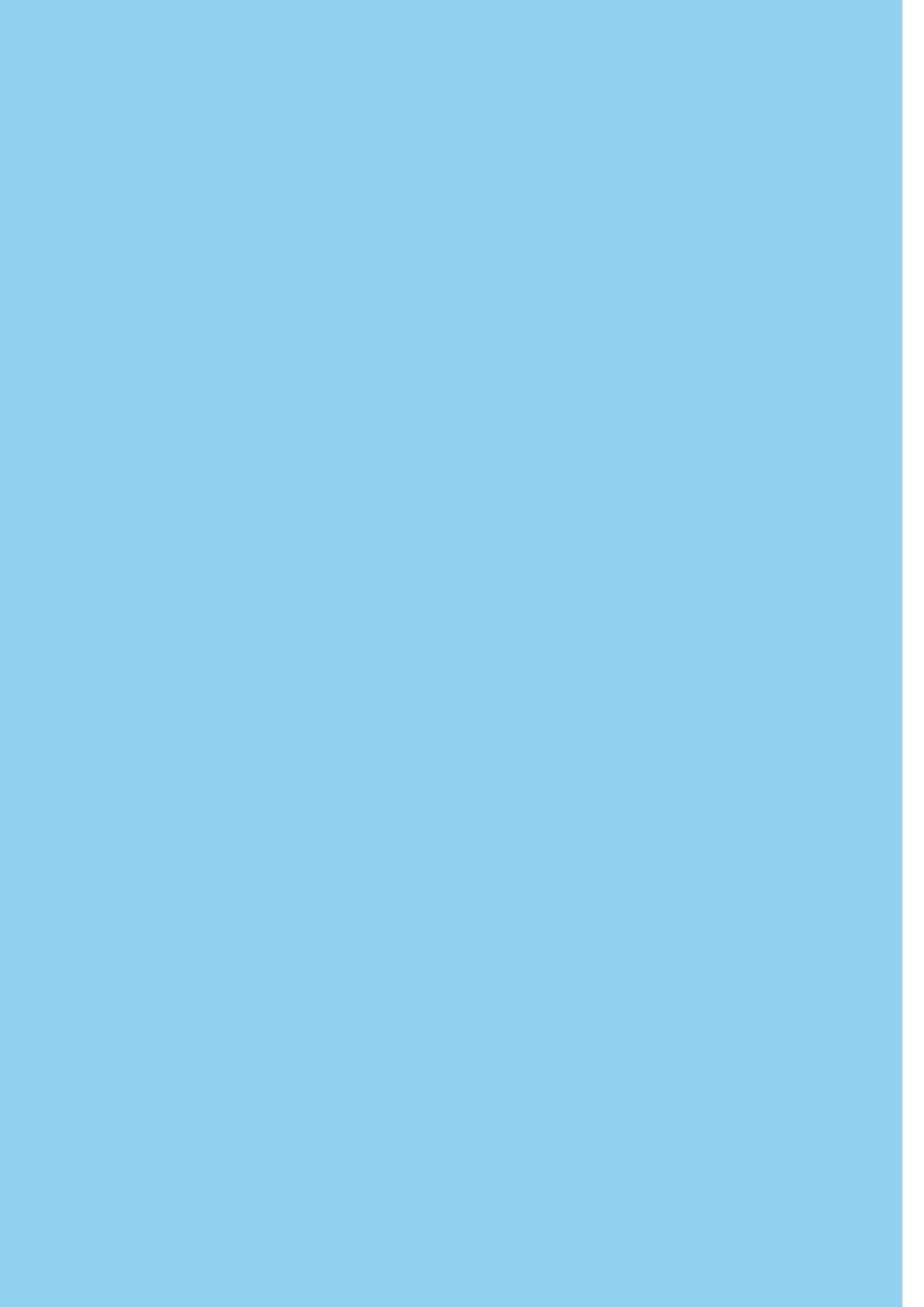




Dutch State Treasury Agency  
*Ministry of Finance*

# Outlook 2012





# Outlook

## 2012

The collection of pictures in this Outlook gives an 'helicopter view' of the Netherlands. They illustrate the strengths of the country related to a variety of trade, tourism and industrial activity. They prove that business and leisure in the Netherlands are colourful events. Pictures range from bulb fields in full bloom and fruitful orchards to greenhouses and heavy industry. Many of the Dutch export products find their way to the rest of the world through Europe's biggest port, the Rotterdam harbour, a sightseeing event in itself. The last picture in the Outlook shows that even on slippery ice the Dutch know how to start a business.

## Preface

To claim that 2011 has been quite exceptional would be an understatement. In 2011, sovereign yields within the euro area have moved to all time lows and all time highs, especially since the summer. This week – I am writing this on 18 November – has seen one of the largest swings ever in spreads. The 5-year DSL saw intraday movements of up to 15 basis points vis-à-vis Bunds. This is quite extraordinary. At one time I had the realisation that there must be something wrong with my Bloomberg screens. However, a reality check learned there wasn't.

Developments in the euro areas sovereign debt market illustrate the importance of sound fiscal policies aimed at keeping debt levels under control. Commitments by the Dutch government to improve the budget by € 18 billion in structural terms between 2011 and 2015 should be seen in this context. The strong reputation of fiscal discipline in the Netherlands is proving its value. Having a deficit next year of around 3% of GDP, the Netherlands is doing relatively well. The debt level of 65% of GDP is among the lowest in Europe, but more importantly it is 15 percentage points below the average AAA-level in the euro area.

To be honest, it has been quite a struggle for my staff to write this Outlook. The first drafts of chapters were already outdated before one could press the 'print' button. At the time you read this, projections for growth, unemployment and the budget deficit may already be outdated.

Luckily, as a debt manager I am not into the business of trying to figure out the mist surrounding the crystal balls of fortune tellers. It is my pleasure however to tell you one piece of good news; at around € 100 billion, the DSTA's funding need for 2012 is again lower than in the previous years.

At the same time, it shouldn't surprise anyone that the risks for our funding need are clearly on the upside. As always, we will update the 2012 funding need regularly during the year, when new information becomes available on the budget.

The uncertain outlook for the economy and the budget, have triggered me to strengthen the role of the money market as our buffer. To anticipate possible fiscal setbacks, I prefer to scale down the money market volume more rapidly. That is why after three consecutive years of approximately € 50 billion capital market funding, next year, the call on the capital market will be stepped up to around € 60 billion. An increase in DSL issuance helps to reduce the money market volume in the coming years to around € 30 billion, less than 10% of the State's debt.

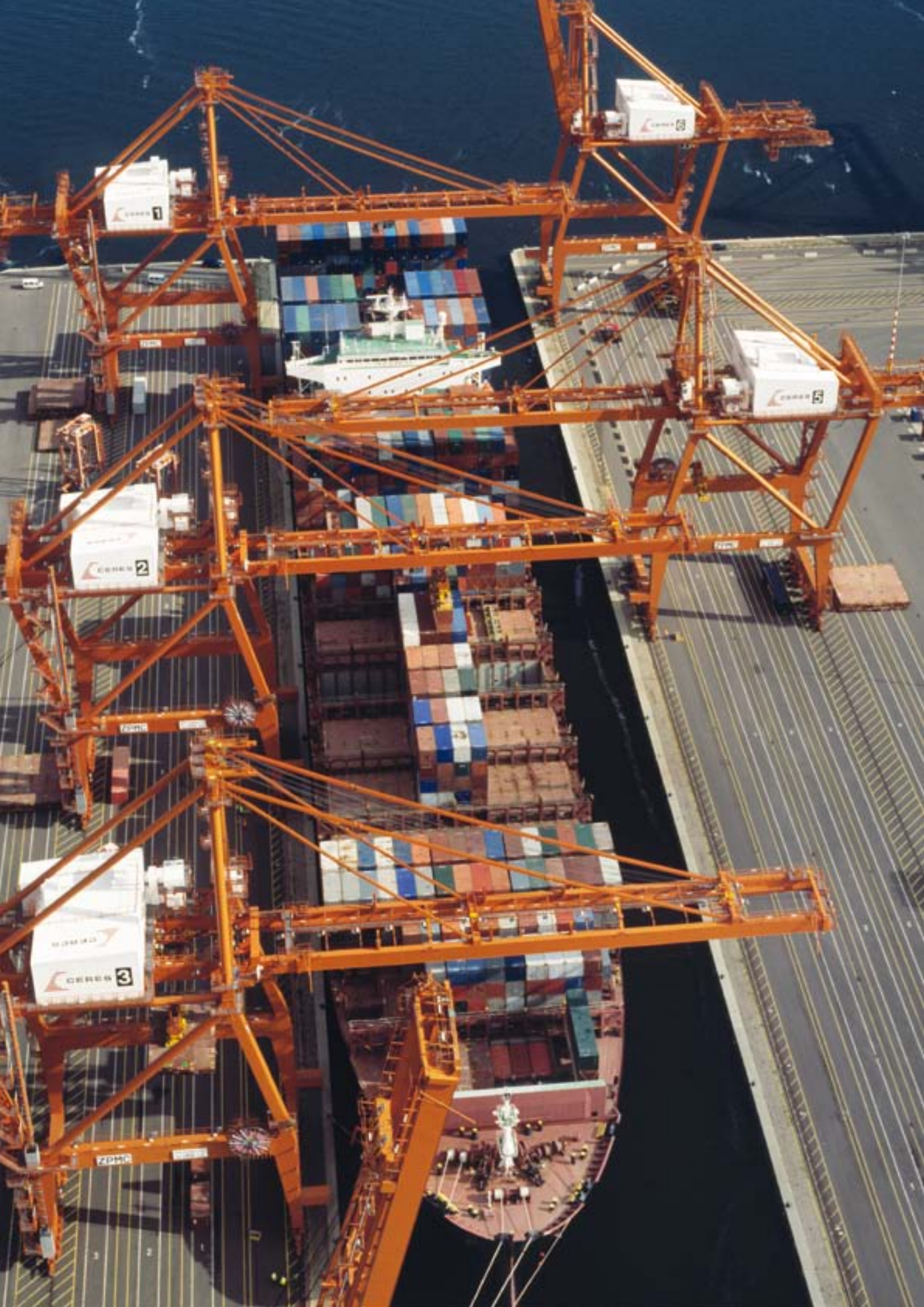
Other than that, it is mostly business as usual for the DSTA. In addition to the traditional issuances in the 3-, 5- and 10-year segments, in 2012 we also plan to launch a new 20-year DSL somewhere during the first quarter. The off-the-run facility will be continued for the fourth year in a row. And based on an evaluation of our risk management framework, the 7-year constant maturity portfolio as the DSTA's benchmark will be continued in the coming years. One novelty in the risk framework is that from 2012 onwards, the DSTA will have the opportunity to deviate from the risk profile prescribed by the benchmark.

