Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

June 2017
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This DSTA Quarterly outlook provides an update of the funding requirement, presents the issuance calendar for the third quarter and announces the intention to move to Eurex CCP. Moreover, this outlook discusses the latest economic and budgetary projections for the Netherlands.

Funding and issuance

Borrowing requirement

The DSTA last updated its borrowing requirement for 2017 on 1 June, following the publication of the Spring Memorandum by the Ministry of Finance. The figure then presented, € 56.8 bn, was almost € 2 bn lower than the January estimate. An increase in the expected cash surplus has resulted in a decrease of the borrowing requirement, although this was largely offset by buy-backs of DSLs and a decrease in cash collateral.

Borrowing requirement 2017 (€ bn)	
Capital market redemptions	42.5
Money market ultimo 2016	18.2
Change in cash collateral 2017 (Jan-May)*	1.6
Cash surplus**	-7.6
Buy-backs DSLs 2018 and 2019 (Jan-May)	2.1
Total	**56.8**

* A decrease in cash collateral is shown as a positive number because it increases the total borrowing requirement
** A cash surplus is shown as a negative number because it decreases the total borrowing requirement

The money market primarily serves as a buffer to absorb fluctuations in the funding need. On the capital market, flexibility is possible within the communicated issuing range of € 30-35 bn. Based on present estimates, DSL issuance at the lower end of this range is most likely. So far, the DSTA has raised a nominal amount of € 19.8 bn on the capital market, covering approximately 65% of the minimum targeted amount for 2017.

Funding 2017 (€ bn)	
Capital market issuance (DSLs)	30.0 - 35.0
Money market ultimo 2017 (excl. cash collateral)	21.8 - 26.8
Total	**56.8**

Primary Dealer ranking for 2017

Primary Dealers are evaluated periodically with respect to their primary market performance, based on duration-weighted issuance.

Top 5 PDs for DSLs (up to mid-June 2017)		Top 5 PDs and SMSs for DTCs (up to mid-June 2017)	
1	ABN Amro Bank	1	ING Bank
2	Jefferies	2	ABN Amro Bank
3	ING Bank	3	HSBC France
4	NatWest Markets	4	Deutsche Bank
5	HSBC France	5	Barclays Capital

Issuance calendar Q3

The third quarter will start with the reopening of the off-the-run DSL 2047 on 11 July. The 10-year benchmark DSL will be reopened on 12 September. In addition, in September or October a new 7-year DSL will be launched through a Dutch Direct Auction (DDA). The exact auction date and further details of the DDA and the bond to be issued will be announced in due time.

Indicative DSL calendar Q3 2017

Auction date	Details	Target volume (€ bn)
11 July	Reopening 2.75% DSL 15 January 2047	0.75 – 1.25
12 September	Reopening 0.75% DSL 15 July 2027	2 – 3
DDA window: September/October	New DSL 2024 - details and auction date will be announced in due time	To be announced

Note: announcement of all auction details is on the Wednesday prior to the auction date (t-6).

The third quarter has the regular six auction dates for Dutch Treasury Certificates (DTCs). In the first half of this year the DSTA used the first auction date of the month to tap a 6-month programme and the second to tap a 3-month and a 6-month programme. However, as shown in the calendar below, this quarter will be different. In response to market demand and given the decreased funding need, there will be no December 2017 DTC-line. By cancelling the December line, the DSTA aims to concentrate issuance in the remaining programmes, thereby promoting liquidity of DTCs. The quarter will start with the issuance of the January 2018 DTC-programme, making this effectively a 7-month issuance. The January line will be reopened on the first Monday in August and subsequently in the fourth quarter.

Indicative DTC calendar Q3 2017

Auction date	Settlement date	3-months programme	6-months programme
03-07-2017	05-07-2017		31-01-2018
17-07-2017	19-07-2017	29-09-2017	
07-08-2017	09-08-2017		31-01-2018
21-08-2017	23-08-2017	31-10-2017	
04-09-2017	06-09-2017		28-02-2018
18-09-2017	20-09-2017	30-11-2017	28-02-2018

Note: shaded fields indicate new programmes; announcement of all auction details is on the Wednesday prior to the auction date (t-5).

In addition to DTCs, the DSTA uses Commercial Paper for cash management purposes. The DSTA has decided to add USCP to the regular ECP in its Global CP (GCP) Programme. The expectation is that USCP will broaden the DSTA's investor base through diversification, which will increase flexibility in the money market. More information can be found on the website www.dsta.nl under News → Borrowing conditions → GCP.

