Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

March 2017
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Funding and issuance

Borrowing requirement

The DSTA last updated its borrowing requirement on 10 January 2017. The figure then presented, € 58.7 bn, was slightly lower than the figure mentioned in the annual Outlook in December 2016 due to improvements in the cash position at the end of the year.

Borrowing requirement 2017 (€ bn)	
Capital market redemptions 2017	42.5
Money market ultimo 2016*	18.2
Cash surplus	-2.0
Total	**58.7**

Funding 2017 (€ bn)	
Capital market issuance (DSLs)	30.0-35.0
Money market ultimate 2017*	23.7-28.7
Total	**58.7**

* Excluding cash collateral received

Recent projections of the EMU balance (see Budgetary outlook) point to a further improvement of the budget. This makes a downward revision of the borrowing requirement for 2017 probable. The positive trend in public finances can be attributed to continued economic growth, and in particular to a large increase in taxation income relative to government spending. The Ministry of Finance will publish its next official budgetary forecast at the end of May (Spring Memorandum). The DSTA will then update the funding plan for 2017 accordingly.

The money market will primarily serve to absorb fluctuations in the funding need. On the capital market, flexibility is possible within the communicated issuing range of € 30-35 bn. If the borrowing requirement continues to decrease, issuance towards the lower end of this range will be most likely. The DSTA has so far raised a nominal amount of € 11.5 bn on the capital market, covering 33-38% of the total targeted amount for 2017.

Issuance calendar Q2

In the second quarter, four DSL tap auctions are planned. The quarter will start with the reopening of the off-the-run DSL 2033 on 11 April. The new 10-year benchmark DSL will be reopened on 25 April and again on 13 June. On 9 May the 5-year benchmark DSL will be reopened a final time to reach an outstanding amount of € 15 bn. Target amounts for these auctions are shown in the table below.

Indicative DSL calendar Q2 2017

Auction date	DSL to be issued	Target volume (€ bn)
11 April	DSL 15 January 2033	0.75 – 1.25
25 April	DSL 15 July 2027	2 – 3
9 May	DSL 15 January 2022	2 – 3
13 June	DSL 15 July 2027	2 – 3

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

The second quarter has six auction dates for Dutch Treasury Certificates (DTCs). Due to a number of (TARGET) holidays several DTC auctions will be held on a Tuesday rather than the regular Monday. The DSTA uses the first auction date of the month to tap a 6-months programme and the second to tap both a 3-months and a 6-months programme.

Indicative DTC calendar Q2 2017

Auction date	Settlement date	3-months programme	6-months programme
03-04-2017	05-04-2017		29-09-2017
18-04-2017*	20-04-2017	30-06-2017	29-09-2017
02-05-2017*	04-05-2017		31-10-2017
15-05-2017	17-05-2017	31-07-2017	31-10-2017
06-06-2017*	08-06-2017		30-11-2017
19-06-2017	21-06-2017	31-08-2017	30-11-2017

* Due to (TARGET) holidays these DTC-auctions will be held on a Tuesday rather than the regular Monday.

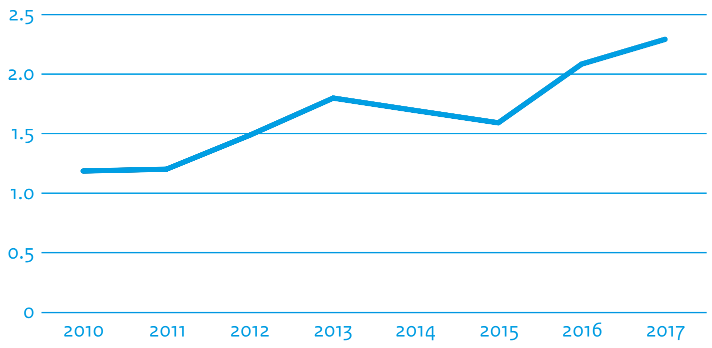
Note: shaded fields indicate new programmes; announcement of all auction details is on the Wednesday prior to the auction date.

Successful launch new 10-year bond

A new 10-year benchmark bond is the cornerstone of the DSTA's annual funding plan. This year's issue, the DSL 15 July 2027 with a coupon of 0.75%, was launched on Tuesday 7 February 2017 via a Dutch Direct Auction (DDA). The target range for the launch was € 4-6 billion and the preliminary spread guidance vis-à-vis the German reference bond, the DBR 0.5% 15 February 2017, was set at +33 to +36 basis points.

In the end, the uniform cut-off spread was +33 basis points over the reference bond, with a yield of 0.707% and a price of 100.43. This cut-off spread led to the allocation of € 5.7 billion, of which 58% was allocated towards real money accounts (mainly asset and fund managers and central banks and supranationals). The majority was allocated to investors in the UK (34%), the Netherlands (21%) and Switzerland (11%). Investor demand was abundant with a high quality order book of close to € 13 billion. The resulting bid to cover ratio for this auction was the highest since 2010 for a 10-year DDA.

