Dutch State Treasury Agency
Ministry of Finance

Outlook

2010

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Preface

The past year has been turbulent and challenging on multiple fronts. Following the financial crisis and the downturn in the economy, the DSTA faces borrowing needs exceeding levels never seen before. At the same time, my office took on a number of new responsibilities, such as the execution of the guarantee scheme for bank debt.

The Dutch economy is weathering a heavy storm, although the worst seems to be over. Growth is again in positive territory, pointing to a cautious recovery. Unfortunately, that cannot be said for the government's fiscal position. The budget deficit is expected to increase to around 6% of GDP in 2010. Although not exceptional in an international context, by Dutch standards it definitely is. The Dutch government therefore reiterated its commitment to fiscal discipline in order to secure a long-term sustainable budgetary position. To explore possibilities for budgetary savings, a fundamental review of all fiscal spending programmes and the tax system is under way. Also the decision to raise the retirement age will help to secure sound public finances into the future.

In 2009, the DSTA increased its call on the capital market to € 48 bln, double the size we were used to. For the years to come, I expect the issuance of DSLs to remain in the order of € 50 billion. Still, the DSTA's funding and issuance strategy will continue to be guided by our long-held principles of continuity, flexibility and transparency.

Continuity is reflected in our strategy to issue a new 3- and 10-year DSL annually, and in our commitment to the long-end of the DSL curve. In 2010, we will not only issue new 3- and 10-year bonds, but also a new 30-year DSL. Starting in 2010, we will raise volumes issued of our new 3- and 10-year benchmark bonds to around € 15 billion. I hope this will further promote the liquidity of DSLs. Previously issued bonds will also be gradually increased through the off-the-run facility which we plan to continue into next year.

In turbulent times flexibility is especially important. As recently as in 2007, we had to cancel our new issue in the 3-year segment due to lower funding needs. Now, less than 2 years later, launching three new bonds every year seems to have become the default. The DSTA secures the necessary flexibility on different levels. Traditionally, the money market gives us most of the flexibility, by proving a first line of defence against changes in the funding need. Ultimately, we can also find flexibility on the capital market, for instance by reopening off-the run bonds, by issuing a dollar-denominated bond – which we plan to do in 2010 – and by increasing tap volumes.

In line with our goal of being as transparent as possible, we will keep you updated on the execution of our funding plan through our regular publications and press releases. The pictures in this Outlook guide you through the new home town of the DSTA, The Hague.

Erik Wilders

Agent of the Dutch State Treasury Agency

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The economic and budgetary position of the Netherlands

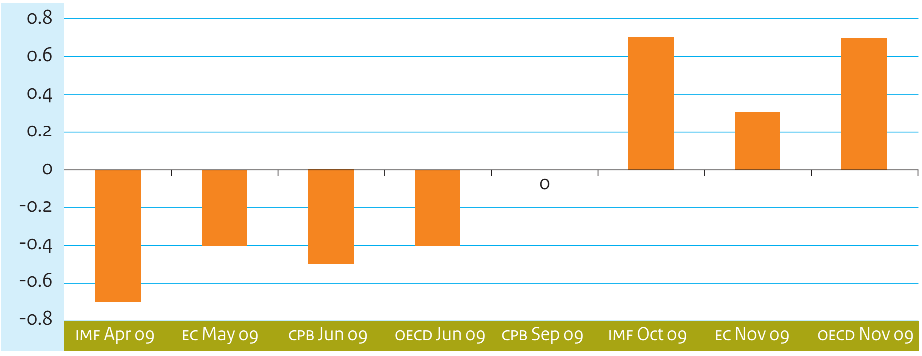
Economic projections point towards a cautious recovery in 2010. Automatic stabilisers within the budget have resulted in a sharp increase of the budget deficit, to an expected 6.3% of GDP in 2010. Government debt in the Netherlands remains approx. 18%-points below the average of the Euro Area. To underline its commitment to the future sustainability of public finances, the government decided to increase the retirement age to 67 and to undertake a fundamental review of all government spending programmes.

1.1

Economic outlook for the Netherlands

As for many other countries, 2009 has been an exceptional year for the Dutch economy. The financial crisis turned out to be the start of a deep and protracted recession. Especially during the first half of 2009 economic activity experienced a severe contraction. According to the most recent forecasts of the National Bureau for Economic Policy Analysis (CPB) real GDP is expected to contract by 4¾% in 2009, the steepest decline since the 1930's. However, looking into 2010 and beyond, some optimism is justified. After four quarters of negative growth, growth was again positive (+0.4%) in the third quarter. In the course of 2009, different institutions have revised their growth projections for 2010 upwards. To illustrate, the European Commission raised up its growth estimate for the Dutch economy by 0.7%-points between May and November, while according to the IMF the economic outlook for the Netherlands has improved by 1.4%-points between April and October (see figure 1.1). The more positive outlook is supported by a number of indicators; the stock market has rebounded from lows earlier this year, world trade is picking up and surveys among consumers and producers show that confidence has regained some of its lost ground.

Figure 1.1 Projections for GDP growth (%) in the Netherlands for 2010



Projections for 2010

Table 1.1 below shows the most recent projections of the CPB (from September 2009) for a number of key economic variables for the Netherlands. Expenditure components followed the pattern usually seen in an economic downturn: first exports declined, followed by investments, whereas consumers reduced their spending relatively late in the cycle. Government expenditures held up quite well during the downturn.

Export – Dutch exports were hit in an early stage of the financial crisis. Given the open nature of the Dutch economy, the collapse in world trade had a strong impact on Dutch GDP. In 2009 exports are expected to shrink by 13¾%. In terms of contributions to GDP growth, net exports account for most of the decline in economic growth (an estimated - 3¼%-points in 2009). For next year an increase in exports is foreseen, contributing positively to GDP growth. The global economy is expanding again, driven by the strong performance of Asian economies and the stabilisation or modest recovery elsewhere. According to the IMF in its October World Economic Outlook, the strong public interventions across many economies worldwide have been crucial for the global rebound. Interventions in the financial sector, substantial stimulus for the real economy and large interest rate cuts by central banks not only prevented a systemic meltdown, but also reduced uncertainty and increased confidence, driving up world trade.

Table 1.1 Main economic indicators for the Netherlands (September 2009 forecasts)

	2009	2010	2010 estimates: Sep versus Jun
Gross Domestic Product (% change)	-4¾	0	+½
Private consumption (% change)	-2¾	-¾	+¼
Export (% change)	-13¾	3	+2½
Import (% change)	-11½	1¼	+2¾
Gross fixed investments (% change)	-14	-9½	+3½
Government expenditures (% change)	2¼	½	-½
Unemployment (% labour force)	5¼	8	-1½
Labour productivity (% change)	-3¾	5½	-½

Source: CPB

Investment – The collapse in fixed investment represents another major element in the economic slowdown. The sharp contraction in output caused capacity utilisation to reach historical lows, diminishing the need for investments. Moreover, corporate profitability has worsened since the start of the crisis. Companies adapt their workforce to the declining production with some delay, as a result of which labour productivity is expected to decline considerably this year. Stricter lending conditions could also have contributed negatively to investments, although the results of the latest ECB lending survey indicate that credit restrictions by banks are becoming less important in slowing down lending activity. Although at a more moderate rate, negative investment growth is expected to continue in 2010, mainly driven by the still weak demand prospects and low capacity utilisation rates.

Private consumption – Although with some delay, the financial turmoil had a strong impact on spending by Dutch consumers. Despite still rising disposable incomes in 2009 consumers cut their spending by an estimated 2¾% and built up savings since the start of the year. Increased uncertainty about the economic outlook, in particular about job prospects, was the primary reason for households to reduce spending. Additionally, households experienced important wealth losses. For 2010, the CPB expects disposable incomes to decline by 1%, mainly due to the increase in unemployment. Therefore, a further decline of ¾% in private consumption is expected for next year. At 5% of the labour force (national definition), unemployment in the third quarter of 2009 was still at a rather low level, although up from 3.7% one year ago. For next year a further increase is expected, which will drive the unemployment rate up towards an average of 8% in 2010, according to CPB projections. Notable is that up till now, unemployment is rising more modestly than was expected earlier. The implementation of the partial unemployment scheme introduced earlier this year helps to moderate the increase in unemployment; this arrangement allows employers to cut working hours of employees without laying them off, with partial unemployment benefits paid out of (public) unemployment funds. In addition, more than before young people choose to continue their education and postpone their labour market participation.

International comparison
All countries within the Euro Area suffer from the economic crisis. In the most recent estimates of the European Commission, real GDP in the Euro Area is expected to decline by 4.0% in 2009, while for 2010 a growth of 0.7% is anticipated. Compared to other economies the Dutch economy is performing slightly below average, with growth rates of -4.5% and +0.3% respectively. According to the European Commission, negative wealth effects on consumption are more pronounced in the Netherlands compared to other countries. Dutch consumers are affected both directly via their role as investors and indirectly through the impact on pension fund assets. With respect to unemployment the Dutch economy is outperforming most of its counterparts. The Netherlands is benefiting from tight conditions on the labour market in the

years prior to the crisis. For 2010 unemployment in the Netherlands is expected to increase to an average of 5.4% of the labour force, while the average for the Euro Area amounts 10.7% (EU-harmonised definitions)[2].

