



Quarterly outlook

September 2013

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Update: Funding and Issuance 2013

The DSTA's funding plan for 2013 was presented in the DSTA's Outlook for 2013. The DSTA updates its borrowing requirement following the publication by the Finance Ministry of relevant new budgetary information.

According to the latest budgetary projections in the Budget Memorandum, which was published on 17 September 2013, the cash deficit in the budget has slightly increased vis-à-vis earlier projections, from € 20 billion to € 21.3 billion. Together with a somewhat lower inflow from local governments, the total external borrowing requirement for 2013 will marginally increase, from € 95.9 bln to € 97.6 bln. The table below shows how the latest projections for the borrowing requirement compare with the DSTA's previous update in the June Quarterly Outlook.

Borrowing requirement 2013 (€ bln)	Update	Previous
Capital market redemptions 2013	28.7	28.7
Money market ultimo 2012*	53.2	53.2
Cash deficit 2013	21.3	20.0
Total borrowing requirement	103.2	101.9
Expected inflow from local governments	5.6	6.0
Total external borrowing requirement	97.6	95.9

* incl. cash collateral

Since the money market serves as a buffer to absorb adjustments to the financing need over the course of the year, the increase in the borrowing requirement will in principle be absorbed by stepping up the call on the money market. Alternatively, the DSTA may decide to issue a USD Dutch State Bond in the future if market circumstances offer favourable terms for issuance of a USD bond. Issuing a USD bond would impinge on the money market funding. The expected capital market funding for 2013 will in any case remain unchanged from the level communicated in the Outlook 2013: approximately € 50 bln.

Funding in 2013 (€ bln)	Update	Previous
Capital market funding	50.0	50.0
Money market funding*	47.6	45.9
Total funding	97.6	95.9

* incl. cash collateral, incl. possible USD Dutch State Bond

The DSTA does not expect to issue further updates to the funding need for 2013.

As of 20 September, a total of € 42.8 billion has been issued on the capital market, representing approx. 85% of the total capital market funding for 2013.

Issuance calendar Q4

The DSTA will hold auctions on three dates in the final quarter of 2013. The first auction will be the reopening on 8 October of the DSL 15 Jan 2019, the 5-year bond which was launched in June 2013. The DSTA's benchmark 3- and 10-year bonds will be tapped in November in order to reach an outstanding amount of at least € 15 bln by the end of the year. December is traditionally an auction-free month for the DSTA. The preliminary target amounts to be raised in each auction are shown in the table below.

Auction date	DSL	Preliminary target amount
8 October	DSL 1.25% 15 Jan 2019	€ 1.5 - 2.5 bln
12 November	DSL 1.75% 15 July 2023	€ 1.5 - 2.5 bln
26 November	DSL 0% 15 April 2016	€ 2 - 3 bln

First estimate of funding need in 2014

In 2014 the DSTA's funding need is expected to be approx. € 4 billion lower than in 2013. About half of the difference is explained by lower total redemptions (capital and money markets), and half by a lower net cash deficit (including the inflows from local governments).

Borrowing requirement 2013 (€ bln)	2013	2014
Capital market redemptions	28.7	32.2
Money market ultimate previous year*	53.2	47.6
Cash deficit	21.3	15.9
Inflow from local governments	-5.6	-2.0
Total borrowing requirement	97.6	93.7

* incl. cash collateral

The division of funding between the money market and the capital market will be announced in the DSTA's Outlook for 2014.

Economic Outlook

Growth on the horizon

After several difficult years, the Dutch economy is showing initial signs of recovery. On 17 September, the Netherlands Bureau of Economic Policy Analysis (CPB) published its latest projections for the Dutch economy in its Macro Economic Outlook. The table below summarizes the key economic indicators as forecast by the CPB:

Table 1: Key economic figures for the Netherlands

	2013	2014
Gross Domestic Product (% change)	-1¼	½
Private consumption (% change)	-2¼	-1
Exports (% change)	2¾	4¼
Imports (% change)	-¼	4
World trade	1½	3¾
Gross business investments (% change)	-11	1¾
Government expenditures (% change)	-1¼	½
Unemployment (% labour force)	7	7½
Labour productivity (% change)	-½	1¾
Inflation (%)	2¾	2

Source: CPB projections of 17 September 2013

Following several years of balance sheet repair by households, and structural reforms that were aimed at increasing the economy's potential growth, the economy is set to return to positive economic growth in 2014. A new package of budgetary consolidation measures totaling € 6 billion means that the current economic projections have been revised downward marginally compared to the projections in June. For both 2013 and 2014, projected GDP growth is now 0.25% lower. Based on the latest numbers, GDP is expected to decline by 1.25% this year, while for 2014 a modest growth of 0.5% is anticipated. With its highly competitive economy and a strong export sector, the Netherlands is well positioned to take advantage of the anticipated pick-up of global growth after 2014.

