DDA SPECIAL

Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

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This special edition of the DSTA's Quarterly Outlook is timed to coincide with the promotion of the new 5-year benchmark bond of the State of the Netherlands. The bond will be launched on 25 June 2013 using the Dutch Direct Auction (DDA) method. This Quarterly Outlook also provides an update of the DSTA's funding need, and presents the issuance calendar for the third quarter of 2013.

DDA on 25 June 2013

The DSTA will launch its new 5-year benchmark bond, the DSL 15 Jan 2019, on Tuesday 25 June. The target size is at least € 5 bln. The DSTA has appointed ABN Amro, Commerzbank and Nomura as its advisors for this DDA. The coupon and the spread guidance will be announced in the week prior to the auction. The table below shows the key information and timeline pertaining to the upcoming DDA.

Key elements and time schedule DDA	
Bond	DSL 15 January 2019
Issuer	State of the Netherlands
Issuer rating	AAA/AAA/Aaa
Target size	at least € 5 billion
Reference bond	DBR 3.75% 4 January 2019
Coupon	To be announced on 21 June
Initial spread guidance	To be announced on 24 June
Books open	Tuesday 25 June, 10:00 CET
Final spread guidance	Tuesday 25 June at the latest at 15:00 CET
Allocation	as soon as possible after closing of the book, no later than 9:00 CET on 26 June
Pricing	at least 1 hour after allocation, no later than 12:00 CET on 26 June
Settlement	Friday 28 June

How does the DDA work?

The DSTA uses the Dutch Direct Auction (DDA) for the launch of most of its benchmark bonds. The DDA was developed in-house by the DSTA to offer investors interested in high quality, liquid bonds a clear and transparent auction technique that prioritises end-investors.

The DDA is rules-based, with the DSTA as the single book runner. To guide investors in their bidding, an initial spread guidance vis-à-vis the reference bond – the DBR 3.75% 4 January 2019 – is communicated on the day preceding the DDA. The DSTA may adjust the spread guidance during the auction to reflect changes in the market. Investors can submit their bids through one or more Primary Dealers of their choice.

List of Primary Dealers for 2013, in alphabetical order	
ABN Amro Bank	Jefferies
Barclays Capital	NATIXIS
Citigroup	Nomura
Commerzbank	Rabobank
Deutsche Bank	Royal Bank of Canada
Goldman Sachs	Royal Bank of Scotland
HSBC France	Santander GB&M
ING Bank	Société Générale

Bids are placed against a spread vis-à-vis the reference bond or 'at best'. By bidding 'at best', an investor indicates that he wants to obtain the DSL at the cut-off spread. This cut-off spread and the allocation is determined by the DSTA after closure of the book, according to clear and predetermined rules.
The DSTA distinguishes between two types of investors: 'real money' (buy-and-hold) accounts and 'other' (trading) accounts. At the cut-off spread, 'real money' accounts have priority in allocation vis-à-vis 'other' accounts. In this way, the DSTA ensures a diverse investor base, safeguarding an adequate balance between tradability and buy-and-hold.

Real money accounts	Other accounts
Asset and Fund Managers	Banks & Trusts
Central Banks/Agencies/ Supranationals	Hedge Funds
Insurance Companies	Other Trading Desks
Pension Funds	
Private Banks	

The final step in de auction process is the translation of the cut-off spread to a uniform price. Pricing is no later than 12:00 CET on 26 June, but preferably on the auction day itself.

As the single book runner, only the DSTA has insight in the book building process. Investor information is classified as confidential and is treated with the utmost discretion. After the auction, the DSTA will publish the auction results through a press release with aggregated statistical information on the geographical location of investors and the type of investors that have participated in the DDA. A comprehensive explanation of the DDA rules and the general DDA principles can be found on the DSTA website.

Funding and Issuance

Update: Funding and Issuance 2013

The DSTA's funding plan for 2013 was presented in the DSTA's Outlook for 2013. Following the Finance Ministry's publication of its Spring Memorandum on 25 May 2013, the total external borrowing requirement for 2013 has been updated. As a result of an increase in the anticipated cash deficit in the budget from € 15.2 billion to € 20 billion, the total external borrowing requirement now amounts to approximately € 96 bln, as shown in the table below:

Borrowing requirement 2013 (€ bln)	Update	Previous
Capital market redemptions 2013	28.7	28.7
Money market ultimo 2012*	53.2	53.2
Cash deficit 2013	20.0	15.2
Total borrowing requirement	**101.9**	**97.1**
Expected inflow from local governments	6.0	6.0
Total external borrowing requirement	**95.9**	**91.1**

* incl. cash collateral

The increased funding need will be absorbed by stepping up the call on the money market, which serves as a buffer to absorb adjustments to the financing need over the course of the year. The level of capital market funding remains fixed at approximately € 50 bln.