Table 1.2 The Netherlands compared to Euro Area

	2010		2011	
	Netherlands	Euro Area	Netherlands	Euro Area
GDP (% change)	0.3	0.7	1.6	1.5
Inflation (%)	0.9	1.1	1.2	1.5
Unemployment (% of labour force)	5.4	10.7	6.0	10.9
EMU-balance (% of GDP)	-6.1	-6.9	-5.6	-6.5
EMU-debt (% of GDP)	65.6	84.0	69.7	88.2

Source: European Commission, Autumn Forecasts, November 2009

Continued recovery expected, though uncertainty remains

Looking ahead to 2010, the Dutch economy is expected to remain in difficult territory. Since mid 2009, both hard and soft indicators have pointed towards improvements in economic circumstances. However, the sustainability of the recovery is difficult to determine, partly because of the role of temporary factors such as the stimulus measures. Effects of the crisis will remain visible and might even deepen in 2010, especially with respect to the labour market and public finances. Deteriorating labour market conditions and wealth effects could impact domestic demand more than currently anticipated. On the upside however, increased confidence among both consumers and producers will encourage economic activity. Furthermore, the effect of measures taken by the Dutch government and the upswing in world trade might be stronger than currently expected, thereby supporting the strength and speed of the recovery.

2 Due to differences in definitions, the national unemployment data of CBS and CPB cannot be compared directly to the unemployment data published by Eurostat and the European Commission.

1.2

The budgetary outlook

Although the economic outlook seems to improve gradually, the government budget sketches a gloomier outlook. All around Europe GDP is declining and budget deficits are on the rise. The Netherlands is no exception. This paragraph discusses the effects of the worldwide crisis on the budgetary position of the Netherlands. It also explains the efforts taken by the Dutch government to secure a sustainable fiscal position for the Netherlands.

The budget in 2009 and 2010

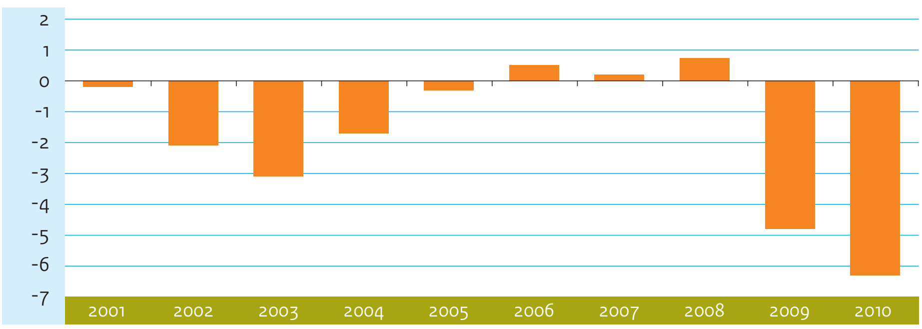
Mirroring the constantly deteriorated economic outlook for 2009 is the deterioration in the government's budget. The Budget Memorandum 2009 – which was the basis of the DSTA's Outlook 2009 and which was drafted right before the collapse of Lehman – expected an EMU-balance of +1.2% of GDP. Now, one year later, black ink has turned deeply red; the earlier projection for the 2009 EMU-balance has turned around by a total of 6%-points to a deficit of 4.8% of GDP. The main drivers of the deterioration in the budget are declining tax revenues – reflecting an important automatic stabiliser in the budget, as will be explained below in the section on government policy – and lower natural gas revenues. To a lesser extent, local governments and an increase in unemployment benefits are also contributing negatively to the swing in the EMU balance.

In the years 2006-2008 the budget was in surplus (see figure 1.2). Normally, differences between the EMU-balance and the cash balance – the relevant variable for a debt manager – are rather limited, and can be explained principally by financial transactions and other so-called cash-transaction differences.

> The cash balance (for the State) and EMU-balance (for the general government, including local governments and social security funds) are different concepts. Most attention – by policy makers, the media and 'Brussels' – is aimed at the EMU-balance. For a debt manager however, only the cash concept is relevant. Differences between the two definitions can be explained by two types of transactions. First, financial transactions. These include the provision of student loans and receipts due to privatisation. These have a cash effect but are not 'EMU-relevant'. Second, transactions resulting in cash flows in a year different from the transaction year (= the 'EMU-balance' is transaction based). These are so-called 'cash-transaction differences', resulting for instance when contracts are signed with multi-year payments.

In 2008, the differential between the two concepts was larger than ever. While the EMU-balance equalled +0.7% of GDP, the cash balance was approximately a negative € 85 bln or 14% of GDP. The difference with the EMU-balance can be explained largely by the financial sector expenditures done in the last quarter of 2008 (see for an overview the DSTA's Outlook 2009, paragraph 2.1). Although these financial transactions fall outside the scope of the EMU-balance, they are of course most relevant from a debt manager's perspective.

Figure 1.2 The EMU-balance (% GDP) in the Netherlands



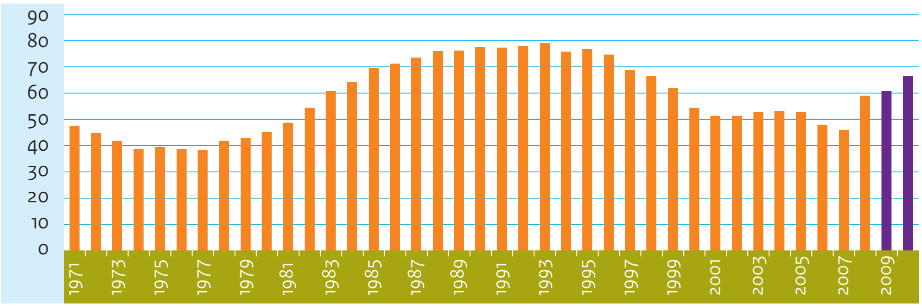
Source: Budget Memorandum 2010

For the current year, the expected EMU-deficit is 4.8% of GDP. The cash balance will be positive in 2009 following repayments by banks of at least part of the support they received in 2008 (see section 2.1 for more details). The Budget Memorandum 2010, published on 15 September 2009, projects a further increase of the EMU-deficit to 6.3% of GDP in 2010.

Debt level in the Netherlands

In 2008, government debt has initially increased mainly as a result of financial sector support of over € 80 billion (see Outlook 2009). The year 2008 started with an EMU-debt of € 259 billion (45.5% GDP), and ended with a gross volume of € 347 billion (58.2% GDP), with over € 80 billion in assets on the governments balance sheet. At the end of 2009, State and EMU-debt will be lower than at the end of 2008, caused by banks repaying part of their financial sector support, as will be explained in the next chapter. Because of declining nominal GDP, government debt in terms of GDP will increase from 2008 to 2009, as shown by figure 1.3. The CPB projects a debt-to-GDP ratio of 59.9% for the end of 2009, rising to 65.8% at the end of 2010. The CPB numbers do not yet reflect the decision of CBS to classify the illiquid back-up facility that the State of the Netherlands granted to ING as government debt.

Figure 1.3 EMU-debt (% GDP), 1970-2010



Source: CPB

> In January 2009, the Dutch State agreed upon an illiquid back-up facility to ING. With this facility, the State covers the risk of 80% of the secured mortgages portfolio of ING (the so-called Alt-A portfolio). On 5 October 2009, Statistics Netherlands (CBS) decided to include the notional amounts underlying the back-up facility into public debt figures. CBS decided that the back-up facility entails a transfer of economic ownership from ING to the Dutch State. Therefore a liability of the State should be set against the corresponding assets.
> The incorporation of the back-up facility in the CBS figures does not change the borrowing needs of the Dutch State on the international money and capital markets. The CBS figures on government debt still need to be finalised in dialogue with Eurostat. The DSTA includes the outstanding amounts of the illiquid back-up facility in its monthly Statistical Report on www.dsta.nl.

Budgetary policy: stabilisation

Driven by the exceptional economic and financial climate, the Dutch government has taken a number of wide-ranging measures to address the crisis. Budget surpluses achieved in the years prior to the crisis provided a substantial fiscal buffer. The most important contribution of the government to dampen the adverse impacts of the financial crisis has been to allow the budget to deteriorate following the economic cycle.

These so-called automatic stabilisers within the budget are stronger in the Netherlands than in most other countries. Automatic stabilisers are most prominent on the income side of the budget (taxes), but can also be found on the expenditure side. In 'normal' times, automatic stabilisers on the income side are only allowed to operate as long as the deficit limit of 3% (Maastricht Treaty) is respected. In case the deficit is in danger of exceeding the 3%-limit, the government is bound - by its own rules – to take corrective measures. Late last year, the cabinet decided to let automatic stabilisation run its course unimpeded, irrespective of the 3%-limit. Also on the expenditure side, outlays for unemployment benefits are allowed to increase without the need of compensating measures, as is common in 'normal' times when expenditure ceilings are binding. The box below explains the budgetary rules in the Netherlands in more detail.

Box

Important rules in the Netherlands for managing the budget

1 *Strict separation between income and expenditure*
Income and expenditure are strictly separated. Thus, what comes in does not affect what goes out. This rule is intended to avoid a situation in which the estimated income of the government would immediately lead to a discussion on additional expenditure (in the event of higher revenues) or cutbacks (in the event of lower revenues).

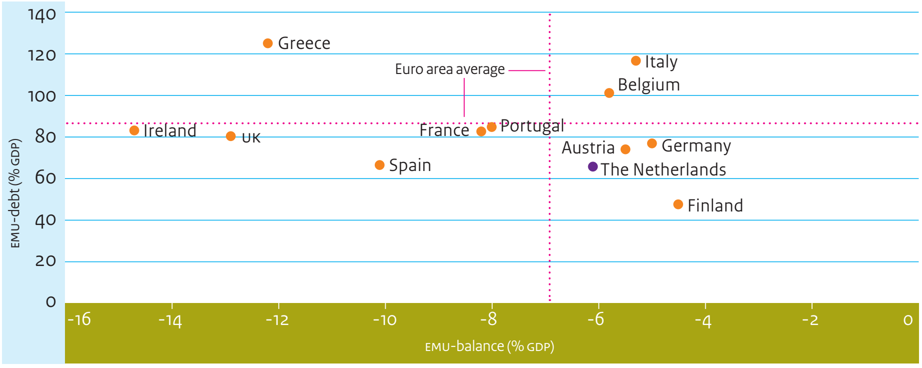
2 *Expenditure framework and ceilings*
For a proper control of public expenditure the government avails itself of a maximum level of expenditures: the expenditure framework. This means that (apart from an indexation to price changes) the overall size of expenditures during the term of government is fixed. Interest payments are not included in the expenditure framework.

