

Rating Object	Rating Information	
KINGDOM OF THE NETHERLANDS Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Assigned Ratings/Outlook: AAA /stable	Type: Monitoring, unsolicited
	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	26-08-2016 28-06-2019 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 28 June 2019

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.

Key Rating Drivers

1. Very prosperous, productive, and competitive economy; following years of dynamic real GDP growth, economic activity likely to soften in 2019/20, though economy still expanding at higher rate than the euro area; Dutch labor market continues to perform very well
2. Despite a solid, but highly leveraged banking sector and the absence of excessive mortgage lending, strong house price growth coupled with very high though receding household indebtedness represents key risk to macroeconomic and financial stability
3. Outstandingly high quality of the sovereign's institutional framework, characterized by consensus-based, sound, and predictable policy-making, and high responsiveness to meeting structural challenges; supported by EU and euro area membership
4. Very sound fiscal framework, favorable debt trend, and high debt affordability; we expect the budget to remain in good shape, although fiscal policies will become more expansionary, and general government debt should continue on a firm downward path, supported by high nominal GDP growth and primary surpluses
5. External risks entailed by high trade openness and large foreign liabilities contained due to extraordinarily high current account surpluses, which we expect to remain in place resulting in large and positive NIIP

Reasons for the Rating Decision

Creditreform Rating has affirmed the Kingdom of the Netherlands' AAA ratings, which reflect the extremely low probability that the sovereign will not meet its financial obliga-

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tions fully and on time, and are backed by its exceptionally strong macro-institutional fundamentals as well as by strong and improving fiscal metrics and robust external finances.

Macroeconomic Performance

The sovereign's creditworthiness continues to be underpinned by a very strong macroeconomic performance profile, which mainly reflects a very high per-capita income as well as vivid and stable growth. At the same time, its very well-performing labor market and a high degree of competitiveness support the economy's resilience and flexibility, but are somewhat balanced by very high, though waning, private sector debt.

First of all, the high level of prosperity remains a meaningful driver of the Netherlands' credit rating. As measured by the IMF's estimates for 2018, Dutch GDP per capita (PPP terms) amounted to USD 56,383, well above the levels seen in AAA rating peers Denmark (USD 52,121) and Germany (USD 52,559), and by far higher than in the other main trading partners Belgium (USD 48,245), France (USD 45,775), and the UK (USD 45,705). According to IMF records, only 13 economies in the world displayed a higher per capita income in 2018. Moreover, Dutch GDP p.c. posted 31% above the weighted EU-28 average.

Apart from institutional factors (see below), we view the Netherlands' high degree of productivity and competitiveness as a basis for its high level of wealth. Latest Eurostat data for 2017 underscores that the Dutch economy is highly productive, as nominal labor productivity per hour worked stood 26.3% above the EU-28 average, corresponding to one of the highest readings in Europe.

Based on the World Economic Forum's newly established Global Competitiveness Indicator 4.0, the country was positioned at rank 6 out of 140 economies worldwide. Although having inched down from rank 5 in the 2017 backcast, the Netherlands are thus one of the most competitive economies worldwide, and among European economies surpassed only by Germany (rank 3). As regards drivers of non-cost competitiveness, the Dutch economy exhibits an outstanding performance in multiple categories, such as institutions (rank 4/140), infrastructure (4), skills (6), and product markets (6), and is found to have an excellent innovation ecosystem with very high business dynamism (3) and innovation capacity (9). Accordingly, its global export market share has been stable over last five years, equating to a high 3.05% in 2018 (4th highest in the EU-28), while we observe an upward-trending world share in services exports (2013-18: +0.23 p.p.).

