DDA SPECIAL

Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

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This special edition of the DSTA Quarterly outlook focuses on the launch of the new 10-year benchmark bond of the State of the Netherlands. This new 10-year bond will be launched on 24 March 2015 via a Dutch Direct Auction (DDA). Furthermore, this outlook presents the issuance calendar for the second quarter of 2015 and discusses the latest economic and budgetary projections for the Netherlands.

New 10-year benchmark bond

The new 10-year benchmark bond, the DSL 15 July 2025, will be launched on Tuesday 24 March. The DSTA has appointed Commerzbank, ING Bank and Rabobank as its advisors for this DDA. The coupon is set at 0.25%. The initial spread guidance vis-à-vis the reference bond will be announced on Monday 23 March. The target amount to be raised is set at a minimum of € 5 bn. The DSTA has a commitment to raise the outstanding amount to € 15 bn this year.

Key characteristics and time schedule DDA	
Bond	DSL 15 July 2025
Auction date	Tuesday 24 March 2015, starting at 10.00 CET
Settlement date	Thursday 26 March 2015
Maturity date	15 July 2025
Issuance size	Minimum of € 5 bn
Reference bond	DBR 0.50% 15 February 2025
Coupon	0.25% (short first coupon)
Initial spread guidance	To be announced Monday 23 March 2015
Allocation	As soon as possible after closing the book, no later than 25 March 2015 9.00 CET
Pricing	At least 1 hour after allocation and no later than 25 March 2015 12.00 CET
Issuer rating	Aaa/AA+/AAA

The DDA process

The DSTA uses the Dutch Direct Auction (DDA) methodology for the launch of its medium to 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 that prioritises end-investors. The DSTA employs a book building process via its Primary Dealers to obtain greater direct engagement during the auction with the international investment community. The DDA is rule-based with the DSTA as the single book runner.

List of Primary Dealers for 2015, in alphabetical order	
ABN AMRO Bank	Jefferies
Barclays Capital	Natixis
Citigroup	Nomura
Commerzbank	Rabobank
Deutsche Bank	Royal Bank of Scotland
Goldman Sachs	Santander GM&M
HSBC France	Société Générale
ING Bank	

To guide investors in their bidding, an initial spread guidance vis-à-vis the reference bond – the DBR 0.50% 15 February 2025 – is communicated on the day prior to the DDA. Investors may submit their bids through one or more Primary Dealers of their choice. Bids are placed against a spread vis-à-vis the reference bond or ‘at best’. By bidding ‘at best’, investors indicate that they want to obtain the DSL at the cut-off spread. This cut-off spread and the allocation are determined by the DSTA after closure of the book according to clear and predetermined rules.

In the DDA, the DSTA distinguishes between two types of investors: ‘Real money’ accounts with a principle aim to buy DSLs for buy-and-hold purposes, and ‘Other’ accounts, which include market participants that obtain bonds primarily for trading purposes and thereby help to contribute to liquidity in the secondary markets. Within these two categories, all investors are treated equally.

Real money accounts	Other accounts
Asset and fund managers (non-leveraged)	Hedge funds
Central banks, agencies, supranationals	All accounts of banks, except Treasury/ALM accounts and private banks
Insurance companies	Other trading desks
Pension funds	
Private banks	
Treasuries, ALM accounts of banks	

At the cut-off spread, Real money accounts have priority in allocation vis-à-vis Other accounts. Nevertheless, the DSTA reserves the right to allocate up to 35% of the total issue to Other accounts. In this way, the DSTA ensures a diverse investor base, which helps safeguard an adequate balance between tradability and buy-and-hold.

The DSTA is the only party with full insight in the book building process. Investor information is classified as confidential and is treated with utmost discretion. After the auction, the DSTA will publish the results through a press release which includes aggregated statistical information on the geographical distribution of investors and the type of investors that were allocated bonds in the DDA. A comprehensive explanation of the DDA Rules and the general DDA principles can be found on the DSTA website (www.dsta.nl).

Funding and issuance

Funding and issuance in the second quarter

The borrowing requirement for 2015 is currently expected to be € 94.8 bn. 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 June. The money market will continue to function as a buffer to accommodate changes in the funding need.

Borrowing requirement	(€ bn)
Capital market redemptions 2015	39.5
Money market ultimo 2014*	43.1
Cash deficit	12.2
Total funding requirement	**94.8**

Funding	(€ bn)
Capital market	48
Money market*	46.8
Total funding	**94.8**

* including cash collateral

So far this year, the DSTA raised approximately € 10 bn on the capital market: € 6 bn via the new 3-year bond , € 1.3 bn via a reopening of the on-the-run DSL 2047, and € 2.6 bn via a reopening of the DSL 2020.

