Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

March 2018
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Funding and issuance

Borrowing requirement

The DSTA last updated its borrowing requirement on 3 January 2018. The figure then presented, € 50.5 bn, was € 3.0 bn lower than in the annual Outlook in December 2017 due to improvements in the cash position at the end of the year.

Borrowing requirement 2018	(€ bn)
Capital market redemptions 2018	38.4
Money market ultimo 2017 (excl. cash collateral)	15.7
Cash balance 2018 (-= surplus)	-3.6
Total	**50.5**

Funding 2018	(€ bn)
Capital market issuance (DSLs)	23-29
Money market ultimo 2018 (excl. cash collateral)	21.5-27.5
Total	**50.5**

Positive public budget dynamics are set to continue in 2018. These can be attributed to strong economic growth and in particular to a large increase in taxation income relative to government spending. The extent to which these developments affect the borrowing requirement will become clear when the official update of the government budget is published, around the beginning of June.

In the annual Outlook 2018 the DSTA announced issuance at the longer end of the curve (15- to 30-year segment) in the form of either a new bond or the reopening of one or more off-the-run bonds. However, the issuance calendar for the second quarter does not include any long-dated issuance. During the second quarter the DSTA will closely monitor its cash position, will explore and discuss options with market participants and will examine the potential impact on the goals and targets of the DSTA. In the next Quarterly outlook the DSTA will present its decision regarding longer-dated issuance for the rest of the year.

The money market will primarily serve to absorb fluctuations in the funding need. On the capital market, flexibility is possible within the communicated target range of € 23-29 bn. If the borrowing requirement continues to decrease, nominal issuance volumes near the lower end of this range would be most likely. The DSTA has so far raised a nominal amount of € 7.7 bn on the capital market, covering 27-34% of the total targeted amount for 2018.

Issuance calendar Q2

In the second quarter, three tap auctions are planned. The quarter will start and end with the reopening of the DSL 15 January 2024 launched in 2017, on 10 April and again on 12 June. The 10-year benchmark DSL will be reopened once, on 8 May. Target amounts are shown in the table below.

DSL calendar Q2 2018

Auction date	DSL to be issued	Target volume (€ bn)
10 April	DSL 15 January 2024	1.5 – 2.5
8 May	DSL 15 July 2028	1.5 – 2.5
12 June	DSL 15 January 2024	1.5 – 2.5

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 public holidays, two 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-month programme and the second auction date of the month to tap both a 3-month and a 6-month programme. To better meet investor demand at quarter end, the DSTA has decided to let the September programme mature not on the last business day of the month, but on the second to last business day. This means that the September 2018 DTC programme will mature on 27 instead of 28 September.

DTC calendar Q2 2018

Auction date	Settlement date	3-month programme	6-month programme
03-04-2018*	05-04-2018		27-09-2018
16-04-2018	18-04-2018	29-06-2018	27-09-2018
07-05-2018	09-05-2018		31-10-2018
22-05-2018*	24-05-2018	31-07-2018	31-10-2018
04-06-2018	06-06-2018		30-11-2018
18-06-2018	20-06-2018	31-08-2018	30-11-2018

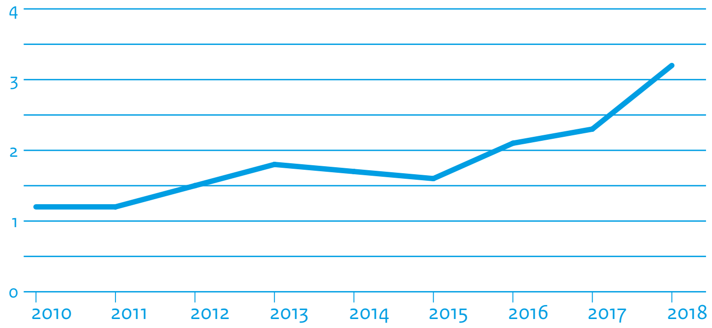
* Due to public holidays these DTC auctions will be on a Tuesday rather than the regular Monday.
Note: shaded fields indicate new programmes; announcement of all auction details is on the Wednesday prior to the auction date (t-5, or t-6 in the case of issuance on a Tuesday).

High Demand for new 10-year bond

A new 10-year benchmark bond is the cornerstone of DSTA's annual funding plan. This year's issue, the DSL 15 July 2028 with a coupon of 0.75%, was launched on Tuesday 13 March 2018 via a Dutch Direct Auction (DDA). The target range for the launch was € 4-6 bn and the preliminary spread guidance vis-à-vis the German reference bond, the DBR 0.5% 15 February 2028, was set at +15.5 to +18.5 basis points.

