Rating Report

Report Date:
19 August 2016

Previous Report:
26 February 2016

Kingdom of the Netherlands

Analysts

Javier Rouillet
+44 20 7855 6686
jrouillet@dbrs.com

Fergus McCormick
+1 212 806 3211
fmccormick@dbrs.com

Ratings

Issuer	Debt Rated	Rating	Trend
The Netherlands, Kingdom of	Long-Term Foreign Currency – Issuer Rating	AAA	Stable
The Netherlands, Kingdom of	Long-Term Local Currency – Issuer Rating	AAA	Stable
The Netherlands, Kingdom of	Short-Term Foreign Currency – Issuer Rating	R-1 (high)	Stable
The Netherlands, Kingdom of	Short-Term Local Currency – Issuer Rating	R-1 (high)	Stable

Rating Rationale

On 19th August, DBRS Ratings Limited (DBRS) confirmed the Kingdom of the Netherlands' long-term foreign and local currency issuer ratings at AAA and the short-term foreign and local currency issuer ratings at R-1 (high). All ratings have a Stable trend.

The Stable trend reflects DBRS's view that the economy is undergoing a moderate recovery and public finances are on a sustainable path. Public debt-to-GDP is on a downward trend and bank-related government contingent liabilities have steadily declined. The trend on all ratings could be changed to Negative in the event of a severe deterioration in growth prospects or a major deviation in fiscal consolidation that could significantly shift DBRS's baseline assumptions for public finances.

The ratings are underpinned by the country's high GDP per capita, robust fiscal framework, proven track-record for fiscal consolidation, and persistent trade surpluses. Dutch GDP per capita is well above the EU average (+39%), reflecting the country's high employment and productive labour force. The Netherlands' well-established fiscal framework and ongoing budgetary measures have allowed the country to make progress towards improving its public finances. The implementation of the fiscal compact reinforced the country's various fiscal supervision mechanisms. Also, the government has implemented significant fiscal consolidation measures worth 7.1% of GDP between 2011 and 2017. (Continued on page 2)

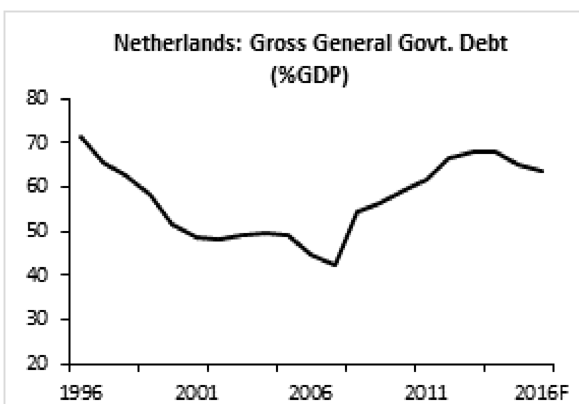
Rating Considerations

Strengths
(1) High GDP per capita
(2) Robust fiscal framework
(3) Fiscal consolidation track-record
(4) Strong trade surplus

Challenges
(1) Exposure to external shocks
(2) Highly leveraged households
(3) Increasing potential growth
(4) Political uncertainty and public policy

Summary Statistics

For the year ended December 31	2014	2015	2016 F	2017F
Nominal GDP (EUR billions)	663.0	676.5	697.6	719.4
GDP per capita (EUR)	39,396	40,030	41,083	42,237
Real GDP (%chg)	1.4%	2.0%	1.7%	1.6%
Unemployment rate (year end, %)	7.4%	6.9%	6.2%	6.2%
Inflation (year end, %)	0.3%	0.2%	0.0%	0.5%
Current account balance (%GDP)	8.8%	8.6%	8.6%	8.2%
External debt (%GDP)	536.3%	546.2%	n.a.	n.a.
General gov't balance (%GDP)	-2.4%	-1.8%	-1.2%	-0.6%
Primary balance (%GDP)	-0.9%	-0.6%	-0.1%	0.4%
Gross Public Debt (%GDP)	68.2%	65.3%	63.5%	62.0%
Human Development Index	0.92	n.a.	n.a.	n.a.



Note: The table incorporates CPB's August 2016 projections.

Rating Rationale (Continued from page 1)

Assuming further asset sales and a cyclical recovery, the fiscal measures have put downward pressure on the gross debt-to-GDP ratio, which according to the Bureau for Economic Policy Analysis (CPB) could shrink to 63.5% this year and 62% in 2017.

The Netherlands' ratings are also supported by the country's strong trade performance, which has helped keep the Dutch current account in surplus since 1981. The current account surplus reached an estimated 8.6% of GDP in 2015. This is also reflected in the Netherlands' strong net creditor position vis-à-vis the rest of the world – the net international asset position amounted to 61% of GDP in 2015. Nonetheless, the large gross and net international investment position exposes the country to valuation risks.

