminal has been installed in Eemshaven to reduce energy dependency on Russia. Operations were completed this March, leaving the terminal prepared to commence full production. Furthermore, two new nuclear power plants are planned to be built by 2035, and the operation of the Borselle nuclear power plant is to be extended beyond 2033. At the same time, half of the gas fields in the province of Groningen were recently closed, but could be reactivated should a sudden emergency concerning the availability of gas occur.

We expect economic activity to expand only moderately in the course of the current year, as a number of factors are likely to weigh on private consumption, business investment and exports, including still elevated - although receding – headline inflation, the relatively aggressive monetary policy tightening cycle and persisting uncertainty with regard to the geopolitical conflict.

With regard to household spending, a battery of adopted government support measures mitigate negative effects from high energy prices. Among others, a price cap on electricity and gas that will also apply in 2023, excise duties remain reduced, and healthcare as well as housing allowances are temporarily increased. After having peaked at 17.1% in September last year, headline inflation decelerated sharply, posting at 5.9% this April. Core inflation (Apr-23: 7.9%), by contrast, remains on the rise and exceeds the headline HICP rate.

Stronger wage increases could add to that, as suggested by collective bargaining agreements, but will for now act as a support to private consumption. In this context, we recall that the statutory minimum wage experienced another increase by 10.1% from January this year, softening the blow from soaring energy prices for the most heavily affected private households. Persistently strong employment growth (see below) should additionally bolster private consumption.

On the other hand, consumer confidence remains downbeat, albeit appearing to have bottomed out in September of last year. Against the backdrop of the cooling down of the housing market, households may become more cautious with regard to their expenditure.

In light of the continued tightening of financial conditions and persistent labor shortages specifically in the construction sector, we think investment growth is set to slow in 2023. Tying in with weakening housing market developments, we believe that residential investment will be negatively affected by falling house prices, posing a drag on gross fixed capital formation. Uncertainty emanating from the war in Ukraine adds to this, while high input costs, in particular for energy and materials, may reduce incentives for private investment and lead to a postponement of investment projects into the future. In this context, we note that construction confidence recently fell to its lowest reading since October 2020. Similarly, in this year's first quarter, new orders in the industry sector fell to their lowest level since Q4-20, whilst capacity utilization was down to 83.0%, although exceeding its long-term average slightly.

Additional uncertainty for investment prospects may arise from the envisaged government plan to substantially reduce nitrogen emissions in its bid to enhance environmental protection. This could potentially involve higher costs and/or delays in construction, also possibly due to higher bureaucratic hurdles, but has recently been subject to stronger political opposition (see below).

We think that net external trade will drag somewhat on GDP growth this year and next. As a small and open economy, the Netherlands is heavily dependent on global trade and economic activity in the euro area, chiefly Germany, France and Belgium. In anticipation of weakening foreign demand, also as monetary policy tightening is likely to exert greater dampening effects,

Dutch export growth should be adversely affected. According to CPB data from the world trade monitor, world merchandise trade saw a drop by 0.9% m-o-m in February 2023, while euro area imports fell by 1.9%.

Overall, we expect real GDP growth of about 1.5% in 2023, to a marked extent on the back of a positive carry-over effect from 2022, and some deceleration to an annual average of 1.1% in 2024. Nevertheless, we would stress persisting high uncertainty surrounding these projections, especially in the face of the geopolitical developments.

The medium-term outlook remains generally supported by public investment related to the Recovery and Resilience Plan (RRP). While the coalition agreement entails substantial investments in infrastructure, R&D and climate, the European Commission (EC) greenlighted the Dutch Recovery and Resilience Plan (RRP) in September 2022, comprising a financial volume of EUR 4.7bn in grants, and we understand that the Dutch authorities plan to request a first payment of EUR 1.4bn by the end of the current year.

