Dutch State Treasury Agency
Ministry of Finance

DDA SPECIAL

Quarterly outlook

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This special edition of the Quarterly outlook provides information on the launch of a new 7-year bond. It also comes with an update of the funding requirement for 2017, presents the issuance calendar for the fourth quarter of 2017 and gives a first estimate of the funding requirement for 2018. Moreover, this outlook discusses the latest economic and budgetary projections for the Netherlands and reveals the date on which the Outlook 2018 will be presented.

New DSL 2024

A new 7-year bond will be issued on Wednesday 11 October 2017 by means of a Dutch Direct Auction (DDA). The DSTA has appointed HSBC France, ING Bank, and Goldman Sachs as advisors for this DDA. The target amount to be raised at the DDA is € 5-7 bn. The DSTA is committed to raise the outstanding amount to at least € 15 billion within one year of issuance. The coupon will be announced on Monday 9 October, two days before the auction. The initial spread guidance vis-à-vis the reference bond, the DBR 1.75% 15 February 2024, will be announced on Tuesday 10 October, the day before the auction.

Key characteristics and time schedule DDA

Bond	DSL 15 January 2024
Auction date	Wednesday 11 October 2017, starting at 10:00 CEST
Settlement date	Two days after pricing
Maturity date	15 January 2024 (short first coupon)
Issuance size	€ 5-7 billion
Reference bond	DBR 1.75% 15 February 2024
Coupon	To be announced on Monday 9 October 2017
Initial spread guidance	To be announced on Tuesday 10 October 2017
Allocation	As soon as possible after closing of the book, preferably on the auction day, but no later than Thursday 12 October 2017 9:00 CEST
Pricing	At least 30 minutes after allocation, preferably on the auction day, but no later than Thursday 12 October 2017 12:00 CEST

DDA process explained

The DDA method is used for the launch of new medium and long-dated bonds. The DDA was developed in-house by the DSTA to offer investors interested in high-quality liquid bonds a clear and transparent auction platform. The DSTA uses a book building process in which investors can participate directly. Investors can submit their bids through one or more Primary Dealers of their choice.

List of Primary Dealers for 2017, in alphabetical order	
ABN Amro Bank	Barclays
Citigroup	Commerzbank
Deutsche Bank	Goldman Sachs
HSBC France	ING Bank
Jefferies	NATIXIS
NatWest Markets	Nomura
Nordea	Rabobank
Société Générale	

To guide investors in their bidding, an initial spread guidance vis-à-vis the reference bond is announced on the day prior to the DDA. Investors may place bids at a spread vis-à-vis the reference bond, or 'at best' to indicate they wish to obtain the bond at the cut-off-spread. This cut-off-spread is determined by the DSTA after closing of the book. The spread is translated into a uniform price at which all bonds are subsequently allocated according to clear and predetermined rules.

Further information on the rules and principles of the DDA can be found on the DSTA website.

Funding and issuance

Lower borrowing requirement

As a result of stronger than expected growth, the government budget balance continues to improve at a rapid pace. Following the publication of the Budget Memorandum 2018 by the Minister of Finance on 19 September 2017, the updated borrowing requirement for the present year is now € 48.7 bn. This is € 8.1 bn. lower than our last update in June.

For a large part the lower borrowing requirement can be attributed to a significant increase in the cash surplus, from € 7.6 bn. to € 13.8 bn. Moreover, proceeds from recent sales of insurer ASR and ABN Amro Bank, which have not yet been included in the cash surplus presented here, decrease the funding need by an additional € 2.5 bn. The amount of buy-backs of DSLs prior to maturity remains unchanged compared to June.

The decrease in the funding need is marginally offset by a decrease in the amount of cash collateral. Yet it is worth noting that only changes in cash collateral as a result of interest rate fluctuations have a net effect on the borrowing requirement. Proceeds from the early termination of interest rate swaps, approximately € 1.3 bn. at the end of August, have no net effect on the borrowing requirement. They are included, with opposite signs, in both the cash surplus and the change in cash collateral. More information on this can be found in the Outlook 2017.

Borrowing requirement 2017 (€ bn)	Update	Previous
Capital market redemptions	42.5	42.5
Money market ultimo 2016	18.2	18.2
Cash surplus*	-13.8	-7.6
Sale of shares in ABN Amro and ASR in September 2017	-2.5	
Change in cash collateral (Jan-Aug)**	2.2	1.6
Buy-backs DSLs 2018 and 2019 (Jan-Aug)	2.1	2.1
Total	**48.7**	**56.8**

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

The decreasing borrowing requirement primarily translates into lower money market funding. On the capital market some flexibility is possible, but only within the communicated issuing range of € 30-35 bn. Based on the middle of the range of the target volumes for DSL issuance in the fourth quarter, a total nominal amount of € 31.6 bn. is expected to be funded on the capital market in 2017. So far a nominal amount of € 23.4 bn. has been raised, thus covering 74% of the estimated total DSL issuance in 2017. Taking into account cash proceeds from DSLs issued above par, the money market at year end is expected to amount to € 15.8 bn.

