DDA SPECIAL

Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

March 2014
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This DSTA Quarterly Outlook focuses on the new 10-year benchmark bond of the State of the Netherlands. The DSTA will hold a Dutch Direct Auction (DDA) launching the new bond on 25 March 2014. Furthermore, this Outlook will present the issuance calendar for the second quarter and discuss the latest economic and budgetary projections for the Netherlands.

New 10-year benchmark bond

A new 10-year benchmark bond is a regular feature of the DSTA's annual issuance calendar. This year's issue, the DSL 15 July 2024, will be launched on 25 March 2014. The DSTA has appointed ABN AMRO, Commerzbank and NATIXIS as advisors for this DDA. The target amount to be raised during the DDA is set at a minimum of € 5 bln. The coupon is set at 2%. The initial spread guidance vis-à-vis the reference bond, the DBR 1.75% 15 February 2024, will be announced the day before the auction.

Terms and conditions	
Maturity date	15 July 2024
Coupon	2%
Issuance size	Minimum of € 5 billion
Reference bond	DBR 1.75% 15 February 2024
Initial spread guidance	To be announced Monday 24 March 2014
Auction date	Tuesday 25 March 2014, starting at 10.00 CET
Pricing	At least 1 hour after allocation, no later than 26 March 12:00 hrs cet
Settlement date	Friday 28 March 2014

Subsequent reopenings of this bond will increase its outstanding amount to at least € 15 bln by the end of the year.

The DDA process

The DSTA uses the Dutch Direct Auction (DDA) methodology for the launch of its long-dated 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.

The DDA is rule-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 is communicated on the day prior to the DDA. Investors may submit their bids through one or more Primary Dealers of their choice.

List of Primary Dealers for 2014, in alphabetical order	
ABN AMRO	Jefferies
Barclays Capital	NATIXIS
Citigroup	Nomura
Commerzbank	Rabobank
Deutsche Bank	Royal Bank of Scotland
Goldman Sachs	Santander GB&M
HSBC France	Société Générale
ING Bank	

Investors may place bids against a spread vis-à-vis the reference bond, or 'at best' to indicate they wish to obtain the bond at the cut-off spread. This cut-off spread is determined by the DSTA after closure of the book. This spread is translated into a uniform price at which all bonds are subsequently allocated according to clear and predetermined rules. For allocation purposes, 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 are prioritised in allocation over other accounts. The DSTA nevertheless reserves the right to allocate up to 35% of the total issue to 'other' accounts to help safeguard adequate liquidity of the bond.

Real money accounts	Other accounts
Asset and fund managers	Banks and trusts
Central banks/agencies/supranationals	Hedge funds
Insurance companies	Other trading desks
Pension funds	
Private banks	

As the single book runner, the DSTA has exclusive 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 which includes, besides the auction results, an aggregated statistical breakdown of the allocation in the DDA, by geographical location and type of investor.

Further information on the rules and principles of the DDA can be found on the DSTA website (www.dsta.nl).

Funding and Issuance

Funding and issuance in the second quarter

At this moment the borrowing requirement for 2014 is expected to be € 87.7 bln. As usual, the DSTA will update its borrowing requirement following the publication of new estimates for the budget deficit by the Ministry of Finance; the next instance will be after the Spring Memorandum, which will be published before the end of May. The money market will continue to function as a buffer to help accommodate any changes in the funding need.

Borrowing requirement 2014 (€ bln)	
Capital market redemptions	32.2
Money market ultimate 2013	41.6
Cash deficit	13.9
Total borrowing requirement	**87.7**

Funding in 2014 (€ bln)	
Capital market funding	50.0
Money market ultimate 2014	37.7
Total funding	**87.7**

So far this year, the DSTA raised € 14.7 bln on the capital market: € 6.8 bln via the new 3-year bond , € 3.7 bln via the new 30-year bond, € 2.6 bln via a reopening of the 5-year bond and € 1.5 bln through the off-the-run facility.

In the second quarter, six reopenings are planned, for a total amount of approximately € 14 bln. The new 3-year DSL2017 will be reopened twice, in April and in June. Furthermore, the on-the-run 5-year is also reopened twice, in April and in May. The new 10-year benchmark DSL 2024 will also be reopened, for the first time after the DDA of 25 March. In June, two off-the-run DSL's will be tapped; which bonds are chosen will be published on the Wednesday prior to the auction.