Despite these strengths, the Dutch economy is exposed to several risks. Given the openness and small size of the economy, the country is exposed to external shocks, especially to slowdowns in global trade that could impact the country's export sector. The Netherlands is particularly exposed to UK's potential departure from the EU due to its significant linkages with the UK. In the short-term, heightened uncertainty could erode investor and consumer confidence, which has been crucial for the rebound in investment and consumption in the Netherlands. Also, this uncertainty could affect the country through world trade. Thus, the CPB has revised down its growth forecast for 2017 by 0.5 percentage points to 1.6%, with 0.4 percentage points related to the UK referendum result. The CPB estimates that the country stands to lose 1.2% of GDP (EUR 10 billion) by 2030 if the UK were to revert to the minimum rules set by the WTO, although this is not our baseline scenario. Also, a sharp slowdown in emerging markets, geopolitical turmoil or a re-emergence of the European crisis could pose headwinds to the Dutch recovery.

The country's high level of household debt also poses risks to the economic outlook. While the household debt to disposable income ratio has moderated from 267% in 2Q10 to 250% in 1Q16, it remains high. A prolonged period of household deleveraging could act as a headwind to growth. In addition, the high levels of indebtedness and high loan-to-value ratios (LTVs) leave the household sector's balance sheet exposed to shocks and could dampen domestic demand. Households are more exposed to income and housing-price shocks than interest rate shocks, as they predominantly have fixed-rate mortgages and dwellings make a significant part of their assets. The sizable net wealth of the household sector serves as buffers against potential shocks. Nonetheless, DBRS acknowledges that a material share of household assets are illiquid and net wealth varies significantly across different age cohorts.

Boosting the economy's potential growth rate is another challenge. The Dutch National Bank (DNB) estimates potential growth will rise from 1.2% per annum in 2014-2017 to 1.4% in 2018-2021, well below the 2.6% rate from 1998-2005. The moderation relative to pre-crisis levels is caused both by the smaller labour contribution to potential employment and labour productivity. Although labour productivity is very high, it has been relatively stagnant since the financial crisis. Labour hoarding partially explained this phenomenon between 2009 and 2011. The increasing segmentation in the labour market, with higher long-term unemployment, increasing share of flexible forms of employment and lower transitional rates, could negatively affect labour productivity trends if not addressed in timely manner.

Finally, DBRS believes that the fragmented Dutch political landscape and the rise of the euro-skeptic Freedom Party (PVV) could increase public policy uncertainty. General elections will take place no later than 15 March 2017. The rise of the PVV and its intention to hold a referendum on the Netherland's EU membership and its contentious social and economic policy proposals are main sources of concern. Increased uncertainty over public policy could negatively affect business and consumer confidence, undermining the ongoing Dutch economic recovery. However, the current legislation precludes a nationwide vote on existing EU membership, only allowing non-binding referendums on new legislation and treaties. Given the PVV's divisive policy stances, it may be a challenge to form a coalition government after the parliamentary elections.

Foreign Versus Local Currency Ratings

DBRS maintains its foreign and local currency ratings at the same level because the Netherlands' access to external capital markets is commensurate with its access to domestic markets. The Dutch government issues predominantly in euros, with redemptions in foreign currencies worth EUR3.3 billion between 2016 and 2030, as of the end of December 2015.

The Netherlands

Report Date:
19 August 2016

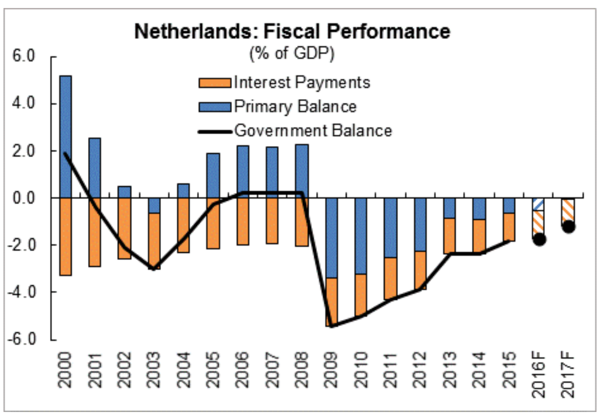
Fiscal Management and Policy

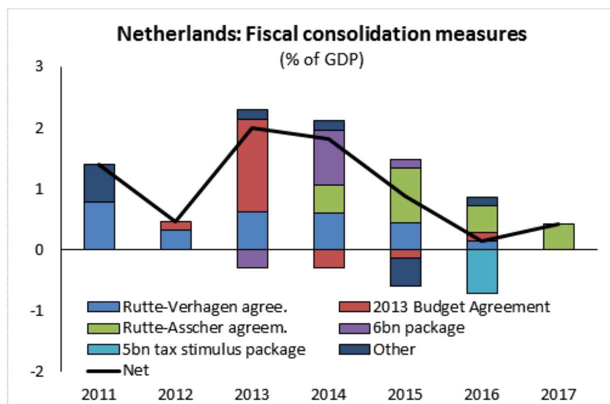
The fiscal accounts have improved markedly since 2012 on the back of significant consolidation measures, lower interest costs and, more recently, strengthening economic growth. The Netherlands benefits from a well-established fiscal framework, which has allowed the country to make progress towards its fiscal targets. With the implementation of the fiscal compact, the Netherlands Bureau for Economic Policy Analysis (CPB) has the role of independent economic forecaster, while the Council of State (Raad van State) serves as the fiscal council (based on CPB analysis), reinforcing the checks and balances present in the country's various fiscal supervision mechanisms.