3 *Income framework*
A framework is also provided for the income side, i.e. changes in tax rates during the term of government are limited. A windfall may not be used for new policies and a setback does not lead to cutbacks. Temporary departures from this framework are allowed. In principle, compensation follows in subsequent years within the term of the government.

4 *Automatic stabilisers*
Automatic stabilisation is used for the income side. This means that windfalls on the income side are credited to the EMU balance. Setbacks on the income side are debited to the EMU-balance. An advantage of this system is that the budget on the income side is able to go along with economic developments. In the event of setbacks further measures are only taken if the warning levels for the EMU-balance are exceeded. To be on the safe side of the 3% deficit limit in the context of the Maastricht Treaty, the government uses a warning level of 2% of GDP. This means that when the EMU-deficit approaches 2% of GDP, the government must take measures to prevent the deficit from increasing further.

The significance of automatic stabilisers in the Netherlands reduces the need for large additional discretionary programmes aimed at stimulating the economy. The government nevertheless decided to invest a total of € 6 billion in 2009 and 2010 (approx. 0.5% GDP in both 2009 and 2010) to support economic activity. The interventions primarily comprise accelerated investments in infrastructure, provisioning of guarantees in several areas (to support credit, the

Figure 1.4 EMU-debt and EMU-balance (% GDP), 2010



Source: European Commission, Autumn Forecasts, November 2009

housing market and exports; see section 3.4) and increased spending on labour market policies, innovation and education. In 2009 and 2010 combined, the EMU-deficit is projected to increase by a total of € 60 billion, most of which is the result of automatic stabilisation.

International comparison

Figure 1.4 illustrates that many European countries face more or less the same budgetary challenges. Based on the European Commission's Autumn Forecasts, within the Euro Area all countries are expected to exceed the 3% Maastricht limit for the deficit. The position of the Netherlands in this diagram is still relatively favourable, partly thanks to the budget surpluses that were realised in the years prior to the crisis. The level of debt in the Netherlands remains below the average of the Euro Area, by approx. 18%-points.

The European Council has recently affirmed that the Stability and Growth Pact (SGP) remains the anchor for fiscal exit strategies that Member States need to devise and coordinate. The Ecofin Council (of Ministers of Finance) has agreed to country specific timetables for several Member States for bringing back deficits below the 3% GDP limit. On 11 November 2009, the European Commission proposed to the Ecofin Council to set 2013 as the deadline for the correction of the budget deficit in the Netherlands. For many other countries in the Euro Area – for instance France, Germany, Spain Portugal, and Austria – the deadline is also set at 2013.

With a number of other countries, for the Netherlands the Excessive Deficit Procedures were opened in October 2009. The Netherlands is recommended to start consolidation in 2011. This would imply an average annual structural adjustment ranging from 0.5% to 0.75%-points of GDP over the period 2011-2013. For the Netherlands, the timetable and the specific recommendations will most likely be discussed in December 2009 (after the cut-off date of this Outlook).

The medium and long-term outlook

The government committed itself to improving public finances as soon as economic growth is sufficiently strong. To strengthen the future sustainability of public finances, it was agreed to embed the consolidation commitment in law. The law - which should come into force on 1 January 2010 - states that the budget balance should be improved annually by at least 0.5% of GDP. A more ambitious effort will depend on future economic developments and on the agreements that will be reached with the European Commission in the context of the Stability and Growth Pact.

To anticipate the long-term consequences of ageing for both the budget and the labour market, the government took a number of measures to improve the long-term budgetary position of the Netherlands. The most important measure to improve the fiscal sustainability is to increase the

official retirement age from 65 to 67. This measure is intended to improve long-term fiscal sustainability by 0.7% of GDP. The proposal implies a two-step implementation: the retirement age will be increased to 66 in 2020 and to 67 in 2025. Social security plans (for unemployment and disability) will be extended to 67 accordingly. In line with the increase of the retirement age to 67, second pillar privately funded pension plans will also start 2 years later. Because the first increase of the retirement age will take effect in 2020, employees and employers will have enough time to prepare. Special attention will be directed at older employees and at employees in physically more demanding jobs. Although labour participation of older workers is already increasing, their position on the labour market should be strengthened further by improving their employability and flexibility. For both older employees and employees with physically more demanding jobs, the goal is to keep them available for the labour market as long as possible. This will help to support labour supply in an ageing society.

Fiscal measures and measures to improve efficient use of resources in the health care sector should further improve public finances by 0.6% GDP structurally.

Last but not least, in September 2009 the government announced a fundamental review of all areas of government policy. It is felt that tough choices cannot be avoided to restore the balance between government revenues and expenditures. Such an approach has been very successful in the 1980's in achieving a substantial reduction in the size of the public sector. A total of 20 working groups have been given the assignment to identify opportunities for budgetary savings, either by cutting back on expenditures or fiscal subsidies. The 20 working groups cover all areas of government policy, ranging from the labour market, education and housing, to energy, safety and social security. To stimulate creativity and to adopt an open and critical attitude, each working group has an obligation to work out at least one scenario that could result in budgetary savings of 20% in the policy area of investigation. Working groups are expected to report back in the spring of 2010. Outcomes could already be taken on board when drafting the budget for 2011. The fundamental review also includes the income side of the government budget by looking into opportunities to improve the present tax system.

2

Funding and issuance

For next year, the DSTA's total borrowing requirement equals € 117 billion. The call on the capital market in 2010 will be around € 50 bln; the remainder will be covered on the money market through the issuance of DTCs and commercial paper. New benchmark bonds will be launched in the 3-year, 10-year and 30-year segments. The 'off-the-run'-facility will be continued into 2010. Like in 2009, the DSTA will hold two DSL auctions every month, on the second and fourth Tuesday.

2.1

Looking back

This paragraph reflects on the execution of the funding plan for 2009. Looking back, the funding plan and issuance calendar were executed as outlined in the Outlook 2009.

Increased funding in 2008

In 2008, financial crisis measures increased the borrowing requirement by approx. € 82 billion. Of the total increased funding need, € 34 bln was of a short-term nature, related to the credit facility granted to Fortis Bank Netherlands (FBN). The remaining € 48 bln could be considered a medium- to long-term funding need (consisting of capital injections, the nationalisation of FBN and ABN AMRO, the take-over of long-term loans of FBN and the loan to Iceland).

As explained in the Outlook 2009, it was decided to match the maturity of funding as close as possible to the expected duration of the funding need. That meant that € 34 bln was funded on the money market, and € 48 bln on the capital market. However, it was also decided to spread the necessitated increase of capital market funding over time, and to rely on the money market in the intervening period. In 2008, of the increased funding need related to the financial crisis € 15 bln was covered on the capital market; in 2009 € 24 bln was covered on the capital market (as part of the total call on the capital market of € 48 bln); the remaining € 9 bln will be covered long-term in 2010 (see section 2.2). As a result, the maturity of funding was gradually increased. In the meantime, the short-term money market operated as a buffer.

Executing the funding plan for 2009

During the year, the funding plan was updated regularly in subsequent editions of the Quarterly Outlook. Updates were made to take into account new budgetary information. Every change in the borrowing requirement was absorbed in the funding plan by changing the DSTA's call on the money market. Table 2.1 shows the development of the borrowing requirement during the year. It increased by approx. € 37 bln during the year, mainly due to a deteriorating government budget.

Table 2.1 Borrowing requirement and funding in 2009

	Outlook 2009	Spring update	September update
Capital market redemptions	32.2	34.8 1)	34.8
Money market ultimate 2008	81.5 1)	85.1 2)	85.1
Cash deficit 2009	-3.4	24.3	27.8
Total borrowing requirement	**110.3**	**144.2**	**147.7**
Capital market funding	48.0	48.0	48.0
Money market ultimate 2009	28.3	62.2	65.7
Repayment by FBN	34.0	34.0	34.0
Total funding	**110.3**	**144.2**	**147.7**
Total funding (excluding FBN)	**76.3**	**110.2**	**113.7**

1) The issuance of € 2.6 billion in November 2008 in the three DSLs maturing in 2009 has been included initially in 'money market ultimate 2008' and has subsequently been included in 'capital market redemptions'.
2) The higher money market volume is the combined effect of footnote 1) and a lower cash balance in 2008 than was expected at the time the Outlook 2009 was published.

The original funding plan that was part of the Outlook 2009 was based on the then available estimate for the cash balance in the budget. This estimate – a surplus of € 3.4 bln in 2009 – dated from just prior to the fall of Lehman. The Ministry of Finance published updates in the Spring Memorandum in May and in the Budget Memorandum in September. The most recent estimate for the cash deficit in 2009 is € 27.8 bln[1]. This excludes the repayment of € 34 bln by FBN in July 2009.

1 That is the latest estimate now available. The Autumn Forecast will become available late November, after the cut-off date of the Outlook 2010.

