Netherlands
Rating Report

STABLE OUTLOOK
AAA

Credit strengths

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

Credit challenges

- Rising trajectory of public debt
- 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 an exceptionally favourable business environment and highly-educated workforce. We see real growth of 0.7% in 2023 before 1.5% 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 dropped last year to 49.6% (EMU definition) before reversing back on a gradually rising trajectory, concluding a forecast horizon to 2028 around 54%. However, we consider Dutch authorities to retain considerable fiscal flexibility, with still-moderate debt levels compared with that of 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 banking systems.

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

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%	aa+		0	
External Economic Risk		10%	aaa		0	
Financial Stability Risk		10%	aaa		-1/3	
ESG Risk	Environmental Factors	5%	bbb-		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.

Positive rating-change drivers

- N/A

Negative rating-change drivers

- The fiscal outlook deteriorates further, including elevated fiscal deficits and increasing debt levels over the long run
- A global or regional shock resulted in a significant drop of output and/or accentuated risks to financial stability

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

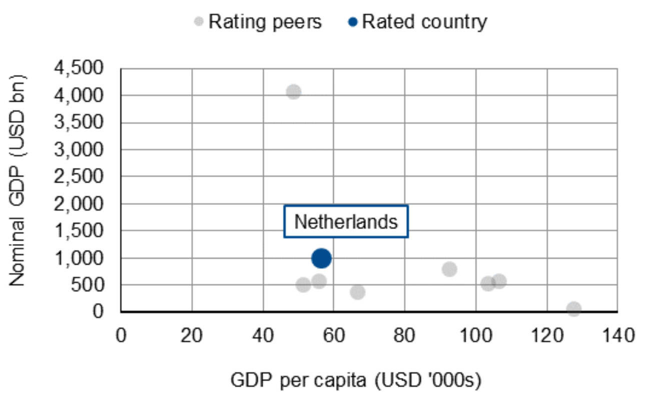
Domestic Economic Risks

- **Growth outlook:** The Dutch economy experienced strong growth last year of 4.5%, driven by sturdy private consumption, and growth of net exports and gross fixed capital formation. However, record-high inflation has taken its toll on the economy, and growth contracted sharply in Q1 2023 by 0.7% QoQ – due to a rise in service imports and reduction of inventories. We anticipate gradual recovery this year, although elevated inflation, tighter funding conditions and still-high economic uncertainty weigh on household consumption and investment, offsetting the favourable effects of government economic support. We see real economic growth of 0.7% in 2023, before 1.5% in 2024. Medium-run growth potential remains estimated at 1.4% a year.
- **Inflation and monetary policy:** Despite moderating since September 2022 (17.1% YoY at the time, representing a record), HICP inflation averaged a high 11.6% in 2022. We see HICP inflation averaging 5.2% this year, before dropping to 3.8% by 2024. Core inflation has continued to accelerate, picking up to 7.9% YoY by April 2023, suggesting a broadening of price pressures. Wage growth has stayed comparatively modest despite a tight labour market, causing a decrease in real wages. The implementation of a price ceiling for energy prices from January 2023 on ought to support a (temporary) drop in headline inflation this year and raise households' purchasing power. To address inflationary pressure, the ECB has tightened monetary policies over the past year, hiking policy rates each a cumulative 375bps since July 2022, to a deposit rate of 3.25%, 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 the back of the economic rebound. The unemployment rate stood at 3.4% as of April 2023, below summer 2020 peaks. We see unemployment averaging 3.4% this year before 3.5% in 2024. Employment reached 72.7% of the active labour force in Q4 2022 – the highest ratio in the EU. Despite high labour-force participation rates, labour-force mobilisation is restricted by a high share of part-time employment, which, at 42.5%, stands at more than twice the EU average.

