Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

September 2018
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Funding and issuance

Updated borrowing requirement

Following the publication of the Budget Memorandum 2019 by the Minister of Finance earlier this week, the updated borrowing requirement for the current year now stands at € 47.9 bn. This is € 4.2 bn lower than our last update in May.

The decrease in the borrowing requirement can be attributed to a significant increase in the cash surplus, from € 4.8 bn to € 10.7 bn. This is mainly the result of the fast growing economy, which has led to corporate tax income in particular being higher than forecasted.

The amount of buy-backs of DSLs prior to maturity remains unchanged compared to May. The amount of cash collateral has, however, decreased compared to the last update, which marginally increases the overall funding need. Yet it is worth noting that only changes in cash collateral that are not the result of the early termination of interest rate swaps (unwinds) have a net effect on the borrowing requirement. Proceeds from unwinds, amounting to approximately € 2.6 bn from the start of the year until the end of August, have no net effect on the borrowing requirement as they are included, with opposite signs, in both the cash surplus and the change in cash collateral.

Borrowing requirement 2018 (€ bn)	Update	Previous
Capital market redemptions	38.4	38.4
Money market ultimo 2017 (excl. cash collateral)	15.7	15.7
Cash surplus*	-10.7	-4.8
Change in cash collateral** (Jan-Aug)	3.6	1.9
Buy-backs DSLs 2018 and 2019 (Jan-Aug)	0.9	0.9
Total	**47.9**	**52.1**

* 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.

Fluctuations in the funding need are first and foremost absorbed by a call on the money market. On the capital market flexibility is possible within the committed issuing range of € 23-29 bn. Due to the lower funding need it is expected that capital market issuance will end up toward the lower end of this range. So far a nominal amount of € 17.4 bn has been raised, covering 76% of the minimum issuance amount. Taking into account cash proceeds from DSLs issued above par, the money market at year end is now estimated at € 24.4 bn.

Funding 2018	(€ bn)
Capital market issuance (DSLs) in nominal terms	23.0
Cash proceeds from DSLs not issued at par (Jan-Sep)	0.5
Money market ultimo 2018 (excl. cash collateral)	24.4
Total	**47.9**

Issuance calendar Q4

Three DSL auctions are scheduled for the fourth quarter. The DSTA will issue longer-dated off-the-run DSLs on 9 October and again on 13 November. The maturity of these bonds will be announced on the Wednesday prior to the auction, after a consultation with the market. Having issued € 0.9 bn on the longer end of the curve in Q3, the DSTA will issue a minimum of € 1.1 bn in longer-dated bonds in Q4 to reach its commitment – as announced in the 2018 annual Outlook – of € 2-5 bn on the long end of the curve. Moreover, the 10-year bond will be reopened on 23 October to reach the committed size of at least € 12 bn.

Auction date	Details	Target volume (€ bn)
9 October	Reopening long-dated off-the-run DSL	0.5-1.0
23 October	Reopening 0.75% DSL 15 July 2028	1.5-2.5
13 November	Reopening long-dated off-the-run DSL	0.5-1.0

Note: announcement of all auction details, including the maturity of the long-dated off-the-run DSLs, is on the Wednesday prior to the auction date (t-6).

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 November, which does not include a 3-month programme. This is the result of two decisions. First, it was decided not to issue a December programme, but instead focus on issuance in other maturities. Second, in line with requests from market participants the January programme will be reopened in October rather than in November. In addition, in line with previous years, the last DTC-auction in December will be held on the second instead of the third Monday of the month.

Auction date	Settlement date	3-month programme	6-month programme
1 October	3 October		29 March 2019
15 October	17 October	31 January 2019	29 March 2019
5 November	7 November		30 April 2019
19 November	21 November		30 April 2019
3 December	5 December		31 May 2019
10 December	12 December	28 February 2019	31 May 2019

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

First estimate of funding need in 2019

Based on the Budget Memorandum 2019, the first estimate of DSTA's funding need for next year is € 47.0 bn. This number is comparable to this year's funding need. The funding need is negatively impacted by another significant cash surplus and by capital market redemptions being below the 2018 level. Positive for the funding need is a relatively high expected money market at year end – when compared to last year – which is made possible by limiting capital market issuance in 2018 to the minimum levels announced in the Outlook 2018.

Borrowing requirement 2019, first estimate	(€ bn)
Capital market redemptions	29.8
Money market ultimo 2018 (excl. cash collateral)	24.4
Cash surplus*	-7.2
Total	**47.0**

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

Finally it is worth noting that the Minister of Finance has mentioned in parliament that he is looking into the possibility of issuing a green bond next year. At present the DSTA is conducting a feasibility study. It will publish next year's funding plan on Friday 14 December 2018.

