

# KINGDOM OF THE NETHERLANDS

Rating Analysis - 12/26/18

\*EJR Sen Rating(Curr/Prj) AA-/ AA-

\*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.2%

Improving leverage - Netherlands' Debt to GDP has been improved since 2014 and is ~57% in 2017, which is relatively low compared with the most peers in EU. Additionally the government is currently running a surplus and as indicated below it was deficit in 2015.

Economic growth of Netherlands is expected to moderate but still be robust. Projected weaker consumption growth reflects the increasing inflation, which is partially due to the increase of the lower VAT rate and the easing momentum in labour market causing by less domestic labour demand. House price growth is projected to be increased due to the low interest rate, resulting in a high level of household debt and mortgages for banks. This might have impact on the ability of banks to raise funding and contribute to vulnerabilities in the financial system. Watch for the uncertainty of trade tension and the overheating housing market. Affirming.

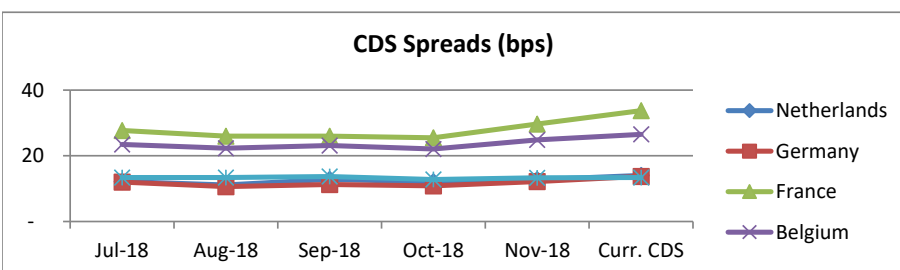
## Annual Ratios (source for past results: IMF)

CREDIT POSITION	2015	2016	2017	P2018	P2019	P2020
Debt/ GDP (%)	64.6	61.9	57.0	54.6	52.4	50.3
Govt. Sur/Def to GDP (%)	-1.9	0.1	1.3	1.1	0.9	0.8
Adjusted Debt/GDP (%)	64.6	61.9	57.0	54.6	52.4	50.3
Interest Expense/ Taxes (%)	5.8	4.9	4.1	4.1	4.1	4.1
GDP Growth (%)	2.7	2.7	4.1	2.3	2.3	2.5
Foreign Reserves/Debt (%)	1.7	1.2	1.0	0.5	0.2	-0.4
Implied Sen. Rating	AA-	AA-	AA	AA-	AA-	AA-

## INDICATIVE CREDIT RATIOS

	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	64.1	1.0	64.1	4.4	3.7	AA
French Republic	AA	97.0	-2.5	97.0	6.3	2.8	A+
Kingdom Of Belgium	AA	103.1	-0.8	103.1	8.1	3.4	AA-
Republic Of Finland	AA+	61.4	-0.2	61.4	3.1	3.6	AAA
Kingdom Of Denmark	AAA	36.4	1.6	36.4	2.3	3.7	AA+

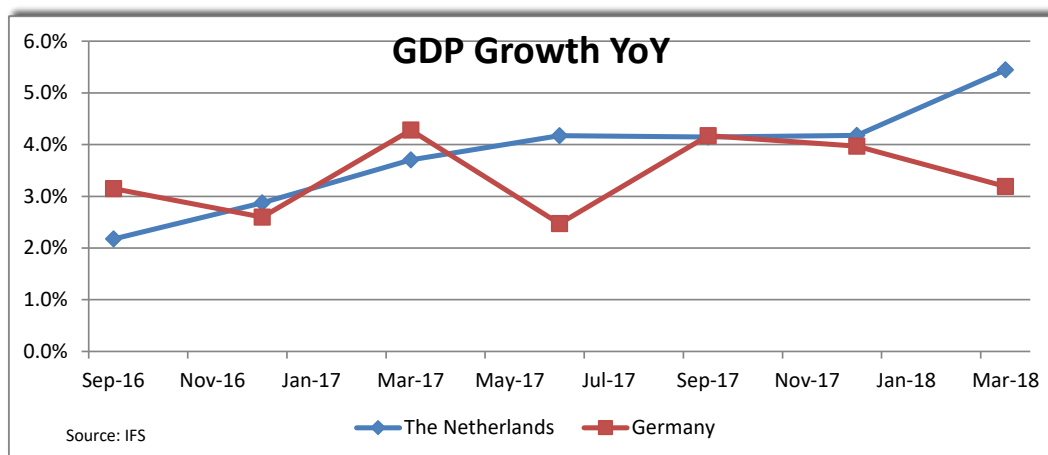


Country	CDS
Netherlands	14
Germany	14
France	34
Belgium	27
Finland	13

**Economic Growth**

Netherlands' GDP growth is projected to be more moderate by 2020, reflecting slowing private consumption and investment. GDP growth has been robust. Private consumption is strong and residential investment remains dynamic. Additionally, consumption and business investment growth have been well supported by the country's favorable financial condition.