In the second quarter, tap auctions are planned for a total amount of approximately € 13 bn. The 3-year and 10-year DSL will both be reopened once. The DSL 2020 and the DSL 2047 will both be reopened twice. This results in the DSL issuance calendar shown below.

DSL issuance calendar Q2 2015

Auction date		Details	Amount (€ bn)
April	14	Reopening 5-year DSL 2020	2.0 - 3.0
	28	Reopening 30-year DSL 2047	1.0 - 1.5
May	12	Reopening 10-year DSL 2025	2.0 - 3.0
	26	Reopening 5-year DSL 2020	2.0 - 3.0
June	9	Reopening 3-year DSL 2018	2.5 - 3.5
	23	Reopening 30-year DSL 2047	1.0 - 1.5

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

Cash collateral received on the DSTA's derivates portfolio has increased substantially in recent months, improving the DSTA's cash position beyond what was expected earlier. Since the money market acts as a buffer, the DSTA decided to cancel the DTC programme maturing in September. As a result, on two dates there will be an auction of a short term programme only (see table below).

In addition, the DSTA also decided to have only one occasion for the reopening of off-the-run bonds instead of two. This off-the-run auction will take place in the second half of the year; the size of the off-the run auction will be decided in due course in order to fine-tune the end-of-year capital market volume (close to € 48 bn) and to respond to market developments.

The cancellation of one off-the-run auction creates the opportunity for an additional tap auction. With an eye to market conditions, the DSTA decided to have an additional auction of the DSL 2047, without changing the target amount of € 5 bn in total for 2015.

DTC issuance calendar Q2 2015

Auction date	Settlement date	Short term programme	Longer term programme
07-04-2015*	09-04-2015	30-06-2015	31-08-2015
20-04-2015	22-04-2015	30-06-2015	
04-05-2015	06-05-2015	31-07-2015	
18-05-2015	20-05-2015	31-07-2015	30-10-2015
01-06-2015	03-06-2015	31-08-2015	30-10-2015
15-06-2015	17-06-2015	31-08-2015	30-11-2015

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

Economic outlook

'Steady recovery continues', according to the Netherlands Bureau for Economic Policy Analysis (CPB) in its latest economic forecasts for the Dutch economy. In 2014 the Dutch economy registered a GDP growth rate of 0.8%, after two years of negative growth. For the current year and next, economic growth is projected to go up to 1.7% and 1.8% respectively.

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

	2013	2014	2015	2016
GDP	-0.7	0.8	1.7	1.8
Household consumption	-1.6	0.1	1.5	1.7
Investments (including inventories)	-5.3	1.5	3.8	4.5
Government spending	-0.3	- 0.1	0.2	0.1
Exports	2.0	4.0	4.6	4.8
Imports	0.8	3.8	4.9	5.3
Employment (labour years)	-1.5	0.4	1.2	1.3
Unemployment (% of labour force)*	7.3	7.4	7.2	7.0
Inflation (HICP)	2.6	0.3	-0.1	0.9

* The unemployment rate is 0.6%-points higher as compared to earlier estimates due to a revision of the Labour Force Survey.

Source: CPB, 16 March 2015

The lower euro exchange rate and the sizeable drop in oil prices have positive effects on the Dutch economy. The recovery is steady, and is now also supported by domestic spending. Household consumption, which already started to pick up in the second half of last year, is expected to strengthen further into 2015 (+1.5%) and 2016 (+1.7%). Domestic demand is expected to contribute around 40% to overall growth in both projection years.

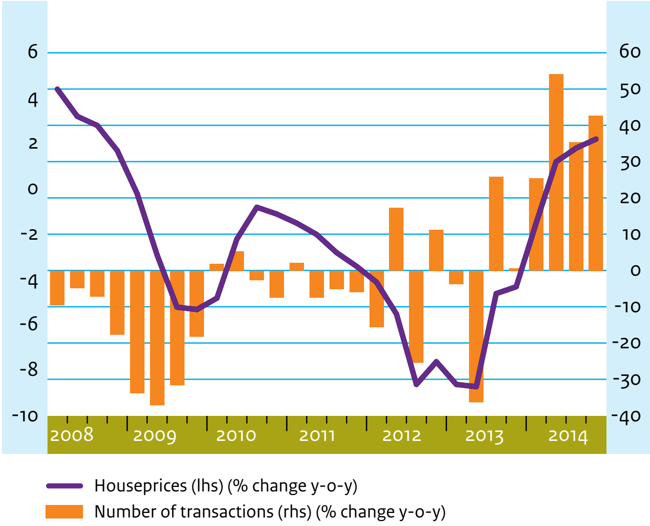
Stronger private consumption is underpinned by confidence indicators that have improved strongly since the beginning of 2013. Consumption is stimulated by a turnaround in the housing market (see below) and the labour market. Although wage developments remain moderate, real incomes and purchasing power are expected to increase due to limited inflation.

