Creditreform Sovereign Rating

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 26-06-2020 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 26 June 2020

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, highly competitive and diversified economy boasting robust growth and strong labor market performance over recent years; economic resilience somewhat constrained by high, albeit declining, private debt; vulnerabilities regarding high mortgage debt in connection with possible housing market corrections remain in place
2. Likely deep dent in economic performance this year due to Covid-19 pandemic; while uncertainty over the shape and strength of a recovery remains high, main assumption is for resuming economic activity in the remainder of the year to lay the ground for a GDP growth rebound in 2021
3. Persistently high-quality institutional framework including strong and beneficial integration into EU/EA structures; higher fragmentation of the political landscape and current government's loss of majority set against convincing track record of sound, predictable, and highly responsive policy-making
4. Debt-to-GDP trending strongly downwards amid consequent budget consolidation; public finances to significantly deteriorate from a relatively favorable level due to Covid-19, but improvements expected beyond 2020; sizeable public guarantees, large banking sector and still strong house price dynamics pose fiscal risks, while prudent debt management and high debt affordability remain mitigating factors
5. Very strong external position in light of very large, positive NIIP and sustained large current account surpluses, limiting risks associated with the country's high trade openness

Reasons for the Rating Decision

Our assessment of the exceptionally high creditworthiness of the Kingdom of the Netherlands continues to be underpinned by the extraordinarily strong macro-institutional conditions, along with substantial fiscal and external buffers.

Macroeconomic Performance

A wealthy, diversified, and highly competitive economy boasting multi-annual robust GDP growth and very favorable labor market development provides for an exceptionally strong macroeconomic profile in our assessment. Set against this are high, although further decreasing, private debt ratios that could impair macroeconomic resilience going forward. While we assume Covid-19 to exert a large, albeit temporary, negative impact on economic output and the labor market, the corona pandemic comes with substantial uncertainty. Nevertheless, given its strong starting point, we think that the Dutch economy should be in a good position to weather the storm.

Going into the sixth year of economic expansion, Dutch GDP growth slowed to 1.8% in 2019 (2018: 2.6%), mainly due to net exports which posed a drag on growth, with imports rising stronger (3.1%) than exports (2.4%). Still, the country fared better than the euro area as a whole, proving comparatively robust given the challenging international backdrop. The deceleration in growth was also down to easing private consumption growth, which moderated to 1.4% (2018: 2.3%), also under the impression of higher indirect taxes that drove up inflation. On the other hand, gross fixed capital formation represented the main growth engine, rising by 5.3% (2018: 3.2%), boosted by accelerating investment in machinery and equipment as well as in intellectual property. Transport equipment surged towards the end of last year, as buyers were faced with the prospect of lower subsidies for electric cars in 2020. Growth of residential construction investment slowed sharply (1.8%, 2018: 7.0%), partly due to the so-called nitrogen ruling concerning environmental protection by way of reducing harmful deposition of nitrogen, which led to heightened uncertainty and to a decline in building permits in 2019.

The slump caused by Covid-19 and the related strict measures to contain the novel virus have turned our previous moderate growth outlook into a recession. The first quarter of the current year saw Dutch GDP tumbling by 1.7% versus the preceding quarter, which seems relatively tame compared with the euro area overall (-3.6%). Part of the explanation could be that the Dutch lockdown measures in light of Covid-19 were less strict and came in at a slightly later stage than in the bigger euro area members, as the stringency index provided by Blavatnik School of Government suggests. Nevertheless, private consumption decreased markedly (-2.7%) in the face of closed shops, cafes and restaurants, whereas gross fixed capital formation (-1.1%) and government consumption (-1.4%) posted smaller declines. Unsurprisingly, both exports (-3.0%) and imports (-3.5%) exhibited steep falls in the wake of muted activity and disrupted global value chains.

To cushion the economic fallout of Covid-19, authorities swiftly implemented a raft of measures which were eventually enhanced to protect jobs and support companies as well as certain sectors in response to the outbreak of the virus. The government adopted another package of measures in May aiming to kick-start its slowly rebooting economy. The aid measures included wage cost compensation (NOW), temporary benefit support to self-employed (TOZO), and a one-off lump sum for businesses particularly hard-hit such as in the hospitality sector (TOGS). Guarantee schemes for SME and larger-sized companies were also established, along with deferrals of various tax payments.