Funding 2017 (€ bn)	
Capital market issuance (DSLs) in nominal terms	31.6
Proceeds from DSLs issued above par (Jan-Sep)	1.3
Money market ultimo 2017 (excl. cash collateral)	15.8
Total	**48.7**

First estimate of funding need in 2018

Based on the Budget Memorandum 2018, the first estimate of the DSTA's funding need for next year is € 49.6 bn. The borrowing requirement is thus set to remain relatively low. In part this can be explained by the relatively low money market expected at the end of 2017, and in part by the expectation that the cash surplus will again be significant next year. Moreover, capital market redemptions in 2018 are slightly below the 2017 level.

Borrowing requirement 2018, first estimate (€ bn)	
Capital market redemptions	40.2
Money market ultimo 2017 (excl. cash collateral)	15.8
Cash surplus*	-6.4
Total	**49.6**

* A cash surplus is shown as a negative number because it decreases the total borrowing requirement.

Issuance calendar Q4

Two DSL auctions are planned for the fourth quarter. First, a Dutch Direct Aution (DDA) will be held on Wednesday 11 October 2017 to launch the 2024 DSL. Second, on Tuesday 14 November the 10-year benchmark bond will be reopened a final time, through means of a tap auction, to reach an outstanding volume of at least € 15 billion.

Auction date	Details	Target volume (€ bn)
11 October	DDA DSL 15 January 2024	5 – 7
14 November	Reopening 0.75% DSL 15 July 2027	2 – 3

The fourth quarter has six DTC auction dates. The calendar follows the usual pattern, that being the launch of a new 6-month DTC-programme on the first Monday of the month and a reopening of that same programme on the third Monday of the month together with the reopening of a 3-month programme. An exception is the second auction date in October. This does not include a 3-month line as it was decided last quarter to not issue a December 2017 DTC-line. Another exception is the last DTC-auction date in December, which is on the second instead of the third Monday of the month.

Auction date	Settlement date	3-month programme	6-month programme
2 October	4 October		29 March 2018
16 October	18 October		29 March 2018
6 November	8 November		30 April 2018
20 November	22 November	31 January 2018	30 April 2018
4 December	6 December		31 May 2018
11 December	13 December	28 February 2018	31 May 2018

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

Economic outlook

Economic growth accelerates

Dutch GDP is expected to grow by an exceptional 3.3% this year, according to the latest forecasts of the independent Netherlands Bureau for Economic Policy Analysis (CPB). This is significantly higher than the previous projection in June and mainly the result of a very strong second quarter (1.5% growth quarter on quarter). For 2018, the economic outlook has also improved, with growth levels reaching 2.5%. Growth is supported by all spending components, with significant contributions from Dutch exports, household consumption and housing investments. The ongoing improvement of the Dutch economy has a positive effect on the labour market: the unemployment rate continues to decrease sharply both this year and in 2018. Finally, inflation rates are picking up, but remain historically low. Overall, the Dutch economy is performing well, also compared to its European counterparts.

Strong export performance

The strong Dutch export performance is an important driver of GDP growth. More specifically, Dutch export growth is expected to increase in 2017 and 2018 by 4.9% and 4.5% respectively. Striking is that not only the growth in re-exports, but also growth in domestically produced exports outpaces the increase in relevant world trade, partially as a result of more competitive prices since 2015. Oil exports will rise, while gas exports will fall due to a government imposed lower maximum gas production. Imports are forecasted to grow in 2017 and 2018 by 4.5% and 5.1% respectively, thereby slightly outpacing exports in 2018. This can be explained by the considerable rise in household consumption and re-exports, and an appreciation of the euro. However, there are external downward risks to the forecasts. In the European context these risks are related, among others, to negotiations on Brexit and the monetary policy stance. Outside of Europe, these risks include political uncertainty on USA trade policy (regulations regarding import taxes and export subsidies) and other geopolitical risks.

Steady increase household consumption

Besides the strong export performance, household consumption also provides a substantial contribution to economic growth. According to the CPB, household consumption will increase by 2.2% and 2.4% in 2017 and 2018 respectively, due to strong employment growth and higher real wages. In addition, rising house prices, driven by low interest rates and a steady increase in demand, stimulate the consumption of durable goods. Disposable income increases moderately in 2017 and 2018. Although a significant part of this increase is used for consumption, higher real wages provide households with some room for savings. Consequently, the saving quote goes up slightly between 2016 and 2018. The positive development of household consumption is reflected in rising consumer confidence, which in August reached the highest level in 30 years.

