Netherlands
Rating Report

SCOPE AAA STABLE OUTLOOK

Credit strengths

- Wealthy, diversified and internationally-competitive economy
- Moderate public debt
- Strong external position
- Resilient banking system

Credit challenges

- Sensitivity to global developments
- High private-sector indebtedness
- Labour-market duality, with a high share of part-time employment

Rating rationale:

Wealthy and competitive economy: The Netherlands' rating is supported by its wealthy, highly diversified and competitive economy, with key comparative advantages such as a very favourable business environment and highly educated workforce. We see real growth of 4.2% this year, before slowing to 0.7% in 2023 and 1.1% for 2024. Moderate medium-run growth potential of 1.4% is in line with that of similarly rated sovereign peers' economies.

Moderate public debt: The general government debt-to-GDP ratio is expected to drop in 2022 to around 48.4% before edging thereafter along a gradual upside trajectory, ending a forecast horizon to 2027 around 52%. However, we consider Dutch authorities to retain considerable fiscal flexibility, with still-low debt levels compared with euro-area sovereign peers.

Strong external sector: The country's external-sector resilience is underpinned by high and recurrent current-account surpluses and a strong net international asset position.

Resilient banking system: The Dutch banking system has proven resilient to multiple crises. Capitalisation, asset quality and profitability are sound and in line with that of peer economies.

Rating challenges include: i) sensitivity of Netherlands to global economic downturns and financial-market crises due to a highly open economy; ii) labour-market dualities; and iii) financial-stability risk with elevated housing prices and high private-sector debt.

Netherlands' sovereign rating drivers

Risk pillars		Quantitative		Reserve currency	Qualitative*	Final rating
		Weight	Indicative rating	Notches	Notches	
Domestic Economic Risk		35%	aaa	EUR [+1]	0	AAA
Public Finance Risk		20%	aaa		0	
External Economic Risk		10%	aaa		0	
Financial Stability Risk		10%	aaa		-1/3	
ESG Risk	Environmental Factors	5%	bb-		0	
	Social Factors	7.5%	bb		0	
	Governance Factors	12.5%	aaa		0	
Indicative outcome		aaa			0	
Additional considerations					0	

Note: *The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve-currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's 'Sovereign Ratings' methodology. Source: Scope Ratings.

Outlook and rating triggers

The Stable Outlook reflects Scope's view that a rating downgrade is not currently foreseen over the next 12-18 months.

Positive rating-change drivers

- N/A

Negative rating-change drivers

- A global or regional shock resulted in a significant drop of output and/or accentuated risk to financial stability
- The fiscal outlook deteriorates significantly, including elevated fiscal deficits and increasing debt levels through the cycle

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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Bloomberg: RESP SCOP

Domestic Economic Risks

- **Growth outlook:** After slowing to 0.3% QoQ in Q1 of this year, real growth rebounded sharply to 2.4% in Q2, driven by robust contributions from investment and net exports, as exports grew more than imports. Following stronger-than-anticipated performance on the whole in 1H of the year, growth momentum weakened by Q3, with growth of -0.2% QoQ, from declining investment and stagnating consumption. We anticipate continued slowdown over forthcoming quarters, as elevated inflation, tighter funding conditions and elevated economic uncertainty this winter weigh upon household consumption and investment, offsetting effects of government support measures, while a weakening economic outlook among European trading partners hinders the exporting sector. We see real growth of 4.2% in 2022 – buoyed by the strong second quarter, before growth of 0.7% in 2023 and 1.1% in 2024.

