



Ministry of Finance

Dutch State Treasury Agency

30-year DDA

Investor presentation

Update 10 February 2014



Presentation outline

Part I Introduction, Economy, Budget

The Dutch State Treasury Agency - *An introduction*

Economic outlook and policy – *Gradually returning to growth*

Special topics: housing market, labour market/pensions, financial sector

Budgetary outlook and policy– *Reputation of consensus-based fiscal discipline*

Part II Funding plan

Funding plan 2014

Liquidity

Supplement

DDA explained



Dutch State Treasury Agency



- Founded in 1841 in Amsterdam
- Moved to The Hague in 2009
- Part of Finance Ministry
- Autonomous decisions within a mandate:
 - Compatibility: only the Finance Minister can borrow on behalf of the State
 - Minister granted the mandate to the DSTA
- Main objective: to manage the State's debt efficiently and effectively and to meet the State's funding requirement by borrowing and lending money

Economic Outlook & Policy





Projections: across the board improvement in 2014

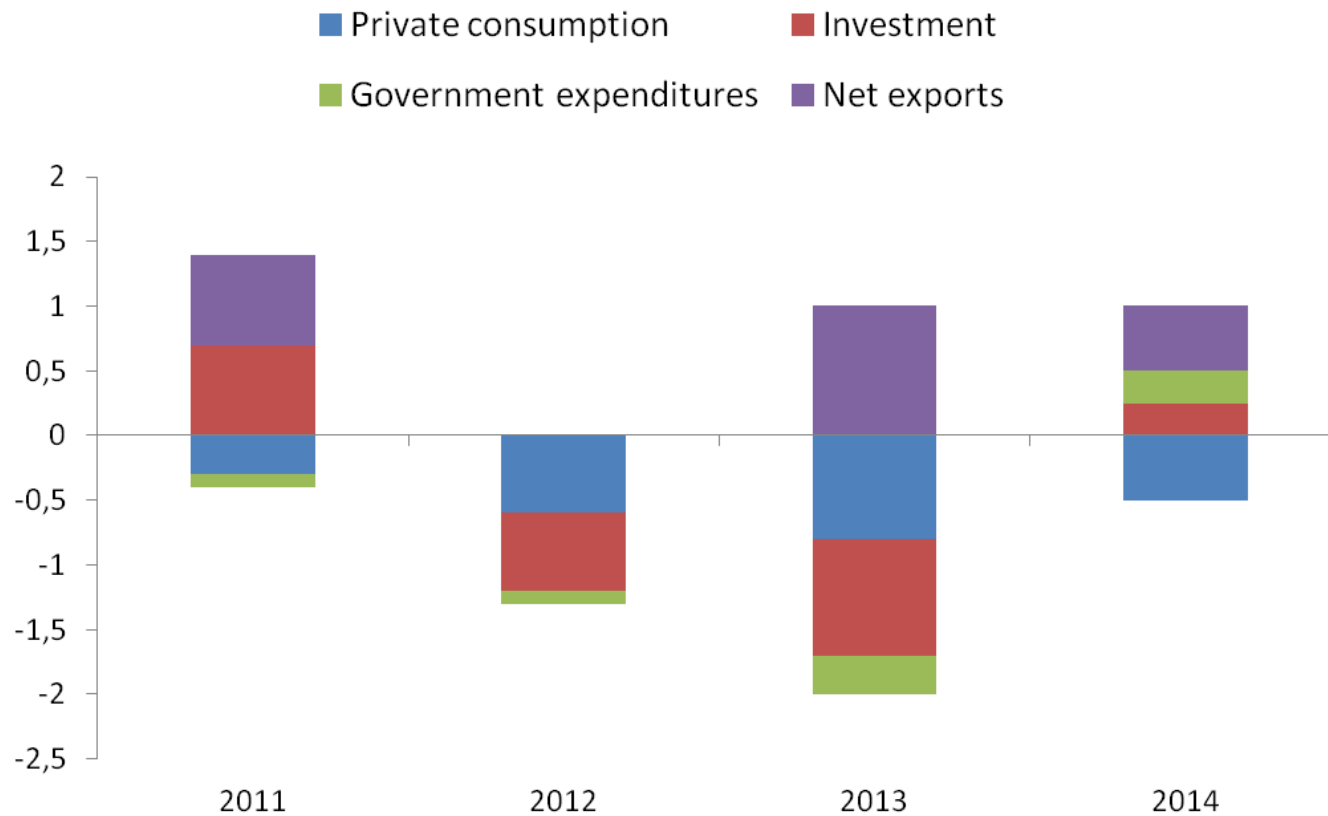
Key economic figures 2012-2014 (% changes, year-on-year)

	2012	2013	2014
Gross Domestic Product	-1.2	-1	0.5
Private consumption	-1.6	-2	-0.75
Gross investments	-2.9	-6.25	4
Government expenditures	-0.8	-1.25	0.5
Exports	1.9	0.5	4
- of which produced domestically	0.7	-0.75	2.75
- of which re-export	3	-1.75	5.25
Imports	3.6	-0.75	3.5
Unemployment (% labour force)	5.3	6.75	7.5
Labour productivity	-1.6	-0.75	1.25
Inflation (CPI % change)	2.5	2.5	1.5