Consumer spending remains under pressure

Private consumption has been declining for a number of years, as households sought to pay down debts in a general climate of economic uncertainty. The decline is expected to persist into 2014, although the pace of contraction is expected to slow. Spending by households is under pressure due to a range of factors. A decrease of disposable incomes, rising unemployment and declining house prices all reduce households' willingness and opportunity to consume. Additionally, since the funding ratio of many pension funds has decreased substantially in recent years, adjustment measures are being taken. This requires increased pension contributions and reductions in real benefits, resulting in a further drag on consumption.

Next year constraints on household spending are expected to subside. Disposable incomes are projected to increase again. With regard to the housing market, several indicators point towards stabilisation. The number of building permits is stabilising and the number of transactions of newly built houses is showing some recovery. For existing houses, no further decline in transactions is expected. All in all, a limited decline in house prices is expected during the remainder of this year, while price stabilisation is expected next year.

A risk for both house prices as well as the overall level of consumer spending is a further increase of unemployment. During the first half of 2013 unemployment increased rapidly. At the end of this year, unemployment is expected to reach 7% of the labour force, rising to 7.5% next year. Nevertheless, this level remains well below the average unemployment level in the Euro Area, which stands at 12.2%.

Investments picking up after sharp decline

This year corporate investments, a notoriously volatile GDP component, are expected to decline by 11%. Poor economic circumstances and low utilization rates have reduced the demand for new investments. Additionally, research by the Dutch Central Bank indicates that stricter lending conditions also contribute negatively to investments. Besides these fundamental factors, investments have also been impacted by an increase in the tax rate on transport vehicles that came into effect this year. In anticipation of this measure, companies accelerated their investments last year, causing a sharp fall (-40%) in spending in 2013.

The outlook for 2014 shows small signs of improvement. Confidence among producers has been tracking an upward trend during the last two quarters, albeit from low levels. Other forward-looking indicators point towards accelerating growth in the world economy and world trade. This is expected to positively affect business investments, which are projected to increase by 1.75% in 2014.

Recovery driven by external demand

With domestic demand struggling, a return to growth must come from abroad. With an increase of 2.75%, exports are the only positive contributor to growth this year. Next year a stronger increase of 4.25% is predicted. Although this level of growth still lies considerably below historical averages (annual growth of 6% over the last 30 years), the pick-up in export growth is an essential first sign of recovery. Supported by the favourable developments in US economy, the economy in the Euro Area is expected to grow by 1% next year. Given the Dutch economy's openness and close connection with the strongly performing German economy, a broader European recovery will provide an important impulse towards future growth.

Budgetary Outlook

On 17 September, the government presented its Budget for 2014. Much has been done in previous years to put public finances back on a solid footing, and the government continues to strive for an improvement of the public finances. In the Budgetary Memorandum, the government identified € 6 billion of additional consolidation measures. In parallel, the CPB released the most recent projections for the economic and budgetary developments in the Netherlands, including the effects of budgetary measures described in the Memorandum.

Projections for 2013

The CPB projects a budgetary (EMU) deficit of 3.2% in 2013. This is a significant improvement from the 4.1% recorded in 2012. The improvement is due mainly to the consolidation measures implemented in 2013 and the proceeds of a telecom frequency auction in January 2013.

The CPB's previous projections forecast a deficit of 3.5% in 2013. The 0.3% change can be explained by two developments. On the one hand, the costs of nationalisation of SNS Bank in January are no longer included in the deficit figure as a result of a statistical reclassification. This leads to a one-off statistical improvement of the deficit vis-à-vis the previous projection. On the other hand, the underlying cash deficit has increased slightly, mainly as a result of lower tax revenues. The net result is a 0.3% improvement of the deficit.

Projections for 2014

In previous years, the Dutch government implemented a range of measures to consolidate public finances, as well as structural reforms aimed at strengthening the economy and increasing its growth potential. The government continues to strive for an improvement of public finances, also in 2014, despite the challenging economic circumstances. In the new Budget Memorandum, the government has presented a package of additional budgetary savings amounting to € 6 billion (approx. 1% of GDP), aiming to comply with the recommendations of the European Commission. The CPB projects an EMU deficit of 3.3% in 2014. The structural deficit (i.e., the budget deficit excl. cyclical and one-off effects) will show a small improvement, from -1.5% in 2013 to -1.4% in 2014.