As a result of the 2008 financial crisis and the subsequent euro area crisis, the Netherlands ran deficits averaging 4.9% of GDP over the 2009-2011 period. However, the government has implemented 7.1% of GDP in fiscal consolidation measures between 2011 and 2017. These measures reduced the deficit to an average of 2.2% from 2013 to 2015, and enabled the country to exit the EU's Excessive Deficit Procedure (EDP) in 2014.

The government is slowing the pace of consolidation in order to spur growth and improve the functioning of the labour market by reducing the labour and income tax. The introduction of a EUR 5 billion (0.7% of GDP) tax-stimulus package will roughly compensate for the additional austerity efforts already stipulated for the year. Nonetheless, a broader reform of the taxation and pension system could help to better align labour, saving and investment incentives, and address some of the underlying structural imbalances of the economy. There is scope to improve efficiency in some areas like: 1) high labour burden (tax and pension), 2) incentives for debt-financed home ownership, and 3) inter-generational fairness in the second pillar of the pension system. However, the political fragmentation makes the introduction of reforms more cumbersome.

The general government deficit is projected to narrow further from 1.8% of GDP in 2015 to 1.2% in 2016 and 0.6% in 2017. The cyclical recovery is boosting tax revenues while employment growth is lowering expenditures on unemployment benefits, while lower interest rates on outstanding debt lightens interest payments. On the other hand, the cost associated with the increase in refugees entering the country (0.1% of GDP both in 2016 and 2017) and the lower income from natural gas (0.3% of GDP) will pressure the budgetary accounts. While the headline deficit is on a downward trend, the structural deficit is projected to worsen from 1% of GDP in 2015 to 1.6% and 1.2% in 2017, largely as a result of lower natural gas revenues and planned tax cuts.





Source: Haver Analytics, CPB Netherlands Bureau of Economic Policy Analysis and European Commission.

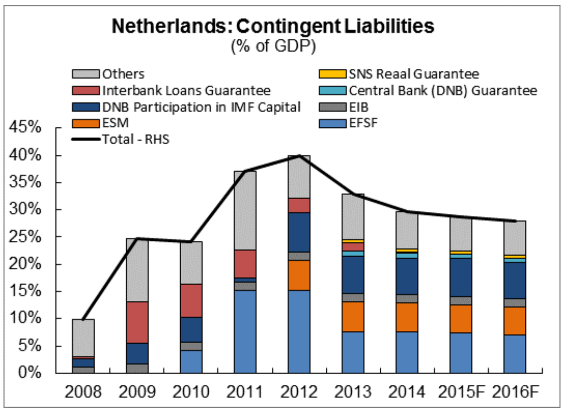
The Netherlands has significantly improved long-term fiscal sustainability by mitigating ageing-related pressures on public finances through changes to the minimum retirement age and to pension entitlements as well as restraining cost surges in the healthcare sector. As a result of these and other measures aimed at containing the costs of ageing, the long term sustainability of the government finances have improved significantly after the crisis.

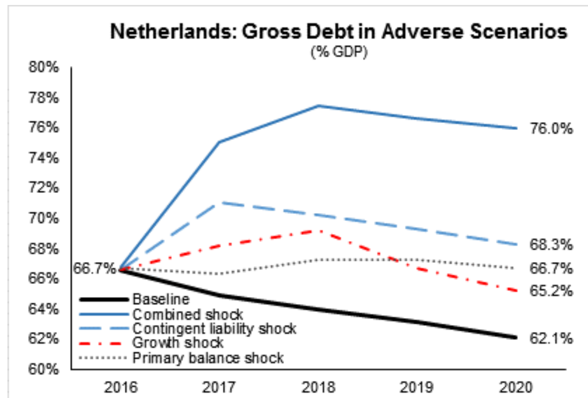
Debt and Liquidity

The general government debt to GDP ratio remains high compared to other AAA rated countries, although it is projected to trend downwards in the coming years. The debt ratio surged 26 percentage points between 2008-2014 in the aftermaths of the financial crisis, mostly explained by the government interventions in the financial sector, contributions to the euro area sovereign rescue packages, and the effect of automatic stabilisers on the deficit.

The debt to GDP peaked at 67.9% in 2014 and has gradually declined due to the debt-stabilising fiscal consolidation measures and the economic recovery. In addition, debt dynamics have benefitted from favourable funding conditions and asset sales. As of the end of July, 10-year government bond yields were slightly negative after averaging 4.1% over the 2002-2008 period. This has helped to reduce annual interest costs from 2% of GDP in 2008 to 1.3% in 2015, despite the significant increase in outstanding debt over the period. Also, proceeds from the sale of the first tranche of ABN AMRO shares (EUR 3.8 billion or 0.6% of GDP) in November 2015 lowered Treasury financing needs, although it did not affect the EMU-deficit figure.