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

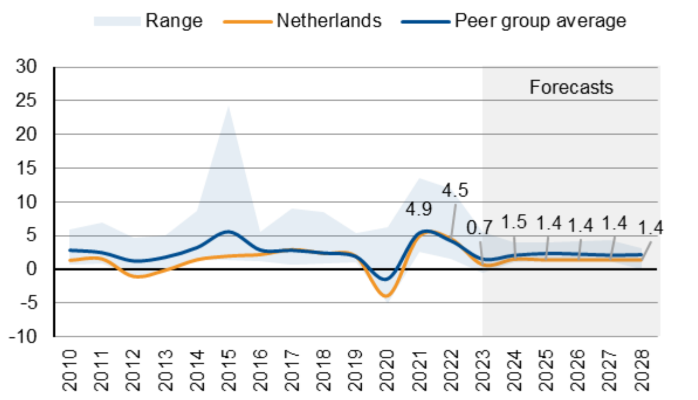
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank, but high inflation tests price stability and curtails monetary space 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

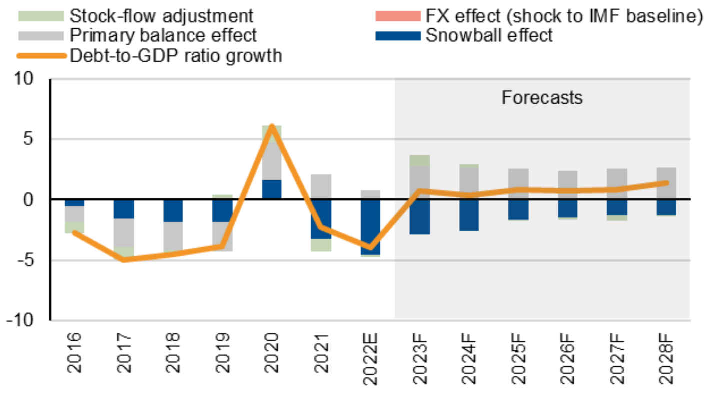
Public Finance Risks

- **Fiscal outlook:** The Netherlands' credit ratings are anchored by a robust budgetary framework with average pre-crisis government surpluses of around 1.2% over 2016-19 and moderate levels of public debt. After meaningful budget deficits during 2020-21 (averaging 3.2% of GDP), the headline general government deficit eased to 1.1% of GDP last year, from strong tax revenue growth and declining Covid-19-related expenditure, more than offsetting costs of help measures for households and corporates. Funds allocated to soften effects of the energy crisis for the private sector amounted to around 5% of GDP, a high price tag compared with the measures in peer countries. Significant current spending pressures, crucially resulting from implementation of a ceiling for energy prices costing an estimated above EUR 8bn (or around 1% 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 2.6% of GDP this year before further widening in subsequent years absent corrective policy measures, averaging 2.9% between 2024-28. Total funding needs amount to EUR 99.7bn this year.
- **Debt trajectory:** The general government debt-to-GDP ratio dropped to 49.6% last year (EMU definition), from 54.7% as of a 2020 peak. Given costs of new energy compensation measures, we expect debt-to-GDP to edge sideways this year, before resuming a rising path, concluding a forecast horizon to 2028 around 54.5% as a result of wider primary fiscal deficits. However, this ratio will stay below the EU limit of 60% of GDP. The IMF estimates the net present value of health-care and pensions spending changes over 2022-50 at 97% of GDP, reflecting sizeable longer-run ageing-related challenges to the trajectory of government debt.
- **Debt profile and market access:** The Netherlands benefits from strong market access, but similar to peer sovereigns, funding rates have risen over the last year. While benchmark 10-year Dutch yields declined to 2.8% this month, from 3.1% at March 2023 peaks, they remain well above the -0.3% averages observed 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*

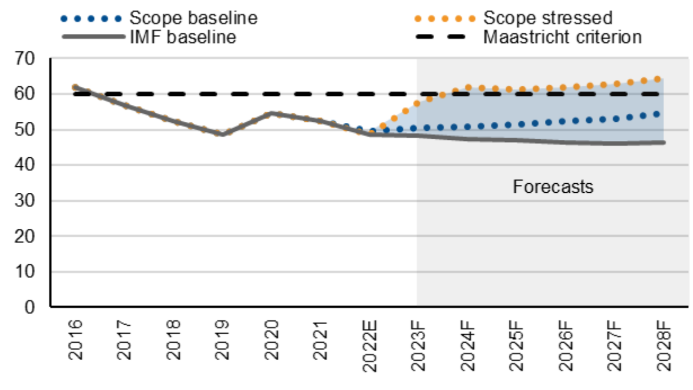
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Fiscal policy framework	Neutral	0	Strong national fiscal framework, in line with peers; wider fiscal deficits under current Dutch government
	Debt sustainability	Neutral	0	Moderate public-debt ratio including resilience of debt sustainability under adverse economic scenarios
	Debt profile and market access	Neutral	0	Strong government market access, government financing costs have slightly moderated off of peaks

