Analyse

International interconnectedness in sharper focus

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International interconnectedness in sharper focus

Revised figures on the Netherlands' economic

relations with other countries

Executive summary

The Dutch economy and financial sector are strongly intertwined with those of other countries. The balance of payments maps these international economic relations. In recent years, the existing balance of payments data have been revised, using new sources of information and improved estimation methods. The results of this revision are now being published.

The adjusted figures confirm a number of well-known facts. The Netherlands has relatively large external financial assets and liabilities. It is also a major importer and exporter of goods, and a transit country for both financial and goods flows. Some of the incoming flows leave the Netherlands again for a subsequent destination.

Partly because of a structural current account surplus, the Netherlands has over the years built up a net external claim, or a positive net international investment position. This net claim consists mainly of direct investment abroad. When it comes to portfolio investment (securities), the opposite is true: while Dutch pension funds and other institutional investors own a lot of foreign securities, the value of Dutch securities in foreign hands is even higher. This means that we have a net securities debt to foreign countries.

The revision has also yielded new insights in a number of areas. At 71% of gross domestic product (GDP) in 2021, the revised figure for the Netherlands' net international investment position, while still significant, was lower than the 93% of GDP previously measured. This is mainly because other countries hold more debt issued by Dutch businesses and financial holding companies than previously estimated. The three-year average current account surplus for 2021-2023 has been revised downwards, from 10.5% to 8.9% of GDP, mainly due to adjustments in goods trade. The conduit company sector (special purpose entities and financial holding companies) turns out to be 5% larger than previously estimated, but has also been declining more sharply in recent years than previously thought.

Content

Introduction

The Netherlands has an internationally oriented financial sector and economy with large financial positions and significant flows of goods and services. The Netherlands' financial interconnectedness with foreign countries is reflected in its relatively large international assets and liabilities (see Figure 1). International direct investment is an important part of this: in 2022, the Netherlands was the second-largest global recipient and investor in this category, after the United States. The Netherlands' interconnectedness with global trade is reflected in its position as the world's sixth-largest exporter and eighth-largest importer of goods (CBS, 2023). As such, it has an important role as a transit country: a significant proportion of the capital and goods that enter the Netherlands leave again for a subsequent destination.

The balance of payments tracks the Netherlands' economic cross-border relations with foreign countries over time. It provides policymakers, researchers and the general public with a comprehensive factual basis on which to base analyses and policy choices. On the one hand, the balance of payments tracks *flows*: the economic transactions between the Netherlands and foreign countries in a given period. On the other hand, it also tracks the Netherlands' *position*: the international investment position that reflects our external claims and liabilities at a given point in time.

DNB is publishing improved balance of payments data that provides a clearer picture of the Netherlands' economic relations with foreign countries. This data was produced as part of a maintenance programme for Dutch macroeconomic statistics (the so-called benchmark revision). In line with European policies, DNB and Statistics Netherlands (CBS) carry out such major maintenance every five years to include newly available data sources, and to refine their methods. The new data offers users fresh insights and a longer time series of consistent balance of payments data.

This document explains the revised balance of payments data, focusing first on the context and then on the figures. In the first chapter, we briefly describe the development of the balance of payments statistics, as well as the maintenance programme and its improved sources and methods. In the second chapter, we discuss the results of the revision. First, we look at the revision of two key figures in the balance of payments, namely the net international investment position and the Netherlands' current account. We then take a closer look at developments in two segments of the Dutch financial sector: conduit companies, because of the relatively large size of this segment in the Netherlands, and other financial intermediaries and financial auxiliaries because of the improved observation for these segments, which was first used in this revision.

The context

Balance of payments statistics over time

The Dutch economy's international orientation goes back centuries, to a time long before balance of payments statistics. In the 17th century, the Netherlands played a leading role in the global economy, partly because of its strong infrastructure for both financial services and goods trade. Estimates based on historical sources suggest that the Netherlands accumulated a significant net international investment position during this period, which it maintained for a long time, even after its economic importance declined (Van Nieuwkerk, 2005).

Internationally harmonised balance of payments statistics emerged as a response to the 1929 stock market crash and the subsequent Great Depression. These crises highlighted the importance of understanding international financial flows and vulnerabilities. The work to arrive at a single internationally consistent statistical framework was initially carried out by the League of Nations. Shortly after the Second World War, it was handed over to the newly created International Monetary Fund (IMF) (Badger, 1951). In 1948, the IMF released the first edition of its Balance of Payments Manual, shortly after which DNB started to publish the Dutch balance of payments data on a regular basis. Incidentally, CBS began publishing its own national precursor to balance of payments statistics as early as 1929 (Akkermans, 1999).

In the first few decades, the balance of payments mainly focused on the proper observation of current account transactions. In the post-war period, international financial liabilities and claims were relatively limited. As a result, the focus of observation was on current account transactions, such as exports and imports of goods and services. These transactions were settled through the financial account, which was sometimes regarded as the capstone in this context (Stern, 1973). A current account surplus eventually produced a net external claim, or positive external assets. Conversely, a structural current account deficit led to a net liability, or negative external assets.

In recent decades, the observation of financial transactions and balance sheets has become increasingly important. Since the 1970s, international financial interconnectedness has significantly increased (Lane and Milesi-Ferretti, 2006). This has made the financial account more dynamic, while the relationship between current account surpluses (or deficits) and net positive (or negative) external assets has become more ambiguous. For example, changes in the value of existing assets and liabilities can have a greater impact on the development of external assets (Boonstra, 2008). This has led many statisticians to change their observation and compilation methods. In 2003, for instance, DNB switched to direct observation of transactions, claims and liabilities of Dutch residents.

