Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

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This Quarterly outlook provides an update of the funding requirement for 2016, presents the issuance calendar for the fourth quarter of 2016 and gives a first estimate of the funding need in 2017. Moreover, this outlook discusses the latest economic and budgetary projections for the Netherlands and reveals the launch date of the Outlook 2017.

Funding and issuance

Updated borrowing requirement

The total borrowing requirement for 2016 has been updated and is now significantly lower than the previous estimate. This update follows the publication of the Budget Memorandum 2017 by the Minister of Finance on 20 September. The lower borrowing requirement can for a large part be attributed to an improvement in the cash position for 2016. While previously a cash deficit of € 6.4 billion was estimated, the government now expects a cash surplus of € 0.7 billion.[1] Importantly, this is due to positive economic and budgetary developments in the Netherlands (see further down this Outlook). However, there are also other factors contributing to the improved cash position. Firstly, the termination of interest rate swap contracts with a positive market value resulted in additional cash inflows of € 2.9 billion. Secondly, in June this year the sale of Propertize (the real-estate arm of what was known as SNS Reaal) led to a cash inflow of € 0.9 billion.

Borrowing requirement 2016 (€ bn)	Update	Previous
Capital market redemptions 2016	28.1	28.1
Money market ultimo 2015	15.2	15.2
Cash collateral ultimo 2015	19.4	19.4
Cash balance 2016*	-0.7	6.4
Cash inflow loans Propertize	-2.4	
Buy-backs DSL 2017 & DSL 2018	5.6	5.1
Total borrowing requirement	**65.2**	**74.2**

* A cash deficit (surplus) is depicted as a positive (negative) amount in the table because it increases (decreases) the total borrowing requirement.

Another reason for the lower borrowing requirement is an expected additional inflow of € 2.4 billion in exchange for taking over Propertize's debt instruments. This will result in the effective cancellation of the existing

1 All estimates for the cash balance in this Quarterly outlook exclude receipts resulting from possible sales of shares in state owned enterprises in the future.

state guarantee on these liabilities. Finally, the lower borrowing requirement is slightly offset by an increase in buy-backs of Dutch State Loans (DSLs) maturing in 2017 and 2018.

The decrease in the borrowing requirement will be accommodated by the money market, which serves as the primary buffer for changes in the borrowing need throughout the year. The call on the money market has decreased further due to the fact that this year DSLs have been issued above par value. The additional expected proceeds (€ 1.9 billion) increase total capital market funding (in cash terms) and lower money market funding accordingly. This relatively large difference between capital market proceeds in nominal and cash terms can be attributed to the low and declining interest rate environment.

Funding 2016 (€ bn)	
Capital Market (cash terms)	28.2
o/w in nominal value	26.3
o/w proceeds from bonds issued above par	1.9
Money market ultimo 2016	16.1
Cash collateral estimate ultimo 2016*	20.9
Total funding 2016	**65.2**

* Based on the outstanding amount at the end of August and assuming cash collateral is constant for the remainder of the year.

The lower funding need results in a call on the capital market at the lower end of the € 25 -30 billion range that was announced earlier. The estimated call on the capital market is approximately € 26.3 billion in nominal terms. As of 20 September, the DSTA raised a total of € 21.3 billion in nominal terms, covering approximately 81% of the total targeted capital market funding for 2016.

Issuance calendar Q4

In the fourth quarter, two tap auctions are planned. The 10-year benchmark bond will be tapped twice, once in October and once in November, to reach an outstanding amount of at least € 15 billion by the end of the year. Traditionally, December is an auction-free month for DSLs. The target amounts for the auctions are shown below.

Auction date	Details	Target volume (€ bn)
11 October	Reopening 0.50% DSL 15 July DSL 2026	1.5 - 2.5
8 November	Reopening 0.50% DSL 15 July DSL 2026	1.5 - 2.5

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

The fourth quarter has six auctions dates for Dutch Treasury Certificates (DTCs). As was the case in previous years, the December auctions of DTCs will be held on the first and second Monday of the month, instead of the regular first and third Monday. Following the unexpected strong improvement of the cash position, it was decided that the March 2017 DTC-programme will not be issued.