Flanking governments' response, the ECB has also scaled up its initial measures, with the Pandemic Emergency Purchase Program (PEPP) now totaling EUR 1350bn and running at least until end of June 2021. Reinvestments of maturing principal payments from securities purchased under PEPP until at least the end of 2022 will add further to the accommodative stance. An additional envelope of EUR 120bn to the Asset Purchase Program (APP) until the end of the year remains in place, as do a number of measures to ensure liquidity to the banking sector, a comprehensive set of collateral measures to mitigate the tightening of financial conditions across the euro area, and measures to temporarily mitigate the effect of rating downgrades on counterparties' collateral availability. Along with other national central banks and the Single Supervisory Mechanism (SSM), the Dutch central bank (DNB) has relaxed macroprudential measures: Buffers were lowered for systemically relevant banks, and the introduction of a floor for mortgage loan risk weighting was postponed.

Looking ahead, we expect real GDP for Q2 to come in significantly worse than Q1, as most of the confinement measures were concentrated on this quarter. The first phase of relaxing restrictions started on 11 May, when childcare facilities and primary schools were allowed to operate again. Sentiment indicators do not bode well: The manufacturing PMI in April recorded the steepest fall in eleven years, dropping to 41.3, and edged down further to 40.5 in May. Consumer sentiment indicators plummeted to record lows in April, with May's CBS index continuing to decrease. Having said that, the declines seen in first available hard economic data for Q2 such as the April industrial production (-7.0% m-o-m) and April retail trade volume (-5.7% m-o-m) again appear relatively mild compared to developments in the euro area overall (EA: -17.1% and -11.7%), suggesting that the Dutch economy might pull through the acute phase of the crisis somewhat more easily than many of its fellow euro area members. Supporting this impression, our Pandemic Vulnerability Index (June 2020), a relative measure that aims to capture the degree to which European economies are vulnerable to pandemics such as Covid-19, suggests that the Netherlands seem comparatively well equipped to withstand a pandemic, in particular as regards its mobile work capacity.

With public life experiencing some normalization following gradual de-confinement, and based on the extensive support measures by the government and the ECB, we expect the Dutch economy to recover in the second half of the year, thereby laying the ground for a substantial rebound of GDP growth in 2021. As for private consumption, the new job retention scheme, under which up to 90% of labor costs shall be compensated by the government for firms facing substantial losses, should aid its recovery. While we are aware that April saw the largest fall in employment since records began in 2003, the Dutch labor market should be able to benefit from its great flexibility, on top of the fact that unemployment was at a very low level when the corona crisis began to unfold (see below). In addition, disposable incomes should be further buttressed by pre-corona collective labor agreements (CAO) which should cater for robust nominal wage growth this year (2.6%, CPB data) before moderating further out. Moreover, the government already implemented initiatives geared towards alleviating the tax burden on households, e.g. by lowering marginal rates for middle-income households, along with a higher general tax credit.

Gross fixed capital formation looked set to experience a slowdown before the crisis, following three consecutive years of relatively strong expansion, possibly compounded by the abovementioned changes of environmental regulation. With many companies presumably hesitant to embark on bigger projects at this stage, we expect investment to recover only very gradually in the remainder of the year, thus taking a severe hit in 2020 overall, before showing a tepid rebound in 2021.

As regards net trade, we expect both exports and imports to see large contractions this year, with the fall in exports assumed to be more pronounced. Major trading partners of the Netherlands appear set to register a graver contraction of economic output than the Kingdom. Overall, we expect real GDP to drop by about -7.0% this year, followed by a rise of about 5.2% in 2021. Uncertainty over the underlying assumptions remains very high, all the more so in the absence of any effective and tested vaccine against Covid-19.