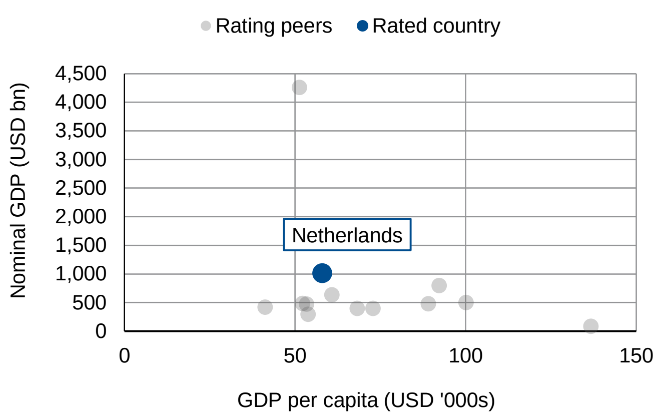
- **Inflation and monetary policy:** Despite moderating slightly in October (16.8% YoY, -0.3pps off a staggering September 2022 record level), HICP inflation remains very elevated, near multi-decadal highs and among the highest of the euro area. We see headline inflation averaging 12.4% in 2022, before 11.1% in 2023 and 2.8% in 2024. Core inflation has continued accelerating, picking up 0.4pps to 6.8% YoY in October, suggesting a broadening of price pressures. Wage growth has remained comparatively modest despite a tight labour market, causing a dip in real wages. The implementation of a price ceiling for energy prices in 2023 ought to support a drop in headline inflation next year. To address inflationary pressures, the ECB has tightened its monetary policies over recent months, hiking its policy rate a cumulative 200bps since July 2022, for the deposit rate to 1.50%, as well as halting net asset purchases.

- **Labour markets:** The Dutch labour market recovered well from the Covid-19 crisis, displaying robust employment gains on a back of the economic rebound. The unemployment rate stood at 3.7% as of October, 1.8pps below summer 2020 peaks, despite having risen moderately from 3.2% in April 2022. The employment rate reached 72.2% in Q2 2022 – the highest of the EU. At the same time, job vacancies fell from Q2 record highs in Q3, to 121 vacancies per 100 employed. Despite high labour-force participation rates, labour-force mobilisation is restricted by a high share of part-time employment, which, at 42.2%, is more than twice an EU average.

Overview of Scope's qualitative assessments for Netherlands' *Domestic Economic Risks*

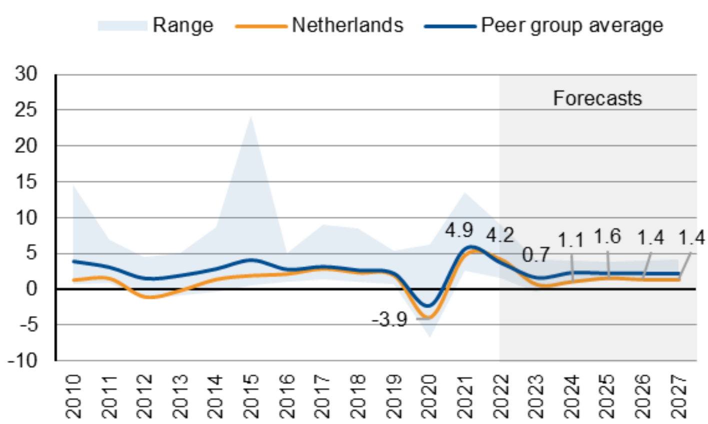
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank, but high inflation tests price stability and curtails monetary space for manoeuvre
	Macro-economic stability and sustainability	Neutral	0	Competitive and diversified economy; flexible labour market although dualities exist; exposure to global developments due to open economy