DSL issuance calendar Q2 2014

Month/date (2nd and 4th Tuesday)		Details	Amount
April	8	Reopening 5-year DSL 15 Jan 2019	€ 2.0 - 3.0 bln
	22	Reopening 3-year DSL 15 April 2017	€ 2.0 - 3.0 bln
May	13	Reopening 10-year DSL 15 July 2024	€ 2.0 - 3.0 bln
	27	Reopening 5-year DSL 15 Jan 2019	€ 1.5 - 2.5 bln
June	10	Reopening 3-year DSL 15 April 2017	€ 2.5 - 3.5 bln
	24	Reopening two off-the-run DSLs	€ 1.0 - 2.0 bln

Announcement of all the auction details is on the Wednesday prior to the auction date (t-6).

DTC issuance calendar Q2 2014

Auction date	Settlement date	3-month programmes	6-, 9-, 12-month programmes
07-04-2014	09-04-2014	30-06-2014	06-01-2015
22-04-2014*	24-04-2014	31-07-2014	31-10-2014
05-05-2014	07-05-2014	31-07-2014	28-11-2014
19-05-2014	21-05-2014	29-08-2014	28-11-2014
02-06-2014	04-06-2014	29-08-2014	06-01-2015
16-06-2014	18-06-2014	30-09-2014	30-01-2015

Announcement of all the auction details is on the Wednesday prior to the auction date (t-5).
Shaded fields indicate new programmes.
* Tuesday instead of Monday due to national holiday.

Economic Outlook

The Dutch economy has ended the negative economic trend which started in the last quarter of 2011 and continued into 2013. Recent revisions show that the economy was technically out of recession since the second quarter, with growth figures improving further in the second half of the year. This resulted in a positive adjustment of annual GDP growth in 2013, from -1.0% to -0.8%. Growth is expected to be persistent in 2014 and pick up further in 2015. Though growth is still at moderate levels, it is more broadly based with less reliance on the export sector.

Leaving the recession behind

On 18 March, the independent Netherlands Bureau for Economic Policy Analysis (CPB) published an update of its economic forecasts. For 2014, GDP growth of 0.75% is projected, increasing to 1.25% in 2015. This is broadly in line with the European Commission (EC) Winter forecast of February. Importantly, after years of declining private investments, the CPB expects gross fixed investments to grow by 5.0% and 5.5% respectively in 2014 and 2015. Even though growth picks up, inflationary pressures remain subdued. Inflation is therefore expected to be moderate at 1.5% in both 2014 and 2015. These figures constitute a significant drop from the relatively high inflation of 2.5% in 2013 (and 2012), which was largely due to higher energy prices and the effects of the increased VAT rate in October 2012.

Key figures for the Netherlands

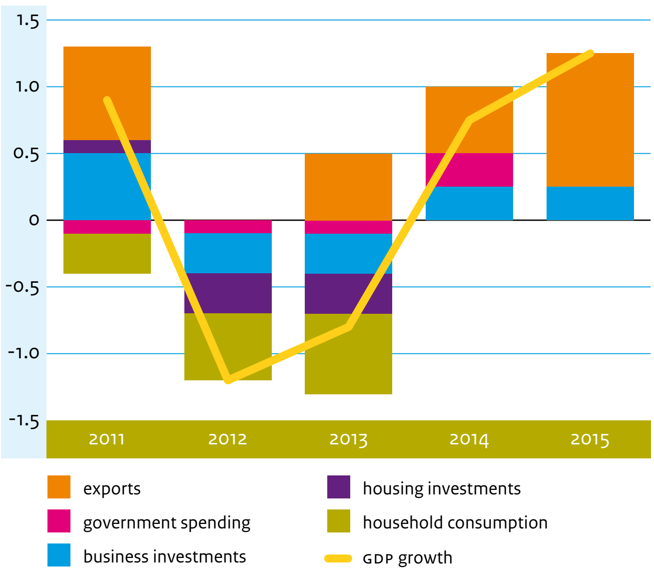
y-o-y change (%)	2014	2015
GDP	0.75	1.25
Private consumption	-0.25	0.5
Gross fixed investment, private non-residential	5.0	5.5
Government expenditure	0.5	-0.25
Exports	2.25	4.25
Imports	2.5	4.0
Unemployment (% of the labour force)	7.25	7.0
Labour productivity	2.0	1.25
Inflation (CPI)	1.5	1.5

Source: CPB Netherlands Bureau for Economic Policy Analysis, March 2014

Consumer spending gradually recovering

Domestic demand is expected to have a positive contribution to economic performance in 2014 and 2015. Due to the lagged impact of unfavourable developments in the housing and labour markets in recent years, private consumption is still expected to decline slightly in 2014. However, the projected -0.25% is considerably less negative than it was in 2013 (-2%). The decline in private consumption is expected to bottom out in the course of 2014, reflecting the positive effects of a gradually recovering housing market as well as (one-off) lower taxes on labour and lower pension and health care premiums. After four years of negative income growth, real disposable income is projected to increase 1.0% and 1.5% in 2014 and 2015 respectively. Consumer confidence is at its highest level in almost three years.

