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. We see the Dutch economy slowing during 2022, to 3.1% economic growth this year before 2.1% next, after 5% recovery growth of 2021. Moderate medium-run growth potential of 1.4% remains 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 54.3% and edge thereafter along a comparatively flat trajectory, ending a forecast horizon to 2027 at 56.7% (9.2pps above pre-Covid crisis levels). However, we consider Dutch authorities to retain considerable fiscal flexibility.

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

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 the economy to current global economic slowdown and Russian sanctions & countersanctions due to highly open economy; ii) labour-market dualities; and iii) financial-stability risk with high and rising house prices and elevated private-sector debt.

Netherlands' sovereign rating drivers

Risk pillars		Quantitative scorecard		Reserve currency adjustment (notches)	Qualitative scorecard	Final rating
		Weight	Indicative rating		Notches	
Domestic Economic Risk		35%	aaa		0	AAA
Public Finance Risk		25%	aaa		+1/3	
External Economic Risk		10%	aaa		0	
Financial Stability Risk		10%	aaa		-1/3	
ESG Risk	Environmental Risk	5%	a+		0	
	Social Risk	5%	a		0	
	Governance Risk	10%	aaa		0	
Overall outcome		**aaa**		**+1**	**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 risks to the ratings are balanced.

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

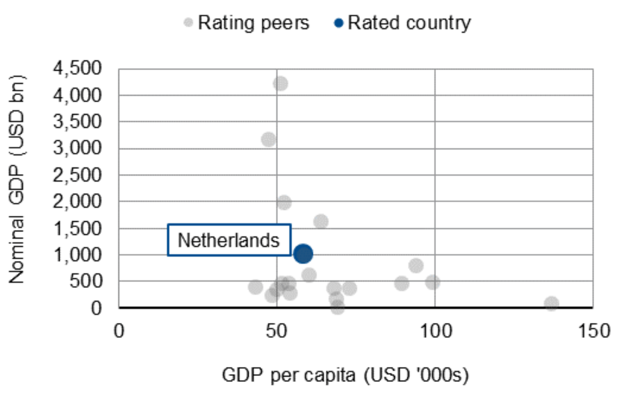
Domestic Economic Risks

- **Growth outlook:** After a 3.8% drop of output in 2020, growth recovered 5.0% in 2021 – driven by recovery of final consumption as well as of net exports. We expect full-year economic growth of 3.1% in 2022 before 2.1% for 2023, revised down 1.3pps and 1.0pps respectively from our Dec-21 estimates due to ramifications of the Russia-Ukraine war. Our medium-run expectation of the potential rate of economic growth remains unchanged around 1.4%, in line with that of peer economies. Netherlands' economic exposure to the Russia-Ukraine conflict derives from sensitivity to slowdown of economic trading partners, such as in eastern Europe, alongside the effects of higher energy prices. With import of gas trending lower since 2015 and gas imports from Russia accounting for 10% of aggregate gas imports of 2016-2020, resilience to recent Russian cut-off of gas to the Netherlands after the latter's refusal to pay in rouble is supported by Dutch storage facilities of some 5.5bn cubic meters of gas (or nearly 14% of annual gas consumption) – enough to get through the next winter and several months afterwards, although more permanent replacement of Russian energy is likely to prove challenging.
- **Inflation and monetary policy:** Inflation (HICP) stood at 2.8% YoY in 2021 and has risen sharply subsequently to 10.2% as of May 2022 (although down from 11.7% as of a March 2022 peak), compared with an 1.1% average over 2020. This rise of inflation since the second half of 2021 has been mostly driven by increasing energy and commodity prices but with core inflation also picking up to 4.0% YoY in May (highest core inflation rate since 2002). The ECB has maintained exceptionally accommodative monetary policy over recent years but we expect at least 75bps of rate increases (as regards the deposit rate) starting July 2022 to 0.25% by year-end before 1.25% (end-2023) after conclusion of the Asset Purchase Programme by July.
- **Labour markets:** The Dutch labour market has been recovering steadily from the Covid-19 crisis. The unemployment rate declined to 3.2% in April 2022, from a peak rate of 5.5% mid-2020, and is currently under pre-crisis levels (4% Feb-2020). We see Netherlands' unemployment rate averaging 3.2% during 2022 before 3.1% in 2023. However, labour-market rigidities persist, as businesses cite lack of labour supply as core bottleneck affecting production. Furthermore, the share of part-time employment remains high, especially among women. The employment rate was 71% as of end-2021, above euro-area averages (60%).