Funding in 2013 (€ bln)	Update	Previous
Capital market funding	50.0	50.0
Money market funding*	45.9	41.1
Total funding	**95.9**	**91.1**

* incl. cash collateral

The next update of the external borrowing requirement will be provided following the publication of the Finance Ministry's Budget Memorandum on 17 September.

As of 15 June, a total of € 30 billion has been issued on the capital market, representing approximately 60% of the total capital market funding for 2013. DSLs are promoted and distributed through the DSTA's network of sixteen Primary Dealers. The best performing Primary Dealers for DSLs this year, based on primary issuance, are listed below:

Top 5 Primary Dealers for DSLs (2013, up to mid-June)
1 ABN Amro Bank
2 Commerzbank
3 Rabobank
4 HSBC France
5 ING Bank

Together with the Primary Dealers, five Single Market Specialists promote and distribute Dutch Treasury Certificates (DTCs). Out of this group of 21 banks, the top performers for primary issuance of DTCs are:

Top 5 Primary Dealers and Single Market Specialists for DTCs (2013, up to mid-June)
1 ING Bank
2 Commerzbank
3 Deutsche Bank
4 Nomura
5 Banco Santander

Issuance calendar Q3

The DSTA will hold auctions on four dates in the third quarter of 2013. Tap auctions will take place on the second and fourth Tuesday of July and September. August is traditionally an auction-free month for the DSTA. The 10-year benchmark bond that was launched in March 2013 will be reopened on 9 July and 10 September, while the 3-year benchmark bond will be tapped on 24 September. On 23 July two off-the-run bonds will be auctioned: the DSL 3.25% 15 July 2021 and the 3.75% DSL 15 January 2042.

Auction date	DSL	Target amount
9 July	DSL 1.75% 15 July 2023	€ 1.5 - 2.5 bln
23 July	Off-the-run facility DSL 3.25% 15 July 2021 & DSL 3.75% 15 January 2042	A total of € 1.5 - 2.5 bln
10 September	DSL 1.75% 15 July 2023	€ 2 - 3 bln
24 September	DSL 0% 15 April 2016	€ 2 - 3 bln

Economic Outlook

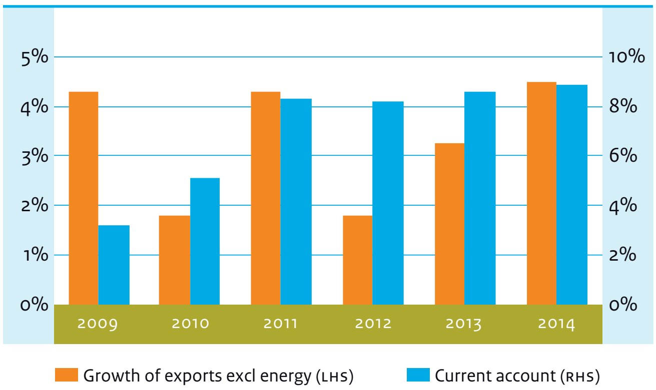
Economic Outlook (June 2013)

The Dutch economy has continued to struggle in the first half of 2013. Gross Domestic Product (GDP) contracted by 0.1% in the first quarter of 2013, and is expected to decline by 1% in 2013 overall. The independent Bureau of Economic Policy Analysis (CPB) expects positive economic growth to return gradually in the second half of 2013, culminating in a positive growth rate of 1% in 2014.

Even though the economic contraction in 2013 can be partly ascribed to the negative carry-over from the final quarter in 2012, lower domestic demand is also weighing on GDP growth. Both the public and private sector are in a process of balance sheet repair, which is holding back domestic spending and investment. The decrease in private household spending is largely driven by wealth effects stemming from the ongoing correction of the Dutch housing market, lower wage growth, tax increases and an uptick in the unemployment rate. Corporate investments also remain subdued as a result of ample spare capacity. Additionally, due to the ongoing fiscal consolidation, government spending is not adding to GDP growth. In this respect, the government has decided not to take additional consolidation measures in 2013. Indeed, the European Commission recently took a decision to extend the Netherlands' deadline for meeting the 3% deficit target by one year, to 2014.

Throughout the economic downturn external demand has remained solid. Despite relatively weak growth in the main export market, the Euro Area, demand from emerging markets will contribute to a rise in exports by a projected 3.25% in 2013. The consistent growth in Dutch exports over the past few years, during a period of soft global economic growth, reflects the high degree of competitiveness of the Dutch export sector. Additionally, a further revival of global economic activity going forward should allow the open Dutch economy to benefit in its slipstream.