Source: Bureau for Economic Policy Analysis CPB



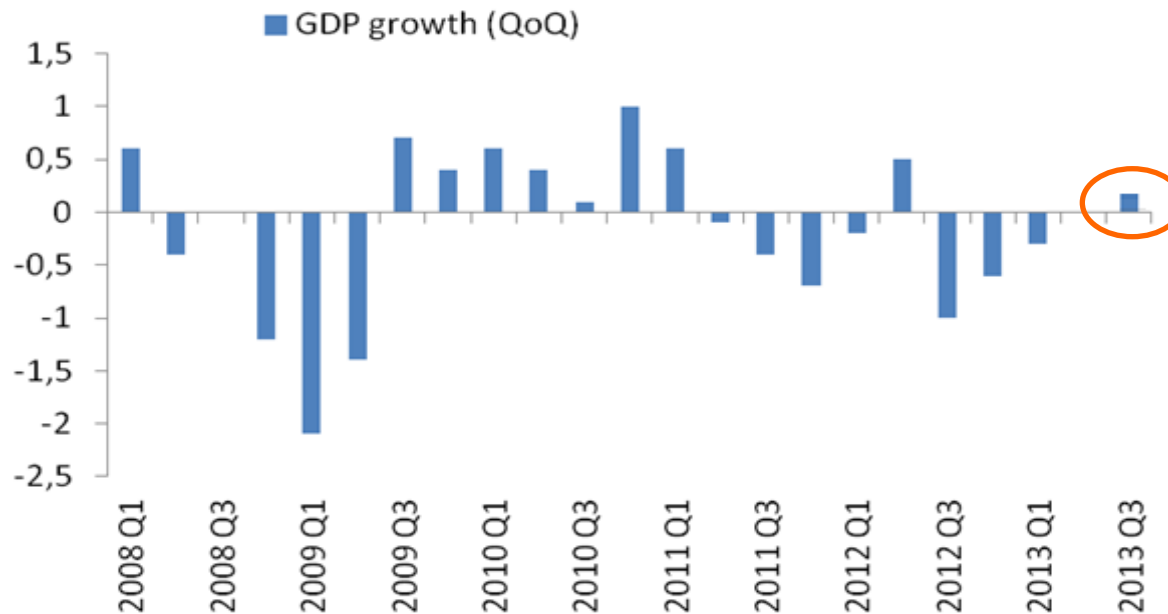
2014: Export-led economic recovery



Source: Bureau for Economic Policy Analysis CPB



Q3 2013: Return to positive GDP growth

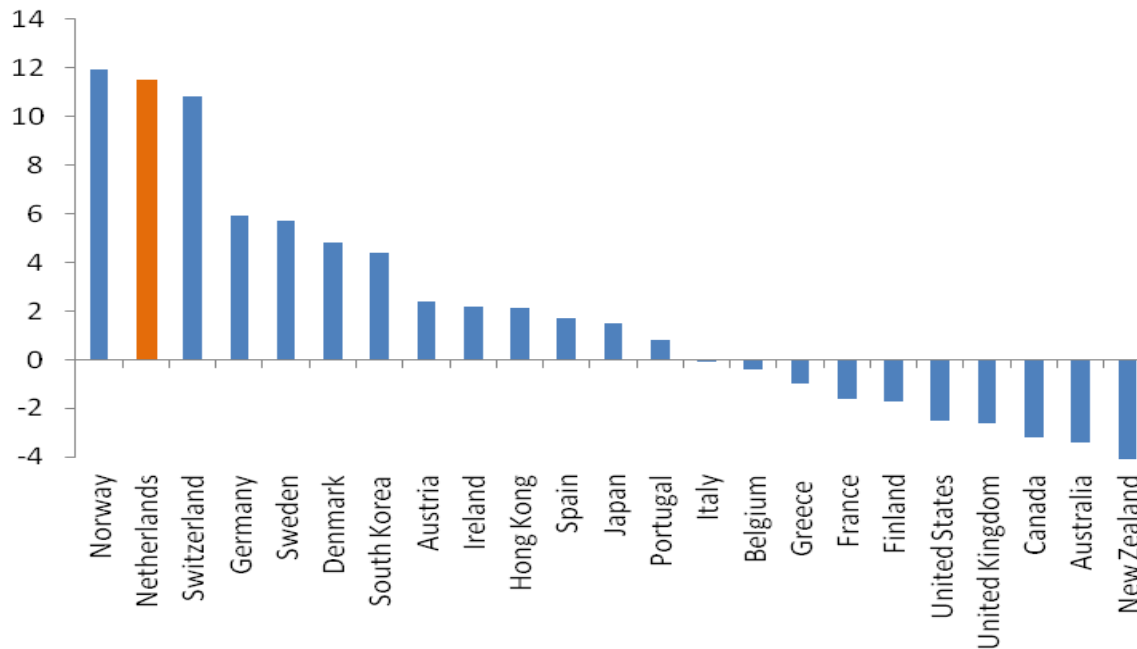


2013:	CPB	EC
	-1.0%	-1.0%
2014:	+0.5%	+0.2%

Source: National Statistics Bureau CBS



Current account surplus exceeds 10% of GDP

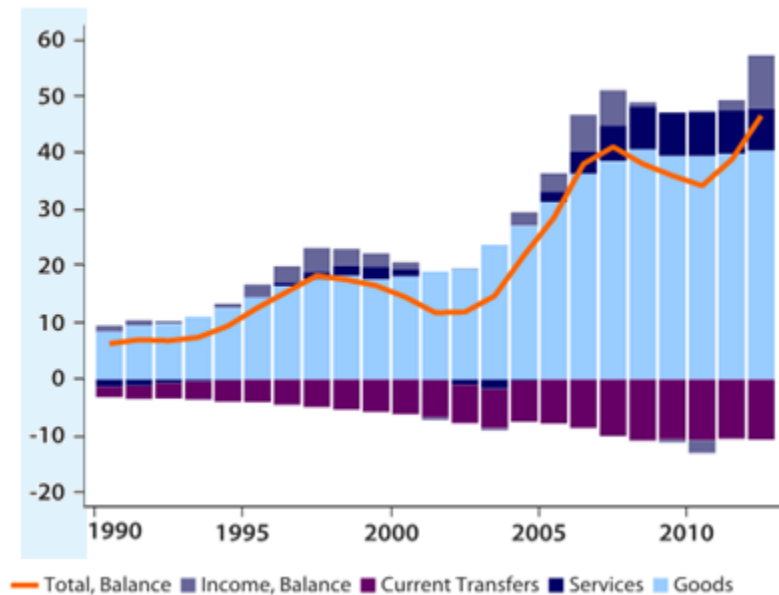


Source: OECD

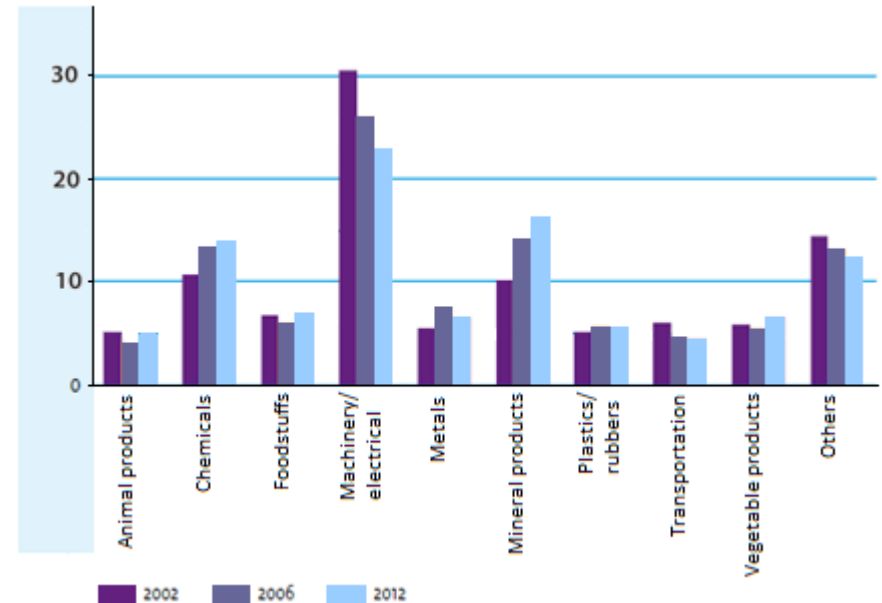


Consistent and diversified trade surplus

Components, 1990-2012 (€ bln)



Product category, (% of total)



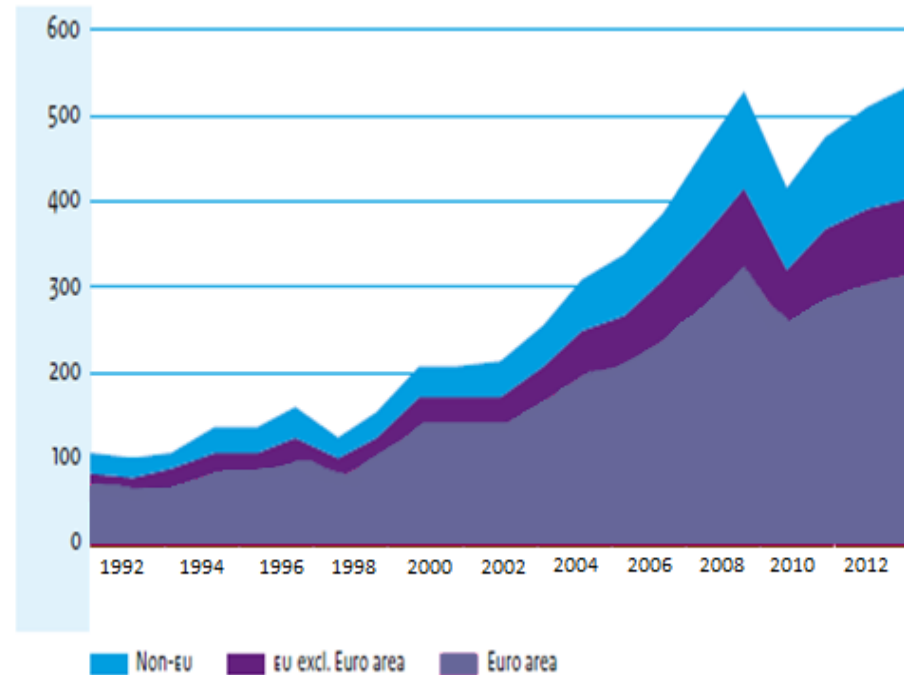
Source: National Statistics Bureau CBS



Increasing geographic diversification of export markets

Rank	Country	%
1	Germany	24.7
2	Belgium	11.3
3	France	8.4
4	United Kingdom	8.1
5	United States	4.7
6	Italy	4.6
7	Spain	2.8
8	Poland	2.0
9	China	1.8
10	Sweden	1.7
11	Russia	1.6
12	Czech Republic	1.4

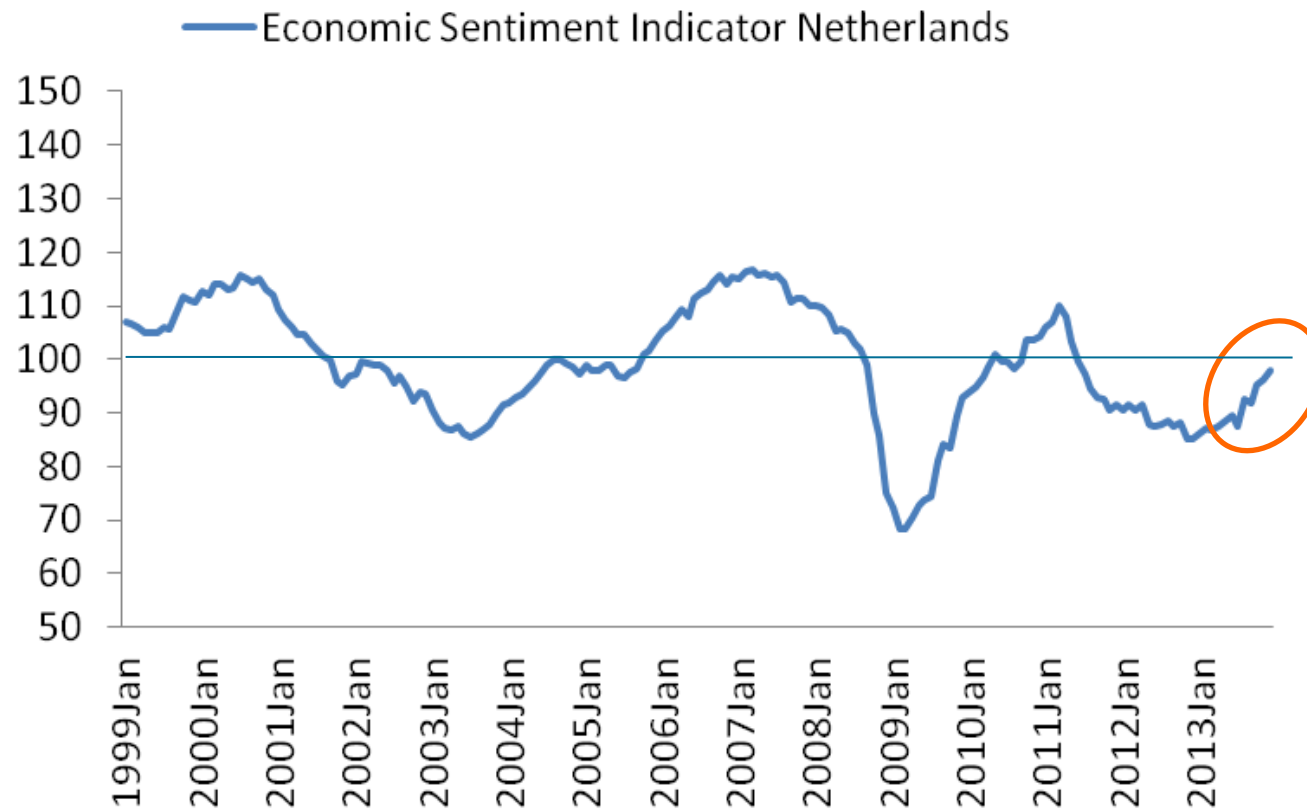
Exports per region (€ bln)