The Dutch labor market was in a strong position when the crisis hit, which should help to cushion the blow. While employment growth moderated to 1.8% (2018: 2.5%) in 2019, it remained broad-based and still markedly exceeded the pace of job creation in the euro area as a whole. Having said that, subdued global economic expansion left its mark as business services, which account for a much higher share in total employment than in the euro area (about 22% vs. 14%), saw job creation decelerate to just 0.6% after a streak of exceptionally strong employment growth in the three preceding years. The LFS-adjusted quarterly unemployment rate fell further to 3.0% at the beginning of the year (Q1-19: 3.5%), less than half the rate seen in the euro area (Q4-19: 7.3%). Labor participation remains the highest in the euro area (Q4-19: 81.0% vs. 73.8%) and the second highest after Sweden among the EU-27, having risen further. Labor market strength continued in Q1 this year. Whereas in the euro area employment declined in Q1-20 compared to the preceding quarter, the Dutch economy was still able to add jobs (0.2% q-o-q vs. -0.2%).

The majority of overall employment gains is based on permanent contracts, adding to the impression of labor market tightness. At the same time, the share of self-employed is relatively high and rising (15.5% in Q4-19, up from 15.3% in Q4-18), which on the one hand can be seen as an expression of labor market flexibility. On the other hand, it may turn out to be more of a mixed blessing, as households may be more vulnerable to the economic fallout from the pandemic via the labor market.

Meanwhile, we continue to assess the Netherlands' high levels of wealth along with its high degree of competitiveness and productivity as factors that contribute decisively to the country's economic resilience and to weathering the corona shock. According to IMF estimates, Dutch GDP per capita (IMF data, current prices, PPP terms) amounted to USD 58,341 in 2019, noticeably exceeding estimated levels of key trading partners such as Germany

(USD 53,567), Belgium (USD 49,529), France (USD 47,223), and the UK (USD 46,827). Nominal labor productivity per hour worked posted 25.4% above the EU-27 average in 2019, one of the highest levels among the EU members.

With a diversification ratio - i.e. the ratio of the gross value added (GVA) of services to industry - of 3.9 (Q1-20, EA: 3.0), the Dutch economy is more concentrated on services than the euro area economy as a whole, which, along with the lower significance of the industrial sector (14.4% vs. EA 19.0%, excluding construction), meant that the Netherlands were less affected by the global industrial downturn prior to the corona crisis. However, the slightly higher GVA of trade, transport, accommodation and food (20.4% vs. EA 18.3%) might leave the Netherlands vulnerable after all in an adverse scenario of returning or prolonged global infection waves and related impaired trade activities. The higher significance of high value added service industries such as business services (15.7% vs. 11.6%), as well as financial and insurance services (6.4% vs. 4.6%), should generally contribute to sustaining high income levels. To this end, we observe that the global export market share of services exports inched up from 3.2% to 3.3% in 2016-19, whereas the market share of goods exports remained stable.

We note that estimates for potential growth (AMECO) suggest a brighter outlook for the Netherlands (2020: 1.0%, 2021: 1.4%) than the euro area (0.6% and 1.2%). In this vein, the intended investment in education, research, and infrastructure, which together with investment in security and defense is to amount to EUR 8bn in 2021 as per Coalition Agreement, would go in the right direction. Investment in the context of aspiring to become climate neutral could also set impulses. According to the Climate Agreement from June 2019, the government aims at a reduction of greenhouse gases by 49% (compared to 1990) by 2030. The agreement to reduce the tax burden on labor, which has already been partly implemented, should also be conducive to bolstering the Dutch growth potential.

In terms of competitiveness, the Netherlands appears to remain a global leader, as illustrated by the World Economic Forum's (WEF) Global Competitiveness indicator. Improving two ranks to an excellent rank 4 out of 141, the Netherlands have remained slightly ahead of their AAA peers, with infrastructure (rank 2), product markets (7) and institutions (4) judged as particularly strong. At the same time, the Netherlands has continued to deteriorate in the World Bank's Ease of Doing Business ranking, most recently dropping from 36th to 42nd rank out of 190 economies, whereupon dealing with construction permits and enforcing contracts are perceived as ranging somewhere mid-field.