Labour market conditions are improving. The number of vacancies is increasing, and more companies are signaling an intention to hire new workers. Although employment is up by more than 1% in both projection years, this will not lead to a significantly lower unemployment rate as labour supply is expected to increase almost as rapidly. At 7.2% in January, unemployment in the Netherlands still remains among the lowest in the euro area.

The housing market

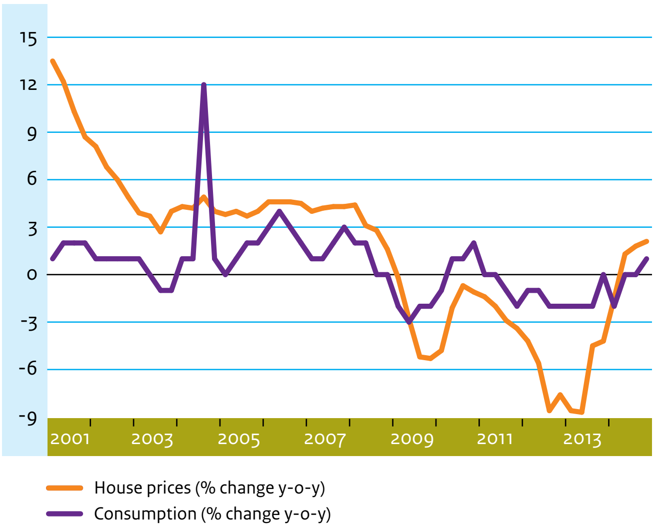
Since the summer of 2013, the number of transactions on the housing market has increased steadily (see the figure below). Transactions are now at the highest level since the start of the financial crisis. Around the same time transactions picked up, the decline in house prices came to a halt. After a peak in 2008, nominal prices went down by 21%. Since then prices have bounced back by almost 4%.

Further improvement in the housing market



The figure below illustrates the co-movement (75% correlation) that we have seen in the past between consumption growth and house price changes. It is now common opinion that, looking back, negative wealth effects related to the housing market have been more important than previously estimated. A stabilizing and moderately growing housing market will remain supportive for consumption growth in the coming years.

Consumption growth and house prices highly correlated



In the last few years, the government has implemented a number of significant reforms, including reforms related to the housing market. The box below lists the major reforms that have been implemented in various sectors of the Dutch economy, both to strengthen the economy in a structural way and to improve the sustainability of the budget.

BOX – structural reforms in the Netherlands

Pensions/retirement
- The retirement age is set to increase to 67 in 2021 and linked to life expectancy thereafter; fiscal incentives for early retirement have been removed.
- The maximum annual pension accrual qualifying for tax relief is reduced, allowing for lower pension contributions and budgetary savings.

Healthcare
- More long-term care will be provided outside homes for the elderly, organized by local governments.
- Public health insurance coverage is limited and combined with higher contributions by the insured.
- Competition in the healthcare sector (both between care providers and between providers and insurers) will be increased.

Housing market
- Maximum tax deductibility on mortgage interest payments (for new and existing loans) is reduced gradually (from 52% to 38%).
- New mortgages have to be redeemed in full during the lifetime of the loan.
- Maximum loan-to-value (LTV) ratios are lowered and maximum loan-to-income (LTI) ratios are more strict.
- The property transfer tax (stamp duty) is permanently lowered from 6% to 2%.
- Rents will be more market-based, and increased more for those with relatively higher incomes.

Labour market
- Dismissal procedures are simplified, increasing labour market flexibility.
- Unemployment benefits will have a shorter duration, a lower maximum and a reduced build-up of entitlements.

Budgetary outlook

Over the past few years, the budget deficit has shown a steady improvement. For this year, the CPB expects the government budget deficit to decline further to 1.8% of GDP in 2015 and to 1.2% of GDP in 2016.