Nominal GDP and GDP per capita, USD



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

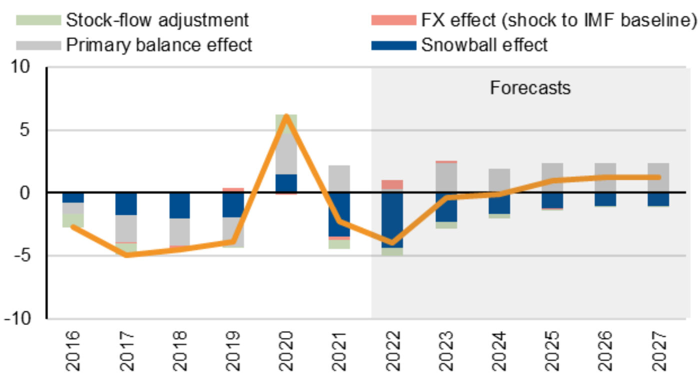
Public Finance Risks

- **Fiscal outlook:** The Netherlands' ratings are anchored by a robust budgetary framework and moderate levels of public debt. The general government balance averaged a surplus of 1.2% of GDP over 2016-2019, resulting in the debt-to-GDP ratio declining to 48.6% in end-2019 (from 69% in Q1 2015). After moderating to 2.6% of GDP in 2021 (from 3.7% in 2020) on the back of strong economic recovery, the headline general government deficit is expected to ease further this year, to 0.5% of GDP, due to further revenue recovery and falling Covid-19-related expenditure, more than offsetting roll-out of support measures for households and corporates this year. Funds allocated to soften effects of the energy crisis for the private sector amounted to around 4.8% of GDP, a high price tag compared with measures adopted in peer countries. Significant current spending pressures, crucially resulting from implementation of a ceiling for energy prices of an estimated cost of EUR 23.5bn (or around 2.4% of GDP), higher military expenditure, and a 10% increase in the minimum wage, weigh on the budget balance medium run. We expect the general government deficit to widen to 2.7% of GDP next year before remaining roughly unchanged over subsequent years, averaging 2.8% between 2024-27.
- **Debt trajectory:** The general government debt-to-GDP ratio dropped to 52.5% in 2021, from 54.7% as of a 2020 peak. It is expected to drop further this year, primarily from strong nominal economic growth, to 48.4% – roughly returning to its pre-pandemic crisis level. We anticipate the debt ratio will resume a gradual upside trend from 2023 on as a result of wider primary deficits, ending a forecast horizon to 2027 around 51.5% of GDP. The IMF estimates the net present value of health-care and pensions spending changes over 2021-50 at 100% of GDP, reflecting sizeable long-run ageing-related challenges to the trajectory of government debt.
- **Debt profile and market access:** The Netherlands benefits from strong market access. Similar to peer sovereigns, funding rates have risen this year. While benchmark 10-year Dutch yields declined to 2.2% this month, from 2.8% at October 2022 peaks, they remain well above the -0.3% averages observed on average during 2021). Dutch state securities carry a long weighted-average term to maturity of 8.5 years, and the government issues only in euro. Such factors delay debt-sustainability risks from higher borrowing costs to a degree.

Overview of Scope's qualitative assessments for Netherlands' *Public Finance Risks*

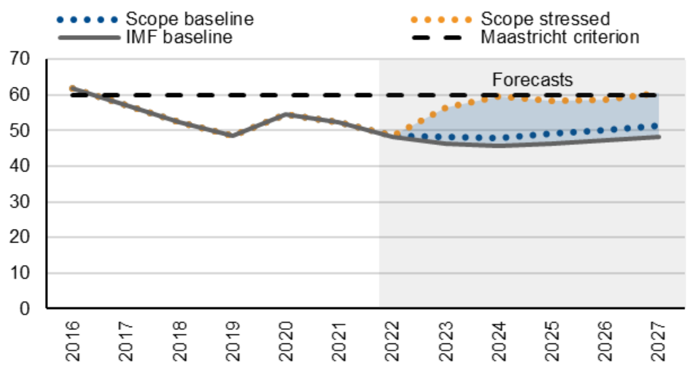
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Neutral	0	Strong national fiscal framework, in line with peers; wider fiscal deficits under current Dutch government
	Debt sustainability	Neutral	0	Moderate public-debt ratio including resilience of debt sustainability under adverse economic scenarios
	Debt profile and market access	Neutral	0	Strong government market access, still-moderate government financing costs after increase of euro-area yields

Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

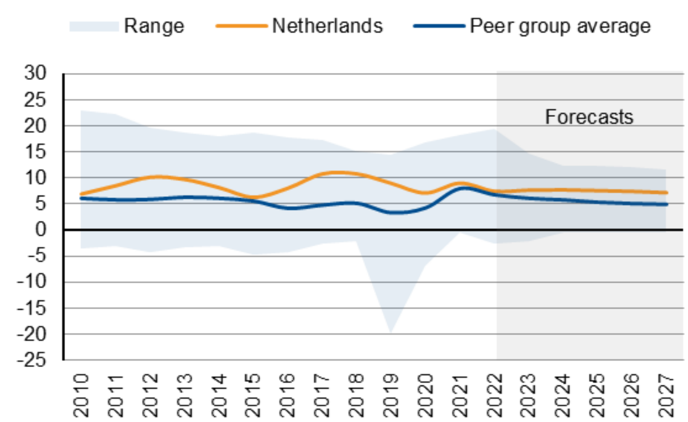
External Economic Risks

- **Current account:** Netherlands' ratings benefit from elevated and recurrent current-account surpluses, which averaged around 7.5% of GDP over 2015-19 before moderating to 5.1% of GDP in 2020 due to weaker primary and secondary income balances. After recovery to 7.2% of GDP in 2021, the current-account surplus moderated on a quarterly basis in Q2 2022 to 3.2% of GDP (down 5.6pps compared with the same quarter of the previous year), primarily reflecting a weaker primary income balance alongside a weaker trade in goods balance under context of higher global energy and commodity prices. Looking ahead, the IMF expects the current-account balance to average 7.5% over 2023-27 – near pre-pandemic levels.
- **External position:** External resilience is bolstered by Netherlands' position as a significant net external creditor nation, with a net international asset position of around 85.7% of GDP as of Q2 2022 – rising from only 0.8% in Q2 2010, although having eased off peaks of 109.2% of GDP as of Q4 2020. Gross external debt, however, is elevated, at 357% of GDP in Q2 2022, having nevertheless decreased substantively over recent years (-154pps since 2015). Most external debt is owed by non-monetary Dutch financial institutions (153% of GDP), trailed by monetary financial institutions (103%) and non-financial corporations (72%). A significant 45% of outstanding external debt is short-term.
- **Resilience to short-term external shocks:** Euro-area membership bolsters resilience against short-term external crises. The Netherlands, as a highly open economy, is integrated in global export markets, increasing its sensitivity to global trade shocks. Exports of goods and services aggregate to around 84% of GDP, significantly above levels of peer economies.

Overview of Scope's qualitative assessments for Netherlands' *External Economic Risks*

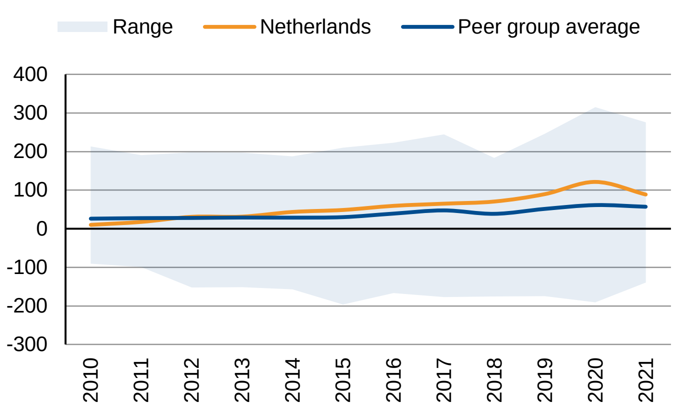
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Neutral	0	Diversified and competitive exporting sector; recurrent and large current-account surpluses also driven by high net savings of multinationals benefitting from favourable tax treatment
	External debt structure	Neutral	0	Still-elevated external debt and elevated share of short-term external debt, mitigated partially by favourable composition including large intragroup borrowing plus a sizeable and growing net external asset position
	Resilience to short-term external shocks	Neutral	0	Highly open economy; benefits from euro-area membership