Notwithstanding some challenges such as displaying one of the highest vacancy rate among the EU countries (Q4-22: 4.8%, Eurostat), partly reflecting shortage of skilled labor, the flexible Dutch labor market continues to represent a key strength of the sovereign's macroeconomic profile. Employment grew rapidly throughout 2022, still recording an increase by 3.4% y-o-y in Q4-22 (national accounts data, domestic concept; EA: 1.5%). Overall, employment expanded by 4.0% in 2022, standing well above the euro area reading (2.2%) and also above the levels of AAA-rated peers Denmark (3.9%) and Germany (1.3%).

Likewise, the Netherlands was the undisputed leader in terms of labor participation, posting at 84.7% of the total population (Q4-22) and remaining on an upward trajectory. LFS-adjusted unemployment remained near historic lows, recording a level of 3.5% this March, comparing favorably against most other euro area economies (EA, Mar-23: 6.5%). Moreover, the Netherlands continue to show a broad-based strong performance with regard to the EC's Social Scoreboard, including the categories 'equal opportunities', 'fair working conditions' and 'social protection and inclusion'.

Constructive medium-term growth prospects remain also corroborated by the persistently high productivity level and the Netherlands' very high level of competitiveness. In 2022, the nominal labor productivity per hour worked exceeded the EU-27 level by 20.6%, thus being in line with pre-pandemic readings. With a view to real unit labor cost developments that were somewhat less favorable vis-à-vis the euro area as a whole and some of the Netherlands' main European trading partners over the five-year horizon to 2022, although roughly in line more recently, there are no major concerns as regards Dutch cost competitiveness at the current stage.

While awaiting updates for 2022, the Dutch global export market share of goods and services backs this, mirroring the economy's generally high degree of competitiveness, posting at 3.04% in 2021 and representing the third-highest reading among the EU-27 countries, having edged down to pre-pandemic levels in 2021.

As concerns the Netherlands' non-cost competitive stance, we would stress an ongoing strong position as reflected by relevant rankings such as the IMD World Competitiveness Yearbook. With regard to the latter, the Dutch economy maintained one of the front ranks, being put in 6th place out of 63 economies (2021: 4th), with a particularly strong performance in business efficiency (3rd) and infrastructure (5th), underpinning the Netherlands' business-friendly environment.

Similarly, hinting at a good base to build on in terms of advancing its digital agenda, the country is one of the EU's frontrunners as regards digitization and innovation, as reflected by its 3rd rank in the EC's Digital Economy and Society Index 2022, among others showing the highest score regarding people with above-basic digital skills. Moreover, the sovereign is considered an innovation leader, being ranked 5th out of 132 economies in the UN's Global Innovation Index 2022, paying testament to its outstanding performance regarding the pillars 'knowledge and technology outputs' and 'institutions'.

As far risks to the medium-term outlook are concerned, we highlight the sovereign's high levels of private indebtedness, despite the decreasing tendency not least as the monetary policy cycle exerts some dampening effects via considerably higher lending rates. Partly inflated by the activities of multinational enterprises (MNEs), NFC debt remained among the highest among EU-27 members, posting at 121.3% of GDP as of Q4-22 (Q4-21: 129.1% of GDP, ECB data).

Measured against disposable income, private household debt dwindled to 189.1% as of Q3-22 (Q3-21: 195.3%), still representing one of the highest levels in the EU, but well below ratios recorded prior to the global financial crisis. As indicated above, the lion's share of household debt is concentrated in mortgages, which we take as a reason to flag potential downside risks to private consumption in view of slowing housing market dynamics.

Institutional Structure

The sovereign's credit ratings continue to mirror the exceptionally high quality of its institutional framework, as also underscored by the very strong scorings with regard to the Worldwide Governance Indicators (WGIs). The extremely favorable institutional set-up also includes advantages associated with the EU/EMU membership, such as very favorable trade conditions both within the EU/EMU as well as related to EU trade agreements, adding to favorable financing conditions through access to broad and deep capital markets. Furthermore, Dutch HICP inflation, wages and MFI interest rates have been broadly synchronized with the euro area over the longer term. While we continue to assess the Netherlands' sound and forward-looking policy-making typically based on a broad consensus among the stakeholders as credit positive, also taking into account a convincing track record in this respect, we take note of recently more pronounced opposition to environmental policies as expressed in the March provincial elections and a potentially more challenging course in implementing the climate protection agenda. Commitment to greening the economy generally seems to remain broad-based, though.