In 2015, the debt to GDP ratio finished at 65.1%, well below the projected 68.8% included in the April 2015 Stability Programme. This divergence was explained by GDP growth outperformance (denominator effect), the sale of ABN AMRO shares, and the better fiscal results at the subnational level. The debt ratio could shrink to 63.5% this year and 62% the next, according to the CPB. These figures take into account the proceeds from further additional sales of ABN AMRO shares and insurer ASR estimated just over 0.5% per annum until 2019.





Source: Eurostat, DNB, Dutch Finance Ministry, IMF and Haver Analytics. Note: For the purposes of the Debt Sustainability Analysis, we used as our starting point the baseline projections from the IMF World Economic Outlook April 2016.

The risks stemming from the government's guarantees have decreased since 2013. Outstanding guarantees are expected to fall from EUR 214 billion (33.3% of GDP) in 2013 to EUR 196 (28.9% of GDP) in 2015. Aside from these guarantees, the government's indirect guarantees amounted to EUR 280 billion in 2015 (41.3% of GDP), although the risk to the sovereign is considerably lower than the direct ones. Contingent liabilities associated with the country's housing market (indirect guarantees) remain substantial with the National Mortgage Guarantee (NHG) scheme amounting to around 27% of GDP in 2014.

Given the uncertainty clouding the European economic outlook, and the very open nature of the Dutch economy, DBRS examines a number of alternative scenarios for the evolution of Dutch government debt. Even under adverse scenarios, debt dynamics appear to be sustainable. In a fiscal shocks scenario (0.9pp extra fiscal slippage on average) or a growth shock scenario (0.6pp on average lower), debt-to-GDP would still be below its current level, reaching 67% and 65% respectively by 2020. To reflect risks associated contingent liabilities, DBRS applied a shock equal to 6% of GDP in 2017. In this scenario, debt ratio peaks in 2017 and resumes its downward trend to finish at 68% in 2020. In a combined shock scenario, debt to GDP would rise to around 76% of GDP.

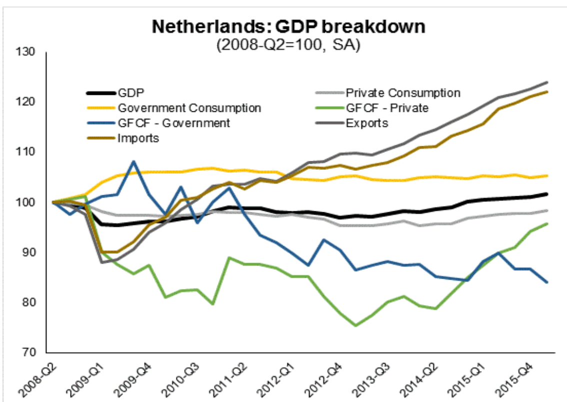
Finally, the country's status as a core Euro area sovereign issuer, with deep capital markets and its healthy maturity profile, supports the ratings. In addition, the government's participation in public and private corporations estimated at 11% of GDP in 2015 also provides some reassurance as to the net debt position of the State.

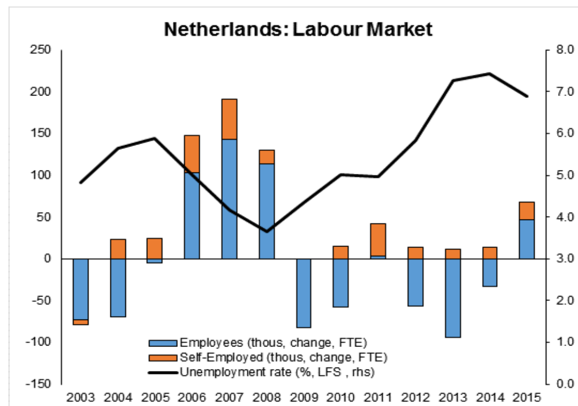
Economic Structure and Performance

The Netherlands is a wealthy, diversified and highly open economy. Dutch GDP per capita is well above the EU average (+39%), reflecting the country's high employment and productive labour force. The high degree of openness of the economy, exposes the Dutch private sector to significant competitiveness pressures, promoting efficiency and innovation at the firm level.

Following a period of protracted weakness, including a double-dip recession, the Dutch economy started to expand in 2013. Although real GDP is currently above its pre-crisis peak and the output gap is closing, the economy remains below potential. Encouragingly, the recovery has been broad-based, with a marked pick-up in private sector investment after the collapse experienced between 2008 and 2013 (close to -25%). Both business investment (+7.9%) and housing investment (+27%) staged an impressive expansion in 2015, partially benefitting from one-off fiscal incentives and reinforcing a positive feedback loop between the improvement in economic activity, the housing market and confidence levels. Increases in real wages and employment, as well as wealth effects stemming from higher house prices, bolstered private consumption. It grew 1.5% in 2015 after averaging -0.9% over the previous six years.

