

Dutch Exports: Sustaining success

[Record surpluses pose new challenges]



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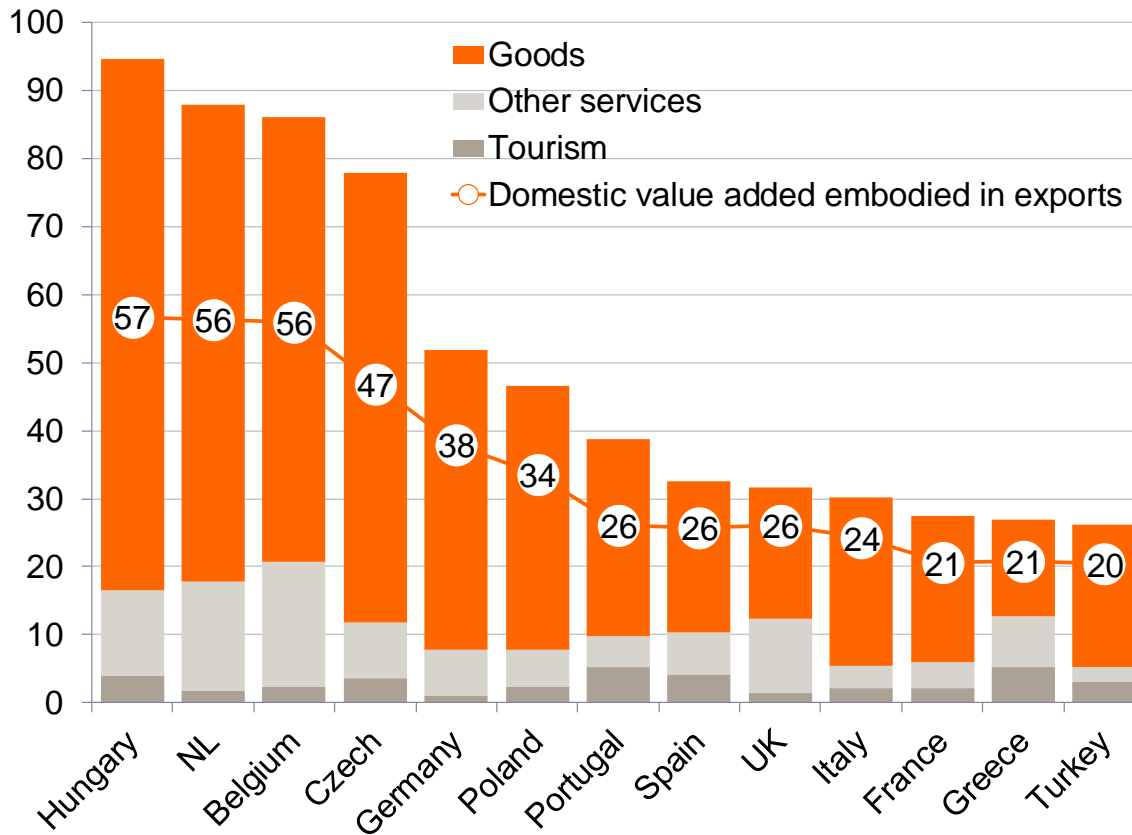
Nationaal Export Event
Rotterdam, November 14, 2013



The Netherlands depends on exports...

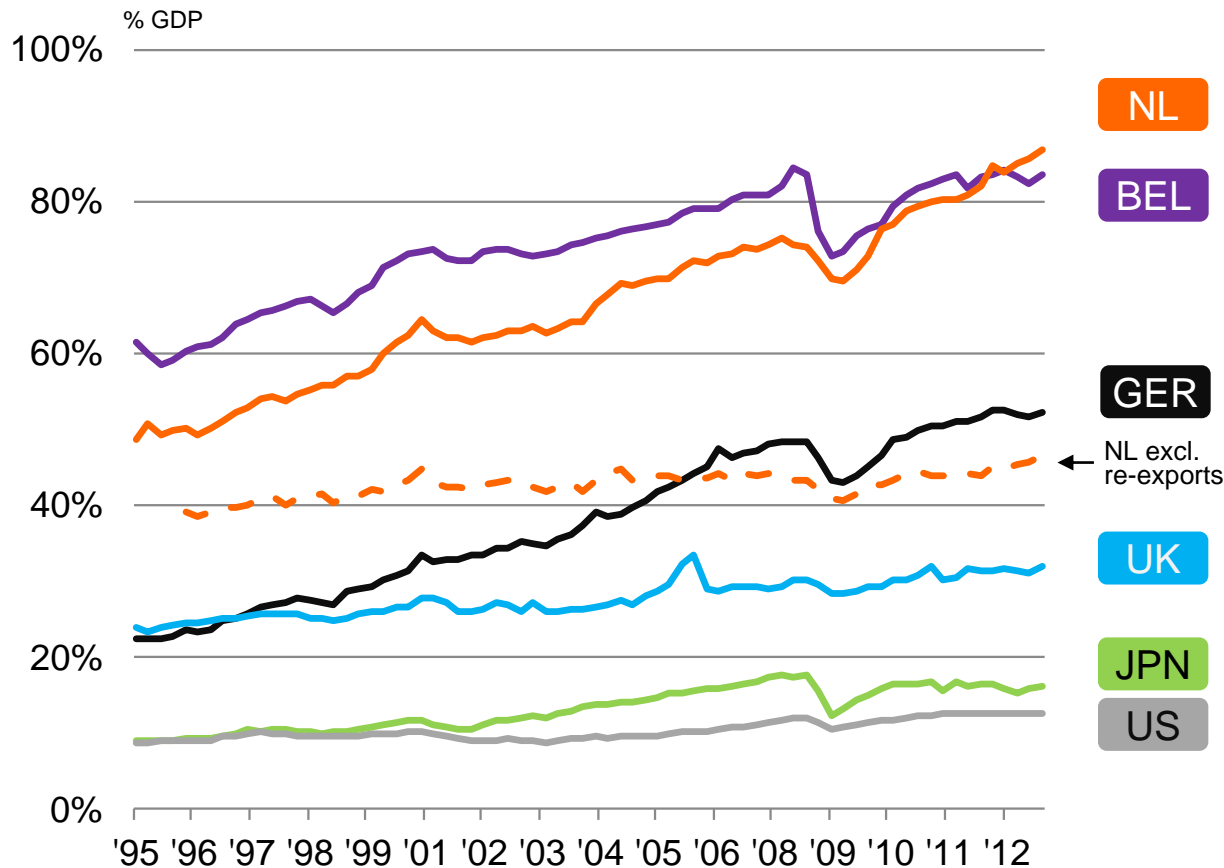
Some countries are more than twice as reliant on exports as others

Exports, as % of GDP (2012)



...and this dependence has been rising

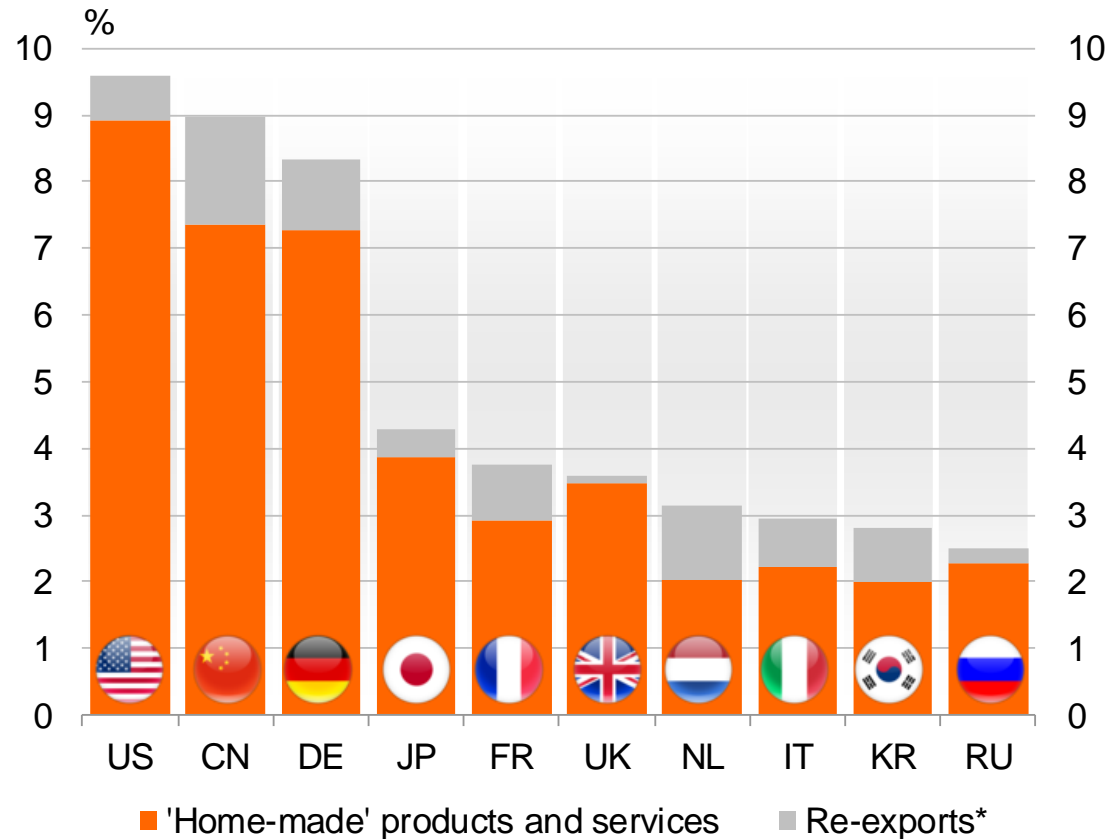
Exports of goods and services



- Dutch exports as % of GDP rose from 50% in 1996 to more than 80% in 2012, indicating the very open character of the Dutch economy.
- Even when corrected for re-exports, the export-GDP ratio is still relatively high.

High in the world league table...

Share of exports of goods and services in world exports
Average 2008 - 2012



* share of re-exports is, except for NL, an estimate based on various studies for various years

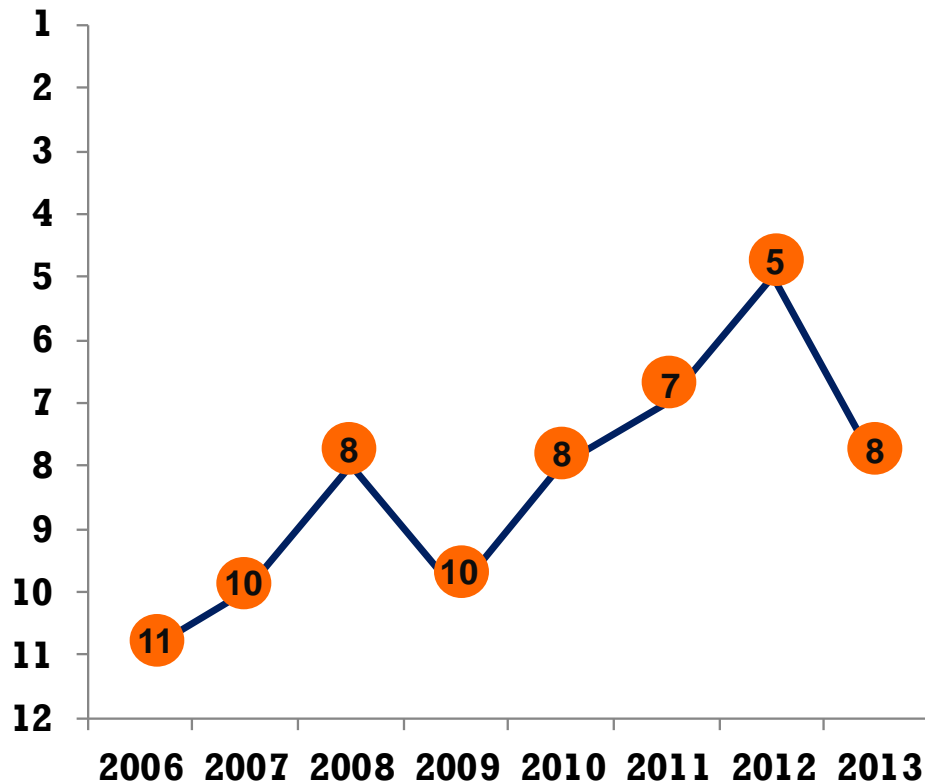
Source: UNCTAD, ING calculations

- A small country but a large trader
- During the past 5 years the Netherlands ranked 7th on the list of export champions
- Even excluding re-exports, it comes in 9th

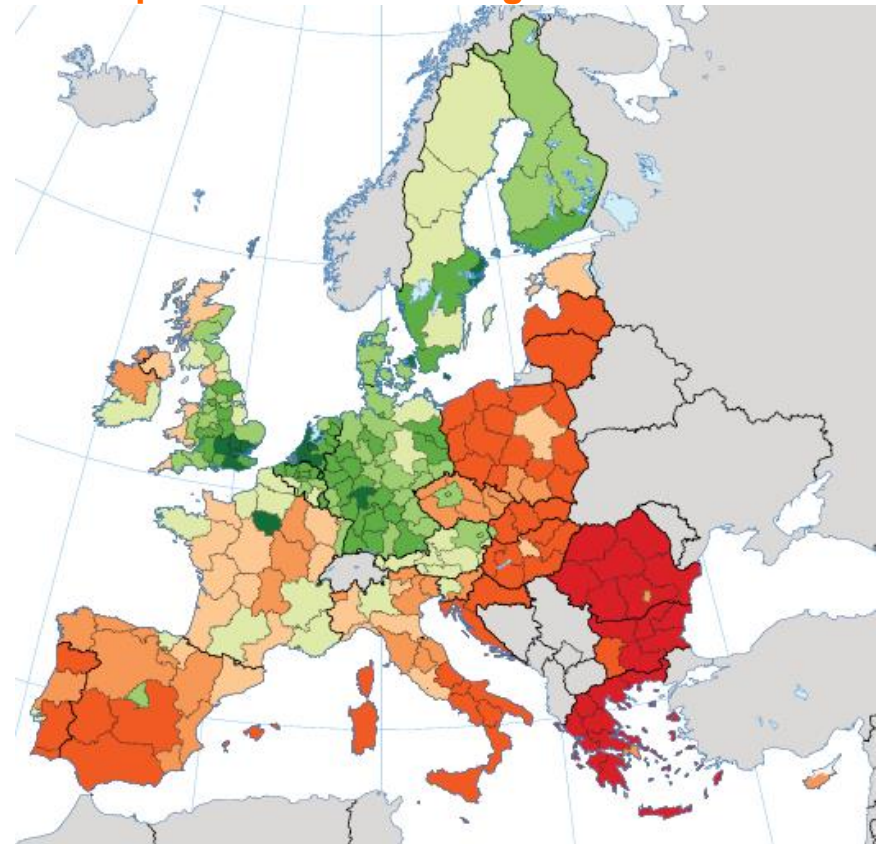
...high in competitiveness rankings...