Indicators such as real unit labor costs (ULC) confirm the strength of the Dutch economy. Thus, real ULC over the period from 2016-19 evolved more favorably than those of the main trading partners and the euro area as whole, as relatively low real labor productivity growth (0.8%) was accompanied by declining real compensation per employee (-0.8%, AMECO data) over this period. More recently, real ULC was more or less flat, thus pointing to a still more advantageous position than for most main trading partners except for France. Against this background, low or virtually non-existent labor productivity growth (per person) is something that would have to be monitored going forward, although being a more or less common observation across developed countries.

Real ULC were also kept in check by relatively low real wage growth, driven by moderate nominal wage growth, which may partly be explained by the comparatively large share of self-employed (2019: 16.3% vs. EA-19 13.5%) and temporary workers (2019: 16.3% of employees, EA-19: 14.5%), as well as by an inflation hike more recently (see above). While a stronger wage increase finally seemed to be on the cards before corona, we would now expect that collective labor agreements are more or less put on hold at this stage, translating into less wage pressure going forward.

A high level of private indebtedness remains a rating constraint. Although trending downwards over the last few years, non-financial corporations continue to display one of the highest debt ratios in the euro area, amounting to 132.2% of GDP in Q4-19 (Q4-18: 139.2%); however, one has to take into account that a large part thereof can be attributed to intragroup borrowing among multinational enterprises (MNE). Arguably more important from a prudential point of view, households face a debt burden that came to 203.9% of disposable income in Q4-19 (Q4-18: 212.1%), rendering it one of the highest in the EU and potentially acting as a catalyst for economic shocks. Household debt is dominated by mortgage debt, which in turn is still backed by notable tax incentives, although tax deductibility of interest payments on mortgages has been scaled down. Against this backdrop and in view of measures taken to improve conditions on the less-well developed private rental market, we acknowledge that the government remains committed to reducing distortions in the housing market.

Institutional Structure

Our assessment is further backed by the Netherlands' high-quality institutional framework, buttressed by a convincing track record as regards sound, predictable, and responsive policy-making. Despite a more fragmented parliament, the political landscape continues to be coined by the ability to reach consensus over major topics affecting society, usually involving agreements with social partners.

Institutional conditions are also bolstered by the country's deep and beneficial integration into the EU / euro area and the respective market structures, as well as by the credibility and accountability of the ECB in conducting its monetary policy. Dutch HICP inflation, wages, and MFI interest rates have been largely aligned with the respective metrics for the euro area as a whole over the last decade.

Moreover, our assessment is supported by the World Bank's Worldwide Governance Indicators (WGI), among which the Netherlands consistently occupy top ten ranks, putting it more or less on par with its AAA peers and well above the euro area median. As regards government effectiveness, the country has retained rank 8 out of 209 economies, paying testament to a very high quality in policy formulation and implementation. When it comes to rule of law, i.e. the quality of contract enforcement and property rights, we note that the Netherlands slipped two ranks to 9th, whereas they improved two places to 9th regarding control of corruption. In terms of voice and accountability, measuring freedom of expression and association as well as free media, the country edged down from rank 3 to 7.

With the Rutte III government losing its narrow majority in the lower chamber (Tweede Kamer) in October, following the dismissal of a member of Rutte's VVD, now only commanding 75 seats of the 150-seat house, policymaking has become somewhat more challenging, bearing in mind that the government has no majority in the 75-seat upper chamber (Eerste Kamer) either. Although we will monitor developments in this respect, we do not expect any major changes to the effectiveness of policymaking at this stage, in light of a track record of finding cross-party consensus when necessary. With a view to the scheduled general election on 17 March 2021, we note that VVD has gained support amid managing the corona crisis and is currently leading the polls. According to a poll published on 21 June (peil.nl), VVD could obtain 33% of the votes.

Recent progress made regarding the pension reform underlines, to our mind, that the Netherlands remains highly responsive to meeting structural challenges, as also suggested by the general degree of response to the European Commission's Country Specific Recommendations. As to the envisaged major overhaul of the three-pillar Dutch pension system, in June 2019 the government and the social partners reached an agreement on principles for a significant pension reform. This included a slower increase of the state pension age than originally planned, an early retirement option subject to having done physically demanding work, as well as an intention to make the system fairer in terms of burden-sharing across the generations. Agreement on details of the reform was reached this June, apparently also comprising a possible solution to achieve greater fairness between the generations and to reduce pensions' dependence on interest rate developments. Reportedly, if it is passed in parliament, the new system is to be implemented in 2026, although companies and pension funds might begin with a transition in 2022. However, with two systems operating in parallel, this could drive up costs. We gather that further details on the result of the latest talks will be provided in due course.