Source: National Statistics Bureau CBS



Improvement in sentiment indicators

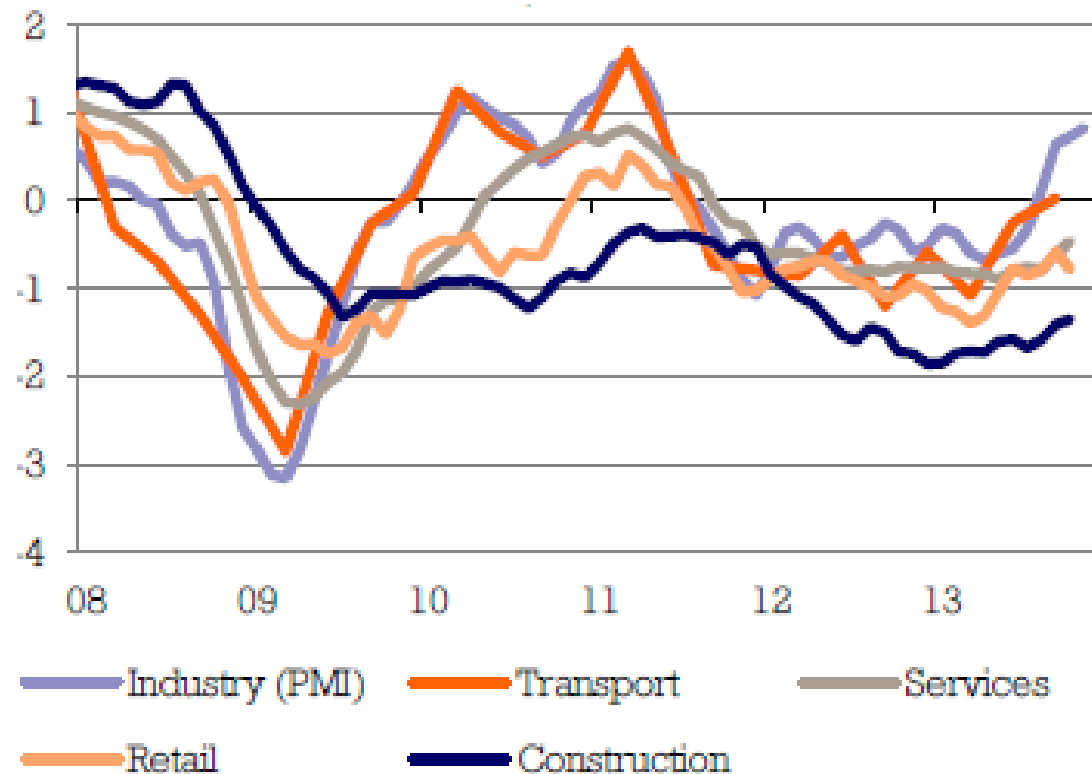


Source: Eurostat



Sentiment strongest in industry and transport sectors

Sentiment index; deviation from long-term average, in standard dev.

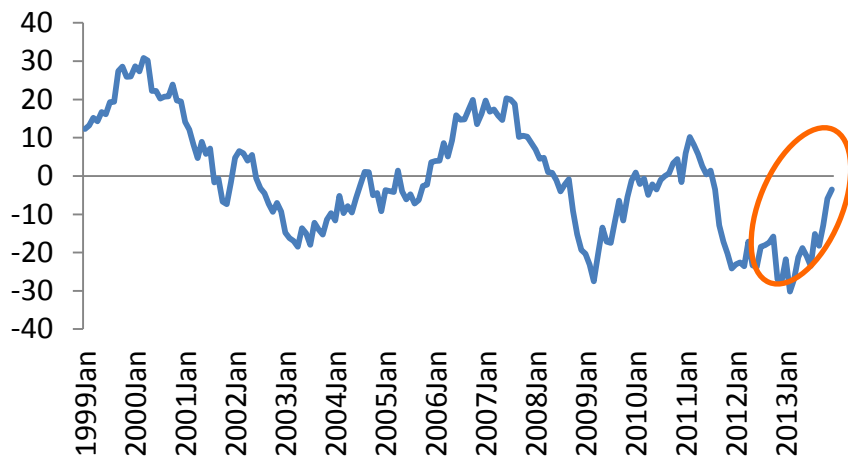


Source: NEVI/PMI

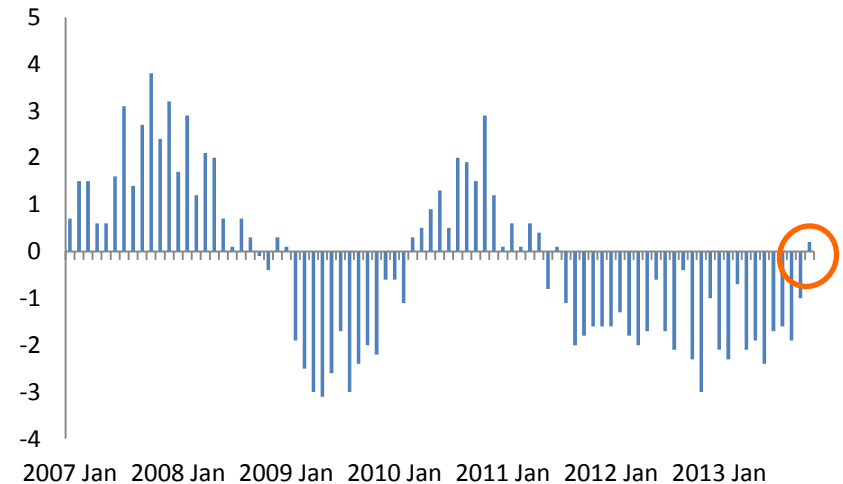


Private consumption: outlook improving

Consumer confidence indicator



Consumer spending (% change y-o-y)

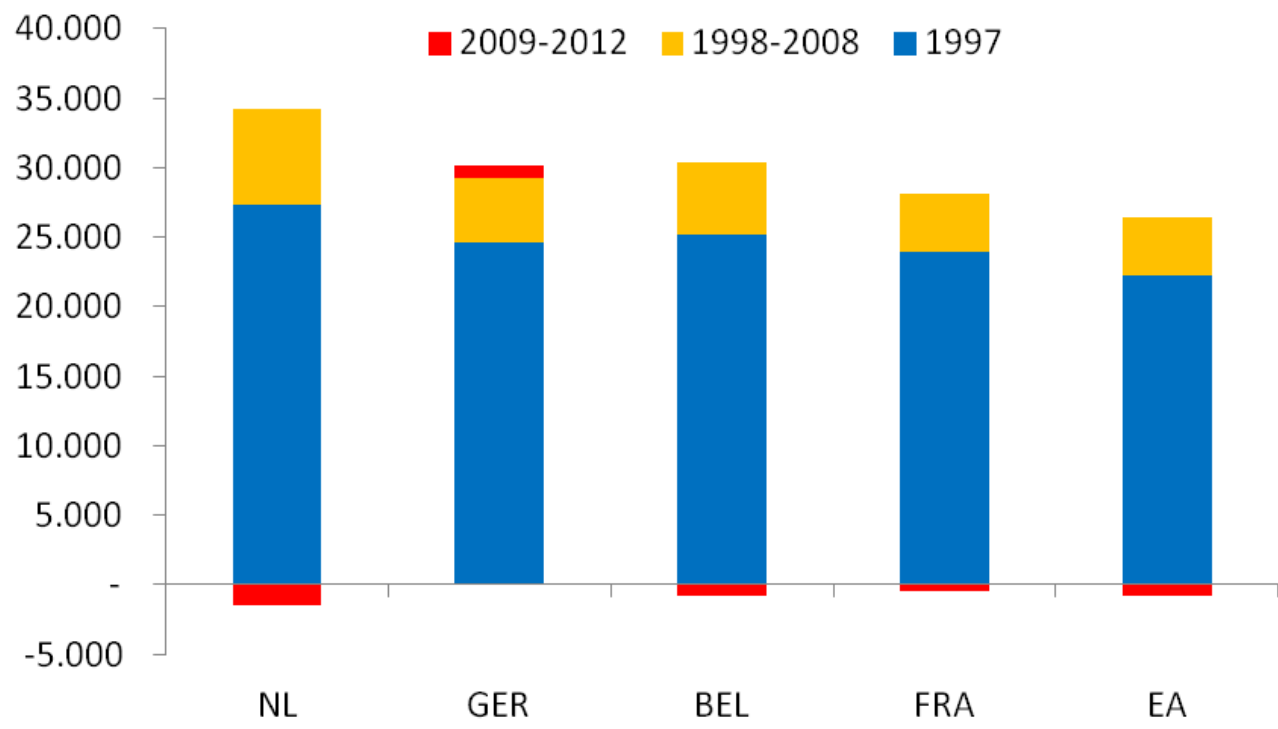


Source: Eurostat

Source: National Statistics Bureau CBS



Real GDP per capita



Source: Eurostat



Special topic I: Housing market

Gradual price correction in the housing market following years of generous mortgage lending...