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

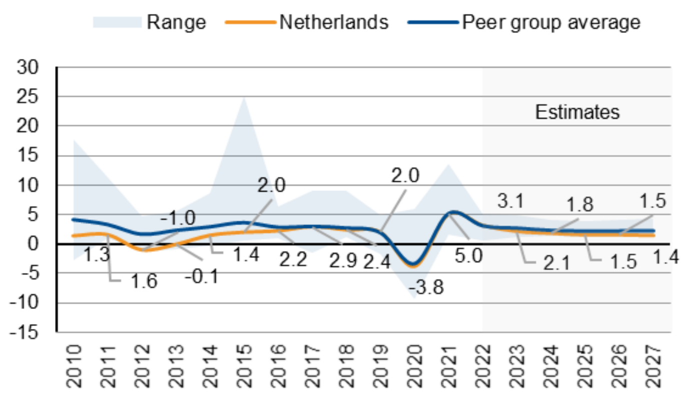
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank, but high inflation tests price stability and curtails monetary space 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 '000s



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

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

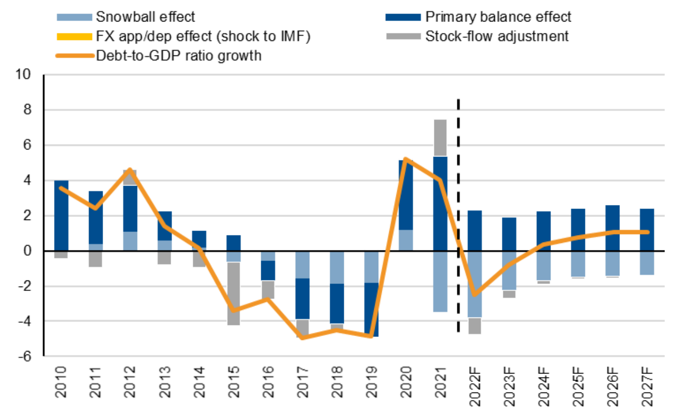
Public Finance Risks

- **Fiscal outlook:** The Netherlands' ratings are anchored by a robust budgetary framework and moderate levels of public debt. Before the Covid-19 crisis, the budget balance averaged surplus of 1.1% of GDP over 2016-2019, resulting in the debt-to-GDP ratio declining to 48.5% by end-2019 (from 69% in Q1 2015). The government response to the Covid-19 crisis brought budget deficits of 3.7% of GDP in 2020 and 2.5% in 2021. In January 2022, the new government programme was estimated to cost circa 2% of GDP annually until 2025, with recently announced measures compensating for high energy prices as well as military expenditure commitments to reach a further 2% of GDP. This adds to previous expansionary policy commitments in support of climate-change mitigation and sustainable energy, housing construction, education and labour-market participation, as well as extension of free childcare, tax breaks for the middle income alongside a 7.5% increase of the minimum wage, representing a significant break from the Netherlands' more austere past as regards fiscal policy. Medium run, continuation of budget deficits is assumed: for a 2.6% of GDP deficit in 2022 before averaging 2.7% over 2023-2026.
- **Debt trajectory:** The general government debt-to-GDP dropped in 2021 to 54.3%, from 56.7% as of a 2020 peak. The debt ratio is expected to edge along a comparatively flat trajectory moving ahead (skewing upward towards the end of the prediction horizon), ending a forecast horizon at 56.7% by 2027, remaining about 9.2pps above Netherlands' debt ratio from immediately before the Covid-19 crisis. However, we consider the Dutch government to retain significant fiscal flexibility.
- **Debt profile and market access:** The Dutch State Treasury Agency benefits from strong market access. The Netherlands' benchmark 10-year yield stood at 1.7% at time of writing, having risen sharply from -0.2% only since late 2021. Dutch state loans carry a long weighted average remaining life of 8.5 years, and the government issues only in euro. Those factors shield risk from increasing borrowing costs to a relevant degree.