The latest vintage of the World Bank's WGIs, which refers to the base year 2021, adds emphasis to our positive assessment of the sovereign's institutional quality. With a view to the four WGIs we deem most relevant for our credit assessment, the Netherlands' continue to exhibit a compelling performance. More specifically, regarding 'voice and accountability' the Netherlands slipped somewhat from relative rank 5 to 8 (out of 208 economies considered) while 'government effectiveness' is attested to be very high, with the Netherlands being ranked 7th out of 209 (rank 6 in 2020). The rankings when it comes to 'control of corruption' and 'rule of law' inched up from 9 to 7 (out of 209) and 12 to 11 (out of 209), respectively. With that, the Netherlands remain among the frontrunners from a global perspective, outperforming the median outcomes of the euro area by far.

Adding to the highly positive assessment of the Netherlands' institutional backdrop, the country counts as one of the world's least corrupt ones, as also stressed by in the EC's 2022 Rule of Law

Report, having established effective processes in terms of investigating and prosecuting corruption cases, while mentioning some scope to improve when it comes to tackling foreign bribery cases.

Continued efforts to further enhance its strong AML/CFT framework further emphasize the sovereign's pronounced commitment in matters of governance. An action plan aimed at increasing the compliance within the non-financial sector was published last year, serving as another case in point for swift remedial action and very high responsiveness to identified challenges.

Turning to the domestic political environment, the strong result for the 'Farmer-Citizen Movement' (BBB), which had its origin in 2019, in the Mar-23 provincial elections points to the build-up of stronger opposition to the current government coalition's environmental policies, partly in connection with the planned reduction of nitrogen emissions and possible negative consequences for the agricultural industry. The government survived an ensuing motion of no-confidence in April 2023.

Following the regular schedule, a parliamentary election will not be held until March 2025. The BBB's rising popularity sees it currently taking the lead in opinion polls, overtaking the previously leading 'People's Party for Freedom and Democracy' (VVD). A recent poll of polls suggests that BBB might obtain a third of the vote (30%, 21-24 April, Ipsos). With the issue around the reduction of pollutants associated with nitrogen persisting, we will monitor further developments regarding the government's plans to significantly cut respective emissions in response to the pollution of soil and water, but also regarding the implementation of its broader climate protection plans.

Adding to the impression of strong commitment to reduce greenhouse gas (GHG) emissions by 55% by 2030, the Netherlands' Environmental Assessment Agency, a supervisory body, conducts an annual stocktaking of the extent to which the required pathway of GHG emissions has been met. According to its latest report, an overall reduction of 39-50% is within reach if the current policy mix is retained, with additional savings of 12-36 megatons of GHG emissions necessary to end up with the desired 55% reduction. In a bid to close this gap, the government announced a raft of measures in late April. The corresponding package comprises reforms fostering renewable electricity as well as the sustainability of the built environment, transport and agriculture and is to be financed via the Climate and Transition Fund. It also has to be stressed that the majority of the funds available under the RRF, about 48%, will be geared towards reforms and investments promoting the green transition.

Thanks to natural gas consumption cuts in manufacturing, the built environment and agriculture, GHG emissions were reduced by 9% in 2022 as compared to the previous year (Statistics Netherlands), implying that GHG emissions fell for the first time by 30% below emissions recorded in 1990. In a similar vein, progress has been made as regards electricity production from renewable energy sources. As of 2021, the overall share of energy from renewable sources had still compared unfavorably against EU-27 levels, standing at 12.3% in 2021 (EU-27: 21.8%), down from 14.0% one year earlier.