The 8th globally most competitive economy and 2nd in the Eurozone

Global ranking of competitiveness

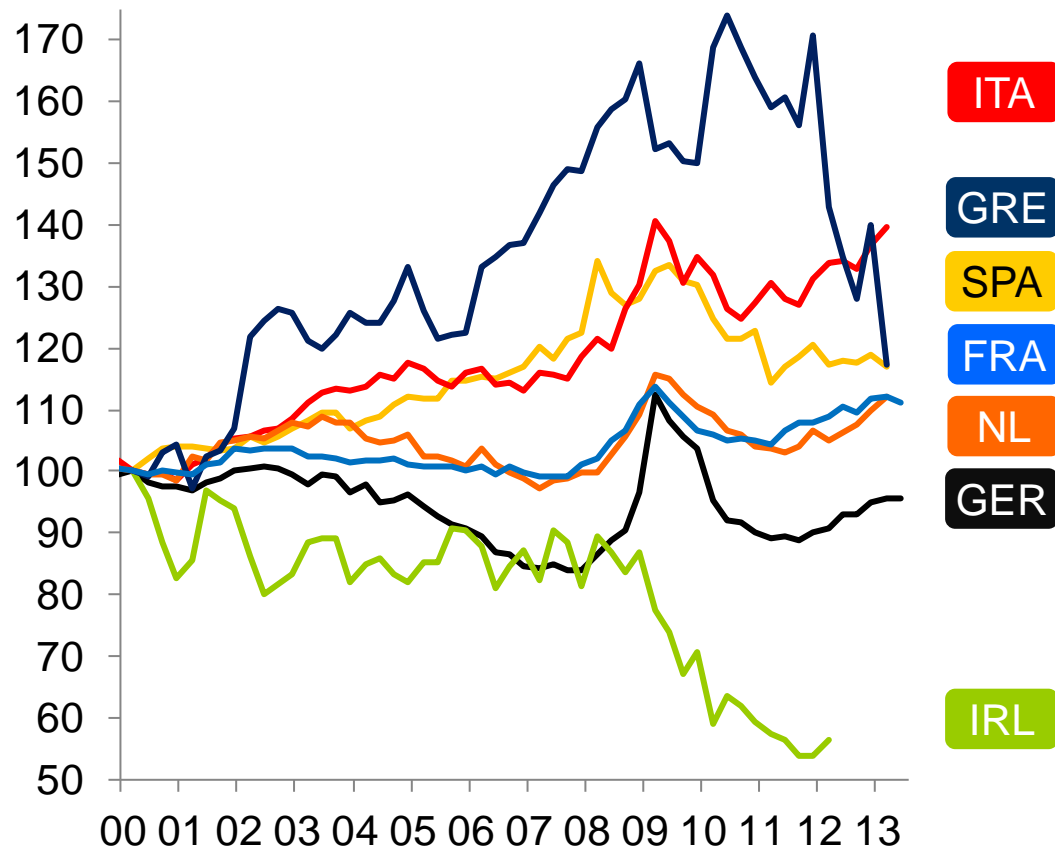


Competitiveness in EU regions



...including price competitiveness...

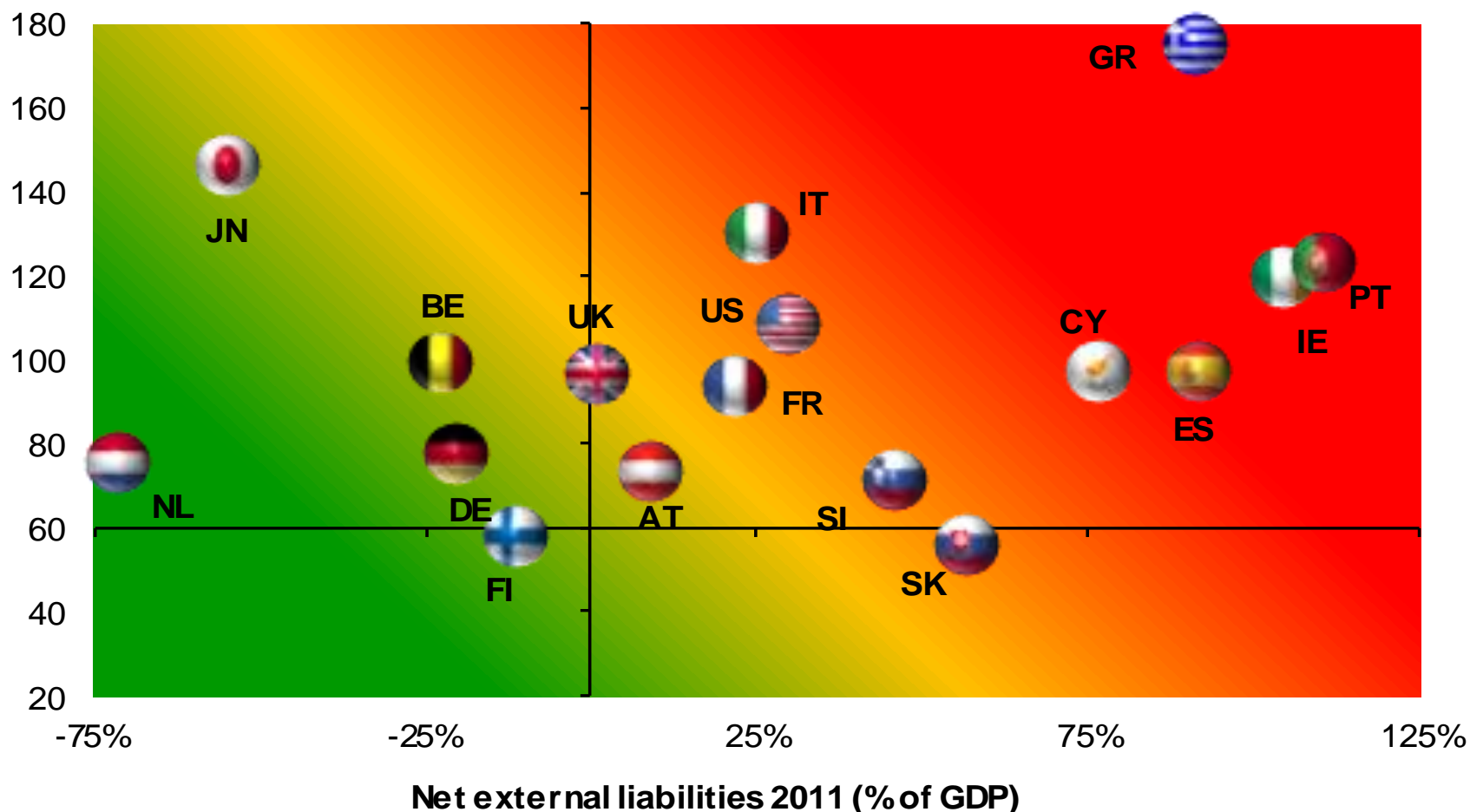
Unit labour cost, manufacturing industry
Index, Q1 2000 = 100



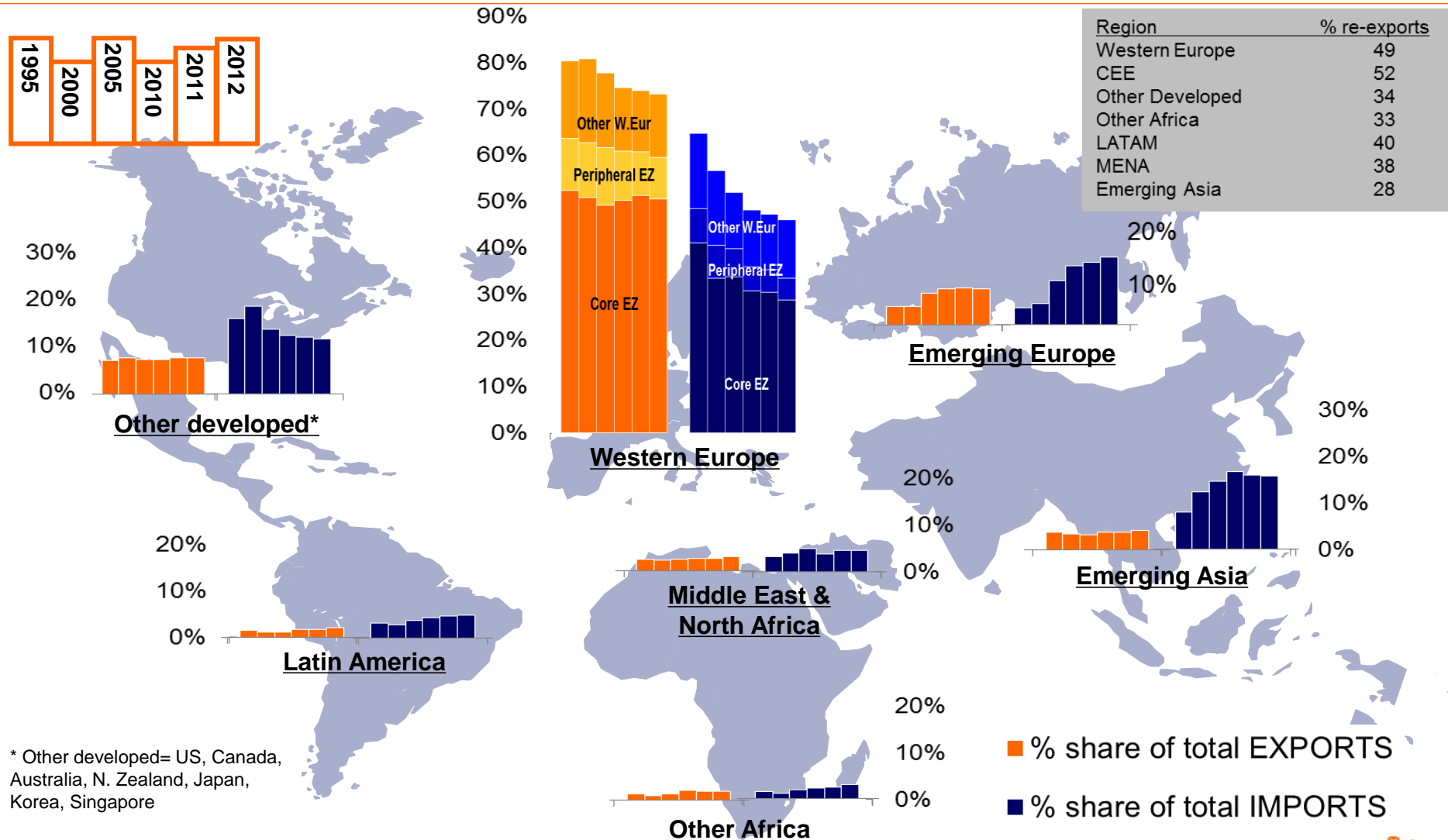
...generating huge surpluses

Sustained surpluses have boosted Dutch external assets

Gross government debt 2014F (% of GDP)



Nearby markets still account for >80% of exports



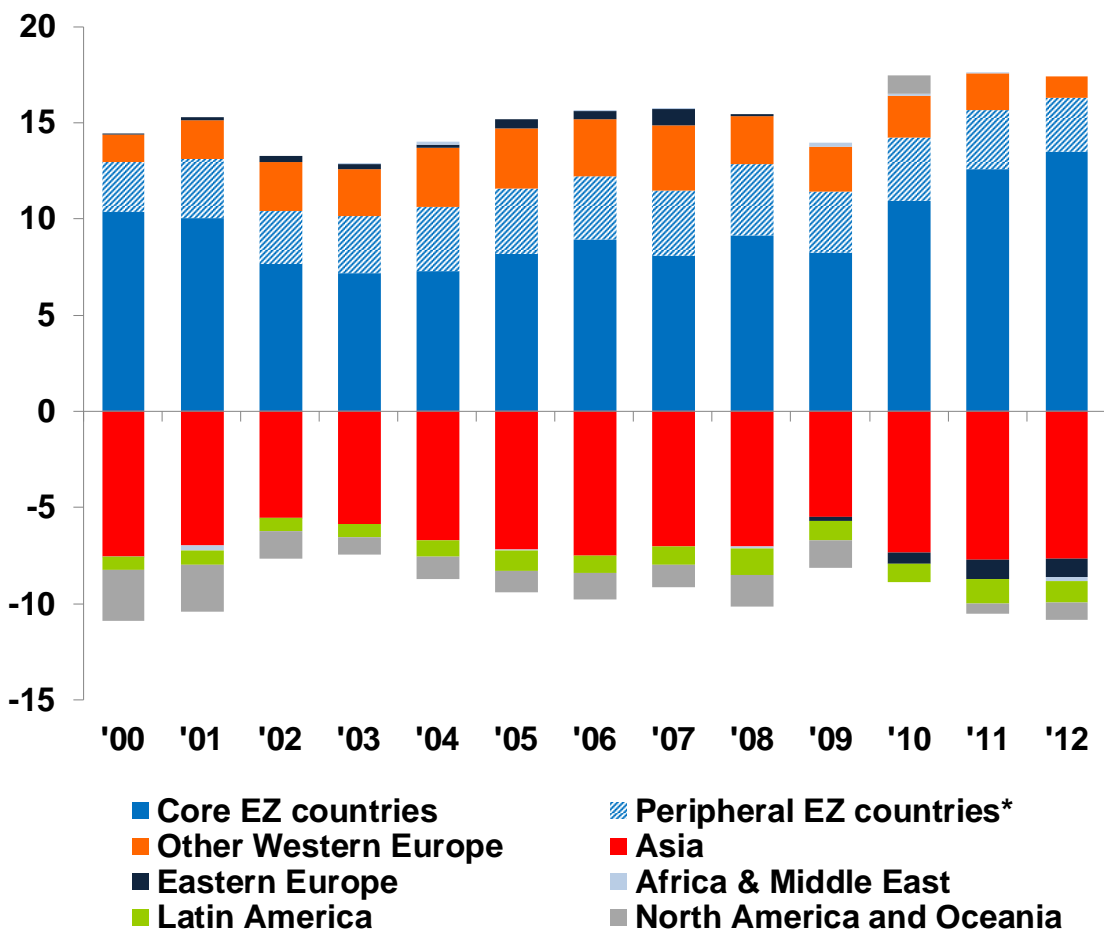
* Other developed= US, Canada, Australia, N. Zealand, Japan, Korea, Singapore

Source: UNCTAD, ING calculations

The Netherlands depends on Eurozone trade

Re-exports boost its surplus with the rest of Europe and its deficit with Asia

Trade balance as % of GDP (2000-2012)



- The Netherlands runs huge and growing trade surpluses with the Eurozone...
- ...amounting to over 15% of GDP in 2012...
- ...it even runs a big surplus with Germany
- Surplus with Eurozone more than offsets deficits with the rest of the world

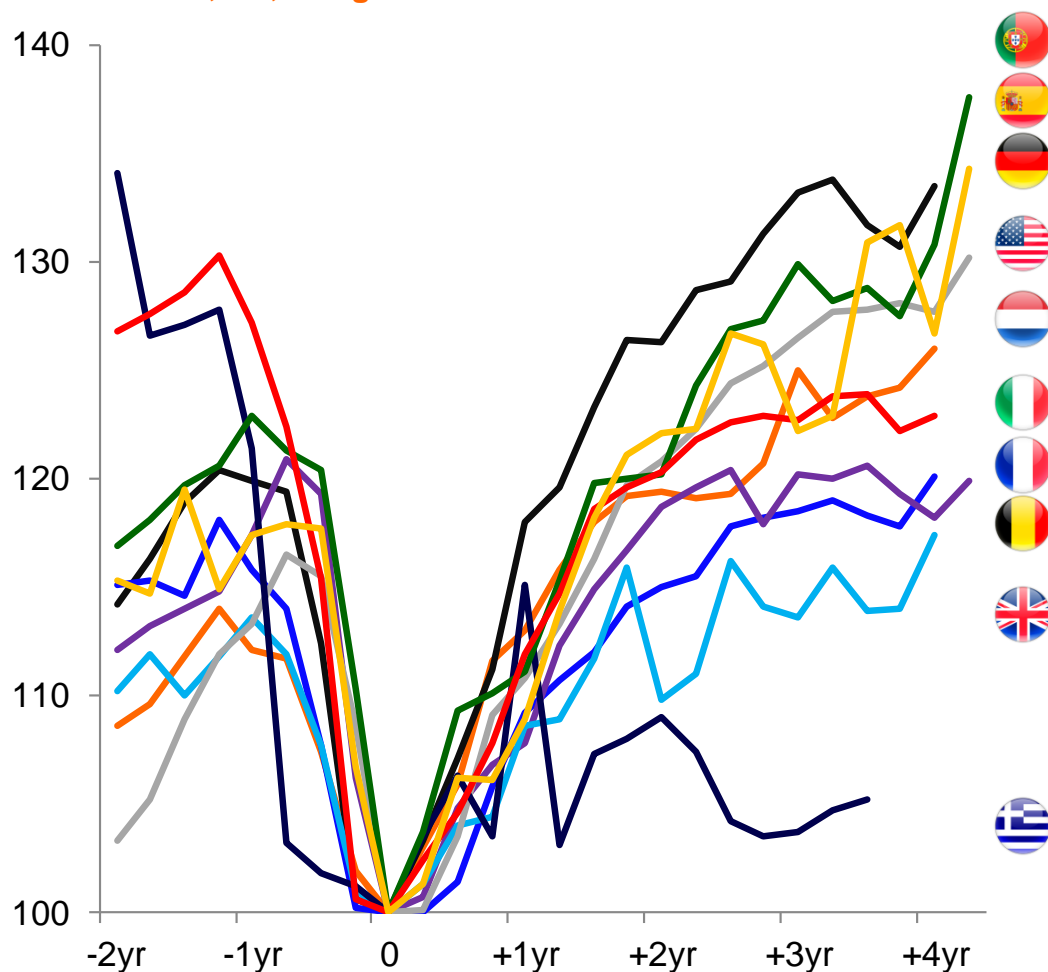
* Peripheral countries = Greece, Ireland, Italy, Portugal, Spain