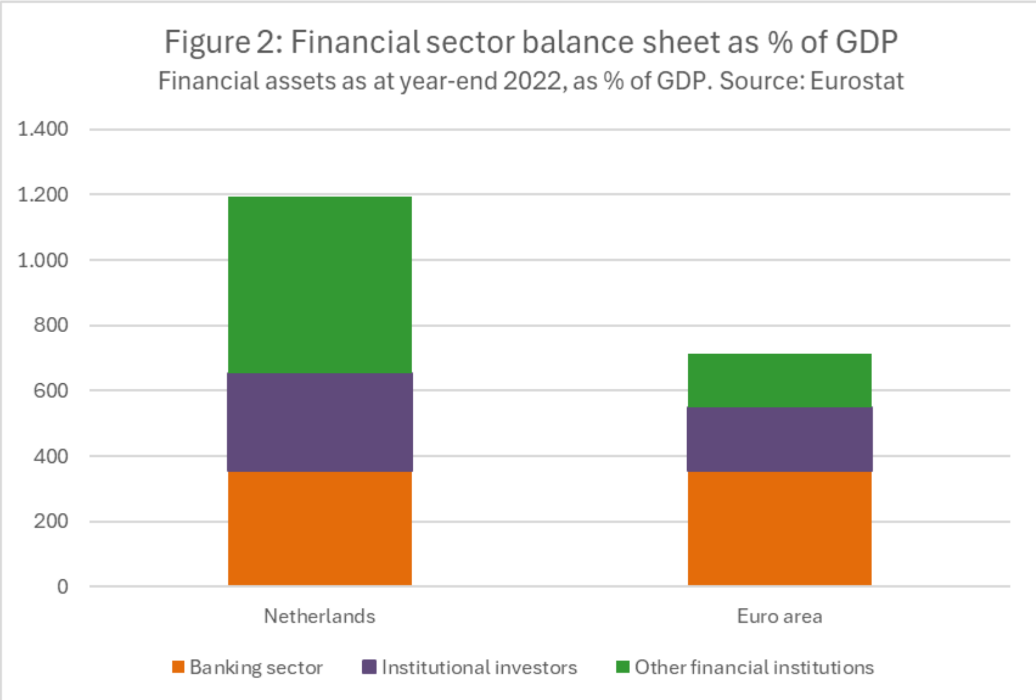
For policymakers, the balance of payments provides important information on international financial developments and risks. The balance of payments of the euro area, on which the Dutch balance of payments has a relatively large impact, provides the European Central Bank (ECB) with information on the transmission of its policies and the vulnerability of the euro area to external shocks (Lane, 2024). The balance of payments is also used to interpret economic developments and determine monetary policy (Emter et al., 2023). The European Commission relies on the national balance of payments for various risk indicators in its macroeconomic imbalance procedure (European Commission, 2011). Balance of payments figures are also used for specific policy purposes. The Ministry of Finance, for example, uses balance of payments data in its annual report to the House of Representatives on the effects of its anti-tax evasion policy (Ministry of Finance, 2023). The balance of payments is additionally used for various research purposes, including the analysis of international economic vulnerabilities (Lane and Milesi-Ferretti, 2012).

Meanwhile, balance of payments statistics continue to evolve and are currently being updated to improve their relevance for users. As the structure of the international economy changes, the balance of payments changes with it. The current standard methodology for compiling statistics is described in the sixth edition of the IMF's Balance of Payments Manual, which was published in 2009. Meanwhile, users have called for several improvements to better measure global capital flows, sustainability and the impact of digitalisation. These improvements will be implemented in the forthcoming seventh edition of the manual, due for publication in 2025, after which it will be implemented worldwide over the course of several years. In the Netherlands and other European member states, this is expected to happen in 2029. Meanwhile, the System of National Accounts – the global national accounts manual – is also being revised in order to improve consistency between the two frameworks.

Balance of payments undergoes major maintenance

The compilation of macroeconomic statistics such as the balance of payments is inherently complex due to measurement, methodological and integration challenges. Economic relations with foreign countries are multifaceted and impacted by various factors, some more measurable than others. Goods declared to customs are easier to track than illicit trade, and financial transactions by licensed financial institutions are more measurable than those by the hundreds of thousands of businesses and financial holding companies in the Netherlands. In addition, balance of payments compilation always involves methodological problems arising, for example, from differences in the valuation of liabilities and assets (book value or market value), as well as integration problems when two observations give a different picture of the same phenomenon.

Compiling the Dutch balance of payments is particularly difficult given the high degree of international interconnectedness in certain areas. Because of the large financial positions, relatively small adjustments to the gross figures can quickly lead to larger adjustments at the net level. There are also measurement challenges due to the size and diversity of the financial sector. Relative to other EU countries, the Netherlands' pension funds and other financial institutions (OFIs) sectors are particularly large (see Figure 2). Most of these OFIs are financial holding companies and so-called special purpose entities, which pose significant measurement problems due to the large and volatile nature of the sector and the lack of a comprehensive register of relevant institutions. In addition, accurately observing the Dutch trade in goods and services according to balance of payments methods is a considerable task given the large volume of transactions.



In the Netherlands, DNB and CBS have been jointly compiling integrated macroeconomic statistics for some time. Within this close partnership, DNB is responsible for monitoring the financial sector, while CBS tracks the other sectors of the Dutch economy as well as trade in goods and services. Using their own data and other sources, DNB and CBS then jointly compile the national accounts and balance of payments in a consistent manner, with both institutions retaining responsibility for their own final products. DNB and CBS exchange the confidential statistical data required for this purpose within the existing legal frameworks. This method harnesses the combined capabilities of DNB and CBS to improve Dutch macroeconomic statistics. In addition, it ensures the consistency between frameworks that users have often requested, which is still lacking in many other countries (ECB and Eurostat, 2023).

In line with European policy, Dutch macroeconomic statistics are subject to a major revision every five years. The so-called benchmark revision aims to implement larger and more complex improvements to be incorporated in the time series for one or more statistical systems. This mostly involves methodological adjustments or information from new sources and estimation methods. In Europe, the revision principles for macroeconomic statistics are set out in the Harmonised European Revision Policy (CMFB, 2017).

This revision of macroeconomic statistics has been carried out jointly by DNB and CBS, using the year 2021 as a base. The balance of payments, national accounts and public finance statistics have been revised in parallel. First, the data for "base year" 2021 was recalibrated using new sources and methods. On 23 May, CBS published its revision report with the results of this recalibration for the national accounts and public finance statistics (CBS, 2024). These results were then used to adjust the statistics' time series, which are being published simultaneously today by both institutions.

Improved sources

This revision used new and improved sources of information to describe the relations between Dutch institutions and parties in foreign countries. For the first time, all information from the new survey among so-called other financial intermediaries and financial auxiliaries has been incorporated. DNB has been carrying out this survey since 2020 to get a better picture of these parts of the financial system. Information from the new Macroeconomic Statistics Report (MESRAP) – which collects more relevant information from financial institutions than its predecessor – has also been used. Finally, Dutch companies can now be mapped more accurately thanks to the updated Statistics of Finances of Enterprises, a joint survey by DNB and CBS.

Better sources have also been used to measure the issuance and ownership of securities, such as shares and bonds. In recent years, the European System of Central Banks (ESCB) has been working to continuously improve the Centralised Securities Database (CSDB), which provides information for each security issued, such as the country of issue and the outstanding market value. This data was combined in the benchmark revision with the information from the monthly securities reports (MSR), introduced by DNB in 2020, which provides enhanced insight into securities held by Dutch institutions.

In addition, the balance of payments increasingly uses so-called mirror data from other countries. Mirror data is information compiled by other countries on economic relations with the Netherlands. These figures are mirrored and theoretically equal to the Dutch figures on relations with the country in question. In practice, there are often discrepancies due to the different sources and methods used. Leveraging this additional information from other countries can lead to quality improvement. For instance, data on bank balances held by Dutch nationals in other countries from the BIS's Locational Banking Statistics was used in this revision. The ESCB is increasingly comparing mirror data on international direct investment, allowing information on major events such as cross-border mergers and acquisitions to be reflected in the figures of both countries in a consistent way.