The rebound in activity jump-started net employment creation after falling for three consecutive years. In 2015, the number of employed persons increased 0.8% and the unemployment rate dropped to 6.9%. However, the latter is still high compared to the 2008 level (3.7%) and long-term unemployment has been increasing, underscoring remaining slack in the labour market. Moreover, the nature of employment creation has shifted to more flexible forms of employment (transitory and self-employed), with number of employees in permanent contracts contracting since 2014-Q1. While the high degree of self-employed individuals (17.1% of total employment in 2017) potentially increases the responsiveness of the economy, the low transitional rates from transitory to permanent positions raises concerns over labour market segmentation problems.





Source: Haver Analytics, CBS Statistics Netherlands (FTE and LFS).

DBRS expects the Dutch economy to continue recovering in the following years. GDP is projected to expand by 1.7% in 2016, moderating from the pace relative to the previous year despite the positive impact of the tax-stimulus package on consumption. This is mostly due to exceptional circumstances such as the cap in natural gas production, mild weather conditions (dragging down energy consumption), and the absence of the one-off tax-incentives to private investment in 2016.

Given the open nature of the Dutch economy, the main downside risk to the economy stems from the external environment. Due to its significant linkages with the UK, the Netherlands is particularly exposed to UK's potential departure from the EU. The UK represents 9.3% of total exports and 5.1% of total in imports in 2015, equivalent to 7.8% and 3.8% of GDP respectively. In the short-term, the uncertainty surrounding the UK vote to leave the EU has the potential to erode investor and consumer confidence, which has been crucial for the rebound in investment and consumption in the Netherlands. Also, this uncertainty could affect the country through world trade. Thus, the CPB has revised down its growth forecast for 2017 by 0.5 percentage points to 1.6%, with 0.4 percentage points related to the UK referendum result. In the longer-term, bilateral trade would be hurt if trade costs increase, and demand for Dutch exports would suffer from potentially lower UK growth. Sterling depreciation vis-à-vis the euro could compound these effects by making Dutch exports less competitive. The CPB estimates that the country stands to lose 1.2% of GDP (EUR 10 billion) by 2030 if the UK were to revert to the minimum rules set by the WTO, although this is not our baseline scenario. Under the additional assumption that innovation is trade-induced, the cost would rise to 2% of GDP. Also, a sharp slowdown in emerging markets, geopolitical turmoil or a re-emergence of the European crisis could pose headwinds to the Dutch recovery.

Finally, potential growth is expected to be moderate over the next few years, according to the DNB. Potential growth is estimated to rise from 1.2% per annum in 2014-2017 to 1.4% in 2018-2021, well below the 2.6% rate from 1998-

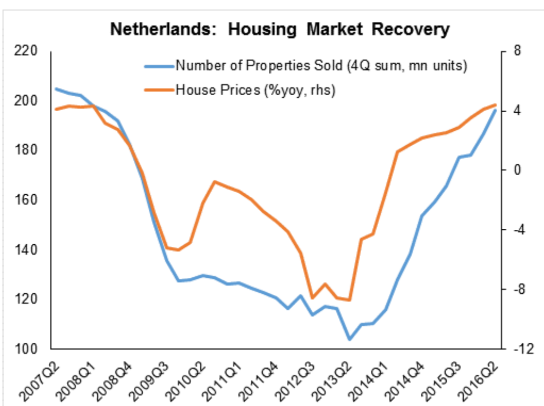
2005. The moderation relative to pre-crisis levels is caused both by the smaller contribution from potential employment (mostly labour supply driven) and structural labour productivity. Labour productivity has been roughly stagnant since the financial crisis, underscoring the need for further structural reforms.

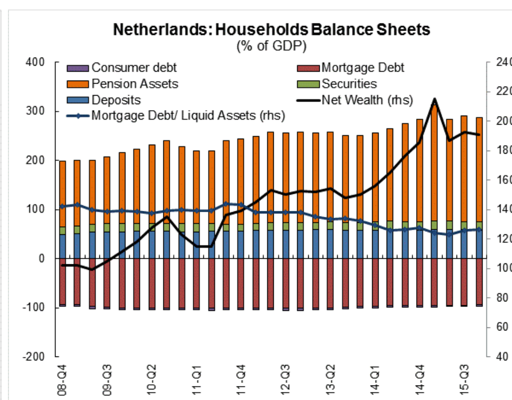
Monetary Policy and Financial Stability

The Dutch banking sector is large relative to the economy, while it also exhibits a high degree of concentration and reliance on external funding. The high level of mortgage debt and high loan-to-value ratios (LTVs) could amplify shocks to the housing market. However, financial fragilities have abated in recent years, as the government has taken further actions to restrict home financing, and DBRS assesses financial stability risks as contained. The credit fundamentals of the Dutch banks have also strengthened, thereby reducing the potential for the sector to adversely impact the government's balance sheet. Moreover, important institutional reforms at the national and euro area level have the potential to avert the build-up of such liabilities and imbalances in the future.