Source: CBS, ING calculations

Post crisis rebound in exports

Spain and Portugal surpass Germany

Export of goods and services
Volume index, SA, trough = 100

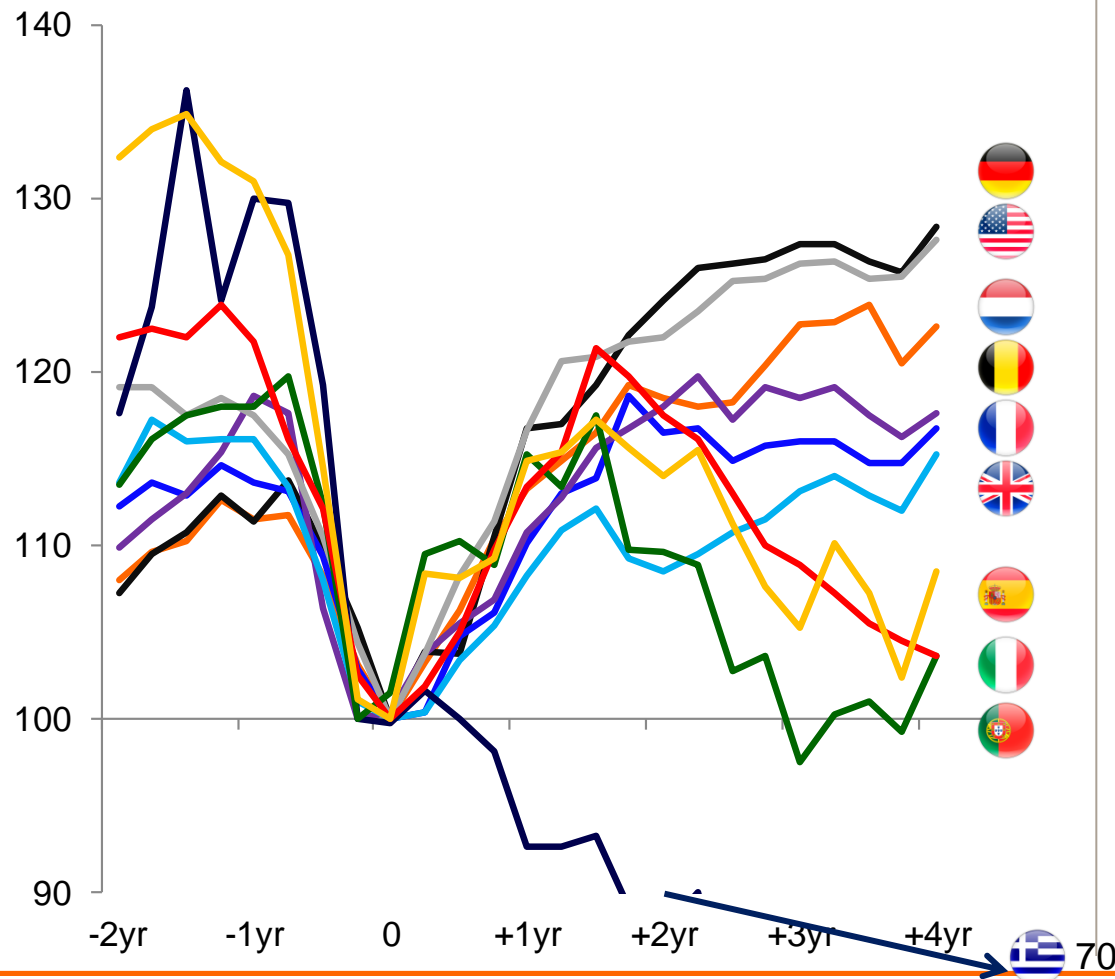


- After the Lehmans crash, exports have generally risen by over 20% to regain their pre-crisis levels
- Spain and Portugal have outpaced Germany and the US

Imports have risen less

Especially in the Eurozone's periphery

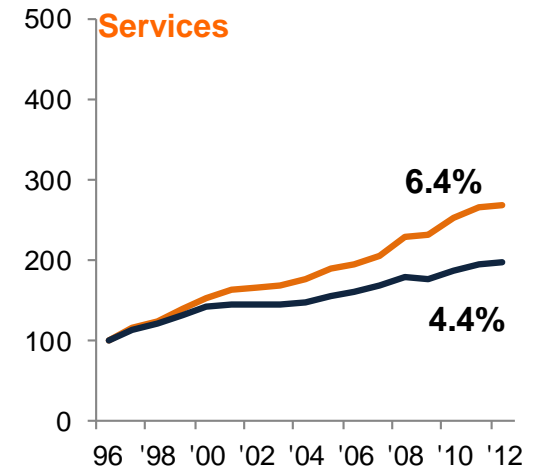
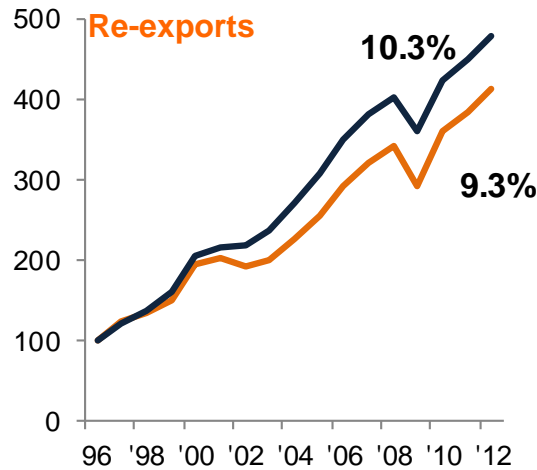
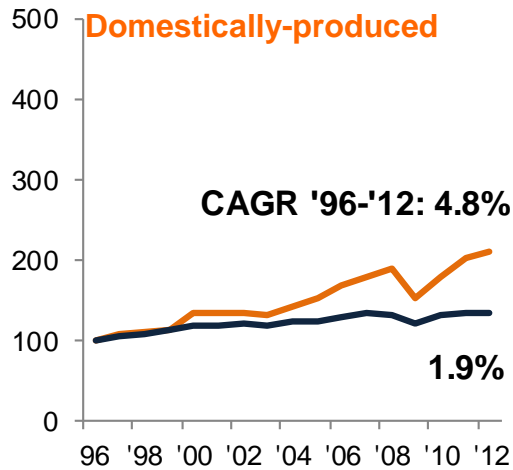
Import of goods and services
Volume index, SA, trough = 100



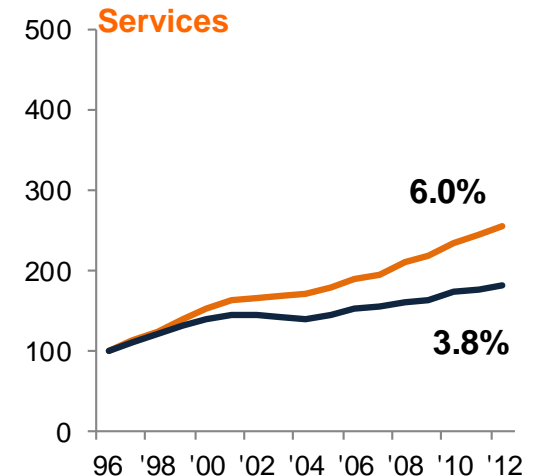
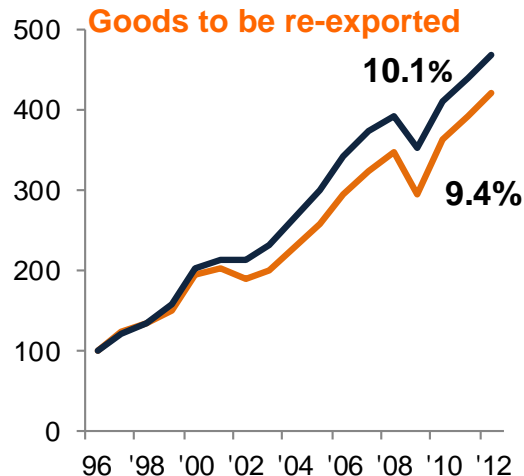
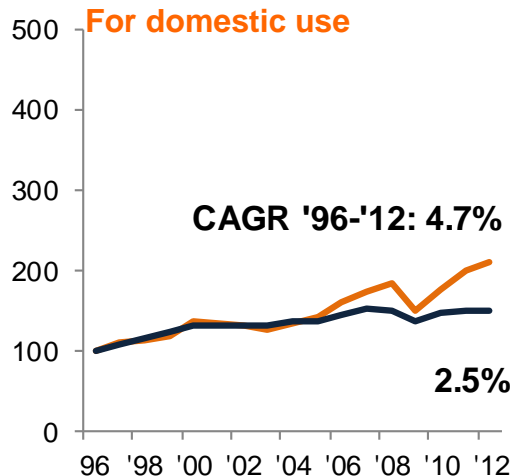
- Relatively slow growth in domestic demand has restrained the recovery in imports...
- ...notably in Southern Europe, where imports have been falling since 2011

Re-exports have quadrupled in volume

EXPORTS



IMPORTS



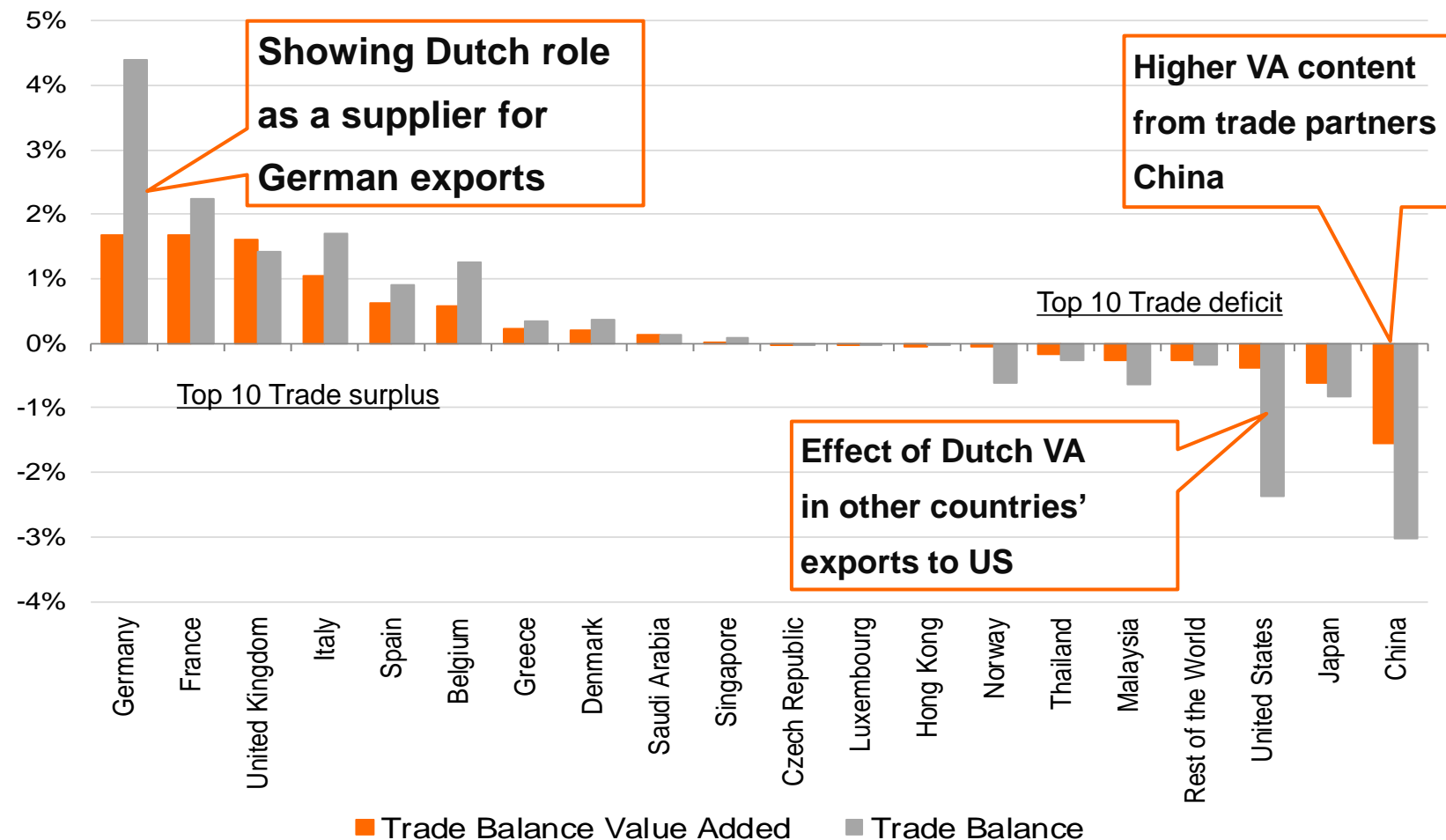
Current prices, index (1996 = 100, SA)