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

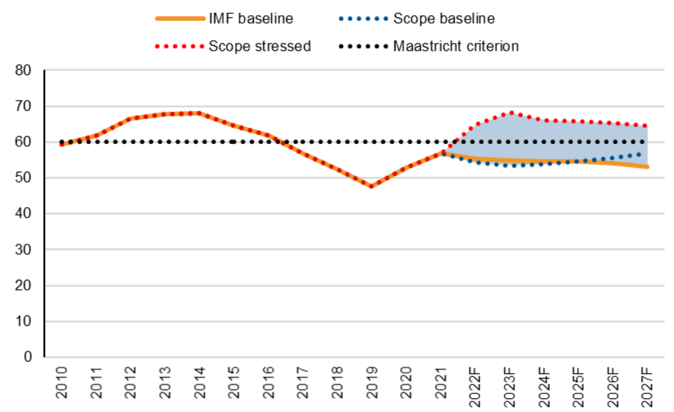
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Neutral	0	Strong national fiscal framework, in line with peers; wider fiscal deficits under new Dutch government
	Debt sustainability	Strong	+1/3	Moderate public-debt ratio including resilience of debt sustainability under adverse economic scenarios
	Debt profile and market access	Neutral	0	Strong government market access, still-moderate government financing costs amid sharp 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

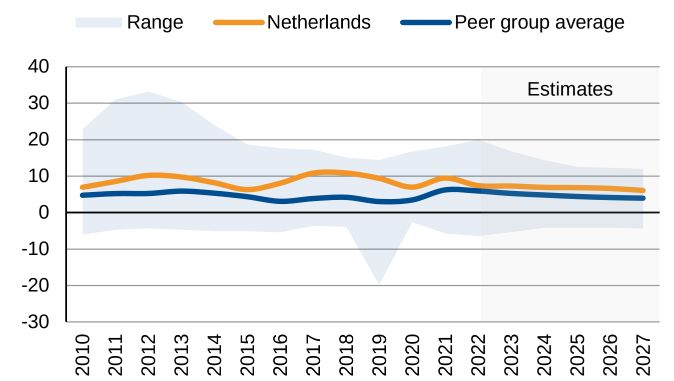
External Economic Risks

- **Current account:** Netherlands' ratings benefit from elevated and recurrent current-account surpluses, averaging 9.1% of GDP over 2015-19 pre-crisis before moderation to 7% of GDP in 2020 as worsening income balances offset improvement of the trade surplus. 2021's current account surplus re-rose to 9.5% of GDP, but in 2022, the trade balance has slightly worsened due to higher energy import prices. Looking ahead, the IMF expects the current-account surplus to moderate, ending a forecast horizon to 2027 at 6.1% of GDP.
- **External position:** External resilience is bolstered by Netherlands' position as significant international external creditor, with a net international investment position of 89.2% of GDP as of Q4 2021 – rising substantively from a 0.8% level in Q2 2010, although easing from peaks of 111.0% of GDP in Q3 2020. Gross external debt, however, is high – of 348.8% of GDP in Q4 2021, having nevertheless decreased substantively over recent years (-158pps since 2015). Most external debt is owed by non-monetary Dutch financial institutions (amounting to 159% of GDP at end-2021), trailed by monetary financial institutions (89%) and nonfinancial corporations (69%). A significant 44% of outstanding external debt is short-term.
- **Resilience to shocks:** Euro-area membership bolsters resilience against short-term shocks. 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 total around 85% of GDP, significantly above the levels of peer economies.

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

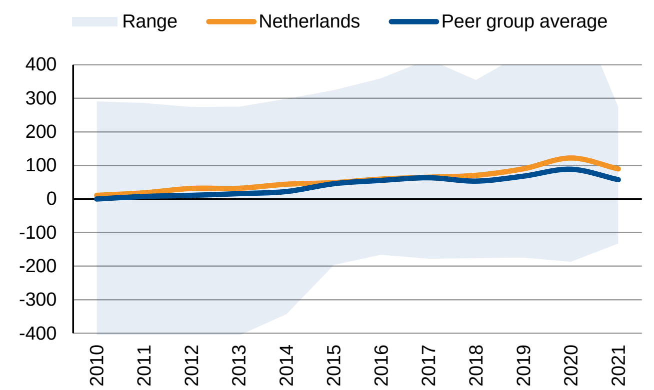
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Neutral	0	Diversified and competitive exporting sector; recurrent and large current-account surpluses also driven by high net savings of multinationals benefitting from favourable tax treatment
	External debt structure	Neutral	0	High 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 shocks	Neutral	0	Highly open economy; benefits from euro-area membership