We note that authorities update the Dutch taxation framework on an ongoing basis and support international initiatives to combat aggressive tax planning and enhance transparency. We gather that the EU directive on administrative cooperation in direct taxation (DAC-6) was transposed into law and will come into force this July. What is more, ATAD 2 and OECD's BEPS have become effective at the beginning of the year. The government's AML action plan should also be mentioned in this regard.

Fiscal Sustainability

A strongly downward trending debt-to-GDP ratio, now well below the 60% Maastricht threshold, amid consequent budget consolidation, very high debt affordability, and sound debt management suggests limited fiscal sustainability risks in light of Covid-19. Contingent liabilities from sizeable public guarantees and the banking sector would have to be set against this, in particular as public guarantees could rise further as a consequence of the announced guarantees to ensure corporate liquidity and prevent widespread insolvencies.

After reaching a balanced general government budget in 2016 for the first time since 2008, the Netherlands has since displayed increasing surpluses. The country concluded 2019 with a headline surplus equaling 1.7% of GDP (2018: 1.4% of GDP), exceeding the projection as expressed in the draft budgetary plan 2020 (1.3%), due to a lower-than-expected expenditure ratio, partly as a result of lower-than-envisaged spending on infrastructure and defense.

Total expenditure grew by a robust 4.1% (2018: 4.3%), bolstered by accelerating compensation of employees (4.4%, 2018: 3.5%) and social benefits (4.3%, 2018: 3.1%). Revenue growth outperformed the rise in government expenditure, with the share of taxes on income and wealth going up to 30.3% of GDP, the highest level on Eurostat records (1995). Total general government revenue was driven by strong increases in personal income taxes (12.2%, 2018: 0.2%) and corporate taxes (9.9%, 2018: 11.7%). The latter was driven by dividend tax and a substantial increase in environmental taxes last year, owing to the sustainable energy surcharge (ODE levy) and surrendered CO_2 emission allowances, thus illustrating the beginning transition toward a climate-neutral economy as part of the government's reform priorities. Economic growth and the increase in the lower VAT rate lifted VAT revenues by 9.9% (2018: 5.6%).

With regard to 2020, the stage is set for the general government balance to swing sharply into deficit. Prior to Covid-19, we would have expected a narrowing surplus anyway, among other things on the back of planned tax relief to households worth EUR 1.7bn and of increased healthcare benefits, and in the wake of additional spending on top of the climate budget agreed in the coalition agreement. Covid-19 alters the sovereign's medium-term fiscal prospects materially. As elaborated above, emergency aid measures had to be taken to combat the spread of the virus and mitigate the economic fallout, with budgetary effective, discretionary measures totaling approx. 4.6% of GDP. Furthermore, automatic stabilizers kick in as economic activity tanks, which will also add to a soaring deficit. In light of the pandemic and the related response, we now expect a general government deficit of approx. 9.3% of GDP for 2020. We note that we do not incorporate extensive tax deferrals into this year's deficit forecast, in line with Eurostat's note on the statistical implications of Covid-19.

In the following year, the deficit should shrink considerably, based on our expectation of a GDP growth rebound and waning confinement measures. Uncertainty around these assumptions remains substantial, as the extent to which guarantees will be drawn is unclear and as conceivable new infection waves and partial lockdowns could dampen or delay any recovery considerably. Drawing on information provided by DSTA, funding needs for 2020 have been updated as of 29 April to EUR 135.8bn, up from EUR 42.7bn envisaged in January, of which the majority is to be financed via the money market, whereas roughly EUR 35bn is to be financed via the capital market.

