DDA SPECIAL

Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

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The publication of the DSTA's Quarterly Outlook promotes the launch of the new 10-year benchmark bond of the State of the Netherlands. The DSTA intends to launch this bond by Dutch Direct Auction (DDA) on 19 March 2013.

Update: Funding and Issuance 2013

In the DSTA's Outlook 2013, which was published in December 2012, the DSTA's total external funding requirement for 2013 was estimated at € 90.3 bln. The current estimate of the funding requirement has increased slightly to € 91.1 bln. The difference can be explained by two developments. On the one hand, the 2012 end-of-year money market volume is now known to have exceeded the estimate in the Budget Memorandum, on which the previous estimate was based, by € 3.9 bln. On the other hand, buy-backs in the final months of 2012 of DSLs maturing in 2013 reduce capital market redemptions in 2013 by € 3.1 bln, largely offsetting the effect of the increased money market volume. Hence, on balance, the expected funding need has increased by € 0.8 bln.

Borrowing requirement 2013 (€ bln)	Update	Previous
Capital market redemptions	28.7	31.8
Money market ultimate 2012	53.2	49.3
Cash deficit	15.2	15.2
Total borrowing requirement	**97.1**	**96.3**
Expected inflow from local governments	6.0	6.0
Total external funding requirement	**91.1**	**90.3**

The DSTA's intended call on the capital market remains unchanged at approximately € 50 bln. The call on the money market will increase somewhat to absorb the additional financing need.

Funding in 2013 (€ bln)	Update	Previous
Capital market funding	50.0	50.0
Money market ultimate 2013	41.1	40.3
Total funding	**91.1**	**90.3**

The DSTA will update its borrowing requirement following the publication of new estimates for the budget deficit by the Ministry of Finance on 1 June at the latest. The money market will continue to function as a buffer to help accommodate any changes in the external funding need.

So far this year, the DSTA has raised € 8 bln on the capital market, of which € 3.2 bln on 8 January at the launch of the new 3-year benchmark bond, € 2.1 bln on 21 January through reopening of two off-the-run bonds (the DSL 15 Jan 2014 and the DSL 15 Jan 2042), and € 2.7 bln through the reopening of the 5-year DSL 15 Jan 2018 on 12 February.

New 10-year benchmark bond

A new 10-year benchmark bond is a regular feature of the DSTA's annual issuance calendar. This year's issue, the DSL 15 July 2023, will be launched on 19 March 2013. The DSTA has appointed HSBC France, ING Bank and Rabobank as advisors for this DDA. The target amount to be raised during the DDA is set at a minimum of € 5 bln. The coupon and the initial spread guidance vis-à-vis the reference bond, the DBR 1.5% 15 February 2023, will be announced shortly before the auction.

The terms and conditions

Maturity date	15 July 2023
Coupon	To be announced on 15 March 2013
Issuance size	Minimum of € 5 billion
Reference bond	DBR 1.5% 15 February 2023
Initial spread guidance	To be announced on 18 March 2013
Auction date	Tuesday 19 March 2013, starting at 10.00 CET
Pricing	At least 1 hour after allocation, no later than 20 March 12:00 hrs cet
Settlement date	Friday 22 March 2013

Subsequent reopenings of this bond will increase its outstanding amount to at least € 15 bln by the end of the year.

The annual coupon date of the new ten-year benchmark will be 15 July, and its maturity date will be 15 July 2023. Hence, for this bond the DSTA sticks to its current policy of choosing the July-date for the new ten-year benchmark bond. This new bond is the first Dutch ten-year bond that will contain a Collective Action Clause (CAC). The DSTA will reassess the coupon and redemption month of new DSLs from the perspective of cash management and fungibility of strips.

The DDA process

The DSTA uses the Dutch Direct Auction (DDA) for the launch of most of its benchmark bonds. The DDA was developed in-house by the DSTA to offer investors interested in high quality, liquid bonds a clear and transparent auction technique that prioritises end-investors.