Erik Wilders



Agent of the Dutch State Treasury Agency






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An aerial photograph showing a forest fire. Thick white and grey smoke billows upwards from the ground, partially obscuring the trees. Several bright orange lines, likely fire hoses or firebreaks, are visible, crisscrossing the area. The background shows a dense forest of green trees. The overall scene is one of a controlled or active fire in a wooded area.

The economic and budgetary outlook are highly uncertain. In the most recent projections, the deficit is expected to come out at around 3% of GDP in 2012. As can be expected, risks are clearly on the downside. Building on its strong reputation of fiscal discipline, the government is committed to implement fiscal measures for a total amount of up to € 18 bln by 2015. The EMU-debt ratio is expected to increase moderately in the coming years, before declining from 2014 onwards. At 65% of GDP, the debt ratio in the Netherlands is a sizeable 15 points below the average AAA-level in the euro area.



An aerial photograph of a coastline. On the left, there are vibrant green agricultural fields. To the right, a dark sea meets the shore. The sky is filled with white, wispy clouds, and several thin, horizontal orange lines are visible across the upper portion of the image.

7

# The economy, the budget and the financial markets

# 1.1

## Economic outlook for the Netherlands

After a relatively strong start, economic activity lost its momentum in the second half of 2011, mainly due to the uncertainties about the sovereign debt crisis and the cooling of world trade. On 15 November 2011, Statistics Netherlands (CBS) reported a quarterly growth rate of -0.3% for the third quarter of 2011. Compared to a year earlier growth declined from 1.6% in the second quarter to 1.1% in the third quarter. Both private consumption and government expenditures were down, the latter as a result of cost-saving measures and fewer jobs. Exports grew modestly by 4% year-on-year, while investments were up by 4.6%.

In September 2011, the Netherlands Bureau For Economic Policy Analysis (CPB) published its updated Macro Economic Outlook for the Netherlands. For the current year, the CPB expected an increase of GDP of 1½%. Whether this rate is still within reach remains to be seen, taking into account the recent strong slowdown in growth. Naturally, projections for 2012 are highly uncertain. The CPB projected GDP to grow by 1% in 2012. At the time of publication – mid-September – this was quite pessimistic; around the same time the IMF estimated a 1.3% growth for 2012. However, since then growth estimates for most countries have been downscaled significantly. To illustrate, in its Autumn Forecasts of 10 November 2011, the European Commission projected a 0.5% growth rate for the Netherlands for next year.

Table 1.1 gives an overview of the key economic figures for the Netherlands, based on the CPB's September Macro Economic Outlook. The CPB will update its projections on 13 December 2011.

**Table 1.1 Key projections for the Netherlands**

	2010	2011	2012
Gross Domestic Product (% change)	1.7	1½	1
Private consumption (% change)	0.4	0	¼
Exports (% change)	12.8	6½	3¾
... of which produced domestically	9.4	2½	2
... of which re-export	15.8	9¾	5
Imports (% change)	12.6	6¼	2¾
Gross fixed investments (% change)	-1.4	9¼	3¾
Government expenditures (% change)	0.7	0	-1¼
Unemployment (% labour force)	4.5	4¼	4¼
Labour productivity (% change)	2.9	3	1¼
Inflation (CPI %)	1.3	2¼	2

Source: CPB (projections of September 2011)

### Export: remains a driver for growth

Due to the openness of its economy, the Netherlands was well-positioned to profit from the strong upswing in world trade in 2010 and in the first half of 2011. With an export volume of € 509 billion (84% of GDP) in 2011, the Netherlands is the second-largest exporter in Europe. Around 54% of the export volume is made up by re-exports and consequently 46% is domestically produced. Exports are expected to increase by 6½% in 2011, above the 4½% growth rate of world trade. For 2012, the growth of exports is set to decline to 3¾%, due to the slowdown in world trade and a slight deterioration in the price competitiveness of Dutch exporters. Of the total amount exported, on average 24% finds its way to Europe's largest exporter Germany. Other important export markets are Belgium (11%), France (9%) and the United Kingdom (8%). The Netherlands' main export products are machineries, chemicals and petroleum products, although – as illustrated by the pictures in this Outlook – the country is also famous for its flowers, vegetables and transport services. Its export focus is clearly Europe, although the Netherlands also profits indirectly from increasing demand in emerging markets through the more Asian focused

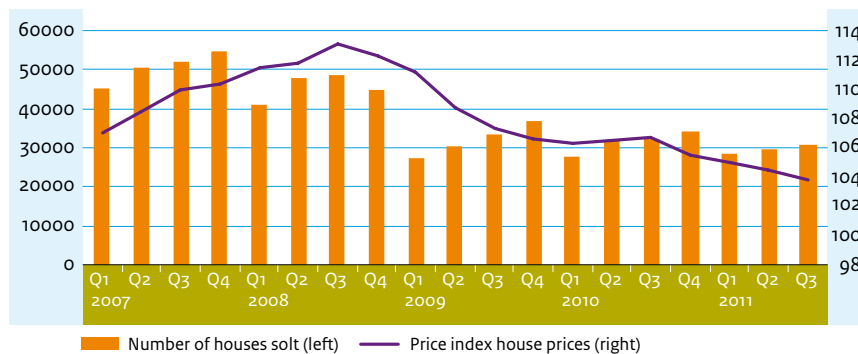
exports of Germany. Dutch exports directly to Asia account for approximately 10% of total exports.

**Private consumption: modest figures**

With the exception of the first quarter of 2011, domestic demand continued to be weak during the year. The CPB reports that spending by consumers is expected to remain subdued (in part because of household-deleveraging), with private consumption to end up at zero growth this year and a modest ¼% in 2012. Contributing to this weak demand is the projected decline in purchasing power of -1% in both 2011 and 2012. Purchasing power is mainly put under downward pressure following nominal wages that do not keep up with inflation and as a result of a higher tax burden and cuts in social security transfers, notably health care allowances. In the course of 2011, consumer confidence has shown a relatively sharp decline, after an upward trend since the first quarter of 2009. Overall, household-deleveraging, declining confidence, increasing uncertainty and negative wealth effects cause private consumption to remain more or less flat in the near future.

**Box 1.1 The housing market in the Netherlands**

In the Netherlands, house prices have increased quite substantially in the second half of the 1990's and the early 2000's, on average by 10-15% annually. Between 2002 and 2007, house prices advanced by a more moderate annual rate of 4.5%. From the third quarter of 2008, house prices have started to decline, by a cumulative total of 8%. At the same time, the number of houses sold dropped: in 2009 the number of transactions was 30% below the 2008 figure, and more or less stabilised in the years following.



Source: Statistics Netherlands (CBS)

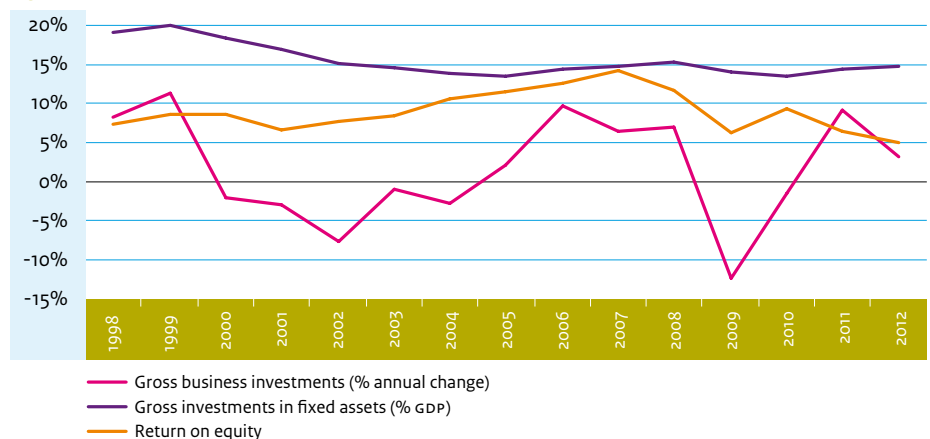
In order to stimulate the stagnant housing market, in July 2011 the Dutch government lowered the transfer tax on residential properties from 6% to 2% for a period of 1 year. Although the CPB predicts that this temporarily tax-cut is not likely to structurally improve the housing market, it is estimated that the number of transactions will increase. Driven by the less optimistic economic outlook, prospects for the Dutch housing market in 2012 are uncertain. Most analysts expect a continuing, albeit modest decline of Dutch house prices in 2012. With a structural shortage of houses and limited amount of building land available, sharp price declines are expected.



**Investment: rebound in 2012**

After a sharp decline in 2009, business investments more or less stabilised in 2010. Business investments are expected to rebound in 2011, with a growth rate of 9¼%. Due the lingering uncertainties, growth of business investments is expected to decelerate to 3¼% in 2012. The investment quote, which equals gross investments in fixed assets in proportion to GDP, is expected to come out at 13½% in 2011, increasing to 14¾% next year.

**Figure 1.1 Investment indicators for the Netherlands**



Source: CPB projections of September 2011

**Labour market: well balanced**

Despite the severe economic crisis, the unemployment rate increased only moderately in 2009 and early 2010. One of the main elements explaining this relatively moderate rise, is labour hoarding by businesses as a response to the tight labour market before the outbreak of the crisis. Employers have been reluctant to lay off workers they think may be needed again later. Also relevant were the good solvency of businesses, their solid profitability and the ability to swiftly adjust payroll costs to the new economic conditions: lower bonus payments, less profit sharing and less overtime. In 2011, the Dutch labour market remains well balanced. Characterized by a relatively high number of self-employed (without staff) and a high incidence of part-time workers in the labour force, the Netherlands is a bill-board for a flexible labour market.

In the first half of 2011, the number of vacancies and temporary work hours increased. Combined with a declining number of dismissals and bankruptcies, the unemployment rate started to decline from mid-2010 onwards. A deceleration of economic growth in the second half of 2011 is expected to offset these positive developments.

