Euler Hermes Economic Research

Country Report

The Netherlands

The Dutch rebuilding

General Information

GDP	USD853.54 bn (World ranking 17, World Bank 2013)
Population	16.8 mn (World ranking 63, World Bank 2013)
Form of state	Constitutional Monarchy
Head of government	Mark RUTTE
Next elections	2017 (House of Representatives); 2019 (Senate)

Strengths

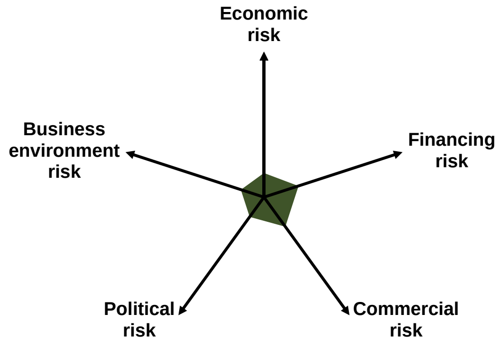
- Very important trade hub for Europe
- Among the largest exporters of refined oil products in the world
- Diversified export structure
- High current account surplus
- Sound public finances
- Supportive business environment
- Stable political environment

Weaknesses

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

Country Rating

AA1



Source: Euler Hermes

Trade structure

By destination / origin (% of total)

Exports		Rank		Imports
Germany	21%	1	18%	Germany
Belgium	16%	2	13%	Belgium
United Kingdom	9%	3	7%	China
France	7%	4	7%	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	11%	Crude Oil
Basic Organic Chemicals	5%	3	7%	Computer Equipment
Pharmaceuticals	5%	4	4%	Pharmaceuticals
Plastic Articles	4%	5	4%	Telecommunications Equipment

Source: Chelem, (2013)

Economic Overview

Economic recovery gained momentum

GDP growth expanded for the fourth consecutive quarter in Q1 2015 (+0.4% q/q), but at half the pace of the prior quarter (+0.8% in Q4 2014) and remains low compared to pre-crisis levels (0.7%) (see Figure 1). This slowdown largely came from a slowdown in consumer spending (+0.3% from +0.7% in Q4). While some households may prioritize deleveraging due to high debt levels, an increase in housing prices along with low interest rates will relieve some of the pressure to deleverage. An improving housing market (5 straight quarters of rising housing prices) and strong labor market conditions (unemployment rate dropped to 7.0% in March 2015 from 7.9% a year earlier) will continue to support consumption, evident in the improvement in consumer confidence.

The manufacturing sector is showing signs of promise, with fixed investment up (+1.6% q/q) and capacity utilization rates in Q1 at the highest level since the crisis. Net exports provided positive contribution to Q1 GDP growth (+0.6pps), though performance was negative on both ends (exports down -0.1% and imports -1.1% q/q).

We expect GDP growth to pick up to +1.9% in 2015 and hold at +2% in 2016, above the Eurozone averages of +1.5% and +1.6%.

Figure 1: Economic indicators

Netherlands		weights	2013	2014	2015	2016
GDP		100%	-0.7	0.9	1.9	2.0
Consumer Spending		44%	-1.5	0.1	1.4	1.7
Public Spending		26%	-0.2	-0.3	0.2	0.3
Investment		20%	-3.9	3.5	7.6	4.1
Construction		14%	-4.3	4.7	9.0	4.1
Equipment		6%	-3.0	0.5	4.0	4.1
Stocks	*	0%	-0.2	-0.2	-0.9	0.1
Exports		78%	2.2	4.0	2.4	4.1
Imports		68%	1.0	4.0	1.9	4.5
Net exports	*	10%	1.0	0.5	0.6	0.2
Current account	**		64	67	69	78
Current account (% of GDP)			10.0	10.3	10.4	11.3
Employment			-1.4	-1.0	0.2	0.3
Unemployment rate			7.4	7.4	7.2	7.0
Wages			1.1	1.0	1.0	1.0
Inflation			2.6	0.3	0.7	1.5
General government balance	**		-16	-19	-17	-16
General government balance (% of GDP)			-2.5	-2.9	-2.5	-2.4
Public debt (% of GDP)			72.6	74.8	74.0	75.2
Nominal GDP	**		643	656	667	685