Fiscal Sustainability

Sound fiscal policymaking and solid fiscal metrics remain cornerstones of the sovereign's creditworthiness. Debt remains highly affordable, and we expect rising interest rates to weigh on Dutch public finances only very gradually. In addition, the sovereign still has ample fiscal space to intervene should the energy crisis deteriorate, or if the economy faces another external shock. Significant fiscal support to the private sector should lead to rising, albeit still comparatively moderate, deficits in the budget balance this year and next. We forecast the sovereign's public debt ratio to stabilize at relatively low levels by European standards, whilst the authorities' commitment to adhere to fiscal rules and maintain sound public finances lends confidence that the debt-to-GDP ratio will remain anchored at prudent levels over the medium term. Fiscal risks associated with public guarantees as well as to the housing market and a correction of stretched house price valuations remain in place, but appear manageable at this juncture.

Triggered by the pandemic, the Dutch headline balance was in deficit in two subsequent years (2020: -3.7% of GDP, 2021: -2.4%), after averaging a surplus of 1.6% of GDP per year in 2017-19. In 2022, the headline balance came in flat (0.0% of GDP), substantially better than we had projected in our last review.

The better-than-expected outturn was due to a considerable increase in general government revenue, which grew by 10.4% in 2022. Boosted by inflated tax receipts, in particular current taxes on income and wealth (+16.0%) and VAT (+7.4%), as well as by property income (+126.2%) and net social security contributions (+7.5%), the Dutch revenue intake was higher both in nominal terms and as a percentage of GDP as compared to 2021. At the same time, the increase in government expenditure (+4.8%) was driven by final consumption expenditure (+6.8%), compensation of employees (+8.3%) and intermediate consumption (+7.9%), whereas subsidies almost halved vis-à-vis 2021 (-43.4%) following the phasing out of pandemic support measures.

Going forward, the budgetary outcomes for the current year will be affected by several factors, notably events related to the geopolitical situation, the implementation of purchasing power measures, slightly higher interest expenditure, and lower gas revenues.

With a view to government support measures in response to the energy crisis, the Dutch authorities decided to extend a large part of the package adopted in 2022, and supplement it with additional measures. Healthcare and housing allowances are to be increased temporarily, the statutory minimum wage was raised by 10.1% from January this year, and the reduction in energy taxes as well as excise fuel duties was extended. The government also introduced an energy price cap for households and provided support for energy-intensive SMEs.

According to the Budget 2023, the financial envelope of these measures totals roughly EUR 15.5bn without the energy price cap. While the cost of the latter will depend heavily on the respective market prices for gas and electricity, other important deficit-increasing items relate to the increase in health care allowance, the energy compensation benefit for households and the reduction excise duties on fuel.

Moreover, spending is set to increase not only as a result of purchasing power measures, but also as a result of compensatory investments in connection with earthquakes in the Groningen area and northern Drenthe. Over a period of 30 years, financial resources to the tune of EUR 22bn will be made available for this purpose. In addition, the government is paving the way for achieving the 2030 climate targets by providing a climate package in the amount of EUR 28bn.

The package comes on top of the Climate and Transition Fund comprising EUR 35bn over the next decade and the Cumulative Transition Fund of EUR 25bn until 2035.

We also note that expenditure related to the corona crisis will continue to weigh on public finances, albeit at a much lower level in 2023. According to estimates published in the Spring Memorandum 2023, expenditure will amount to EUR 3.1bn this year and fall materially to approx. EUR 0.5bn in 2024. Furthermore, government outlays will be affected by higher defense expenditure. Finally, a significant amount of funds will be made available for Ukrainian refugees who have found shelter in the Netherlands. Latest estimates suggest that expenditure for displaced persons will total roughly EUR 3.6bn in 2023 and EUR 3.5bn in 2024.

Overall, we expect the general government balance to turn into a deficit this year. For 2023, we pencil in a headline deficit of -3.1% of GDP, narrowing to -2.7% of GDP in 2024. We note that these projections remain subject to substantial uncertainty, not least because they depend on the evolution of the geopolitical situation and climatic conditions next winter. As indicated by the Ministry of Finance, a cold winter could lift the cost of the price cap to EUR 5.4bn in 2023, while higher gas revenues would cushion the adverse impact on the budget balance to some extent.