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

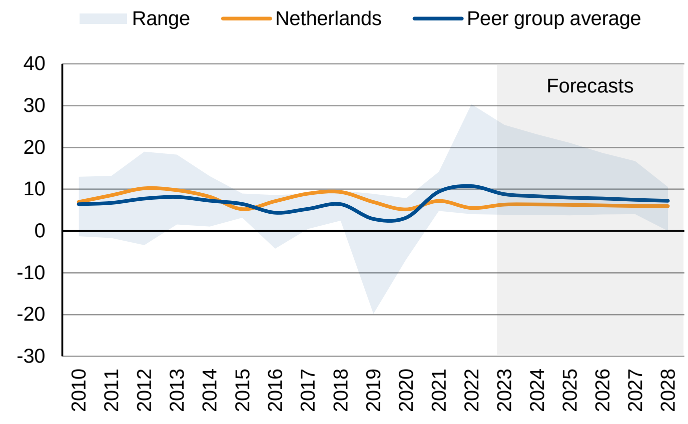
External Economic Risks

- **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 7.3% of GDP in 2021, the current-account surplus moderated last year to 4.3% of GDP, primarily reflecting a weaker primary-income balance alongside a weaker trade in goods balance under a context of higher global energy and commodity prices. Looking ahead, the IMF expects the current-account balance at 6.3% of GDP this year before averaging 6.1% over 2024-28.
- **External position:** External resilience is bolstered by Netherlands' position as a significant net external creditor nation, with a net international asset position of around 71.5% of GDP as of Q4 2022 – rising from only 0.8% in Q2 2010, although having eased off peaks of 109.2% of GDP from Q4 2020. However, gross external debt is elevated, at 357% of GDP in Q4 2022, having nevertheless decreased substantively over recent years (-144pps since 2015). Most external debt is owed by non-monetary Dutch financial institutions (152% of GDP), trailed by monetary financial institutions (101%) and non-financial corporations (73%). 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 economy's sensitivity to global trade shocks. Exports of goods and services amount to around 93% of GDP, significantly above the levels in peer economies.

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

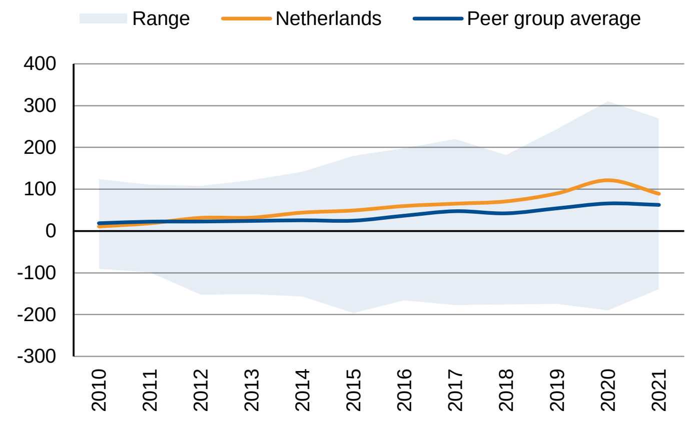
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Neutral	0	Diversified and competitive exporting sector; recurrent and large current-account surpluses also driven by high net savings of multinationals benefitting from favourable tax treatment
	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