Improved methods

This revision used an improved technical method to map the development of net foreign assets through time. In the newly implemented method, the balances at the end of a period are constructed from the opening balance sheet and the changes during this time frame. Level differences in balances, for instance as a result of new sources becoming available, are saved until the next revision, when they can be incorporated into the figures in a structural way. The advantage of this method is that growth rates and changes can be interpreted more accurately. In the previous technical method, level differences in detailed items on the balance of payments were recorded in the form of residual items that were more difficult to interpret economically, under *other volume changes*. These items are used in the new methodology only when historical data is missing.

The consistent time series for the balance of payments has been expanded: the starting point has been moved from 2015 to 2008. This time series has been made consistent over its entire length using data from the national accounts and other available sources. As usual, estimates were used to fill historical data gaps, and in places where the historical data was inadequate by current balance of payments standards.

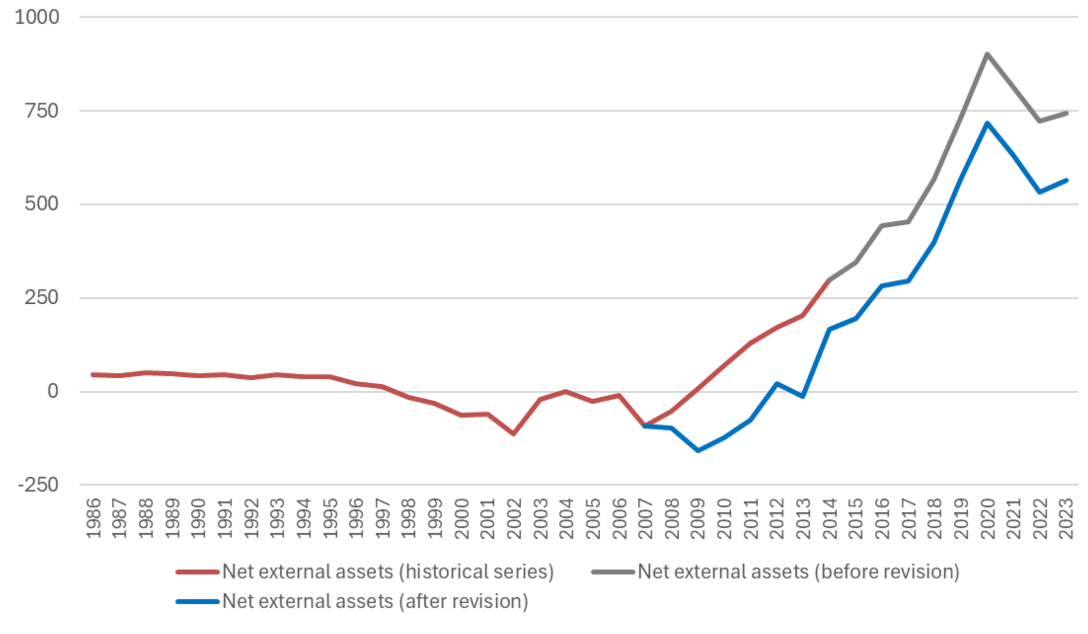
The calculation method for balance of payments data on Dutch businesses has been updated for this revision. Previously, geographical estimation of international economic relations mainly relied on primary source information from surveys among larger companies. In this revision, the estimation method has been modified to include secondary source material. For example, information on foreign owners has been added for smaller companies. Combined with improvements to the primary source information, this enhances the coverage of the observation as well as the quality of the figures, reducing the margin of uncertainty in the outcomes.

The figures

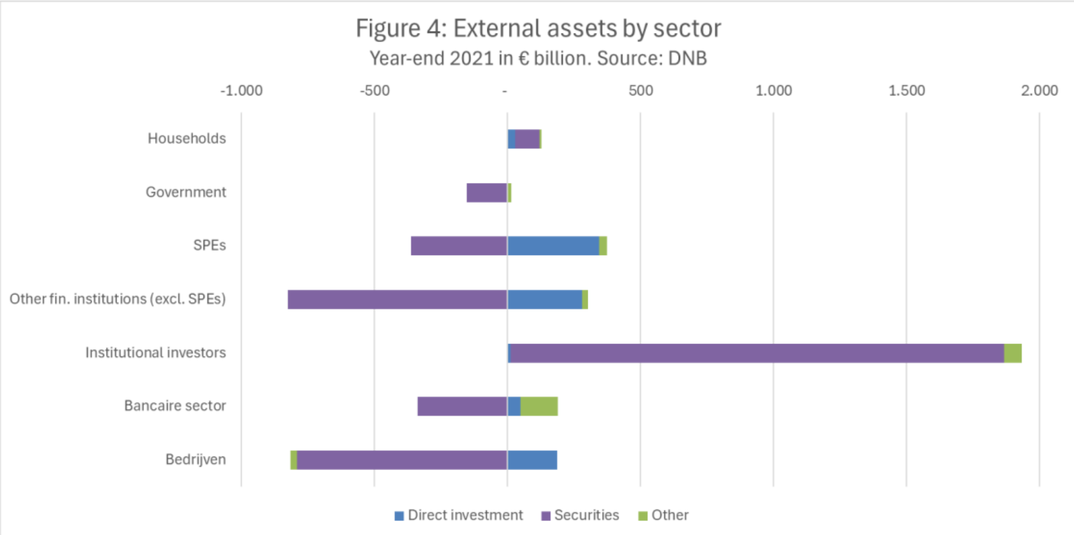
Dutch net international investment position smaller than previously measured

Over the years, the Netherlands has built up a positive net external asset position (see Figure 3). This position can be read as the balance of all claims by the Netherlands on foreign countries on the one hand, and claims by foreign countries on the Netherlands on the other. The net external asset position is also known as the net international investment position. Its growth over time is linked to the structural surplus in the Netherlands' current account. In practice, other factors – such as changes in the value of the Netherlands' substantial claims and liabilities – also play an important role, which has been increasing in recent years. In 2015, the cumulative contribution from 2009 to net external assets was still 70% for transactions versus 30% for price and exchange rate changes, but by 2020 this had already shifted to 60% versus 40%.

