

Moderate but steady speed ahead of Brexit and elections

General Information



GDP	USD752.5474bn (World ranking 17, World Bank 2015)
Population	16.94mn (World ranking 65, World Bank 2015)
Form of state	Constitutional Monarchy
Head of government	Mark RUTTE
Next elections	2017 (House of Representatives); 2019 (Senate)



Strengths

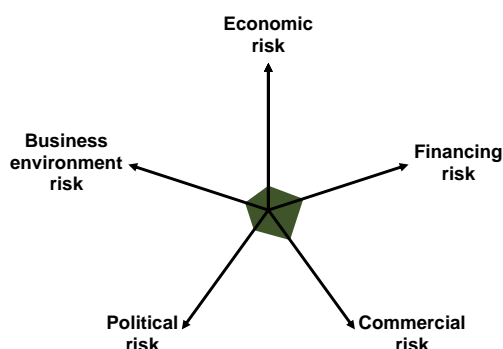
- Very important trade hub for Europe
- Among the largest exporters of crude oil in the world
- High current account surplus
- Sound public finances
- Strong business environment
- Stable political environment

Weaknesses

- Households burdened by disproportionately high level of debt
- 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, 2014)

Exports	Rank	Imports
Germany	21% 1	19% Germany
Belgium	14% 2	12% Belgium
United Kingdom	10% 3	8% China
France	7% 4	7% United Kingdom
Italy	5% 5	6% United States

By product (% of total, 2014)

Exports	Rank	Imports
Refined Petroleum Products	12% 1	9% Crude Oil
Computer Equipment	6% 2	9% Refined Petroleum Products
Pharmaceuticals	5% 3	7% Computer Equipment
Basic Organic Chemicals	4% 4	4% Pharmaceuticals
Plastic Articles	4% 5	4% N.E.S. Products

Source: Chelem

Economic Overview

GDP growth close to the eurozone average (+1.6% in 2016; +1.7% in 2017)

Real GDP growth accelerated in Q1 and Q2. It was up by +0.6% q/q in both quarters, the fastest pace since the end of 2014. In the first six months of 2016, growth has been driven for the most part by investments. The rise in capacity utilization rates suggests continued equipment investment recovery for the remainder of 2016. It could, however, be less dynamic in 2017.

Construction investment continues to expand at a steady pace. Confidence in the sector is the highest since October 2008 while house prices reached heights unseen since end-2011. The fall in housing permits in H1 (-10% y/y) could be due to governmental measures aimed at limiting the strong growth of the construction sector and households' debt. These include a gradual reduction in the loan-to-value ratio (from 103% to 100% by 2018) and mortgage interest rate tax deductibility. The latter is set to decline progressively from 52% to 38%.

Consumer spending increased by +0.5% and +0.2% q/q in the first two quarters of 2016, a slower pace of growth compared to 2015. Households remain cautious despite the pick-up in real wages and the fall in unemployment rate. At 7.4% in July, it is the lowest level in four years. Net exports contributed to growth by +0.4pp and +0.2pp in Q1 and Q2, after three consecutive negative quarters. However, this trend has been mainly driven by imports' slowdown rather than a pick-up in exports.

Businesses struggle amid high debt and stalling profitability

Ranked 28th in the World Bank's Ease of Doing Business index, Netherlands enjoys a dynamic business environment. The country's trade-friendly administrative system which allows for relatively fast and cheap insolvency resolution is a clear positive. Dutch non-financial corporations (NFCs) tend to enjoy profit shares above the European average: 41.7% vs 39.6% in Q1.

Yet they lag behind European counterparts when it comes to investment rates (17.2% vs 21.4% in Q1). At the end of 2015, NFCs' net debt-to-income ratio, after taxes, stood at 171%. This is much lower than the 239% at the end of 2014 and compared to the eurozone average (323%). A gradual pick-up in nominal GDP growth, stronger private consumption in the eurozone, and a recovery in trade boost Dutch manufacturers' turnover. This factor is evident in the automotive sector. Business insolvencies are expected to fall by -15% in 2016 after having declined by -21% in 2015 and stabilize in 2017.

Resilient bank capital structures challenged by shrinking profitability

Stress tests recently conducted by the European Banking Authority have re-established the relatively good shape of the Dutch banking sector. Four banks were scrutinized: ING, Rabobank, Bank Nederlandse and ABN AMRO, which is still 77% state-owned after its 2008 nationalization. The banking quarter has displayed resilient capital structures which should carry them through adverse macroeconomic conditions. Yet, banks' profitability is undermined by the low-interest environment.