Figure 1: Annual growth of exports and annual current account balance 2009-2014 (% of GDP)



Source: CPB, European Commission

The unemployment rate is expected to reach 6.75% in 2013. Although this figure remains far below the Euro Area average of 12.2%, the Dutch unemployment rate has steadily increased since 2009. With respect to CPI inflation, the relatively high current year-on-year projection for 2013 of 2.5% is largely explained by tax hikes. Inflation is projected to decrease to 1.75% in 2014, which should provide a small positive impulse for consumer purchasing power.

As previously described, the slowdown in consumer spending is reinforced by the ongoing correction in housing prices which began in 2008. While the government seeks to support the housing and construction market during this downturn, in the longer run structural reforms are being implemented in order to incentivize households to decrease their leverage, and to restore the stability in the housing market. Furthermore, the implementation of structural reforms is not limited to the housing market. In the past few years the government has implemented a series of structural reforms in the health care sector and labour market as part of a far-reaching reform agenda. The pensionable age has been raised to 67 and indexed to life expectancy. These reforms are needed to keep the long-term trajectory of public finances sustainable, and to improve the economy's potential growth. The measures, combined with the fundamentally competitive Dutch export sector, contribute to a more positive long term outlook for the Dutch economy.

Budgetary Outlook

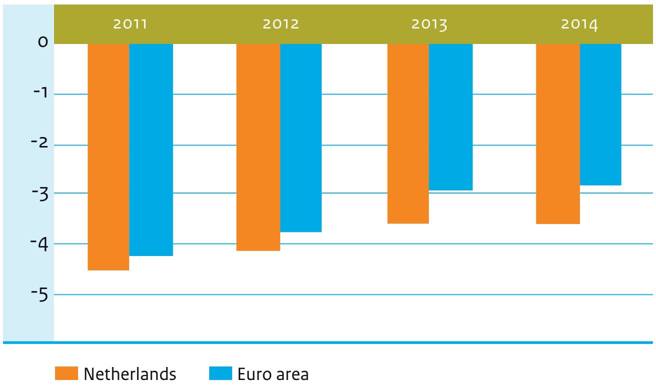
On 14 June, the CPB published new forecasts for the general government deficit in 2013 and 2014. These are broadly in line with the European Commission's Spring Forecast. The CPB now expects an EMU-deficit of 3.5% GDP in 2013 (EC: 3.6%) and 3.7% GDP in 2014 (EC: 3.6%). Although this deficit is slightly higher than previously expected, it still implies an improvement of the budget balance by 0.6% relative to 2012, despite the economic contraction in 2013.

In May, the government sent the so-called Spring Memorandum to parliament. The Spring Memorandum is the first of the two annual updates of the budget prepared by the Finance Ministry, the second one being in November. In comparison to the Budget for 2013 as presented in September 2012, and in line with more negative economic developments since then, the Spring Memorandum forecasts lower tax and social security receipts for 2013, with total expected government income down by € 8 billion. Almost every form of revenues is expected to be affected by the negative economic developments: slower profit growth leads to lower corporate tax revenues, lower employment and wage growth translate into lower income taxes. VAT revenues are down because expected consumer spending has been revised downward. Nevertheless, the government has been successful in implementing the expenditure controls that have been agreed upon. While expenditures on social security have been revised upward, reflecting higher outlays on unemployment benefits, several other budgetary expenses were revised downward. Hence, total expenditures remain below the budgetary ceiling that the government has committed itself to.

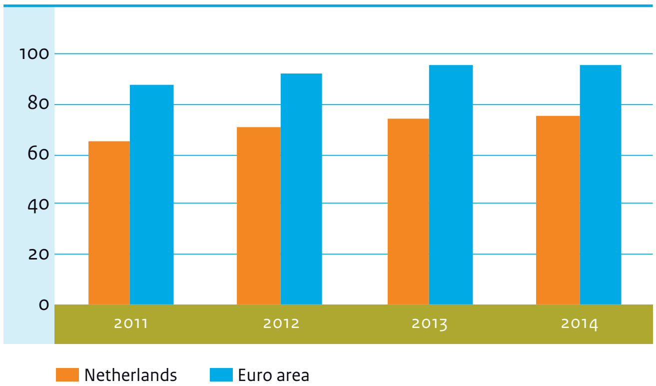
Following the publication of the Spring Memorandum, the CPB has released new projections on 14 June. Generally speaking, the economic outlook has deteriorated slightly, which will confirm the negative budgetary developments sketched above. The recent forecasts by the CPB indeed show an expected EMU deficit for 2013 of 3.5% of GDP, an upward revision of 0.2 percentage points vis-à-vis the previous projection in February. The increase is mainly due to higher expenditures on unemployment benefits. Although the CPB expects the economy to return to growth in 2014, unemployment and unemployment benefits react with a delay and will continue to rise in 2014. The forecast for the EMU-debt at the end of 2013 was revised upward by 0.6 percentage points to 74.6% GDP, as a result of both the lower GDP growth and the increase in the projected EMU-deficit for 2013.