General government debt fell from 52.5% of GDP in 2021 to 51.0% of GDP last year, mainly driven by high nominal GDP growth and the balanced budget. Despite the anticipated headline deficits, we expect government debt to decrease to 50.1% of GDP in 2023 due to continued strong nominal growth and to remain broadly at this level the following year (2024e: 50.5% of GDP). Looking ahead, we assume that the Dutch debt-to-GDP ratio will continue to post at similar levels, comfortably below the Maastricht threshold of 60%, reflecting presumably robust medium-term growth, moderate deficits to finance the green transformation, as well as easing inflationary pressures and gradually rising interest expenditure.

Overall, we consider risks related to fiscal sustainability to be limited, although the interest rate environment has deteriorated in the recent past. After a further 25bp hike in the ECB's key policy rates in May 2023, we think the rather aggressive monetary policy tightening is slowly approaching its peak. We expect two more interest rate hikes this year following the decision in May-23, presumably by 25bp each, while we consider a first cut is unlikely to occur before 2024.

As part of its monetary policy decisions, the ECB announced that reinvestments under the APP will be discontinued from July 2023. A gradual winding down of the APP portfolio began in March 2023, with an initial monthly portfolio reduction of EUR 15bn until June 2023. Furthermore, principal payments of maturing government bonds under the PEPP will be reinvested until at least the end of 2024.

The yield on 10-year government bonds has risen significantly since our last review, to levels last seen back in 2011, peaking at around 3% at the beginning of March 2023 and has moderated since then. That being said, the Bund spread remained at a low 37bp at the end of April, and interest payments are at very low levels, with the interest-to-revenue ratio amounting to historically low 1.2% in 2022 (2021: 1.3%).

Medium-term risks are further mitigated by a favorable maturity profile and diversified investor base, as well as the sovereign's track record of fiscal prudence and sound debt management. According to the Dutch State Treasury Agency, the average maturity of the debt portfolio amounted to 8.1 years in 2022, up from 7.9 years in 2021. We also highlight that the debt portfolio is dominated by the official sector and has trended upwards recently, with the DNB and

the foreign official sector holding 31% and 37% of general government debt as of Q2-22, respectively (IMF data).

Fiscal risks related to contingent liabilities remain elevated. As outlined by the MoF in its recently published SP23, outstanding government guarantees are expected to increase in nominal terms, to EUR 221bn in 2023 after standing at EUR 217.9bn in 2022. At the same time, public guarantees fell as a share of GDP declined from 24.6% to 23.4% in 2021-22, of which 19.2% are related to the financial sector, remaining at a high level.

Overall, the Dutch banking sector remains healthy. Based on EBA data, the NPL ratio declined slightly to 1.4% in Q4-22 (1.5% in Q4-21). At the same time, the CET1-ratio dropped from 17.0% in the last quarter of 2021 to 15.7% at the end of 2022, which was still higher than the average EU level of 15.5%. Return on assets was in line with the EU level, posting at 0.5%.

Given the relatively large size of the Dutch banking sector (318.6% of GDP as of Q3-22) and recent turbulence in financial markets triggered by liquidity problems of US and Swiss financial institutions, we closely monitor any events that could trigger liquidity squeezes in the Dutch financial system. Exhibiting a liquidity coverage ratio of 149.6% at the end of 2022, the Dutch banking sector can draw on sufficient liquidity buffers, while we emphasize that the value was among the EU's lowest readings, standing 15.1 p.p. below the EU average EU reading.

At this stage, financial stability risks also emanate from housing market developments. Against the backdrop of the unabated house price growth observed during the last years, DNB has activated the build-up of a 1% countercyclical capital buffer (CCyB) with effect from this May, and has repeatedly maintained its decision to keep the CCyB at 1%. In the meantime, real house price growth appears to have lost momentum, posting at 3.3% y-o-y Q3-22 (13.1% in Q3-21, OECD data). Similarly, Eurostat data point towards a deceleration in annual house price growth, standing at 5.3% in last year's final quarter, down from 18.8% in the previous year. Nevertheless, OECD affordability indicators point towards persisting misalignments between prices and fundamentals, judging e.g. by the price-to-income ratio.