- › Total price decline since Q2 2008: 20%
- › 25% of households are in negative equity
- › High mortgage lending → gross household debt-to-GDP ratio approx. 125%

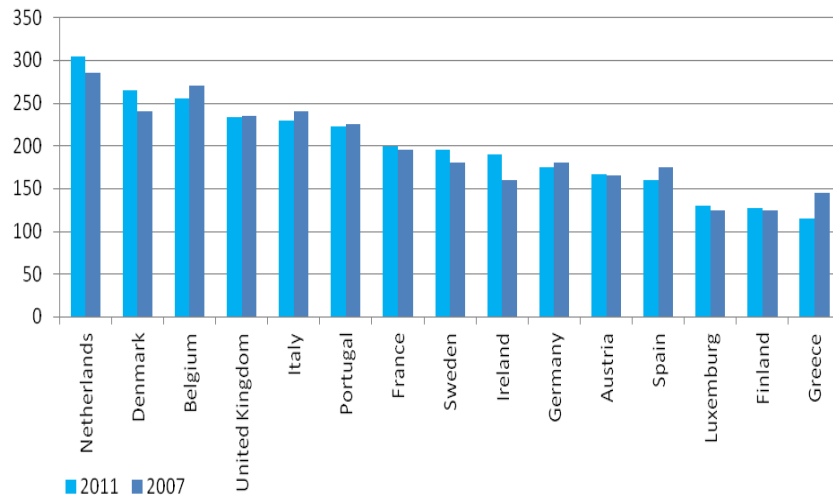
Problems remain contained

- › Net household wealth-to-GDP ratio is ca. 375% (but partially in less liquid assets)
- › Lenders have full recourse to borrowers' assets
- › Unemployment remains low in a European context, social security helps to mitigate income decline.
- › Mortgage arrears (>120 days) have increased, but remain at low levels (1.6% of mortgages)

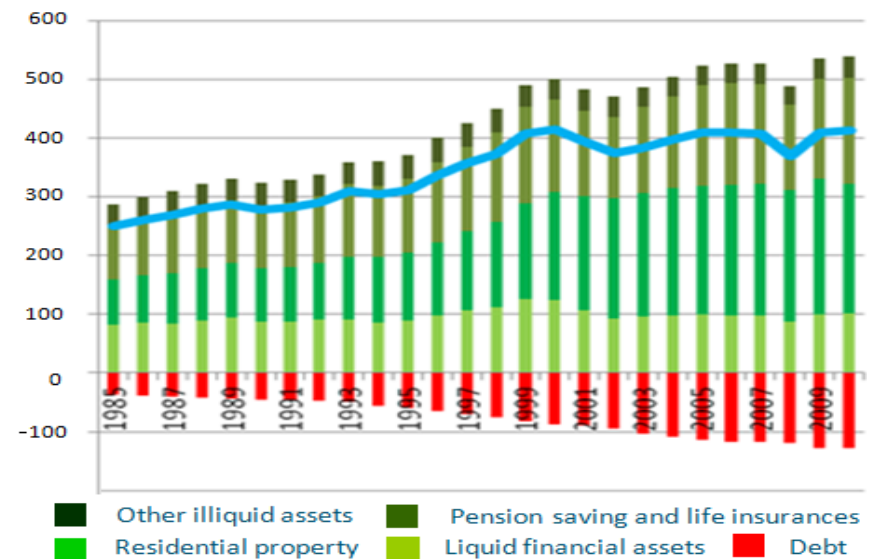


Households have strong asset position

EU: Household financial assets (% of GDP)



Household assets and liabilities (% GDP)



Source: Eurostat (2013)



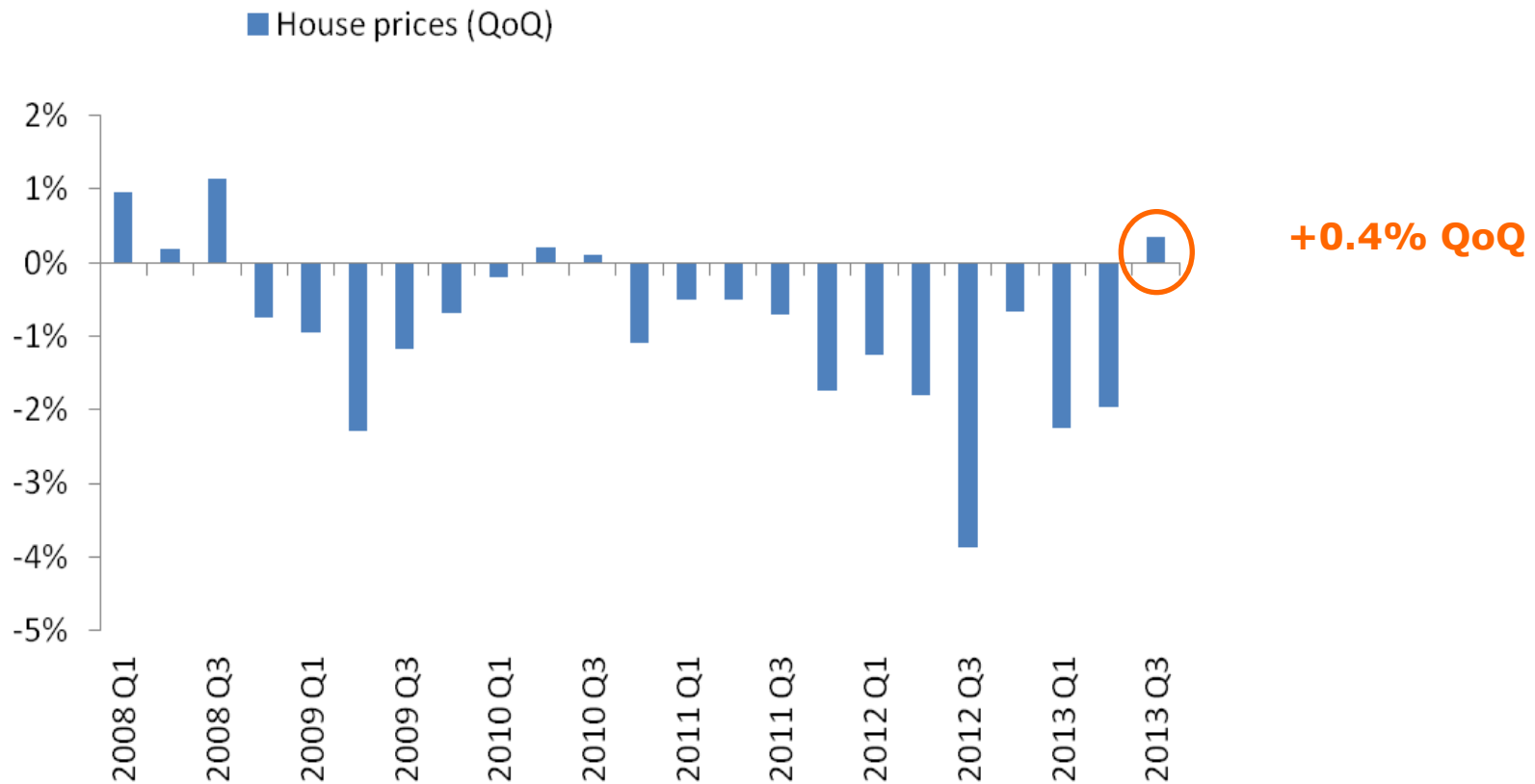
Housing market policy: support and reform

Government policy has been aimed at supporting housing market during its slump, while addressing structural problems in the longer run:

- Reduction of transaction tax: 6% to 2%
- Ceiling price for mortgages eligible for National Mortgage Guarantee temporarily raised in 2009; gradual reduction since 2013.
- Gradual reduction of maximum loan-to-value ratio to 100%
- Curtailment of tax deductibility of mortgage payment (only for fully amortising mortgages, lower rate of deductibility)