In the end, the uniform cut-off spread was +16.5 basis points over the reference bond, with a yield of 0.791% and a price of € 99.60. This cut-off spread led to the allocation of € 5.8 billion, of which 62% was allocated towards real money accounts (mainly asset and fund managers and treasuries and ALM accounts of banks) and 38% was allocated to other (trading) accounts (mainly hedge funds and banks and trusts). The majority of the total allocation went to investors in the United Kingdom (32%), the Netherlands (21%) and the United States (10%). Investor demand was abundant with a high quality order book of close to € 19 billion. The resulting bid-to-cover ratio for the auction was the highest since 2005 for a 10-year DDA. A clear upward trend in bid-to-cover ratios can be seen since 2010.

Bid-to-cover ratio of Dutch 10-year bonds issued through DDA



Economic outlook

Buoyant economy

The Dutch economy continues its overall positive trend, according to forecasts published by the independent Netherlands Bureau for Economic Policy Analysis (CPB) on 22 March. With expected GDP growth of 3.2% in 2018 and 2.7% in 2019, Dutch economic growth exceeds the euro area average. The buoyant economy is the result, among other factors, of worldwide economic growth, low interest rates, expansive government spending and a strong housing market. These lead to an increase in employment, consumption and investment. Inflation rises to 1.6% in 2018 due to an increase in labour costs and oil prices, although the latter effect is weakened by a stronger euro compared to the dollar. Inflation is expected to increase further in 2019, to 2.3%, partly due to the increase in the low VAT rate (from 6% to 9%) and energy taxes.

Downward risks according to the CPB include the uncertainties about the government formation in Italy and the outcome of the Brexit negotiations. The recent agreement about a transition period for the Brexit should reduce some of this uncertainty. The CPB forecasts assume that eventually a free trade agreement will be reached with the European Union, which includes an orderly transition period. Besides the downward risks, the CPB also points to upward risks stemming from positive economic dynamics in which the growth in employment, wage rates, investments and world trade continue to reinforce each other.

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

	2017	2018	2019
GDP	3.1	3.2	2.7
Household consumption	1.8	2.1	2.5
Government consumption	0.9	3.0	2.4
Investment (including inventories)	5.0	6.0	4.2
Exports	5.5	4.9	4.6
Imports	4.9	5.1	5.2
Employment (in hours)	1.7	1.9	1.5
Unemployment (% labour force)	4.9	3.9	3.5
Inflation (HICP)	1.3	1.6	2.3

Source: CPB, 22 March 2018

Strong growth in exports, imports and consumption continues

Dutch exports are expected to grow by 4.9% in 2018 and 4.6% in 2019. Both are slightly lower than export growth in 2017, because of slightly lower growth in relevant world trade and a stronger euro. Increases in government and household consumption result in an expected growth of imports this year and next of respectively 5.1% and 5.2%. The higher household consumption is due to increased employment and a higher purchasing power caused by the increase in wage rates and, as of 2019, the lowering of income tax rates for households. The increase of the low VAT rate contributes to higher inflation in 2019.

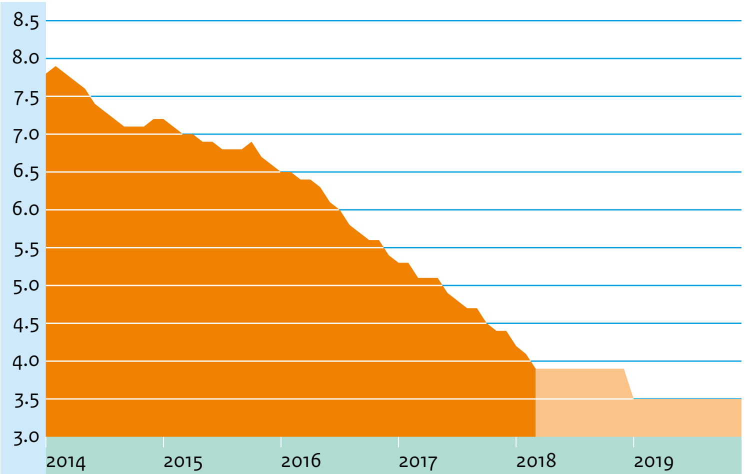
Investment growth keeps momentum

Total investment, consisting of both business and housing investments, is expected to grow 6.0% in 2018 and 4.2% next year. Business investments are driven by high capacity utilisation, positive revenue expectations, low cost of capital and high profitability margins. Housing investment growth can be explained by an increase in disposable income, higher house prices and low cost of capital. However, the growth rate is expected to slow down, due to the fact that housing investment has been growing very quickly in recent years and labour shortages are arising in construction. The tight housing market causes house prices to increase, although regional disparities exist. House prices in urban areas increase at a significantly higher rate than in rural areas.