Early October 2008, the Dutch State acquired the Dutch banking and insurance activities of Fortis SA/NV. Part of this transaction was a € 34 billion short-term loan to Fortis Bank Netherlands (FBN). At that time, it was agreed that the € 34 billion would be repaid fully by the end of 2009. FBN managed to repay already in July 2009, far earlier than expected. The option of FBN to obtain short term credit from the Dutch State in case of exceptional circumstances was not exercised. The repayment by FBN will help to reduce government debt at the end of 2009.

The current estimate for the borrowing requirement for 2009 equals € 113.7 bln, about the same as in 2008.

Despite the higher budget deficit, the money market volume at the end of 2009 is expected to be lower than the volume at the end of 2008. This is caused by a combination of two factors:

- the repayment by FBN of their short-term credit facility of € 34 bln allowed for a decline in money market funding;
- a shift in funding from the money market to the capital market also mitigated the call on the money market.

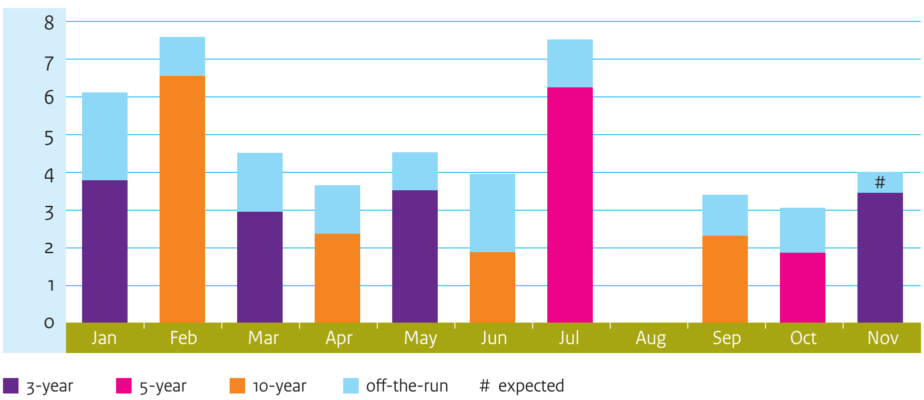
The ultimate volume of the money market at the end of 2009 depends on the actual cash deficit in the budget. The cash balance is expected to improve later this year as a result of repayments by banks of capital injections they received in 2008. ING announced it intends to repay € 5 bln (of the € 10 bln in total), AEGON said it planned to repay € 1 bln (of the € 3 bln received last year) and SNS Reaal is expected to repay € 185 mln (of € 750 mln in total). It is therefore expected that the money market volume at the end of 2009 will be around € 60 bln, which is € 6 bln lower than in table 2.1. This lower money market volume consequently reduces the total borrowing requirement for 2010.

Capital market issuance in 2009

During the year, the DSTA maintained its expected call on the capital market at the € 48 bln that was the corner stone of the original funding plan. The adherence to the fixed call on the capital market follows the DSTA's principles of continuity, predictability and transparency. As a result, the money market delivered its traditional role as a funding buffer.

Figure 2.1 shows the issuance on the capital market in 2009. With only one tap date to go at mid November, DSL issuance stood at € 47.5 bln.

Figure 2.1 DSL issuance in 2009, € bln

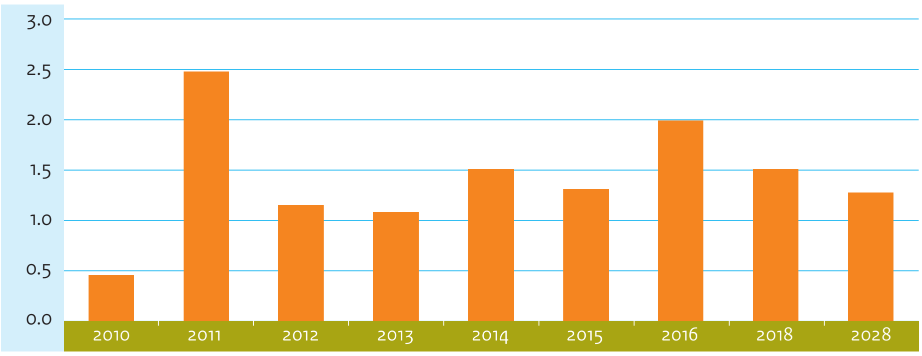


As in every year, in 2009 a new 10-year benchmark bond was issued. The 4% DSL 15 July 2019 was launched in February via a Dutch Direct Auction (DDA). Auctioning relatively early in the year made it possible to alternate DSL auctions of the new 3-year - the 2.5% DSL 15 January 2012, first issued in January - and the new 10-year. Demand for the new 10-year benchmark was solid, with a book size at the time of closure of over € 15 bln. Total allocation was determined at € 6.5 bln euros, with 85% distributed to real money accounts. The spread was fixed at 75 basis points over the German reference Bund. With subsequent re-openings in April, June and September – at spreads substantially below 75 basis points due to more stable financial market conditions – the volume of this loan is now € 13.0 bln. With the last reopening in November, the DSL 15 January 2012 reached a volume of € 13.6 bln.

In July, the DSTA issued a new 5-year bond – the 2.5% 15 January 2015 – also by means of a DDA. Demand for this benchmark bond was more subdued than was generally expected. An amount of € 6.2 bln was allocated at 30 basis points above the German reference bond; this spread had also narrowed at the time of the reopening in October. Two-thirds of this second DDA went to real money investors, the remaining to other (trading) accounts. At mid November, the new 5-year DSL had an amount outstanding of € 8.0 bln. Reopenings of this bonds in 2010 will lift the outstanding amount to around € 13 bln.

2009 was the first year in a long time since the DSTA chose to auction DSLs twice per month, adding the 4th Tuesday as a standard auction date. In the so-called off-the-run facility, the DSTA reopens 3 old bonds on a monthly basis. The focus in the selection of bonds has been on old 10-year bonds in the 2010 to 2016 buckets – but also other bonds have been selected (such as the 2028 DSL), based on market circumstances and expected demand by investors. Through the off-the-run facility, the DSTA has increased outstanding amounts of (existing) bonds and thereby promoted liquidity across the curve. At the end of October, with one off-the-run auction to be held, a total amount of € 12.8 bln was raised. The target range in the Outlook 2009 equalled € 10 to € 14 bln. Figure 2.2 shows the issuance across the maturity buckets.

Figure 2.2 Off-the-run facility January - October 2009, issuance per bucket, € bln



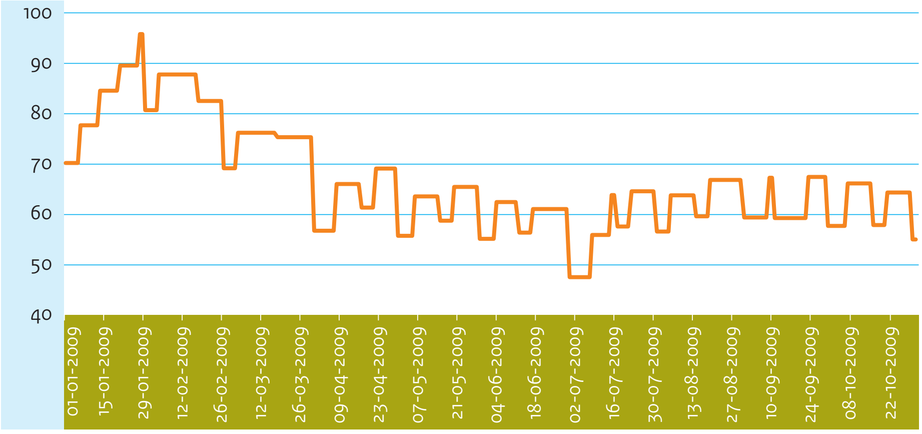
Money market issuance in 2009

The increased funding in the last quarter of 2008 necessitated the DSTA to increase the frequency of DTC auctions from twice a month to every week, and to step up the number of programmes per auction from two to four. The DSTA also added DTC-programmes with expiration dates at mid-month. This new pattern was continued into January 2009. Starting in February, the frequency of auctions was brought back to twice a month (on the first and third Monday). The reduced frequency was made possible by the projected decline in the money market volume in the course of 2009, as explained above.

One exception to the regular frequency of DTC auctions was made in July, when on the 13th an extra auction was held. This auction was meant to help accommodate a substantial, albeit temporary, cash shortfall related to the redemption of the DSL 15 July 2009.

Figure 2.3 shows the outstanding amount of DTCs during the first 10 months of 2009. In the 10 months, a gross amount of € 165 billion was issued. At the end of October 2009 (after expiration of the October 2009 DTC programme), the outstanding volume was € 54.7 bln.

Figure 2.3 Outstanding amount DTCs, € bln



Commercial Paper (CP) continued to prove very successful in 2009. Swiss francs were added to the currencies in which the DSTA can issue CP. Furthermore, Rabobank was added to the existing CP dealer panel of Barclays Capital, Citigroup, Credit Suisse, Deutsche Bank, and ING. Having started with issuing CP in maturities up to 3 months, the DSTA is now also funding itself with longer-dated maturities (up to 12 months). In the first ten months a total amount of € 73 bln was issued through CP, of which the majority was done in US dollars (see table 2.2). The relatively short segment was most popular with investors; approx. 86% of the total nominal amount issued in 2009 was done in the segment up to 3 months. The first CP deals in Swiss francs were settled early November.

Table 2.2 – Amounts issued in CP, January – October 2009, bln

	Volume issued (issuing currency)	**Volume issued** (in euros)	**Outstanding in issuing currency** (end of Oct 09)	**Outstanding in euros** (end of Oct 09)
CP in Euro	13.137	13.137	0.606	0.606
CP in US dollar	78.099	56.987	16.313	11.181
CP in British pound	2.531	2.817	0.059	0.065
Total		**72.941**		**11.852**

2.2

Funding plan for 2010

This section gives an overview of the borrowing requirement and the funding plan for 2010. As mentioned in section 2.1, the borrowing requirement for 2010 depends partly on the ultimate volume of the money market at the end of 2009. The volume of the money market at year end will be determined by the actual cash deficit in the budget, the size of which can only be determined at the end of the year.