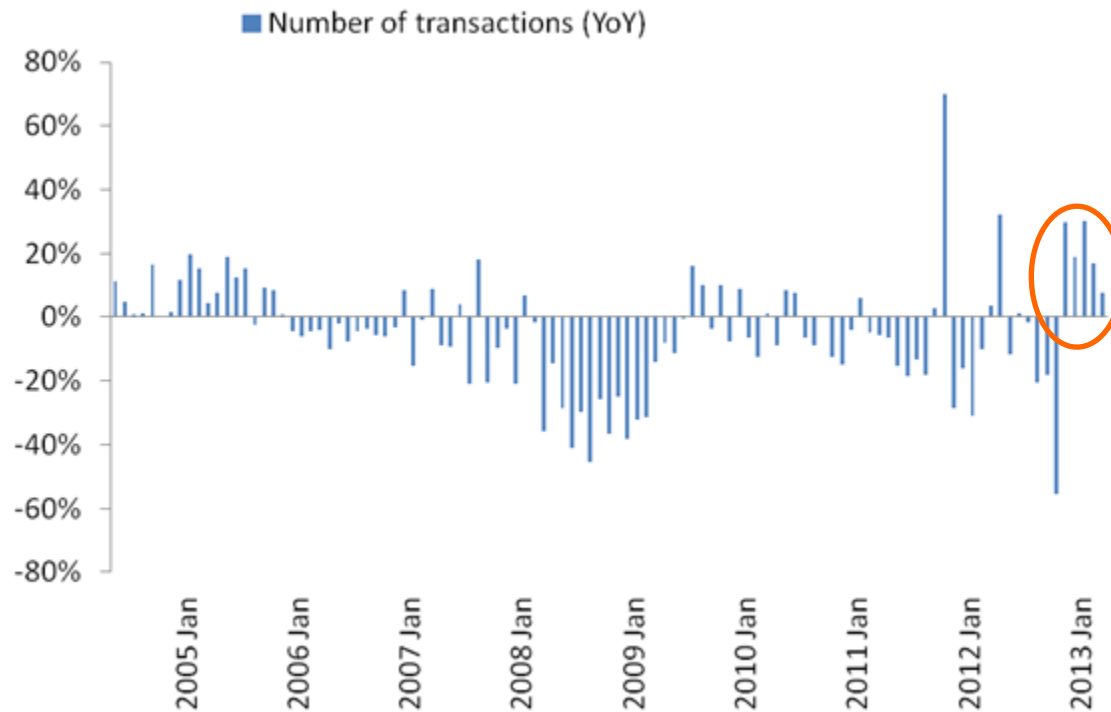
House price developments look more favourable



Source: National Statistics Bureau CBS



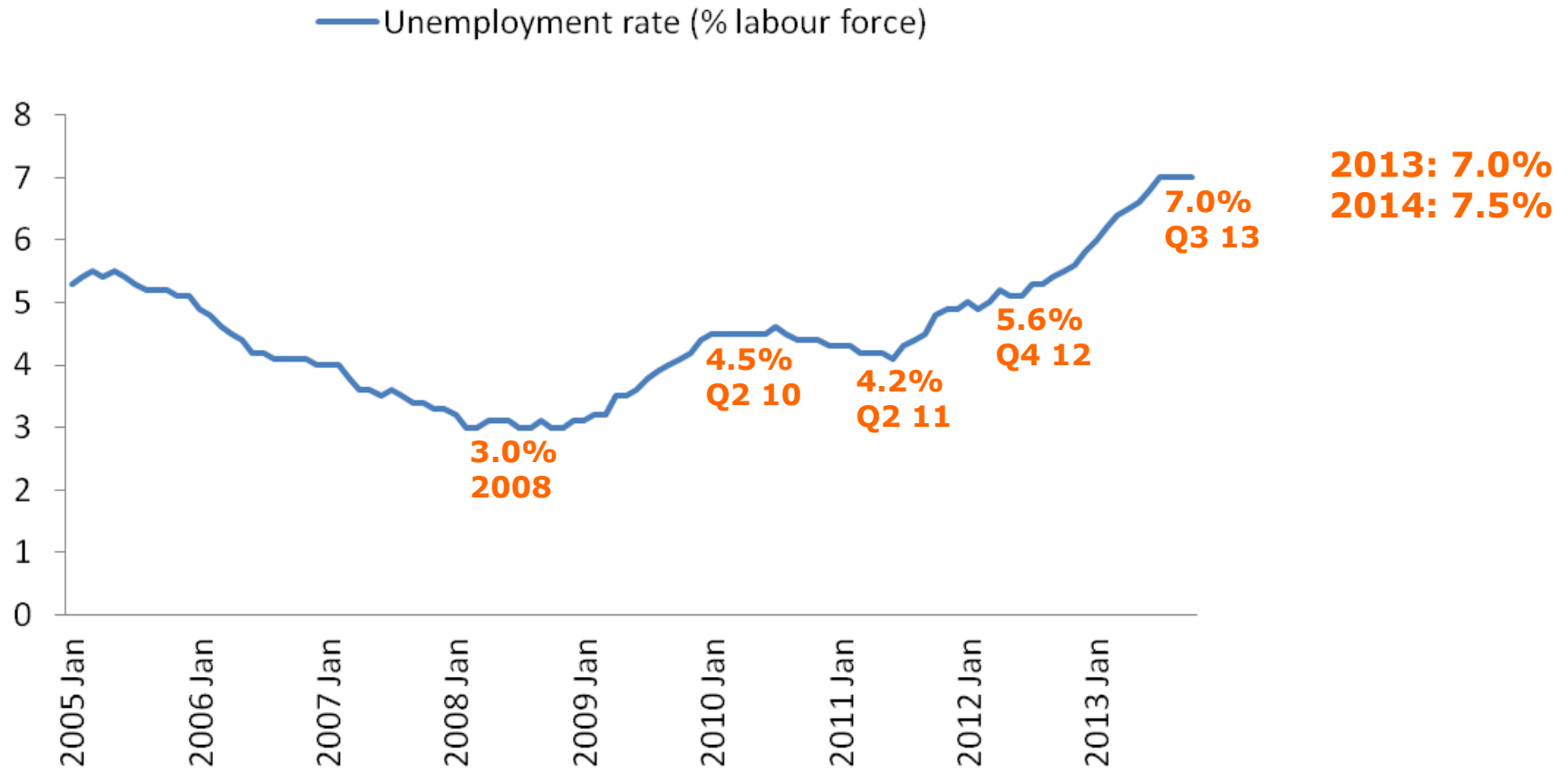
Number of transactions has increased for 5 consecutive months



Source: National Statistics Bureau CBS



Special topic II: Labour market

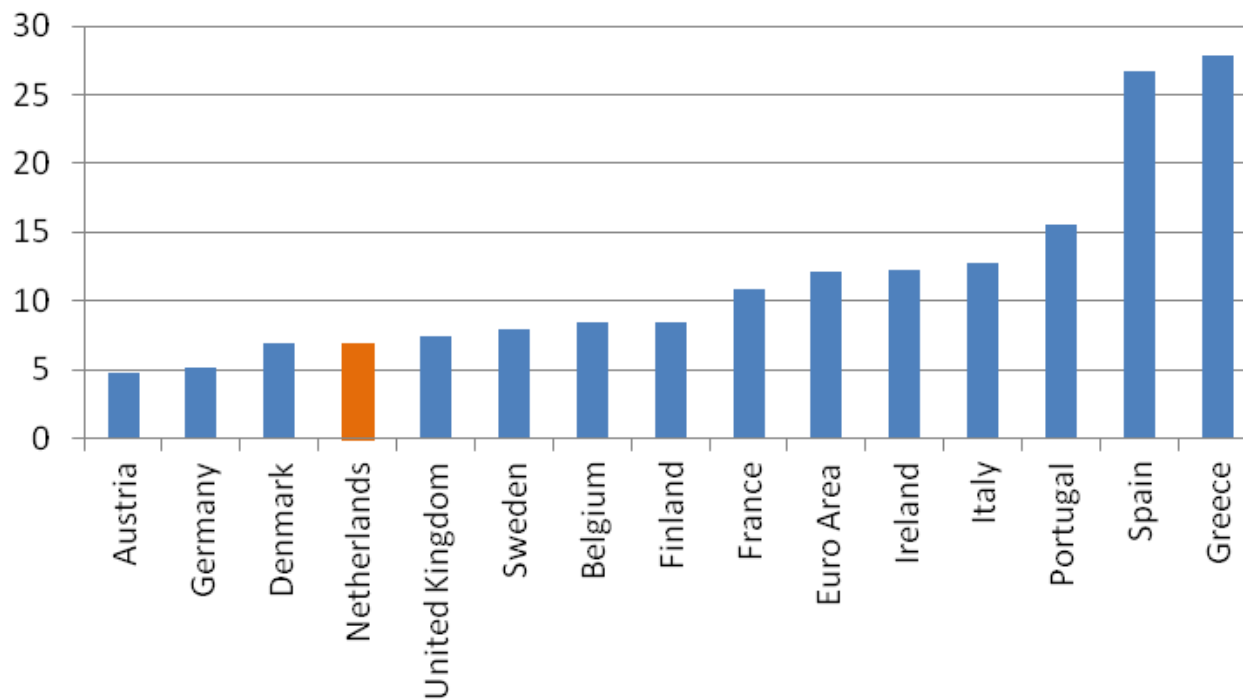


Source: National Statistics Bureau CBS



Unemployment remains low in European context

Unemployment rate (%), November 2013



Source: Eurostat



Labour market: reforms aimed at greater flexibility

- Reduction of labour tax rate in first income bracket
- Reform/simplification of severance process
- Cap on severance pay
- Increased security for temporary workers
- Unemployment benefit system will be reformed: further limits to duration of benefits, more focus on getting people back to work as soon as possible