Key budgetary figures for the Netherlands (% GDP)

	2013	2014	2015	2016
Nominal EMU-balance	-2.3	-2.6	-1.8	-1.2
Structural EMU-balance	-0.4	-0.4	-0.5	-0.5
EMU-debt	68.6	69.0	68.8	67.8

Source: CPB, 16 March 2015

In the years since 2009, the government had to take substantial measures on both the spending and the revenue side to achieve budgetary consolidation. Public spending is clearly down, from 47.3% of GDP in 2014 to 45.1% of GDP in 2016. Especially spending on health care and social security are down.

The structural budget balance, the nominal balance corrected for the cycle and one-offs, is expected to equal -0.5% of GDP in both 2015 and 2016. This level matches the medium-term objective (MTO) according to the European budgetary regulations. The debt ratio is projected to decline to 67.8% in 2016, 1%-point below the debt level for the present year.

The improved fiscal situation has left more scope for a return to the traditional Dutch trend-based budgetary policies. In this framework, cyclical fluctuations are accommodated in the budget balance. In order for this budgetary policy to fully function the deficit has to stay significantly below the 3% of GDP mark.

Long-term sustainability secured

In light of the ageing population and therefore increasing pensions and healthcare costs, as well as decreasing gas revenues, the long-term sustainability of public finances has gained in importance. In order to measure this, the CPB calculates the so-called fiscal sustainability gap. It represents the permanent adjustment of the budget that is required to make the long-term debt sustainable.The reforms that have been implemented in recent years, particularly in pensions, healthcare and the housing and labour markets, have not just improved the growth prospects of the Dutch economy, but have also significantly contributed to long-term sustainability. At 0.4% of GDP (a surplus!), the sustainability gap has gained more than 6%-points since 2010. A surplus implies that long-term finances are on a sustainable path, given present budgetary and social security arrangements.

Outstanding debt

DSL position per ultimo February 2015

Isin code	DSL	Volume in issue
NL0010055703	0.75 pct DSL 2012 due 15 April 2015	12,793,400,000
NL0000102242	3.25 pct DSL 2005 due 15 July 2015	12,898,465,000
NL0010364139	0.00 pct DSL 2013 due 15 April 2016	15,238,000,000
NL0000102283	4.00 pct DSL 2006 due 15 July 2016	14,728,467,000
NL0009819671	2.50 pct DSL 2011 due 15 January 2017	15,638,920,000
NL0010661930	0.50 pct DSL 2014 due 15 April 2017	15,036,000,000
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
NL0011005137	0.00 pct DSL 2015 due 15 April 2018	3,277,000,000
NL0006227316	4.00 pct DSL 2008 due 15 July 2018	15,081,020,000
NL0010514246	1.25 pct DSL 2013 due 15 January 2019	15,321,224,000
NL0009086115	4.00 pct DSL 2009 due 15 July 2019	14,056,398,000
NL0010881827	0.25 pct DSL 2014 due 15 January 2020	7,709,184,000
NL0009348242	3.50 pct DSL 2010 due 15 July 2020	15,069,615,000
NL0009712470	3.25 pct DSL 2011 due 15 July 2021	16,493,985,000
NL0010060257	2.25 pct DSL 2012 due 15 July 2022	15,252,147,000
NL0000102275	3.75 pct DSL 2006 due 15 January 2023	11,382,212,000
NL0000102077	7.50 pct DSL 1993 due 15 January 2023	2,687,276,737
NL0010418810	1.75 pct DSL 2013 due 15 July 2023	15,825,963,000
NL0010733424	2.00 pct DSL 2014 due 15 July 2024	15,315,132,000
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	15,331,910,000
NL0010721999	2.75 pct DSL 2014 due 15 January 2047	6,528,187,000
	Inscription registers	16,560,923
	Private placements	4,491,981,111
Total		**327,075,604,001**

ECP per ultimo February 2015

Currency	Volume (original currency)	Volume in euros
ECP in euro	0	0
ECP in foreign currencies	0	0

DTC per ultimo February 2015

Isin code	Maturity date	Volume in issue
NL0010872487	DTC 2015-03-31	4,650,000,000
NL0010937090	DTC 2015-04-30	4,460,000,000
NL0010948287	DTC 2015-05-29	2,380,000,000
NL0010832267	DTC 2015-06-30	4,340,000,000
NL0011131552	DTC 2015-07-31	1,010,000,000
Total		**16,840,000,000**

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Additional online information on DSLs, DTCs and ECP can be obtained from:
Reuters - dstamenu
Bloomberg - dsta
www.dsta.nl

The cut-off date is 20 March 2015 (unless mentioned otherwise)

Colophon
Design Studio Tint, The Hague