Real unit labor costs (ULC) do not exercise downward pressure on the cost competitiveness of the Dutch economy so far. In 2015-18, real ULC evolved more favorably than in most of the Netherlands' main trading partners and the euro area as whole, as moderate real labor productivity growth (+1.8%) was accompanied by a slower growth of real compensation per employee (+0.7%, AMECO data). Modest real wage growth may be traced to several factors, such as the increasing share of non-standard forms of employment, a weaker wage responsiveness to labor market slack, or the structural shift in the sectoral composition of the economy. In the medium term, the development of real wages has to

be followed, as wages should show a more dynamic development going forward (see below).

The Dutch economy has shown an impressive run of uninterrupted economic growth over the recent years. According to recently updated CBS data, its economy continued on its strong cyclical upturn in 2018 as real GDP growth came in at a high 2.6%, albeit down from 2.9% in 2017. Thus, the Netherlands not only grew at a significantly faster pace than its key trading partners, but also more rapidly than the euro area as a whole, with economic growth averaging at 2.2% in 2014-18 as compared to 1.9% in the EA-19. The slower pace of growth in 2018 was mainly due to weakening external demand amid softer euro area growth, trade tensions, and Brexit concerns, which pulled down export growth from 6.5% in 2017 to 3.7% last year. Headwinds from the external environment did not leave investment activity unscathed. To be sure, growth in gross fixed capital formation edged down from 4.2 to a still robust 3.2%. While investment in machinery and installations rose by a strong 7.0%, transport equipment contracted by 1.6% in 2018. Residential investment remained vivid, increasing by 7.0% on the year (2017: 12.3%). Brisk consumption took over the growth baton, contributing 1.0 p.p. to real GDP growth (2017: 0.6 p.p.). Underpinned by strong employment growth and upbeat consumer confidence for the most of the year, household spending growth soared from 2.1 to 2.3% in 2017-18, the highest reading since the year 2000 (3.7%).

Looking forward, economic activity in the Netherlands is likely to soften further. Still, we expect real GDP growth to settle at 1.6% this year and 1.5% in 2020, meaning that the Dutch economy should continue to outstrip average euro area growth and will expand broadly in line with its potential growth, which the EU Commission gauges to post at 1.7% in 2019 and 2020 respectively – broadly on par with its AAA-rated peers. Quarterly national accounts data corroborates our view of slowing economic growth, with the annual rate of quarterly real GDP growth (working day adjusted) on a steady downward path since Q1-18. In the first quarter of 2019, total output expanded by 1.9%, down from 2.0% in Q4-18 and 3.0% in Q1-18.

The slowdown in growth is largely driven by muted export growth, which we see being dragged down by weaker global growth and international trade. Furthermore, abundant external cross-currents, namely substantial uncertainties surrounding the UK's decision to leave the EU, as well as fears of a sharper-than-expected slowdown of the Chinese economy and a further escalation of US-induced trade tensions, are here to stay and will subside only gradually. Clouded prospects for foreign trade are illustrated by the CPB World Trade Monitor, which recorded y-o-y declines in the world merchandise export volumes from December 2018 to February 2019 – a rather rare occurrence, as we have observed only one decline (January 2016) in the annual rate since the Great Financial Crisis in 2009. CPB reckons that the world trade volume of goods and services will decrease sharply from 2.8% in 2018 to 1.8% this year before staging a modest rebound in 2020 when it is estimated to increase by 2.5% (2013-17 average 4.2%). Hence, net foreign trade will likely detract from growth, as import growth should increase at a faster rate than exports.