Economic Outlook

Economy flourishes

The Dutch economy continues to outperform most of its European peers, reporting an estimated increase in Dutch GDP of 2.8% in 2018 and 2.6% in 2019 according to the latest forecasts of the independent Netherlands Bureau for Economic Policy Analysis (CPB). In March 2018, the government announced to further decrease the extraction of natural gas in the coming years. This will result in a loss of growth of 0.1 percentage point a year in 2018 and 2019. Dutch GDP growth is solid and supported by all spending components, i.e. net export, household consumption, government spending, and investments. The economic situation positively impacts employment, resulting in a further drop in the unemployment rate to 3.5% of the labour force in 2019. Inflation accelerates mostly due to pressure from increasing wages as well as rising oil prices and an increase in the lowest VAT rate from 6% to 9% on 1 January 2019.

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

	2017	2018	2019
GDP	2.9	2.8	2.6
Household consumption	1.9	2.7	2.3
Government consumption	1.1	2.0	2.8
Investment (including inventories)	4.4	4.6	4.1
Exports	5.3	3.0	4.2
Imports	4.9	3.3	4.8
Employment (in hours)	1.9	2.1	1.5
Unemployment (% labour force)	4.9	3.9	3.5
Inflation (HICP)	1.3	1.6	2.5

Source: CPB, 18 September 2018.

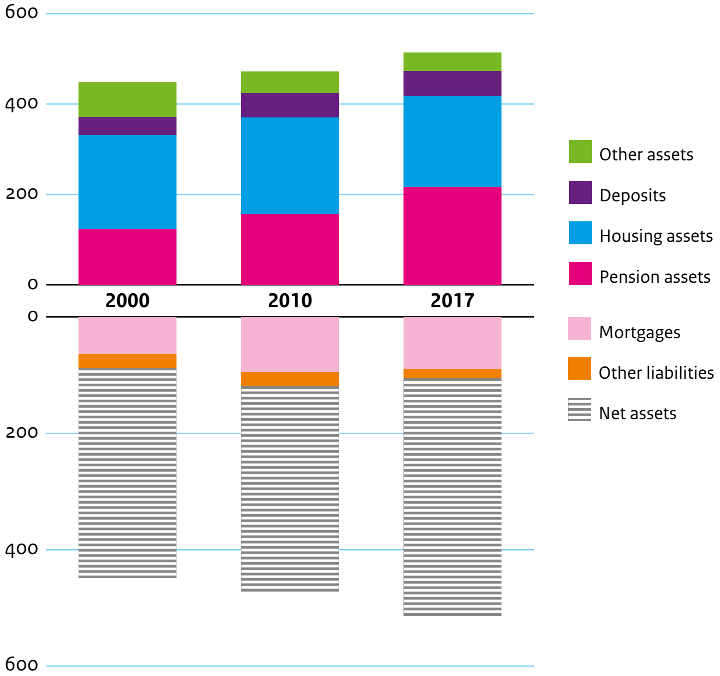
Export performance aligned with world trade growth

Strong Dutch export performance continues to be an important driver of GDP growth and is forecasted to grow at 3% and 4.2% in 2018 and 2019 respectively according to the CPB. Although the Netherlands' competitive export position for domestically produced goods has slightly deteriorated due to an appreciation of the Euro in early 2018, re-exports have continued to demonstrate a steady increase. The export sector is exposed to similar downside risks as other open economies, such as ongoing trade negotiations between the United States and China and the EU and the possibility of a chaotic Brexit. The current account surplus is estimated to remain at a high level both historically and compared to peers. However, it is expected to decrease slightly from 10.5% GDP in 2017 to 9.9% GDP in 2019, which mainly results from a reduction in gas exports on the one hand and a rise in energy imports on the other hand.

Steady increase in household consumption

Supported by consumer confidence in an optimistic economic outlook and a disposable income increase, Dutch household consumption continues to grow steadily, with the CPB reporting a rise of 2.7% for 2018 and 2.3% for 2019. Real disposable income growth is estimated to peak at 3% in 2018, which is the highest increase since the 1990s. The solid increase is mostly due to a considerable growth in income from labour in 2018, which in itself is the result of a strong rise in employment opportunities, higher real wages and decreased taxes. The household debt ratio has decreased from 119% of GDP in 2010 to 105% in 2017. This is illustrated by the figure below. It also shows a distinct characteristic of the Dutch situation: even though Dutch households hold relatively high levels of debt, their indebtedness is more than counterbalanced by a large volume of assets. As a result net assets amount to over 400% of GDP.