Growth is projected to moderate, reflecting weakening consumer and business confidence and the impact of increased uncertainties. Increasing trade-related uncertainty and deteriorating business confidence might soften investment growth. Uncertainty of global trade tensions and the Brexit negotiations represent downside risks to Netherlands and other countries in EU.



**Fiscal Policy**

Netherlands has been improving its budgetary position for years, as the Surplus-to-GDP ratio improved from -1.91% in 2015 to 1.27% in 2017, which is one of the best compared with its peers. The Debt-to-GDP ratio increased from 65.13% to 69.95%, but it is still one of the lowest in the Eurozone. The current expansionary fiscal policy is likely to stoke economic growth over the next couple of years.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
The Netherlands	1.27	69.95	14.03
Germany	1.02	71.70	13.74
France	-2.54	124.25	33.75
Belgium	-0.79	121.90	26.53
Finland	-0.23	73.19	13.37
Denmark	1.59	49.30	12.30

Sources: Thomson Reuters and IFS

**Unemployment**

The unemployment rate has fallen steadily, from 6.03% in 2016 to 4.86% in 2017. In August, 2018, the number improved to 3.9%. That level of 397 thousand unemployed people, dropping below the 400 thousand mark for the first time since August 2009. As shown in the table, Netherlands's unemployment rate is among the lowest level compared with its peer counties.

	Unemployment (%)	
	2016	2017
The Netherlands	6.03	4.86
Germany	4.13	3.76
France	10.07	9.43
Belgium	7.86	7.16
Finland	8.79	8.63
Denmark	6.19	5.72

Source: Intl. Finance Statistics

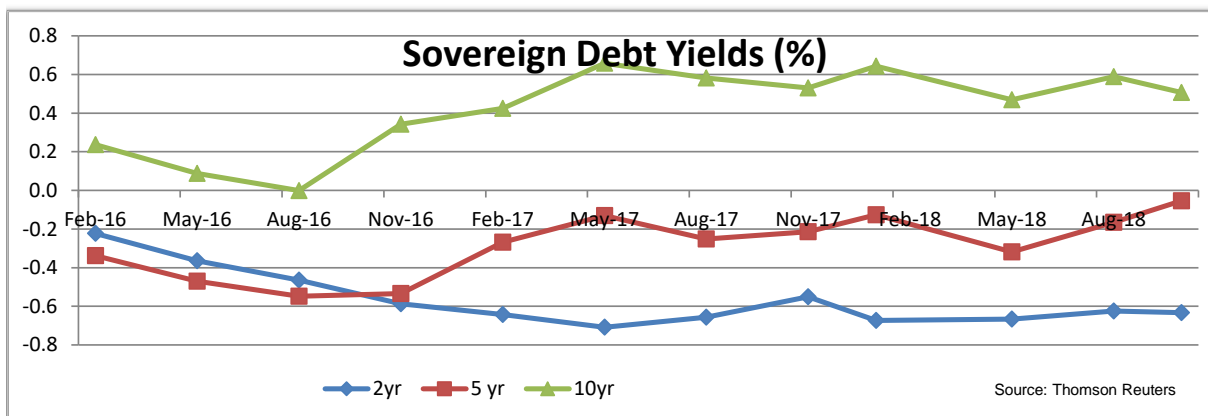
**Banking Sector**

The top 5 banks in Netherlands have total asset equal to approximately 173% of the GDP. For 2018 and beyond, banks in Netherlands are facing challenges like exceptional monetary policy, low interest rates and technological innovation. Besides, the banking environment is changing due to geopolitical developments (i.e. Brexit) although the exact impact of those is still uncertain.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
ING GROEP NV-CVA	846.22	5.02
AEGON NV	396.29	2.58
HAL TRUST	16.09	70.90
VAN LANSCHOT-CVA	14.66	6.34
WERELDHAVE NV	<u>3.92</u>	<u>30.38</u>
Total	1,277.2	
EJR's est. of cap shortfall at 10% of assets less market cap		61.5
The Netherlands's GDP		737.0

**Funding Costs**

As can be seen in the below graph, the bond yields for 5 years and 10 years have increased in last two years. Current 5-year CDS and 2-year CDS are still negative (-0.63% for 2-year and -0.05% for 5-year) while 10-year CDS is approximately 0.5%. We expect Netherlands' borrowing cost to be maintained in a low level in the foreseeable future since ECB is reluctant to raise interest rate until middle of 2019.