CCP

As a DMO, the DSTA is exempt from the obligation to clear swaps through a central counterparty (CCP). Nevertheless, for risk management reasons the DSTA has investigated options to clear its interest rate swaps centrally into by the DSTA. The DSTA intends to move towards a direct membership of Eurex. Depending on contract negotiations as well as technical implementation and feasibility, the DSTA expects central clearing to be operational at the end of 2018 at the earliest. Central clearing will primarily target new swaps entered by the DSTA. However, once implementation is completed, the DSTA can consider (partial) backloading of existing portfolios.

Economic outlook

Strong economic growth continues

According to the latest forecasts of the independent Netherlands Bureau for Economic Policy Analysis (CPB), published on 14 June 2017, the Dutch economy will continue its strong growth performance. GDP is projected to increase by 2.4% this year, the highest rate since the start of the financial crisis, and 2.0% in 2018. Growth is supported by all GDP components, with substantial contributions from household consumption and investment. In 2018 investment growth will be less pronounced, which explains the slight drop in GDP growth for that year. Employment growth will also slow down in 2018, but should still offset the increase in labour supply. As a result, unemployment declines to 4.7% of the labour force in 2018, following a 1.1%-point drop to 4.9% for the current year. Finally, inflation picks up to 1.4% this year and next, primarily as a result of higher energy prices and an appreciation of the dollar. Wage growth, however, remains relatively modest despite the improvement in the labour market.

Key economic figures for the Netherlands (% change y-o-y)

	2016	2017	2018
GDP	2.2	2.4	2.0
Household consumption	1.7	1.8	2.0
Government consumption	1.0	1.1	1.3
Investment (including inventories)	5.4	5.5	2.7
Exports	3.4	3.9	4.1
Imports	3.7	4.2	4.3
Employment (in hours)	2.6	2.5	1.1
Unemployment (% labour force)	6.0	4.9	4.7
Inflation (HICP)	0.1	1.4	1.4

Source: CPB, 14 June 2017

Export growth increases further

Dutch export growth continues to pick up, by 3.9% this year and 4.1% in 2018. This is in line with growth in relevant world trade. A number of downside risks to the international context remain. According to the CPB, such risks in the European context include future developments regarding quantitative easing, Brexit, and the financial stability of several southern European countries. The CPB is of the opinion that political risks have diminished in the euro area following the outcome of the elections in the Netherlands and France. Outside of Europe, especially economic developments in the US and China remain relevant, which pose both negative and positive risks to world trade and the Dutch economy. Moreover, the Dutch economy could perform even better if increased consumer and producer confidence, more broad-based growth in the EU, and accelerated growth in world trade reinforce each other.

Consumption and disposable income on the rise

Household consumption grows by 1.8% this year and 2.0% in 2018 as real disposable income rises. In particular wage income increases, due to both strong employment growth and higher real wages. The latter, however, remains relatively modest (see below). Another factor contributing to the higher disposable income is the tax relief package of 2016, which will be partly spent this year. Consumer confidence is now the highest in sixteen years, which, together with the continued recovery of the housing market, point towards increased spending rather than saving.

Investment growth maintained in 2017

Investments continue to grow considerably, at more than 5% in 2017, which on the part of businesses is a result of increased production and positive producer confidence. Only in 2018 is investment growth expected to be a bit more subdued, although at 2.7% it remains an important driver for the economy. Especially investments in housing have shown a strong improvement in recent years. Averaging 18% from 2014-2016, housing investment growth is set to average 8% this year and next. Housing investments thereby return to the levels of 2008.

Labour market improving quickly

The unemployment rate continues to decline at an exceptional pace, from 6.0% in 2016 to 4.9% in 2017 and 4.7% in 2018. Over the period 2015-2017 unemployment is forecast to decline by 2.0 percentage points. Over the last 50 years, such a strong improvement has occurred only once before, in the late 1990s. Both the supply and demand side of the labour market are set to improve further, with demand outpacing supply. Employment is set to grow by 2.5% this year and 1.1% next year. In their analyses, both the CPB and the Dutch Central Bank (DNB) point out that contractual wages are growing at a relatively moderate pace. This could be due to a number of developments. First, there is some growth in incidental wages, which is explained by workers getting a raise or by workers moving into higher-earning jobs. Second, increased flexibility of the labour market has resulted in a higher number of temporary or flexible work contracts and an increased number of self-employed, which may have an effect on wage growth. Third, there is still a relatively large pool of unmet potential of people outside the labour force or workers willing to put in more hours. All in all, these factors suggest that labour market tightening is less pronounced than the unemployment rate indicates. It also explains why labour costs are not yet driving inflation upwards.

Budgetary outlook

Improvement of budgetary figures continues

In 2016, the EMU-balance showed a surplus for the first time since 2008. Looking ahead, the CPB estimates a further improvement of the budget surplus to 0.5% and 0.7% of GDP in 2017 and 2018 respectively. This improvement is largely driven by sustained economic growth, resulting in a decrease of unemployment benefits and higher tax revenues. Additionally, the current low interest rate environment results in lower interest payments on government debt.