The DDA is rules-based, with the DSTA as the single book runner. To guide investors in their bidding, an initial spread guidance vis-à-vis the reference bond is communicated on the day prior to the DDA. Investors may submit their bids through one or more Primary Dealers of their choice.

List Primary Dealers for 2013, in alphabetical order	
ABN Amro Bank	Jefferies
Barclays Capital	NATIXIS
Citigroup	Nomura
Commerzbank	Rabobank
Deutsche Bank	Royal Bank of Canada
Goldman Sachs	Royal Bank of Scotland
ING Bank	Santander GB&M
HSBC France	Société Génerale

Investors may place bids against a spread vis-à-vis the reference bond, or 'at best' to indicate that an investor wishes to obtain the bond at the cut-off spread. This cut-off spread is determined by the DSTA after closure of the book. This spread is translated into a uniform price at which all bonds are subsequently allocated according to clear and predetermined rules. For allocation purposes, the DSTA distinguishes between two types of investors: 'real money' (buy-and-hold) accounts, and 'other' (trading) accounts. At the cut-off spread, real money accounts are prioritised in allocation over other accounts. The DSTA nevertheless reserves the right to allocate up to 35% of the total issue to other accounts to help safeguard adequate liquidity of the bond.

Real money accounts	Other acounts
Asset and fund managers	Banks and trusts
Central banks/agencies/ supranationals	Hedge funds
	Other trading desks
Insurance companies	
Pension funds	
Private banks	

As the single book runner, the DSTA has exclusive insight in the book building process. Investor information is classified as confidential and is treated with the utmost discretion. After the auction, the DSTA will publish the auction results through a press release which includes, besides the auction results, an aggregated statistical break-down of the geographical location and type of investors that have been allocated in the DDA.

Further information on the rules and principles of the DDA can be found of the DSTA's website: www.dsta.nl.

Economic Outlook

After positive growth in 2011, quarterly economic growth in the Netherlands turned negative in the second half of 2012. Due to a rather steep decrease in real GDP of 1% in the third quarter of 2012, the decline for 2012 as a whole was 0.9%. A gradual recovery is expected to take hold in second half of 2013.

Updated economic forecasts

On 28 February the independent Bureau of Economic Policy Analysis (CPB) published an update of its economic projections. In 2013, real GDP is expected to decline moderately by 0.5%, whereas in 2014 the economy is projected to expand by 1%.

The main cause of the weak economic performance has been the decline in domestic demand. Consumer spending has been under pressure as a result of negative wealth effects from the gradual decline of house prices, and declining purchasing power due to budgetary consolidation policies and limited increases in contractual wages. Households are seeking to deleverage by cutting spending and increasing savings. In 2012, household savings increased by over 5%. At the same time, investment remains subdued due to continued uncertainty surrounding the euro area debt crisis and the decrease in the level of activity in the construction sector.

Although growth in domestic demand is expected to remain negative in 2013, a turnaround in the second half of this year is expected, which should allow for a return to positive growth in 2014.

Key figures for the Netherlands

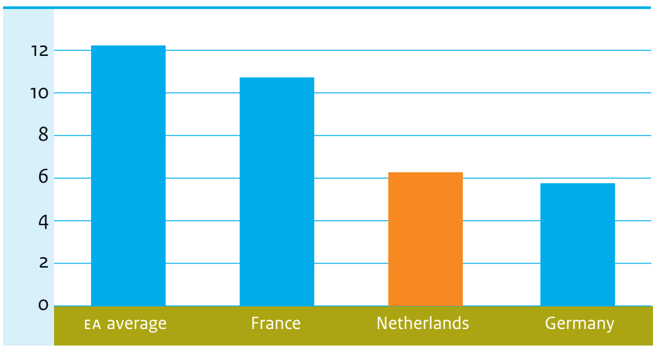
average % y-o-y change	2013	2014
GDP	-0.5	1
Private consumption	-1.5	0.25
Gross fixed investment	0.5	2.25
Government expenditure	-0.25	0.5
Exports	3.25	5
Imports	2	4.5
Unemployment (% labour force)	6.25	6.5
Labour productivity	0.5	1.5
Inflation (% change CPI)	2.75	2