At the end of May, the European Commission proposed to give the Netherlands a one-year extension of the deadline to correct its excessive deficit. This means that the excessive deficit should be terminated in 2014 instead of 2013. During his recent visit to the Netherlands, European Commissioner for Economic and Monetary Affairs Olli Rehn said this would require an additional € 6 billion in budgetary consolidation measures.

EMU balance, % of GDP



Gross debt, % of GDP



Source: European Commission, Spring Forecast

The government has repeatedly expressed that it is committed to fiscal consolidation in line with the European rules. In response to the forecasts by the CPB and the European Commission, the two coalition parties have already stated they will adopt measures leading to an additional € 6 billion of budgetary consolidation in 2014. The government will include the exact measures to be taken in the 2014 Budget which the government will send to parliament in September. These measures are not included in the CPB deficit projections for 2014.

Outstanding debt

DSL position per ultimo May 2013

Isin code	DSL	Volume in issue
NL0000102689	4.25 pct DSL 2003 due 15 July 2013	15,983,000,000
NL0009690593	1.00 pct DSL 2011 due 15 January 2014	15,679,000,000
NL0000102325	3.75 pct DSL 2004 due 15 July 2014	16,348,846,000
NL0009213651	2.75 pct DSL 2009 due 15 January 2015	15,488,940,000
NL0010055703	0.75 pct DSL 2012 due 15 April 2015	15,005,000,000
NL0000102242	3.25 pct DSL 2005 due 15 July 2015	15,109,765,000
XS0749484217	0.25 pct DSL USD 2012 due 12 September 2015	2,792,722,413
NL0010364139	0.00 pct DSL 2013 due 15 April 2016	7,201,000,000
NL0000102283	4.00 pct DSL 2006 due 15 July 2016	13,311,467,000
NL0009819671	2.50 pct DSL 2011 due 15 January 2017	15,638,920,000
XS0827695361	1.00 pct DSL USD 2012 due 24 February 2017	2,511,619,113
NL0006007239	4.50 pct DSL 2007 due 15 July 2017	14,654,990,000
NL0010200606	1.25 pct DSL 2012 due 15 January 2018	15,472,425,000
NL0006227316	4.00 pct DSL 2008 due 15 July 2018	15,081,020,000
NL0009086115	4.00 pct DSL 2009 due 15 July 2019	14,056,398,000
NL0009348242	3.50 pct DSL 2010 due 15 July 2020	15,069,615,000
NL0009712470	3.25 pct DSL 2011 due 15 July 2021	15,493,985,000
NL0010060257	2.25 pct DSL 2012 due 15 July 2022	15,252,147,000
NL0000102275	3.75 pct DSL 2006 due 15 January 2023	10,731,450,000
NL0000102077	7.50 pct DSL 1993 due 15 January 2023	3,338,038.737
NL0010418810	1.75 pct DSL 2013 due 15 July 2023	8,839,963,000
NL0000102317	5.50 pct DSL 1998 due 15 January 2028	13,028,814,230
NL0010071189	2.50 pct DSL 2012 due 15 January 2033	10,048,900,000
NL0000102234	4.00 pct DSL 2005 due 15 January 2037	13,187,427,000
NL0009446418	3.75 pct DSL 2010 due 15 January 2042	13,635.910,000
	Inscription registers	22,994,640
	Private placements	4,660,575,926
Total		**317,644,933,060**

ECP per ultimo May 2013

Currency	Volume (original currency)	Volume in euros
ECP in euro	-	-
ECP in US dollar	8,265,000,000.00	6,358,235,510
ECP in British pound	333,000,000.00	391,105,946
ECP in CHF	-	-
ECP in NOK	-	-
Total		**6,749,341,456**

DTC per ultimo May 2013

Isin code	Maturity date	Volume in issue
NL0010220794	DTC 2013-06-28	6,840,000,000
NL0010389433	DTC 2013-07-31	3,760,000,000
NL0010391082	DTC 2013-08-30	4,040,000,000
NL0010396438	DTC 2013-09-30	2,170,000,000
NL0010436739	DTC 2013-10-31	1,370,000,000
NL0010436580	DTC 2013-11-29	2,400,000,000
NL0010364121	DTC 2013-12-30	3,530,000,000
Total		**24,110,000,000**

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

The cut-off date of this Outlook is 14 June 2013 (unless mentioned otherwise)

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