The rising deficit will at least temporarily reverse the fall in the debt level. Following an intermediate peak in 2014 (67.8%), the Netherlands' debt-to-GDP ratio declined strongly to 48.6% in 2019, thus well below the 60% Maastricht threshold, but remaining above the level posted by AAA peers Luxembourg and Denmark. Due to recent dramatic events, we now expect general government gross debt to leap to just above 65% of GDP this year, driven by the large deficit, contracting economic growth, and stock-flow-adjustments, before falling back somewhat in 2021.

Despite the expected surge in debt, we deem fiscal risks as limited given the favorable starting point, an assumed continuation of high debt affordability thanks to the ECB's accommodative monetary policy, and the continued low interest rate environment, as well as in view of very sound debt management. Interest payments fell by a further 9.6% in 2019, amounting to just 0.8% of GDP or 1.8% of total revenue. The average maturity of the debt portfolio has risen to 7.9 years in 2019 (2018: 7.7).

Sticking with the more medium-term fiscal outlook and possible sources of risk, we recall that the banking sector is one of the largest in the EU, with assets totaling 325.3% of GDP in 2019 (2018: 334.2%), thus potentially constituting a weak axis in case of an adverse economic scenario with larger waves of insolvencies and job losses. Having said that, the sector entered this health crisis on a strong footing in terms of capitalization and asset quality, as mirrored by a CET1 ratio of 16.5% (Q4-19, EU: 15.0%, EBA data) and a relatively low NPL ratio of 2.0% (EU: 2.7%). However, as also confirmed by DNB in its June Financial Stability Report, the already stretched profitability of banks could suffer further from loan losses, higher funding costs and income declines. Yet, DNB's pandemic stress test indicates that the Dutch banking sector should be able to manage DNB's 'severe scenario' (assuming GDP to shrink by 11.8% in 2020) thanks to the good starting position in terms of capital buffers. We note that the already vulnerable financial position of pension funds is reported to have deteriorated further

Against the backdrop of still vividly rising house prices combined with the high level of household debt, we would flag fiscal risks from a correction of imbalances on the residential property market and ultimately, via possibly ailing banks, to public finances – recalling that the Dutch banking sector is largely dominated by domestic banks. Having said that, house price dynamics may have peaked for now, with 3y-growth in house prices (Eurostat data) stabilizing at about 26% lately (Q4-19: 25.9%). Year-on-year growth rates have started to decrease, too, partly driven by government efforts to rein in residential property price growth and stricter LTV/DSTI rules. Nevertheless, the latter may still be regarded as relatively generous from an international point of view, as pointed out by DNB in a reply to last year's ESRB recommendations.

At the same time, affordability has declined further, judging by the price-to-income ratio's edging up, now posting roughly 11% above its long-term average (OECD data), thus pointing to some overvaluation. We note that, more fundamentally, there is continued upward pressure on prices, particularly from the supply side. Besides persistently low funding costs, structural bottlenecks associated with building land and a relatively little developed rental market continue to bolster house price dynamics. While we would assume that housing demand should be more muted as a result of the corona crisis, we will continue to monitor developments here.

Further to the medium-to-longer-term outlook, we would reiterate that contingent liabilities related to sizeable public guarantees, which in 2019 amounted to 22.3% of GDP (SP20), continue to represent a risk to fiscal sustainability, which will be more pronounced through the guarantees now given in connection with trying to minimize economic fallout from the corona pandemic. A case in point would be intended financial aid to airline KLM, which is thought to cost between EUR 2bn and 4bn. Commitments on the euro area / EU level in the context of the EUR 540bn corona package agreed among the Eurogroup on 9 April could also add to this.

Foreign Exposure

We regard the Netherlands' external position as strong and thus as another credit positive pillar. Vulnerabilities associated with its high degree of openness, mirrored in international trade amounting to 154.3% of GDP in 2019, seem broadly mitigated by a very pronounced current account surplus that also feeds the large positive net international investment position (NIIP).