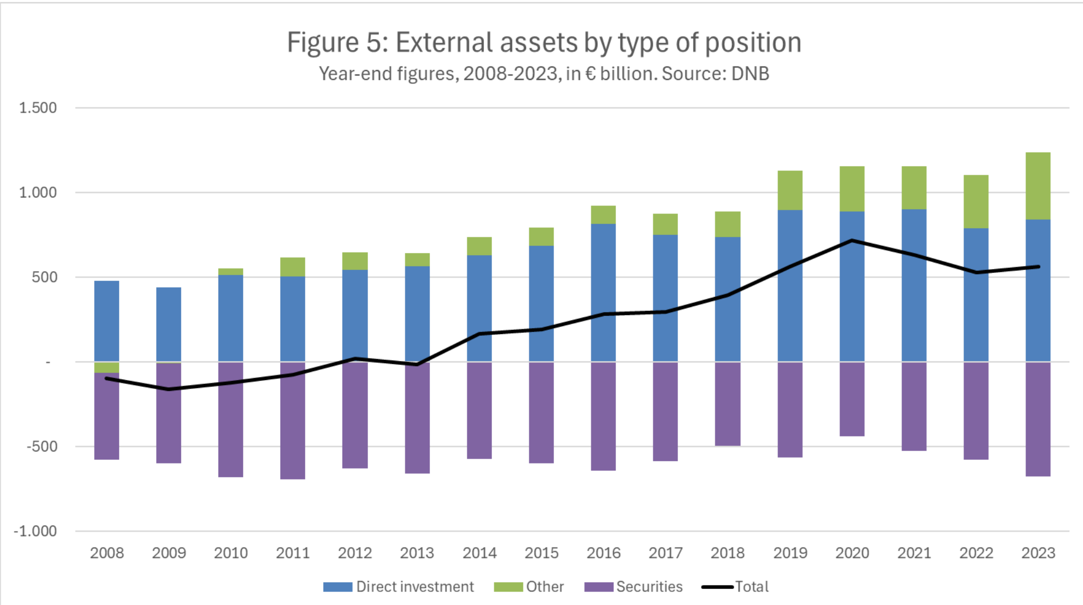
Figure 3: Netherlands' net international investment position
In € billion, as at year-end. Source: DNB



Within the Dutch economy, institutional investors in particular have a large net external claim through securities holdings (see Figure 4). Institutional investors – pension funds, insurers and investment funds – manage assets that largely belong to Dutch households, either directly or indirectly. They primarily invest in foreign securities, such as shares and bonds, creating a significant external claim.



However, the Netherlands as a whole has a net securities debt due to the issuance of securities by other sectors of the economy (see Figure 5). Dutch non-financial companies, special purpose entities (SPEs) and other financial holding companies and captive money lenders – as well as other sectors of the Dutch economy – issue securities to finance their activities in the Netherlands and abroad. When securities issued in the Netherlands are in foreign hands, this constitutes a claim by the foreign country on the Netherlands that reduces the latter's net international investment position. This is the case, for instance, when foreign investors own shares in a Dutch listed company, or when bonds issued in the Netherlands have been bought by foreign financiers.

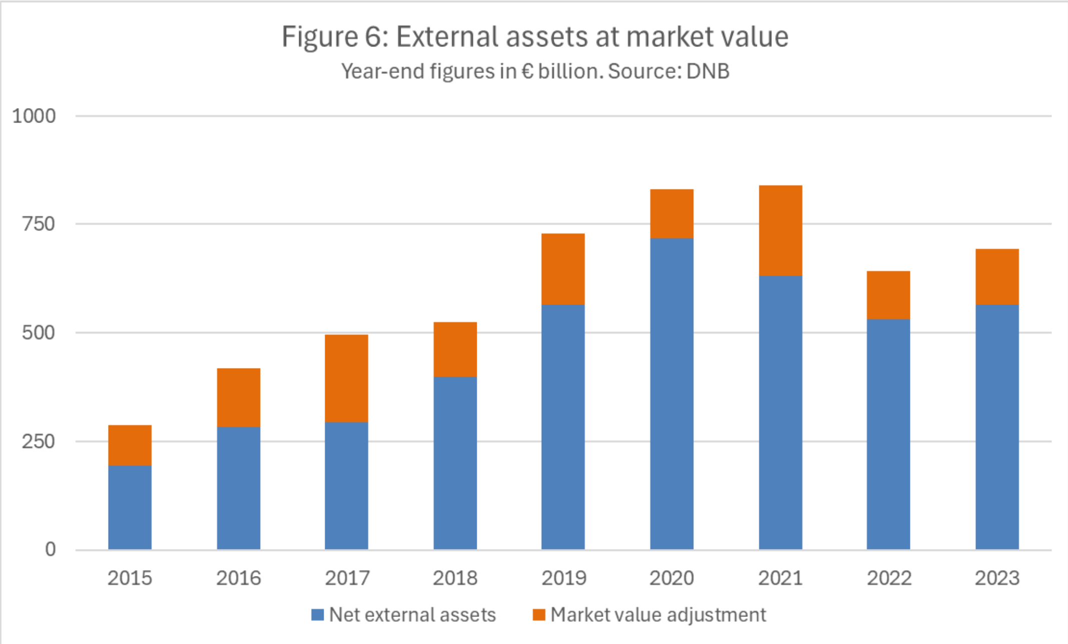


The Netherlands' net international investment position consists largely of net direct investment holdings abroad, partly financed through securities. Foreign direct investment is investment aimed at acquiring a lasting interest in a company. In practical terms, this means that the investor must hold at least 10% of the company's voting rights or shares. Dutch businesses and financial holding companies in particular have large liabilities to as well as claims on foreign countries through direct investment, which together result in net holdings. This includes interests in foreign subsidiaries.

The combination of liabilities in securities and assets in direct investment can partly be attributed to listed multinational companies. The stock market value of Dutch multinationals reflects the value of their Dutch as well as their foreign assets. If a multinational has shareholders outside the Netherlands, the value of these foreign-owned shares is reflected in an external securities debt. The foreign holdings are reflected as inward direct investment. This effect is even more pronounced for foreign multinationals with a holding structure and listing in the Netherlands that conduct most of their group activities outside the Netherlands. In these cases, both the holding company's assets and liabilities are largely international. In recent years, more and more such major holding companies have chosen the Netherlands as their place of registration (Van Loon, 2023).

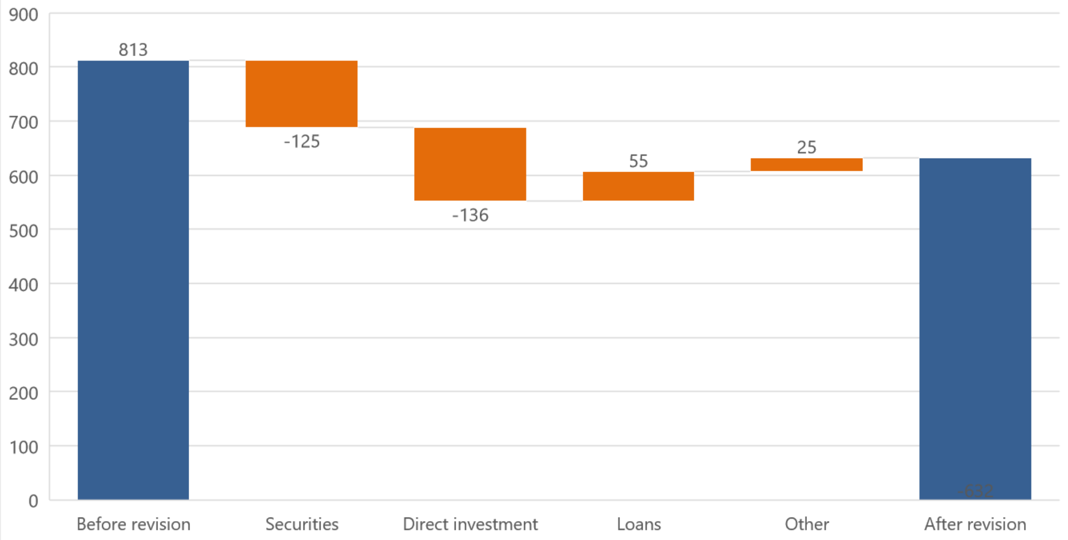
Special purpose entities (SPEs) show the most direct correlation between portfolio debt and direct investment. SPEs are mostly holding companies with few real-economy activities within the group structure of foreign multinationals. Their balance sheets consist mainly of foreign claims and liabilities. These entities are sometimes called letterbox companies and were referred to as special financial institutions (SFIs) in the past. When these institutions issue securities in the Netherlands, they usually do so as financing vehicles for their activities abroad. In these cases, the funding raised usually flows directly to the foreign parent company. Due to the resulting external claim, these entities have little effect on the net international investment position.