Auction date	Settlement date	Short term programme	Longer term programme
03-10-2016	05-10-2016	30-12-2016	
17-10-2016	19-10-2016	30-12-2016	
07-11-2016	09-11-2016	31-01-2017	28-04-2017
21-11-2016	23-11-2016	31-01-2017	28-04-2017
05-12-2016	07-12-2016	28-02-2017	31-05-2017
12-12-2016	14-12-2016	28-02-2017	31-05-2017

Note: shaded fields indicate new programmes; announcement of all auction details is on the Wednesday prior to the auction date (t-5).

First estimate of funding need in 2017

Based on the Budget Memorandum 2017, the first estimate of the DSTA's funding need for 2017 is € 80.7 bn. This is higher than the borrowing requirement in 2016. For a large part the difference can be explained by higher redemptions on the capital market. An updated estimate of the borrowing requirement for 2017, together with the funding plan, will be published in the Outlook 2017 on 15 December.

Borrowing requirement 2017, first estimate (€ bn)	
Capital market redemptions 2017*	43.0
Money market ultimo 2016	16.1
Cash collateral estimate ultimo 2016	20.9
Cash deficit	0.7
Total borrowing requirement	**80.7**

* This includes DSL redemptions in euros and US dollars as well as repayments of debt obligations from previously state-owned enterprises Fortis and Propertize and of loans from the Netherlands Antilles.

Economic outlook

Dutch GDP growth stabilises

The Dutch economy will continue its upward trend, with GDP growth of 1.7% both this year and in 2017, as forecast by the independent Netherlands Bureau for Economic Policy Analysis (CPB). Domestic demand remains the dominant driver. For 2017, this includes the effect of extra government spending that was announced in the Budget Memorandum (see below), and published on the same day as the new economic forecasts. Brexit is projected to negatively affect Dutch GDP by 0.4%-point in 2017. Average oil prices are projected to be 18% higher in 2017 than this year, which will have an upward impact on inflation. However, inflation remains historically low. Finally, unemployment will stabilise at 6.2% of the labour force in 2017.

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

	2015	2016	2017
GDP	2.0	1.7	1.7
Household consumption	1.8	1.3	1.8
Government consumption	0.2	0.8	1.0
Investment (including inventories)	6.2	5.0	3.8
Exports	5.0	3.2	3.1
Imports	5.8	3.7	3.8
Employment (in hours)	1.2	1.6	0.9
Unemployment (% labour force)	6.9	6.2	6.2
Inflation (HICP)	0.2	0.0	0.5

Source: CPB, 20 September 2016

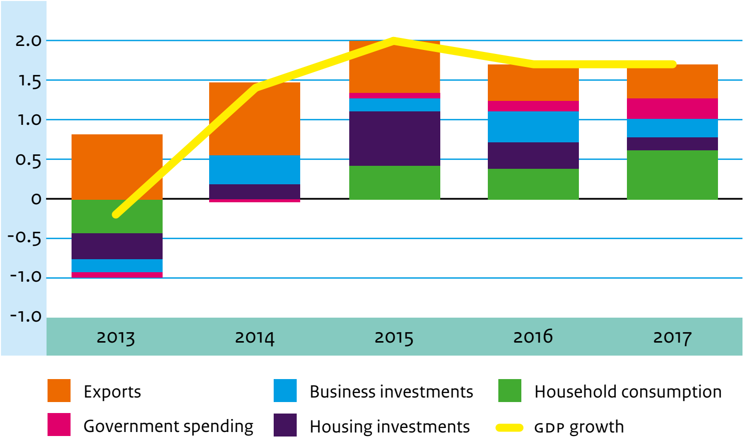
Dutch export expansion outpaces GDP growth

International trade for the Netherlands is impacted by the leave vote in the UK. However, Dutch export growth will still outpace GDP growth this year (+3.2%) and in 2017 (+3.1%). Exports benefit somewhat from more competitive prices. In line with the historical trend, the growth in re-exports (+4.2%) is higher than the growth of domestically produced exports (+2.9%) in 2017. Energy exports will decrease somewhat due to a lower maximum gas production. Imports will rise 3.8% in 2017, after 3.7% this year. External downward risks for the Netherlands are related to financial weaknesses of Southern-European countries, a slowdown in international trade and uncertainty on monetary policy.