We assume that economic expansion will be exclusively spurred by robust - but weaker - domestic demand. Gross fixed capital formation should exhibit more moderate, however still solid, growth. Favorable borrowing costs and narrowing industrial capacities are supportive of sustained business investment growth. Capacity utilization in the industrial sector increased from 83.6% in Q2-18 to 84.3% in this year's second quarter - significantly above the long-term average (2000-18: 81.5%). The 84.4% seen in Q1-19 and Q3-18 respectively mark the highest readings since the third quarter in 2001, corresponding to a 17-year high. However, the considerable uncertainties mentioned above will prospectively also take a toll on Dutch business investment as corporates are likely to defer some of their investment plans, partly balancing these supportive factors. Leading indicators such as industry confidence have thus retreated from the stratospheric levels reached in 2017/18. Similarly, new orders and export expectations have fallen to their lowest levels since Q3-14 and Q2-13 respectively. The NEVI manufacturing PMI has also dwindled since the beginning of 2018, but performs comparatively good as compared to Germany and the euro area as a whole, standing at 52.2 points this May (DE: 44.3, EA: 47.7). As regards residential investment, we believe that investment activity will fall back to somewhat more sustainable levels after displaying an annual average growth of 13.5% in the five years to 2018, as labor shortages in the construction sector are beginning to bite, while survey-based data on confidence and order books are consistent with solid residential investment growth.

Private consumption is set to remain healthy, although it will also come in a touch lower than last year. We assess that consumer confidence is falling, though it has found a firmer footing since the turn of the year (EC consumer survey data). Household spending should be supported by employment growth which is, however, likely to taper off from the high levels seen over the last quarters, due to an increasingly scarce pool of untapped labor market capacities further afield (see below). Tight labor market conditions will cater for continued wage growth, also reflected by higher expected contractual wage increases of 2.7 and 2.3% in 2019 and 2020 respectively (CPB data, 2009-18 average: 1.5%). Moreover, households' purchasing power will be aided by the government's fiscal package, which foresees a reduction of personal income tax brackets and increases in tax credits (also see below). These gains will be somewhat offset by the rise in the reduced VAT rate and in energy taxes. Nevertheless, CPB estimates that, on balance, purchasing power gains (all households, median) in the order of 1.6 and 1.3% in 2019 and 2020 respectively should be feasible. On the other hand, slower private consumption growth should be compensated by higher final consumption expenditure of the general government, as the government envisaged to increase public spending by 2.4 and 2.3% in 2019/20 (Stability Program 2019).

We continue to view the well-performing labor market as a key credit support. From a European perspective, the Netherlands exhibits outstanding performance in all metrics we consider. The harmonized annual unemployment rate fell to its lowest level since 2008 (3.7%), standing at 3.8%, down from 4.9% in 2017. In Q1-19, the quarterly average continued on its firm downward trajectory, falling from 4.1% in the first quarter of 2018 to 3.4%, equivalent to the fourth lowest reading in the EU. The jobless rate diminished on

the back of strong employment growth and a rising participation rate. At the beginning of the year, employment reached a new historical high of 9.469m people employed, having increased at a yearly rate of at least 2.0% for nine consecutive quarters. We also observe a record-high participation rate which has continued to rise over the recent years, amounting to 80.3% in 2018, corresponding to the second-highest labor force participation in the EU-28 (after Sweden), evolving in line with its AAA peers, and well above the euro area average of 73.5%. In addition, the Netherlands fares very well on the EU Commission's Social Scoreboard, where its labor market is one of the best performing in Europe with top performance along all dimensions, in particular with regard to social protection and inclusion, and dynamic labor markets and fair working conditions.

The outlook is for continued employment growth, but we expect employment gains to moderate going forward, mainly due to increasing labor shortages and matching challenges. The job vacancy rate in the business economy (industry, construction and services) has climbed steadily over the last years, posting at a high 3.2% in Q1-19, while labor shortages have risen more dynamically than the decrease in the number of unemployed. In the industry and services sector, the share of corporates reporting labor as a factor limiting production shot up to 22.3 and 35.5% in Q2-19 (Q2-17: 11.0 and 15.8%).

While excellent labor market conditions foster the economy's resilience and flexibility, the same cannot be said of the very high levels of private sector debt. Non-financial corporations (NFCs) in the Netherlands face very large amounts of debt, totaling 144.8% of GDP towards the end of 2018. It has to be mentioned that the majority of NFC debt is related to activities of large multinational enterprises and, secondly, the fact that NFC debt is on the decline, having decreased by some 16 p.p. from its peak in Q1-15. More worrisome is the heavy debt burden on Dutch households, although household finances have improved significantly over the last five years. Yet, household debt accounted for 207.2% of disposable income in the fourth quarter of 2018, the second highest debt level in the EU-28, and also the second highest reading among all OECD members when relating household debt to net disposable income (2017: 242.8%).

