



Special

Q&A: What about a Nexit?



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- *A referendum on a Nexit lacks political support...*
- *...but the Dutch membership of the EU will be an important political theme for the next general elections (March 2017)*
- *The Netherlands is more economically and financially integrated in the EU than the UK. Moreover, EMU membership makes a Nexit even harder to accomplish*

Introduction

With the UK having decided to leave the European Union, it is increasingly being questioned whether other member states might follow in Britain's footsteps. One of the countries in scope is the Netherlands, and some wonder whether a 'Nexit' could also occur. In this document, we provide more background on this question, without taking an explicit view on the likelihood of the Netherlands leaving the EU and consequences of such a scenario.

Is a referendum possible?

It is nowadays relatively easy to call for a referendum in the Netherlands, but not on every topic. As a matter of fact, a referendum on a Nexit cannot be called by the population. Only the Parliament (consisting of the House of Representatives ("Tweede Kamer") and the Senate ("Eerste Kamer")) has the power to do this, but this seems very unlikely in the near term. In short, the probability of such a vote being put to the public is very low before the general elections of March 2017.

In general, there are two types of referendums possible in the Netherlands:

1. Consultative referendum ("raadplegend referendum")

This type of referendum can be called by the government or by a majority in both the House of Representatives and Senate and can be used to assess the opinion of the population before making a decision.

In our view, the probability of a consultative referendum in the near to medium term is low. The government is unlikely to request one, and the only political party which is currently explicitly in favour of a Nexit referendum, the Freedom Party of Geert Wilders ("PVV"), is unlikely to find a majority support in both houses.

2. Advisory referendum ("raadgevend" or "correctief referendum")

An advisory referendum is a relatively new possibility under Dutch law and can only be held in response to new legislation; up to 4 weeks after a bill is passed. This type of referendum can be started by anyone entitled to vote. In order to ask for a referendum to be held, at least 300,000 people must back the final petition for a referendum. Laws that involve constitutional changes, the Royal Family, or the budget cannot be subject to an advisory referendum. **An advisory referendum can only be held following the passing of a bill, and since there is currently no bill on a Nexit, calling a referendum on this would be impossible.**

Both types of referendums are **non-binding**, a fact that was recently confirmed by the advisory body to Parliament ("Raad van State"). A binding referendum would require a change in the Dutch constitution,

which in turn requires a majority in Parliament, new elections, and after that, a 2/3 majority in Parliament. At the moment, support for such a change is lacking by a wide margin.

What is the Dutch experience with previous referendums?

In recent years, we have seen two referendums in the Netherlands, and as a matter of fact, both were on the EU. Moreover, both referendums resulted in a negative outcome, i.e. a negative stance of the Dutch electorate toward the EU. Still, we note these votes were more about the expansion of the EU, and not about the far more sweeping question of leaving the EU altogether.

Referendum on the EU constitution (June 2005)

This was a consultative referendum on the treaty on the EU constitution and was initiated by a majority in Parliament. 63.3% of the electorate voted, of which a clear majority (61.5%) was against the EU constitution. 38.5% voted in favour, whereas 0.8% voted blank. In the end, the EU constitution never saw the day of light, and was replaced by the Treaty of Lisbon. This treaty was not put up for referendum in the Netherlands.

On the EU association treaty with the Ukraine (April 2016)

This is the most recent referendum and was advisory in nature. Several political groups, supported by a popular weblog, successfully requested a referendum on the EU's new association treaty with the Ukraine, which was just adopted by Parliament. Only 32.3% of the electorate showed up for vote, but this exceeded the 30% threshold to make the outcome valid. As the majority voted against the treaty (61.1%), the government and Parliament will have to reconsider the treaty. 38.1% voted in favour, and 0.8% blank.

What is the current sentiment towards a Nexit?

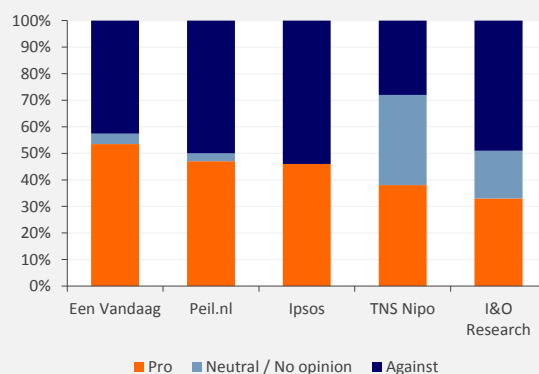
Recent opinion polls show ambiguity as to whether Dutch citizens support a referendum on a Nexit. The average outcome of five independent polls shows that 44.8% of the respondents is against such a referendum, whilst 43.6% is in favour. About 10% is neutral or has no opinion. Most of the polls were conducted before the Brexit vote, however. Only one poll, by peil.nl, was conducted after the Brexit outcome and showed that 50.0%/47.0% was against/in favour of holding a Nexit referendum.