The total borrowing requirement for 2010 has the following components:
- The DSL redemptions amount to a total of € 23.3 bln in 2010.
- The money market volume at the year's end is expected to add up to around € 60 bln.
- The shortfall in the budget is estimated at a total of € 33.6 bln for 2010.

Altogether, this results in a preliminary total borrowing requirement for 2010 of € 116.9 bln. The DSTA has decided to fund approximately € 50 bln in the capital market by the issuance of DSLs. The remaining borrowing requirement will be covered in the money market, resulting in an estimated volume at year-end of approximately € 67 bln (table 2.3).

Table 2.3 Borrowing requirement and funding in 2010, € bln

Borrowing requirement 2010	
Capital market redemptions 2010	23.3
Money Market ultimo 2009	60.0*
Cash deficit 2010	33.6
Total borrowing requirement 2010	**116.9**

Funding	
Capital market	50.0
Money market ultimate 2010	66.9
Total funding 2010	**116.9**

* Based on repayments by banks of approx. € 6 bln at the end of 2009 (see section 2.1)

Framework

The framework underlying the funding plan tries to strike a balance between continuity and necessary flexibility:
- **Continuity** – The most important aspect here is the annual issuance of new DSLs in the core 3- and 10-year segments. From 2010 onwards, the DSTA will aim at outstanding volumes of around € 15 bln for new 3 - and 10 year DSLs. An increase towards € 15 bln is made possible by the expectation that borrowing requirements will remain fairly high in the near future. An outstanding volume of this magnitude will further improve the competitive position of Dutch DSLs vis-à-vis the bonds of other leading Euro Area sovereign issuers. Another example of the DSTA's focus on continuity is its commitment to the long end of the yield curve.
- **Flexibility** – Flexibility is needed to absorb (unforeseen) changes in the budget, either windfalls or setbacks. As was clearly illustrated by developments at the end of 2008, the money market provides the first and most important buffer to absorb large budgetary setbacks. Following its traditional buffer function, budgetary windfalls occurring during the year will automatically lower the money market volume. If needed, flexibility can also be found on the capital market, for instance by foreign currency issues and by increasing tap volumes. Based on updates of the government budget during the year, the DSTA will update its funding plan accordingly.

Capital market issuance in 2010

In line with the framework outlined above, the DSTA plans to fund approximately € 50 bln on the capital market by issuing the two regular core bonds and one long-term bond in the 30-year segment. Furthermore, the outstanding amount in the current on-the-run 5-year DSL will be increased and the facility for reopening off-the-run bonds will be continued into 2010.
More specifically:

- In 2010, the 5-year 2.75% DSL 15 January 2015, first issued in July 2009, will be reopened. This will raise its outstanding volume by approx. € 5 bln, towards € 13 bln in the first half of 2010.
- A new 3-year bond will be launched in January 2010, by means of a regular tap. By subsequently reopening this bond, the outstanding volume will increase to around € 15 bln before year's end.
- A new 10-year bond will be issued in February/March, by means of a DDA. Subsequent reopening should also increase the outstanding amount of this bond to around € 15 bln before year's end. The exact timing of the DDA will be announced later.
- Later in the year - before the summer - the DSTA will launch a new 30-year DSL by means of a DDA. The DSTA hereby fulfils its commitment to the long end of the yield curve, extending liquidity beyond the present 2037 point. The aim is to raise the outstanding volume of this bond towards the benchmark volume of € 10 bln in the course of 2011.
- Based on positive experiences so far and favourable feedback from the market, the off-the-run facility will be continued into 2010. A number of off-the-run bonds will be reopened for approx. € 8 bln to € 10 bln in total, with no focus on a particular maturity segment. The selection of the specific DSLs will be done on a case-by-case basis, i.e. depending on market demand (benefiting from Primary Dealer information) and could also include liquidity enhancing measures directed at the 2023 segment.

- The DSTA is currently reviewing the possibility of issuing foreign currency debt. The focus is primarily on the possibility of issuing a US dollar denominated bond. Based on our experiences with issuing commercial paper in US dollars, a US dollar bond could be an excellent way to introduce typical dollar investors to the Dutch State, thereby broadening and diversifying the DSTA's investor base. A precondition for the DSTA to issue debt in US dollars is that a funding advantage should be realised vis-à-vis a comparable euro bond. The currency risk of a foreign currency bond will be fully hedged. If and when issued, the euro equivalent of foreign currency funding will reduce the call on the money market in 2010.

Table 2.4 DSL issuance in 2010, indicative sizes, € bln

DSL	Indicative amounts
Taps 5-year (2.75% DSL 15 Jan. 2015)	5
New 3-year DSL	15
New 10-year DSL	15
New 30-year DSL*	5-7
Off-the-run facility	8-10
Total DSL issuance	**50**
Foreign currency bond (US $)	to be determined

* to be reopened in 2011

As mentioned, two DDA's are planned for 2010: the 10-year in February/March and the 30-year before the summer. The new 3-year will be launched by means of a regular tap auction in January. As the exact timing of the DDA's have yet to be decided, this could lead to changes in the regular issuance calendar. As in 2009, the regular issuance calendar will be based on two taps per month. Besides the auctions of new DSLs on every second Tuesday of the month, in principle the fourth Tuesday of every month is reserved for the off-the-run facility. As usual, details on the off-the-run taps - the number and choice of bonds, the target amount - will be made available on the Wednesday prior to the auction date.

DTC issuance

The DTC calendar follows a recurring pattern. Each month two auctions will take place on the first and third Monday of the month. In every auction, a 3-month DTC programme will be tendered, in combination with a programme in either the 6-, 9- of 12-month segment. Additionally, following the introduction in October 2008, in 2010 the DSTA will continue with four programmes per auction as long as necessary, adding two programmes to the regular two. These extra programmes may be reopenings of existing programmes or new programmes with expiration dates at mid-month. The DSTA also retains the right to add DTC auction dates if necessary. All DTC-programmes to be auctioned will be announced on the Wednesday prior to the auction date (t-5).

DSL calendar 2010

Month of issue	Regular auction		Off-the run facility
	Auction date (2nd Tuesday)	Details	Auction date (4th Tuesday)
January	12	tap NEW 3-year	26
February	9	reopening 2.75% DSL 15 January 2015	23
February/March	DDA NEW 10-year*		
March	9	reopening new 3-year	23
April	13	tap	27
May	11	tap	25
June	8	tap	22
July	13	tap	27
August	no taps		
September	14	tap	28
October	12	tap	26
November	9	tap	23
December	14	reserve tap date	No tap

* Date for the DDA to be determined; the 30-year DDA is still to be scheduled
Announcement of all auctions is at t-6. Settlement is t+3 (Friday following the auction).

DTC calendar 2010

Date auction	Date settlement	Regular programmes		Additional programmes	
		DTC 3 month	DTC 6, 9, 12 month		
04-01-10	06-01-10	31-03-2010	31-12-2010	26-2-2010	31-5-2010
18-01-10	20-01-10	30-04-2010	30-09-2010	15-3-2010	30-6-2010
01-02-10	03-02-10	30-04-2010	30-07-2010	31-3-2010	17-5-2010
15-02-10	17-02-10	31-05-2010	31-12-2010	30-4-2010	17-5-2010
01-03-10	03-03-10	31-05-2010	31-08-2010	30-6-2010	30-7-2010
15-03-10	17-03-10	30-06-2010	30-09-2010	17-5-2010	16-8-2010
06-04-10*	08-04-10	30-06-2010	31-03-2011		
19-04-10	21-04-10	30-07-2010	31-12-2010		
03-05-10	05-05-10	30-07-2010	29-10-2010		
17-05-10	19-05-10	31-08-2010	31-03-2011		
07-06-10	09-06-10	31-08-2010	30-11-2010		
21-06-10	23-06-10	30-09-2010	31-12-2010		
05-07-10	07-07-10	30-09-2010	30-06-2011		
19-07-10	21-07-10	29-10-2010	31-03-2011		
02-08-10	04-08-10	29-10-2010	31-01-2011		
16-08-10	18-08-10	30-11-2010	30-06-2011		
06-09-10	08-09-10	30-11-2010	28-02-2011		
20-09-10	22-09-10	31-12-2010	31-03-2011		
04-10-10	06-10-10	31-12-2010	30-09-2011		
18-10-10	20-10-10	31-01-2011	30-06-2011		
01-11-10	03-11-10	31-01-2011	29-04-2011		
15-11-10	17-11-10	28-02-2011	30-09-2011		
06-12-10	08-12-10	28-02-2011	31-05-2011		
13-12-10#	15-12-10	31-03-2011	30-06-2011		

The selection of additional programmes will be announced in the quarterly issuance calendars
* Tuesday
\# Second Monday instead of the third

3

Primary and secondary markets

For 2010 the DSTA has selected 15 Primary Dealers for both DSLs and DTCs and 3 additional Single Market Specialists for DTCs. Primary Dealers and Single Market Specialists assist the DSTA in promotion, distribution and maintaining a liquid market for DSLs and DTCs. They are required to quote Dutch Government Bonds and Bills. The aim of the quotation obligation is transparency, i.e. to provide all market participants with arbitrage free reference prices. In the course of 2009, bid/offer spreads have continuously diminished, which is a clear sign of improved liquidity.