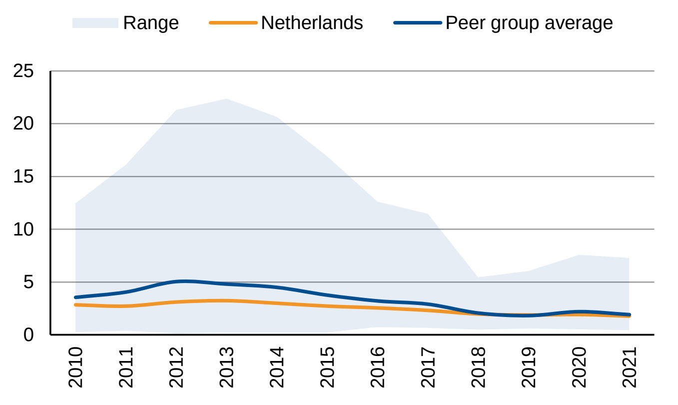
Financial Stability Risks

- **Banking sector:** The resilience of the Dutch banking system is underpinned by sound capitalisation and profitability levels, as reflected in an aggregate tier 1 capital ratio of 18% of risk-weighted assets as of Q4 2022. Return on equity has improved significantly from a 6.4% 2019-21 average ratio to 8.0% by Q4 2022. Asset quality had been on a gradually improving trend: the non-performing loan (NPL) ratio stood at 1.6% as of Q4 2022 – compared with 2.0% at Q2-2021 peaks. The economic slowdown ought to, however, exert continued pressure on asset quality. At the same time, higher rates ought to support interest margins. The counter-cyclical capital buffer rate is set to rise from 0% to 1%, effective end of May this year.
- **Private debt:** Private-sector indebtedness remains elevated, at around 241% of GDP as of Q3 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 97% of GDP, despite having declined over the recent years (from 2010 peaks around 120%). However, financial pressures on households are increasing, with high inflation cutting into real wages and elevated rates pushing up refinancing costs. But 75% of outstanding mortgage debt holds an interest rate that is fixed for more than five years, which ought to smoothen the rise of household debt-servicing ratios to a degree.
- **Financial imbalances:** Residential property price growth has moderated after reaching a peak in January 2022 of 21.1% YoY. Yearly growth of residential prices turned negative at the beginning of this year for the first time since 2014, reaching -2.3% YoY by March 2023. The Netherlands has one of the largest stocks of mortgage debt in Europe: about a half of all Dutch households have a mortgage and mortgage debt amounts to >EUR 800bn or 86% of GDP as of Q4 2022. Dutch authorities have adopted measures aimed at curbing growth of mortgage debt, specifically 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 European Union, at 100%) and persistent residential real estate market inefficiencies – tying to the structural undersupply of housing, underdeveloped private rental markets and persistent tax distortions, remain drivers of property-market imbalances.

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

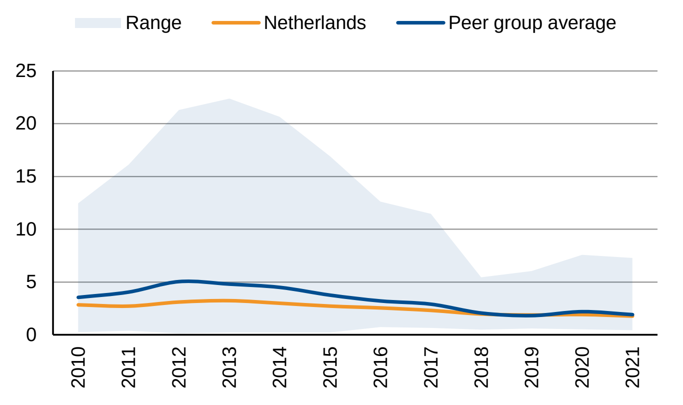
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Adequate capitalisation, comfortable liquidity, higher NPLs than peer banking systems
	Banking sector oversight	Neutral	0	Effective oversight under De Nederlandsche Bank and the ECB 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 the geographical features of 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 (although no longer the most vulnerable country of Europe according to the recently-updated 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. The Dutch government aims to reduce greenhouse gas (GHG) emissions by 55% relative to 1990 levels by 2030, become carbon neutral by 2050, and raise the share of renewables in aggregate energy to 27% by 2030. To achieve the 2030 targets, the government will have to cut GHG emissions by another 12-36Mt. The Dutch National Recovery and Resilience Plan devotes one of the highest shares among EU member states to investment in the green transition and digital transformation.