All opinion polls also asked respondents about their hypothetical voting behaviour if a Nexit referendum would be held. On average, 54.2% would vote to remain in the EU, whereas 36.4% would vote in favour of leaving. 9.4% is undecided. The latest poll, conducted by peil.nl, showed an outcome of 46.0%/43.0% for remain/leave.

What does the political landscape look like?

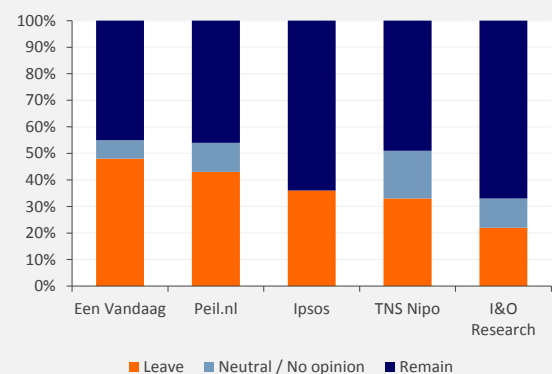
The next elections for the House of Representatives are scheduled for 15 March 2017. In our view, these elections are more important to consider. Although a Nexit referendum is very unlikely to take place before the general elections, it is becoming increasingly visible that the Netherlands' EU membership will be an important theme in the campaigns for the elections. As already mentioned, only the Freedom Party ("PVV") is currently explicitly in favour of a Nexit referendum. Although it would currently be impossible for them to request a referendum on their own, they cannot be ignored.

Figure 1: Necessity of a Nexit referendum



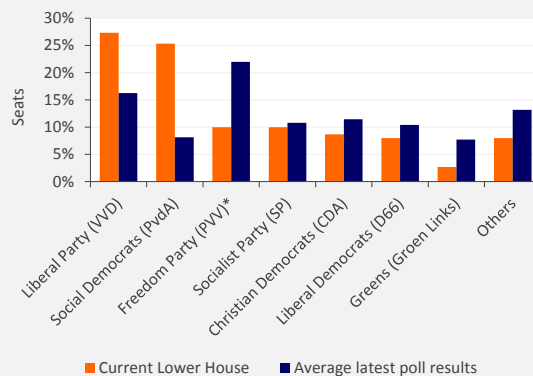
Source: Polling agencies, Rabobank

Figure 2: Vote in a hypothetical Nexit referendum



Source: Polling agencies, Rabobank

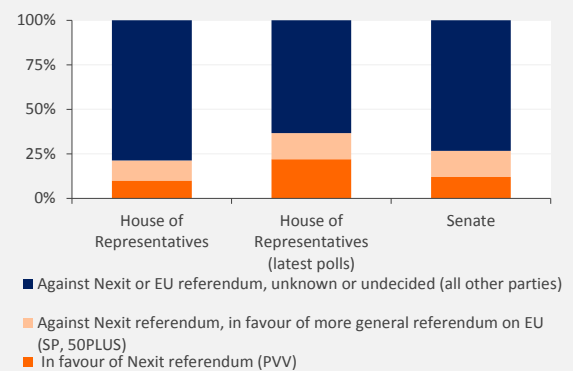
Figure 3: Seats in House of Representatives



Source: Polling agencies, Rabobank

*seats include party splits

Figure 4: Political support for referendums



Source: Polling agencies, Rabobank

The Freedom Party is currently leading in the latest opinion polls, which indicate that the PVV could take 22% of the seats. The Liberal Party ("VVD") is the runner up, with support from 16% of poll respondents. The remaining 62% is highly scattered across several political parties. It is clear, however, that the current government coalition, consisting of the Liberal Party and Social Democrats ("PvdA"), would only get 24% of the seats, i.e. far from a majority in the House of Representatives.

As the situation stands, the formation of a coalition would be difficult after the elections in March. If the Freedom Party takes the lead, they would have the first lead in trying to form a government coalition, but if a Nexit referendum is a crucial theme, and other political parties would oppose this, it will be difficult for them to get a government running.

The only political parties currently supporting a referendum on the EU are the Socialist Party ("SP") and the elderly party "50PLUS", although, according to them, the question should not be on leaving the EU, but merely on the ever increasing power of the EU. In the latest polls, they are currently standing at 11% and 4%, respectively. Theoretically, there is a possibility that the Freedom Party would obtain an overall majority in the House of Representatives after the elections, but we note this would be a very big departure from current polls, and moreover, it would be unprecedented. In modern political history, the highest number of seats by a single party in the House of Representatives was 54 (36%) (Christian Democrats, 1986, 1989). But even under such an extreme outcome, the Freedom Party wouldn't have a majority in the Senate.

All in all, the nature of the Dutch EU membership will likely be an important theme in the coming election campaigns. However, we think that given the current political landscape a referendum on a Nexit will be unlikely.

Can the Netherlands leave the EU without giving up the Euro?