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



Source: IMF, Scope Ratings

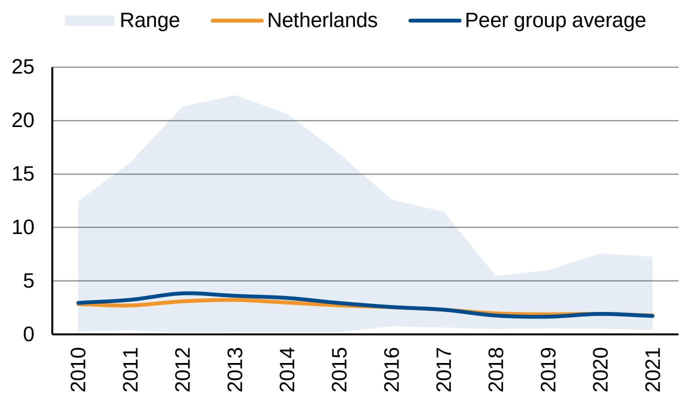
Financial Stability Risks

- **Banking sector:** The resilience of the Dutch banking system is underpinned by sound capitalisation and profitability levels, as reflected in aggregate tier 1 capital and return on equity ratios of 17.8% and 7.5%, respectively, as of Q2 2022. Asset quality had been on a gradually improving trend, with an aggregate non-performing loan ratio of 1.6% as of Q2 2022 – compared with 2.0% at Q2-2021 peaks. Deterioration of the economic outlook ought to, however, exert pressure on asset quality, resulting in higher credit losses. At the same time, higher rates ought to support higher interest margins. Dutch banks' direct exposures to energy-intensive sectors are limited, of around 10-15% of outstanding loans. The counter-cyclical capital buffer rate is set to increase from 0% to 1%, effective May 2023.
- **Private debt:** Private-sector indebtedness remains elevated, at around 243% of GDP as of Q1 2022, according to data published by the Bank for International Settlements. Vulnerability is especially present with respect to household debt (primarily consisting of mortgage loans), which amounts to around 100% of GDP, despite having declined somewhat over recent years (from 2010 peaks around 120%). However, financial pressures on households are increasing, with high inflation cutting into real wages and rising rates pushing up refinancing costs. However, 75% of outstanding mortgage debt holds an interest that is fixed for more than five years, which ought to smoothen the rise of household debt-service ratios to a degree.
- **Financial imbalances:** After a prolonged phase of strong price appreciation, housing-market dynamics have moderated markedly over the recent months, under a context of weak consumer confidence and rising lending rates. Growth of residential prices decelerated to +7.8% YoY in October 2022, from 21.1% this January. Dutch authorities have implemented measures aimed at curbing growth in mortgage debt, notably through gradual reduction of the tax deductibility rate for mortgage interest and a tightening of macro-prudential policies, including introduction of a floor for risk weights of mortgage loans. Still, comparatively loose borrowing limits (with one of the highest maximum loan-to-value ratios of the EU, at 100%) and persistent residential real estate market inefficiencies – notably related to structural undersupply of housing, underdeveloped private rental markets and persistent tax distortions, remain drivers of imbalances in the real estate market and constitute risks for financial stability.

Overview of Scope's qualitative assessments for Netherlands' *Financial Stability Risks*

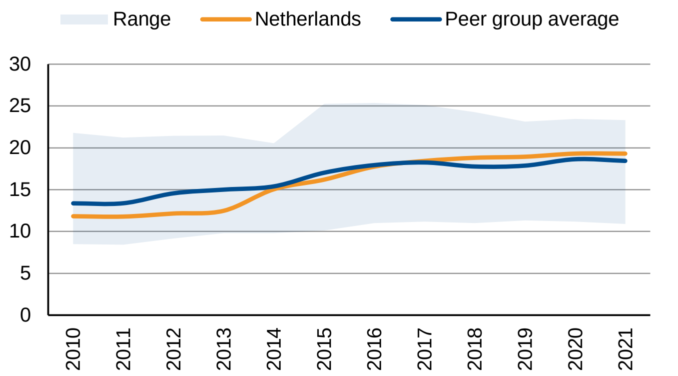
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Adequate capitalisation, comfortable liquidity levels, higher NPLs than peers
	Banking sector oversight	Neutral	0	Effective oversight under De Nederlandsche Bank and the ECB as part of Banking Union
	Financial imbalances	Weak	-1/3	High household and private-sector indebtedness counterbalanced by savings via housing assets; significant housing-market risk