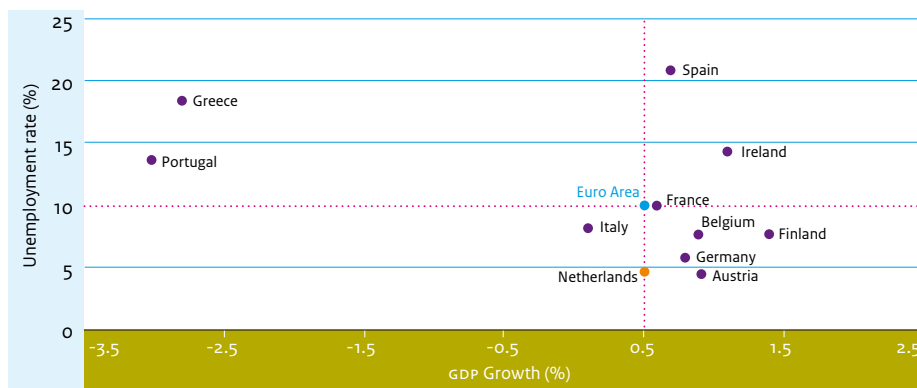
The most recent projection of the CPB is for an average and stable unemployment rate of 4¼% both this year and next. Lower employment in a number of private sectors will be compensated by an increasing demand for labour in the health care sector. However, most recent data point to a less benign outlook for the labour market. In the last few months, the number of unemployed has increased more than was foreseen by the CPB in its Macro Economic Outlook. It is therefore likely that the unemployment rate will turn out to be somewhat higher than indicated in table 1.1. This is also what the European Commission claims in its most recent forecast (see below).

**International comparison**

In its Autumn Forecast, the European Commission predicts a strong slowdown of growth. In its Spring forecast, the euro area was estimated to grow by 1.8% in 2012, the Autumn projection is only 0.5%. The expectation for the Netherlands of a 0.5% growth rate next year is in line with the average for the euro area. For 2013, growth is projected to pick-up again to 1.3%, for both the Netherlands and the euro area.

The unemployment rate in the Netherlands has declined since mid-2010, but in recent months the number of unemployed has moved upwards. The European Commission sees a gradual although limited increase in the unemployment rate from 4.5% in 2011 to 4.8% in 2013. For the euro area as a whole unemployment is expected to remain steady at 10% of the labour force. In an international perspective, the Dutch labour market continues to perform quite well. Of all EU countries, the Netherlands is among the countries with the lowest rates of unemployment. The divergence within the euro area is large, as shown by figure 1.2.

**Figure 1.2 Unemployment (% labour force) and GDP growth rate; projections for 2012, selected euro area countries**



Source: European Commission, Autumn Forecasts, November 2011

# 1.2

**Budgetary Outlook for the Netherlands**

One of the major ambitions of the government is to significantly improve the budgetary position. In October 2010, the coalition parties agreed on consolidation measures of € 18 bln by 2015. Most of the austerity plan for the coming years is already fixed. Total net fiscal savings of € 18 bln in 2015 correspond to almost € 25 bln of savings structurally. In early 2010, the CPB had calculated that to restore public finances to long-term sustainability, structural budget cuts of € 29 bln would be needed. By saving almost € 25 bln, the current government plans to solve more than 80% of the problem. Around 90% of gross savings will be found by reducing expenditures; the rest by higher taxes and social security contributions.

**Budgetary projections for 2011 and 2012**

After three consecutive years of small budget surpluses – equaling on average 0.4% of GDP a year – the budget moved deep into the red in 2009 (-5.6% of GDP) and 2010 (-5.1% of GDP). The most recent estimate for 2011 is for a budget deficit of 4.2% of GDP in 2011. This is 0.6 percentage points higher than was foreseen earlier in the year, but almost a full percentage point below the 2010 outcome. The final estimate for 2011 will be published at the end of November (after the cut-off date of the Outlook).

The latest projections point out that, despite the economic slowdown, the Dutch EMU-balance is set to improve further, more or less in line with the ambitions set out in last year’s coalition agreement. In September’s Budget Memorandum, the EMU-balance for 2012 was expected to

come out at -2.9% of GDP; this would amount to only half the deficit that was recorded in 2009, and below the ‘Maastricht’ ceiling of 3% of GDP for the first time since 2008. Needless to say, given the worse economic outlook since these projections were made, the risks are clearly on the downside. The 2012 estimate for the budget deficit will be updated in May 2012 in the Spring Memorandum.

The CPB points out that a cumulative improvement of the EMU-balance by 2.2 percentage points of GDP in two years time (2010-2012) compares very well to other countries. The improvement in 2012 of the structural balance of 1.3 percentage points equals the improvement in the actual budget balance (see table 1.2).

**Table 1.2 Key fiscal figures for the Netherlands, % GDP**

	2008	2009	2010	2011	2012
Expenditures	46.3	51.1	51.0	50.2	49.5
Tax revenues	39.2	38.3	38.8	38.6	39.2
Non-tax revenues	7.6	7.2	7.1	7.4	7.5
Actual EMU-balance	0.5	-5.6	-5.1	-4.2	-2.9
Structural EMU-balance	-0.8	-4.3	-4.0	-3.6	-2.3
EMU-debt	58.5	60.8	62.9	64.7	65.3

Source: CPB and Ministry of Finance (September 2011 projections).

The tax burden will increase next year, from 38.6% of GDP in 2011 to 39.2% in 2012. Over half of the increase will be charged to businesses, mainly via the termination of the crisis-related accelerated depreciation measure, higher unemployment contributions and higher health insurance contributions; the rest will be borne by households, mainly through higher health insurance contributions and payments.

**Box 1.2 The value added of independent national fiscal institutions**

In the Netherlands, projections for the government deficit and debt are based on the independent forecasts of the Netherlands Bureau of Economic Policy Analysis (CPB). This is in line with the notion in the Euro Summit Statement of 26 October 2011 that ‘national budgets should be based on independent growth forecasts’.

In the Netherlands, for already 65 years the CPB serves as the official expert institute for fiscal and economic policy. Despite the quasi-monopolistic role of the CPB and its being financed completely by the Dutch government, quality, relevance and independence are being safeguarded. Key-ingredients for this are the existence of a free press and regular and independent evaluation of the quality and relevance of the work by the CPB. The CPB does not only serve the government, but also meets requests from opposition parties, trade unions and employers’ organisations.

In contrast to some other fiscal institutions, the CPB does not play an explicit normative role on Dutch fiscal policy. Institutions like CPB can improve the fiscal decision-making process by providing information, knowledge and checks and balances. This is essential for increasing trust and for reducing uncertainty, fiscal illusion, the short-sightedness of citizens and politicians and the negative role of lobbies and asymmetric information.



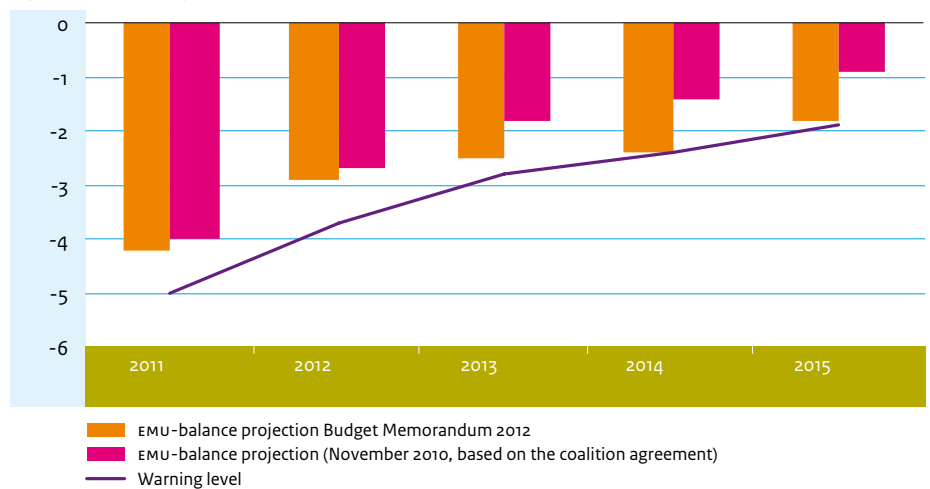
The CPB has a more comprehensive role than comparable institutions in other countries. This includes e.g. providing the official estimates on economic growth and purchasing power, analysis of the sustainability of Dutch public finance, costs-benefit analysis of major infrastructure projects, analysis of the economic effects of the election plans of Dutch political parties and all kinds of analyses on the Dutch economy and the role of the government.

**Budgetary projections up to 2015**

Figure 1.3 shows the development of the actual EMU-balance that was projected in the budgetary framework underlying the coalition agreement (November 2010) for the years up to 2015. As a result of a deeper and more prolonged financial crisis in Europe and the resulting slowdown of growth, the multi-annual projection is now less favorable than envisaged in November last year.

Based on September's Budget Memorandum, in 2012 the deviation from the original path should remain limited to 0.2 percentage points. The figure also shows that the gap is protected to widen after 2012. In the Budget Memorandum the EMU-deficit in 2014 and 2015 is projected to come out worse by approx. 1 percentage point of GDP.

**Figure 1.3 Keeping track of the EMU-balance in time (% GDP)**



Source: Ministry of Finance

At the start of the 5-year government period in 2010, rules were implemented on how to manage the budget. Box 1.3 explains them in detail. Among other things, it was agreed to introduce a so-called 'warning margin' of 1% of GDP. The warning margin refers to the percentage point deviation of the current EMU-balance projection from the baseline November 2010 projection. In case the warning margin is reached, the cabinet has committed itself to take extra consolidation measures.

The Spring Memorandum to be published before 1 June 2012 will be decisive for the decision whether additional spending cuts would be needed in 2013. As long as the deviation is kept below 1 percentage point of GDP, automatic stabilisers on the income side are allowed to operate freely. Figure 1.3 shows that the warning level for 2013 now equals -2.8% of GDP (i.e. the originally projected deficit plus -1% warning margin). Based on present projections this warning level will not be hit.

### **Budgetary rules**

The warning margin is part of the budgetary framework to which the government has committed itself. The objective of the budgetary rules is to achieve an efficient allocation of funds and to control public finances. The rules should underpin the budgetary goals of the government and should help to observe the reference values laid down in the EU Treaty and to comply with the Medium-Term Objective for the Netherlands resulting from the Stability and Growth Pact.

#### **Box 1.3 Rules of the Dutch fiscal framework**

One of the major features of the Dutch fiscal framework is the trend-based fiscal framework with multi-annual expenditure ceilings. The basics of this framework have been in place since 1994. Its essence is that the budget balance is allowed to fluctuate within certain limits. Those limits are determined by the maximum deficit allowed for the medium-term. The fiscal framework centers around four main rules.