3.1

Looking back: Primary Dealers in 2009

Primary Dealers and Single Market Specialists help the DSTA to achieve the goal of maintaining a liquid market for Dutch sovereign securities. Additionally, dealers for Commercial Paper support the DSTA in accommodating short-term funding needs.

Primary dealers are selected annually for the upcoming calendar year based on a business plan they submit to the DSTA. In principle, banks interested in becoming a Single Market Specialist may also apply during the year. This open application procedure also holds for CP-dealers.

Primary Dealers promote, distribute, and contribute to the secondary market liquidity of DSLs and DTCs. DSLs are sold to the Primary Dealers through tap auctions held by the DSTA. New benchmark issuances are sold directly to end investors by means of the Dutch Direct Auction (DDA), with the Primary Dealers as intermediates. DTCs are distributed to both Primary Dealers and Single Market Specialist through regular single-price (Dutch) auctions.

Being a Primary Dealer entails both rights and obligations. Primary Dealers have the exclusive right to buy DSLs from the DSTA. Furthermore, they are entitled to the repo and strips facility. The repo facility applies to both DTCs and the majority of DSLs[1]. Before the crisis, the repo facility for DSLs only concerned bonds that had not yet reached the benchmark volume of € 10 bln. Primary Dealers are entitled to conduct swaps with the Dutch State if the ISDA Master Agreement is signed and if they meet the minimum requirements of the Credit Support Annex, which aims at mitigating credit risk for the Dutch State. For their efforts, Primary Dealers receive compensation, in the form of a non-competitive bid (non-comp), i.e. the right to buy additional bonds up to 3 days after a tap auction, at the weighted average price of the auction. Whether a Primary Dealer receives the right of non-comp depends on whether the bank has met its quotation obligation on the secondary market (see section 3.3) and on the volumes purchased in the tap auction (the amount should be at least 3% of the total). The maximum amount for the non-comp is set at 15% of the total amount allocated in the auction. In the first 10 months of 2009, the total amount issued through the non-comp facility was € 3.0 bln, equaling 7.3% of the total DSL issuance.

For every DDA, three Primary Dealers are selected to execute the role of DDA advisor. Compensation in the DDA is settled in the form of fees, which depend on the volume of DSLs that a Primary Dealer is able to place with end investors and on the type of investor (real money or others).

Full details of the mutual rights and obligations can be found in the Primary Dealer contract and conditions, available on-line at www.dsta.nl.

Ranking 2009

Primary Dealers and Single Market Specialist are periodically evaluated with respect to their primary market performance. Their performance depends on the volume of purchases in the DSL and DTC auctions. The top 5 performers in the DSL and the DTC primary markets in 2009 (up to 13 November) are ranked below.

	Top 5 Primary Dealers for DSLs based on primary issuance, January – 13 November 2009
1	ING
2	Royal Bank of Scotland
3	NATIXIS
4	Credit Suisse
5	Fortis Bank NV/SA

	Top 5 Primary Dealers and Single Market Specialist for DTCs, based on primary issuance, January - 13 November 2009
1	ING
2	Royal Bank of Scotland
3	BNP Paribas
4	Citigroup
5	HSBC France

1 Excluding the 5.5% DSL 15 January 2028.

3.2

Primary Dealers and Single Market Specialists in 2010

The DSTA is proud to present its selection of 15 Primary Dealers for 2010, two more than in 2009. The composition of the Primary Dealer group has changed as a result of consolidation within the financial sector. After the merger with Fortis Bank NV/SA, BNP Paribas will continue its Primary Dealership with the State of the Netherlands in 2010. Commerzbank continues the Dresdner Bank Primary Dealership after the merger in the beginning of 2009. In addition, we have 3 new banks in our Primary Dealer group: ABN Amro, Banco Santander and Jefferies. As usual, all Primary Dealers are appointed for a one-year term, starting on 1 January 2010.

List Primary Dealers for 2010 in alphabetical order
ABN Amro
Banco Santander
Barclays Capital
BNP Paribas
Calyon
Citigroup
Commerzbank
Credit Suisse
Deutsche Bank
HSBC France
ING
Jefferies
NATIXIS
Royal Bank of Scotland
Société Générale

Additional to the group of Primary Dealers, also a number of Single Market Specialists are selected. Just like the Primary Dealers, the Single Markets Specialists have the right to participate in the DTC auctions and have market making obligations in the secondary DTC market. The list for 2010 is the same as in 2009. Adding the 15 Primary Dealers, the promotion and distribution of DTCs is adequately safeguarded.

List Single Market Specialists for 2010 in alphabetical order
Goldman Sachs
JP Morgan Chase
Rabobank

List Commercial Paper dealers in alphabetical order
Barclays Capital
Citigroup
Credit Suisse
Deutsche Bank
ING
Rabobank

Commercial Paper dealers

The Commercial Paper program, introduced in 2007, allows the DSTA to issue shorter-dated securities for satisfying its short-term funding need in a flexible and cost efficient way, without interfering with the T-bill program. The possibility of offering so-called broken dates instead of fixed expiration dates combined with the possibility to issue in different currencies has proven to be successful in attracting investors. Currently, the DSTA issues Commercial Paper in US dollars, British pounds, Euro, and Swiss francs, with the majority done in US dollars (see section 2.1). The Commercial Paper program has played a substantial role in fulfilling the increased funding need. Issuance of Commercial Paper takes place via a panel of designated dealers, which are responsible for distributing the securities to the end investors. In contrast to DSLs and DTCs, Commercial Paper is not issued by means of auctions at pre-determined dates. Instead, the market is entered on a day-by-day basis. Indicative prices and maturities can be found on the pages of the DSTA on Bloomberg and Reuters. In September 2009, the appointment of Rabobank as Commercial Paper dealer raised the number of Commercial Paper dealers to six.

3.3 Secondary market quotation obligations

One of the obligations of the DSTA's market makers is to provide al market participants with price transparency through arbitrage free reference prices.

After the introduction of multiplatform quotation for DSLs in 2008, the DSTA successfully introduced dealer-to-dealer multiplatform quotation for DTCs in April 2009. Primary Dealers and Single Market Specialist select a platform of their choice on which to fulfill their quotation obligation, provided that the platform meets certain criteria. Allowing the quotation obligations to be fulfilled on more than one platform promotes competition and creates one virtual arbitrage free marketplace.

The quotation obligations for DSLs and DTCs are identical in set up. DSLs and DTCs have to be quoted within a set of given bid/offer spreads for at least five hours per day. The maximum spreads that apply depend on the remaining maturity of the bonds, as can be seen from table 3.1.

Table 3.1 Quotation obligation when normal circumstances apply

	Maximum b /o spread	Minimum quantity
DTCS	4 ticks#	€ 10 million
DSLS 1¼ years to 3½ years*	4 ticks	€ 10 million
DSLS 3½ years to 6½ years	5 ticks	€ 10 million
DSLS 6½ years to 13½ years	7 ticks	€ 10 million
DSLS 13½ years to 17½ years	12 ticks	€ 5 million
DSLS over 17½ years	20 ticks	€ 5 million

\# 1 tick is 1 euro cent per € 100
* remaining maturity

When the DSTA's market makers are not able to quote within the maximum bid/offer spread – such a situation used to be called 'exceptional' circumstances – this system is replaced by one based on peer review. Under this system, Primary Dealers and Single Market Specialists are obligated to quote DSLs and DTCs within one standard deviation of the average spread quoted. Which system applies can differ from bond to bond, depending on the accomplishments of the market makers. Since the start of the financial crisis, most DSLs fall under the system of peer review. When spreads are tightening, market makers will judged on the basis of the fixed maximum spreads – as listed in the table above – when more than half of them quote within these given spreads. Full details on the quotation rights can be found in the conditions for Primary Dealers and Single Market Specialists, available on-line at www.dsta.nl.

As explained in the previous paragraph, fulfilling the quotation obligation is a necessary condition for Primary Dealers to obtain the non-comp bid rights following a DSL auction.

A Primary Dealer fulfils his quotation obligation if, on a monthly basis, he reaches an average daily score of at least 90% for each whole calendar month from and including the month of the previous DSL auction up to and including the month previous to the DSL auction concerned. Under the current policy of having two DSL auctions per month (on the second and fourth Tuesday), the quotation requirement for the non-comp is fulfilled if the Primary dealer has reached an average daily score of at least 90% in the month previous to the auction concerned. The specific score of a Primary Dealer depends on 3 variables: the number of DSLs quoted, the tightness of the b/o spread and the number of hours during which the bonds are quoted. The DSTA reports back to Primary Dealers on a daily basis on their quotation performance.