Constant 2005 prices, index (1996 = 100), SA

Trade in value added terms smoothes the picture

Germany and China look less important due to re-exports and the supply chain

Trade balance in value added 2009*, % of GDP

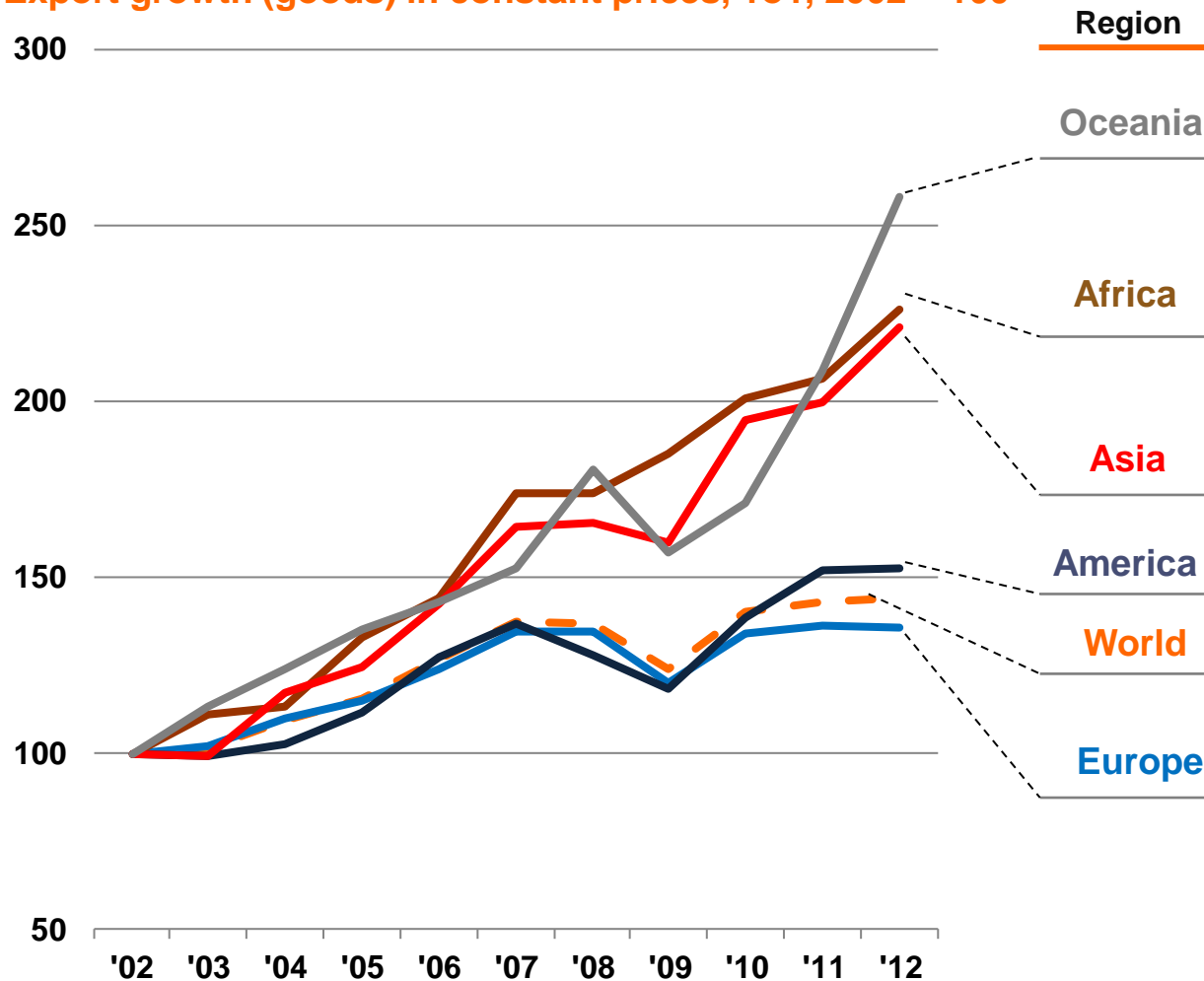


* Latest year available

Source: trade balance data was derived from CBS, whereas value added trade balance was computed using ratios (VA - gross trade balance) from OECD database

Exports to Europe are growing relatively slowly

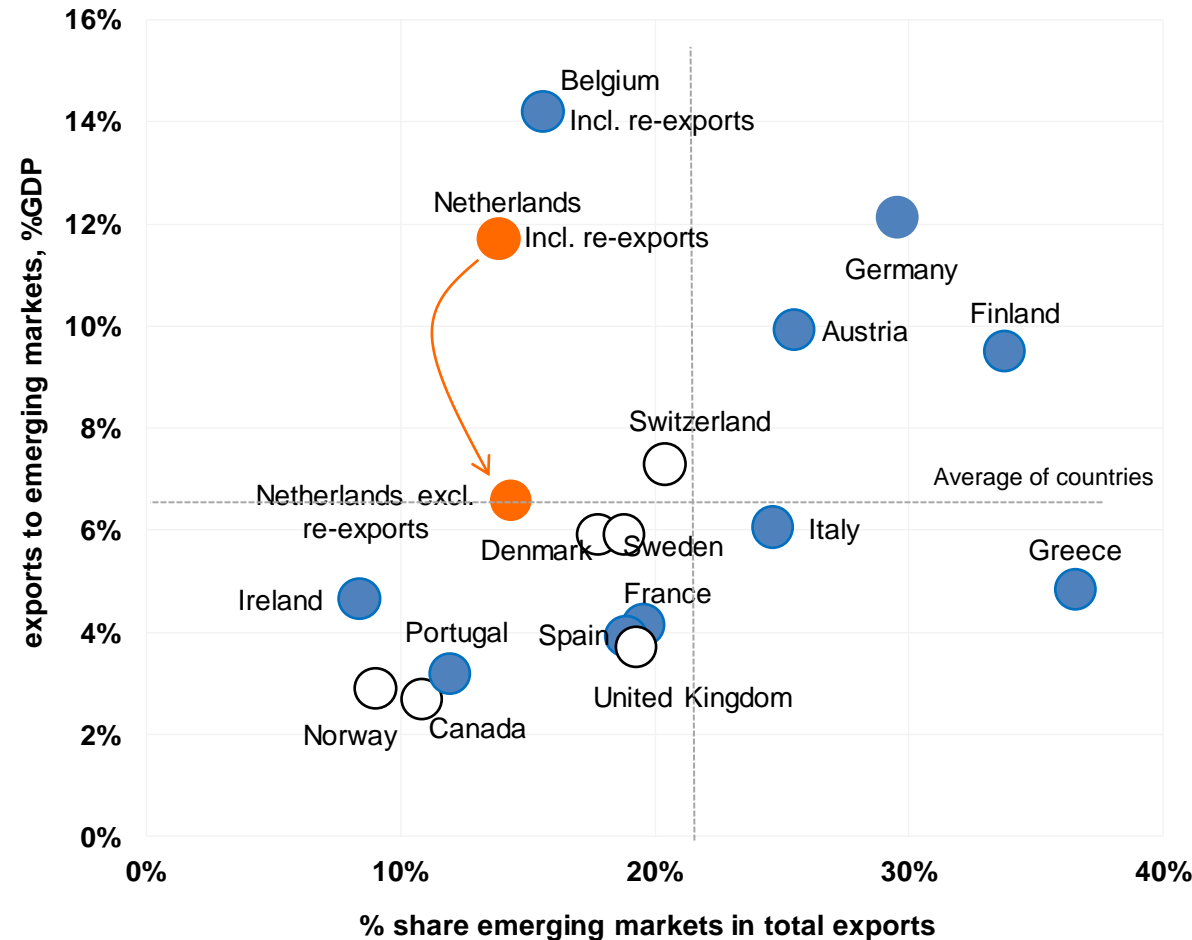
Export growth (goods) in constant prices, YoY, 2002 = 100



- Exports to Asia and Africa have more than doubled in the last decade...
- ...while exports to Europe have only risen by 1/3

EM share of Dutch exports is still small...

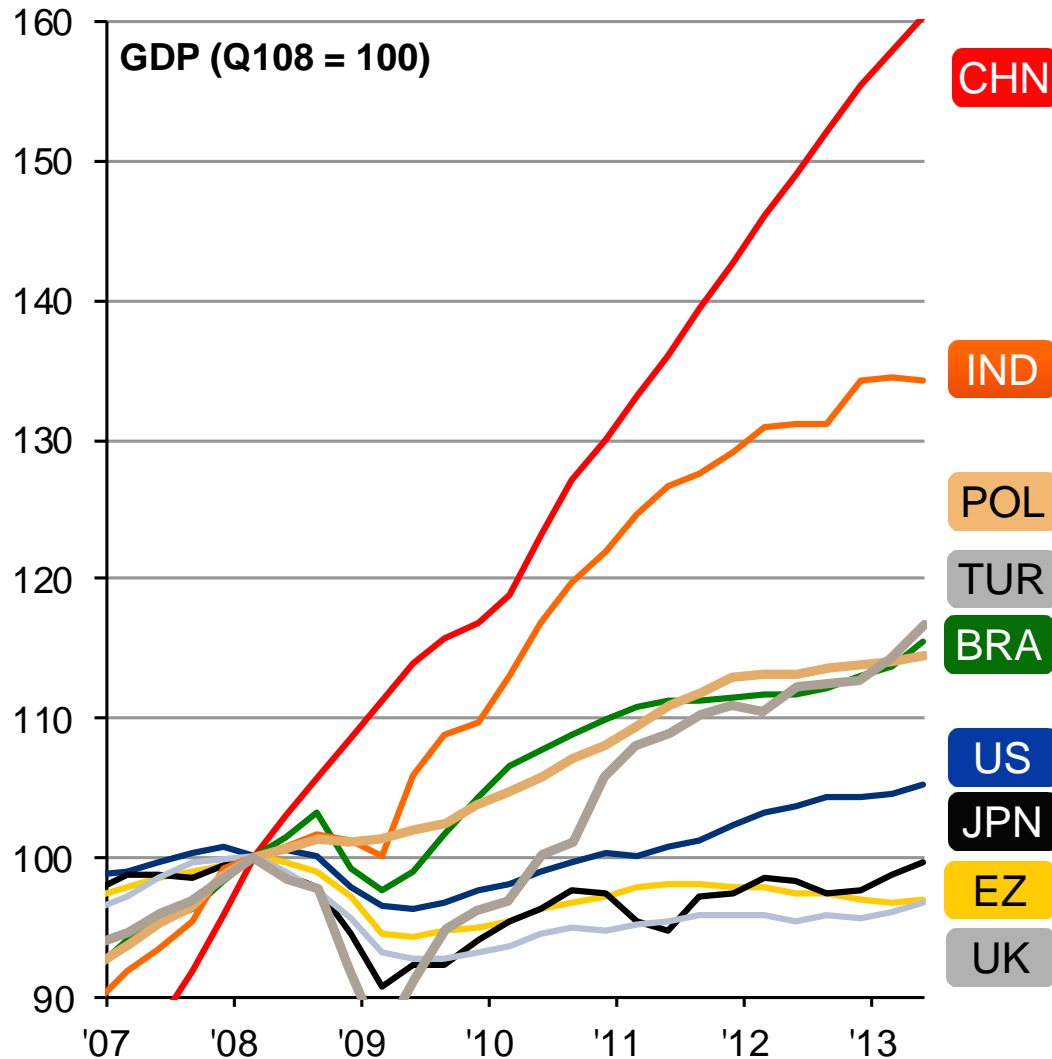
Exports to emerging markets by country
% GDP and % share (2012)



- Emerging markets are relatively less important for Dutch exports...
- ...but for our major trading partners these markets account for a larger share of their exports, adding to the Dutch exposure to EM via *indirect* exports
- Adjusting for re-exports shows less EM exposure

...so there still may be a lot to gain

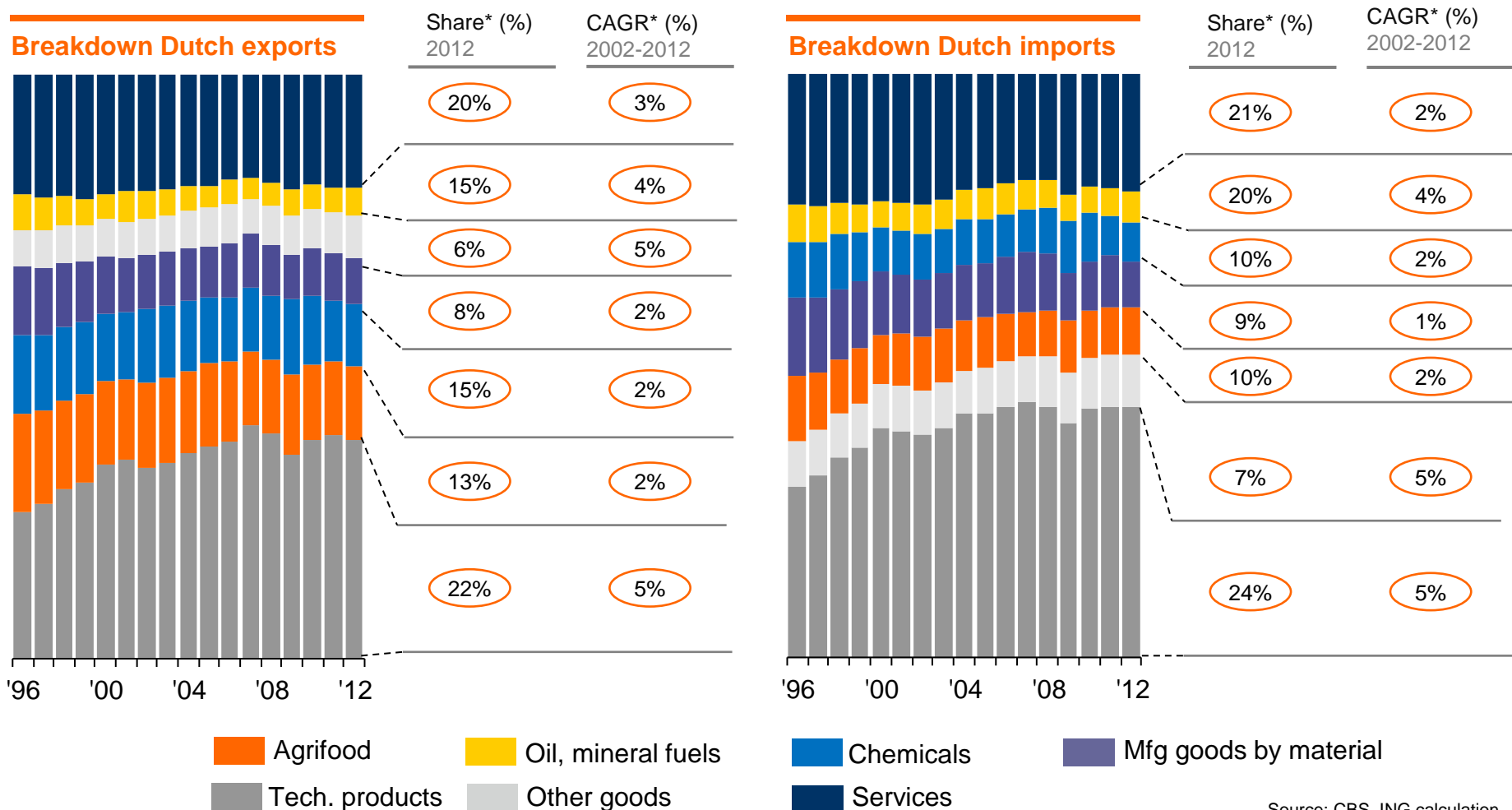
Low export share of fast growing countries shows the growth potential



Share in Dutch exports*



Exports and imports have similar structure

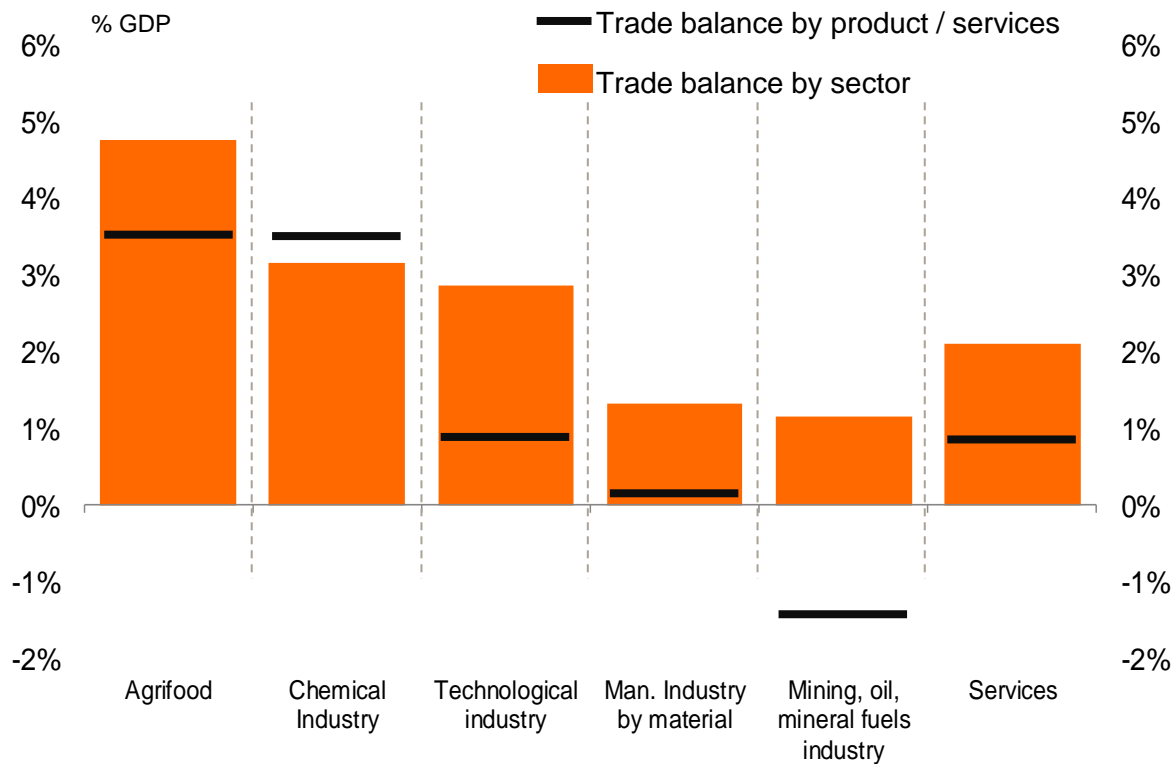


Source: CBS, ING calculation

* The development of the shares '96-'12 and the CAGR are based on € and constant 1996 prices. Shares 2012 are based on current prices in 2012