- 1 A strict separation between revenues and expenditures. Revenues and expenditures are strictly separated. Windfalls on the revenue side cannot be used for additional spending, and when revenues fall short of expectations, cutbacks on expenditures are not required. Two reasons for introducing this strict separation are the cyclical nature of revenues and the inherent pro-cyclical bias in politics.
- 2 An expenditure framework and ceilings. To ensure sound public expenditures, the government subjects itself to an expenditure framework that fixes the overall level of expenditures during the entire government term. The government is only allowed to allocate additional funds to one policy area when compensated elsewhere.
- 3 The income framework. A framework is also provided for the income side. A windfall cannot be used for new policies and a setback does not lead to cutbacks. Automatic stabilisation is used for the income side. Windfalls are credited and setbacks are debited to the EMU-balance.
- 4 A warning margin. Whenever the budget balance does not develop according to the requirements of the SGP and/or the deficit reduction to which the government committed itself, additional adjustments are required. Whenever the warning margin of 1% is exceeded, extra measures must be taken.

In contrast to previous years, interest payments on state debt are included within the expenditure framework. To ensure that lower than estimated interest payments are used for repayment of the outstanding debt, the expenditure ceiling is reduced during the government's term of office by the amount that the interest payments are lower than the original estimate. Higher than expected interest payments will need to be absorbed within the expenditure ceiling. The most recent Budget Memorandum expects lower interest payments than initially estimated for all years up to 2015. For 2011 and 2012, interest payments are lower by € 1 bln and € 1.2 bln respectively. Consequently, the expenditure ceiling has been reduced accordingly.

### **Debt level projection**

In 2012, the EMU-debt level is expected to increase by a mere 0.6 percentage points of GDP, only one third of the increase in 2011. Table 1.3 details the factors contributing to the annual change in the EMU-debt in 2011 and 2012.

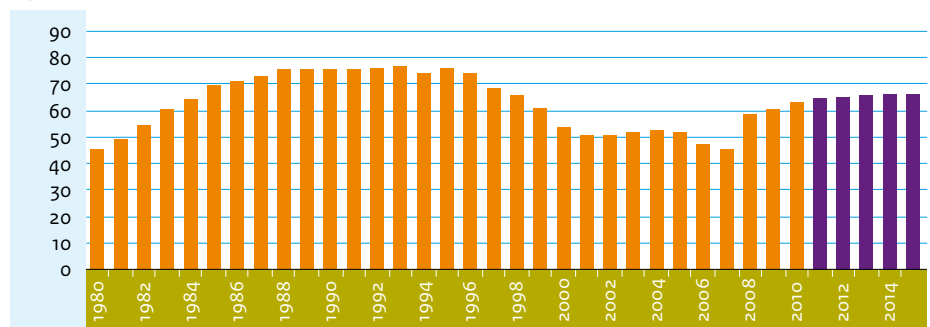
**Table 1.3 Explaining debt dynamics (% GDP)**

	2011	2012
EMU-debt (primo year)	62.9	64.7
EMU-deficit	4.2	2.9
Financial transactions*	-0.7	-0.4
GDP nominator effect	-1.7	-1.9
EMU-debt (ultimo year)	64.7	65.3

\* including cash/transaction differences  
 Source: Budget Memorandum 2012

The rise in the debt ratio is expected to slow down in the coming years (see figure 1.4). Up to 2013 the EMU-debt level will be below the November 2010 scenario, but will surpass that level from 2014 onwards. The debt ratio remains far below the levels witnessed in the early to mid-1990's.

**Figure 1.4 EMU-debt level since 1980 (% of GDP)**



Source: Budget Memorandum 2012

**The European dimension**

The Netherlands is committed to meet the requirements of the Stability- and Growth Pact and the Excessive Deficit Procedure (EDP):

- In December 2009, the ECOFIN Council agreed that the Netherlands should bring the budget deficit down to below 3% of GDP by 2013. Based on the latest official projections in the Budget Memorandum, this requirement should be met in 2012. More recent figures of the European Commission suggest that it will be 2013 before the EMU-balance moves below the 3% of GDP limit. The budget estimates will be updated by the Ministry of Finance in May 2012.
- The medium-term objective (MTO) for the Netherlands is defined as a structural EMU-balance of between -0.5% and + 0.5% of GDP. As long as the EMU-deficit is above 3% of GDP, the structural balance should improve annually by an average of at least 0.75 percentage points of GDP. This requirement is adhered to, also based on the recent European Commission projections.

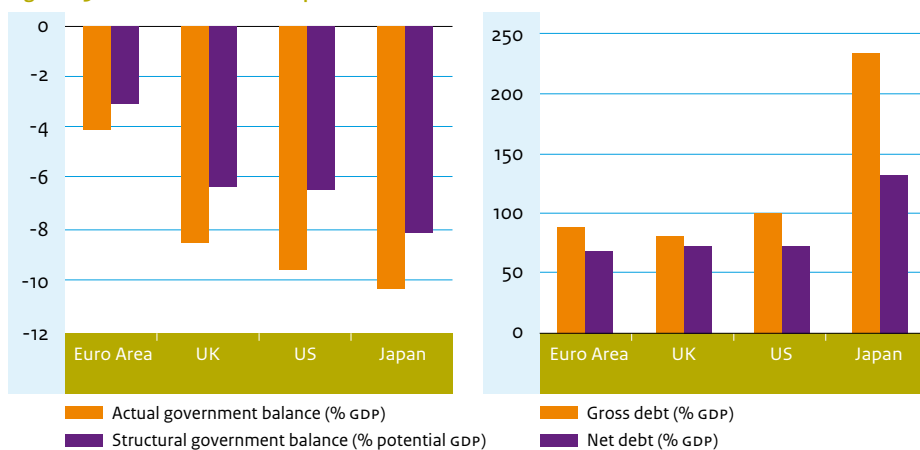
Within Europe, a package of measures has been taken to strengthen the budgetary and economic policy framework. The package was adopted by the ECOFIN Council early October 2011. As has always been advocated by the Netherlands, the SGP will become more 'rules based', with sanctions as the standard penalty for countries in breach of their commitments. The six-pack is fully consistent with the ambitions of the Dutch government of strengthening fiscal discipline within the euro area. For more details on governance within the euro area, see section 3.3.



**Fiscal performance in an international comparison**

An international comparison of budgetary achievements can be done in different dimensions. When the euro area as a whole is compared to other G7 countries, the size of the deficit and the debt level compare quite well, as illustrated in figure 1.5. In addition, many individual countries also compare quite well to a number of G7 countries such as the US and the UK.

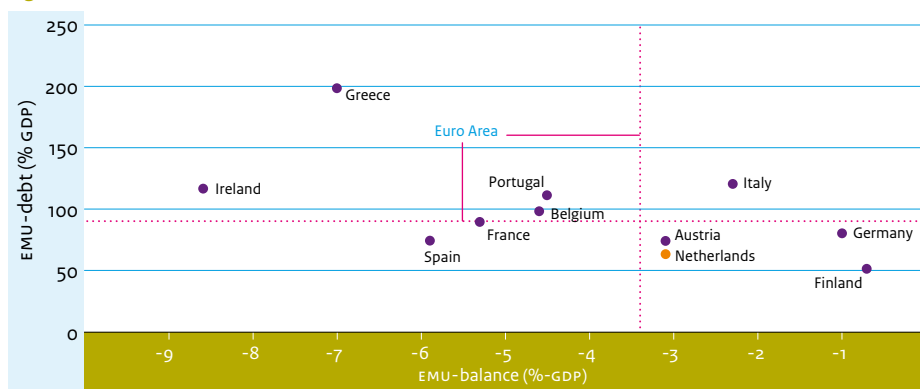
**Figure 1.5 Deficit and debt compared worldwide**



Source: IMF, World Economic Outlook, September 2011

The diversity within the euro area is quite significant. Compared with other countries in the euro area, the fiscal position in the Netherlands is relatively favourable. This is illustrated in figure 1.6. In 2012, the estimate for the EMU-deficit is 3.1% of GDP, 0.3 percentage point below the euro area average.

**Figure 1.6 EMU-balance and EMU-debt for 2012, selected euro area countries**



Source: European Commission, Autumn Forecast, 10 November 2011

The debt level of the euro area at large is estimated at 90.4% of GDP at the end of 2012. For the Netherlands the debt ratio is 25 percentage points below the average. The debt level in the Netherlands is also far below the (weighted) average of all AAA countries in the euro area by approx. 15 percentage points; only Finland and Luxemburg are in a better position.

# 1.3

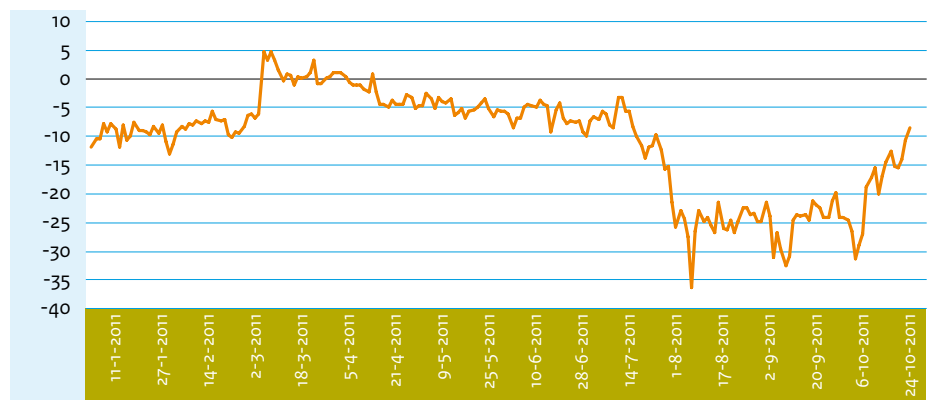
## Financial market developments

Looking back, the year 2011 started relatively favourable: growth perspectives were still fairly positive and bond and stock markets were rising. In the background however, market concerns about budgetary problems in Europe and the anxiety about the outlook for growth and fiscal sustainability in the United States gained more attention. Interest rates of the so-called ‘periphery’ government bonds started to increase substantially and Dutch and German government bond prices fell. Economic uncertainty got worse in August, when S&P lowered the credit rating of the United States for the first time in history.