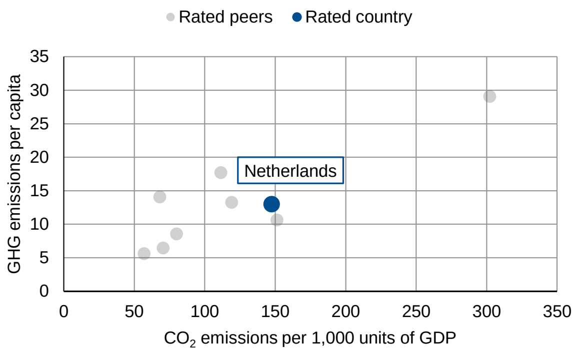
- **Social:** Social risks link to an ageing society, in line with similar risks relevant to other highly-rated sovereigns. Income inequality is low under an international comparison and broadly comparable with that of Netherlands' sovereign peer group. In addition, labour-force participation of more than 73% of the active labour force (aged 15-74) is well above a euro-area average of 61%. 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 2020) and strong educational outcomes. Social challenges associate with persistent labour-market duality given 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 for enhancing the quality of teaching and extending free child care for working parents reduce social risk.

- **Governance:** In line with its sovereign peers, Netherlands scores highly on the World Bank's Worldwide Governance Indicators. In December 2021, record coalition negotiations resulted in agreement on a fourth Mark Rutte government. Three weeks after losing in provincial elections to a farmers' protest party, the Rutte government survived a no-confidence motion in April 2023 over its plans to cut nitrogen emissions on farms. The opposition's move underlines government vulnerabilities following the provincial elections, as the government holds no majority in the upper house of parliament, limiting its scope for implementing ambitious reform.

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

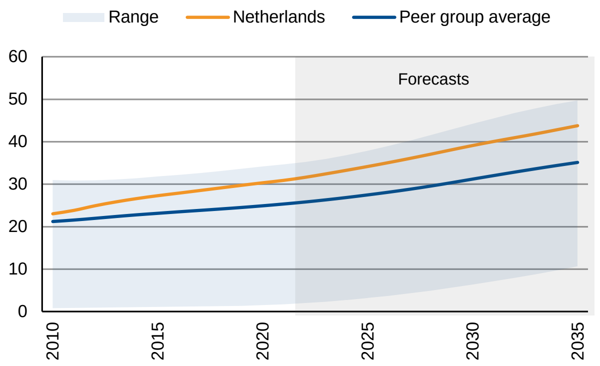
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Environmental factors	Neutral	0	High nitrogen emissions, low share of renewables, high CO_2 emissions per capita, natural disaster risks
	Social factors	Neutral	0	Weak demographics but strong social safety net; high employment and strong education; government programme aims to reduce social risks
	Governance factors	Neutral	0	High-quality institutions but fragmented political landscape