**Ease of Doing Business**

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 32 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*			
	2018	2017	Change in
	Rank	Rank	Rank
<b>Overall Country Rank:</b>	<b>32</b>	<b>28</b>	<b>-4</b>
<b>Scores:</b>			
Starting a Business	20	22	2
Construction Permits	76	87	11
Getting Electricity	52	45	-7
Registering Property	30	29	-1
Getting Credit	105	82	-23
Protecting Investors	62	70	8
Paying Taxes	20	20	0
Trading Across Borders	1	1	0
Enforcing Contracts	69	71	2
Resolving Insolvency	8	11	3

\* Based on a scale of 1 to 189 with 1 being the highest ranking.

**Economic Freedom**

As can be seen below, The Netherlands is strong in its overall rank of 76.2 for Economic Freedom with 100 being best.

<b>Heritage Foundation 2018 Index of Economic Freedom</b>				
<b>World Rank 76.2*</b>				
	<b>2018</b>	<b>2017</b>	<b>Change in</b>	<b>World</b>
	<b>Rank**</b>	<b>Rank</b>	<b>Rank</b>	<b>Avg.</b>
<b>Property Rights</b>	<b>87.9</b>	<b>87.4</b>	<b>0.5</b>	<b>51.5</b>
<b>Government Integrity</b>	<b>86.0</b>	<b>85.7</b>	<b>0.3</b>	<b>42.1</b>
<b>Judicial Effectiveness</b>	<b>74.1</b>	<b>69.9</b>	<b>4.2</b>	<b>46.9</b>
<b>Tax Burden</b>	<b>52.5</b>	<b>53.2</b>	<b>-0.7</b>	<b>76.7</b>
<b>Gov't Spending</b>	<b>39.1</b>	<b>37.0</b>	<b>2.1</b>	<b>63.5</b>
<b>Fiscal Health</b>	<b>88.2</b>	<b>83.0</b>	<b>5.2</b>	<b>66.3</b>
<b>Business Freedom</b>	<b>80.5</b>	<b>80.2</b>	<b>0.3</b>	<b>64.8</b>
<b>Labor Freedom</b>	<b>61.5</b>	<b>70.5</b>	<b>-9.0</b>	<b>58.9</b>
<b>Monetary Freedom</b>	<b>87.5</b>	<b>85.8</b>	<b>1.7</b>	<b>76.0</b>
<b>Trade Freedom</b>	<b>86.9</b>	<b>87.0</b>	<b>-0.1</b>	<b>75.9</b>

\*Based on a scale of 1-100 with 100 being the highest ranking.  
 \*\*The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).  
 Source: The Heritage Foundation

**Credit Quality Driver: Taxes Growth:**

KINGDOM OF THE NETHERLANDS has grown its taxes of 9.4% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 1.5% per annum over the next couple of years and 1.8% per annum for the next couple of years thereafter.

**Credit Quality Driver: Total Revenue Growth:**

KINGDOM OF THE NETHERLANDS's total revenue growth has been more than its peers and we assumed a 2.5% growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	4.6	9.4	1.5	1.8
Social Contributions Growth %	2.9	(1.8)	0.5	0.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(0.5)	(0.5)	(0.5)
Total Revenue Growth%	4.0	4.3	2.5	2.3
Compensation of Employees Growth%	0.0	1.9	1.9	1.9
Use of Goods & Services Growth%	1.6	0.0		
Social Benefits Growth%	2.1	2.0	2.0	2.0
Subsidies Growth%	1.3	6.7		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.8	1.8	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.8)	2.1	1.5	1.5
Shares and Other Equity (asset) Growth%	0.0	0.0		
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	(24.9)	(10.0)	(10.0)
Other Accounts Receivable LT Growth%	5.6	(5.8)	(5.8)	(5.8)
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	0.0	0.0		
Securities Other than Shares (liability) Growth%	0.0	0.0		
Loans (liability) Growth%	(3.0)	(8.5)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

**ANNUAL INCOME STATEMENTS**

Below are KINGDOM OF THE NETHERLANDS's annual income statements with the projected years based on the assumptions listed on page 5.