In our view, very high household indebtedness accompanied by sustained and significant house price growth represents a key risk to macroeconomic and financial stability, thus warranting continued attention. The Dutch residential property market is becoming increasingly tight, and housing affordability is gradually deteriorating. As revealed by OECD housing price data, real house price growth has shown a firm upward trend since the beginning of 2016, with the 3-y-growth rate consistently rising and posting at 20.3% in Q4-18, up from 16.9% in the fourth quarter of 2017. That said, affordability ratios do not signal serious misalignments as of yet, but also have shown persistent increases, with the price-to-rent and the price-to-income ratio currently standing 2.7 and 7.6% above their long-term average (1995-2018). Rapidly rising property prices mainly reflect a diminishing housing supply. As revealed by NVM data, the shortage of housing supply is bringing the number of transactions down: 148,000 properties were sold by NVM brokers in 2018, 11% less than a year before – a trend that continued at the beginning of this year (Q1-19: -3.2% y-o-y).

Institutional Structure

The credit ratings also reflect the outstandingly high quality of the sovereign's institutional framework. The Netherlands thus maintains a long-standing track record of a very sound and predictable policy framework which is based on a broad consensus across political parties and social partners.

Our assessment of the extraordinarily high institutional quality is primarily backed by our assessment of the World Bank's Worldwide Governance Indicators (WGI). The sovereign consistently ranks among the best-performing countries worldwide, standing among the top five percent on all the WGIs we consider, putting it on par with its AAA-rated peers and surpassing the respective euro area median ranks by far. Not much has changed since our last review. An excellent rank 7 out of 209 economies on the WGI government effectiveness continues to attest a very high quality in policy formulation and implementation, with Finland being the only European country faring better in this regard. Furthermore, the sovereign retained rank 7 when it comes to the quality of contract enforcement and property rights, while improving from rank 12 to 11 as regards the control of corruption. It has to be stressed that the Dutch performance on the WGI voice and accountability, which measures freedom of expression and association as well as free media, has stood among the top ten countries over the last 20 years, having most recently received the third-best score worldwide.

Institutional conditions are also underpinned by the ECB's highly credible and accountable monetary policy. Dutch HICP inflation, wages, and MFI interest rates have been closely aligned with the euro area over the last decade. What is more, we believe that the sovereign benefits greatly from membership in the euro area and the European Union, implying free movement of labor and capital, as well as broader and deeper capital markets and advantages related to the euro as a reserve currency.

We view policy credibility and a high responsiveness to meeting structural challenges as decisive strengths, not having been significantly obstructed by the Senate election at the end of May. The Rutte III parties (VVD, D66, CDA, and CU) came out with 32 of the 75 seats, losing their majority in the Eerste Kamer, meaning that the coalition will require the support of at least one party to pass legislation through both houses. The political landscape had already become more challenging following the parliamentary election in October 2017, with the governing coalition holding a narrow majority by one seat in the lower house comprising 13 parties.

In this vein, the government enacted far-reaching fiscal measures to reduce the tax burden, support public and private R&I investment, and improve the business environment (see below). Concurrently, the government already tabled tax reform measures to address flows of funds to low-tax jurisdictions, which become effective as of 2021.

Policy-makers also made significant progress in an attempt to strike a better balance between permanent and flexible work, as the Balanced Labor Market Act was endorsed this May. In the fourth quarter of 2018, temporary workers made up for 17.9% of total employment – one of the highest shares in the EU-28. The landmark reform will enter into force in January 2020 and is geared towards increasing incentives to hire employees

on a permanent basis, including the introduction of a cumulative ground in dismissal law, more balanced transition payment, adjustments in the unemployment contribution (WW), and softer regulations concerning sick pay. Meanwhile, policy action on tackling the issues of pseudo self-employment and vulnerable self-employed persons is also carried forward. The respective reforms, such as the introduction of a minimum rate and a client statement, are under legal vetting and shall come into effect in January 2021.