Domestic demand contributing to growth again (%-points of GDP)

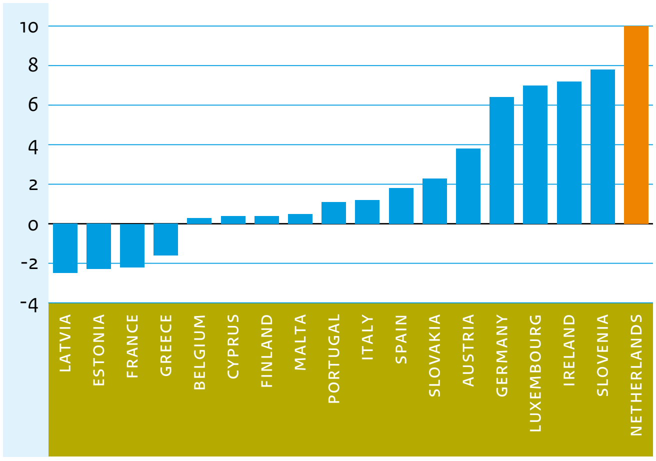


Note: the bars for 2014 do not add up to the horizontal line, because they have been independently rounded off at quarter percentages.
Source: CPB Netherlands Bureau for Economic Policy Analysis, March 2014

External demand remains important

The steadily growing export volume will benefit increasingly from the forecast improvement of the economic situation in the euro area. The CPB expects exports to pick up with projected growth figures of 2.25% in 2014 and 4.25% in 2015, as compared to 1.3% in 2013. This is slightly less optimistic than the EC which projects even faster growth rates, up to 5% in 2015. Increasing amounts of domestically produced export goods (3.75% in 2014 and 4.25% in 2015) are in particular responsible for these positive developments. Imports are expected to grow in line with exports in 2014 and 2015, but due to the smaller volume the current account surplus is expected to increase to nearly 10% of GDP, in 2015 in line with EC projections. This is the highest surplus in the EU and reflects the consistently strong competitiveness of the Dutch economy.

Current account surplus remains high (2015, % of GDP)

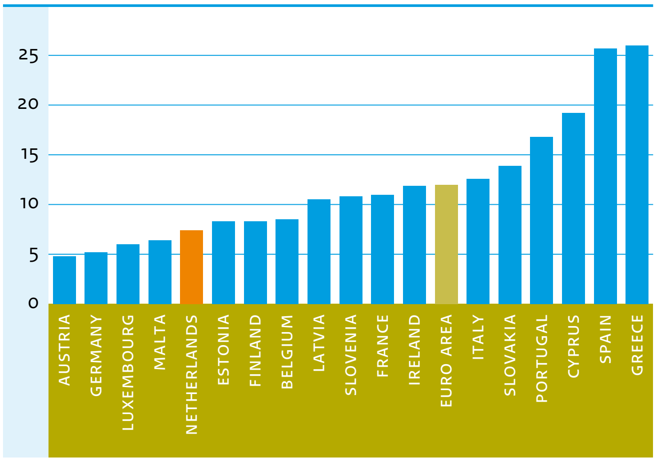


Source: European Commission, February 2014 (Winter forecast)

Labour market responding with delay

Unemployment rose sharply in the beginning of 2013 as a result of declining employment, coupled with an increase in labour supply. Since the middle of 2013 the unemployment rate has been relatively stable. Following a common pattern, the labour market will show a delayed response to the economic improvement. Unemployment is expected to rise to an average of 7.25% in 2014 before slowly declining to 7% in 2015. Although a historically high figure for the Netherlands, this is still relatively low when compared to the euro area (with a projected average unemployment of 12% in 2014).

Unemployment still low in international perspective (2014, % of labour force)



Source: European Commission, February 2014 (Winter Forecast)

Structural reforms starting to pay off

In the last few years, the Dutch government has undertaken a number of fundamental reforms in the areas of housing, pensions and the labour market. The gradual correction of housing prices continued into 2013, with negative effects for the economy as consumers reduced spending in response to negative wealth effects and a desire to deleverage. The measures the Dutch government has taken to support the housing market in the near-term are still in place and house prices are already showing signs of bottoming out. This will support consumer confidence and stimulate further economic recovery. At the same time, the measures the government has taken in order to help correct long-term imbalances – gradually reducing the maximum loan-to-value ratio of mortgages and encouraging households to reduce their mortgage debt by limiting tax deductibility of interest payments – have come into effect. The same can be said of the increase in the retirement age to 67. This improves the long-term sustainability of both Dutch government finances and private pension funds, in addition to its positive effect on labour supply. In combination with labour market reforms to improve flexibility that will be implemented in the next few years, this will further support the structural economic performance of the Dutch economy.