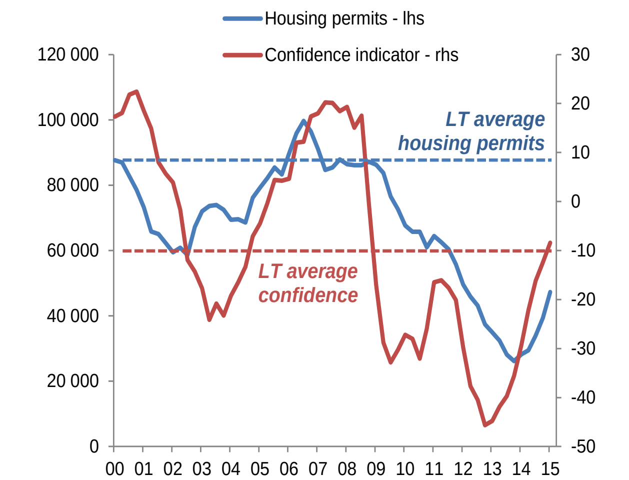
Change over the period, unless otherwise indicated:
*contribution to GDP growth
**EUR bn

Sources: National Sources, Euler Hermes

Construction has started to bounce back

The housing market is picking up: house prices are +4.4% above their lowest level (June 2013), but still 18% below the record reached in August 2008 - and house sales increased by +19% y/y in Q1. Investment in the construction sector also showed signs of recovery (+2% q/q) and public spending picked-up after three consecutive quarters of contraction (+0.7%). Q1 construction confidence returned to the long term average, and permits are up a staggering 68% y/y (and up 20% from last quarter alone - see Figure 2). Likewise, employment and production in the construction industry are finally looking upward, with a y/y increase in turnover of 5.3% in Q1. Higher disposable incomes and optimism in the housing market will continue to lift construction production in 2015.

Figure 2: Housing permits and confidence

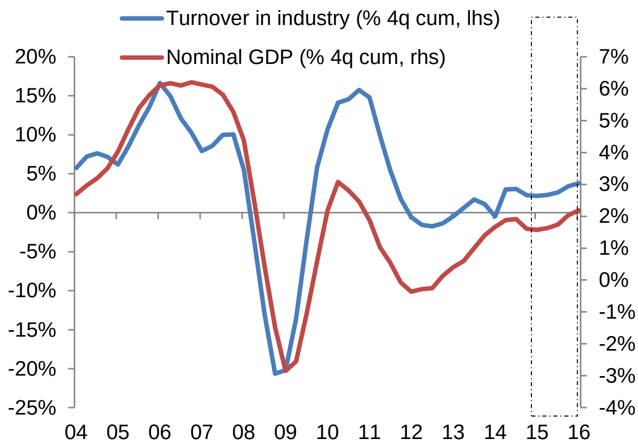


Sources: National Sources, Euler Hermes

A pick-up in volumes and less downside pressures on prices should support companies' turnovers

The inflation rate stabilized in April after being in negative territory for the past 4 months on the back of lower oil prices accentuating the existing deflationary pressures in the eurozone. We expect inflation to pick-up moderately in the coming months (+0.7% in 2015 on average) thanks to the positive effects of the ECB QE programme and the bounce back of the domestic economy. This coupled with the pick-up in volumes would help turnovers growth modestly (+2% in 2015 vs 0% in 2014 – see Figure 3). Non-financial corporations' gross operating surplus entered a positive trend since mid-2014 while the low oil prices and the financial conditions improvement (Figure 5) help boosting firms' profitability (Figure 4).