As a result of the composition of the Netherlands' net international investment position, estimates of its size may be conservative. This is due to the different ways in which securities and direct investments are usually valued. Value increases in share prices are not always immediately reflected by multinationals in the valuation of their direct investments in the Netherlands, which means that the valuation of Dutch securities debt may rise faster than the valuation of Dutch direct investment holdings. This then leads to a decrease in the observed net international investment position. In the case of SPEs, we correct for these differences by default in the balance of payments, as these companies focus exclusively on their foreign activities. For other institutions, which also have domestic activities, making such an adjustment is less straightforward. Alternative DNB estimates of net foreign assets at market value, which roughly correct for this effect, are structurally higher than the official net international investment position figures (see Figure 6).



There has been a significant downward adjustment to the net international investment position. In 2021, the base year of the revision, the adjustment was €181 billion. For this year, the net foreign assets estimate was revised from €813 billion to €632 billion, or from 93% to 71% of GDP. The series has been similarly adjusted for the surrounding years. These adjustments were based on new information described more fully in the "Improved sources" and "Improved methods" sections. Below, we discuss the various causes of this downward revision.

Figure 7: Breakdown of net external assets adjustment
Year-end figures 2021 in € billion. Source: DNB



First, improved information on issuance and domestic and foreign holdings of securities has led to a downward revision of €125 billion. In this revision, the information on securities issued in the Netherlands was sourced almost entirely from the CSDB database for the first time. The new MSR report was then used to determine the domestic ownership of these securities. The total volume of securities issued minus domestic holdings results in foreign holdings, a method also known as the residual approach. Here, Dutch households' holdings in other euro area countries – so-called third-party holdings – were fully traced and processed for the first time thanks to the use of the ESCB Securities Holdings Statistics.

The adjustment for securities issuance and holdings has mainly affected financial holding companies, banks and other financial intermediaries. The net international investment position for securities has been adjusted by €-50 billion for Dutch financial holding companies, by €-38 billion for banks and by €-61 billion for other financial intermediaries. The net position of Dutch companies' securities has also been adjusted, but to a lesser extent (€-17 billion). For financial holding companies, the adjustment is mainly due to alignment with the improved sources for securities data. The adjustment for banks can largely be attributed to a change in the valuation of source information, from nominal value to market value, which is more in line with the economic concepts used in the balance of payments. For other financial intermediaries, such as securitisation vehicles, the adjustment is due to the use of improved source information, including securities data and sector reports. Incidentally, the net external assets of Dutch SPEs have also been adjusted, but as this is fully offset by additional direct investment holdings abroad, this adjustment has no effect on the Netherlands' net international investment position.

Second, net foreign direct investment in Dutch companies and institutions was €136 billion higher than previously estimated. An increase in foreign investment has resulted in a decrease in the net international investment position. This decrease is mainly visible in the business sector (€83 billion) and financial holding companies (€58 billion), especially in the form of intra-company loans. These adjustments can largely be attributed to the use of improved source information for both sectors.

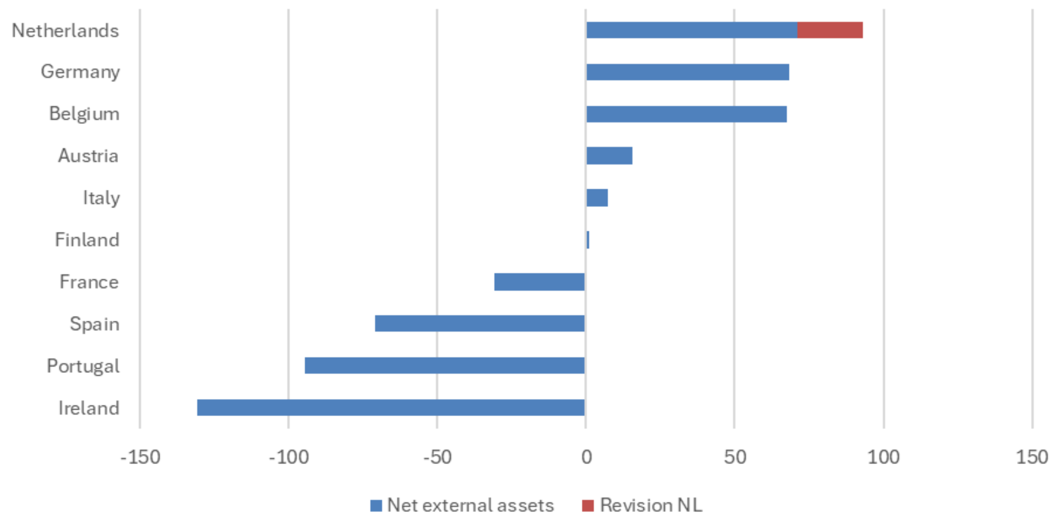
Third, the downward adjustment is offset by upward revisions of €55 billion in other loans and €25 billion in miscellaneous revisions. The increase in other loans relates to out-of-group loans, and is mainly visible in the other financial intermediaries and financial auxiliaries sectors (€32 billion). The new reporting data on these sectors provides a better picture of the economic relations with foreign countries. Collecting this data involved reclassifications from loans to securities, for example for so-called CLOs (collateralised loan obligations). Other loans from Dutch companies were also adjusted (€19 billion) as a result of the use of new source information.

The increased international debt of Dutch financial holding companies appears to have been partly used for Dutch businesses. To the extent that foreign claims are not matched by increased liabilities, they are used to finance domestic operations – especially in the Dutch business sector, as it seems. Figures published by CBS on domestic inter-sector relations show that financial holding companies' claims on the business sector have increased significantly.

Even after the downward revision, the Netherlands' net international investment position remains substantial compared to other countries. Within the euro area, the Netherlands still belongs to the group of countries with relatively large external assets, even after the revision (see Figure 8). The current estimates of the net international investment positions of the other euro area countries shown may still change in the coming months, as these countries have not yet published the results of their benchmark revisions.