Largest contribution to surplus from agrifood

Trade balance by sector and product group
average '08-'12 (% of GDP)



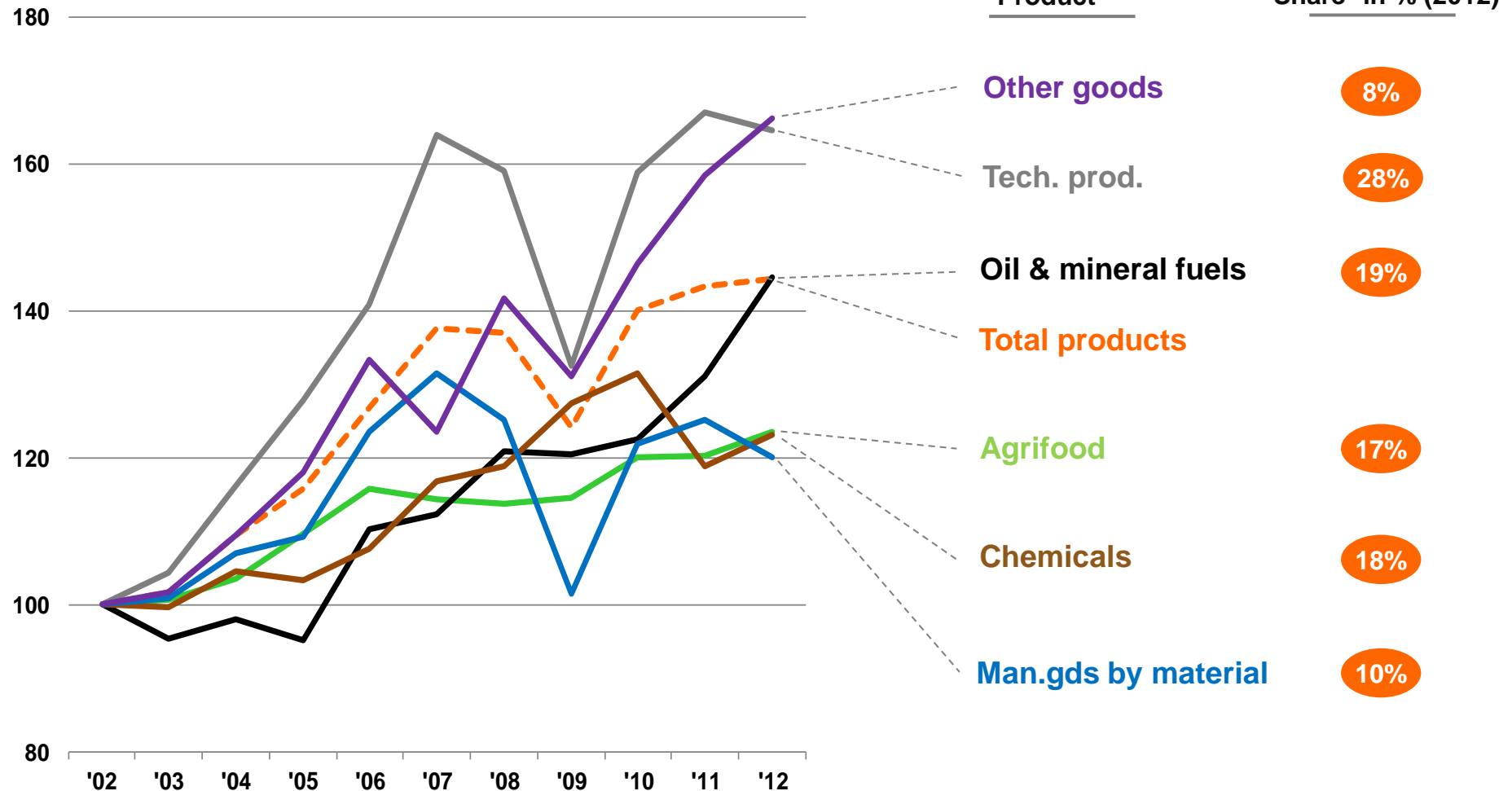
Note: the sum of the sector surpluses amount to appr. 13.5% of GDP. Household consumption accounts for a large deficit, bringing the total trade balance to +/- 7% of GDP

Source: CBS, ING calculations

- The agrifood sector makes the highest contribution to the Dutch trade surplus, but the tech and chemical industries (which show healthy export growth) also run large trade balance surpluses
- Although the tech industry itself has a high surplus, tech products are imported by other sectors (businesses and households) and so the surplus in tech products is much smaller than that of the sector

Latest export trends Netherlands *by products*

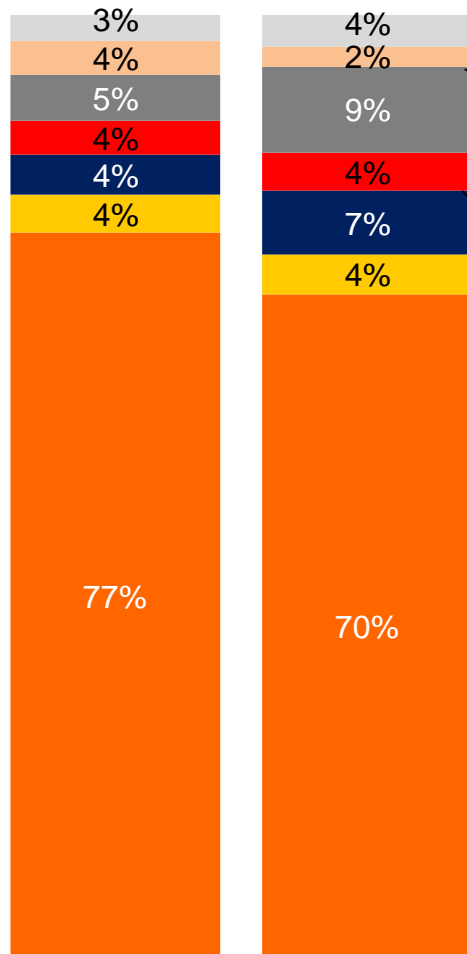
Export growth (goods) in constant prices, YoY, 2002 = 100



Source: CBS, ING calculations. * Shares are based on current prices

Dutch SME's are important in international trade...

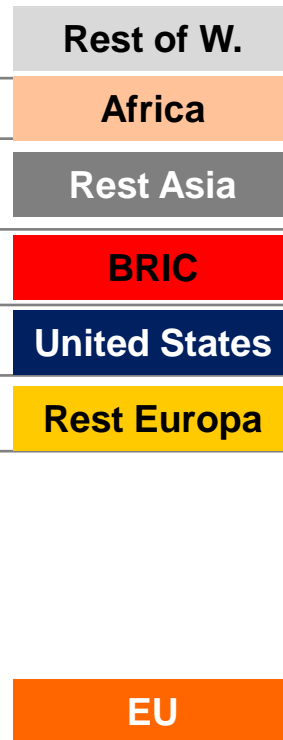
Share of region in exports by firm size



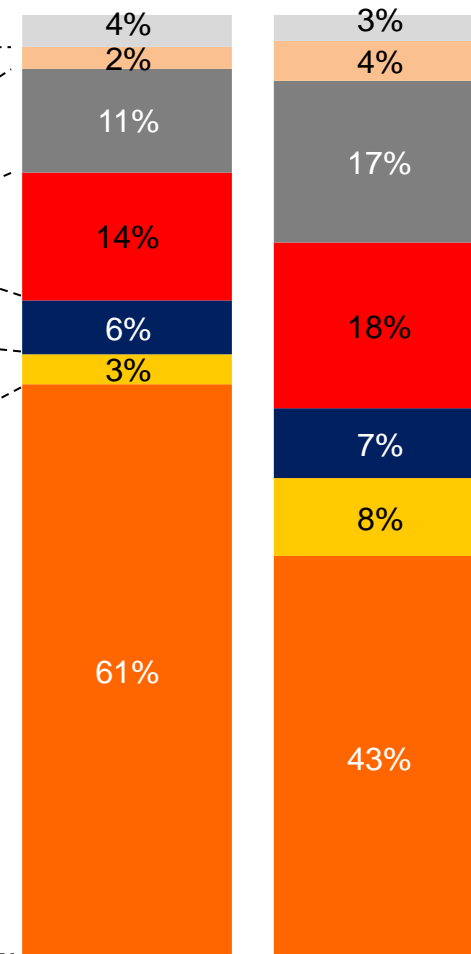
SME

Large

Country/region



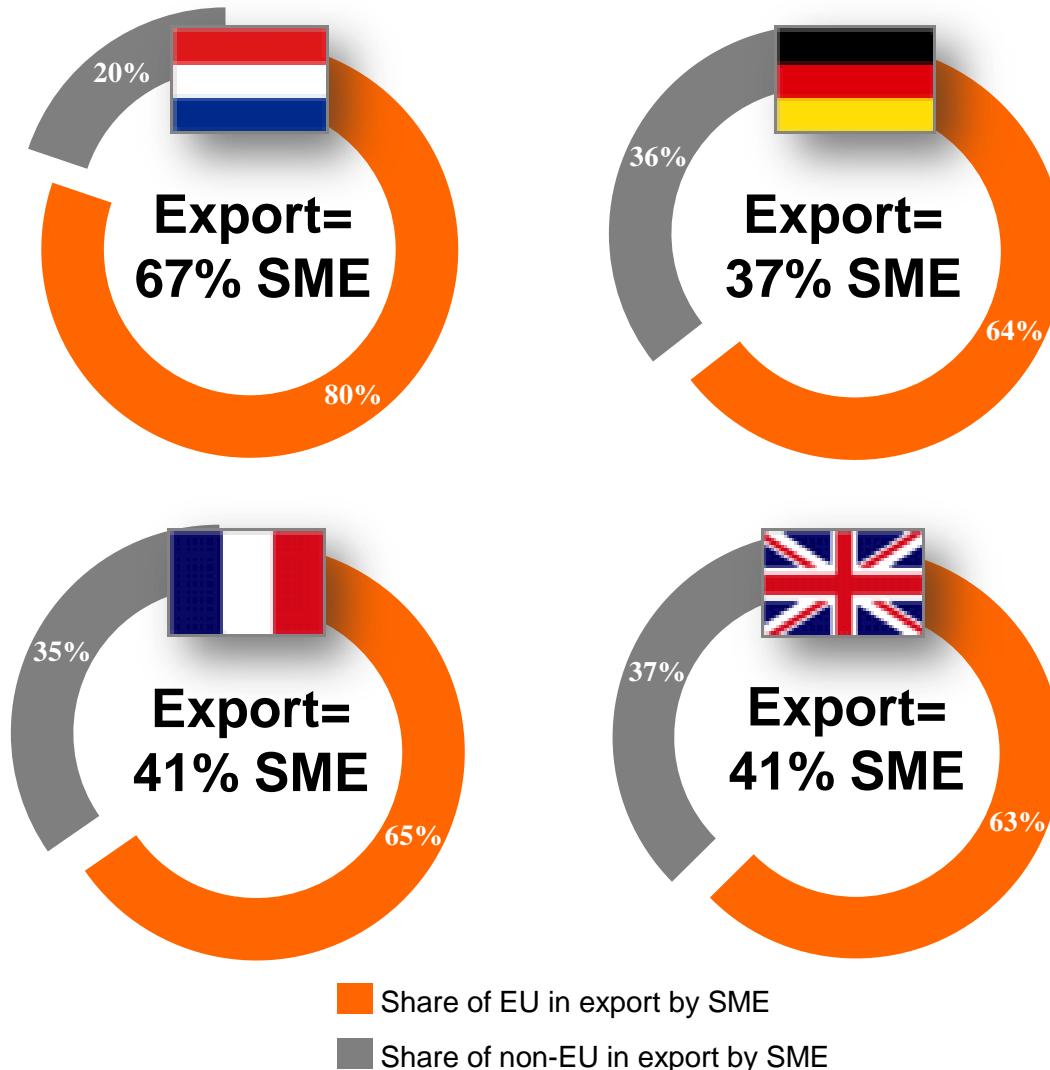
Share of region in imports by firm size



SME

Large

...more important than in some other countries

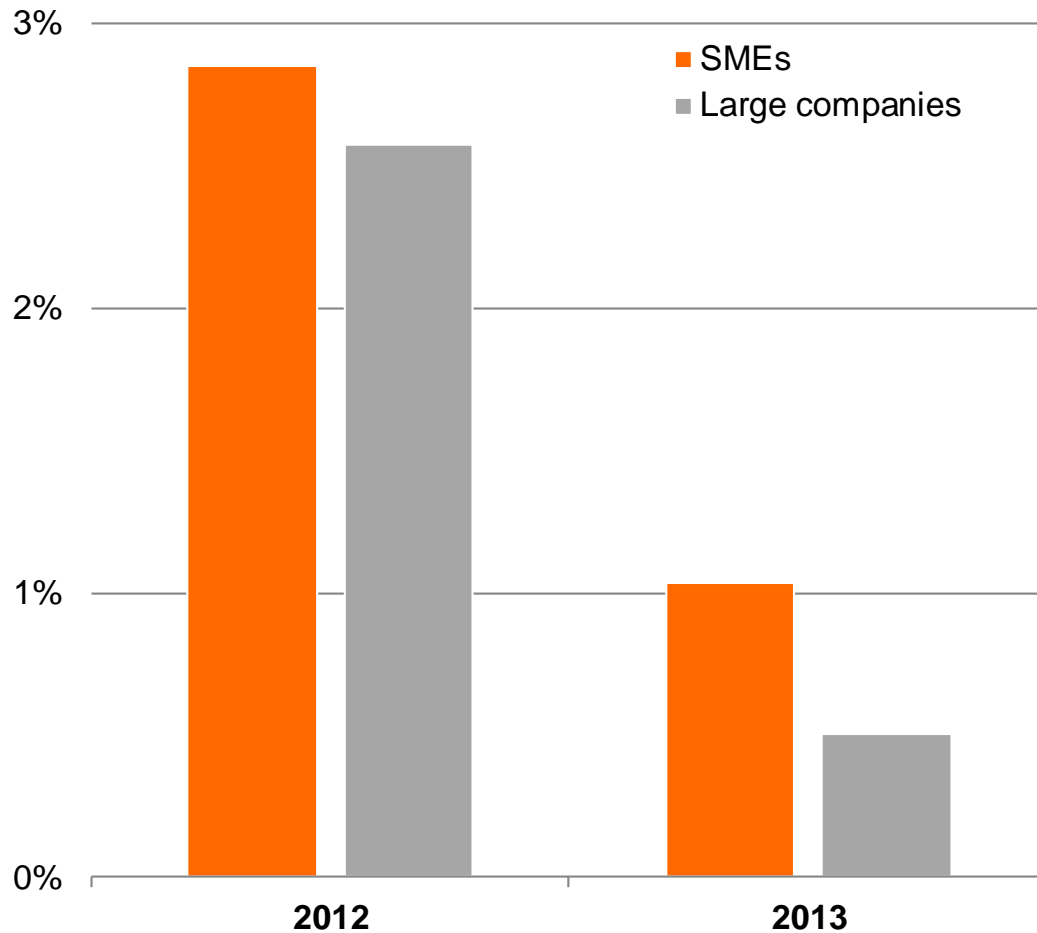


- SME's account for 2/3 of Dutch exports
- EU is, however, main destination
- In other EU nations, SMEs account for much less than half of exports
- Over 99% of firms are SME (up to 250 FTEs)