Impact Brexit on Dutch economy

Brexit will impact the Dutch economy mainly through its strong trade interdependence with the UK. The overall short term effects are related to a weaker UK economy and uncertainty on the new relation between the EU and UK. This might lead to postponed investments and consumption. This, in combination with a depreciated British pound, will lead to significantly lower net export levels to the UK. Dutch GDP will be affected by -0.4%-point and European growth by -0.2%-point in 2017. Two thirds of the impact on the Dutch economy is caused by hampered international trade, while the residual part is related to reduced Dutch domestic demand following the increased uncertainty. International trade is mainly affected in the short term through higher expected trade costs. The effects are largely sector specific: the chemical and metal industry, production of motor vehicles and food industry might face a production loss of 5%. In a previous study, CPB estimated a long-term negative Brexit effect of 1.2% of GDP for the Netherlands.

Broad-based growth continues (contribution in %-points)



Note: contributions are netted for imports.
Source: CPB, 20 September 2016

Steady growth household consumption

Household consumption will return to its 2015 growth level of +1.8% in 2017, up from +1.3% this year. Disposable income rises sharply in 2016 (+3.6%). This is caused by a € 5 billion tax relief package, a rise in employment and an increase in real wage income. Income growth for 2017 will be more moderate. Until now, a significant part of the rise in disposable income for 2016 seems to be used for additional savings. As a result, the savings rate (in relation to disposable income) is projected to increase this year, before dropping back next year. In 2017, consumption growth will increase as the effect of lower savings more than offsets lower income growth. This can partly be explained by the continued increase of house prices, driven by falling interest rates and a steady increase in the number of households. The number of transactions on the housing market reaches pre-crisis levels in 2016 and will continue to grow in 2017.

Low capital costs drive up investment
Total investments show positive changes in 2015 (+6.2%) and 2016 (+5.0%). These numbers are largely driven by strong increases in business investments. Low interest rates result in declining capital costs for 2016, driving up investments. Due to this year's growth, the investment quote is now back to the long-term average of 18% of GDP. Business investment growth will slow down in 2017, mainly as a consequence of economic uncertainty. The same development is observed for housing investments, where strong growth rates were observed in 2015 and 2016, followed by more moderate growth next year. The repeal of a lowered tax rate in the building sector is an additional factor that will temper investments in 2017.

Unemployment stabilises
In 2016, the unemployment rate declines by 0.7%-point to 6.2% of the labour force, as a result of the economic recovery and stable labour supply. The projection shows a stabilisation at 6.2% in 2017. The CPB, however, notes the situation for the labour market as a positive risk in the forecast for the Dutch economy. For the public and healthcare sectors, employment is forecast to decrease in 2017. However, employment growth in the market sector is sufficient to absorb the increasing level of labour supply next year. Though the unemployment rate has come down considerably compared to a level of 7.4% in 2014, shortages in the labour market remain limited. As a consequence, wage rises remain moderate for both years, with increases of 1.6% on average for the market sector.

Budgetary outlook

Continued improvement budgetary figures
The government presented its Budget Memorandum for 2017 on 20 September. The projections show that the current economic climate continues to positively affect government finances. More specifically, higher tax revenues and lower interest payments play an important role in decreasing the EMU-deficit in 2016 and 2017. These effects are slightly offset in 2017 by extra government spending (€ 2.5 bn), mainly to support the purchasing power of certain groups (for instance pensioners) and to strengthen public security. In short, both the EMU-deficit and EMU-debt continue their downward trend.

Budget deficit declines further
This year's Budget Memorandum projects an EMU-balance of -1.1% of GDP in 2016 and -0.5% of GDP in 2017. Compared to the previous projections from last June, the expected EMU-deficit is 0.5%-point of GDP lower for both 2016 and 2017. As a result, the 2017 EMU-deficit represents the smallest deficit since the beginning of the financial crisis. More generally, these numbers show a gradual movement towards a balanced budget in the upcoming years, which is in line with the ambition of the Dutch government.