As is often the case with such fundamental questions, there is no unambiguous answer. The European Treaty does not provide a framework for euro adoption by non-candidate countries. Neither for departing countries. **The short answer, though, is that it is theoretically possible. In practice, however, it is very unlikely.** Basically there are two options:

1. A formal exchange rate or monetary agreement between the EU and the departing country
2. A *de facto* use of the euro, sometimes referred to as unilateral 'euroisation'

The first option is all but impossible in the case of a departure from the EU, simply because the EU sees membership of EMU as *following naturally* from EU accession. Countries that have a monetary agreement, such as *Andorra*, *Monaco* and *San Marino*, are an exception and the result of a 'continuity agreement'. They are strongly embedded in a geographical area that is part of the Union and legally used a legacy currency before the euro was introduced.

- There is no monetary sovereignty and no monetary influence (ECB) for these geographies, only limited flexibility to issue euro coins;
- Community rules apply to euro banknotes and coins;
- Co-operation with regard to measures against counterfeiting

The second option is theoretically possible. It is actually the case for *Kosovo* and *Montenegro*. This situation largely stems from the disintegration of the former Federal Republic of Yugoslavia which created

a need for a strong monetary foundation. The official stance of the ECB is that it would “*neither encourage nor facilitate*” unilateral euroisation. In a speech 13 February 2008, ECB Executive Board member Jürgen Stark noted that from the viewpoint of equal treatment it would be difficult to conceive that the EU would be more open towards euroisation by non-candidate countries than by candidate countries or Member States with a derogation (i.e. Denmark, UK).

This option implies that a country benefits from the ECB’s monetary credibility (but only in the sense that the country does not have any monetary policy itself) whilst not having to introduce exchange rate risk. However, using this route is entirely at the country’s own risk and won’t be supported by either the EU or ECB:

- The country gives up its monetary sovereignty entirely. Yet it cannot issue legal tender and the country consequently has no seigniorage revenues (stemming from issuance of bank notes). Banks do not have access to ECB liquidity support. There can be no lender of last resort function by the country’s monetary authority (although this argument is super-seded by bank resolution legislation). Its financial institutions would not benefit from the EU’s common rulebook/regulatory oversight.
- In the long-run such a concept would likely require a significant amount of economic and legal convergence with the EU/EMU countries in order to maintain financial and economic stability and the correct level of external competitiveness.

The key point is that this option would seem politically unfeasible under a scenario where a country leaves the EU in order “to regain self-control”; needless to say that if a large and ‘founding’ EU and EMU member state decides to leave the EU, that decision is likely to be driven (partially at least) by the desire to have its own currency. A more likely alternative, therefore, is the introduction of a sovereign currency, which –immediately or in due course– could be pegged to the euro, if the member state’s monetary authority has sufficient credibility.

Is the Netherlands not too integrated in the EU to leave it?

We make the comparison with the UK here, as the Brexit is already showing that disintegration from EU will be a very difficult process. A Nexit would even be harder to accomplish. Regarded from a geographical perspective, the Netherlands is clearly more centrally located in the EU. This is also important from the economic perspective, as the Netherlands is very dependent on trade in goods and services, especially with other EU member states. The country’s distribution function is strongly embedded through the presence of major transport hubs, including the port of Rotterdam and Schiphol airport, which are also big employers. Also for the services industry, such as the financial sector and the relatively big presence of headquarters of multinational corporations in the Netherlands, strong ties with the EU very important. Lastly, we note that there is deep financial integration with the EU. The Dutch have invested quite some assets in other EU countries, but the same time, the financial liabilities to other EU countries are also relatively high. We finally note that polling data by the European Commission also show that a majority of the Dutch realises that the EU brings them benefits. In contrast, the outcome of the same poll conducted in the UK shows a clearly less positive attitude to the EU.

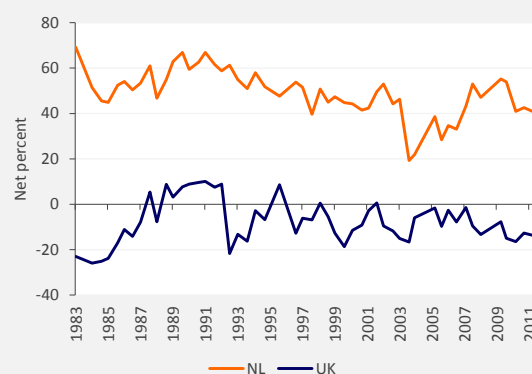
We will continue to monitor the situation on a Nexit closely. If there are further developments, we will publish further research on this issue.

Table 1: Importance of EU trade for the Netherlands and the United Kingdom (2015)

| | NL | UK |
|---|-------|-------|
| Export (% GDP) | 82.5% | 27.4% |
| Import (% GDP) | 71.7% | 29.4% |
| Export to EU countries (% total export) | 75.5% | 44.4% |
| Import from EU countries (% total import) | 45.6% | 53.6% |
| Current account (% GDP) | 9.1% | -5.2% |
| Domestic value added of gross exports to EU-28 (% GDP)* | 18.9% | 11.5% |

Source: Eurostat, OECD *2011

Figure 5: Net percentage of population that sees a benefit -/- no benefit from EU membership



Source: European Commission

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