Euler Hermes Economic Research

Country Report

The Netherlands

This recovery lacks a spark

General Information

GDP	USD772.227bn (World ranking 18, World Bank 2012)
Population	16.77 million (World ranking 62, World Bank 2012)
Form of state	Constitutional Monarchy
Head of government	Mark RUTTE
Next elections	2015 (Senate); 2017 (House of Representatives)

Strengths

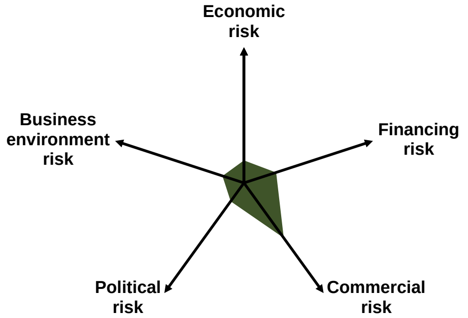
- Very important trade hub for Europe
- Among the largest exporter of crude oil in the world
- High current account surplus
- Sound public finances
- Strong business environment
- Stable political environment

Weaknesses

- Households burdened by disproportionately high level of debt
- Weak state of the banking sector
- Housing sector remains volatile
- High unemployment rate
- Highly correlated with the Eurozone economic cycle

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Germany	22%	1	18%	Germany
Belgium	13%	2	12%	Belgium
United Kingdom	9%	3	7%	China
France	7%	4	6%	United Kingdom
Italy	5%	5	6%	United States

By product (% of total)

Exports		Rank		Imports
Refined Petroleum Products	14%	1	11%	Refined Petroleum Products
Computer Equipment	6%	2	10%	Crude Oil
Basic Organic Chemicals	5%	3	7%	Computer Equipment
Plastic Articles	4%	4	4%	Basic Organic Chemicals
Pharmaceuticals	4%	5	4%	Telecommunications Equipment

Source: Chelem (2012)

Economic Overview

Slowly exiting two consecutive years of recession

The Dutch economy contracted in both 2012 and 2013 (-1.6% and -0.7% respectively) and remains 3% below the 2008 peak. However, short-term outlook improved over recent months and GDP growth rebounded by 0.5% q/q in Q2 (after -0.4% in Q1) driven by households consumption and net exports. Growth, albeit weak, is predicted to rebound in 2014 (+0.6%). In 2015, economic activity is expected to gain momentum (+0.9%) but GDP growth will remain low compared to pre-crisis levels. This will make it complicated for businesses to growth their topline given the lack of pick up in prices (inflation is expected to reach 0.8% in 2015 after 0.5% in 2014, see Table 1).

Several domestic 'growth inhibitors' have lost strength, but hold on

The deterioration in the housing market appears to have come to an end as house prices picked up and the number of transactions is progressively increasing. Consumer confidence has improved and is now stands above the long term average. However, employment growth remains weak and unemployment rate elevated (at 6.7% in July). The last two quarters have seen stable non-financial corporations operating surpluses (see Chart 1) but corporates' margins remain weak (at 37.5% in Q1, 4pp below the 2007 peak). Industrial plant and machinery capacity utilization rates have increased over recent quarters signaling potential scope for investment growth. However investment remains constrained by the banking sector's need to cleanse balance sheets and reduce excessive assets. This environment has seen credit to non-financial firms continue to contract (see Chart 2).

The outlook for exports has deteriorated

Net exports should be the highest contributor to GDP growth in 2014 (+0.8pp). However, the expected economic recession in Russia in 2014 (-0.6%), one of the top 10 export markets for Netherlands, accounting for almost 2% of total exports, could imply a loss in terms of exports of EUR700mn by end-2014, mainly through trade reduction in the metal sector. Second, the resulting weaker-than-expected growth outlook in some of Netherlands' main trade partners, Germany, France and Italy, poses downside risk to Dutch export growth (-0.3pps of GDP growth on an annual basis).