After having declined substantially in 2010, bond yields of highly rated sovereigns have continued their downward trajectory this year. Not only AAA bond yields, but also swap yields declined almost continuously. The 10-year Dutch sovereign bond yield started the year at 3.23% and reached a level of 2.4% mid-November, after having touched a historical low of 2.2% in September and again late October. The 10-year euro swap yield of 3.22% early January rose to a maximum of 3.73% mid-April, but then declined to 2.5% mid-November.

Figure 1.7 shows the development of the Dutch 10-year spread (D<sub>SL</sub> minus swap), with significant widening in the second half of July and tightening in October<sup>1</sup>. Figure 1.8 illustrates how 10-year yields have evolved in the course of 2011 for Germany, France and the Netherlands. The 10-year spread between D<sub>SL</sub>s and Bunds increased to around 60 basis points mid-November. Compared to France, the 10-year D<sub>SL</sub>s has traded increasingly richer (mid-November spread below -100bp).

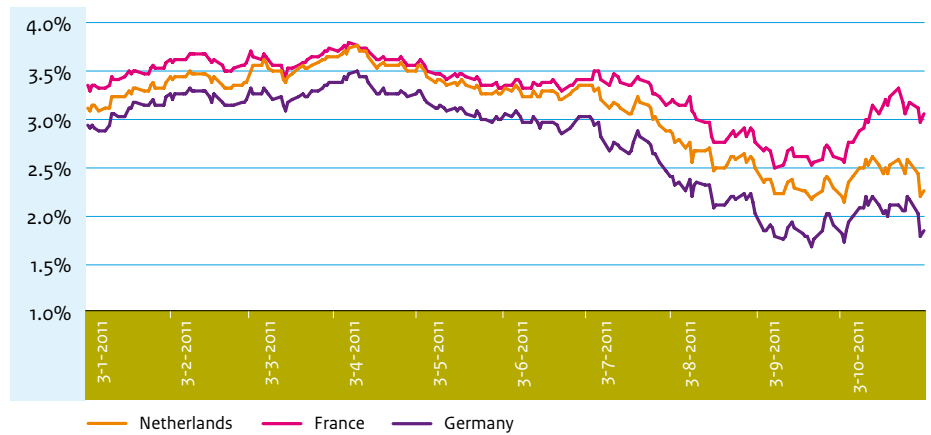
Figure 1.7 Yield spread between 10-year D<sub>SL</sub> and 10-year swap (basis points)



Source: Bloomberg

<sup>1</sup> All figures in this section run up to the end of October 2011.

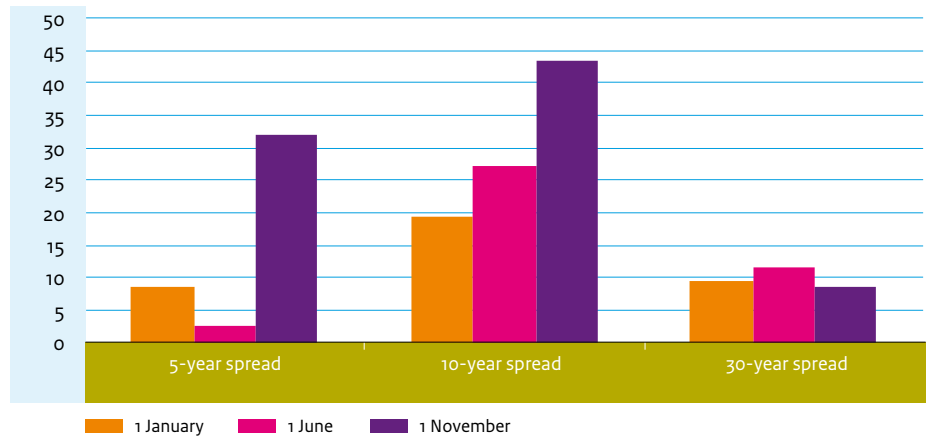
Figure 1.8 Generic 10-year bond yields



Source: Bloomberg

When looking across the Dutch and German yield curves, it is noticeable that at the long end of the curve spreads between DSLs and Bunds have remained relatively low, as can be seen from figure 1.9. In October, the spread in the 30-year segment was below 10 basis points. In the 10-year segment, the spread increased from 19 basis point early in the year towards around 60 basis points mid-November. A similar development can be detected in the 5-year segment, where spreads increased towards around 75 basis points.

Figure 1.9 Yield spread (Netherlands – Germany) (basis points)



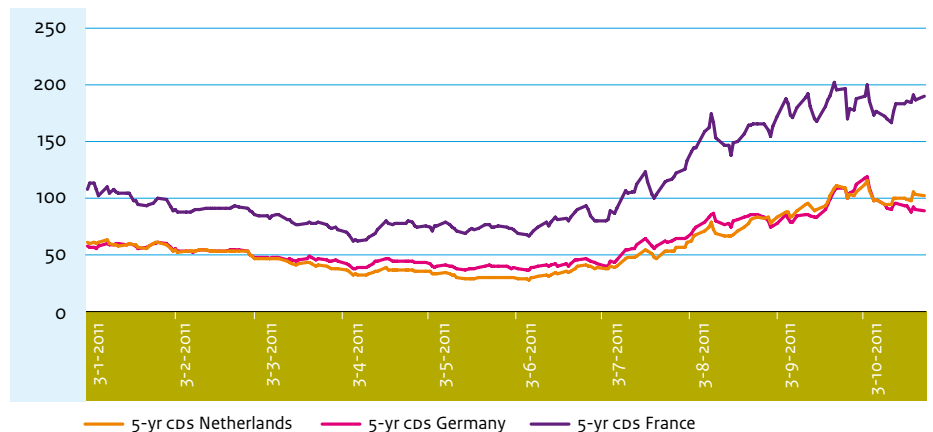
Source: Bloomberg

In addition to the widening of spreads of so-called ‘peripheral’ countries versus safe-haven Germany (and therefore vis-à-vis the Netherlands), financial markets have started to distinguish more and more between countries within the same rating categories. Figure 1.10 presents price developments for the Dutch, German and France Credit Default Swaps (CDS). The correlations between the three countries is almost perfect ( $> 0.97$ ) – more or less the same as in the bond market. A clear upward trend can be detected from July onwards, at the time when yields started to decline. Mid-November, the Dutch 5-year CDS was 102 basis points, meaning that an investor pays an annual premium of \$ 102,000 to hedge a \$ 10 million DSL against default in a 5-year period. According to some analysts, increasing CDS prices of the three countries reflect the increasing volume of contingent liabilities for AAA countries related to the broader EFSF responsibilities. Others point to the increased use of CDSs by financial institutions to fulfill



regulatory requirements; this could create a structural increase in CDS prices. Nonetheless, CDS prices for both the Netherlands and Germany remain much lower than for other AAA countries within the euro area.

**Figure 1.10 CDS prices (in USD thousands) for AAAs in the euro area**

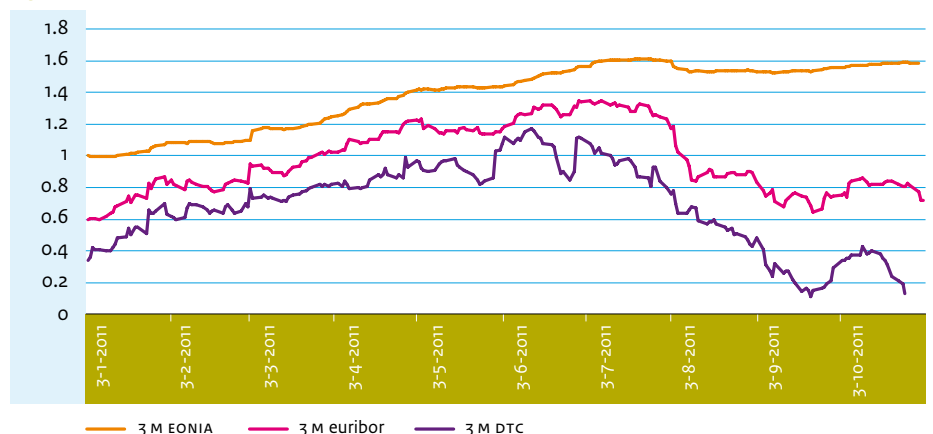


Source: Bloomberg

Figure 1.11 shows the development of money market rates. The 3-month Eonia traded around 0.60% during January and stood at 0.56% in mid-November. The 3-month Euribor started 2011 with a rate of 1.00% and advanced to a mid-November rate of 1.46%. The Euribor rate can be decomposed into two components, the Eonia rate and the Euribor-Eonia spread, with the latter as an indicator of counterparty risk. After a sharp decline in 2010, the amount of overnight cash placed with the ECB increased from a low of € 30 bln in June to volumes of around € 200 bln in October and November. This is indicative of excess liquidity in the system, and a reflection of higher uncertainty and tensions in the money market.

During 2011, the DSTA has been able to fund its money market needs at levels far below Eonia swap rates. The 3-month T-bills funding level in January equaled 0.34% and reached an all-time low of 0.05% in November, after having touched a high of 1.17% mid June. More details on money market funding can be found in section 2.1.

**Figure 1.11 3-month Eonia, Euribor and DTC-rates in 2011**



Source: Bloomberg and DSTA

#### Box 1.4 The Dutch pension system

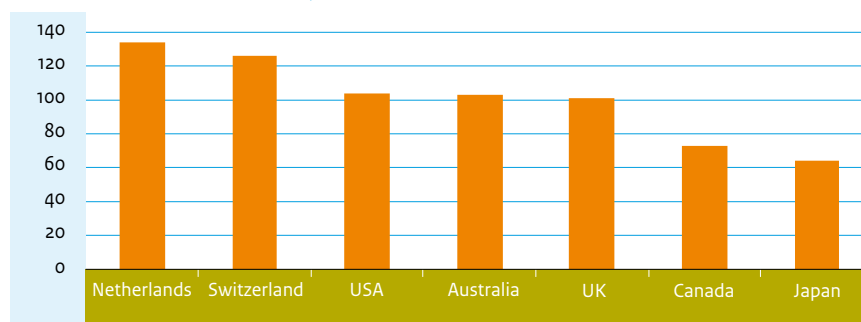
The Dutch pension system is an important asset of the Dutch economy. Both long-term trends and recent developments in financial markets have had a negative influence on pension funds in the Netherlands. Below, an update of the Dutch pension system is presented.