This time is no different

SME's in the lead again

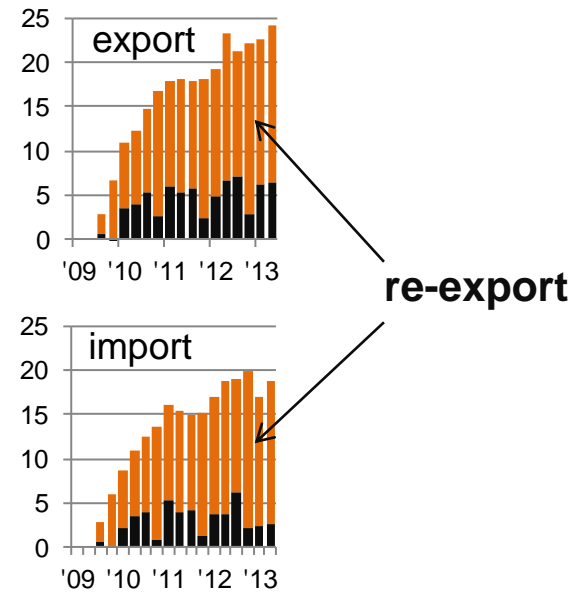
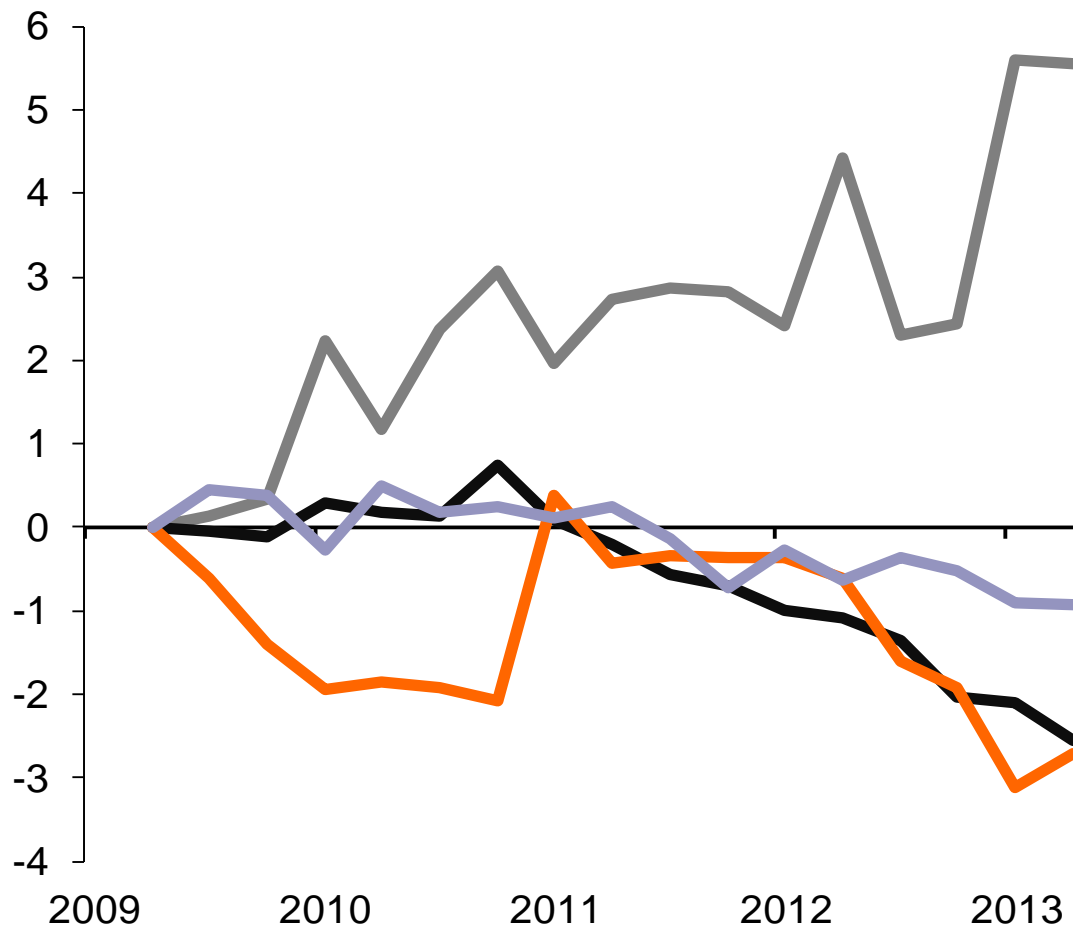
Development of foreign sales by firm size
% growth, current prices



Surge in net export also driven by weak demand

Consumers and firms currently spend some €5bn less per quarter than in Q209

Development of Dutch GDP components
Change since trough (Q209), in €bn, constant prices, SA



Net exports have increased steadily...

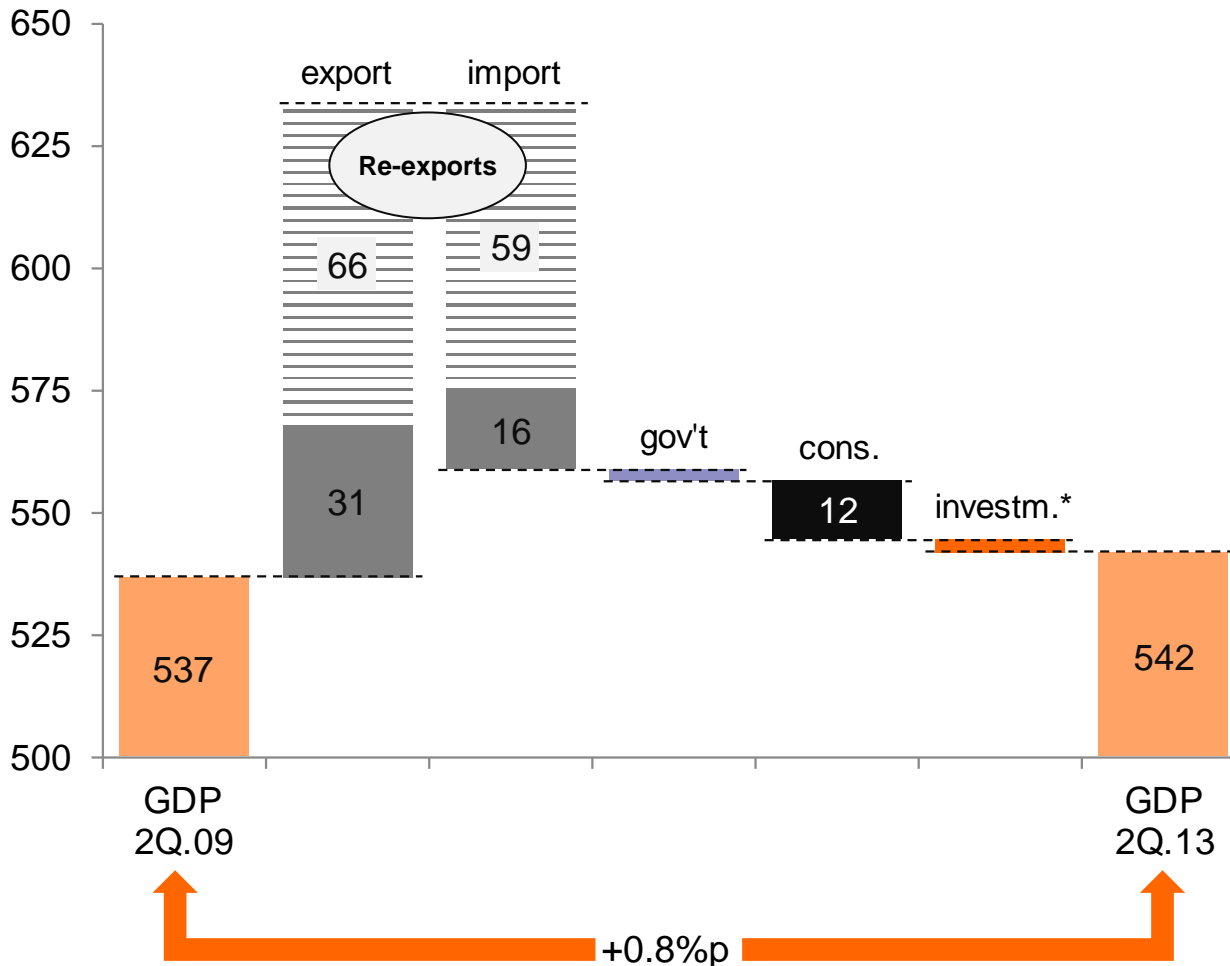
...while **government spending** initially held up, but then austerity kicked in...

...which, together with housing and pension worries, hit **consumption**...

...but also firms' **capital spending**

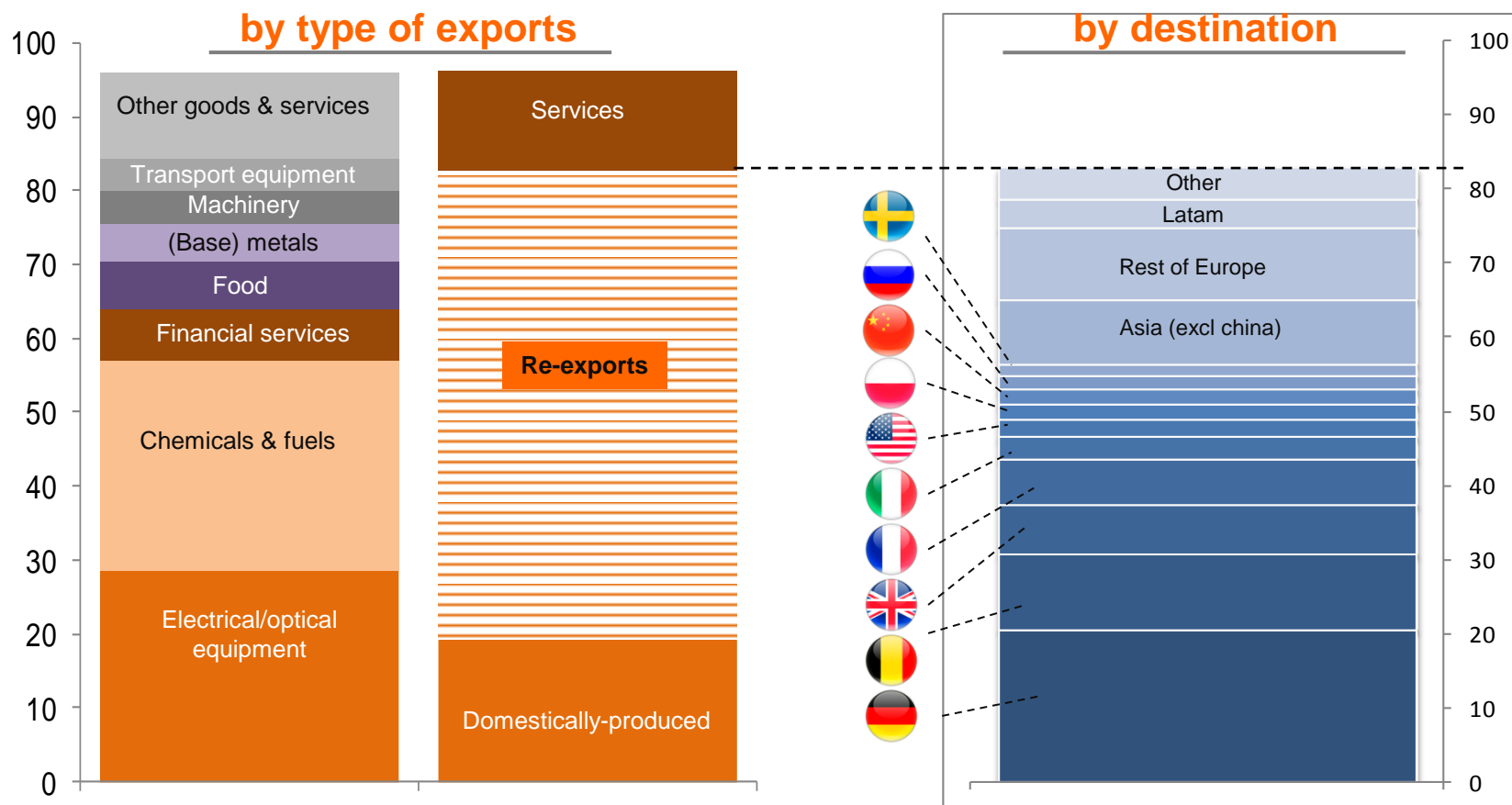
Export-led recovery in the Netherlands...

Contribution to change in Dutch GDP since trough (Q209)
In €bn, annualized, constant prices, SA



...with re-exports of chemicals/machines in the lead

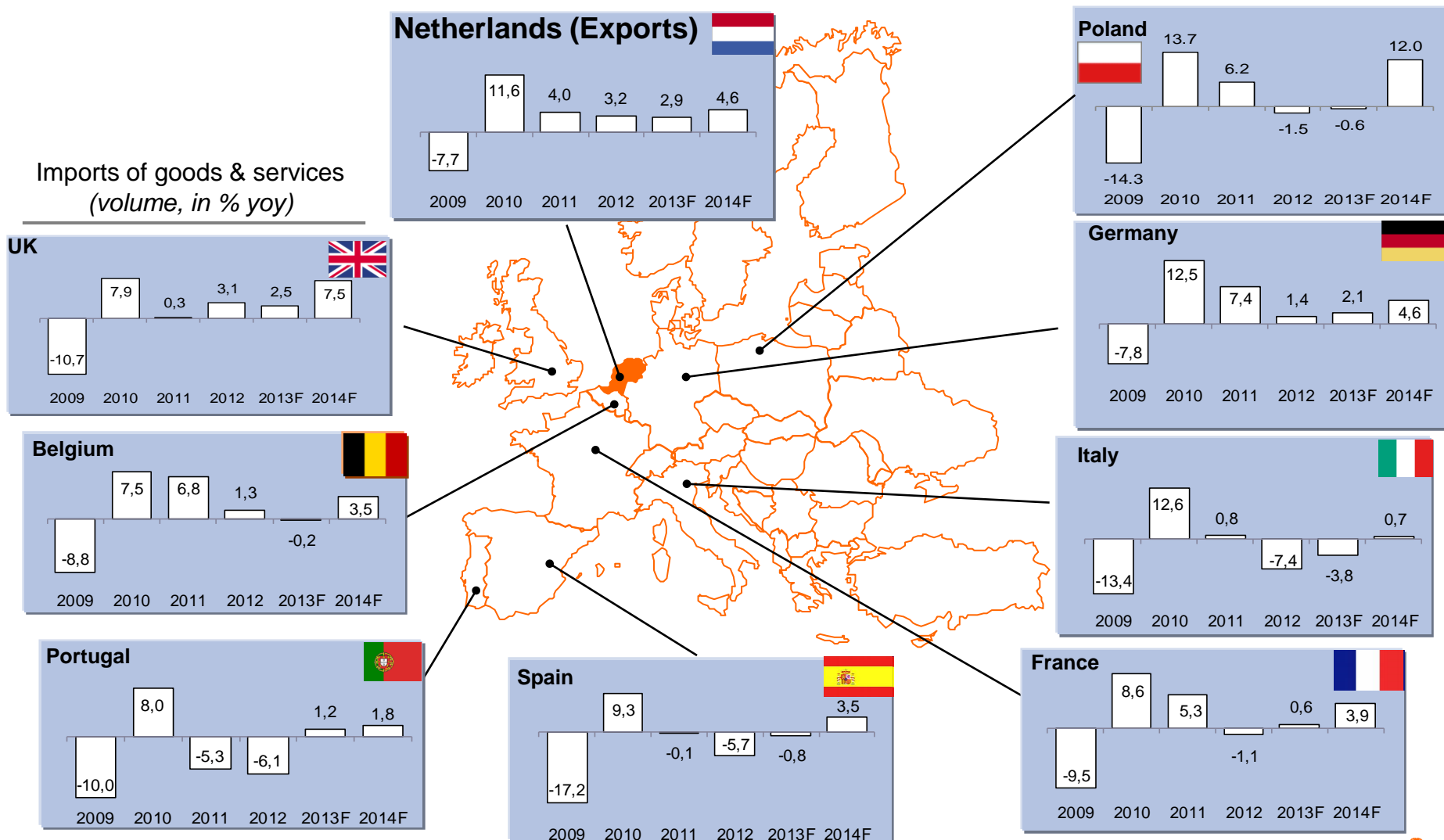
Contribution to increase in Dutch exports Q209 – Q213
in €bn, current prices



Source: CBS, ING calculations

Exports set to accelerate...