Non-performing loans, % of total loans



Source: IMF, Scope Ratings

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings

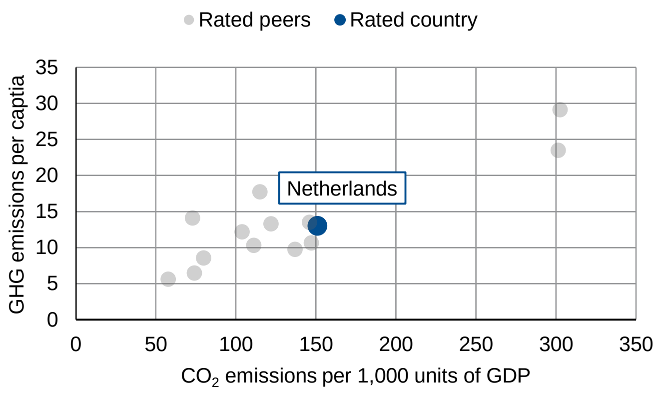
ESG Risks

- **Environment:** Due to geographical features of the Netherlands, with 60-70% of its population and economy at risk of flooding especially in heavily populated river deltas, the country is exposed to natural disaster risk (the most vulnerable country of Europe according to the World Risk Report). The Dutch economy is characterised by comparatively higher carbon emissions intensity relative to that of peer economies, and the energy mix demonstrates a lower share of renewables being used compared with peer countries, for Netherlands accounting for only 14.7% of gross consumption. The Dutch government aims to reduce greenhouse gas emissions by 49% relative to 1990 levels and to increase the share of renewables in its aggregate energy mix to 27% by 2030. The agreement supporting the ruling government envisages allocation of EUR 25bn to support the agricultural sector's transformation to more sustainable practices, as well as another EUR 35bn for a climate transition fund.
- **Social:** Social risks link to an ageing society, in line with similar risks relevant to other highly-rated sovereigns. Income inequality is low under an international comparison and broadly comparable with that of the indicative sovereign peer group. In addition, labour-force participation of more than 71% of the active labour force (aged 15-74) is well above a euro-area average. This aside, social outcomes are strong and in line with those for Netherlands' 'aaa' indicative peer group, such as a low share of the population beneath the national poverty line (14.4% in 2021) and strong educational outcomes. Social challenges associate with persistent labour-market duality with a high share of persons employed part-time. The current government targets objectives of building affordable new housing, improving health care and bolstering social security. In addition, plans of enhancing quality of teaching and extending free childcare for working parents reduce social risks.
- **Governance:** In line with sovereign peers, Netherlands scores highly on the World Bank's Worldwide Governance Indicators. Record coalition negotiations concluded in December 2021 with agreement around a fourth Mark Rutte government. A fragmented political landscape represents a credit risk. The government holds no majority in the upper house of parliament, limiting its ability to implement ambitious reform medium run.

Overview of Scope's qualitative assessments for Netherlands' *ESG Risks*

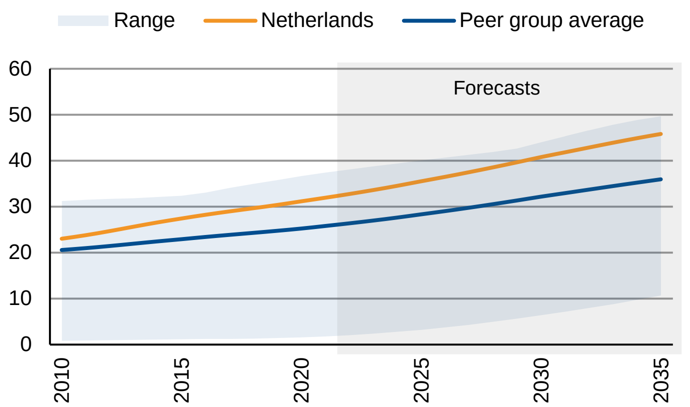
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Environmental factors	Neutral	0	High nitrogen emissions, low share of renewables, high CO_2 emissions per capita, natural disaster risks
	Social factors	Neutral	0	Weak demographics but strong social safety net; risk from rising income inequality
	Governance factors	Neutral	0	High-quality institutions but fragmented political landscape