Business insolvencies enter a positive trend but they have doubled since 2007

Business insolvencies have decreased since the end of 2013: -10% in the 12 months prior to July 2014 and they are expected to remain on a declining trend (-15% for the full year). However, this expected improvement takes place after 2 consecutive years of huge increases (and a record high level in 2013 of 9,500). Thus the level of insolvencies remains high from an historical point of view with more than 8,200 cases for the last 12 months as of July 2014 (55% higher than the 2000-2007 average).

Highest current account surplus of the eurozone

The current account balance continues to enjoy a high surplus (10.5% of GDP in 2014) explained in large part by savings of the corporate sector and to a lesser extent by institutional pension savings of households. The Netherlands also benefits from its position as a trade hub in Europe and the trade balance enjoys a high and persistent surplus.

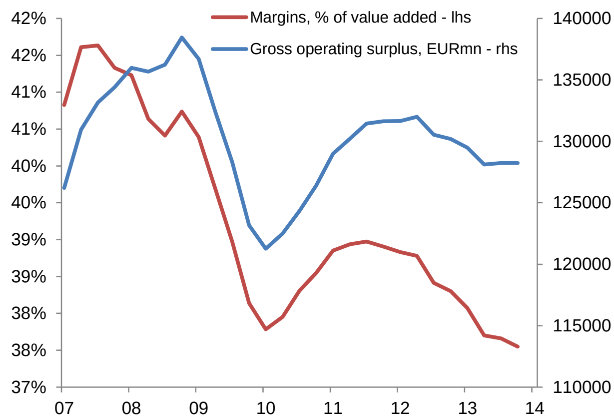
Table 1: Key economic forecasts

Netherlands	poids	2012	2013	2014	2015
GDP	100%	-1.6	-0.7	0.6	0.9
Consumer Spending	44%	-1.5	-1.6	-0.2	0.9
Public Spending	26%	-1.6	-0.2	0.1	0.1
Investment	20%	-6.0	-3.9	-1.2	0.2
Construction	12%	-10.1	-3.9	0.2	-1.0
Equipment	7%	1.8	-3.9	-3.6	2.3
Stocks *	0%	0.1	-0.2	0.1	0.1
Exports	78%	3.2	2.2	2.7	2.5
Imports	68%	2.8	1.0	2.0	2.4
Net exports *	10%	0.6	1.0	0.8	0.3
Current account **		57	58	68	66
Current account (% of GDP)		*8.9*	*9.0*	*10.5*	*9.9*
Employment		-0.1	-1.4	-1.1	0.6
Unemployment rate		5.4	6.9	7.0	6.8
Wages		1.4	1.1	1.0	1.0
Inflation		2.8	2.5	0.5	0.8
General government balance **		-26	-16	-19	-17
General government balance (% of GDP)		*-4.1*	*-2.5*	*-2.9*	*-2.5*
Public debt (% of GDP)		*69.8*	*72.6*	*74.7*	*74.7*
Nominal GDP **		640	643	649	663

Change over the period, unless otherwise indicated:
*contribution to GDP growth
**EUR bn

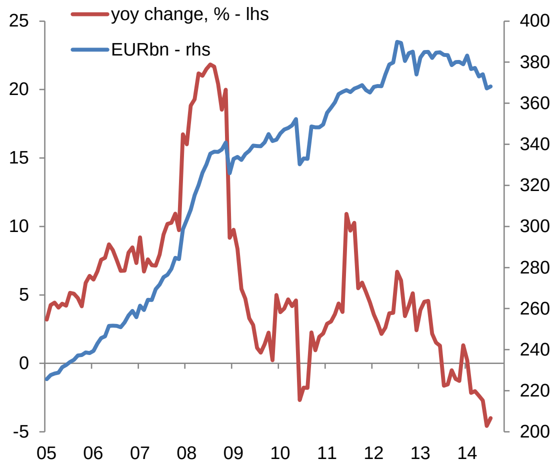
Sources: National sources, IHS, Euler Hermes

