Research Netherlands
‘Nexit’ risk after election is low

- The far-right Freedom Party (PVV) led by Geert Wilders is likely to become the largest faction in the lower house after the parliamentary elections on 15 March, while established parties from the governing coalition will probably see their support dwindle.
- We do not think the PVV will be able to form a government, since other parties have ruled out forming a governing coalition with it. Instead, a lengthy coalition building process will start, with the new government likely to consist of a coalition of at least five centre-right and centre-left parties.
- Even if the PVV were somehow able to gain sufficient seats to form a government, it would still be very difficult to hold a referendum on EU membership. Referenda in the Netherlands are only advisory and without changes to current legislation a binding referendum on an EU exit cannot be held.
- Although the probability of a PVV government is low in our view, investor sentiment is unlikely to remain complacent as some risk premium should be included when the election date draws nearer.

Wilders likely to perform well – but not to form a government

The next political risk event on the European agenda will be the Dutch elections for the lower chamber of parliament on 15 March. Benefitting from the rising populist mood, the far-right Freedom Party (PVV) led by Geert Wilders is expected to perform well. whereas established parties from the governing coalition (liberal-conservative VVD of Prime Minister Rutte and centre-left PvdA) will likely see their support dwindle.

The PVV is projected to win the most seats in the 150-member lower house of parliament (see chart 1). The party is heavily critical about immigration and advocates an exit of the EU. The PVV election programme conflicts in many respects both with international law and the Dutch constitution (see more on EU referendum below) and proposes banning immigrants from Muslim countries. The PVV has clearly capitalised on Trump’s win in the US election in November and even a court decision in December, which found Wilders guilty of inciting hatred and encouraging discrimination, did not dent its popularity.

The election will be held under a proportional voting system, meaning that the number of seats parties obtain will be broadly equal to the number of votes they receive. The PVV is

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**Chart 1: Established parties projected to lose the most seats**


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**Chart 2: PVV leading the polls (29 Jan)**

**Chart 3: A multitude of possible coalitions (poll 17 Jan)**
projected to receive only around 33 seats in parliament according to recent polls, leaving it way short of the 76 needed for an absolute majority to govern. Political isolation is hence the major obstacle to the PVV taking part in a future government as other parties have ruled out forming a governing coalition with it. So, although Wilders’ party will likely become the largest faction, it would be very surprising if it were also able to form a government (with Wilders as prime minister) without coalition partners, in the fragmented Dutch multi-party system.

Instead, with a multitude of parties and a fragmented political landscape, a complicated and lengthy coalition building process will likely ensue following the elections. As there is no minimum threshold of votes to be passed, the parliament is often composed of a multitude of parties across the political spectrum. The current lower house has members from 11 different parties. According to latest polls, 7 parties would capture more than 10 seats in the lower house, opening up the possibility for a variety of coalitions (see chart 2 and 3).

According to the latest opinion polls, the governing parties (VVD and PvdA) would lose the most seats after the elections, while the PVV is expected to be the main winner, doubling its number of seats (see chart 1). However, since a coalition with the PVV has been ruled out by other parties, the most likely outcome will be a coalition of at least five centre-right and centre-left parties, to ensure a stable majority in both chambers of parliament. One poll from 17 January, showed a large governing coalition consisting of the VVD, PvdA, CDA, D66 and GL as the most stable formation with 86 seats (see chart 3).

**Binding referendum on EU membership is practically impossible**

As argued above, the risk of a PVV-led government is quite small, in our view. Nevertheless, even if the PVV were somehow able to gain sufficient seats to form a government, it would still be very difficult for it to keep the promise of holding a referendum on EU membership.

Firstly, both the majority of the public as well as all other parties – except the PVV and the Socialist Party – have a pro-EU stance and are against such a referendum. Only 14 of the 150 MPs supported a referendum motion, put forward by the PVV, during a vote in parliament in June 2016, and 77% of Dutch citizens still prefer to stay in the euro according to the latest Eurobarometer survey (see chart 4 and 5).

Secondly, as referenda in the Netherlands are only advisory under the Advisory Referendum Act, a binding referendum on EU membership is currently impossible. Furthermore, referenda can only be held over recently adopted laws or treaties. Without changes to current legislation – which require a constitutional change approved by a two-thirds majority both in the upper and lower house – there is no legal possibility of holding such a referendum at the moment.

Even if a majority in the lower house favouring a ‘Nexit’ referendum suddenly emerges after the election, to change existing legislation for a binding referendum, a majority in the upper house would also be required. Majority support for such a move would be unlikely before provincial elections in 2019, which could change the party distribution in the 75 member upper house, as it is dominated by centre-left and centre-right parties.