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings GmbH

Net international investment position, % of GDP



Source: IMF, Scope Ratings GmbH

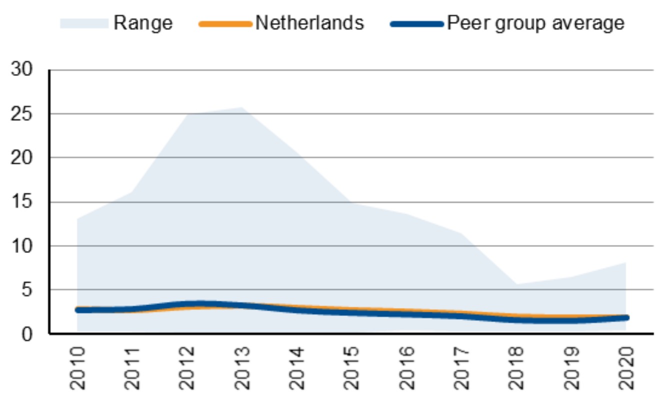
Financial Stability Risks

- **Banking sector:** The soundness of the Dutch banking system is a credit strength. Dutch banks' capital positions have not deteriorated since the pandemic crisis, partly reflected in the non-performing loan (NPL) ratio having moderated slightly to 1.5% of aggregate loans by Q3-2021, from 1.9% as of end-2019. However, economic slowdown and withdrawal of government support might raise default rates and write-downs of bank loans. System-wide tier 1 capital ratios stood at 19.4% of risk-weighted assets as of Q3 2021, above pre-crisis levels. The resilience of the banking system under severe economic scenarios was furthermore demonstrated in July 2021 European Banking Authority stress testing of systemic banks, with Dutch banks displaying impact for common equity tier 1 ratios in line with that of a European average of circa 5.3pps. The Bureau for Economic Policy Analysis states that the exposure of the financial sector to Russia appears limited and could be mitigated by capital cushions.
- **Private debt:** Private-sector indebtedness remains high at around 251% of GDP as of Q3 2021 (Bank for International Settlements data). Vulnerability is especially present with respect to household debt, of 102% of GDP (almost all of this reflective of mortgage loans) – among the highest such ratios of Europe. However, 57% of new mortgages hold a fixed-interest period of more than 10 years and the average period in mid-2021 was nearly 15 years, which represents a doubling compared to in 2013.
- **Financial imbalances:** Housing-market inefficacies, due to underdevelopment of the private rental market, have resulted in households turning to homeownership. At the same time, low financing costs and generous mortgage interest deductibility encourage debt accrual, with elevated loan-to-value ratios for house purchases especially among first-time buyers. Residential prices continued to grow quickly (19.7% YoY in April 2022), and price levels are 96% higher presently compared with those from June 2013. We note positively, however, that the Dutch government is seeking to curtail household debt bias by gradually phasing down a mortgage interest deductibility mechanism. In addition, tightening macro-prudential policies are credit positive, such as a legally binding loan-to-value ratio of 100% in 2018, down from 106% in 2013, with minimum risk weights as relates to mortgages in force since January 2022.

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

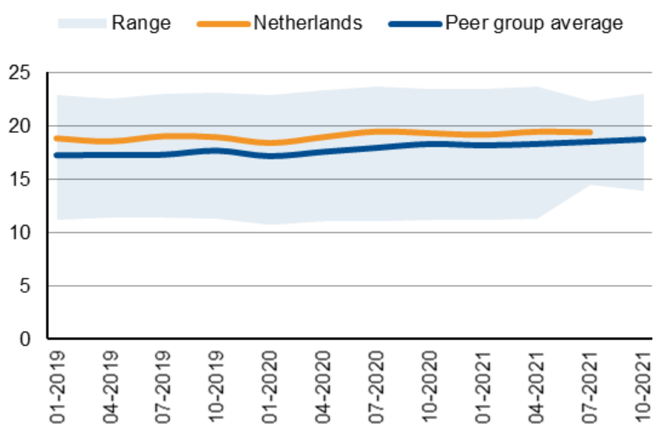
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Adequate capitalisation, comfortable liquidity levels, higher NPLs than peers
	Banking sector oversight	Neutral	0	Effective oversight under De Nederlandsche Bank and the ECB as part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