The US and European economies are likely to shift into higher gear next year



...leading to a record current account surplus

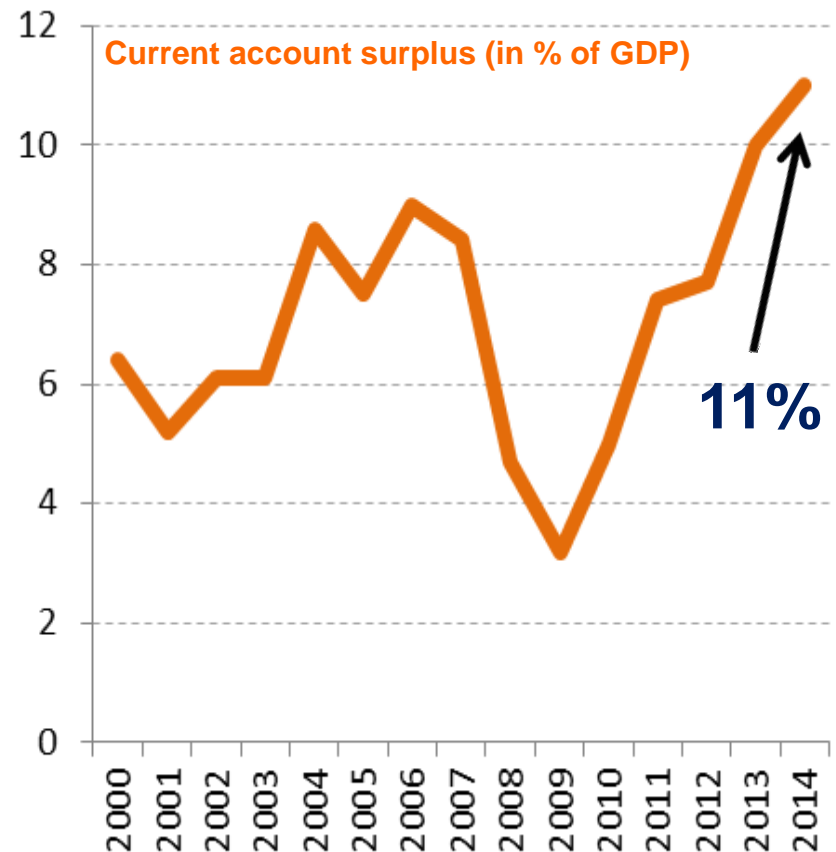
As trading partners recover more quickly, growth in exports outpaces imports

Exports continue to outstrip imports...



Source: Statistics Netherlands (CBS), ING forecasts

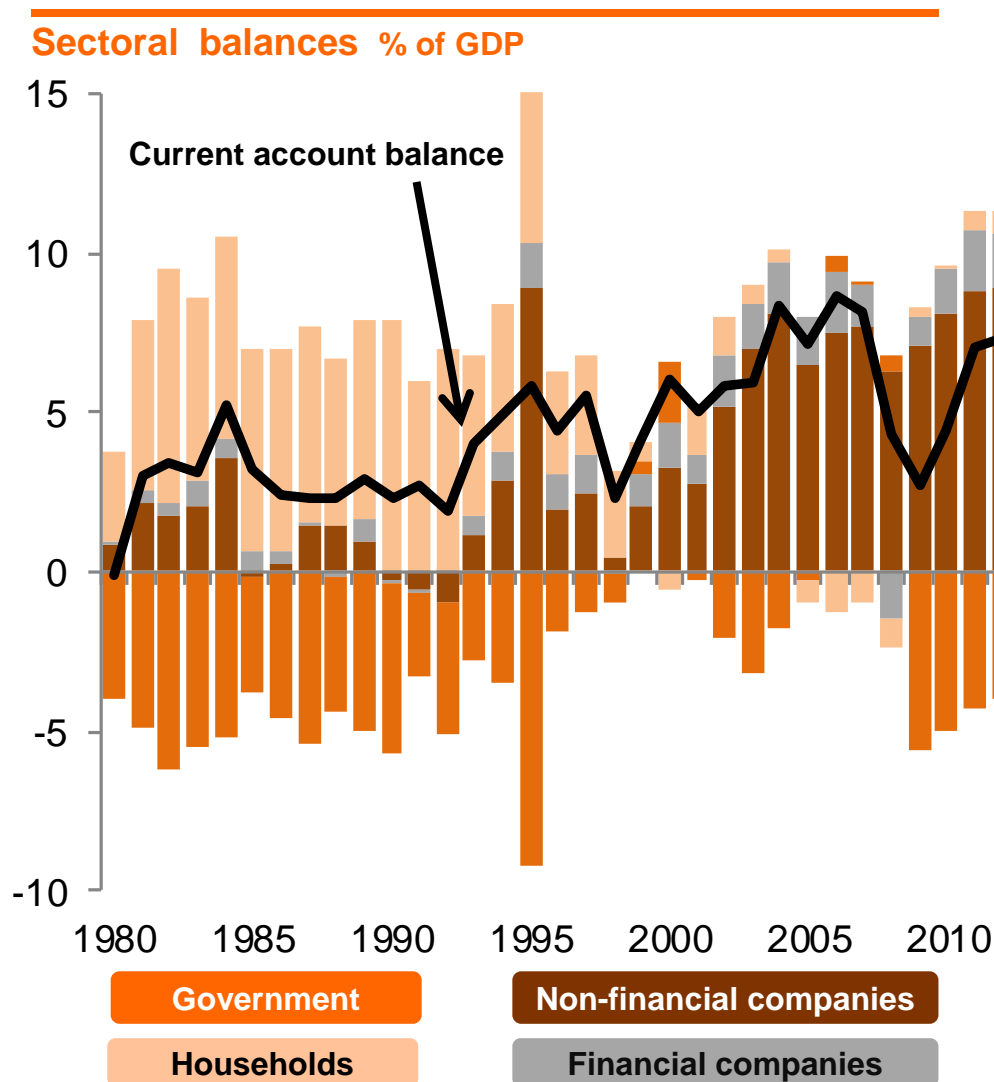
...leading to a record high surplus



Source: Statistics Netherlands (CBS), ING forecasts

But isn't this “too much of a good thing”?

Shouldn't Dutch companies invest more in their home market?

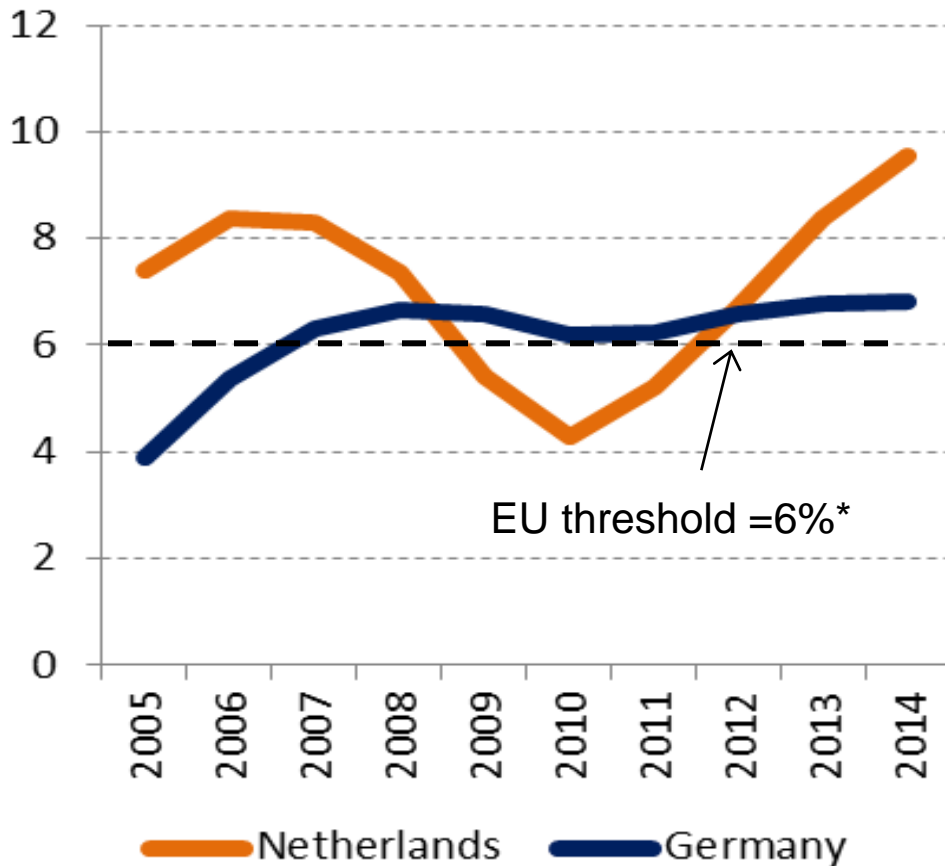


- The counterpart of the rising current account surplus is rising corporate savings...
- ...Dutch companies are reluctant to invest at home
- On the back of ICT developments, liberalization and the introduction of the euro, Dutch companies dramatically increased their foreign investment

Foreigners seem to think so...

Germany under US attack and the European Commission starts investigation

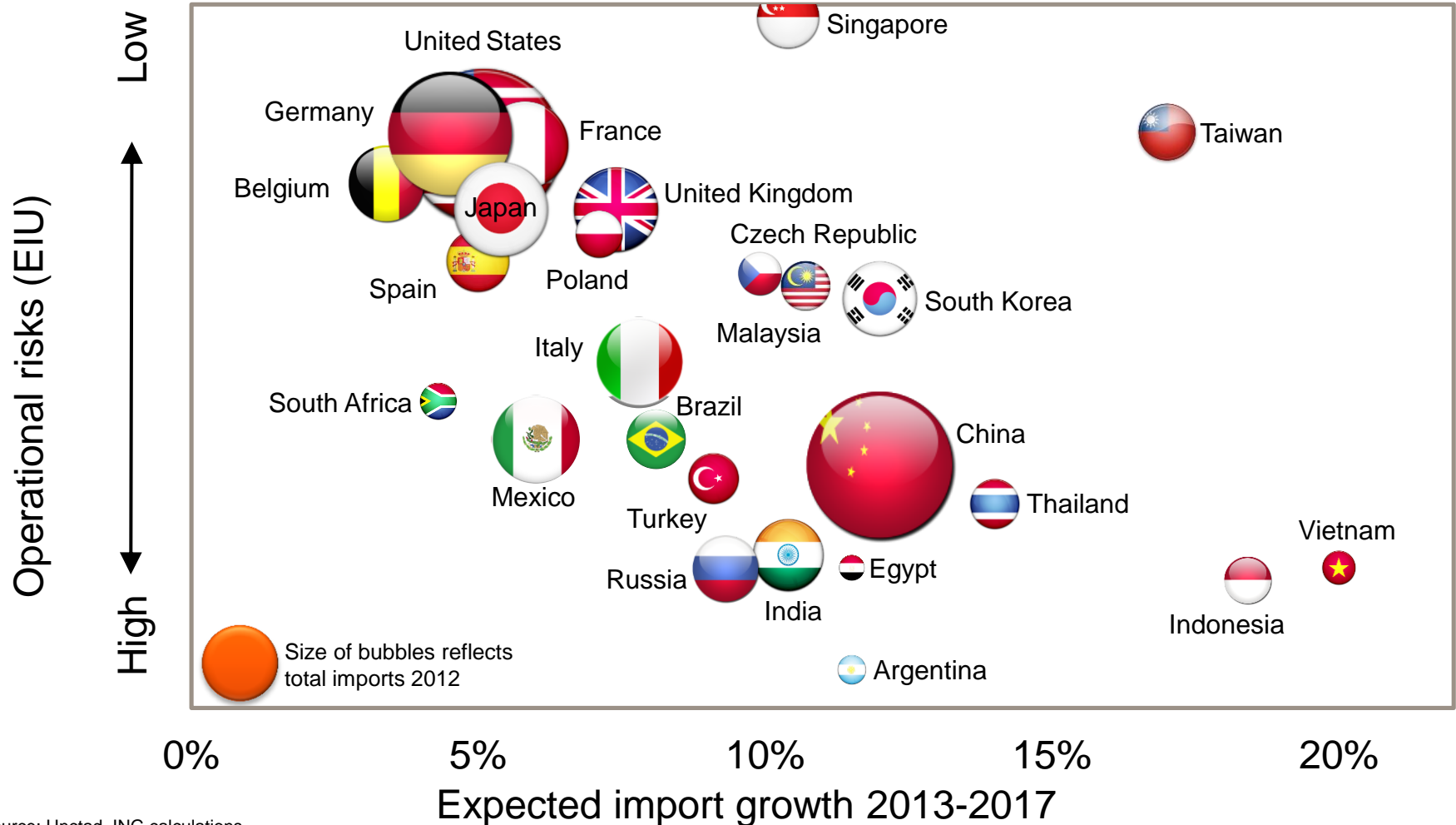
Macroeconomic imbalance – current account (% GDP)



Source: ING

*Specified in the Macroeconomic Imbalance Procedure (based on 3 year backward moving average of the current account balance (% GDP))