**Favourable economic and fiscal outlook**

The Dutch economy continues to perform well with growth of around 2% both in 2016 and 2017E, according to the IMF. While exports are expected to slow to some degree in 2017, due to weaker demand in the Netherlands’ key export markets, such as the UK and the euro area, unemployment and rising wages should boost private consumption and investments over the coming year.
The fiscal position is very favourable and the IMF projects public debt to drop to 62% of GDP – well below the euro area average – and the budget deficit to improve to 0.7% of GDP in 2017 (see chart 7). Despite room for growth-enhancing fiscal spending, the focus of the government is on rebuilding its buffers.

Market implications: some risk premium is likely to be priced in

Although the probability of a PVV government is low in our view, investor sentiment is unlikely to remain complacent as some risk premium should be included when the election date draws nearer. In the run-up to the 2012 election, government bond spread to Germany rose, however the move was temporary only (see chart 8). This time, we could see a more pronounced market reaction in the run-up to the election, as the PVV is leading the polls and investors could become nervous about the political outlook. That said, the supply outlook from the Dutch State Treasury has turned out to be somewhat more favourable than we had initially expected, supporting the Dutch spread to Germany and other semi-cores.

Relative to France, we have previously argued that France has been used as a proxy trade for the political uncertainty in Europe, and fear of Marine Le Pen winning the French presidential election has already led to a widening of the French government bond spread to Germany (see Research France: France at the crossroads after presidential elections, 4 January 2017). In our view, the risk of Geert Wilders becoming the next prime minister in the Netherlands should also to some extent affect the pricing ahead of the election.

Overview of political parties in the Netherlands

<table>
<thead>
<tr>
<th>Party</th>
<th>Short-name</th>
<th>Political orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>People’s Party for Freedom and Democracy</td>
<td>VVD</td>
<td>centre-right</td>
</tr>
<tr>
<td>Labour Party</td>
<td>PvdA</td>
<td>centre-left</td>
</tr>
<tr>
<td>Freedom Party</td>
<td>PVV</td>
<td>right-wing</td>
</tr>
<tr>
<td>Socialist Party</td>
<td>SP</td>
<td>left-wing</td>
</tr>
<tr>
<td>Christian Democratic Appeal</td>
<td>CDA</td>
<td>centre-right</td>
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<tr>
<td>Democrats 66</td>
<td>D66</td>
<td>centre</td>
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<tr>
<td>Christian Union</td>
<td>CU</td>
<td>centre-right</td>
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<tr>
<td>Green Left</td>
<td>GL</td>
<td>centre-left</td>
</tr>
<tr>
<td>Reformed Political Party</td>
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<td>right-wing</td>
</tr>
<tr>
<td>Party for the Animals</td>
<td>PvdD</td>
<td>left-wing</td>
</tr>
<tr>
<td>50 PLUS</td>
<td>50+</td>
<td>centre</td>
</tr>
</tbody>
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Source: Danske Bank Markets
Key macroeconomic indicators

Netherlands GDP has performed similar to euro area

GDP growth has been stronger than suggested by PMI

Netherlands budget deficit projected to decrease further

Netherlands has a low debt-to-GDP ratio

Netherlands' unemployment is significantly below euro area

Youth unemployment is lower than both EU and euro area

Inflation is far from ECB’s 2% target and lower than euro area

Netherlands has narrowed its output gap since 2013
Netherlands private consumption is weaker than euro area

Investments are recovering towards pre-crisis level

Netherlands’ productivity is higher than euro area...

...although not when measured per hour worked

Population is not projected to decline as fast as Europe

Employment is increasing in line with the euro area

Source: Eurostat, Danske Bank Markets

Source: Eurostat, European Commission, Danske Bank Markets

Source: Eurostat, Danske Bank Markets

Source: Eurostat, Danske Bank Markets

Source: United Nations, Danske Bank Markets

Source: Eurostat, Danske Bank Markets
Netherlands runs solid current account surplus

House prices are again increasing in the Netherlands

Demand for loans for house purchases is also rising

Low spreads to Germany but election risk could change this

Netherlands is largely driven by exports

Construction confidence suggests further house price rises

Credit standards are expected to loosen during 2017

Credit rating overview

Source: Eurostat, European Commission, Danske Bank Markets

Source: Eurostat, Danske Bank Markets

Source: Macrobond, Danske Bank Markets

Source: OECD, Statistics Netherlands, Danske Bank Markets

Source: Central Bank of Netherlands, Danske Bank Markets

Source: Central Bank of Netherlands, Danske Bank Markets

Source: OECD, Danske Bank Markets

Source: Fitch, Moody's, S&P, Danske Bank Markets
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Date of first publication

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