

# CareEdge Global assigns Long Term Foreign Currency Rating of AAA (Unsolicited) to Kingdom of the Netherlands

## Credit Profile

The Netherlands represents a large, high-income, and competitive economy. Its credit profile benefits from its strong economic structure, robust external position and linkages, good governance quality, as well as a stable monetary and financial system. Additionally, it has a sound fiscal position supported by low levels of government debt and strong debt affordability.

## Strengths

- Large, high-income and competitive economy
- Low general government debt and strong debt affordability
- Robust external position supported by persistent current account surpluses and positive net international investment position (NIIP)

## Weaknesses

- High external debt though arising from its status as a financial centre
- Vulnerabilities stemming from higher trade exposure to the European Union

## Key Monitorables

- Banking sector performance owing to elevated household and corporate debt
- Impact of the ageing population on economic growth potential
- Implications of recent change in political leadership on the policy continuity

## Key Rating Drivers

### Economic Structure & Resilience

The Netherlands represents a large economy with a nominal GDP of USD 1.1 trillion (2023) and a high-income economy with a per capita GDP of USD 59214 (2023) in constant purchasing power parity (PPP) terms, fourth highest among the EU economies. Further, its economy is highly competitive, ranking fourth in the World Economic Forum's Global Competitiveness Index (last published in 2019).

The economy grew only marginally by 0.1% in 2023. However, the economic scenario is expected to improve gradually with real GDP growth projected to rise to 0.6% and 1.3% in 2024 and 2025, respectively. The recovery is expected to be supported by the improving purchasing power of the households and a recovery in external demand. Furthermore, public investment and reforms are expected to aid economic growth in the coming years.

The Netherlands has a relatively large trade exposure with the EU region contributing to 66% of its total exports, higher compared to other large European economies. This increases the risks from slowdown in

key trading partners. Going ahead, the labor market tightness and impact of ageing population on potential economic growth remain the key monitorables for the economy.

### **Fiscal Strength**

The Netherlands' fiscal position is characterized by low level of general government debt. The general government debt was at 47.2% of GDP in 2023, moderating from the pandemic peak of 54.7% in 2020. It is projected to remain around 50% of GDP over the next five years. Furthermore, the Netherlands' interest payments as a percentage of revenue remains low signaling strong debt affordability.

The overall deficit of the general government was recorded at a better-than-expected 1.1% of GDP in 2023 despite measures to mitigate the burden of high energy prices. This can be attributed to lower spending requirements on energy support measures, improving revenue collections, and lower investment spending. However, the overall deficit is projected to increase to 2% of GDP in 2024 on account of public investment, social transfers and defense. Further, it is projected to average ~2.6% over the next five years. Going ahead, the spending on account of old age pensions, health care and defense is expected to increase in the medium term.

Furthermore, there are large potential contingent liabilities of government-controlled entities primarily arising from the financial sector. The liabilities of government-controlled entities (classified outside general government) amounted to 93.5% of GDP (2022), of which liabilities of entities involved in financial activities was at 77.3% of GDP. This is the second highest amongst EU economies after Greece.

### **External Position & Linkages**

The Netherlands has a track record of large current account surpluses, with main contribution coming from surplus in goods trade. The current account surplus is projected to remain strong, averaging 8.8% of GDP over the next five years. While the Netherlands has low coverage of foreign exchange reserves, in terms of months of imports, its current account surplus position as well as the Euro's reserve currency status are the offsetting factors against this risk.

The Netherlands' external position is characterized by high external debt at 346.2% of GDP (2023). Despite this, the Netherlands' external assessment benefits from its strongly positive NIIP at 55.9% of GDP as of 2023. The Netherlands' assessment of the external pillar also factors in its status as a financial center and a multinational hub.

### **Monetary & Financial Stability**

The Netherlands is a part of the European Economic and Monetary Union and has the Euro as its official currency. It follows a free-floating exchange rate regime. Euro's status as a global reserve currency also benefits the Netherlands' monetary assessment.

On the price front, the harmonized index of consumer prices inflation eased to 4.1% in 2023 from 11.6% in 2022. However, it stayed above the Central Bank's 2% target. Going ahead, it is projected to moderate further, returning close to the target by 2025.