	<b>ANNUAL REVENUE AND EXPENSE STATEMENT</b>					
	<b>(MILLIONS EUR)</b>					
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>P2018</b>	<b>P2019</b>
Taxes	147,961	155,687	165,039	180,552	183,260	186,009
Social Contributions	102,015	99,833	107,486	105,540	106,068	106,598
Grant Revenue						
Other Revenue						
Other Operating Income	42,754	38,336	36,318	36,132	36,132	36,132
Total Revenue	292,730	293,856	308,843	322,224	325,460	328,739
Compensation of Employees	58,360	58,650	60,176	61,325	62,496	63,689
Use of Goods & Services						
Social Benefits	148,327	149,171	152,477	155,477	158,536	161,655
Subsidies	7,182	7,042	7,894	8,423	8,424	8,425
Other Expenses				57,404	57,404	57,404
Grant Expense						
Depreciation	21,985	22,156	22,337	22,886	22,886	22,886
Total Expenses excluding interest	297,222	298,272	300,267	305,515	309,746	314,059
Operating Surplus/Shortfall	-4,492	-4,416	8,576	16,709	15,714	14,680
Interest Expense	<u>9,857</u>	<u>8,980</u>	<u>8,151</u>	<u>7,347</u>	<u>7,476</u>	<u>7,606</u>
Net Operating Balance	-14,349	-13,396	425	9,362	8,239	7,074

**ANNUAL BALANCE SHEETS**

Below are KINGDOM OF THE NETHERLANDS's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS					
	(MILLIONS EUR)					
ASSETS	2014	2015	2016	2017	P2018	P2019
Currency and Deposits (asset)					11,255	11,255
Securities other than Shares LT (asset)						
Loans (asset)	67,550	62,351	57,088	58,293	59,167	60,055
Shares and Other Equity (asset)						
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	23,558	17,843	15,551	11,685	10,517	9,465
Other Accounts Receivable LT	48,280	44,479	49,670	46,779	44,056	41,492
Monetary Gold and SDR's						
Other Assets					121,132	121,132
Additional Assets	<u>111,316</u>	<u>116,749</u>	<u>120,850</u>	<u>121,132</u>		
Total Financial Assets	250,704	241,422	243,159	237,889	246,128	243,399
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)					0	0
Securities Other than Shares (liability)						
Loans (liability)	96,269	95,399	92,673	84,755	76,516	69,443
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	<u>458,464</u>	<u>448,134</u>	<u>450,880</u>	<u>430,816</u>	<u>430,816</u>	<u>430,816</u>
Liabilities	554,733	543,533	543,553	515,571	515,571	505,769
Net Financial Worth	<u>-304,029</u>	<u>-302,111</u>	<u>-300,394</u>	<u>-277,682</u>	<u>-269,443</u>	<u>-262,370</u>
Total Liabilities & Equity	250,704	241,422	243,159	237,889	246,128	243,399

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**Comments on the Difference between the Model and Assigned Rating**

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "AA-" whereas the ratio-implied rating for the most recent period is "AA"; we expect results to decline slightly.

**Changes in Indicative Ratios**

We have not made any adjustment in the indicative ratios at this time.



**SEC Rule 17g-7(a) Disclosure**

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

**1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

For the issuer KINGDOM OF THE NETHERLANDS with the ticker of 1174Z PL we have assigned the senior unsecured rating of AA-. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

**2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

We are using the methodology available in our Form NRSRO Exhibit #2 dated Nov 5, 2018 available via [egan-jones.com](http://egan-jones.com) under the tab at the bottom of the page "Methodologies".

**3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

**4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:**

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

**5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:**

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

**6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:**

EJR does not utilize third-party due diligence services.

**7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:**

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

**8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:**

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

**9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.**

**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

**11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:**

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

**12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:**

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

**13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:**

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	1.5	5.5	(2.5)	AA-	AA-	AA-
Social Contributions Growth %	0.5	3.5	(2.5)	AA-	AA-	AA-
Other Revenue Growth %		3.0	(3.0)	AA-	AA-	AA-
Total Revenue Growth%	2.5	4.5	0.5	AA-	AA-	AA-
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	AA-	AA-	AA-

**14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:**

This credit rating is not assigned to an asset-backed security.

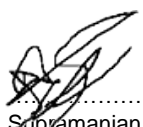
**ATTESTATION FORM**

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

**Analyst Signature:**

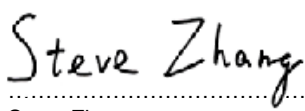
**Today's Date**

  
 .....  
 Subramanian NG  
 Senior Rating Analyst

December 26, 2018  
 .....

**Reviewer Signature:**

**Today's Date**

  
 .....  
 Steve Zhang  
 Senior Rating Analyst

December 26, 2018  
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## **Sovereign Rating Methodology (Non-NRSRO)**

**Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.**

**Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:**

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

*For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.*