Non-performing loans, % of total loans



Source: World Bank, Scope Ratings GmbH

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings GmbH

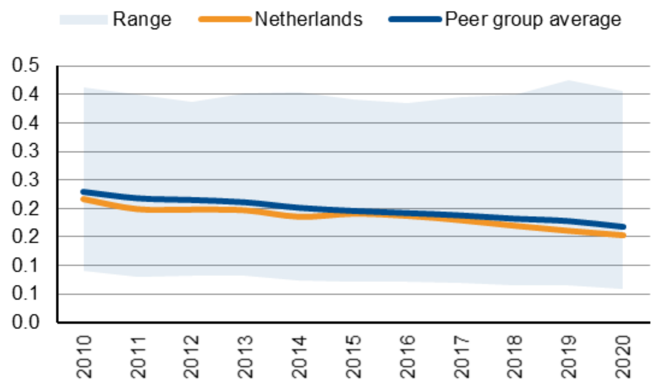
ESG Risks

- **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 of Europe according to the World Risk Report). The Dutch economy is characterised by a relatively higher carbon emissions intensity relative to that of peer economies, and the energy mix demonstrates a lower share of renewables usage compared with peer economies. The government was the last EU country to submit a Recovery and Resilience Plan to the European Commission. The new government intends to significantly raise Netherlands' ambition on green issues, seeking 55% reductions of carbon emissions (compared with 1990 levels) by 2030 and creation of a Climate and Transition Fund of a cumulative 4.3% of annual GDP alongside another investment fund of circa EUR 25bn for nature preservation and limiting nitrogen emissions.
- **Social:** Social risks point to an ageing society, in line with similar risks affecting other highly rated sovereigns. Income inequality is low under an international comparison and broadly comparable with that of the Netherlands' indicative sovereign peer group. In addition, labour-force participation of around 81% of the active labour force (aged 15-64) is above a euro-area average although in line with that of the indicative sovereign peer group. This aside, social outcomes are strong and in line with those of Netherlands' indicative peer group, such as very low risk of poverty (13.4% of the population beneath the national poverty line) and strong educational outcomes. Social challenges associate with persistent labour-market duality with a high share of persons employed part-time. Longer run, an ageing society stresses budgetary outcomes. The new government targets objectives of building affordable new housing, improving healthcare 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 (Senate).

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

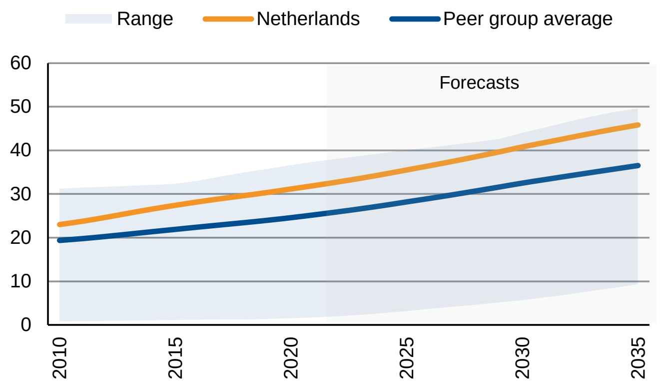
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Environmental risks	Neutral	0	High nitrogen emissions, low share of renewables, high CO_2 emissions per capita, natural disaster risks
	Social risks	Neutral	0	Weak demographics but strong social safety net; risk from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