The systemic risks associated with the large size (382% of GDP in 2016-Q1) and concentration (five largest banks account for 85% of the total assets) of the Dutch banking sector, are limited by the higher systemic buffers from a European perspective. Moreover, the loss absorbing capacity of the sector has improved significantly in recent years, with regulatory tier 1 capital to risk-weighted assets increasing from 9.3% in 2008-Q1 to 16.1% in 2016-Q1. Simultaneously, the regulatory tier 1 capital-to-assets ratio increased to 4.8% from 3.1%, reflecting the deleveraging process that has taken place.

As a result of high levels of household debt (250% of disposable income in 2016-Q1), mostly in the form of mortgages, and high loan-to-value ratios (LTVs), the Dutch household and banking sector balance sheets are exposed to fluctuations in house prices. However, a tighter regulatory framework and a more conservative approach adopted by households and banks following the financial crisis has led to lower household indebtedness levels and LTVs. The measures introduced by the government have helped to (i) reduce financial risks - although they remain present – and (ii) partially reverse the tax incentives to debt financing. The maximum LTV on new mortgages is being gradually reduced from 106% in 2013 to 100% by 2018, and the Financial Stability Committee has proposed to reduce it even further to 90% by 2028. In addition, in order to reduce incentives to debt financing, mortgage interest payments can now only be tax deductible for fully amortising loans.





Source: Haver Analytics, Dutch Central Bank, CBS Statistics Netherlands and DBRS.

Positively, the recovery in the housing market has alleviated the risks associated with the mortgage portfolio. Low mortgage rates, higher disposable income, increased consumer confidence and temporary tax incentives (e.g., the gift tax exemption ending in late 2014) seem to have offset stricter credit conditions. Since the start of 2013, both the number of properties sold and house prices have improved significantly, albeit from a weak starting point.

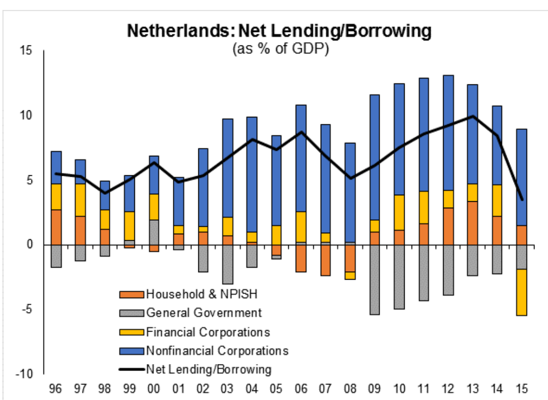
In line with the economic and housing market recovery, the asset quality of the banking sector has gradually improved. The ratio of non-performing loans (NPLs) to gross loans has stabilised after the increase following the financial crisis and more recently dropped to 2.6% in 2016-Q1. The rebound in the housing market is also reflected in the decline in the percentage of underwater mortgage loans (i.e. the balance of the mortgage surpasses the fair market value of the property) from 36.1% in 2013-Q1 to 25.6% in 2015-Q4. Over the medium term, the increase in the number of households facing negative equity is expected to ease further. DBRS also notes, that despite the large number of mortgage borrowers in negative equity, the impact on NPLs has been relatively muted.

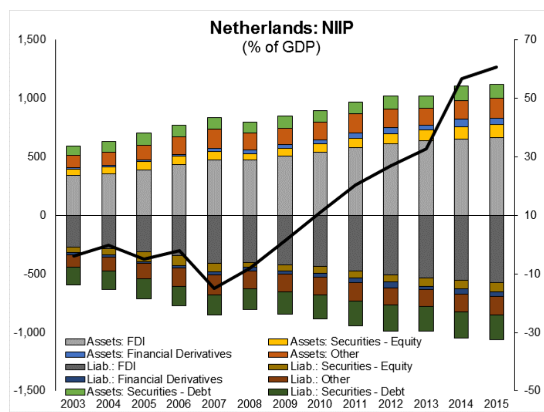
Notwithstanding the material improvements in the banking sector, fragilities remain. Banks' profitability has fallen sharply since pre-crisis, partly reflecting the lower interest rate environment, fewer high-risk activities and higher capital buffers. Dutch banks, which are still the predominant providers of mortgage lending, often resort to foreign wholesale funding to plug the gap between loans and deposits. The potential mismatch in the maturities of their lending and borrowing portfolios can therefore leave them exposed to sudden changes in market conditions. DBRS does, however, note that the use of wholesale funding has decreased in recent years, as reflected in the decrease in the loan-to-deposit ratio, from a peak of 195% at end-2008, to 154% at end-March 2016. The volume of short-term funding – with a term of less than one year – has also dropped from the pre-crisis levels to around 30% of total market funding raised, further reducing banks' vulnerability.