Budgetary Outlook

Budgetary outlook improves significantly

On 18 March, alongside the economic projections, the CPB also published its latest forecast on the budget. The budget deficit shows a marked improvement compared to the forecast from December 2013. The budget deficit is now expected to be 2.9% of GDP in 2014, an improvement of 0.4% compared to the December estimate, and will decline further to 2.1% in 2015. The improvement in the budget deficit is caused both by increasing tax receipts, a result of the positive economic growth, and by the budgetary consolidation measures taken in recent years. The CPB now expects the budget deficit for 2013 to be 2.9% of GDP, down from 3.1% in the December forecast.

Key budgetary figures (% of GDP)

	2011	2012	2013	2014	2015
EMU-balance	-4.3	-4.1	-2.9	-2.9	-2.1
EMU debt	65.7	71.3	74.3	74.6	74.7

Source: CPB Netherlands Bureau for Economic Policy Analysis, March 2014

Netherlands on track to meet European obligations

The new forecast for the budget deficit means that the Netherlands is on track to meet the deadline under the excessive deficit procedure to bring the budget deficit below the norm of 3% of GDP by 2014. The CPB figures are more positive than the Winter Forecast published by the European Commission earlier this year (-3.2% in 2014 and -2.9% in 2015). In May, the European Commission will publish its Spring Forecast.

As a result of the improved forecasts for economic growth and the budget deficit, the projected level of EMU-debt has decreased. For 2014, EMU-debt is expected to be 74.6% of GDP at the end of the year, down from 76.1% in our Outlook 2014 publication in December 2013. For 2015 the CPB expects a slight increase to 74.7% of GDP. These new debt forecasts include the ING IABF Asset sales, concluded in February, which resulted in a € 6.8 bln (1.1% of GDP) reduction of the government debt.

The government has indicated that the financial institutions that were nationalised during the financial crisis (ABN AMRO, ASR, SNS Reaal) will be privatised in the medium term. Proceeds from these privatisations will have a positive effect on the EMU-debt, but they are not yet included in the CPB figures.

Outstanding debt

DSL position per ultimo February 2014

Isin code	DSL	Volume in issue
NL0000102325	3.75 pct DSL 2004 due 15 July 2014	14,309,679,819
NL0009213651	2.75 pct DSL 2009 due 15 January 2015	14,183,940,000
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
XS0827695361	0.25 pct DSL USD 2012 due 12 September 2015	2,792,722,413
NL0010364139	0.00 pct DSL 2013 due 15 April 2016	15,238,000,000
NL0000102283	4.00 pct DSL 2006 due 15 July 2016	14,328,467,000
NL0009819671	2.50 pct DSL 2011 due 15 January 2017	15,638,920,000
XS0749484217	1.00 pct DSL USD 2012 due 24 February 2017	2,511,619,113
NL0010661930	0.50 pct DSL 2014 due 15 April 2017	3,535,000,000
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
NL0010514246	1.25 pct DSL 2013 due 15 January 2019	10,528,224,000
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	16,493,985,000
NL0010060257	2.25 pct DSL 2012 due 15 July 2022	15,252,147,000
NL0000102275	3.75 pct DSL 2006 due 15 January 2023	10,828,450,000
NL0000102077	7.50 pct DSL 1993 due 15 January 2023	3,241,038,737
NL0010418810	1.75 pct DSL 2013 due 15 July 2023	15,825,963,000
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	13,697,427,000
NL0009446418	3.75 pct DSL 2010 due 15 January 2042	14,420,910,000
NL0010721999	2.75 pct DSL due 15 January 2047	3,725,187,000
	Inscription registers	22,595,314
	Private placements	4,411,517,274
Total		**318,512,719,900**

ECP per ultimo February 2014

Currency	Volume in original currency	Volume in euros
ECP in euro	3,055,000,000	3,055,000,000
ECP in US dollar	7,775,000,000	5,678,214,885
ECP in British pound	300,000,000	360,066,194
ECP in Swiss franc	-	
ECP in Norwegian kroner	2,000,000,000	238,820,228
Total		**9,332,101,307**

DTC per ultimo February 2014

isin code	Maturity date	Volume in issue
NL0010558862	DTC 2014-03-31	5,840,000,000
NL0010605150	DTC 2014-04-29	5,480,000,000
NL0010610283	DTC 2014-05-30	4,230,000,000
NL0010524427	DTC 2014-06-30	5,590,000,000
NL0010696662	DTC 2014-07-31	1,000,000,000
NL0010721809	DTC 2014-08-29	1,020,000,000
NL0010661880	DTC 2015-01-06	1,720,000,000
Total		**24,880,000,000**

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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 21 March 2014 (unless mentioned otherwise)

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