Reforms which address the aforementioned risks posed by the buoyant housing market continue to be pursued. The maximum rate of mortgage interest rate deductibility was cut by 0.5 p.p. from January 2019, and the gradual reduction of the MID will be speeded up (3 p.p. per year until 2023). The first step in the phasing out of the so-called Hillen scheme was realized this January. Against the backdrop of the National Housing Agenda, two deals were struck (Groningen, Eindhoven). Additionally, the Mid-priced Rental Segment Measures Act was submitted to parliament, aiming at expanding the underdeveloped mid-price rental market.

Negotiations between social partners on the pension system reform have proven to be very complex. Negotiators only reached an agreement in principle on some of the modalities in early June 2019. The parties endorsed slowing down the increase in the retirement age for the state pension by three years (67 in 2024), while the retirement age shall be lowered from one year to eight months for every year of extra life expectancy from 2024 onwards. There is also consensus on how to reform the second pillar of the pension system, a steering group tasked with the implementation of the reform has already been put in place.

Fiscal Sustainability

We continue to view the sovereign's public finances as a credit strength, mainly buttressed by its very sound fiscal framework, high debt affordability, and a favorable debt trend.

The sovereign has thus made substantial progress in fiscal consolidation in the recent past. Last year, the budget surplus increased to 1.5% of GDP, up from 1.3% of GDP in 2017 (2016: 0.0% of GDP), a marked overachievement as compared to the 0.8% target stipulated in the draft budgetary plan last October. Strong economic growth and dynamic labor market development provided for solid increases in the intake of income taxes (+3.4%) as well as higher VAT revenues (5.6%) and duties on imports (14.7%, all CBS data). Arguably more importantly, general government expenditure came in lower than expected, declining by 0.3 p.p. to 42.1% of GDP in 2018. While interest expenditure decreased further, falling by 6.7% on the year, lower government outlays were largely driven by significant underutilization of the budget. CPB puts last year's underspending at 1.4% of the planned budget (2010-17 average: 0.5%).

With a view to this and next year, we expect that the Netherlands' budget will remain healthy, posting headline surpluses of 1.3% of GDP in 2019 and 0.8% in 2020. Gradually decreasing surpluses are mainly due to softer real GDP growth in 2019/20 and, in particular, the more expansionary fiscal policy stance. The government is thus making use of the

available fiscal leeway to implement extensive changes to the tax system. A raft of measures has been implemented in the 2019 Tax Plan, including a cut in the CIT rate to 22.25% (by 2021) and a reduction in the lower CIT rate (for profits above EUR 200,000) to 16%, an increase in the tax credit for persons employed and in the general tax credit, as well as a gradual move towards a two-bracket personal income tax system. Also, funds allocated towards education, science, and innovation will be ramped up, targeted towards supporting public and private R&I investment.

Authorities envisaged financing these measures via higher, economically less distortive, and greener taxes, raising the low VAT rate and taxes on natural gas, broadening the CIT base, and reducing some deductible items for higher income earners. In general, robust economic growth and labor market performance are likely to result in solid tax revenues, while interest outlays should stay on low levels. Natural gas revenues, which accounted for 0.1% of GDP in 2018 (2008-17 average: 1.3%), should have a minor impact on the budget going forward given that the Netherlands has become a net importer of natural gas as of 2018 and the decision to scale back gas extractions.