Balance of Payments

The Netherlands has posted persistent current account surpluses since 1981. The Netherlands forms part of the core Euro area countries that exhibit a strong net creditor position vis-à-vis the rest of the world. The current account surpluses are partly explained by structural factors like the country's energy resources, goods re-export, and international flows associated to multinational companies. Notwithstanding the benefits to the Netherlands of a large trade surplus, large current account imbalances across the euro area may be destabilizing for the monetary union, and therefore to the Netherlands.

From a trade standpoint, the current account surplus has been largely explained by the goods trade balance, which has averaged 10.2% of GDP between 2004 and 2015, mostly driven by net exports of food and chemical products. Admittedly, a sizable portion of the current account surplus is explained by the Netherland's role as a major European trade hub. A recent study estimated that the value added net impact of re-exports (54.9% of total exports in 2016-Q1) is approximately 10% of the total value of the re-exports, therefore potentially accounting for around a quarter of the current account surplus.





Source: Dutch Central Bank, OECD, CBS Statistics Netherlands, Haver Analytics and DBRS.

With respect to the financial flows, the country's savings pattern for over three decades has been driven chiefly by the household and non-financial corporate sector (NFC). During the 1980s, household savings averaged just under 6% of GDP and largely explained the country's net lending. However, after the second half of the 1990s the corporate sector became the main source of net savings, with net lending averaging 7.4% of GDP since 2000. The pension assets held by the households are considerably large compared to the size of the economy, and therefore, have been broadly invested oversees. Also, the large number of multinational companies, which comparatively have retained significant earnings abroad, has played a role in explaining the significant savings from the corporate sector.

The net international investment position (NIIP) has significantly improved since the financial crisis, with the Dutch NIIP increasing to 61% of GDP in 2015 from -15% of GDP in 2007. Nonetheless, the large gross and net international investment position exposes the country to valuation risks. The sizable stock of foreign assets is vulnerable to losses stemming from fluctuations in asset prices and/or exchange rate risk. Even though both the stock of asset and liabilities should in principle be similarly affected by valuation shocks, studies show a negative bias for countries with persistent current accounts such as the Netherlands. Moreover, compared to the liability side, the asset side is more concentrated in equities and FDI (more vulnerable to valuation shocks) rather than debt. The sheer magnitude of the country's gross external assets underscores the potentially negative impact to overall wealth if valuation losses were to occur.

Dutch external debt is high and has been rising over time. It reached 546% of GDP in 2015 up from the 366% in 2003. The banking sector has relied on the foreign wholesale market to bridge the gap between domestic deposits and lending. Borrowing from abroad by the country's financial institutions remains elevated at 164% of GDP in 2015. Although this exposes the country to sudden swings in market sentiment, the elevated external debt reflects to a large extent the role of the Netherlands as financial and trade hub as well as underlying structural factors affecting saving and investment decisions. Intercompany debt reached 180% of GDP in 2015 driven by country's many multinationals. In particular, the usage by foreign multinationals of special financial institutions (SFIs), which generally do not carry any operating business in the country and are set up for financial optimization globally at the group level, accounted for approximately 44% of the total external debt. Despite the sizeable external liabilities, the country's safe haven status and its large foreign assets moderate the potential impact of external turbulence.

Political Environment

Last election:	September 12, 2012
Next election:	March 2017
Coalition in power:	Centre-right Liberal Party (VVD) and Centre-left Labour Party (PvdA)
Government Structure:	Parliamentary democracy
Prime Minister:	Mark Rutte

The Netherlands' electoral system follows the Proportional Representation model. Traditionally, the country's three dominant parties have been: (i) the centre-left social-democrats, Labour Party (PvdA); (ii) the centre-right liberals, the People's Party for Freedom and Democracy (VVD); and (iii) the centrist Christian Democrat Appeal Party (CDA). However, the last decade has seen the ascension of Geert Wilders' Party for Freedom (PVV), which currently is leading the opinion polls. Moreover, in more recent years, the revival in support for the more left-leaning Democrats 66 (D66) party, established in the 1960s, and the commensurate decline in support for the PvDA, have been a key feature of the Dutch political landscape.

Public support for the centrist "grand coalition" government – composed of the VVD and the PvdA – has waned since the snap elections in 2012. The results of the Senate elections held in May 2015 weakened the political position of the ruling coalition. DBRS expects the greater political fragmentation in the Senate to increase uncertainty and could reduce the coalition's ability to implement policy reforms going forward. However, the majority of the fiscal consolidation measures have been already implemented.

The next general elections will take place no later than 15 March 2017. Splintered politics and declining public support for the incumbent coalition could lead to early elections, yet the proximity to the end of the current term makes it less likely. If political fragmentation were to continue, this could make the formation of a new coalition more complex and unstable, and policy making to become more difficult. The latter could potentially hinder policy responsiveness to upcoming challenges. DBRS believes that the fragmented Dutch political landscape and the rise of the euro-skeptic PVV could increase public policy uncertainty ahead of the next general elections that will take place no later than 15 March 2017. Mr. Wilders proposed: 1) leaving the EU, EMU and ESM; 2) withdrawing from the Schengen agreement; 3) stopping immigration from Muslim countries. Increased uncertainty over public policy could negatively affect business and consumer confidence, undermining the ongoing Dutch economic recovery.