Emerging markets...racy but risky



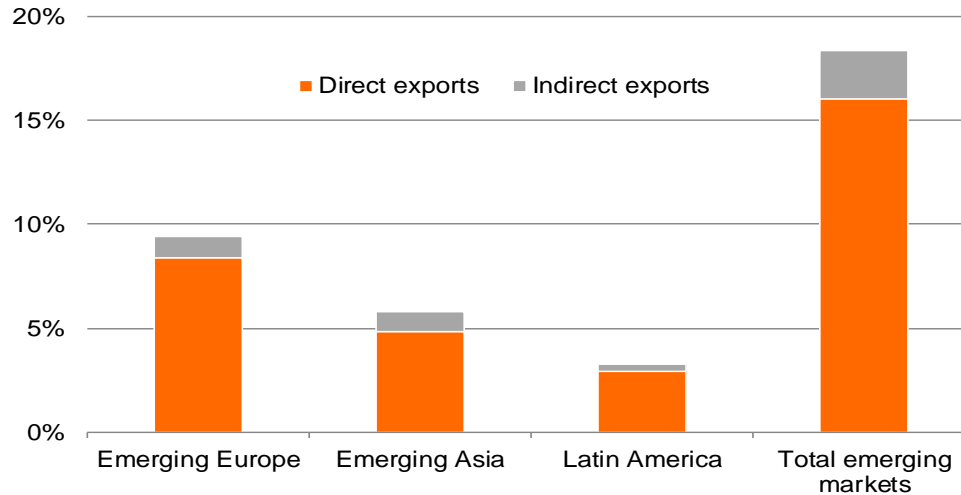
Source: Unctad, ING calculations

Operational risks include threats ranging from security to finance and politics. Source: EIU, ING

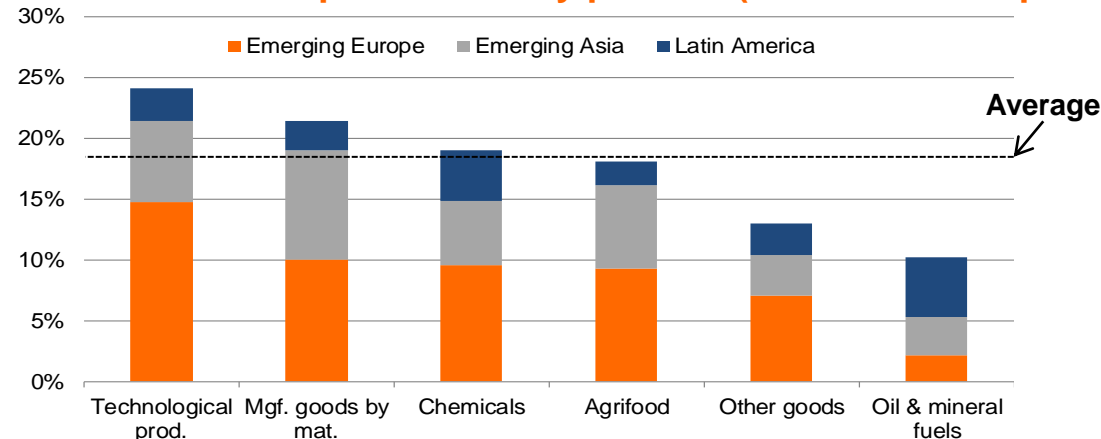
How vulnerable to an EM slowdown?

EM share in exports is limited but impact on specific sectors can be significant

Share of Dutch exports to emerging markets in % of total exports



Share of Dutch exports to EM by product (incl. indirect exports)



Source: CBS, VU, ING

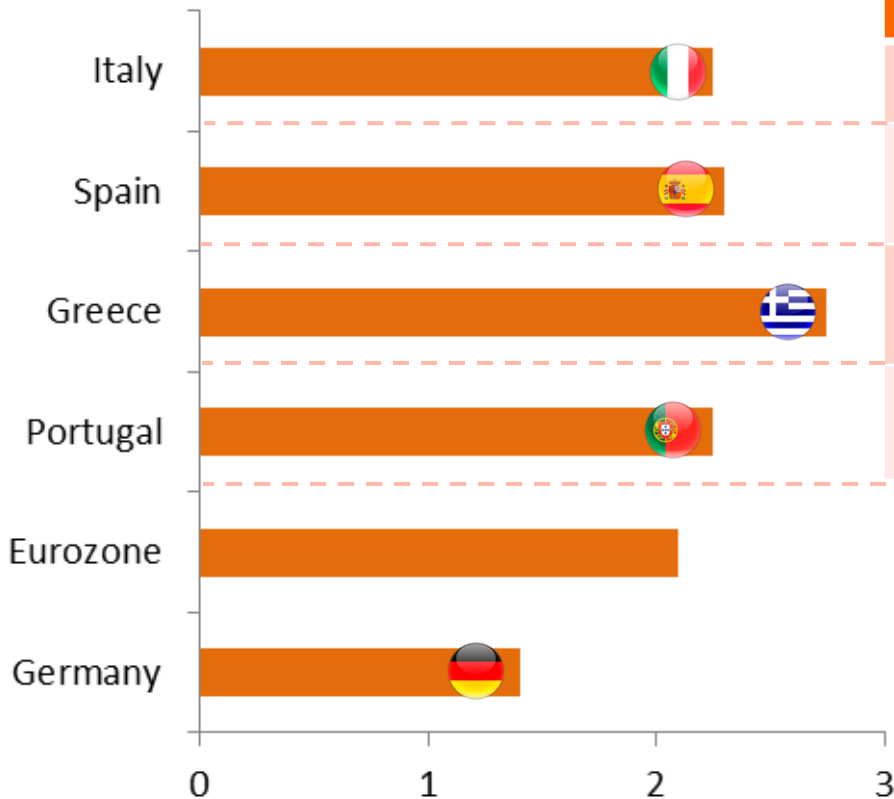
- Emerging market share of total exports amounted to 16% in 2012 (18% including indirect exports)
- By type of goods the exposure is highest for technological prod.(24%) and manufactured goods (21%)

A new dawn in Europe?

Above average growth rates in Southern Europe if restructuring is successful

Growth potential after fiscal consolidation and structural reform

(Potential real GDP growth 2020/2030, in %)



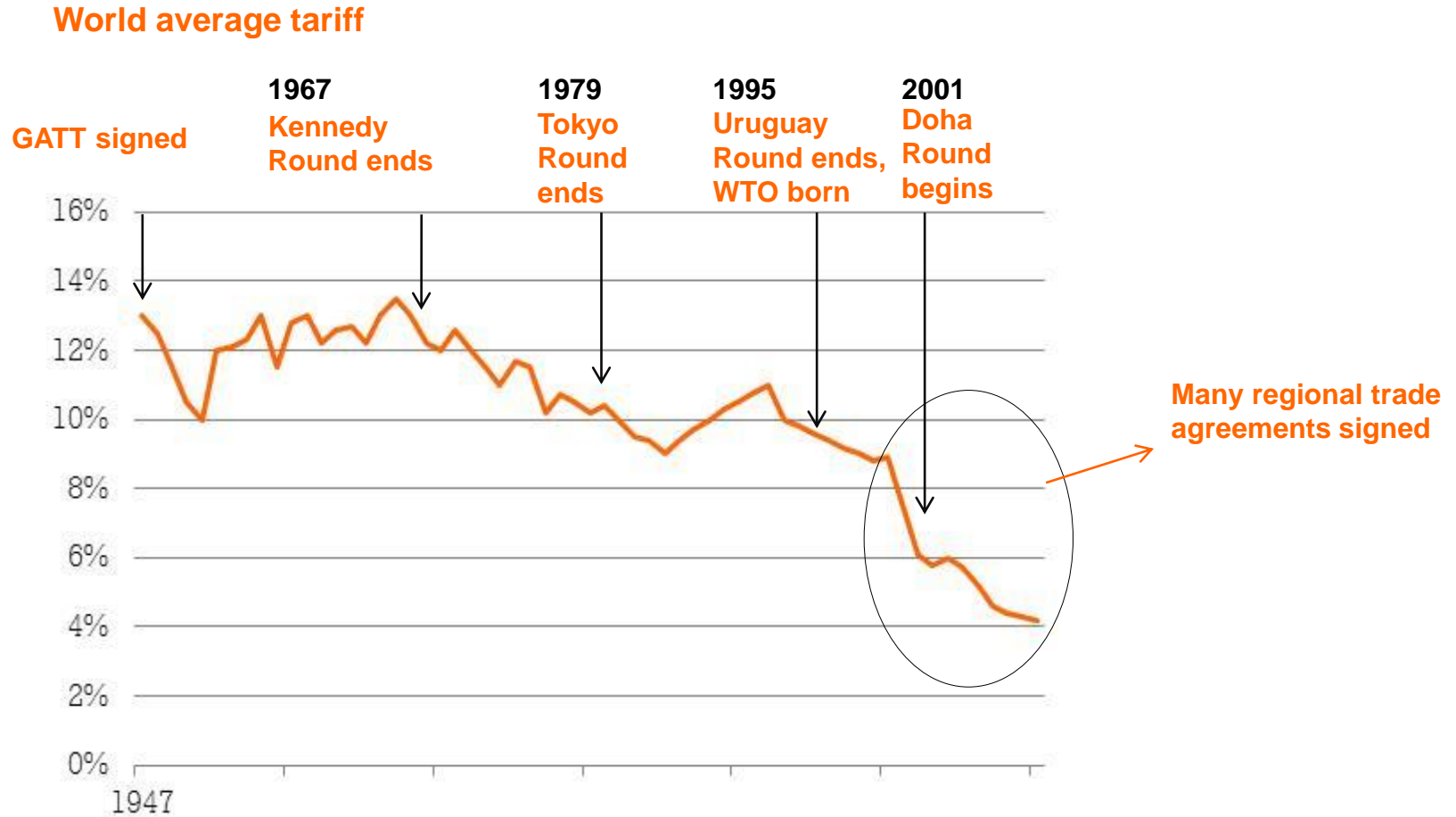
Source: OECD, ING

Share in Dutch exports (Average 2010-2012, in %)

Agri-food	Oil, mineral. Fuels	Chemicals	Manuf. goods	Tech. products
5.0%	3.2%	5.5%	4.3%	4.7%
3.1%	1.0%	3.6%	2.8%	3.3%
1.2%	0.1%	0.6%	0.4%	0.5%
0.6%	0.2%	0.8%	0.7%	0.8%

Source: CBS, ING

Structural decline of tariffs...



Source: RTAs, WTO, Ecorys

Transatlantic Trade and Investment Partnership

New opportunities with the US?

Reduce Tariffs to encourage Trade in Goods

- Reduced tariffs boost competition and trade
- Particularly in agricultural products, textiles and clothing and footwear (tariffs on shoes as high as 66% in the US¹)

Harmonise regulation and industry standards

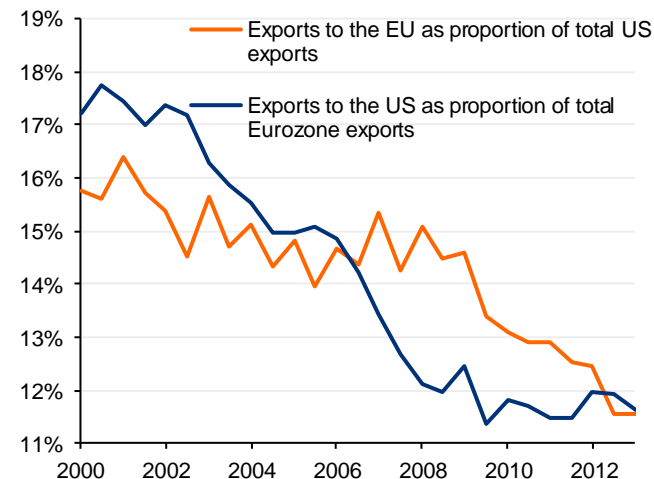
- e.g. Joint car safety and drug registration regulations would prevent double tests in the US and EU.

Relax “Buy America” procurement rules

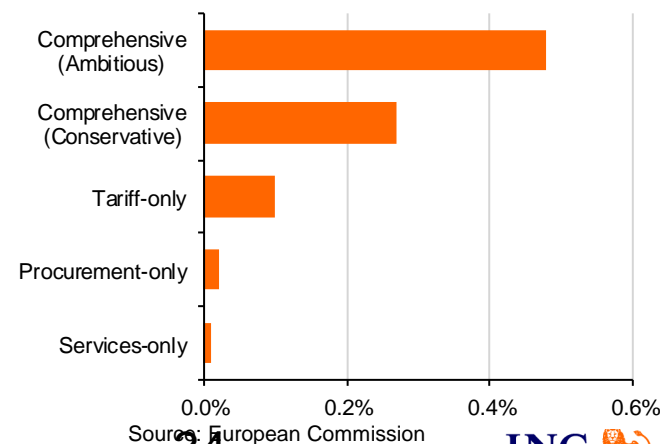
- Currently only 32% of US Federal procurement market is open to EU businesses.

¹ Source: BBC

Proportion of trade between US and EU has decreased...



Estimated increase in EU GDP from TTIP



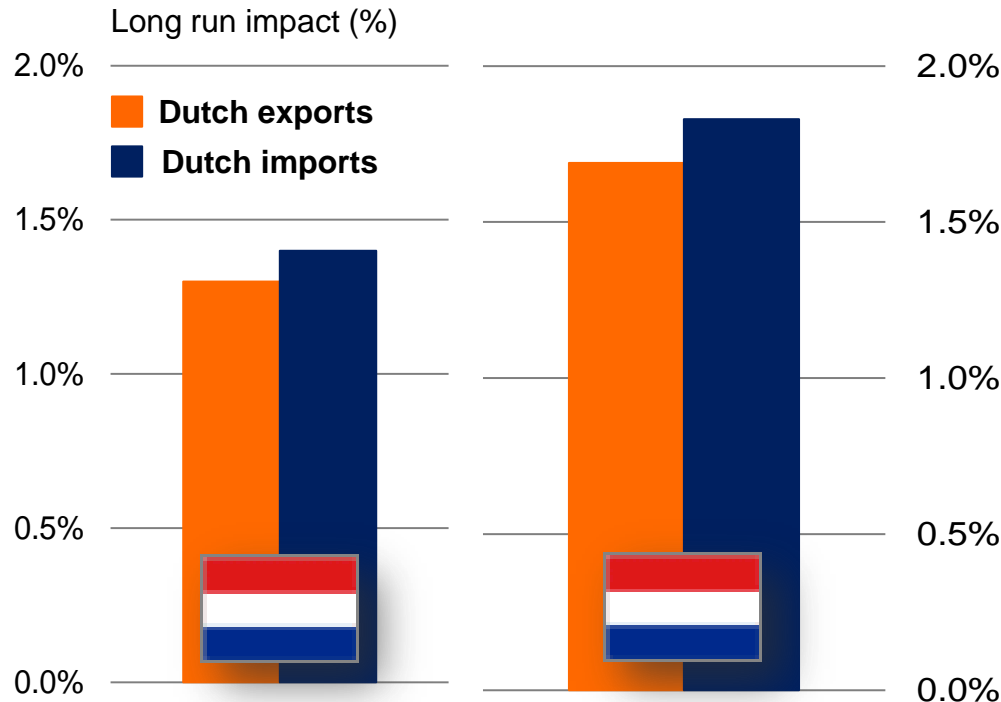
TTIP a boost to trade

Although some sectors will lose out

Transatlantic Trade and Investment Partnership (TTIP)

Tariff liberalisation

NTM, complete liberalisation



- Free trade negotiations will give a general boost to trade with the US...
- ...some sectors will gain, eg chemicals, while others will lose out, eg electrical machinery
- Cheap US gas is a competitive threat

US energy revolution

Natural gas price differentials



- Cheap US gas is a competitive threat to energy and chemicals sectors

Conclusions

- The Dutch economy is extremely competitive, with a high and rising trade surplus
- Exports have led the economy's recovery, with the SMEs leading the way
- The Netherlands is particularly successful in Europe...
- ...agrifood and chemicals account for much of the country's surplus
- Nevertheless, the Netherlands faces some challenges
 - Export growth is dominated by re-exports, not domestically produced exports
 - Low market share in rapidly growing Asian markets
 - The rising trade surplus also reflects weak domestic demand, which is holding down imports
 - A record current surplus of **11%** will fuel foreign criticism
 - Weak domestic investment poses a longer term challenge to competitiveness and exports
- Longer term opportunities lie in emerging markets, but recent setbacks show the risks
- Traditional markets like the UK, US and even the Eurozone periphery offer shorter term possibilities

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