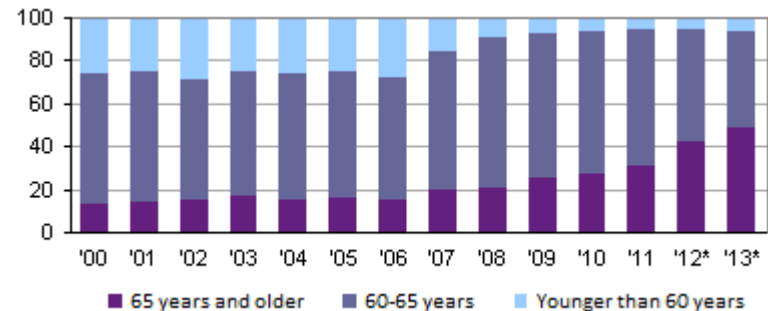
Pensions: reforms to achieve sustainability

- Increase in pensionable age to 67 in 2023
- Pensionable age tied to life expectancy after 2024
- Reduction of annual pension savings that can be accumulated tax-free

Average retirement age



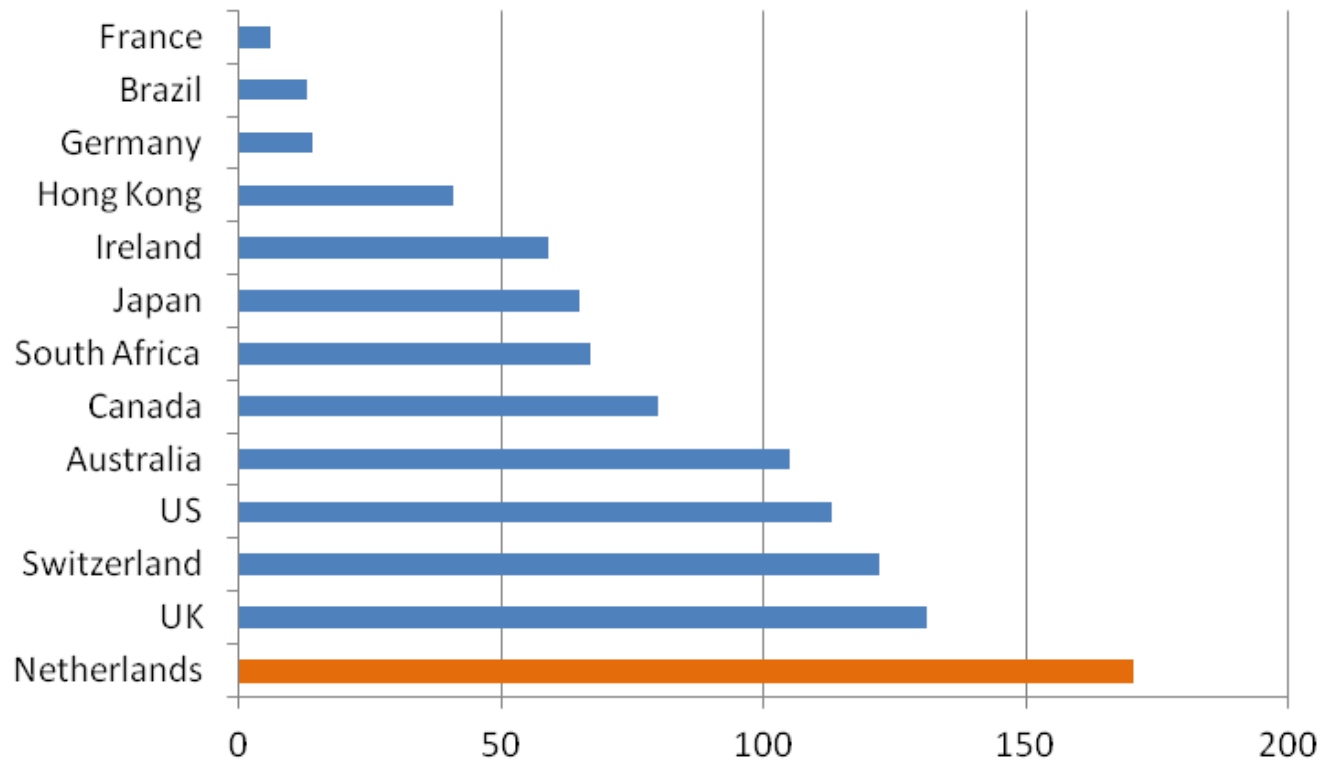
Retirement age (% of total retirees)



Source: National Statistics Bureau CBS



International comparison: pension assets (% GDP)



Source: Towers Watson, Global Pension Asset Study, 2014



Special topic III: Financial sector

Government support for financial sector is being wound down...
This reduces debt/GDP in the years to come

1. Capital support (2008) is largely repaid:

Institution	Support (€)	Repayment (€)	Return on repayment
AEGON	3 bln	3 bln	18.5%
ING	10 bln	8.5 bln	14.7%
SNS	750 mln	185 mln	8.5%

2. Guarantees on medium-term bank debt instruments mature:

Window open 2008-2010; outstanding loans redeem end-2014 at the latest

3. Nationalisations: *ABN Amro (2008), ASR (2008), SNS Reaal (2013)*

The government has indicated that these financial institutions will be privatised in the medium term. Privatisations will result in a reduction of debt/GDP



Exit from ING Alt-A portfolio announced

- In January 2009, the Dutch State and ING agreed on the creation of an Illiquid Assets Back-up Facility (IABF).
- The IABF is one of the measures taken by the Dutch State to preserve financial stability in the banking sector. The transaction resulted in a transfer of the risk on 80% of ING's portfolio of US non-agency residential mortgage backed securities (RMBS) to the Dutch State.
- The Dutch State sold the IABF portfolio in three auctions between December 2013 and February 2014 for a total of USD 8.9 bln.
- The Dutch State realised a positive net result upon winding down the IABF of USD 1.9 bln (EUR 1.4 bln). This will lead to a reduction of the debt/GDP ratio by 1.1%.



Outlook & Budgetary Policy



Government finances: strong structural improvement

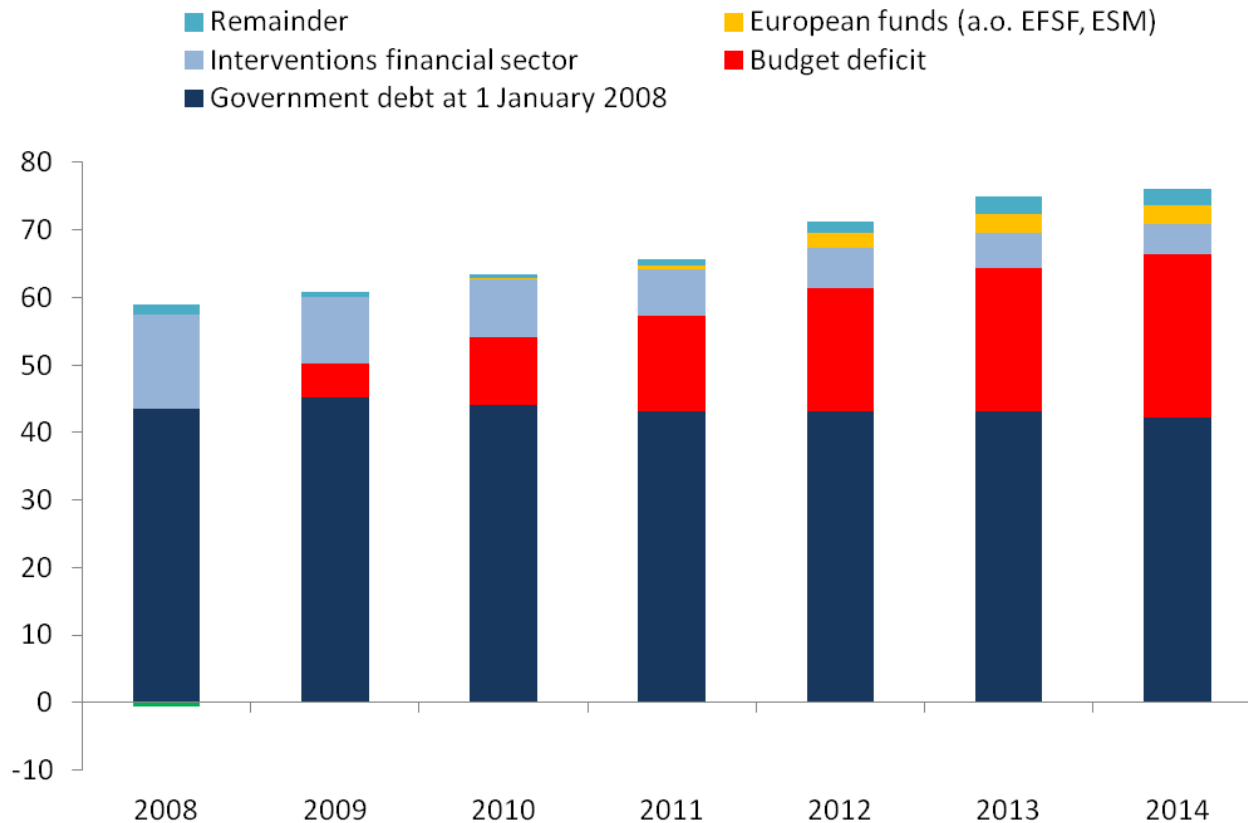
Budgetary developments 2009-2014 in % GDP