The UK's vote to leave the EU opens a period of renewed political uncertainty in the continent and raises concerns over the cohesiveness of the EU member states. In relation to this, the rise of the euro-skeptic Freedom Party, most likely profiting from the migration crisis, is a source of concern. According to the latest opinion polls, the PVV is ahead in the polls. The PVV has increased its support base substantially in the last year on a platform that combines anti-austerity, euro-skepticism and anti-immigration policies. In an attempt to capitalise on the UK's vote, Mr. Wilders has called for a similar referendum on the Netherland's EU membership. However, the current legislation precludes a nationwide vote on existing EU membership, only allowing non-binding referendums on new legislation and treaties. Given the PVV's divisive policy stances, it may be a challenge to form a coalition government after the parliamentary elections.

The Netherlands

Report Date:
19 August 2016

Netherlands: Selected Indicators

For the year ended December 31 (EUR billions unless otherwise noted)	2010	2011	2012	2013	2014	2015
Public Sector Debt						
General Government Gross Debt	372.6	396.4	428.6	442.2	452.1	441.7
% GDP	59.0%	61.7%	66.4%	67.7%	68.2%	65.3%
General Government Net Debt	357.6	381.5	413.1	430.3	441.2	432.0
% GDP	56.6%	59.3%	64.0%	65.9%	66.5%	63.9%
Domestic Debt						
General Government	144.2	165.8	188.8	191.5	179.9	197.9
% GDP	22.8%	25.8%	29.3%	29.3%	27.1%	29.2%
External Debt						
General Government	228.4	230.6	239.8	250.7	272.2	243.8
% GDP	36.2%	35.9%	37.2%	38.4%	41.1%	36.0%
Private Sector	2,924	3,067	3,112	3,102	3,284	3,451
% GDP	463.0%	477.0%	482.4%	475.2%	495.3%	510.2%
Gross External	3,152	3,297	3,352	3,353	3,556	3,695
% GDP	499.2%	512.8%	519.5%	513.6%	536.3%	546.2%
Private Sector Debt						
Households	820.2	825.3	829.1	819.0	827.5	838.0
% GDP	130%	128%	129%	125%	125%	124%
Non-Financial Firms	789.9	815.7	807.8	810.3	828.7	840.9
%GDP	125%	127%	125%	123%	128%	124%
Fiscal Balances (% GDP)						
Revenues	43.2%	42.7%	43.2%	43.9%	43.9%	43.2%
Expenditures	48.2%	47.0%	47.1%	46.3%	46.2%	45.0%
Interest Payments	1.8%	1.8%	1.6%	1.5%	1.4%	1.2%
General Government Balance	-5.0%	-4.3%	-3.9%	-2.4%	-2.3%	-1.7%
Interest Payments (% Revenues)	4.1%	4.1%	3.8%	3.5%	3.3%	2.8%
Primary Balance	-3.2%	-2.5%	-2.2%	-0.9%	-0.9%	-0.5%
Balance of Payments & Liquidity						
Current Account Balance	44.5	55.9	66.7	64.1	58.6	58.0
% GDP	7.0%	8.7%	10.3%	9.8%	8.8%	8.6%
Trade Balance (% GDP)	9.5%	10.1%	11.0%	11.5%	11.5%	11.3%
Foreign Direct Investment (% GDP)	8.9%	4.3%	0.6%	5.5%	-3.5%	-1.7%
International Investment Position	70.5	130.9	174.3	214.1	376.4	411.4
% GDP	11.2%	20.4%	27.0%	32.8%	56.8%	60.8%
External Assets	5,665	6,211	6,565	6,678	7,317	7,583
External Liabilities	5,594	6,081	6,391	6,464	6,941	7,172

Notes: General government net debt includes currency and deposits of the general government; private sector debt includes loans and securities other than shares of households & non-profit institutions serving households and non-financial corporations. Source: Government of the Netherlands, De Nederlandsche Bank, CBS Statistics Netherlands, Eurostat, ECB, IMF, EC, Haver Analytics, DBRS.

The Netherlands

Report Date:
19 August 2016

Ratings History

Issuer	Debt Rated	Current	2015	2014	2013
The Netherlands, Kingdom of	Long-Term Foreign Currency – Issuer Rating	AAA	AAA	AAA	AAA
The Netherlands, Kingdom of	Long-Term Local Currency – Issuer Rating	AAA	AAA	AAA	AAA
The Netherlands, Kingdom of	Short-Term Foreign Currency – Issuer Rating	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)
The Netherlands, Kingdom of	Short-Term Local Currency – Issuer Rating	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)

Notes:
All figures are in EUR unless otherwise noted.