In this context, vulnerabilities arise from the high level of household debt (see above). Housing loans accounted for the majority of total credit in February 2023, posting at 62.3%, second only to Ireland among EU-27 member states (ECB data). Despite the large share of mortgage loans being granted at fixed rates and long maturities, risks remain in place, with the interest rate of a considerable amount of mortgages being adjusted within the next five years. While households could potentially face financial distress as a result, the marked rise in mortgage rates carries the risk of triggering a sharp correction in the housing market.

Foreign Exposure

Underscored by the highest net international investment position (NIIP) among the EU-27 countries, we continue to assess the sovereign's external position as credit positive. While the terms of trade have weakened in light of the impact of the energy price shock spurred by the geopolitical crisis, and the current account balance has deteriorated somewhat as a result, we expect recurring current account surpluses and the high positive NIIP to offset medium-term external risks.

Having rebounded from the pandemic in 2021, the current account surplus fell again last year, posting at 4.4% of GDP, well below the long-term average (2012-21: 7.8% of GDP). A slightly improving services balance could not make up for the narrowing goods surplus and widening

primary income deficit. As a side note, we are aware of a substantial downward revision of the current account balance over 2015-21, e.g. related to the misclassification of foreign-owned companies located in the Netherlands.

In 2022, soaring commodity prices and higher domestic demand dragged down the goods balance, which came in 1.2 p.p. lower than in 2021. In addition, the primary income deficit nearly doubled in terms of GDP, having amounted to -4.1% last year (2021: -2.2% of GDP). The relocation of Shell to the United Kingdom may also have played a role in the decline of the current account surplus, although we consider the adverse impact to be relatively low. Services are likely to have benefited from the recovery in tourism, but the positive effect from the rising surplus was rather modest (+0.3 p.p.).

Looking forward, we assume the current account surplus to expand slightly this year before edging down gradually over the medium term, as spending to increase the housing stock, ensure the competitiveness of the education system, and advance the transition towards a low-carbon economy, is likely to weigh on the trade balance.

Boasting the EU's largest NIIP at 75.1% of GDP in 2022, Dutch external risks appear to be contained, notwithstanding a significant y-o-y decline from 93.2% of GDP. Fluctuations in the individual components were strong, including a markedly lower net position of direct investment and a significantly higher net position regarding other investment. Although the introduction of the OECD's international tax reform from 2024 onward could lead to more volatile movements in the NIIP against the backdrop of the presence of multinational enterprises, the reform's implications on foreign direct investment remain uncertain. We do not currently expect the Netherlands will lose its position as a large net external creditor over the medium term.

Rating Outlook and Sensitivity

Our rating outlook for the Kingdom of the Netherlands is stable. The stable outlook reflects our view that downside risks to the sovereign's overall credit performance remain limited, having shown great resilience during the recent accumulation of crises. While we expect fiscal metrics to deteriorate somewhat over the medium term, we believe that strong macroeconomic fundamentals, high institutional quality, still ample fiscal leeway and considerable external buffers will offset any potential deterioration in public finances. At the same time, we acknowledge the significant uncertainty surrounding our assumptions regarding risks from protracted geopolitical tensions.

We could consider lowering the outlook or the rating if economic performance remains weak for a prolonged period, significantly weighing on medium-term growth perspectives and leading to a persistently higher-than-expected public debt ratio. Such a scenario could materialize in the event of a further escalation of the war in Ukraine, or a sharp correction on the housing market accompanied by an extensive take-up of public guarantees.