Unemployment declines steadily

Employment growth is projected to be 1.9% in 2018 and 1.5% in 2019. The difference can be attributed to slightly higher government expenditures, in particular in the health-care sector, and slightly higher economic growth in 2018 relative to 2019. The unemployment rate continues to decline, from 4.9% in 2017 to 3.9% in 2018 and 3.5% in 2019. Given the resulting tightness of the labour market it will become increasingly difficult for businesses to hire highly-educated employees. At the same time, wages are expected to increase, while employers have begun to offer more permanent employment contracts than flexible contracts.

Unemployment (in % of the labour force)



Source: Netherlands Statistics (CBS) for realisations up to februari 2018; Netherlands Bureau for Economic Policy Analysis (CPB) for projections of 2018 and 2019.

Budgetary outlook

Stable budget surplus

According to the latest CPB projections, last year's EMU-surplus will end up 0.6%-point higher than reported in DSTA's annual Outlook 2018, which was published in December 2017. Lower expenditures, an improved balance of local governments and higher tax revenues account for the higher budget surplus. For 2018 and 2019 the CPB projects an EMU-surplus of 0.7% and 0.9% respectively, slightly lower than the projected 1.1% budget surplus in 2017. This is mainly driven by an expansive fiscal policy of the new government. Spending on education, defense, and healthcare are all set to increase. The projected budget surplus could be influenced to some extent by the uncertainty surrounding the reduction of natural gas extraction in the Groningen gas field (as a result of earthquake risks).

Key budgetary figures for the Netherlands (% of GDP)

	2017	2018	2019
EMU-balance	1.1	0.7	0.9
EMU-debt (year-end)	56.0	52.1	48.4

Source: CPB, 22 March 2018

Debt level on a downward trend

The projected EMU-debt level at the end of 2017 is now 56.0% of GDP, somewhat lower than the forecast presented in DSTA's annual Outlook 2018. The same goes for debt ratios in 2018 and 2019, which are now forecast at 52.1% and 48.4% respectively. This continued decline in the debt level can be explained by an increase in GDP, a budget surplus and income from financial transactions (relating to the sale of state-owned enterprises). As for the latter, in the debt forecast above, a technical assumption is made by the CPB that the government will continue to gradually sell its stake (of 56%) in ABN Amro Bank.

Outstanding debt

DSL position per ultimo February 2018

Isin code	DSL	Amount in euros
NL0011005137	0.00 pct DSL 2015 due 15 April 2018	12,104,000,000
NL0006227316	4.00 pct DSL 2008 due 15 July 2018	13,175,020,000
NL0010514246	1.25 pct DSL 2013 due 15 January 2019	15,211,224,000
NL0009086115	4.00 pct DSL 2009 due 15 July 2019	14,371,398,000
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	15,380,112,000
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
NL0012650469	0.00 pct DSL 2017 due 15 January 2024	8,462,277,000
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	15,380,926,000
NL0000102317	5.50 pct DSL 1998 due 15 January 2028	13,028,814,230
NL0010071189	2.50 pct DSL 2012 due 15 January 2033	13,555,900,000
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	13,248,187,000
	Inscription registers	12,390,241
Total		**301,788,310,208**

DTC position per ultimo February 2018

Isin code	Maturity date	Amount in euros
NL0012650303	DTC 2018-03-29	4,320,000,000
NL0012650733	DTC 2018-04-30	3,870,000,000
NL0012703144	DTC 2018-05-31	2,500,000,000
NL0012730493	DTC 2018-06-29	2,640,000,000
NL0012757371	DTC 2018-07-31	2,630,000,000
Total		**15,960,000,000**

Total outstanding debt per ultimo February 2018	Amount in euros
Cash	1,126,516,842
DSL outstanding	301,788,310,208
DTC outstanding	15,960,000,000
CP outstanding	-
Private Loans outstanding	1,097,668,729
Total outstanding	**319,972,495,779**
Cash collateral	11,282,247,962
Total outstanding including cash collateral	**331,254,743,741**

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

The cut-off date is 22 March 2018
(unless mentioned otherwise)