Source: CPB, February 2013

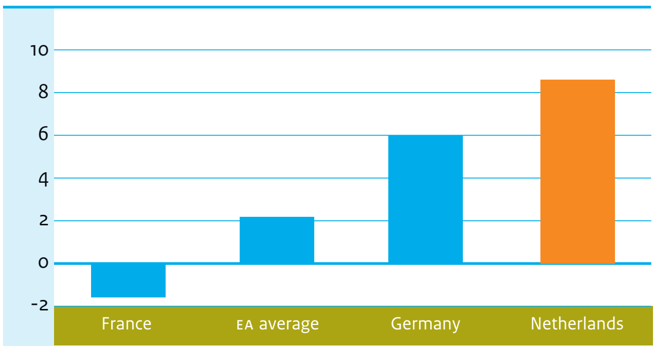
Partially offsetting weak domestic demand, export volume has grown steadily over the last few years. Export growth is expected to continue to outpace the growth of imports in 2013 and 2014. Hence the Netherlands' current account surplus, which reached 8.2% of GDP in 2012, is expected to rise further to reach 8.9% in 2014 according to the European Commission. This is the highest surplus in the EU, and reflects the consistently strong competitiveness of the Dutch economy.

Due to the subdued economic outlook in the near term, the CPB expects unemployment to rise to 6.25% in 2013, in line with the EC forecast. Although relatively high for the Netherlands in a historical perspective, this is still among the lowest rates in the Euro Area (with an average of 12.2%). Inflation was relatively high in 2012 at 2.5%. This is mainly attributable to revenue-increasing measures (such as the increase in VAT rate to 21% as of October 2012) and the increase in energy prices. In 2013 inflation of 2.75% is expected, which will ease to 2% in 2014.

Unemployment 2013 (%)



Current account balance in 2013 (% of GDP)



Source: European Commission (Winter Forecast, February 2013)
Government reform policies

The gradual correction of housing prices that began in 2008 continues. This has affected the economy negatively through the domestic demand channel, as consumers scale back spending in response to negative wealth effects and their desire to deleverage. First-time buyers are reluctant to enter the market as long as price declines persist. The Dutch government has taken measures to support the housing market in the near-term, such as the reduction of the real estate transactions tax from 6% to 2%. At the same time, the government is seeking to help correct long-term imbalances by gradually reducing the maximum loan-to-value ratio for mortgages, and incentivising households to reduce mortgage debt by limiting the tax deductibility of interest payments.

The ongoing correction in the housing market and spillover to consumer confidence and domestic demand ensure that the Dutch economy will have a challenging year ahead. Structural reforms are essential to support economic recovery, strengthen the economy's growth potential en safeguard long-term viability of public finances. The government has enacted substantial reforms to improve the flexibility of the labour market, to address inefficiencies and risks in the housing market, and to accelerate the increase in the retirement age to 67.

Despite the near-term challenges, the Netherlands can rely on strong economic fundamentals. The unemployment rate remains low relative to other euro zone countries, while the Netherlands has the second-highest GDP per capita (on a PPP-basis) in the euro area. The Dutch economy's strength is also apparent from the large current account surplus and positive net international investment position amounting to approximately 50% of GDP.

Budgetary Outlook

Following the financial crisis and cyclical downturn, the deterioration of the Dutch budget has been more persistent than previously envisaged. What has not changed is the ambition to reduce the budget deficit, to improve the long-term sustainability of government finances and to abide by the rules that have been agreed in the European Union. The Netherlands has a strong track record of fiscal discipline.

On 28 February, the CPB published its latest forecasts on the budget. Based on existing policies, the budget deficit for both 2013 and 2014 was expected to be slightly above the 3%-of-GDP mark, and 0.7% higher than expected when the coalition government took office in November last year. The projections for 2013 take into account some one-off operations, which largely cancel each other out. The proceeds of the sale of 4G mobile telephony licenses, worth around 0.6% of GDP, are off-set by the deficit-increasing impact of the nationalisation of the bank-insurance company SNS Reaal.