In its Spring Memorandum (1 June 2017), the Ministry of Finance expects that the budget surplus will continue to improve after 2018. Based on a no policy change assumption the EMU-balance is expected to improve to 1.3% of GDP in 2021. Also in structural terms (the actual balance corrected for the cycle), the budget is expected to record surpluses.

The debt to GDP ratio shows a steady decline over the forecast horizon and will drop below 60% in 2017. This will be the first time since 2010 that the EMU-debt will be below the European threshold set by the Stability and Growth Pact (SGP). The CPB estimates a debt level of 58.5% in 2017 and 55.4% of GDP in 2018. In its forecast, the CPB has made the technical assumption that the government will continue the gradual sell-off of it stakes in ABN Amro Bank and insurer ASR, which will lower the EMU-debt (but will not impact the EMU-balance).

Important to note is that the CPB assumes no policy changes in the 2018 budget. After the parliamentary elections of 15 March 2017, the current government is a caretaker government. Currently, possible new coalition governments are examined. This process is still ongoing. Once a newly formed government is in place, the budgetary projections will be updated to reflect the ambitions of the new government.

Key budgetary figures for the Netherlands (% of GDP)

	2016	2017	2018
Nominal EMU-balance	0.4	0.5	0.7
EMU-debt	62.2	58.5	55.4

Source: CPB, 14 June 2017

Outstanding debt

DSL position per ultimo May 2017

Isin code	DSL	Volume in issue
NL0006007239	4.50 pct DSL 2007 due 15 July 2017	12,186,990,000
NL0010200606	1.25 pct DSL 2012 due 15 January 2018	13,268,425,000
NL0011005137	0.00 pct DSL 2015 due 15 April 2018	12,781,000,000
NL0006227316	4.00 pct DSL 2008 due 15 July 2018	13,921,020,000
NL0010514246	1.25 pct DSL 2013 due 15 January 2019	15,321,224,000
NL0009086115	4.00 pct DSL 2009 due 15 July 2019	14,671,398,000
NL0010881827	0.25 pct DSL 2014 due 15 January 2020	15,318,184,000
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
NL0011896857	0.00 pct DSL 2016 due 15 January 2022	15,380,112,000
NL0010060257	2.25 pct DSL 2012 due 15 July 2022	15,252,147,000
NL0000102275	3.75 pct DSL 2006 due 15 January 2023	4,263,000,000
NL0000102077	7.50 pct DSL 1993 due 15 January 2023	8,241,488,737
NL0000103000	Principal 15 January 2023	1,565,000,000
NL0010418810	1.75 pct DSL 2013 due 15 July 2023	15,825,963,000
NL0010733424	2.00 pct DSL 2014 due 15 July 2024	15,315,132,000
NL0011220108	0.25 pct DSL 2015 due 15 July 2025	15,220,159,000
NL0011819040	0.50 pct DSL 2016 due 15 July 2026	15,113,051,000
NL0012171458	0.75 pct DSL 2017 due 15 July 2027	7,989,926,000
NL0000102317	5.50 pct DSL 1998 due 15 January 2028	13,028,814,230
NL0010071189	2.50 pct DSL 2012 due 15 January 2033	13,555,900,000
NL0000102234	4.00 pct DSL 2005 due 15 January 2037	14,848,427,000
NL0009446418	3.75 pct DSL 2010 due 15 January 2042	15,331,910,000
NL0010721999	2.75 pct DSL 2014 due 15 January 2047	12,139,187,000
	Inscription registers	12,639,116
	Private placements	4,631,883,890
Total		**316,746,580,973**

ECP position per ultimo May 2017

	Volume (original currency)	Volume in euros
ECP in US dollar	5,077,300,000	4,563,306,760
ECP in NOK	2,500,000,000	266,088,159
Total		**4,829,394,919**

DTC position per ultimo May 2017

Isin code	Maturity date	Volume in issue
NL0012145833	DTC 2017-06-30	3,270,000,000
NL0012171409	DTC 2017-07-31	4,240,000,000
NL0012224786	DTC 2017-08-31	2,140,000,000
NL0012237622	DTC 2017-09-29	2,260,000,000
NL0012294524	DTC 2017-10-31	2,750,000,000
Total		**14,660,000,000**

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In July 2017, the DSTA's name in Bloomberg's systems will be changed from 'Dutch State Treasury Agency M.O.F.' to 'De Staat der Nederlanden'.

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Additional online information on DSLS, DTCS and ECP can be obtained from:
Bloomberg - dsta

The cut-off date is 20 June 2017
(unless mentioned otherwise)