The assessment also benefits from a relatively lower proportion of non-performing loans to gross loans of the banking sector at 1.6% as of Q2 2024. Furthermore, the banking sector is well-capitalized. However, high exposure to the real estate sector, coupled with elevated debt levels of households and corporates pose risks to the banking sector.

### **Institutions & Quality of Governance**

The Netherlands' strong performance in aspects of voice and accountability, government effectiveness, regulatory quality, rule of law, and control of corruption on the World Bank's Worldwide Governance Indicators supports its assessment of this pillar.

Snap elections were conducted in the Netherlands in 2023 after disagreements over the environment legislation and immigration policy. The fragmented election outcomes resulted in a prolonged delay in new government formation. Recently, the country has sworn a far-right government ending the 13-year tenure of the previous Prime Minister. Thus, the implications of this leadership change on the policy continuity remain a key monitorable going ahead.

Netherlands – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
<b>Economic Indicators</b>									
Nominal GDP	USD Billion	914.5	910.3	909.1	1030.4	1010.2	1117.1	1142.5	1177.6
GDP Per Capita (Constant-PPP)	USD	56490.5	57258.3	54637.6	57795.6	59901.0	59214.2	59220.8	59630.8
Real GDP Growth	%	2.4	2.0	-3.9	6.2	4.3	0.1	0.6	1.3
GFCF/GDP	%	20.4	21.3	21.7	21.2	20.9	20.5	-	-
Gross Domestic Savings/GDP	%	31.5	31.9	31.8	32.8	32.0	31.2	-	-
Exports (G&S)/GDP	%	84.7	82.5	78.3	84.1	93.8	85.0	-	-
Working-Age (15-64) Population (% Share in Total)	%	65.1	64.9	64.8	64.5	64.3	63.9	63.6	63.2
Old-Age (65+) Population (% Share in Total)	%	19.0	19.3	19.6	20.0	20.3	20.7	21.2	21.6
<b>Fiscal Indicators – General Government</b>									
Fiscal Balance/GDP	%	1.5	1.8	-3.7	-2.2	-0.1	-1.1	-2.0	-2.2
Revenue/GDP	%	43.8	43.9	44.1	43.8	43.4	43.0	43.0	43.2
Expenditure/GDP	%	42.3	42.1	47.8	46.1	43.5	44.1	45.0	45.3
GG Gross Debt/GDP	%	52.4	48.5	54.7	51.6	50.1	47.2	47.7	48.2
GG External Debt (by Creditor)/GG Gross Debt	%	40.0	41.6	40.0	35.8	34.4	35.0	-	-
Interest/Revenue	%	2.1	1.8	1.6	1.2	1.3	1.6	-	-
<b>External Indicators</b>									
Current Account Balance/GDP	%	9.3	6.9	5.1	12.1	9.3	10.2	9.1	8.8
FDI, Net Inflows/GDP	%	-31.3	-14.0	-24.3	-11.2	1.5	-27.7	-	-
Outstanding FII Liabilities/GDP	%	282.9	318.7	342.6	310.3	258.4	268.0	-	-
NIIP/GDP	%	49.8	69.7	96.8	69.5	56.1	55.9	-	-
Foreign Exchange Reserves	USD Billion	39.9	45.2	53.9	65.1	63.9	70.9	-	-
Import Cover	Months	0.7	0.8	1.0	1.0	0.9	1.0	-	-
External Debt/GDP	%	474.2	468.6	483.1	392.7	379.0	346.2	-	-
<b>Monetary and Financial Indicators</b>									
CPI Inflation	%	1.6	2.7	1.1	2.8	11.6	4.1	2.7	2.1
Exchange Rate (Average)	LC per USD	0.8	0.9	0.9	0.8	1.0	0.9	-	-
Non-Performing Loans/Total Gross Loans	%	2.0	1.8	1.9	1.7	1.6	1.6	-	-
Private debt, loans and debt securities/GDP	%	263.8	249.7	252.8	247.7	231.7	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

## Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	AAA	October 3, 2024

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## Criteria Applied

CareEdge Sovereign Rating Methodology

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