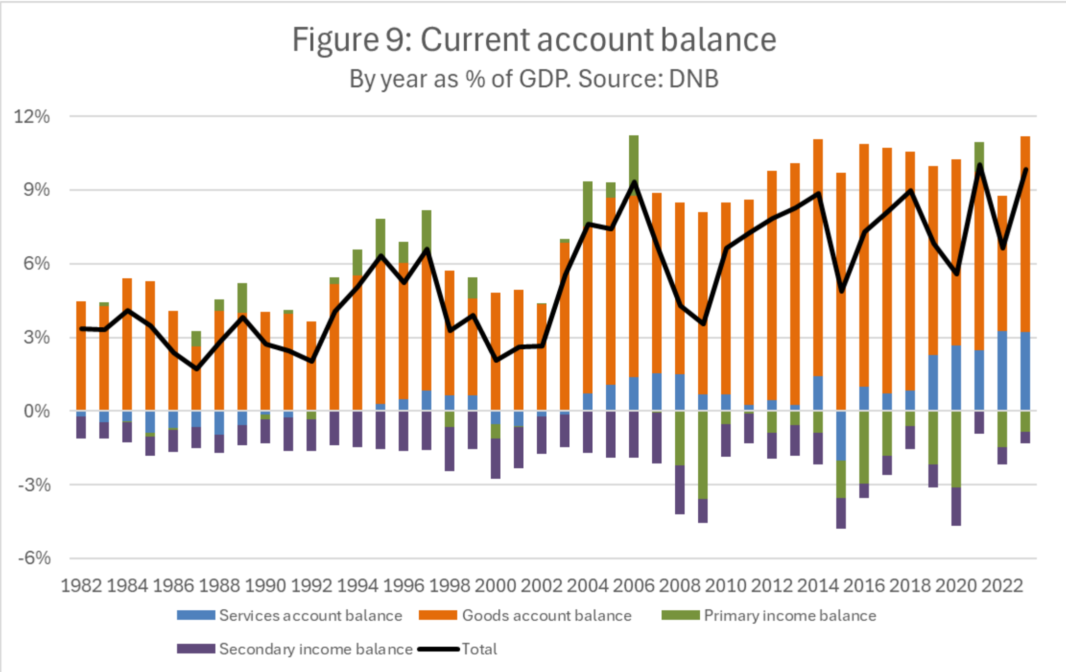
Figure 8: External assets of euro area countries

Year-end figures 2021 as % of GDP. Figures for other countries are pre-revision



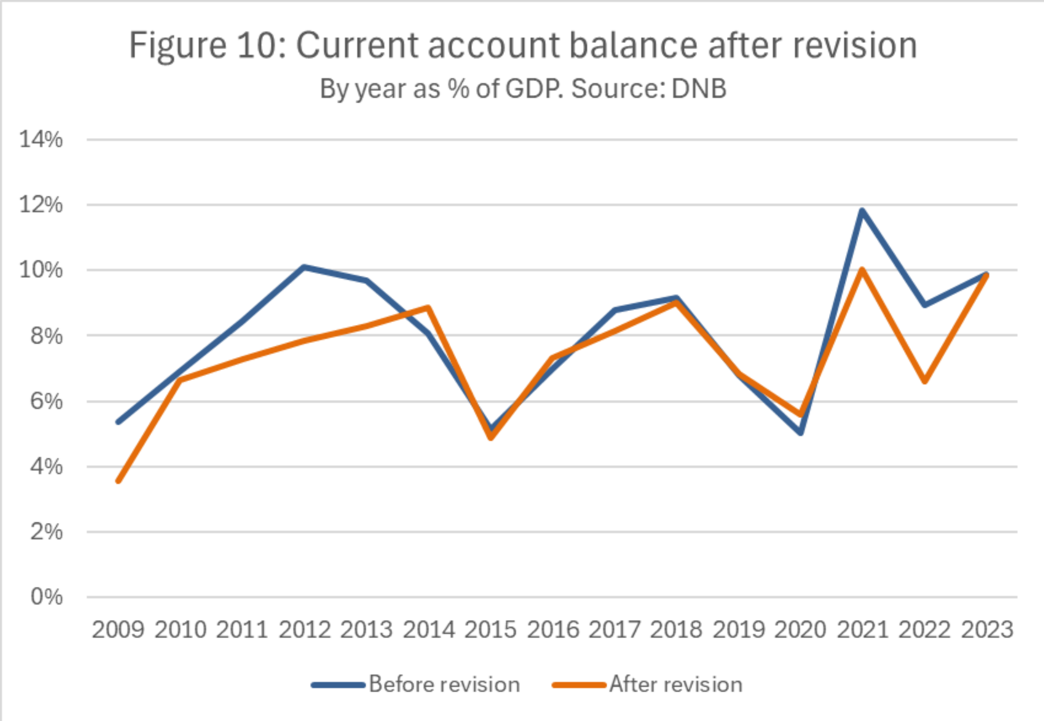
Current account surplus lower than expected

The Netherlands has a structural current account surplus, mainly due to net exports of goods (see Figure 9). The Netherlands accounted for 3.1% of world goods exports in 2022. In value terms, only China, the US, Germany, Japan and South Korea exported more goods (CBS, 2023). At the same time, the Netherlands was also the world's eighth-largest importer of goods. These imports were partly for re-exports, which accounted for half the value of Dutch exports in 2022. The positive trade balance as a result of the net exports of goods is the main reason for the Dutch current account surplus. The last time the Netherlands recorded a current account deficit was in 1980.



Current account investment income in the Netherlands is influenced by net direct investment holdings and securities debt. In the balance of payments, only dividend is considered as investment income for securities, while for direct investment undistributed profit (retained earnings) is also allocated as profit to the parent company. The reason for this difference is that, unlike other investors, direct investors in a company have a significant degree of control over how profits are spent. As a result of this approach, profits flowing into the Netherlands are defined more broadly, while profits of foreign investors in Dutch securities are calculated according to a narrower concept. This has a positive effect on the current account balance. An indicative estimate of the size of this effect for 2022 is 2% of GDP (DNB, 2023).

The revised balance of payments figures show that the current account surplus has been lower than estimated in recent years (see figure). The most significant downward revisions are for 2021-2023. The three-year average current account surplus used by the European Commission in its macroeconomic scoreboard fell from 10.5% to 8.9% for the 2021-2023 period. The adjustment to the current account balance is considerably smaller than in last year's revision, when foreign asset income in direct investment saw a substantial downward adjustment.



The main reason for the adjustment are downward revisions to the balance for trade in goods and services. Net exports of goods have been revised downwards by an average of €10.4 billion annually for the 2021-2023 period. For the years 2021 and 2022, a major reason for this is a correction to stockbuilding, resulting in lower exports than previously estimated. In addition, better source figures have become available for goods trade based on the principle of economic ownership, resulting in a better alignment with the economic concepts used in the balance of payments. For services trade, balance of payments data has been reconciled with current source information, resulting in an average upward revision of net services exports by €2.7 billion annually for the 2021-2023 period.