As measured by GDP, general government debt has decreased rapidly over the last five years, falling from 56.9 to 52.4% of GDP in 2017-18, well above the 21.4 or 34.1% seen in AAA peers Luxembourg and Denmark, but lower than in Germany (60.9%). The Dutch public debt ratio will presumably further follow its downward trajectory, gradually converging towards the 40%-mark in the medium term, aided by robust nominal GDP growth and sustained primary surpluses. We have noted that the state acquired a stake of 14.0% in the holding company Air France-KLM in February this year to have an equal say together with the French state. The purchase (EUR 744m) should lift government debt by a manageable 0.1 p.p. GDP. While the government share in ABN AMRO has been reduced to 56% over the last years (market value approx. EUR 11bn), the divestment of the 100% state-owned Volksbank is still pending, reportedly postponed for the second time at the end of last year.

Rapidly rising house prices coupled with very high household debt may not only imply risks to economic development. A correction of macroeconomic imbalances on the residential property market may also entail negative repercussions on public finances, transmitted by the very large and relatively concentrated Dutch banking sector on the general government's balance sheet. Although total assets have declined from approx. 349 to 335% of GDP in the year up to Q3-18, the Netherlands still has one of the largest banking sectors in the EU-28. We caution that a credit-fueled housing bubble may re-emerge in the event of unabated vivid house price growth. More recently, DNB forecasted house price growth to further outpace the increase in household income in 2019. We note that the Ministry of Finance mentions sizable public guarantees in its Stability Program 2019, envisaging that these will decline from 23.0 to 22.6% in 2018-19 – including obligations to the EFSF (4.3% of GDP), ESM (4.4%), and IMF (5.3%).

However, in the absence of excessive mortgage lending and in view of a largely sound banking sector, we assess no imminent threat to financial and fiscal stability at the current juncture. EBA data indicate that the Dutch banking sector features a high asset quality, with the NPL ratio following a gradual downward path, posting at 2.0% in Q4-18 (EU

average: 3.2%), and an upward trending CET 1 ratio, which stood at 16.4% at the end of last year (EU average: 14.7%). Still, risks remain, as Dutch banks have the highest leverage ratio in the EU-28 (4.5%, fully phased in Tier 1 definition), and the loan-deposit-ratio remained elevated at 115.9% (Q1-19, ECB data). Meanwhile, after showing vivid growth up to 2017, mortgage lending has expanded modestly since then, with the outstanding volume surpassing last year's level by just 1.5% this April. In fact, housing loan growth even dipped into negative territory over the course of 2018 – for the first time since 2014.

Latest DNB data, nevertheless, signals that particularly risky lending behavior towards first-time buyers remains in place. The share of first-time buyers that took up a loan at a loan-to-income ratio higher than 90% rose to 50.0% at the end of 2018 (Q4-15: 38.0%), while the downward trend of the share of first-timers borrowing nearly the full purchase price (i.e. LTV ratio higher than 90%) slowed down, now posting at a high 66.3%.

In any case, debt affordability remains high, with the interest burden steadily decreasing. Interest expenditure amounted to a low 2.1% of general government revenue, after 2.3% a year before (2009: 4.8%), and on par with Germany and Denmark. Long-term government bond yields remain at historically low levels, trending downwards since February 2018, having shifted into negative territory at the end of May (31-May-19: -0.009%). We observe a very low and stable Bund spread, which has been moving in a narrow band between 5 and 20bp since the beginning of 2017.

We see Dutch fiscal policy-making and debt management as very sound and forward-looking. The sovereign displays a well-laddered redemption profile, a diversified holding structure from a geographical and investor base point of view, and low public gross financing needs. According to the recent Stability Program, average maturity is projected to increase from 7.7 to 8.0 years in 2018-19, while the foreign currency share of general government debt should drop from 0.7 to 0.1%. It has to be highlighted that authorities put ideas into action, planning to establish a green capital market by regularly issuing green bonds. The government is strongly committed to its rule-based budgetary framework, which is fixed for a full legislative term. Judging by the EU Commission's fiscal rules index, the Netherlands has the strongest set of fiscal rules in the EU-28 (together with Bulgaria).