CO_2 emissions per GDP, $mtCO_2e$



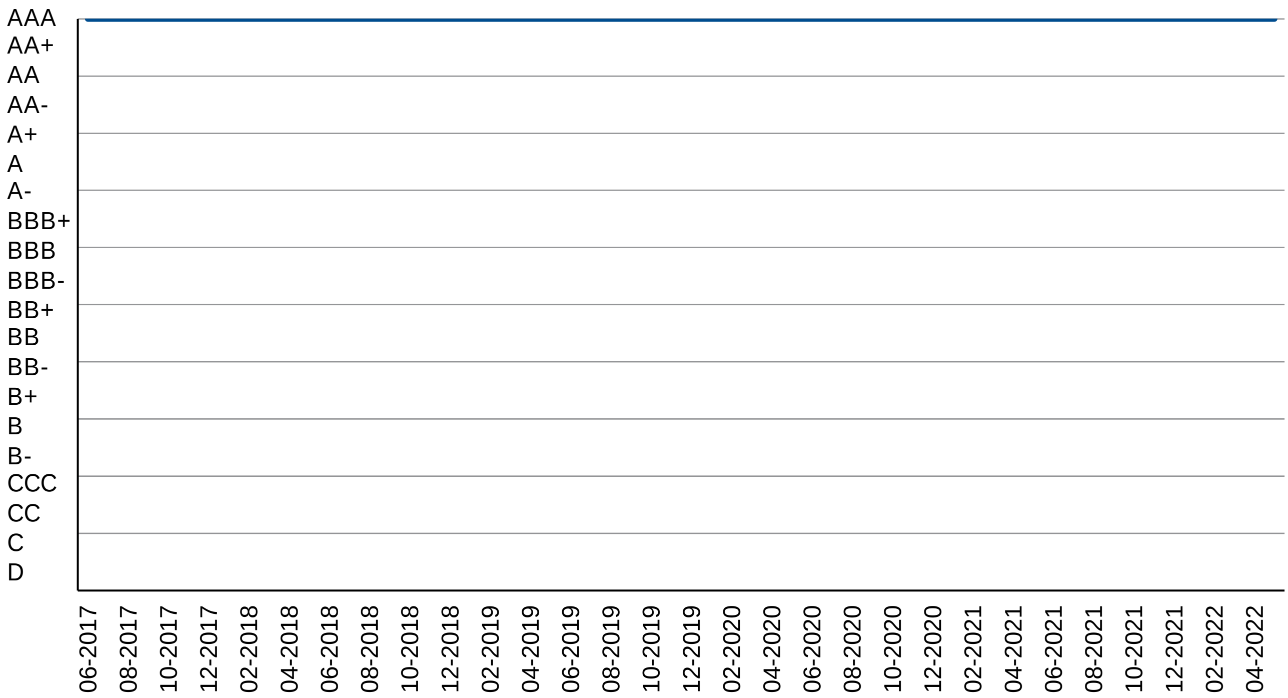
Source: European Commission, Scope Ratings GmbH

Old age dependency ratio, %



Source: United Nations, Scope Ratings GmbH

Appendix I. Rating history



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 embedding a methodological reserve-currency adjustment.

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

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 29 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the Core Variable Scorecard.

	2017	2018	2019	2020	2021	2022F	2023F
Domestic Economic Risk							
GDP per capita, USD '000s	48.8	53.2	52.7	52.5	58.3	57.8	61.0
Nominal GDP, USD bn	833.6	914.5	910.3	913.1	1018.7	1013.6	1072.8
Real growth, %[1]	2.9	2.4	2.0	-3.8	5.0	3.1	2.1
CPI inflation, %	1.3	1.6	2.7	1.1	2.8	5.2	2.3
Unemployment rate, %[1]	5.9	4.9	4.4	4.9	4.2	3.2	3.1
Public Finance Risk							
Public debt, % of GDP[1]	56.9	52.4	47.6	52.8	56.7	54.3	53.5
Interest payment, % of government revenue	2.3	2.0	1.6	1.0	0.6	0.6	0.6
Primary balance, % of GDP[1]	2.3	2.3	3.0	-4.0	-5.4	-2.3	-1.9
External Economic Risk							
Current-account balance, % of GDP	10.8	10.8	9.4	7.0	9.5	7.4	7.3
Total reserves, months of imports	0.5	0.4	0.5	0.7	-	-	-
NIIP, % of GDP	64.9	70.6	90.2	122.4	89.7	-	-
Financial Stability Risk							
NPL ratio, % of total loans	2.3	2.0	1.9	1.9	-	-	-
Tier 1 ratio, % of risk-weighted assets	18.4	18.8	18.9	19.3	19.4	-	-
Credit to private sector, % of GDP	111.1	105.5	99.7	100.9	-	-	-
ESG Risk							
CO_2 per EUR 1,000 of GDP, $mtCO_2e$	178.9	169.4	160.7	153.0	-	-	-
Income quintile share ratio (S80/S20), x	4.3	4.2	4.4	-	-	-	-
Labour-force participation rate, %	79.8	80.3	80.9	-	-	-	-
Old-age dependency ratio, %	29.0	29.7	30.4	31.2	32.0	32.8	33.6
Composite governance indicator[2]	1.7	1.7	1.6	1.6	-	-	-

[1] Forecasted values are produced by Scope
[2] Average of the six World Bank Worldwide Governance Indicators
Source: European Commission, IMF WEO, World Bank, Scope Ratings GmbH

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bps) as of 10 June 2022	12

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