Investment growth continues

Total investments continue to rise considerably in 2017 (6.3%) and 2018 (4.8%) with important contributions from both business investments and housing investments. Business investments are expected to increase this year and next due to further improvement of domestic and external demand, relatively high capacity utilisation rates, solid profits, and low capital costs. Consequently, the investment quote is pushed above its long-term average value in both 2017 and 2018, but is still below levels seen before 2000. The same development is observed for housing investments, although investment growth slows down in 2018 because of capacity constraints in the construction sector. Despite high investment levels, tightness in the housing market remains. Supply cannot keep up with rising demand stemming from low interest rates, high confidence and the positive economic outlook. As a result house prices have increased over the last year, rising close to peak levels of 2008 (in nominal terms). Nevertheless, price increases display large regional differences. Moreover, sustained price increases involve risks, especially when the historically low interest rates start to rise again.

Labour market tightens

Unemployment continues to decrease significantly, from 6% of the labour force in 2016 to 4.9% this year and 4.3 % in 2018, which is the lowest level in 10 years. This can be attributed to strong economic growth outpacing increasing labour supply. Both demand for and supply of labour are increasing and employment (in hours) is set to grow by 2.0% this year and 1.6% in 2018. Employment growth in 2017 is at the highest level since 2008. The market sector provides the main contribution to employment growth in both years. However, growth in the healthcare sector stands out next year due to policy changes aimed at improving quality of long-term care. As a result of the tightening labour market, wages are gradually picking up this year and next.

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

	2016	2017	2018
GDP (economic growth)	2.2	3.3	2.5
Household consumption	1.6	2.2	2.4
Government consumption	1.2	0.6	1.6
Investments (including inventories)	3.1	6.3	4.8
Exports	4.3	4.9	4.5
Imports	4.1	4.5	5.1
Employment (in hours)	2.0	2.0	1.6
Unemployment (% labour force)	6.0	4.9	4.3
Inflation (HICP)	0.1	1.3	1.3

Source: CPB, 19 September 2017

Budgetary outlook

Budgetary figures show strong improvement

The government presented its Budget Memorandum 2018 on 19 September. The EMU balance is expected to improve steadily, from a surplus of 0.4% of GDP in 2016 to 0.6% in 2017 and 0.8% in 2018. If these surpluses materialise, it would be the first time in over a decade that three consecutive years of budget surpluses are recorded. Debt levels are falling rapidly as a result. The EMU-debt dropped below the 60% threshold in the first quarter of 2017 and is expected to decrease further towards 57.5% of GDP by the end of the year and to 54.4% at the end of next year.

The improvement in budgetary figures is largely driven by sustained economic growth, resulting in higher tax revenues and a decrease in payments on unemployment benefits. This is further enhanced by GDP growth outpacing the rise in government expenditures. In addition, the current low interest rate environment has contributed to lower interest payments on government debt. The positive budget dynamics lead to a decrease in total debt levels, and even more so as a percentage of GDP due to the strong increase in nominal GDP.

The budget in structural terms - the actual balance corrected for the economic cycle and for one-off and temporary measures – is expected to balance in 2017 and show a small deficit of 0.2% in 2018. Over the longer term government expenditure obligations, such as on social security contributions, are projected to be sustainable. The so-called sustainability balance, which indicates whether future generations can enjoy a similar level of public services as present generations given a constant tax burden and no change in policies, now stands at a surplus of 0.2% of GDP.

Note that all figures presented here reflect current policies of the caretaker government. Following general elections on 15 March 2017, negotiations are currently taking place for the formation of a new government. Once a new government is in place, the budgetary projections will be updated accordingly.

Finally, it is worth mentioning that sales of shares in insurer ASR on 14 September and ABN Amro bank on 15 September are not yet included in the figures for the EMU-debt; these sales further reduce the EMU-debt by 0.3% of GDP. The forecasts include no predictions with respect to potential sales of state-owned enterprises in the future. ASR has been sold in its entirety. The government share in ABN Amro still stands at 56%. This remaining share will be sold in the coming years.

Key budgetary figures for the Netherlands (% of GDP)

	2016	2017	2018
EMU-balance	0.4	0.6	0.8
EMU-debt	61.8	57.5	54.4

Source: Budget Memorandum 2018, 19 September 2017

Save the date!

Launch of the DSTA's Outlook 2018

15 December 2017

Invitations will be sent out in November

Outstanding debt

DSL position per ultimo August 2017

Isin code	DSL	Volume in issue
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	10,306,926,000
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	13,248,187,000
	Inscription registers	12,581,668
	Private placements	4,549,783,668
Total		**307,903,433,303**

CP position per ultimo August 2017

Currency	Volume (original currency)	Volume in euros
CP in euro	-	-
CP in US dollar	6,880,000,000	5,849,101,628
CP in British pound	-	-
CP in CHF	-	-
CP in NOK	2,100,000,000	225,989,357
Total		**6,075,090,985**

DTC position per ultimo August 2017

Isin code	Maturity date	Volume in issue
NL0012237622	DTC 2017-09-29	4,070,000,000
NL0012294524	DTC 2017-10-31	4,450,000,000
NL0012333876	DTC 2017-11-30	2,470,000,000
NL0012375364	DTC 2018-01-31	3,300,000,000
Total		**14,290,000,000**

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

The cut-off date is 19 September 2017
(unless mentioned otherwise)