In addition, cross-border investment income, an important part of the primary income balance, has been revised downwards. Underlying this revision are several adjustments, which partly offset each other. In 2021, the base year of the revision, the interest rate balance was revised downwards by €4.5 billion, mainly due to an adjustment in the allocation of banking services implicit in interest rates (the so-called FISIM). New source information on the other financial intermediaries and financial auxiliaries sectors has resulted in a downward revision to the profit balance of €1.1 billion. Income from foreign-owned Dutch real estate was also revised downwards, by €1.8 billion. This is due to a downward adjustment of the yield estimate for both domestic and foreign property owners. Finally, Dutch households' income from holiday homes abroad was revised downwards by €0.9 billion. Improved source information revealed that maintenance costs had previously been underestimated.

The downward revisions are partly offset by an upward revision of cross-border labour income. For 2021, the base year of the revision, Dutch labour income from abroad has been adjusted by €1.4 billion, partly because income received from international organisations has been fully included in the figures for the first time. On the contrary, the remuneration of foreign labour in the Netherlands was revised downwards by €0.4 billion.

Conduit sector found to be larger – but also shrinking faster – than previously estimated

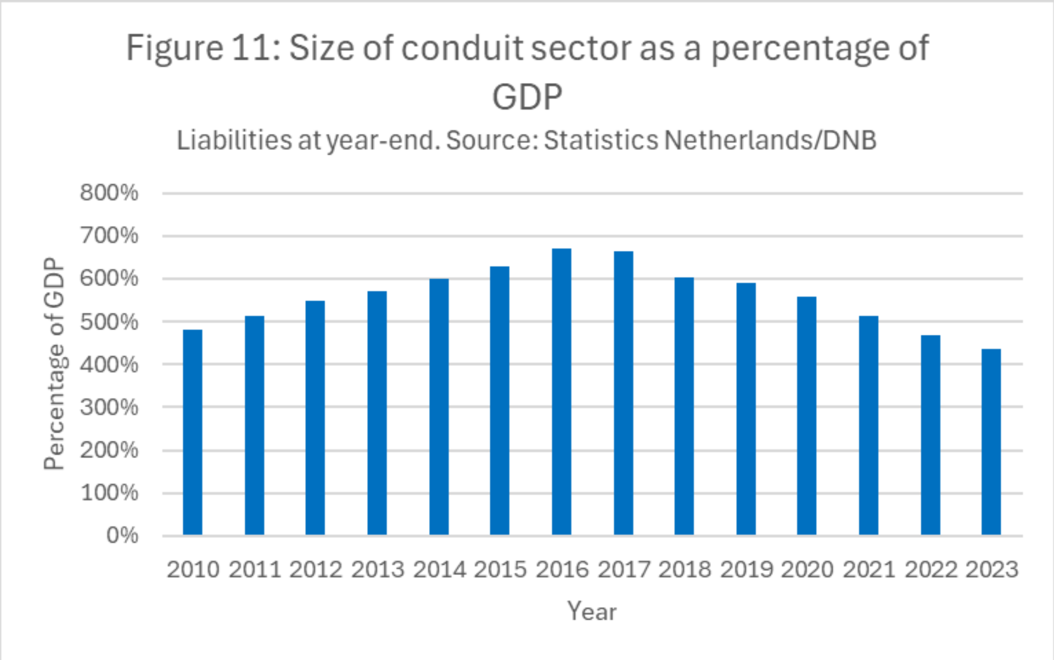
The Dutch conduit sector has traditionally been large, both in terms of GDP and in comparison to other countries. Financial holding companies and captive money lenders are also known as conduit companies. These are companies that are registered in the Netherlands with little or no operational activities, no more than five employees and a limited contribution to GDP. This group includes a diverse range of companies, such as special purpose entities (SPEs) that are often set up by a company for specific reasons (sometimes tax-related), finance companies owned by multinationals that raise money in the bond market and lend to foreign and domestic subsidiaries, and holding companies with non-financial subsidiaries. Conduit companies often play an important role in multinationals' international profit flows. The financial size of this group of companies is large: in 2021, the base year of this revision, total liabilities amounted to some €4,567 billion, or more than five times GDP. This also makes the Dutch conduit sector large in comparison to other countries: the Netherlands is among the top 5 countries worldwide with the largest direct investment positions. Conduit companies represent over 60% of Dutch direct investment.

The revised data shows that the conduit sector was on average around 5% larger than previously estimated in the years 2010 to 2021. Over the revision period (2010-2021), the size of the sector averaged €4,241 billion, €202 billion more than previously estimated. On the asset side, the largest upward revision (€200 billion on average, +18%) was seen in loans granted by conduit companies to foreign businesses. These adjustments to foreign assets are mirrored on the liabilities side by various instruments, with loans received (€102 billion on average, +12%) and securities issued (€63 billion, +13%) seeing the biggest upward adjustments. Because the set of liabilities held abroad has been adjusted upwards more than the conduit sector's foreign asset holdings, there has been a net downward revision of the conduit sector's net external assets, as described in Chapter 2.

Besides the use of new data sources, the upward revision is also due to a better understanding of which companies qualify as conduit companies. As described in Chapter 2, several new sources have been used in recent years to improve estimations for conduit companies. In addition, combining multiple sources has revealed that more entities qualify as conduit companies than previously thought. These companies have now been added to the reporting population, and survey data has also been used to revise statistics from previous years where necessary.

The conduit sector has been shrinking in recent years, and this negative growth is more pronounced than previously thought. In terms of GDP, the revised figures show that the conduit sector reached its historic balance sheet peak in 2016, at 671% of GDP (€4,832 billion). Over the course of the following years, it shrank to a balance sheet size of 512% of GDP (€4,567 billion) in 2021. Even after the revision period (2010-2021), this trend appears to continue, with negative direct investment amounting to €324 billion in 2023 and the balance sheet size relative to GDP reaching 435% (€4,648 billion) at the end of that year. In the previous estimate, the historical maximum balance sheet size, in terms of GDP was also in 2016 (632%, €4,552 billion), but the revision shows that the sector's negative growth between 2016 and 2021 was larger than previously thought (159 percentage points of GDP versus 137).

This decline may be the result of various national and international initiatives and measures taken in recent years to combat tax evasion. Examples include the OECD's Base Erosion and Profit Shifting initiative, the global 15% minimum tax on multinational profits, and the Withholding Tax Act (*Wet bronbelasting*). These initiatives and measures may be prompting companies to review their international corporate structures.