Foreign Exposure

The Netherlands' external position continues to be very strong. External risks entailed by high trade openness, with international trade accounting for 155.4% of GDP (rank 15 worldwide), are largely contained, mainly due to extraordinarily high current account surpluses, which we expect to remain in place, resulting in a large and positive net international investment position (NIIP).

The Dutch current account increased from 10.5% of GDP in 2017 to a new record high of 10.8% of GDP, significantly above the 2008-17 average of 7.9% of GDP. Strong net exports mainly explain the extraordinarily large surplus, with the trade of goods balance posting a surplus of 8.8% of GDP in 2018. The decline in the trade of goods surplus (2017: 9.6% of GDP) was compensated by an improvement in the primary income balance (+0.7 p.p. to

1.1% of GDP), as Dutch corporates realized higher returns abroad than non-resident enterprises did in the Netherlands.

Partly due to structural features, such as a large MNE presence in the domestic economy, we expect that the Netherlands' very high current account surplus is here to stay, although it is likely to narrow to some degree owing to softer euro area growth and the gloomy outlook for growth in international trade, while robust domestic demand should boost import growth (see above).

Accordingly, the Netherlands has built up a very large and positive NIIP since 2009, having risen from 1.4% of GDP to 68.9% of GDP last year (2017: 59.7% of GDP) – equating to the largest NIIP in the EU-28, and comparable to AAA peers Germany and Denmark. Net foreign direct investments in the amount of 125.8% of GDP account for the bulk of the NIIP and are only partly matched by large net portfolio outflows (-72.4% of GDP).

Rating Outlook and Sensitivity

Our Rating outlook on the Netherlands' ratings is stable, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – is likely to remain fundamentally unchanged over the next twelve months.

Downward pressure on the Netherlands' credit ratings or on the outlook could arise if medium-term growth came in significantly lower than expected. As a very open economy, the Netherlands is highly vulnerable to the risk of weaker-than-expected global growth, escalating trade tensions, and increasingly protectionist trade policies. Likewise, the Netherlands are among those countries most heavily exposed to UK-related trade and capital flows in the EU-27 (BRI: 3.2, EU-27 median 2.0; see [“What if... Consequences of a hard Brexit for the EU-27 states”](#)). Moreover, we could consider a downgrade if public finances deteriorate substantially over a prolonged period of time. Such a marked deterioration may be triggered by a severe macro-financial shock emanating from the housing market and/or materializing contingent liability risks.

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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

Economic Data

	2013	2014	2015	2016	2017	2018	2019e
Real GDP growth	-0.1	1.4	2.0	2.2	2.9	2.6	1.6
GDP per capita (PPP, USD)	47,701	49,118	50,400	51,783	53,933	56,383	58,255
HICP inflation rate, y-o-y change	2.6	0.3	0.2	0.1	1.3	1.6	2.5
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	81.4	81.8	81.6	81.7	81.8	n.a.	n.a.
Fiscal balance/GDP	-2.9	-2.2	-2.0	0.0	1.3	1.5	1.3
Current account balance/GDP	9.8	8.5	6.3	8.1	10.5	10.8	n.a.
External debt/GDP	508.4	541.4	561.7	561.0	531.9	507.1	n.a.

Source: International Monetary Fund, Eurostat, CBS, own estimates

Appendix**Rating History**

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

Regulatory Requirements

In 2011 Creditreform Rating AG (CRA) 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.

This sovereign rating is an unsolicited credit rating. The Dutch Ministry of Finance (MoF) participated in the credit rating process as the MoF provided additional information and 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 the MoF during their review. However, the rating outcome as well as the related outlook remained unchanged.

The rating was conducted on the basis of CRA's "Sovereign Ratings" methodology in conjunction with its basic document "Rating Criteria and Definitions". CRA 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 the following internet page: www.creditreform-rating.de/en/regulatory-requirements/.

To prepare this credit rating, CRAG has used 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, 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), NVM (Nederlandse Vereniging van Makelaars).

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".

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