Emissions per GDP and per capita, $mtCO_2e$



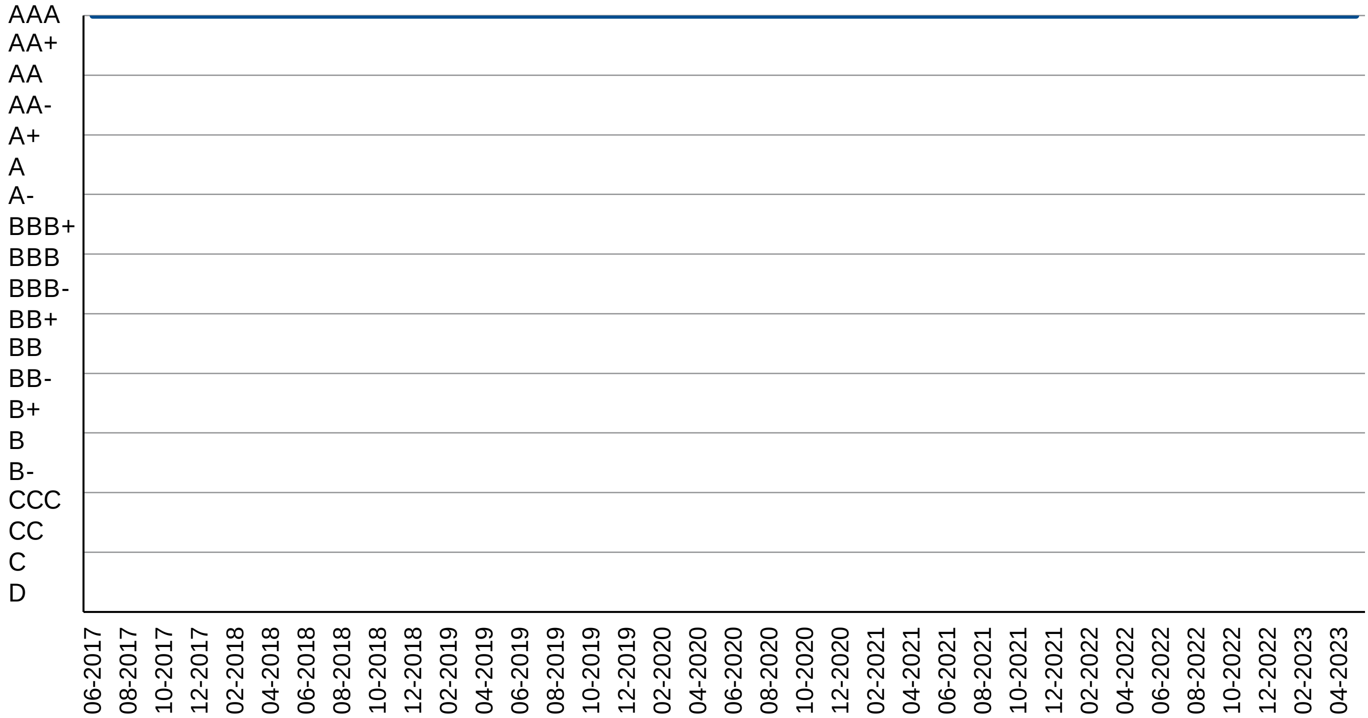
Source: European Commission, Scope Ratings

Old-age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term debt)



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*
Denmark
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	2018	2019	2020	2021	2022
Domestic Economic	**GDP per capita, USD '000s**	IMF	53.2	52.7	52.2	58.0	56.5
	Nominal GDP, USD bn	IMF	914.5	910.3	909.1	1,013.5	993.7
	Real growth, %	IMF	2.4	2.0	-3.9	4.9	4.5
	CPI inflation, %	IMF	1.6	2.7	1.1	2.8	11.6
	Unemployment rate, %	Eurostat	4.9	4.4	4.9	4.2	3.5
Public Finance	**Public debt, % of GDP**	IMF, CPB	52.4	48.5	54.7	52.4	49.6
	Interest payment, % of revenue	IMF	2.0	1.7	1.6	1.3	0.5
	Primary balance, % of GDP	IMF	2.4	2.5	-3.0	-2.1	-0.8
External Economic	**Current-account balance, % of GDP**	IMF	9.3	6.9	5.1	7.2	5.5
	Total reserves, months of imports	IMF	0.4	0.5	0.7	0.7	-
	NIIP, % of GDP	IMF	70.8	89.9	121.5	89.1	75.9
Financial Stability	**NPL ratio, % of total loans**	IMF	2.0	1.9	1.9	1.8	-
	Tier 1 ratio, % of risk-weighted assets	IMF	18.8	18.9	19.3	19.3	18.0
	Credit to private sector, % of GDP	WB	105.5	99.7	101.3	-	-
ESG	**CO_2 per EUR 1,000 of GDP, $mtCO_2e$**	EC	169.7	161.2	151.0	147.6	-
	Income share of bottom 50%, %	WID	22.4	22.5	22.5	22.5	-
	Labour-force participation rate, %	WB	80.3	80.9	-	-	-
	Old-age dependency ratio, %	UN	29.1	29.8	30.3	30.9	31.6
	Composite governance indicators*	WB	1.7	1.6	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 16 May 2023	13.3

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