The new consolidation measures presented in the Budget Memorandum constitute approx. two-thirds cost savings and one-third revenue increases. Important savings will be achieved by stemming the increase in health care expenditures, by restructuring and simplifying various social security expenditures into a single subsidy regime, and by prolonging the wage freeze in the public sector. Revenues will be increased i.a. by foregoing the inflation indexation of tax brackets in 2014 and by reducing tax credits.

The debt is expected to increase from a level of 71.3% in 2012 to 75% in 2013 and 76.3% in 2014. The increase is mainly explained by the consecutive budget deficits and by financial transactions that are not incorporated in the deficit ratio. The nationalisation of SNS REAAL added € 9 billion (approx. 1.5% of GDP) to the national debt in 2013, while EFSF/ESM contributions are expected to add € 4 billion in 2013 and € 1.75 billion in 2014. On the other hand, redemptions by ING of extraordinary government support and inflows from treasury banking are expected to mitigate the rise in the debt level.

The CPB's latest estimates of the debt level for 2013 and 2014 are slightly higher than previous forecasts. This is driven mainly by the adverse economic developments, which have led to a higher projected cash deficit in 2013, and the so-called 'denominator effect', where lower GDP growth causes a deterioration of the debt-to-GDP ratio.

Table 2: Budgetary developments 2012-2014 (% of GDP)

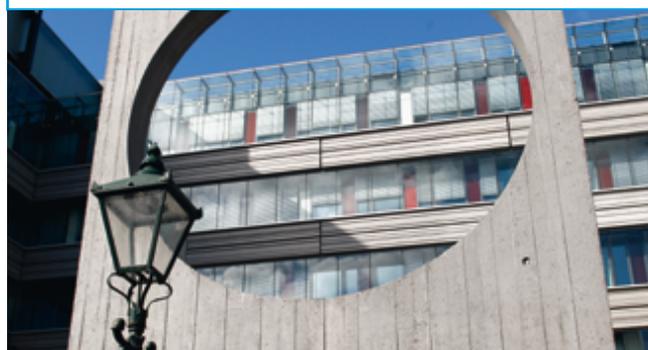
	2012	2013	2014
Nominal EMU balance	-4.1	-3.2	-3.3
Structural EMU balance	-2.5	-1.5	-1.4
EMU debt	71.3	75.0	76.3

Source: CPB projections of 17 September 2013

Save the date!

The DSTA will present its Outlook 2014 on **13-12-13** in The Hague.

Invitations will be sent out in November.



Outstanding debt

DSL position per ultimo August 2013

Isin code	DSL	Volume in issue
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	10,247,000,000
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	15,472,425,000
NL0006227316	4.00 pct DSL 2008 due 15 July 2018	15,081,020,000
NL0010514246	1.25 pct DSL 2013 due 15 January 2019	6,109,224,000
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	16,493,985,000
NL0010060257	2.25 pct DSL 2012 due 15 July 2022	15,252,147,000
NL0000102275	3.75 pct DSL 2006 due 15 January 2023	10,731,450,000
NL0000102077	7.50 pct DSL 1993 due 15 January 2023	3,338,038,737
NL0010418810	1.75 pct DSL 2013 due 15 July 2023	11,278,963,000
NL0000102317	5.50 pct DSL 1998 due 15 January 2028	13,028,814,230
NL0010071189	2.50 pct DSL 2012 due 15 January 2033	10,048,900,000
NL0000102234	4.00 pct DSL 2005 due 15 January 2037	13,187,427,000
NL0009446418	3.75 pct DSL 2010 due 15 January 2042	14,420,910,000
	Inscription registers	22,994,640
	Private placements	4,625,957,303
Total		315,006,538,436

ECP per ultimo August 2013

Currency	Volume in original currency	Volume in euros
ECP in euro	-	-
ECP in us dollar	14,509,000,000	10,886,463,041
ECP in British pound	420,000,000	488,694,116
ECP in CHF	-	-
ECP in NOK	2,195,000,000	275,076,797
Total		11,650,233,954

DTC per ultimo August 2013

Isin code	Maturity date	Volume in issue
NL0010396438	DTC 2013-09-30	5,450,000,000
NL0010436739	DTC 2013-10-31	5,620,000,000
NL0010436580	DTC 2013-11-29	4,280,000,000
NL0010364121	DTC 2013-12-30	3,530,000,000
NL0010511028	DTC 2014-01-31	2,170,000,000
NL0010556601	DTC 2014-02-28	2,210,000,000
NL0010524427	DTC 2014-06-30	1,160,000,000
Total		24,420,000,000

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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
17 September 2013 (unless mentioned
otherwise)

Colophon

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