Substantial assets Dutch households, indebtedness falls slightly (% GDP)



Source: Dutch Central Bank (DNB)

Solid investment growth continues

Business investments excluding inventories continue to rise considerably in 2018 (4.1%), driven by the continuing improvement of domestic and external demand, a high capacity utilisation rate of 84.5% and low capital costs. As entrepreneurs are exposed to economic uncertainty and possibly deteriorating demand for their products due to the aforementioned downside risks, the CPB predicts that investment growth will flatten to 3.4% in 2019. Housing investments are expected to rise at an above-average pace of 8.5% in 2018 before slightly decreasing to 5.9% in 2019. Despite these high investment levels, tightness in the housing market, caused by construction sector constraints, low financing costs and a positive economic outlook, remains. Consequently, house prices have reported a nominal growth rate of 8.8% year-to-year in the second quarter of 2018.

Labour market tightens further

Unemployment continues to decrease, showing an unemployment rate of 3.9% of the labour force in 2018 and 3.5% in 2019 according to CPB forecasts. This level is below the 3.7% seen during the business cycle peak in 2008 and below the average of 4.5% during the 1999-2007 economic boom. An important development is the increase in the number of permanent contracts offered by employers. The amount of open vacancies reached a peak amounting up to 251,000 jobs in the second quarter of 2018, outperforming the previous peak of 249,000 in 2007. These developments result in a further tightening of the labour market, with one out of five companies reporting an employee shortage in the second quarter of 2018, double from a year earlier. Following the tightening of the labour market, contractual wages increase by 2.0% this year and 2.9% next year.

Budgetary Outlook

Budgetary surpluses expected to persist

The government presented its Budget Memorandum for 2019 on 18 September. It expects an EMU budget surplus of 0.8% of GDP in 2018 and 1.0% in 2019. This would imply four consecutive years of budget surpluses, which is exceptional given that the last time this happened was 45 years ago. The budget surpluses are the result of highly favourable economic conditions, and are even being tempered somewhat by lower gas revenues and expansionary fiscal policies (most notably a tax reform package that on the whole improves the purchasing power of households).

To improve long-term budgetary sustainability, the government makes use of a 'trend-based' budgetary policy framework. Higher tax income and lower social security spending due to increased economic growth are used to run down the debt rather than funding additional expenditures. In general, increases in expenditures have to be covered by lowering expenditures elsewhere, so that overall spending is always bound by pre-set ceilings. This means in better times buffers are being created for lesser times. When the business cycle turns negative this 'trend-based' budgetary policy also implies that no additional budgetary measures are necessary as tax income decreases and social security spending increases.

Government debt set to drop below 50% in 2019

Government debt levels are falling quickly, from 57.1% of GDP in 2017 to 53.1% this year and 49.6% next year, comfortably below the 60% threshold of the Stability and Growth Pact and approaching the pre-crisis level of 43%. The strong decline in the debt level is driven by budget surpluses on the one hand and by a higher denominator as a result of GDP growth on the other hand. In contrast to previous years, no sales of state-owned enterprises have taken place so far in 2018. The government nevertheless has the ambition to privatise ABN Amro further in the future, and when this materialises this could allow debt levels to decline further.

Key budgetary figures for the Netherlands (% of GDP)

	2016	2017	2018
Nominal EMU-balance	1.2%	0.8%	1.0%
EMU-debt	57.1%	53.1%	49.6%

Source: Government budget memorandum, 18 September 2018.

Save the date!

Launch of the DSTA's Outlook 2019

14 December 2018

Invitations will be sent out in November

Outstanding debt

DSL position per ultimo August 2018

Isin code	DSL	Amount in euros
NL0010514246	1.25 pct DSL 2013 due 15 January 2019	14,926,224,000
NL0009086115	4.00 pct DSL 2009 due 15 July 2019	14,238,398,000
NL0010881827	0.25 pct DSL 2014 due 15 January 2020	15,232,184,000
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
NL0012650469	0.00 pct DSL 2017 due 15 January 2024	12,939,277,000
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	15,380,926,000
NL0000102317	5.50 pct DSL 1998 due 15 January 2028	13,028,814,230
NL0012818504	0.75 pct DSL 2018 due 15 July 2028	10,162,941,000
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

Isin code	Other	Amount in euros
	Inscription registers	12,332,520
	Private placements	1,032,838,262
	Total	**291,678,011,749**

CP position per ultimo August 2018

Currency	Amount in original currency	Amount in euros
CP in euro	200,000,000	200,000,000
CP in US dollar	8,775,000,000	7,656,965,857
CP in British pound	-	-
CP in CHF	-	-
CP in NOK	-	-

DTC position per ultimo August 2018

Isin code	Maturity date	Amount in euros
NL0012840102	DTC 2018-09-27	4,480,000,000
NL0012869309	DTC 2018-10-31	4,400,000,000
NL0012969190	DTC 2018-11-30	2,960,000,000
NL0013025778	DTC 2019-01-31	3,520,000,000
	Total	**15,360,000,000**

Outstanding public debt	Amount in euros
Total outstanding DSLs, DTCs and CP	**313,862,139,344**
Cash collateral	9,368,122,962

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

The cut-off date is 18 September 2018
(unless mentioned otherwise)