The Dutch pension system is built on three pillars. The 1st pillar is a basic pay-as-you-go pension. The 2nd pillar consists of savings through pension funds. Pension benefits of the 1st and 2nd pillar combined should equal around 70% of the average income a pensioner earned in his working life. The 3rd pillar consists of private savings via for example life insurance policies. The focus of this box is on the 2nd pillar: the Dutch pension funds.

About 90% of all Dutch employees participate in a pension fund. About 450 funds were active at the end of 2010. Every fund acts autonomously within general directives and guidelines of the central government and the supervisor (DNB) on solvency and liquidity. The funds are managed by representatives of trade unions and employer organisations. The monthly contribution to funds is split between employers (usually  $\frac{2}{3}$ ) and employees (usually  $\frac{1}{3}$ ).

At the end of 2010, pension assets in the Netherlands amounted to € 770 billion. Related to GDP, Dutch pension assets are the largest worldwide (see figure below). In the top 10 of largest pension funds around the globe, two are Dutch (ABP and PFZW).

Pension assets at the end of 2010, % GDP

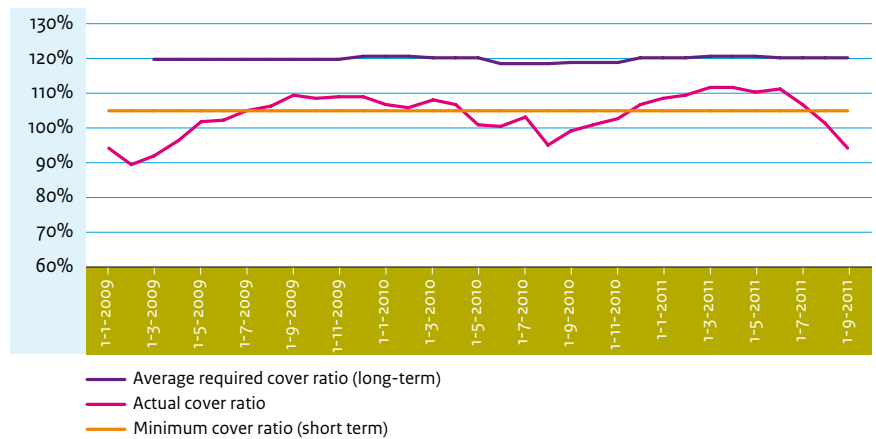


Source: Towers Watson, Global Pension Asset Study 2010, February 2011

#### Cover ratio pension funds

This year's financial market developments are clearly reflected in the so-called cover ratio: the market value of pension assets compared to the present value of the funds liabilities. Cover ratios have gradually declined, both as a result of negative returns on investments and due to an increase of the present value of liabilities following a decline in interest rates. The drop was especially strong during the third quarter of 2011, when the average cover ratio declined to 94% (see figure below). The most recent drop in cover ratio's can be attributed almost entirely to the lower interest rate environment.

**Pension funds cover ratio's**



Source: DNB

The cover ratio should equal at least 105%. About 2/3 of all pension funds have a cover ratio below 105%. Those funds have been asked to present a recovery plan to the Dutch central bank (the supervisor) outlining how the fund plans to meet the minimum ratio of 105% within 5 years of its initial shortfall. In their plans, they should indicate as well how they plan to achieve the required cover ratio of approx. 120% within a period of 15 years; the required long-term ratio differs between funds depending on the risk profile of the fund. In order to restore buffers and meet minimal requirements, pension funds may decide to raise pension contributions or to forego or limit wage or price indexation. The measure of last resort is to lower pension benefits and entitlements.

**Future developments**

Apart from the current situation on financial markets, pension funds face a number of challenges that should be addressed in order to secure their long-term solvency. Most important among them are ageing combined with a continuously increasing life expectancy, the long-term trend of declining interest rates and a higher volatility on financial markets. The different stakeholders – trade unions, employer organisations and the government – have been working on a future-proof 2nd pillar pension system. One of the key elements of the new system is to make the retirement age dependent on the increase in life expectancy. The retirement age will increase to 66 in 2020 and to 67 in 2025. In addition, unions and employers have articulated their intentions to stabilize the current level of contributions by employers, thereby shifting risks towards beneficiaries and away from employers. The details of the so-called ‘pension agreement’ still need to be worked out by the different individual funds.







# 2

## Funding and Issuance

For 2012, the DSTA's total borrowing requirement is estimated at approx. € 100 bln. This is the lowest level since 2008. The DSTA will increase the call on the capital market in 2012 to around € 60 bln, from € 50 bln in the previous three years. The remainder will be covered on the money market. By increasing DSL issuance, the money market should decline more rapidly in the coming years to around € 30 bln. This will help to strengthen the money market's role as a buffer for unforeseen changes in the funding need. In 2012, new benchmark bonds will be issued in the 3-, 5-, 10- and 20-year segments. The first quarter will see two DDAs: for the 10- and 20-year DSLs. The 'off-the-run'-facility will be continued into 2012.



# 2.1

## Looking back on funding in 2011

This paragraph reflects on the execution of the funding plan in 2011. Against the backdrop of the financial instability in the euro capital markets the DSTA managed to secure its funding needs at relatively low costs. This can mainly be attributed to investors' flight to the quality of Dutch State Loans.

### Developments in the borrowing requirement in 2011

During the course of the year the cash balance in the budget is the only changing variable in the overall borrowing requirement. At the time of the publication of the Spring Memorandum at the end of May, the cash deficit was expected to improve from the Outlook 2011 estimate of € 22.5 to € 16.5 bln. After the initial improvement, the cash balance eventually deteriorated slightly towards a deficit of € 19.1 bln at the time of the September Budget Memorandum. The final estimate for the cash balance will be published at the end of November (after the cut-off date of the Outlook).

Table 2.1 illustrates how the total funding need developed during 2011. As can be seen from the table, the end-of-year money market volume came out lower at the end of 2010 than envisaged at the time of the publication of the Outlook 2011. This can mainly be attributed to a lower cash balance in 2010 than was estimated earlier.

The 2010 money market balance of € 59 bln was rolled over into 2011 and capital market redemptions in 2011 totalled € 28.1 bln. Both are part of the total funding need. Altogether, the 2011 total borrowing requirement is expected to come out at € 106.2 bln, lower than the € 117.1 bln initially presented in the Outlook 2011.

**Table 2.1 Borrowing requirement and funding in 2011 (€ bln)**

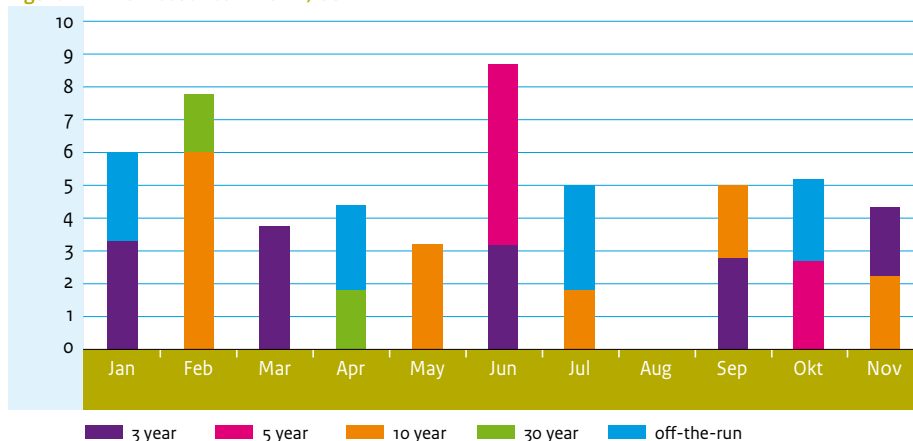
	Outlook 2011	End of year update	Spring update	September update
Capital market redemptions	28.1	28.1	28.1	28.1
Money market ultimate 2010	66.7	59.0	59.0	59.0
Cash deficit 2011	22.3	22.3	16.5	19.1
<b>Total borrowing requirement 2011</b>	<b>117.1</b>	<b>109.4</b>	<b>103.6</b>	<b>106.2</b>
Capital market funding	50.0	50.0	50.0	50.0
Money market funding	67.1	59.4	53.6	56.2
<b>Total funding 2011</b>	<b>117.1</b>	<b>109.4</b>	<b>103.6</b>	<b>106.2</b>

### Executing the funding plan in 2011

The funding plan for the current year was built around a capital market issuance of approx. € 50 billion. This followed upon nominal DSL issuances of € 48.1 bln in 2009 and € 51.8 bln in 2010. Total capital market issuance in 2011 will come out at approx. € 53 bln. Figure 2.1 shows the issuance on the capital markets in 2011 divided over the different maturity buckets. As a result of a capital market issuance of € 53 bln in 2011, the call on the money market is expected to come out at € 53 bln. Any change in this year's cash balance will be reflected in the money market volume at year-end.

As in previous years, and as is common policy among the majority of countries, the DSTA has front-loaded its DSL issuance in 2011. Front loading is a sensible funding strategy for the Netherlands considering that all DSL redemptions take place in the first 7 months of the year (traditionally the DSTA has two DSL lines: January and July). The majority of auction dates also fall in the first half of the year.

Figure 2.1 DSL-issuance in 2011\*, € bln



\* Including the DSL auction of 22 November, but excluding a possible execution of the non-comp.

In January the new 3-year benchmark bond, the 1% 15 January 2014, was launched through a regular tap auction. This initial tap raised € 3.3 bln and 4 reopenings in the course of the year raised the total outstanding amounts of this bond to just above € 15 bln. Auctioning benchmark bonds relatively early in the year made it possible to alternate DSL auctions between the 3-year and the 10-year segments.

The new 10-year benchmark bond was issued in March. The DSL 3.25% 15 July 2021 raised slightly more than € 6 bln in the Dutch Direct Auction (DDA). The 10-year bond was reopened 4 times, bringing the outstanding amount to € 15.5 bln.

Besides the two benchmark bonds a new 5-year DSL, the DSL 2.5% 15 January 2017, was launched in June. The reopening of this bond in October was also received well. The current outstanding amount equals € 8.2 bln. Reopenings in the first half of 2012 will increase the amount to at least € 15 bln.

Table 2.2 below summarizes the DDA issuance results and subsequent spreads in taps. On the back of financial market developments in the euro area (see section 1.3), spreads versus Germany at issuance have widened somewhat during the year since the initial launch of the DSLs in March and June (see also section 1.3).