	2009	2010	2011	2012	2013	2014
Nominal EMU-balance	-5.6	-5.1	-4.3	-4.1	-3.2	-3.3
Cyclical component/one-offs	-1.4	-0.7	-0.6	-1.6	-1.7	-2.0
Structural EMU-balance	-4.2	-4.4	-3.7	-2.5	-1.5	-1.3
EMU debt	60.8	63.4	65.7	71.3	75.0	76.1

Source: Bureau for Economic Policy Analysis CPB



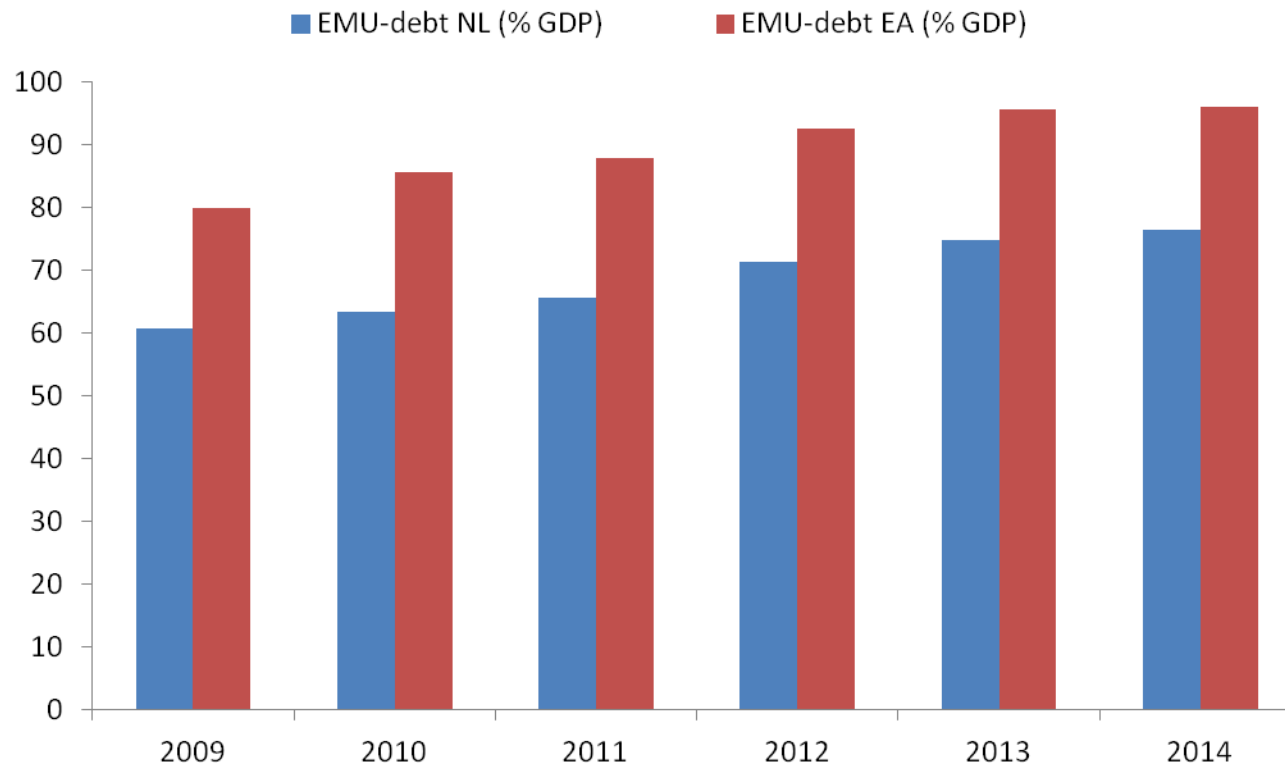
Government debt: stabilisation after 2014



Source: Bureau for Economic Policy Analysis CPB



Debt: below EA average



Source: Autumn Forecast, EC (November 2013)

Funding and issuance





Capital market issuance (€ bln)

Year	Outlook (y-1)	Actual	Deviation
2013	50	51.8	1.8
2012	60	60.4	0.4
2011	50	53.0	3
2010	50	51.9	1.9
2009	48	48.1	0.2

...in line with commitment



Money market serves as a buffer

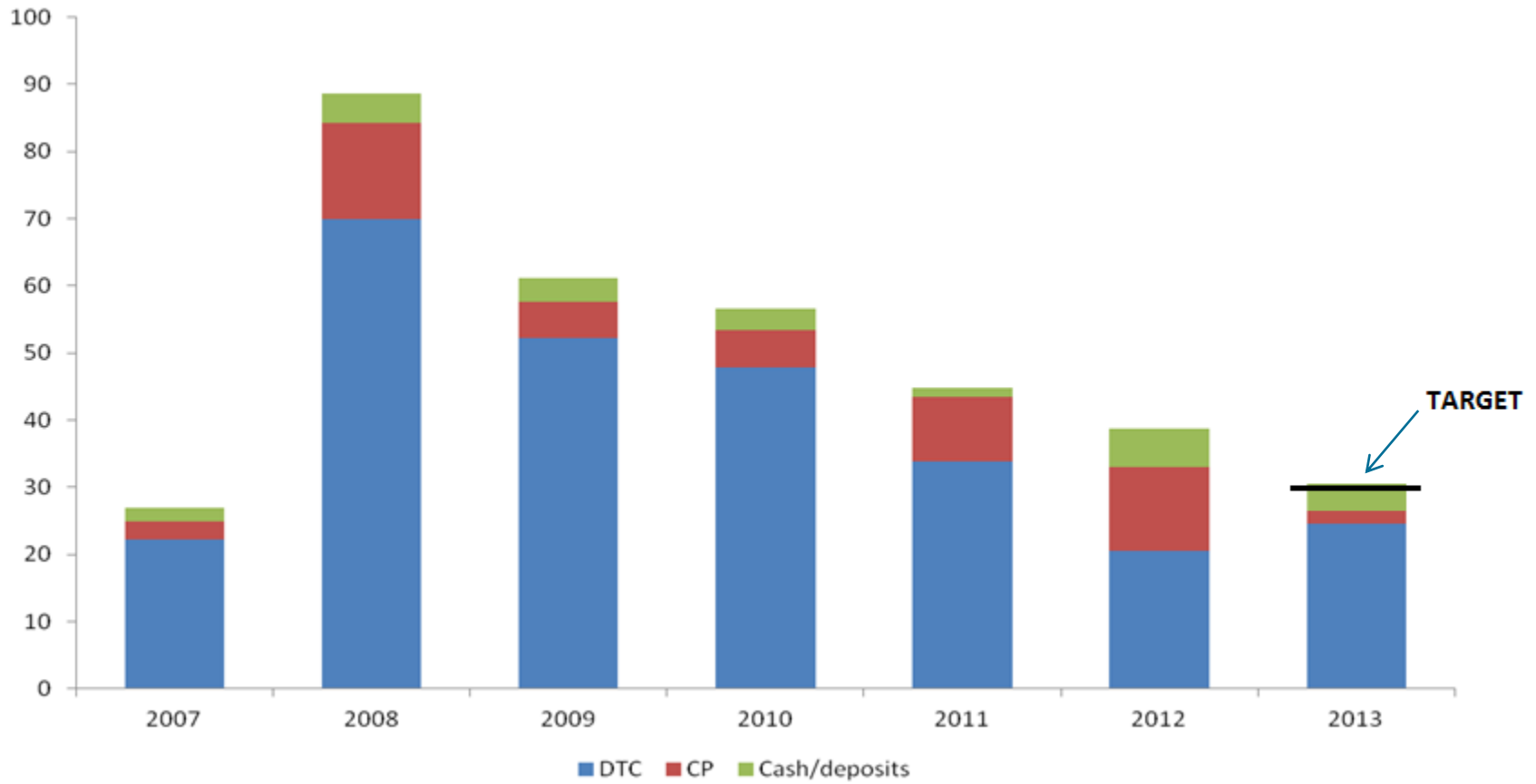
Changes in outstanding funding need can result from:

- A changing economic environment
- Inflow of deposits from local governments
- Sale/acquisition of assets by the State

