

Research Update:

Dutch Development Bank FMO 'AAA/A-1+' Ratings Affirmed On Amended Agreement With Netherlands Government; Outlook Stable

April 24, 2023

Overview

- Dutch development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) and the Dutch government entered into an agreement on April 21, 2023, amending the 1998 Keep-Well Agreement.
- The updated agreement formally codifies extraordinary sovereign support to FMO, in particular with respect to the state's financial security obligation and maintenance obligation.
- This supports our view that there is an almost certain likelihood that the government of the Netherlands would provide timely and sufficient extraordinary support to FMO in the event of financial distress.
- We therefore affirmed our 'AAA/A-1+' ratings on FMO and maintained our stable outlook on the long-term rating.

Rating Action

On April 24, 2023, S&P Global Ratings affirmed its 'AAA/A-1+' long- and short-term issuer credit ratings on Dutch development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO). The outlook is stable.

Outlook

The stable outlook on FMO mirrors that on the Netherlands (unsolicited; AAA/Stable/A-1+). This reflects our expectation that the formal agreement regarding the Dutch government's support of FMO will remain in place.

PRIMARY CREDIT ANALYST

Remy Carasse
Paris
+ 33 14 420 6741
remy.carasse
@spglobal.com

SECONDARY CONTACT

Marko Mrsnik
Madrid
+34-91-389-6953
marko.mrsnik
@spglobal.com

RESEARCH CONTRIBUTOR

Salvador Rodriguez mencia
Paris
+33 144206679
salvador.rodriguez
@spglobal.com

ADDITIONAL CONTACT

Sovereign and IPF EMEA
SOVIPF
@spglobal.com

Downside scenario

We would lower our ratings on FMO following a similar rating action on the Netherlands. We could also lower our ratings on FMO to below those on the Netherlands in the unlikely event that we revised downward our assessment of FMO's role for and link with the Dutch government, and therefore saw a lower probability of extraordinary state support.

Rationale

The affirmation follows FMO's announcement that it has entered into an agreement with the Dutch government that amends the Keep-Well Agreement from 1998. We equalize our ratings on FMO with those on the Netherlands because we consider that there is an almost certain likelihood that the government would provide timely and sufficient extraordinary support to FMO in the event of financial distress. We understand that the updated agreement will come into effect in July 2023.

The updated agreement between FMO and the government does not change our view regarding FMO's:

- Critical role for the Dutch government as the key vehicle for promoting the state's public-policy goal of fostering private-sector growth in developing countries; and
- Integral link with the government, which exercises control of and strong support for FMO, a majority state-owned company.

Under the updated agreement, we assess that:

- The financial security obligation under Article 5 assigns the state the irrevocable and unconditional responsibility for ensuring FMO meets its financial obligations--including servicing debt raised in the capital markets--on time and under all circumstances, notably by providing liquidity; and
- The maintenance obligation under Article 4 ensures the government will make sufficient financial resources available to FMO if FMO begins to show signs of financial stress.

FMO's creditors have no direct recourse to the Dutch government. Instead, the government has an obligation to FMO.

A debt ceiling and the expectation that FMO will pay a premium to the government have been introduced in the updated agreement. In our view, these do not weaken the likelihood of government support for FMO. The debt ceiling will be significantly higher than FMO's current outstanding debt and provide FMO with sufficient capacity to expand its balance sheet over the next 10 years. We understand that the premium will have a minimal impact on FMO's financials.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions , March 25, 2015

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- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Sovereign Risk Indicators, Apr. 10, 2023
- Netherlands, Oct. 24, 2022

Ratings List

Ratings Affirmed

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

Sovereign Credit Rating AAA/Stable/A-1+

Senior Unsecured AAA

Commercial Paper A-1+

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