Impact on the market

During 2009, most DSLs were quoted under the system of peer review. Currently, only the three DSLs with the shortest remaining maturity are quoted within the fixed bid/offer spread (of 4 ticks)[2]. Figure 3.1 clearly illustrates two things; first that bid offer spreads for DSLs have been falling gradually over the last 6 months. And secondly, that bid/offer spreads are positively correlated with the remaining maturity of DSLs, as can be expected.
Regardless of the maturity, for DTCs the maximum bid/offer spread under the quotation

Figure 3.1 Average bid/offer spreads* DSLs, January-October 2009

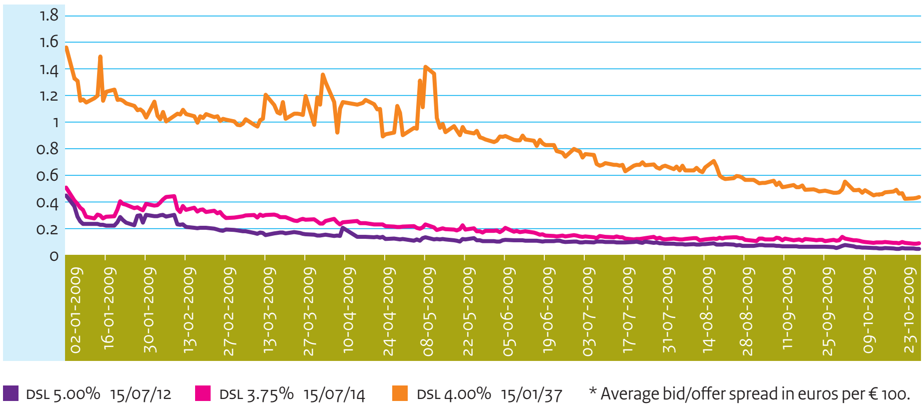
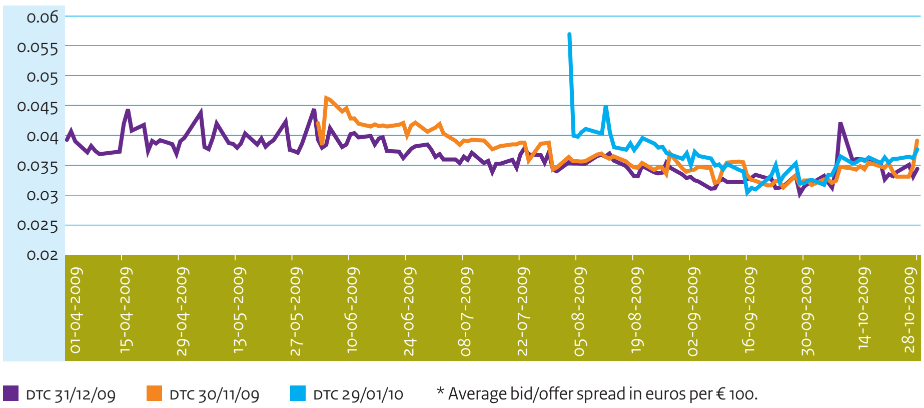


Figure 3.2 Average bid/offer spreads* DTCs, April-October 2009



obligation is 4 ticks (see table 3.1). By their very nature DTCs have a relatively short remaining maturity. Combined with the inverse relation between bid/offer spreads and remaining maturity, it is not surprising that only with a few short-lived deviations market makers have been able to quote all DTCs within the maximum bid/offer spread since the introduction of the DTC multiplatform environment (see figure 3.2). The gradual reduction of the DTC bid/offer spreads is in line with the earlier observation with regards to DSLs.
Even under challenging market circumstances market makers have continuously been able to

2 The 5% DSL 15 July 2011, 2.5% DSL 15 January 2012, and 5% DSL 15 July 2012.

quote DSLs and DTCs on different platforms at the same time. The system underlying the quotation obligation ensures competition between market makers, securing liquidity and the availability of arbitrage free prices at all times. The DSTA is committed to further improve the multiplatform system by maintaining a continuous dialogue with both traders and platforms; and by ensuring that information on prices quoted is available to the public.

3.4 Credit Guarantee Scheme for bank debt

In October 2008, the State of the Netherlands introduced its Credit Guarantee Scheme of € 200 billion. It is one of the government's measures to ensure the stability of the financial system. It was introduced alongside 24 other countries within the European Union that introduced similar measures. By providing guarantees for bank debt, the scheme tries to address liquidity problems of financial institutions reflecting imperfections in the capital market for short- to medium-term financing. The DSTA is responsible for the execution of the scheme. Since its inception in October 2008, over € 48 billion of guaranteed loans has been issued. Of this, € 1.3 billion has already matured. The table below provides for an overview of the guaranteed loans per maturity bucket. All guarantees assigned and all guaranteed loans issued are available at www.dsta.nl. Our website provides investors with clear and transparent information regarding the specific guarantees and the conditions that apply.

Table 3.2 Guarantees assigned and loans issued under the Guarantee Scheme
(up to end of October 2009), € bln

Original maturity	Assigned guarantees	Issued guaranteed loans
Up to 1 year	9.5	9.4
Between 1 and 2 years	3.6	3.5
3 years	18.2	18.2
4 years	-	-
5 years	18.8	17.0
Total	**50.1**	**48.1**

How does it work?

All financial banks with a Dutch banking licence that wish to issue a guaranteed loan, may apply for a guarantee at the DSTA. A guarantee will only be assigned in case an applying bank fulfils the solvability and liquidity criteria and all further procedural prescriptions. These include (among other things) corporate governance conditions and an assessment of the banks role in the economy and the stability of the financial system. By assigning a guarantee, the State unconditionally and irrevocably guarantees to each investor payment of all amounts – both in principle and interest – on the basis of the guaranteed loan.

The Scheme targets non-complex senior unsecured loans, in the form of 'plain vanilla' commercial paper, certificates of deposit and medium term notes, with maturities ranging from 3 to 60 months. Based on a single guarantee, different guaranteed loans may be issued up to the guaranteed amount as stated in the particular guarantee certificate. The amount of fees to be paid for the use of the Scheme depends on the maturity of the issued guaranteed loans and on the historical credit default swap spreads of the bank involved. Issues can be denominated in euros, British pounds, or US dollars. Subject to approval of the Scheme by the European Commission, the Dutch authorities have committed to allocate a maximum of one-third of the Guarantee Scheme's total budget of € 200 billion (i.e. € 66.6 billion) to debt instruments with a maturity of more than 3 years. A total of € 35.3 billion has already been issued in this maturity range. Within this maturity range, a maximum of € 22.2 billion can be allocated to a single bank.

In November 2009, the Dutch State introduced the Export Credit Guarantee Scheme alongside the Credit Guarantee Scheme that has already been in place since October 2008. The Export Credit Guarantee Scheme has been implemented to address liquidity problems of financial institutions caused by imperfections of the capital market for export financing. The Scheme applications can also be filed until 31 December 2009, possible to be extended to 30 June 2010 (in line with the Credit Guarantee Scheme).

Since the 1920's the Export Credit Insurance Scheme targets non-marketable export loans and offers insurance for these loans. All financial institutions that are insured under the Export Credit Insurance Scheme may apply to replace the insurance by a guarantee under the Export Credit Guarantee Scheme. A guarantee will only be assigned in case an applying institution has a sufficient ability and willingness to comply with the terms of the Export Credit Insurance Scheme and has a sufficient creditworthiness (for details, see www.minfin.nl).

The results

The scheme has been an important tool for the Dutch financial sector to secure access to debt capital markets. In the first half of 2009, more than € 45 billion of guaranteed loans were issued. As issuance activity on long-term debt markets picked up during the summer, the share of guaranteed debt in total debt issuance has declined. Although self-sufficiency has significantly improved, the recovery of financial markets has been fragile and uncertainty remains high. Taking this into consideration, the DSTA decided to apply for extension of the scheme to 30 June 2010 with the European Commission (at the cut-off date of this Outlook no decision had been made by the European Commission).

Nevertheless, the DSTA is convinced of the need to develop a phasing-out strategy. Banks should be encouraged to reduce their reliance on the scheme, by creating additional incentives to return to private capital markets as soon as possible. In this respect, it is important to strike a balance between the need to support the financial system, on the one hand, and the aim to limit state aid and to ensure adequate incentives for exit, on the other hand.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Casuariestraat

Statistical information

1 Interest costs of Central Government debt

The cut-off date for data in the Statistical Appendix is 13 November 2009 (unless otherwise specified)

In millions of euros

	2008	2009	2010
Interest paid			
Interest cost on fixed debt	8,338	9,001	9,655
Interest cost on floating debt	1,740	1,918	1,455
Total interest cost	**10,078**	**10,919**	**11,110**
Interest received			
Received interest on fixed debt (net interest received on EURIBOR swaps)	106	0	0
Received interest on floating debt*	701	679	216
Total interest received	**807**	**679**	**216**
Net interest cost	**9,271**	**10,240**	**10,894**
Net interest cost, in % GDP	1.6%	1.8%	1.9%

* Including interest on the central bank account and, in 2008 and 2009, the received interest on the loans to Fortis Bank Netherlands.
Interest costs in 2008 are realised costs.
The results for 2009 are preliminary and based on the Budget Memorandum 2010 (September 2009).
Projections for 2010 are also based on the Budget Memorandum 2010.