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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

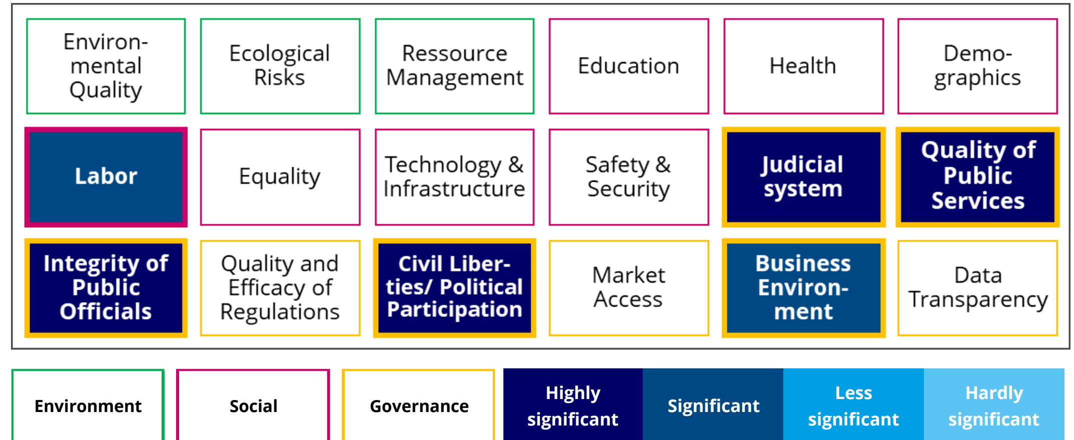
ESG Factors

Creditreform Rating has signed the ESG in credit risk and ratings statement formulated within the framework of the UN Principles for Responsible Investment (UN PRI). The rating agency is thus committed to taking environmental and social factors as well as aspects of corporate governance into account in a targeted manner when assessing creditworthiness.

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.

ESG Factor Box



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 assessment of an economy's competitive stance by e.g. the World Bank, the World Economic Forum, the European Commission, and IMD Business School and the World Intellectual Property Organization (UN) 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 exert 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 on public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2017	2018	2019	2020	2021	2022e	2023e
Macroeconomic Performance							
Real GDP growth	2.9	2.4	2.0	-3.9	4.9	4.5	1.5
GDP per capita (PPP, USD)	55,509	57,849	59,687	57,681	62,969	69,963	72,973
Credit to the private sector/GDP	147.2	137.3	130.6	133.5	126.9	117.6	n/a
Unemployment rate	5.9	4.9	4.4	4.9	4.2	3.5	n/a
Real unit labor costs (index 2015=100)	99.7	99.6	99.7	106.1	102.8	101.0	100.3
World Competitiveness Ranking (rank)	5	4	6	4	4	6	n/a
Life expectancy at birth (years)	81.8	81.9	82.2	81.4	81.4	n/a	n/a
Institutional Structure							
WGI Rule of Law (score)	1.8	1.8	1.8	1.7	1.7	n/a	n/a
WGI Control of Corruption (score)	1.8	1.9	1.9	2.0	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)	1.8	1.8	1.8	1.8	1.8	n/a	n/a
HICP inflation rate, y-o-y change	1.3	1.6	2.7	1.1	2.8	11.6	4.2
GHG emissions (tons of CO2 equivalent p.c.)	11.9	11.6	11.1	9.8	10.0	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	1.4	1.5	1.8	-3.7	-2.4	0.0	-3.1
General government gross debt/GDP	57.0	52.4	48.5	54.7	52.5	51.0	50.1
Interest/revenue	2.3	2.0	1.7	1.5	1.3	1.2	n/a
Debt/revenue	129.9	119.8	110.5	123.9	118.4	114.6	n/a
Total residual maturity of debt securities (years)	7.3	7.4	7.6	7.3	7.9	8.5	n/a
Foreign exposure							
Current account balance/GDP	8.9	9.3	6.9	5.1	7.3	4.4	n/a
International reserves/imports	6.7	6.0	6.8	9.1	8.5	7.1	n/a
NIIP/GDP	61.5	73.1	89.6	113.0	93.2	75.1	n/a
External debt/GDP	516.0	489.3	464.2	443.6	412.6	376.6	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
Monitoring	19.05.2023	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. Neither the rated sovereign nor a related third party participated in the credit rating process. 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	NO
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, 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 the event 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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