Figure 3: Turnovers vs nominal GDP



Sources: Eurostat, Euler Hermes forecasts

Last review: 2015-06-16
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Banks' health and credit have improved but debt levels and exposure remain worrisome

All seven Dutch banks assessed by the ECB comfortably passed the Asset Quality Review and stress test in October 2014, signifying their success in recent efforts to strengthen their balance sheets, capital position, and profitability. Since then, credit to non-financial corporations has increased (see Figure 5), which will further fuel investment throughout 2015. However, corporate debt remains high (above 200% of GDP) and banks have elevated levels of exposure to the shipping and real estate sectors. Though the banking sector is well positioned to absorb increasing riskiness related to private debt, it is non risk free.

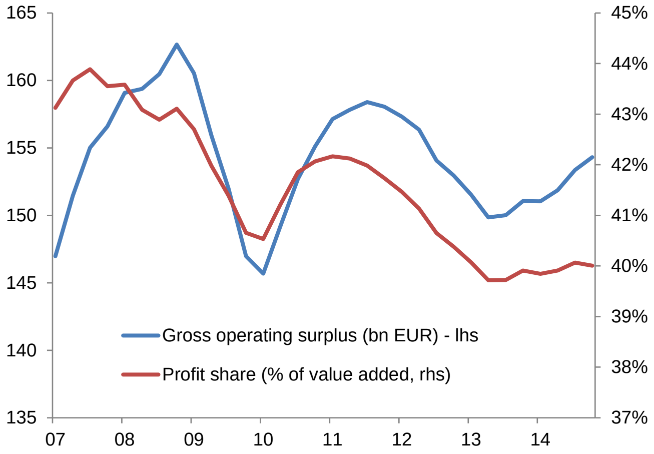
Business insolvencies enter their second consecutive year of moderation

Business insolvencies have decreased by -19% in 2014 after two consecutive years of double-digit growth that took them to a record high of 9,400 cases. We expect them to remain on a declining trend in 2015 (-20%). However, despite these strong falls, business insolvencies will remain 33% above their 2007 level this year. In 2016, we expect business insolvencies to fall by 5%.

Household debt, while high, is no reason to panic

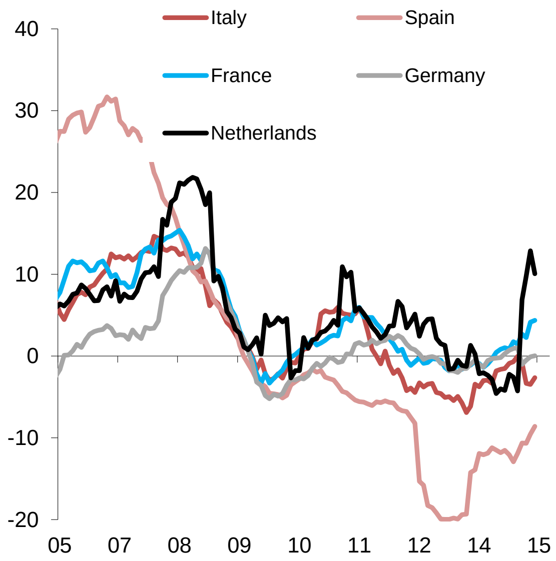
While household debt remains at very high levels (222% of disposable income in 2013), households' outstanding mortgage debt decreased by EUR 6 bn in 2014. Excessive mortgage lending was incentivized in the past through uncapped mortgage interest deductibility, relaxed lending standards, and (limited) government guaranteed mortgages. However, many of these policies have been modified since 2012, again nodding towards banks' improved health. Unsurprisingly, the highest loans to value ratios are found in the highest income quartile, while people in the lowest income quartile have the lowest LTV ratios. This, along with strong asset positions of Dutch households, reduces risk of default. As house prices continue to rebound, risks in the housing and financial sectors may ease up. However, further price increases without adequate improvements in household income may bring greater risk of a housing bubble – the current price to income ratio is already 16.8.

Figure 4: Non-financial corporations' margins and gross operating surplus



Sources: Eurostat, Euler Hermes

Figure 5: Credit to non-financial companies



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