Emissions per GDP and per capita, $mtCO_2e$



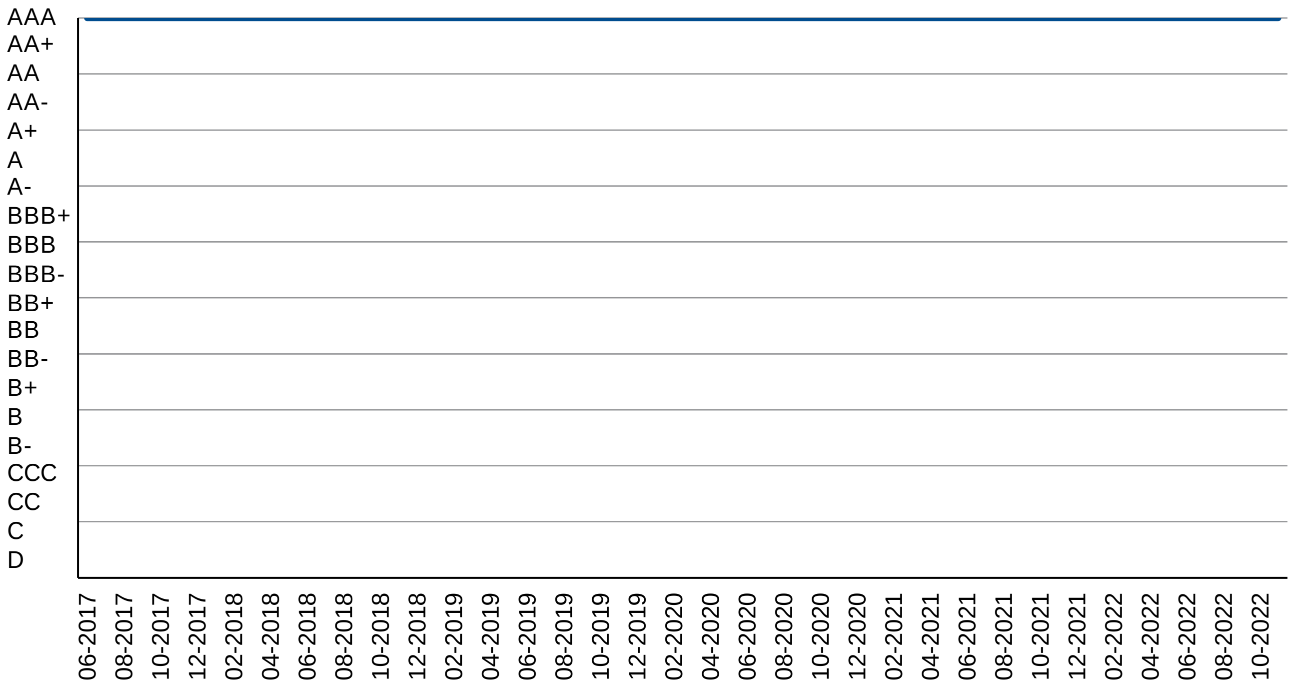
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or in adjacent categories per Scope's Core Variable Scorecard, including a methodological reserve-currency adjustment.

Peer group*
Austria
Denmark
Finland
Germany
Ireland
Luxembourg
Norway
Sweden
Switzerland

*Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the Core Variable Scorecard, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2017	2018	2019	2020	2021
Domestic Economic	GDP per capita, USD '000s	IMF	48,800	53,225	52,673	52,222	57,997
	Nominal GDP, USD bn	IMF	833.6	914.5	910.3	909.1	1,013.5
	Real growth, %	IMF	2.9	2.4	2.0	-3.9	4.9
	CPI inflation, %	IMF	1.3	1.6	2.7	1.1	2.8
	Unemployment rate, %	WB	4.8	3.8	3.4	3.8	4.0
Public Finance	Public debt, % of GDP	IMF	56.9	52.4	48.5	54.6	52.3
	Interest payment, % of revenue	IMF	1.8	1.6	1.3	1.2	0.9
	Primary balance, % of GDP	IMF	2.1	2.1	2.3	-3.2	-2.2
External Economic	Current account balance, % of GDP	IMF	10.8	10.8	9.0	7.1	9.0
	Total reserves, months of imports	IMF	0.5	0.4	0.5	0.7	0.7
	NIIP, % of GDP	IMF	65.3	70.8	89.9	121.5	89.0
Financial Stability	NPL ratio, % of total loans	IMF	2.3	2.0	1.9	1.9	1.8
	Tier 1 ratio, % of risk-weighted assets	IMF	18.0	18.2	18.8	18.4	19.1
	Credit to private sector, % of GDP	WB	111.1	105.5	99.7	100.9	-
ESG	CO_2 per EUR 1,000 of GDP, mtCO_2e	EC	179.4	169.7	161.2	151.0	147.6
	Income share of bottom 50%, %	WID	22.1	22.4	22.5	22.5	22.5
	Labour-force participation rate, %	WB	79.8	80.3	80.9	-	-
	Old-age dependency ratio, %	UN	29.0	29.7	30.4	31.2	32.0
	Composite governance indicators*	WB	1.7	1.7	1.6	1.6	-

*Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bps) as of 21 November 2022	9.2

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