Figure 1 – Key economic forecasts

Netherlands		weights	2014	2015	2016	2017
GDP		100%	1.4	2.0	1.6	1.7
Consumer Spending		43%	0.3	1.8	1.0	1.5
Public Spending		25%	0.3	0.2	1.0	0.4
Investment		3%	2.3	9.9	6.9	2.8
	Construction	14%	3.2	8.5	5.9	2.4
	Equipment	5%	-0.2	13.4	9.6	4.0
Stocks	*	0%	0.1	-0.7	-0.7	0.2
Exports		83%	4.4	5.0	2.8	3.6
Imports		7%	4.2	5.8	2.9	3.9
Net exports	*	2%	0.7	0.0	0.3	0.2
Current account	**		57	54	58	60
<i>Current account (% of GDP)</i>			8.5	8.0	8.2	8.3
Employment			-1.0	1.0	1.5	1.0
Unemployment rate			7.5	6.9	6.3	6.2
Wages			0.9	1.5	1.5	1.3
Inflation			0.3	0.2	0.4	1.4
General government balance	**		-16	-13	-11	-10
<i>General government balance (% of GDP)</i>			-2.4	-1.9	-1.6	-1.4
Public debt (% of GDP)			68.2	66.3	63.1	60.0
Nominal GDP	**		663	677	693	72

Change over the period, unless otherwise indicated.

* contribution to GDP growth

** EUR bn

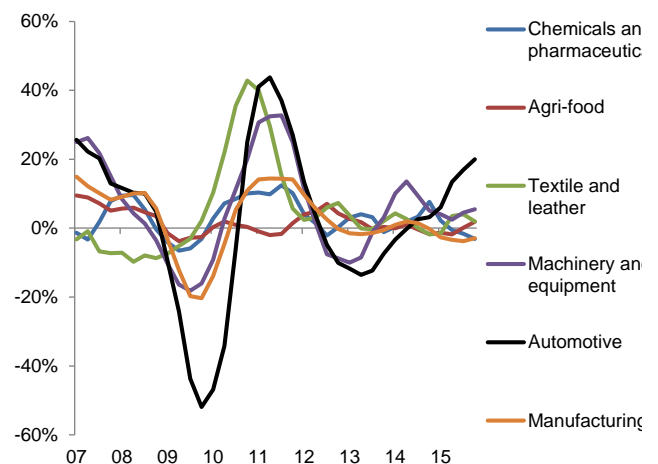
Sources: National sources, IHS, Euler Hermes

Figure 2 – Real wages growth, y/y



Sources: IHS, Euler Hermes

Figure 3 – Firms' turnover by sector, 4Q/4Q



Sources: Eurostat, Euler Hermes

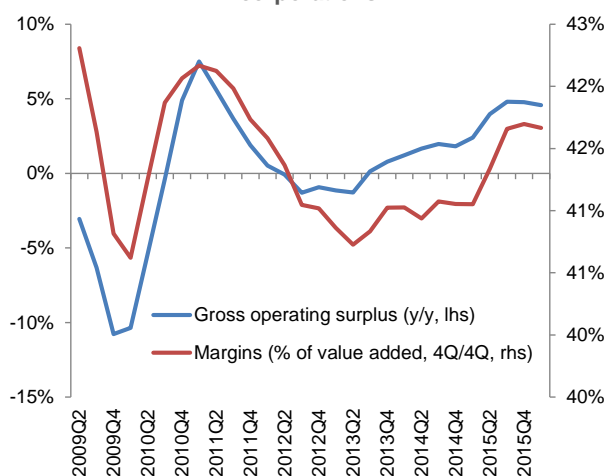
Brexit vote could harm Dutch exports

The Netherlands is highly exposed to the UK. Trade in goods and FDI flows are too clear examples. Netherlands exports EUR38bn worth of goods, which amount to 9% of total exports to the UK, and EUR17bn in services (10% of total). The slowdown in British imports growth as a consequence of the strong GBP depreciation could be a drag on Dutch exports. Electronics, electrical, agri-food and textile are the sectors in the forefront.

Public finances ahead of the March 2017 legislative elections

Dutch public finances remain sound. Public debt-to-GDP ratio continues to decrease. In Q1 2016 it stood at 64.9%, as compared to 69.1% as of Q1 2015. Likewise, public deficit stood at -1.6% of GDP in Q1 2016, the smallest deficit ratio since early 2009. A number of uncertainties are associated with the elections for the Dutch House of Representatives in March 2017. The electoral season might leave the government a limited room for manoeuvre in terms of stimulus measures.

Figure 4 – Profitability indicators for non-financial corporations



Sources: Chelem, Euler Hermes

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