Long-run target outstanding volume (excl. collateral): approx. € 30 bln

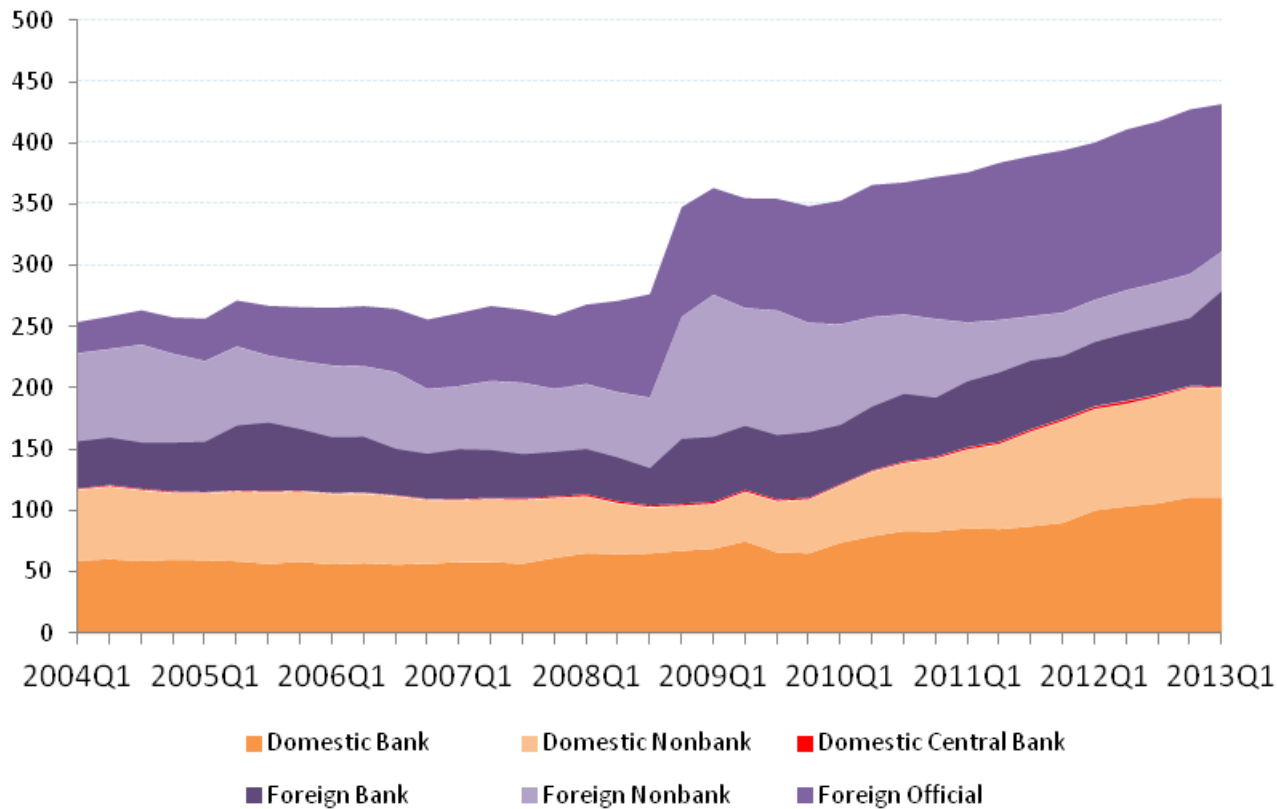


Money market: gradually reduced to target level





Diversified holdings of Dutch government debt



Source: Sovereign Investor Base Estimates, Arslanalp and Tsuda (IMF)



Funding plan 2014 (€ bln)

Borrowing requirement

Capital market redemptions	32.2
Money market ultimo 2013	41.6
Cash deficit	13.9
Total external funding requirement	87.7

Funding

Capital market	50
Money market*	37.7
Total funding	87.7

*Incl. collateral



DSL issuance in 2014 (€ bln)

Total funding	50
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New 3-year DSL	15
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On-the-run 5-year DSL	7
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New 5-year DSL	5
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New 10-year DSL	15
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Off-the-run facility	3
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New 30-year DSL	5
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DSL calendar

Indicative DSL calendar 2014

Month of issuance	Auction Date		Auction date		DDA window
	2nd Tuesday	Details	4th Tuesday	Details	
January	14	Tap new 3-year: DSL 15 April 2017	28	Off-the-run	
February	11	Tap 5-year: 1.25% DSL 15 January 2019	25	No tap	New 30-year 18 February
March	11	Reopening new 3-year	25	No tap	New 10-year
April	8	Tap	22	Tap	
May	13	Tap	27	Tap	
June	10	Tap	24	Off-the-run	
July	8	Tap	22	No tap	
August	Reserve dates				
September	9	Tap	23	No tap	New 5-year
October	14	Tap	28	No tap	
November	11	Tap	25	Tap	
December	Reserve dates				

The timing of the DDA's may lead to changes in the DSL calendar



Details new 30-year benchmark bond

DDA date:	Tuesday 18 February
Maturity date:	15 January 2047
Reference bond:	DBR 2.5% July 2044
Target volume:	Minimum of EUR 3 billion
Settlement date:	Friday 21 February
Coupon:	To be announced on 14 February
Initial spread guidance:	To be announced on 17 February



Time schedule 30-year DSL

- Book opens on 18 February at 10:00 CET
- Final spread guidance will be announced no later than 15:00 CET
- Book closes at latest 17:00 CET on 18 February
- Allocation communicated a.s.a.p. after closing of the book, no later than 19 February at 9:00 CET
- Pricing at least 1 hour after allocation and no later than 12:00 CET on 19 February; preferably on the auction day itself



Ensuring sufficient liquidity in secondary markets

- Raising outstanding amounts of new 3-, 5-, and 10 year DSLs to at least € 15 bln; at least € 10 bln for the 20- and 30 year DSL
- Annual issuance of new 3- and 10 year bonds
- Frequent reopening of off-the-run bonds
- Quotation obligation for PDs to ensure that tradable prices are available at all times
- Repo facility available to PDs ('lender of last resort')



30-year DSL: Why to buy

- Netherlands has reputation of consensus-based fiscal discipline
- DSL 2047 offers attractive yield versus Germany and Finland
- Economy and housing market bottoming out, structural reforms in place
- One of the best pension systems in the world (Mercer)
- Highly rated issuer (Aaa/AA+/AAA)
- Continuous availability of secondary market prices
- Relatively low supply of high-quality supply in the 30-year tenor

Supplement

The DDA explained





The DDA explained

- Short overview
- Bidding
- Investor classification
- Mechanics of allocation:
2 scenarios





A short overview

- Rule-based auction – all investors receive equal treatment
- Primary auction with direct participation of end-investors
- A single uniform price → winner's curse avoided
- Bids can be placed via Primary Dealer(s) of choice and orders can be split via several dealers
- DSTA is the sole book runner
 - Level playing field among all Primary Dealers
 - Confidential participation of investors
- 2014: Reform of PD fee structure; PDs must sign DDA Allocation and Price Compliance Statement*

* As indicated in the General Conditions for PDs – see www.dsta.nl/english/Subjects/Primary_Dealers



Bidding

- Bids are placed at increments of 0.5 bps to the reference bond or 'at best'
- Maximum bid of €500 million per spread
- An investor may split orders among Primary Dealers up to the maximum allowed
- There is no pot in the DDA: Primary Dealers are rewarded for overall DDA performance at the end of the year
- Bids 'at best' are at all times equal to bids at the tightest spread



Investor classification

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

Focus on real money clients

- Allocation: Real Money Clients receive priority at the cut-off spread

Safeguarding instant liquidity

- DSTA reserves the right to raise the allocation to 'Other Clients' up to 35% of the total allocated amount



Mechanics of allocation: an example

Details transaction	
Spread	17 to 18 bp
Target size	Min. € 5 bln
Book size	€ 10.5 bln

Order book

Spread	At best	17	17.5	18
Real Money	1500	1000	1500	1500
Other	1000	2000	1000	1000
Total	2500	3000	2500	2500
Cumulative		5500	8000	10500

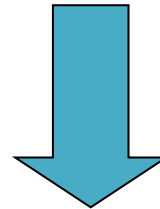


Mechanics of allocation / scenario 1

Order book

Spread	At best	17	17.5	18
Real Money	1500	1000	1500	1500
Other	1000	2000	1000	1000
Total	2500	3000	2500	2500
Cumulative		5500	8000	10500

- Allocated amount: **€ 6500**
- Uniform cut off: **+17.5**



Allocation at cut-off:
Real Money **67 %**
Others **0 %**

Allocation

Spread	At best	17	17.5	18
Real Money	1500	1000	1000	0
Other	1000	2000	0	0
Total	2500	3000	1000	0
Cumulative		5500	6500	

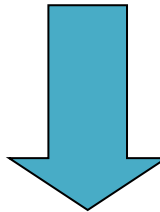


Mechanics of allocation / scenario 2

Order book

Spread	At best	17	17.5	18
Real Money	1500	1000	1500	1500
Other	1000	2000	1000	1000
Total	2500	3000	2500	2500
Cumulative		5500	8000	10500

- Allocated amount: **€ 5000**
- Uniform cut off: **+17**



Allocation at cut-off:
Real Money **100%**
Others **83%**

Allocation

Spread	At best	17	17.5	18
Real Money	1500	1000	0	0
Other	833	1667	0	0
Total	2333	2667	0	0
Cumulative		5000		