Following the CPB's new economic and budgetary projections, the cabinet acknowledged it would be very hard to achieve its previously expressed intention to reduce the deficit below 3% in the current year. Nevertheless, on the day after the latest CPB projections were published, the government announced a new package of consolidation measures amounting to approximately € 4 bln that should reduce the deficit to below 3% in 2014 and thereafter. The package includes a (prolongation of the) wage freeze in the public sector and cancellation of the inflation indexation of tax brackets and of price-sensitive government expenditures.

The new measures come on top of the consolidation packages that have already been agreed upon by different political coalitions (for more details, see the Outlook 2013). The effect of these previous packages is clearly illustrated in the table below by the improvement of the cyclically adjusted budget balance, as estimated by the European Commission in its Winter 2013 Forecast. The table does not include the impact of the new measures that will be taken in 2014, which are expected to improve the fiscal position in that year.

Key budgetary figures (% GDP)

	2010	2011	2012	2013	2014°
EMU-balance*	-5.1	-4.5	-4	-3.3	-3.4
Cyclically-adjusted budget balance#	-4.2	-3.6	-2.5	-1.5	-1.9
EMU-debt*	63.1	65.5	71.4	74	75°

° excluding the effect of additional measures announced on 1 March.
Sources: CPB (*) and European Commission (#)

Before 1 May the Netherlands will submit its budgetary plans to the European Commission as part of its annual Stability Program. The Commission will subsequently assess the consolidation measures in conjunction with the economic situation.

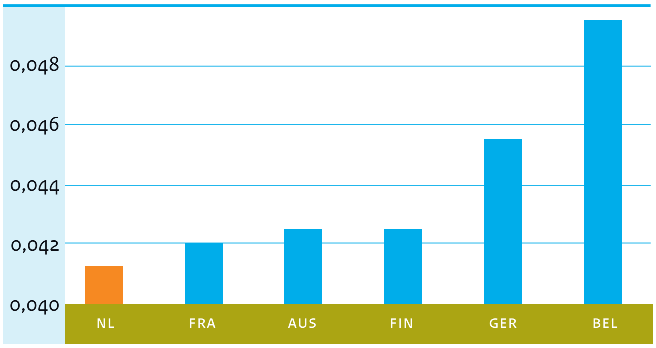
The Netherlands' gross debt level is expected to reach approximately 74% of GDP at the end of 2013. The increase in the debt in 2013 is relatively pronounced as a result of nationalisation of SNS Reaal. Although the Netherlands' public debt has clearly increased, it remains below the debt levels that were reached in de mid-1990s. The Netherlands' history of fiscal discipline, culminating in budget surpluses in the 2006-2008 period, partly explains why the debt level also remains well below the average in Europe.

Looking at long-term sustainability of Dutch public finances, the Netherlands has improved its position quite substantially. The so-called 'sustainability gap' as calculated by the CPB has been turned around from a deficit of 4.5% of GDP in early 2010 to a surplus of 1% of GDP at the end of last year. Aside from the consecutive budgetary consolidation packages, the implementation of structural reforms has made an important contribution to sustainability. The largest impact comes from the accelerated increase of the retirement age, which will reach 67 in 2021, and which will be linked automatically to changes in life expectancy thereafter.

Volatility of 10-year bonds

Yield volatility is an important measure of risk for financial products. A financial product with a high volatility will on average have larger daily fluctuations in market values, while a lower volatility implies a more constant market value over a certain time period. Different investors may have a preference for either high-volatility or low-volatility bonds. The main advantage of low volatility bonds is that returns will be relatively stable over time and future net profit will be more predictable. On the other hand, investors trading in low-volatility bonds will, on average, realise smaller capital gains (and losses) than traders in high volatility bonds.