The year 2019 marked the third consecutive year in which the Dutch current account surplus posted in double-digits. At 10.2% of GDP, the current account surplus was somewhat lower than in 2018 (10.9% of GDP), mainly owing to a lower primary income surplus (0.3% of GDP, 2018: 1.0%), as a lower goods trade surplus (8.5% of GDP, 2018: 9.5%) offset the effect from a higher surplus in services trade (2.2%, 2018: 1.1%). While the goods balance continues to dominate the current account outcome, we note that a large part of exports continue to be re-exports associated with Rotterdam's prominent role as a major logistics hub. In light of weakening economic growth in major export destinations and the slowdown in international trade volume, goods trade took a hit last year. On the other hand, tying in with the increased export market share in services, the surplus in services trade continued to rise, possibly also underscoring shifts in its economic model.

Further boosted by the high current account surplus, the Dutch NIIP has ballooned to an enormous 89.2% of GDP in 2019 (2018: 70.7%), remaining among the highest worldwide. The two main contributors to the increase were net foreign direct investment, which accounts for the bulk of the positive overall position (+6.5 p.p.), and net portfolio investment (+7.0 p.p.). We note that activity linked to the presence of large MNEs in the Netherlands constitutes an underlying current in such movements, at times also complicating the interpretation of the changes.

Going forward, the current account surplus could shrink this year, as we expect exports to see a sharper decline than imports in the wake of the corona crisis and as the global trade environment continues to be influenced by a more confrontational course on the part of major players. A drop in imports might after all be slowed by fiscal efforts to sustain/boost domestic demand, which should also become a more structural feature looking ahead.

Rating Outlook and Sensitivity

Our rating outlook for the Netherlands' long-term credit ratings is stable, as we see risks related to significantly weaker economic and fiscal prospects prompted by the corona crisis as broadly balanced by the abovementioned factors mitigating fiscal risks in the short to medium term, and supported by our assumption of a deep but short recession. Given the current considerable economic and financial market uncertainty and the very dynamic development of the corona pandemic, the assessment and interpretation of economic developments is significantly more difficult than under normal circumstances for the near future, as is the case for other indicators.

We could lower our rating or the outlook if the spread of the virus has a stronger and longer-lasting impact on the Dutch economy than we expect at this stage. The sovereign's ratings could come under particular downward pressure if we observe material adverse effects on the Netherlands' medium-term potential growth. This could be the case if the consequences of the pandemic and the impact on demand and production are more pronounced than assumed, implying that the disruption of global value chains extends well into the second half of the year and beyond, and if policy-makers fail to mitigate the economic fallout. The Netherlands' very high degree of trade openness leaves its economy particularly susceptible to a prolonged period of weak growth in the EU and the global economy, as well as to a less cooperative trading environment. This also holds true as regards a 'hard Brexit', i.e. an end to the UK-EU transition period without any follow-up agreement over future trade relations in place, as the Netherlands is among the EU countries most exposed to UK-related trade. Moreover, a negative rating action could also be prompted if fiscal metrics, contrary to our belief, follow a sustained deteriorating trend over a longer period of time, possibly exacerbated by materializing contingent liabilities and/or a macro-financial shock via the housing market.

Analysts

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

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

Ratings*

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

*) Unsolicited

Economic Data

[in %, otherwise noted]	2014	2015	2016	2017	2018	2019	2020e
Real GDP growth	1.4	2.0	2.2	2.9	2.6	1.8	-7.0
GDP per capita (PPP, USD)	49,202	50,473	51,873	54,062	56,489	58,341	n.a.
HICP inflation rate, y-o-y change	0.3	0.2	0.1	1.3	1.6	2.7	0.9
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	81.8	81.6	81.7	81.8	81.9	n.a.	n.a.
Fiscal balance/GDP	-2.2	-2.0	0.0	1.3	1.4	1.7	-9.3
Current account balance/GDP	8.5	6.3	8.1	10.8	10.9	10.2	n.a.
External debt/GDP	541.4	561.7	545.6	508.0	484.1	458.8	n.a.

Source: International Monetary Fund, Eurostat, own estimates

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.

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.

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

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.

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, 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.

Disclaimer

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

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

Creditreform Rating AG

Creditreform Rating AG
Hellersbergstrasse 11
D - 41460 Neuss

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

CEO: Dr. Michael Munsch
Chairman of the Board: Prof. Dr. Helmut Rödl
HRB 10522, Amtsgericht Neuss