Chart 1: Corporates' profitability indicators (annual basis)



Sources: Eurostat, IHS, Euler Hermes

Chart 2: Credit to non-financial companies



Sources: ECB, Euler Hermes

The end of the excessive deficit procedure

In 2013, the European Commission gave the Netherlands an additional year in which to end the excessive deficit given the prolonged economic recession. A consolidation package of EUR6bn mostly from spending cuts (health sector, temporary freeze of the public sector salaries). In 2014, the fiscal deficit is expected to be around 2.9% of GDP, below the Maastricht threshold of 3%. On the back of ongoing consolidation efforts and the expected improvement in economic activity, the fiscal deficit is forecast to decline to 2.5% of GDP in 2015 (above the target of the government of 2.1%). Public debt remains at contained levels. It is expected to reach 74% of GDP in 2014 and to stabilize at this level in 2015.

Banks still have to prove their 'cleanliness'

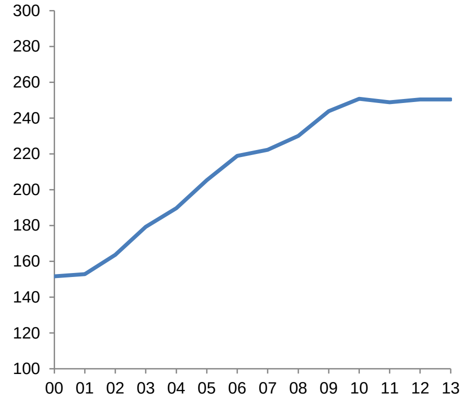
Households hold a disproportionately high level of debt (250% of income, see Chart 3), almost doubling over the past decade to the highest level in the eurozone, driven in part by a supportive housing policy. The policy of mortgage interest deductibility helped to artificially inflate house prices. Simultaneously, the government provided subsidies for first time home buyers and guaranteed some of the mortgages. Some of these policies have been reversed or changed in 2012. Nevertheless, banks' assets-to- GDP remain excessive and exposure to the real estate sector is high. The banking sector is in a process of cleaning balance sheets and reducing excessive assets. Some banks needed public support: Fortis/ABN Amro in 2008 and SNS Reaal in 2013. Around EUR30bn, i.e. 5% of GDP, have been injected in these banks. The ECB Asset Quality Review and stress tests results due in mid-October will be key to follow as they will confirm (or not) the completion of the European banks recapitalization and restructuring.

Business environment remains one of the most positive in the eurozone

The low administrative costs and bureaucracy make the Netherlands already an attractive location for businesses. Further, the low corporate tax (25%) also explains Netherlands' higher attractiveness compared to its peers (see Chart 4). As of 2014, it is ranked 28th worldwide in the Ease of Doing Business report, paired with 4th worldwide in the Human Capital Index.

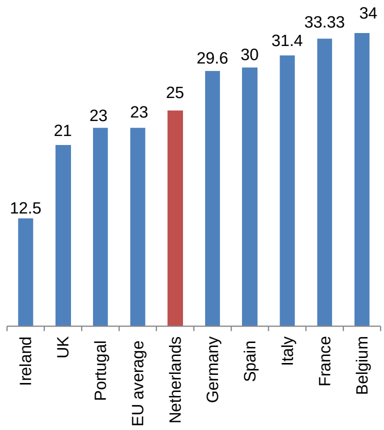
The government's new policy aimed to improve the competitiveness of the private sector has a targeted "top sector approach": 9 key preforming industries in which government investment will be focused and bottlenecks will be identified. These key sectors include agro-food, crops, water, high-tech, life sciences, chemicals, energy, logistics and the creative industry.

Chart 3: Household debt, % of gross disposable income



Sources: National sources, IHS, Euler Hermes

Chart 4: Corporate tax rate, %



Sources: National sources, IHS, Euler Hermes

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