Yield volatility for 10-year bonds 2009-2012, absolute value of day-to-day change (basis points)



The graph shows the volatility for 10-year government bond yields of several highly rated countries in the euro area over the period 2009-2012. The data shows that over this four-year horizon, the volatility of the Dutch bond is the lowest of all the bonds shown. Furthermore, for each individual year over the four-year horizon the volatility of the Dutch bond is lower than the average of the countries shown.

In terms of the stability of returns, 10-year Dutch bonds are therefore a valuable addition to a bond portfolio.

Outstanding debt

DSL position per ultimo February 2013

ISIN code	DSL	Volume in issue
NL0000102689	4.25 pct DSL 2003 due 15 July 2013	15,983,000,000
NL0009690593	1.00 pct DSL 2011 due 15 January 2014	15,679,000,000
NL0000102325	3.75 pct DSL 2004 due 15 July 2014	16,348,846,000
NL0009213651	2.75 pct DSL 2009 due 15 January 2015	15,488,940,000
NL0010055703	0.75 pct DSL 2012 due 15 April 2015	15,005,000,000
NL0000102242	3.25 pct DSL 2005 due 15 July 2015	15,109,765,000
XS0749484217	0.25 pct DSL USD 2012 due 12 September 2015	2,792,722,413
NL0010364139	0.00 pct DSL 2013 due 15 April 2016	3,200,000,000
NL0000102283	4.00 pct DSL 2006 due 15 July 2016	13,311,467,000
NL0009819671	2.50 pct DSL 2011 due 15 January 2017	15,638,920,000
XS0827695361	1.00 pct DSL USD 2012 due 24 February 2017	2,511,619,113
NL0006007239	4.50 pct DSL 2007 due 15 July 2017	14,654,990,000
NL0010200606	1.25 pct DSL 2012 due 15 January 2018	11,246,425,000
NL0006227316	4.00 pct DSL 2008 due 15 July 2018	15,081,020,000
NL0009086115	4.00 pct DSL 2009 due 15 July 2019	14,056,398,000
NL0009348242	3.50 pct DSL 2010 due 15 July 2020	15,069,615,000
NL0009712470	3.25 pct DSL 2011 due 15 July 2021	15,493,985,000
NL0010060257	2.25 pct DSL 2012 due 15 July 2022	15,252,147,000
NL0000102275	3.75 pct DSL 2006 due 15 January 2023	10,648,450,000
NL0000102077	7.50 pct DSL 1993 due 15 January 2023	3,421,038,737
NL0000102317	5.50 pct DSL 1998 due 15 January 2028	13,028,814,230
NL0010071189	2.50 pct DSL 2012 due 15 January 2033	8,013,900,000
NL0000102234	4.00 pct DSL 2005 due 15 January 2037	13,187,427,000
NL0009446418	3.75 pct DSL 2010 due 15 January 2042	13,635,910,000
	Inscription registers	23,543,760
	Private placements	4,829,010,257
Total		**298,711,953,510**

ECP-programmes per ultimo February 2013

Currency	Volume in original currency	Volume in euros
ECP in euro	235,000,000.00	235,000,000.00
ECP in US dollar	16,555,000,000.00	12,469,9840614.67
ECP in British pound	2,490,000,000.00	2,887,514,623.94
ECP in CHF	-	-
ECP in NOK	-	-
Total		**15,592,499,238.61**

DTC-programmes per ultimo February 2013

ISIN code	Maturity date	Volume in issue
NL0010244349	DTC 2013-03-28	6,060,000,000.00
NL0010278354	DTC 2013-04-29	7,180,000,000.00
NL0010278958	DTC 2013-05-31	4,370,000,000.00
NL0010220794	DTC 2013-06-28	4,370,000,000.00
NL0010389433	DTC 2013-07-31	1,030,000,000.00
NL0010391082	DTC 2013-08-30	1,110,000,000.00
NL0010364121	DTC 2013-12-30	1,070,000.000.00
Total		**25,190,000,000.00**

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Additional online information on DSLs, DTCs and ECP can be obtained from:
Reuters - DSTAMENU
Bloomberg - DSTA

The cut-off date of this Outlook is ultimo february 2013 (unless mentioned otherwise)

Colophon
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