Table 2.2 Results of bonds issued via DDA

DDA	3.25% 15 July 2021	2.5% 15 January 2017
Reference bond	German Bund 2.5% January 2021	German Bund 3.75% January 2017
Date of issuance	1 March 2011	21 June 2011
Total DDA-allocation	€ 6.0 bln	€ 5.5 bln
Investors	58% Real money / 42% Others	55% Real money / 45% Others
Issuance yield	3.494%	2.648%
Issuance spread over reference bond	+ 29 bps	+ 32 bps
Average issuance yield at reopening	2.208%	1.777%
Spread range at reopening	+ 34-56 bps	+ 41 bps
Outstanding volume mid November	€ 15.5 bln	€ 8.2 bln

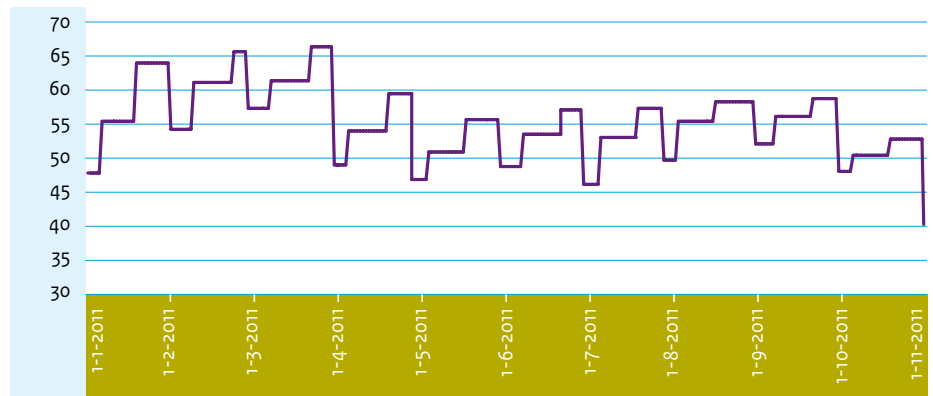
Furthermore, the 30-year on-the-run, the 3.75% January 2042, first issued in 2010, was reopened in February and April thereby bringing its outstanding amount to € 10.6 bln. To finalize its capital market funding requirement, the DSTA continued auctioning off-the-run bonds throughout the whole year. As announced in the Outlook 2011, the off-the run auctions were scaled back to once every quarter, on the fourth Tuesday of the first month. In all, a total amount of € 11 bln was issued in different maturity segments.

**Money market issuance in 2011**

**DTC issuance**

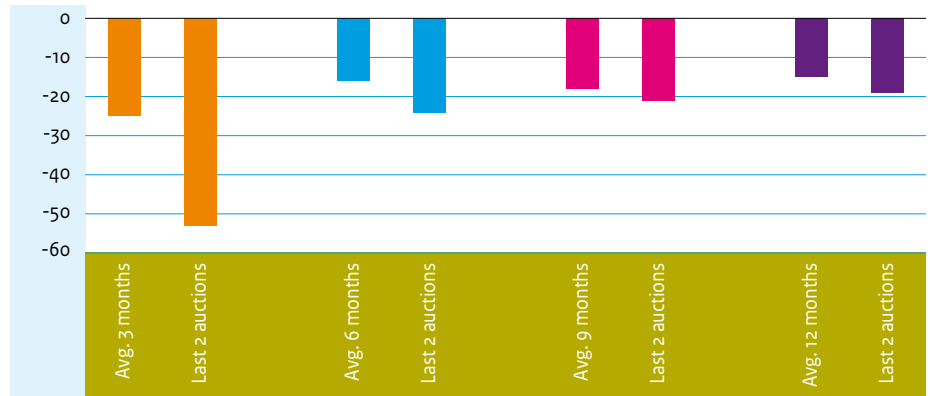
The DSTA auctions Dutch Treasury Certificates (DTCs) every first and third Monday of the month. With two DTC-programmes per auction the DSTA is back to its pre-crisis issuance frequency. In every auction a 3-month DTC programme was tendered in combination with a programme in either the 6-, 9- or 12-month segment. In 2011, a gross amount of € 95 bln was issued up to and including October with an average outstanding level of € 55.4 bln during the year (see figure 2.2).

**Figure 2.2 Outstanding amounts DTC, January-October 2011, € bln.**



In the first 10 months of 2011, funding in the money market was achieved at an average spread for the 3-, 6-, 9- and 12-month maturities of around -25, -16, -8 and -15 bps respectively vis-à-vis Eonia overnight index swap, as shown in figure 2.3. In the most recent auctions, swap spreads widened even further. This is indicative of the increased attractiveness of short term Dutch State Treasury paper when financial instability is high. Section 1.3 gives more information on money market developments in the euro area.

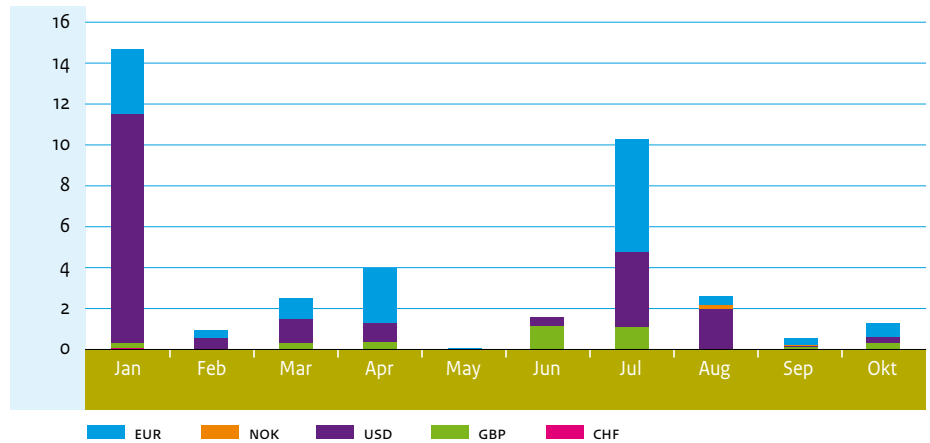
**Figure 2.3 Money market spreads, DTC funding levels – Eonia Swap, January – October 2011**  
(in basis points)



**Commercial paper**

The Commercial Paper (CP) programme fulfils the DSTA’s short-term funding need in a flexible and cost-efficient way, without interfering with the DTC programme. In 2011, the existing programmes in us dollars, British pounds and Swiss francs were extended with an additional programme in Norwegian kroner. The first CP deals in Norwegian kroner were settled in August. On the supply side, the issuance of CP during the year was in step with the DSL redemption profile, with peaks in January and July. On the demand side, investor’s appetite mirrored the international developments in the financial markets (see figure 2.4).

**Figure 2.4 Amounts issued in CP (January – October 2010), € bln.**



The lion’s share of non-euro CP-funding was issued in us dollars. A smaller share of CP was issued in British pounds and to a minor extent in Norwegian kroner and Swiss francs (see table 2.3). The lack of dollar liquidity in financial markets at the end of the third quarter seems to have reduced the investors’ interest in us dollar CP.

In the first ten months a total amount of € 37.8 bln was issued through CP. Monthly outstanding CP volumes amounted to an average of € 3.5 bln with an average maturity of 25 days. Compared to last year this is half the average amount and number of outstanding days.



Table 2.3 Amounts issued in CP, January – October 2011, € mln.

	Volume issued (issuing currency)	Volume issued (in euros)	Outstanding in issuing currency	Outstanding in euros
CP in euros	14067	14067	25	25
CP in US dollars	27406	20061	2980	2083
CP in British pounds	6638	3442	1000	1120
CP in Swiss francs	35	28	-	-
CP in Norwegian kroner	1715	219	-	-
<b>Total</b>		<b>37816</b>		<b>3228</b>

**Box 2.1 Issuance in us dollars**

In last year's Outlook, the DSTA announced the intention of issuing a foreign currency bond. Based on the experience with issuing Commercial Paper in us dollars, a us dollar bond could be an excellent way to introduce typical us dollar investors to the Dutch State, thereby broadening and diversifying the DSTA's investor base. The DBA-auction method for issuing longer dated DSLs will also be applied if and when a us dollar bond is launched. As previously indicated the amount issued in dollars will reduce the DSTA's overall call on the money market.

A precondition for the DSTA to issue long-term debt in us dollars is that a targeted funding advantage should be realized vis-à-vis a comparable bond issued in euro's. Although access to USD funds tends to dry up in periods of market stress, as we have seen over the past year, the main effect determining the funding advantage for the Dutch State is the dollar funding level compared to the DSLs euro levels. Due to the recent investor's flight to the quality of DSLs, there has been no appropriate funding advantage. Hence, the DSTA decided not to issue. Also in 2012, the DSTA stands ready to issue a us dollar Dutch State bond as soon as the window of opportunity arises.

## 2.2

**Funding plan for 2012**

The borrowing requirement in any year consists of the ultimate volume of the money market in the preceding year, capital market redemptions and the expected cash deficit. This section gives an overview of the borrowing requirement and funding plan for 2012.

The money market volume primarily consists of outstanding Dutch Treasury Certificates, commercial paper and deposits. In addition, cash collateral received from Primary Dealers has become an increasingly important source of money market funding. Driven by declining interest rates and the relatively large swap portfolio, the amount of cash collateral at the DSTA has increased substantially throughout 2011.

Since the ultimate volume of the money market will depend on the final outcome of the cash balance, the exact size can only be determined at the end of the year. For now the borrowing requirement for next year is specified as follows:

- Capital market redemptions amounting to a total of € 34.1 bln
- An expected end-of-year money market volume of € 53.2 bln (incl. cash collateral)
- An estimated cash deficit of € 12.3 bln

Altogether this results in a preliminary borrowing requirement for 2012 of € 99.6 bln. The DSTA has decided to fund approx. € 60 bln in the capital market. The remaining borrowing requirement will be covered in the money market, resulting in an estimated volume at year-end of approx. € 40 bln.



Table 2.4 Borrowing requirement and funding in 2012, € bln.

Borrowing requirement 2012	
Capital market redemptions 2012	34.1
Money market ultimo 2011	53.2
Cash deficit 2012	12.3
<b>Total borrowing requirement</b>	<b>99.6</b>
Funding	
Capital market	60
Money market ultimate 2012	39.6
<b>Total funding 2012</b>	<b>99.6</b>

#### *Increased call on capital market*

After three consecutive years in which the call on the capital market amounted to approx. € 50 bln, next year the issuance of DSTs will be increased to around € 60 bln. The increase in capital market funding is driven by two factors. First, deficits projected for 2013 and beyond have been raised compared to last year's estimates, as explained in section 1.2. As a result, by maintaining a call on the capital market of € 50 bln, it would take too long before the money market size would arrive at its desired level of approx. € 30 bln. Second, increased uncertainties and the more volatile environment in which the DSTA now operates, justify a more rapid decline in short term funding than initially aimed for. Both factors warrant a lower share of short term funding from next year onwards. In this way, the money market will be better able to perform its traditional buffer role.