2 Changes in long-term debt in 2009

In thousands of euros

Position as at 31 December 2008		**209,952,060**
New issues in 2009		
Public bonds	47,461,338	
Private placements	1,061	
	add	47,462,399
Redemptions in 2009		
Regular redemptions		
Public bonds	34,795,430	
Private placements	32,794	
Early redemptions		
Public bonds	11,980	
Private placements		
	less	34,840,204
Position as at 13 November 2009		**222,574,255**

3 Key figures of individual bonds in 2009

In thousands of euros

Movements of public bonds in 2009	Total 31-12-2008	Issues	Redemptions	Total 13-11-2009	ISIN-code
2.75 pct DSL 2003 due 15 January 2009	10,556,430		10,556,430	0	NL0000102101
2.75 pct DSL 2006 due 15 April 2009	11,346,000		11,346,000	0	NL0000101707
3.75 pct DSL 1999 due 15 July 2009	12,893,000		12,893,000	0	NL0000102416
3.00 pct DSL 2004 due 15 January 2010	12,121,486			12,121,486	NL0000102309
7.50 pct DSL 1995 due 15 April 2010	527,051		11,900	515,151	NL0000102192
5.50 pct DSL 2000 due 15 July 2010	10,227,366	450,000		10,677,366	NL0000102580
4.00 pct DSL 2008 due 15 January 2011	13,010,000	846,000		13,856,000	NL0006173015
5.00 pct DSL 2001 due 15 July 2011	12,455,000	1,621,000		14,076,000	NL0000102606
2.50 pct DSL 2009 due 15 January 2012		13,609,000		13,609,000	NL0009041359
5.00 pct DSL 2002 due 15 July 2012	12,427,000	1,137,000		13,564,000	NL0000102671
4.25 pct DSL 2003 due 15 July 2013	13,911,000	1,072,000		14,983,000	NL0000102689
3.75 pct DSL 2004 due 15 July 2014	12,353,846	1,556,000		13,909,846	NL0000102325
2.75 pct DSL 2009 due 15 January 2015		8,038,940		8,038,940	NL0009213651
3.25 pct DSL 2005 due 15 July 2015	10,785,765	1,300,000		12,085,765	NL0000102242
4.00 pct DSL 2006 due 15 July 2016	10,045,467	2,027,000		12,072,467	NL0000102283
4.50 pct DSL 2007 due 15 July 2017	12,154,990			12,154,990	NL0006007239
4.00 pct DSL 2008 due 15 July 2018	10,667,020	1,498,000		12,165,020	NL0006227316
4.00 pct DSL 2009 due 15 July 2019		13,006,398		13,006,398	NL0009086115
3.75 pct DSL 2006 due 15 January 2023*	7,084,810	678,700		7,763,510	NL0000102275
7.50 pct DSL 1993 due 15 January 2023*	4,994,679		678,700	4,315,979	NL0000102077
5.50 pct DSL 1998 due 15 January 2028	8,886,814	1,300,000		10,186,814	NL0000102317
4.00 pct DSL 2005 due 15 January 2037	12,043,427			12,043,427	NL0000102234
2 1/2 pct Inscription register	20,471			20,471	NL0000006286
3 1/2 pct Inscription register	364			364	NL0000002707
3 pct Inscription register	7,873		80	7,793	NL0000004802
	198,519,858	**47,461,338**	**34,807,410**	**211,173,787**	

* The issues and redemptions mentioned are the result of the conversion of the 7.5% to the 3.75% bond. These are not included in the totals

4 Annual interest payments and repayments of principal, 2009-2037

In millions of euros, according to the long-term debt position as at 13-11-2009

	Interest payments	Redemptions
16-11 to 31-12-2009	36	5
2010	8,819	26,346
2011	7,935	28,093
2012	6,665	31,499
2013	5,621	15,140
2014	4,972	13,948
2015	4,448	20,167
2016	3,830	12,122
2017	3,345	15,444
2018	2,775	12,222
2019	2,284	13,064
2020	1,759	52
2021	1,755	38
2022	1,754	71
2023	1,748	12,086
2024	1,044	0
2025	1,044	29
2026	1,044	0
2027	1,044	2
2028	1,043	10,187
2029	483	0
2030	483	0
2031	483	0
2032	483	16
2033	482	0
2034	482	0
2035	482	0
2036	482	0
2037	482	12,043

5 Interest rate swaps

Position as at 13 November 2009, in millions of euros

Bucket (year of maturity)	Net nominal amount	Pay or receive* (net)
2009	1,015	receive
2010	12,829	pay
2011	7,847	pay
2012	8,641	pay
2013	20,799	pay
2014	22,192	pay
2015	15,948	pay
2016	21,477	pay
2017	12,445	receive
2018	12,222	receive
2019	13,064	receive
2020	53	receive
2021	3,281	receive
2022	6,571	receive
2023	350	receive
2026	1,610	receive
2027	8,350	receive
2028	1,750	receive
2032	16	receive
2035	6,010	receive
2036	1,825	receive
2037	4,445	receive
2055	33	receive
Net total	**36,693**	**pay**

* Receiver swaps are swap contracts in which the Dutch State receives a long-term fixed interest rate and pays a short-term floating interest rate. Payer swaps are swap contracts in which the Dutch State pays a long-term fixed interest rate and receives a short-term floating interest rate.

6 Results of the benchmark for State debt

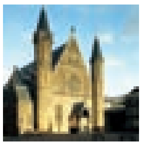
Performance in terms of cost (total result) compared to the benchmark*

	2008 in € mln	
Capital market		**123**
Result 3-year issuance and swaps	153	
Result 10-year issuance and swaps	52	
Other capital market issuance	-82	
Money market		**74**
Total result (excluding treasury activities FBN)		**197**
Treasury activities FBN		**-878**
Result FRN (borrowing)	-687	
Result lending to FBN (short + long)	-191	
Total result (including treasury activities FBN)		**- 681**

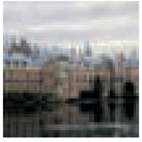
* For more details see Quarterly outlook 3, June 2009

Photo locations

1 Ministry of Finance/DSTA
Korte Voorhout 7
(page 34)



2 Binnenhof/Ridderzaal
(page 23)



3 Hofvijver
(page 16)

4 Lange Vijverberg
(back cover)

5 Lange Voorhout
(page 2)

6 Paleis Noordeinde
Noordeinde 68
(page 33)

7 Plein 1318
(page 10)

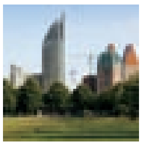
8 Vredespaleis *(Peace Palace)*
Carnegieplein 2
(page 15)

9 Beelden aan Zee
Harteveltstraat 1,
Scheveningen
(page 6)

10 Paviljoen De Witte
Pellenaerstraat 4,
Scheveningen
(page 46)

11 Kurhaus
Gevers Deynootplein 30,
Scheveningen
(page 44)

12 De Pier
Strandweg,
Scheveningen
(front cover)



13 Malieveld/Hoftoren
(page 26)

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meter
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The cut-off date for data in the Outlook 2009 is
13 November 2009 (unless otherwise specified)

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Highlights of the DSTA Outlook 2010

- **Targeted capital market funding in 2010: € 50 bln.**
- **Expected money market volume at year end 2010: € 67 bln.**
- **During the year, the borrowing requirement will be updated regularly.**
- DSLs: **new 3-year, new 10-year, and new 30-year.**
- **On-the-run 5-year DSL: two reopenings in 2010.**
- **Preparations in progress for a possible US dollar bond issue in 2010.**
- In January 2010: **launch of the new 3 year DSL through tap.**
- **Dutch Direct Auction (DDA) for new 10-year DSL in February/March 2010.**
- Before the summer: **DDA for the new 30-year.**
- **Continued into 2010: reopening facility for off-the-run DSLs.**
- DSL auctions: **on average twice a month, on the 2nd Tuesday (regular auction) and on the 4th Tuesday (for off-the-runs).**
- DTC auctions: **first and third Monday every month, four programmes per auction.**
- **Quarterly issuance calendars in March, June and September.**
- **Commercial Paper in Euros, US dollars, British pounds and Swiss francs, for maturities up to 1 year.**
- **A strong group of 15 PDs and 3 SMSs guarantees liquidity and price transparency of DSLs and DTCs.**

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DSL calendar 2010

Month of issue	Regular auction		Off-the run facility
	Auction date (2nd Tuesday)	Details	Auction date (4th Tuesday)
January	12	tap NEW 3-year	26
February	9	reopening 2.75% DSL 15 January 2015	23
February/March	DDA NEW 10-year*		
March	9	reopening new 3-year	23
April	13	tap	27
May	11	tap	25
June	8	tap	22
July	13	tap	27
August	no taps		
September	14	tap	28
October	12	tap	26
November	9	tap	23
December	14	reserve tap date	No tap

* Date for the DDA to be determined; the 30-year DDA is still to be scheduled
Announcement of all auctions is at t-6. Settlement is t+3 (Friday following the auction).

DTC calendar 2010

Date auction	Date settlement	Regular programmes		Additional programmes	
		DTC 3 month	DTC 6, 9, 12 month		
04-01-10	06-01-10	31-03-2010	31-12-2010	26-2-2010	31-5-2010
18-01-10	20-01-10	30-04-2010	30-09-2010	15-3-2010	30-6-2010
01-02-10	03-02-10	30-04-2010	30-07-2010	31-3-2010	17-5-2010
15-02-10	17-02-10	31-05-2010	31-12-2010	30-4-2010	17-5-2010
01-03-10	03-03-10	31-05-2010	31-08-2010	30-6-2010	30-7-2010
15-03-10	17-03-10	30-06-2010	30-09-2010	17-5-2010	16-8-2010
06-04-10*	08-04-10	30-06-2010	31-03-2011		
19-04-10	21-04-10	30-07-2010	31-12-2010		
03-05-10	05-05-10	30-07-2010	29-10-2010		
17-05-10	19-05-10	31-08-2010	31-03-2011		
07-06-10	09-06-10	31-08-2010	30-11-2010		
21-06-10	23-06-10	30-09-2010	31-12-2010		
05-07-10	07-07-10	30-09-2010	30-06-2011		
19-07-10	21-07-10	29-10-2010	31-03-2011		
02-08-10	04-08-10	29-10-2010	31-01-2011		
16-08-10	18-08-10	30-11-2010	30-06-2011		
06-09-10	08-09-10	30-11-2010	28-02-2011		
20-09-10	22-09-10	31-12-2010	31-03-2011		
04-10-10	06-10-10	31-12-2010	30-09-2011		
18-10-10	20-10-10	31-01-2011	30-06-2011		
01-11-10	03-11-10	31-01-2011	29-04-2011		
15-11-10	17-11-10	28-02-2011	30-09-2011		
06-12-10	08-12-10	28-02-2011	31-05-2011		
13-12-10#	15-12-10	31-03-2011	30-06-2011		

The selection of additional programmes will be announced in the quarterly issuance calendars
* Tuesday
# Second Monday instead of the third

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