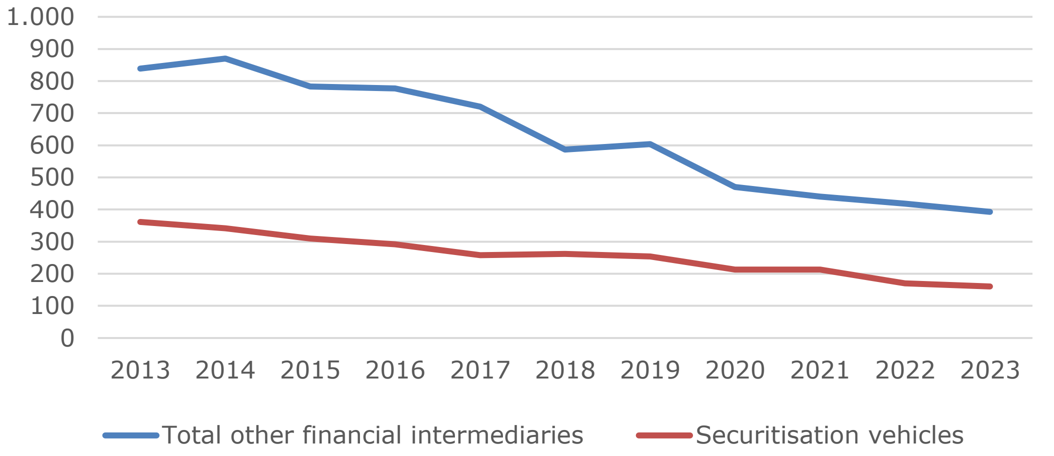
Other financial intermediaries declining in size and smaller than previously assumed

Total financial assets of the other financial intermediaries sector in 2023 are €97 billion (20%) lower than previously assumed. The other financial intermediaries sector consists of a wide variety of entities, including securitisation vehicles, securities and derivatives dealers and finance companies. Due to the downward revision, the size of this sector at the end of 2023 is estimated at €393 billion. The adjustment can largely be attributed to a reduction in domestic deposits, which were previously wrongly attributed to this sector based on information derived from counterparty sectors. For example, deposits of other financial intermediaries were estimated largely on the basis of figures reported by banks. This indirect observation, where attributions to financial sectors have considerable uncertainties, has now been replaced by direct observation by these other financial intermediaries themselves.

This downward revision reinforces the negative trend in the size of the other financial intermediaries sector, which is largely the result of the downward trend in securitisations. Securitisations involve the bundling of loans, which are then repackaged as bonds through special purpose vehicles. The downward trend is partly due to banks' use of other types of funding, which have allowed them to raise money more easily and more cheaply in recent years. Examples include the ECB's additional lending facilities – now being phased out – and the issuance of covered bonds. Outstanding securitisations fell from €361 billion in 2013 to €160 billion in 2023. The other financial intermediaries sector as a whole fell from €838 billion in 2013 (126% of GDP) to €393 billion in 2023 (37% of GDP) (see figure). This decline since 2013 is related to the negative trend in securitisations, but also to the winding down of some treasury centres affiliated to pension funds.

Figure 12: Total size of other financial intermediaries and securitisation vehicles

Year-end figures, 2013-2023 in € billion. Source: CBS, DNB



Fintech lending has also been included in the observation of other financial intermediaries and, for the time being, appears limited in terms of balance sheet size (€0.5 billion in 2023). This type of lending is facilitated by electronic platforms where credit is provided by sources other than banks, insurers or pension funds. These so-called fintech lending platforms include crowdfunding platforms. However, the loans granted and outstanding through these platforms (€1.3 billion at the end of 2022) do not appear on the balance sheets of other financial intermediaries, as crowdfunding platforms mainly act as intermediaries between borrowers and lenders and do not grant loans themselves.

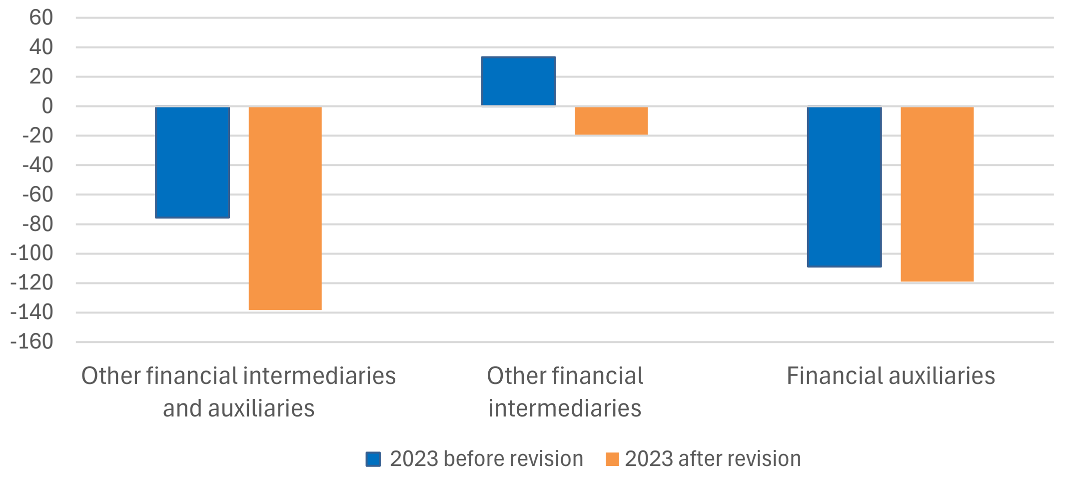
The revision shows that other financial intermediaries had a net external debt of €20 billion in 2023, while it was previously estimated that they had a net external claim of €33 billion. This means that these companies play an important role in the downward revision of the Dutch economy's net foreign assets described in Chapter 2. The revisions, resulting in these companies having raised €53 billion more in foreign funding on balance, were driven by adjustments to both liabilities (more foreign-owned debt securities) and assets (fewer long-term loans granted to foreign parties and fewer foreign unlisted shares held).

Improved data collection has also made it possible to introduce separate observation and publication for financial auxiliaries, in addition to the above-mentioned other financial intermediaries. Financial auxiliaries include head offices of financial institutions, asset managers, intermediaries and payment institutions. Until now, the figures on these entities were published jointly with those of other financial intermediaries. The improved source information has prompted several adjustments to the figures due to changes in valuation principles, reclassifications of instruments and population tightening. Based on this revision, the figures for these two sectors are now made available separately going back to 2013, which will continue to be the case after this revision.

On balance, these financial auxiliaries had a substantially larger debt to the rest of the world (**€119 billion) in 2023 than other financial intermediaries, but the adjustment for this category is considerably smaller (€-10 billion, 9%).** The relatively high debt of financial auxiliaries is mainly caused by the fact that a number of head offices of Dutch insurance and banking groups issue securities to finance their operations, which are mostly foreign-owned. The total size of financial auxiliaries at the end of 2023 was €255 billion after a downward adjustment of €19 billion (-7%) in this revision, largely due to lower holdings of unlisted shares.

Figure 13: Net external assets of other financial intermediaries and financial auxiliaries

Year-end figures 2023 in € billion. Source: DNB



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