Bid to cover ratio of Dutch 10 year bonds



Economic outlook

Growth outlook remains strong

The Dutch economy is projected to grow by 2.1% this year, followed by 1.8% in 2018. These latest forecasts by the independent Netherlands Bureau for Economic Policy Analysis (CPB) were published on 24 March, the same day as this Quarterly outlook. They are proof that the Dutch economy is on a sustainable growth path. As in recent years, growth will be supported by both the internal and external sectors. Employment growth starts to slow down, but will continue to outpace the increase of labour supply. As a result, unemployment will drop sharply over the forecast horizon, to 4.9% of the labour force in 2017 and further to 4.7% in 2018. Inflation will pick up, particularly in 2017, which is largely due to higher energy prices in combination with a stronger dollar.

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

	2016	2017	2018
GDP	2.1	2.1	1.8
Household consumption	1.8	2.0	1.4
Government consumption	0.7	0.8	1.0
Investment (including inventories)	4.3	3.6	2.8
Exports	3.7	3.5	3.9
Imports	3.9	3.6	3.9
Employment (in hours)	2.3	1.9	0.7
Unemployment (% labour force)	6.0	4.9	4.7
Inflation (HICP)	0.1	1.6	1.4

Source: CPB, 24 March 2017

Solid export performance

Dutch exports increase over the forecast horizon by 3.5% this year and will accelerate slightly to 3.9% in 2018. The relatively strong export performance is exemplified by growth outpacing the increase in relevant world trade. This implies Dutch exporters are able to increase their market share. This in turn is largely due to favourable exchange rate developments since 2015. There are a number of risks to the international outlook and Dutch exports in particular. In Europe, policy uncertainty is particularly high at the moment, mainly due to Brexit. Policy uncertainty regarding the US has also heightened in recent months, which could lead to both positive and negative effects on world trade.

Household consumption continues to pick up

The positive trend in household consumption is maintained in 2017 and 2018, with growth of 2.0% and 1.4% respectively. Disposable income is rising due to increased employment in combination with a gradual pick-up of wage growth. Growth in 2017 is supported by the tax relief package of 2016, which will partly be spent this year. This spending is supported by continued price increases in the housing market, which are expected to persist over the forecast horizon. The positive sentiment among consumers is reflected in growing consumer confidence which in February came out at the highest level in almost 10 years.

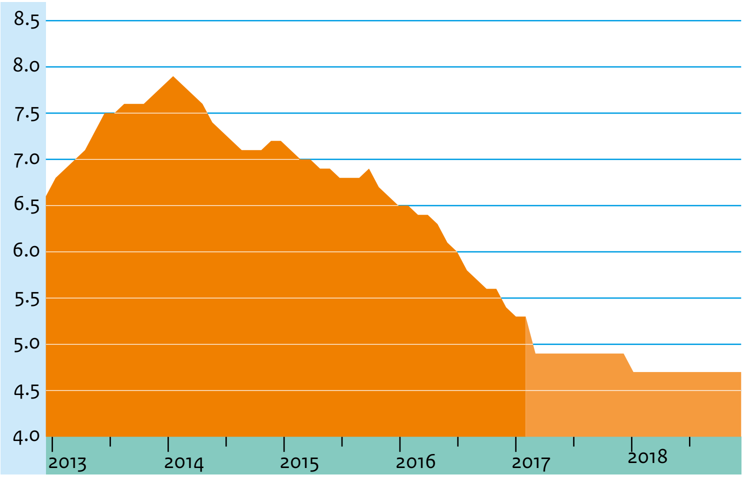
Investment growth less buoyant

Investments continue to grow, by 3.6% in 2017, slowing down to 2.8% next year. Even though these figures represent a gradual slowdown from the high levels in 2016 and particularly 2015, they are sufficient to keep the investment quote stable at its long-term average. The slowdown this year and next is completely attributable to falling growth in housing investments (as opposed to business investments), which is largely due to a marked slowdown in the number of new houses being built. Even though demand for new housing is strong, it takes a while to process new permits. On top of that, the construction sector has a diminished capacity to deal with the sudden increase in demand.

Improvement labour market accelerates

The unemployment rate continues to decline at an exceptional pace, from 6.0% in 2016 to 4.9% this year and 4.7% in 2018. Over the period 2015-2017 unemployment is forecast to decline by 2.0%-point. In the last 50 years, such a strong improvement has occurred only once before, in the late 1990s. Both the supply and demand side of the labour market are set to improve further in the next few years. Employment (in hours) is set to grow by 1.9% this year and 0.7% in 2018. Labour supply is increasing partly due to cyclical developments, but is also supported by policy measures such as the gradual increase of the retirement age and fiscal measures aimed at increasing employment.