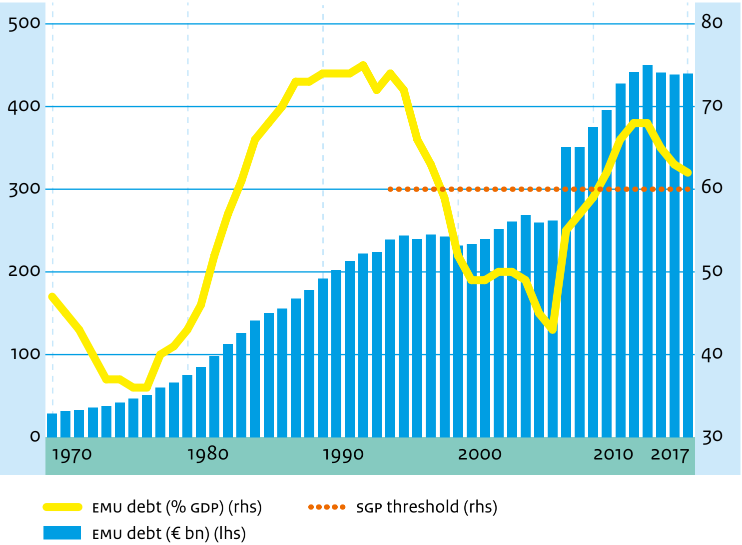
Key budgetary figures for the Netherlands (% of GDP)

	2015	2016	2017
Nominal EMU-balance	-1.9	-1.1	-0.5
EMU-debt	65.1	63.4	62.1

Source: Budget Memorandum, 20 September 2016

Debt ratio decreasing steadily

The EMU-debt is expected to keep decreasing this year and next, from 65.1% of GDP at the end of 2015 to 63.4% in 2016 and 62.1% in 2017. As a result, the debt to GDP ratio is approaching the 60% threshold set by the EU Stability and Growth Pact (SGP). For 2017, the debt to GDP ratio improved due to the combined effect of a lower deficit, an increase in GDP (denominator effect) and higher inflows from treasury banking by local authorities. Debt will also fall due to higher income from interest rate derivatives, resulting from the DSTA's debt management operations. These numbers do not include any potential proceeds of further sales of shares the government still holds in ABN Amro Bank (77%) or insurer ASR (64%).



Source: Budget Memorandum, 20 September 2016

Save the date!

Launch of the DSTA's Outlook 2017

15 December 2016

Invitations will be sent out in November

Outstanding debt

DSL position per ultimo August 2016

Isin code	DSL	Volume in issue
NL0009819671	2.50 pct DSL 2011 due 15 January 2017	10,801,920,000
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	11,549,000,000
NL0006007239	4.50 pct DSL 2007 due 15 July 2017	12,904,990,000
NL0010200606	1.25 pct DSL 2012 due 15 January 2018	14,151,425,000
NL0011005137	0.00 pct DSL 2015 due 15 April 2018	14,504,000,000
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	14,671,398,000
NL0010881827	0.25 pct DSL 2014 due 15 January 2020	15,318,184,000
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
NL0011896857	0.00 pct DSL 2016 due 15 January 2022	4,812,112,000
NL0010060257	2.20 pct DSL 2012 due 15 July 2022	15,252,147,000
NL0000102275	3.75 pct DSL 2006 due 15 January 2023	4,263,000,000
NL0000102077	7.50 pct DSL 1993 due 15 January 2023	8,241,488,737
NL0000103000	Principal 15 January 2023	1,565,000,000
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
NL0011220108	0.25 pct DSL 2015 due 15 July 2025	15,220,159,000
NL0011819040	0.50 pct DSL 2016 due 15 July 2026	10,968,051,000
NL0000102317	5.50 pct DSL 1998 due 15 January 2028	13,028,814,230
NL0010071189	2.50 pct DSL 2012 due 15 January 2033	12,463,900,000
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	11,163,187,000
	Inscription registers	13,070,525
	Private placements	4,147,352,483
Total		**319,687,094,088**

ECP position per ultimo August 2016

Currency	Volume (original currency)	Volume in euros
ECP in US dollar	2,650,000,000	2,346,291,235
Total		**2,346,291,235**

DTC position per ultimo August 2016

Isin code	Maturity date	Volume in issue
NL0011821228	DTC 2016-09-30	4,380,000,000
NL0011832902	DTC 2016-10-31	4,400,000,000
NL0011896816	DTC 2016-11-30	2,410,000,000
NL0011923107	DTC 2016-12-30	2,150,000,000
NL0011983366	DTC 2017-01-31	2,660,000,000
Total		**16,000,000,000**

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The cut-off date is 20 September 2016
(unless mentioned otherwise)