Fast drop in unemployment set to continue (in % of the labour force)



Source: Netherlands Statistics (CBS, up to February 2017) and Netherlands Bureau for Economic Policy Analysis (CPB, 2017 and 2018)

Outcome Dutch elections

On 15 March 2017 the Dutch electorate voted for a new House of Representatives. The turnout was historically very high with 81.9% or over 10.5 million voters. The result of the election for the 150 available seats in parliament (76 seats are required for a majority coalition):

	2017	2012
Liberals (VVD)	33	41
Freedom party (PVV)	20	15
Christian democrats (CDA)	19	13
Liberal democrats (D66)	19	12
Green left (Groen Links)	14	4
Socialists (SP)	14	15
Social democrats (PvdA)	9	38
Christian conservatives (CU)	5	5
Animal Rights Party (PvdD)	5	2
Rest	12	5

Based on this election outcome, it is generally expected that at least 4 political parties will be needed to form a majority government. Parliament has appointed the current caretaker Minister of Health as an ‘inquirer’ to assess the most pressing wishes and options for a possible coalition. As early as next week, the inquirer will present one or more possible coalitions, after which an ‘informateur’ is appointed by parliament to investigate their viability with the leaders of the relevant political parties. If the informateur is successful in drawing up a Coalition Agreement, a ‘formateur’ is then appointed, most often the intended prime minister, to form a cabinet. How long the process of forming a new government takes, cannot be said beforehand. In the past, it took an average of 96 days. In the meantime, the present government remains in place as a caretaker government.

Budgetary outlook

Budgetary surplus achieved

The improvement of the EMU-balance, mainly as a result of favourable tax income developments, has continued in the final months of last year. As a result, the CPB now estimates a budget surplus of 0.3% of GDP in 2016 – whereas in December it still predicted a deficit of 0.4%. The balance is expected to improve further, to a surplus of 0.5% and 0.8% in 2017 and 2018 respectively. An important caveat is that the CPB assumes no policy changes in the 2018 budget, taking into account that the current government is the caretaker government since the parliamentary elections of 15 March 2017 (see the box elsewhere in this publication). A newly formed coalition is likely to make policy changes that will affect spending and taxation for 2018.

Key budgetary figures for the Netherlands (% of GDP)

	2016	2017	2018
EMU-balance	0.3	0.5	0.8
EMU-debt (year-end)	61.8	58.5	55.5

Source: CPB, 24 March 2017

Debt ratio to fall below 60% of GDP

The CPB forecasts the EMU-debt at 58.5% of GDP at the end of 2017, a drop of nearly 10%-points since the post-crisis peak in 2014. This is the first time since 2010 that government debt will drop below the European threshold of 60%. For 2018 a further decline by 3%-points is foreseen, mainly due to a combination of sustained growth and an increase in the budget surplus.

In the debt forecast, the CPB makes the technical assumption that the government will continue the gradual sell-off of its stakes in ABN Amro Bank and insurer ASR. As with the budgetary projections mentioned above, the figures for 2018 can change due to new policies implemented by an incoming government.

Outstanding debt

DSL position per ultimo February 2017

Isin code	DSL	Volume in issue
NL0010661930	0.50 pct DSL 2014 due 15 April 2017	11,289,000,000
NL0006007239	4.50 pct DSL 2007 due 15 July 2017	12,336,990,000
NL0010200606	1.25 pct DSL 2012 due 15 January 2018	13,478,425,000
NL0011005137	0.00 pct DSL 2015 due 15 April 2018	13,324,000,000
NL0006227316	4.00 pct DSL 2008 due 15 July 2018	14,299,020,000
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	10,476,112,000
NL0010060257	2.25 pct DSL 2012 due 15 July 2022	15,252,147,000
NL0000102275	3.75 pct DSL 2006 due 15 January 2023	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	15,113,051,000
NL0012171458	0.75 pct DSL 2017 due 15 July 2027	5,697,926,000
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	14,848,427,000
NL0009446418	3.75 pct DSL 2010 due 15 January 2042	15,331,910,000
NL0010721999	2.75 pct DSL 2014 due 15 January 2047	12,139,187,000
	Inscription registers	12,740,128
	Private placements	5,686,874,909
Total		**322,083,673,004**

DTC position per ultimo February 2017

Isin code	Maturity date	Volume in issue
NL0012061139	DTC 2017-04-28	3,950,000,000
NL0012088496	DTC 2017-05-31	2,880,000,000
NL0012145825	DTC 2017-03-31	2,740,000,000
NL0012145833	DTC 2017-06-30	2,210,000,000
NL0012171409	DTC 2017-07-31	3,120,000,000
Total		**14,900,000,000**

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

The cut-off date is 24 March 2017
(unless mentioned otherwise)