As box 2.2 explains in more detail, a well-functioning money market buffer imposes upper and lower limits on its volume. A minimum size is required to guarantee liquidity in short-term instruments, while a continued heavy reliance on short term funding will ultimately limit the ability to absorb possible budgetary setbacks. Given these boundaries and the increased funding need since the end of 2008, the DSTA aims to gradually reduce the money market level to approx. € 30 bln in the coming years.

#### Box 2.2 The money market as a buffer

In a number of countries, a more or less permanent liquidity buffer is an integral part of the cash and debt management policy. Its main objective is to mitigate refinancing risk and to manage the time difference between cash surpluses and shortfalls. Traditionally, a liquidity buffer can be defined as a pool of cash or other highly liquid assets readily available to cover unforeseen changes in the funding need or – in the extreme case – to withstand severe liquidity strains for shorter periods of time.

Except for a positive cash-position in the run-up to servicing redemptions, the DSTA does not employ a liquidity buffer. Rather than keeping cash or highly liquid assets which need to be reinvested and result in counterparty risk, the DSTA secures readily available funding by maintaining a constant presence in the money market. In general, the size of the money market (amounts borrowed and lent) moves in line with budgetary windfalls and setbacks. This reflects the buffer function the money market fulfils. Furthermore, maintaining a minimum number of programmes of liquid T-bills creates the flexibility to swiftly increase the call on the money market in case of unforeseen increases in the funding need (as in the last quarter of 2008).

The interaction between money market and capital market funding is highlighting the two cornerstones of the DSTA's funding policy: flexibility and consistency. The money market is providing the necessary flexibility. Unforeseen changes in the funding need are initially covered by changes in the call on the money market. Consistency can be found in the issuance on the capital market. To be a reliable and predictable issuer the DSTA aims to limit fluctuations in DSL issuance from year to year as much as possible. A change in capital market issuance is therefore always a choice for more than one year. Since 2009, the call on capital market stayed at approx. € 50 bln. Therefore, for 2013 the DSTA in principle aims to maintain the call on the capital market at a level in line with issuance in 2012. Having said that, every funding plan for the upcoming year will be drafted based on all information and given the uncertainty at that time.

#### Capital market issuance in 2012

To satisfy the call on the capital market four new DSLs will be issued. Furthermore, the outstanding amount in the current on-the-run 5-year DSL will be increased and the facility for reopening off-the-run bonds will be continued into 2012.

Four new DSLs will be launched in 2012. More specifically:

- A new 3-year bond – the DSL 15 April 2015 – will be launched in January 2012, by means of a regular tap. Subsequent reopenings throughout the year will further increase the outstanding volume to at least € 15 bln within 12 months of first issuance. To distribute coupon and principle repayments over the year, this new 3-year bond will have its coupon date in April, unlike previous 3-year benchmark bonds.
- A new 10-year bond will be issued by means of a DDA. Subsequent reopenings will further increase the outstanding amount of this bond to at least € 15 bln within 12 months of first issuance. The 10-year DDA is scheduled for the first quarter of 2012.

- Also in the first quarter, a new 20-year bond will be launched by means of a DDA. After primary issuance this bond will be reopened twice in 2012. As is the case for all longer maturity bonds, this new DSL will have a target volume of at least € 10 bln. It is expected that this benchmark size will only be reached in 2013.
- Later in the year but before the summer, the DSTA will launch a new 5-year DSL, also by means of a DDA. The initial issuance and subsequent reopenings will raise the outstanding amount of this DSL to an indicative amount of € 7 bln in 2012, raising it to at least € 15 bln in 2013.

In addition, the on-the-run 5 year bond – the 2.5% DSL 15 January 2017 – first issued in June 2011, will be reopened two times next year. This will raise its outstanding volume by approximately € 7 bln to at least € 15 bln in the first half of 2012.

The off-the-run facility will be continued into 2012. Similar to this year, off-the-run auctions will take place once every quarter, always in the first month. The target volume for each auction amounts to approximately € 2 bln. All off-the-run DSLs, regardless of their outstanding amounts, can be auctioned under this facility. The selection of the specific DSLs will be done on a case-by-case basis and will be published in the quarterly issuance calendars.

As mentioned, three DDAs are planned for 2012. The 10- and 20-year DDA are scheduled for the first quarter, with no decision yet on which bond will be launched first. The issuance of the 5-year DSL will take place in June/July. The exact timing of the DDAs will be announced later in the year, which could lead to changes in the issuance calendar. August and December are labeled as reserve dates.

With regard to issuing in foreign currency, the DSTA's funding policy has not changed. The precondition for issuing debt in us dollars is that a sufficient funding advantage should be realized vis-à-vis a comparable bond issued in euros. If and when issued, the euro equivalent of the foreign currency funding will reduce the call on the money market in 2012.

Table 2.5 summarises the DSL issuance described above. The DSL calendar can be found at the end of this section. Due to the increased capital market issuance next year, the number of auctions has increased. Except for the first quarter, August and December, every month contains two regular tap auctions. As usual auctions will take place on the second and fourth Tuesday of the month.

**Table 2.5 DSL issuance in 2012, indicative sizes, € bln.**

DSL	Indicative amount
New 3-year DSL	15
New 5-year DSL	7
New 10-year DSL	15
New 20-year DSL	8
On-the-run 5 year DSL	7
Off-the-run facility	8
<b>Total DSL funding</b>	<b>60</b>
US Dollar bond	Optional

#### **DTC issuance**

The DTC calendar follows the usual pattern of two auctions per month on the first and third Monday. In every auction a 3-month programme will be tendered in combination with a programme in the 6-, 9-, or 12-month segment. As described before, the size of money market funding will decline to approx. € 40 bln at the end of 2012. In order to safeguard liquidity in DTCs, this lower total volume requires increased issuance in shorter maturities. Therefore, next year the focus of the second line will be on issuance in the 6-month segment. At the same time, this will strengthen the ability to absorb unforeseen changes in the cash balance. Both fluctuations in the amount of cash collateral received from Primary Dealers and the increased budgetary uncertainty require a more flexible cash management. It is expected that by reducing the average maturity of DTC-funding, the incidence of cash surpluses can be reduced, thereby mitigating credit risk.

As a result, the auction calendar in 2012 follows a less consistent pattern compared to 2011. Issuance in 12-month programmes will take place only in the beginning of the first and third quarter. The second and fourth quarter will start with an auction of 9-month DTCs. In all other auctions, 3-month DTCs will be auctioned in combination with an issuance in the 6-month segment. All in all, of the 48 auctions, in 24 auctions 3-month DTCs will be issued, 20 auctions will issue 6-month DTCs, 2 auctions will issue 9-month DTCs and 2 will issue 12-month DTCs.

All DTC-programmes to be auctioned will be announced on the Wednesday prior to the auction (t-5). The DTC calendar can be found at the end of this section. Unforeseen circumstances may lead to changes in the calendar. Quarterly issuance calendars will always provide updates, if necessary.



## Indicative DSL calendar 2012

Month of Issuance	Auction Data		Auction Data		DDA-window
	(2nd Tuesday)	Details	(4th Tuesday)	Details	
January	10	Tap new 3-year: DSL 15 April 2015	24	Off-the-run	DDA new 10-year + DDA new 20-year
February	14	Tap 5-year: 2.5% DSL 15 January 2017	No tap		
March	13	Reopening new 3-year	No tap		
April	10	Tap	24	Off-the-run	DDA new 5-year
May	8	Tap	22	Tap	
June	12	Tap	26	Tap	
July	10	Tap	24	Off-the-run	
August	Reserve dates				
September	11	Tap	25	Tap	
October	9	Tap	23	Off-the-run	
November	13	Tap	27	Tap	
December	Reserve dates				


## Indicative DTC calendar 2012

Auction date	Settlement date	3-month DTC-programme	6-, 9-, 12-month DTC-programme
03-01-12*	05-01-12	30-03-2012	27-12-2012
16-01-12	18-01-12	27-04-2012	29-06-2012
06-02-12	08-02-12	27-04-2012	31-07-2012
20-02-12	22-02-12	31-05-2012	31-08-2012
05-03-12	07-03-12	31-05-2012	28-09-2012
19-03-12	21-03-12	29-06-2012	28-09-2012
02-04-12	04-04-12	29-06-2012	27-12-2012
16-04-12	18-04-12	31-07-2012	31-10-2012
07-05-12	09-05-12	31-07-2012	30-11-2012
21-05-12	23-05-12	31-08-2012	30-11-2012
04-06-12	06-06-12	31-08-2012	27-12-2012
18-06-12	20-06-12	28-09-2012	31-01-2013
02-07-12	04-07-12	28-09-2012	28-06-2013
16-07-12	18-07-12	31-10-2012	31-01-2013
06-08-12	08-08-12	31-10-2012	28-02-2013
20-08-12	22-08-12	30-11-2012	28-02-2013
03-09-12	05-09-12	30-11-2012	28-03-2013
17-09-12	19-09-12	27-12-2012	28-03-2013
01-10-12	03-10-12	27-12-2012	28-06-2013
15-10-12	17-10-12	31-01-2013	29-04-2013
05-11-12	07-11-12	31-01-2013	31-05-2013
19-11-12	21-11-12	28-02-2013	29-04-2013
03-12-12	05-12-12	28-02-2013	31-05-2013
10-12-12#	12-12-12	28-03-2013	28-06-2013

Shaded areas indicate new programmes

\* Tuesday

# Second Monday

An aerial photograph of a large-scale construction site, likely a dam or a major infrastructure project. The image shows multiple levels of earthworks, with a prominent circular structure in the upper right. A tall, white tower stands in the center. The terrain is a mix of reddish-brown soil and greyish-green areas, possibly representing different stages of construction or different materials used. The overall scene is one of intense engineering and earthmoving.

In 2011, the Netherlands conducted a stress test of its public finances to provide insight in the Dutch fiscal position under extreme conditions. Although inspired by recent developments, the Shock Proof presents three imaginary simulations. The simulations confirm the importance of sound public finances and vigilant risk management. The Netherlands contributes to the package support for Greece, EFSF and the future ESM. A stronger economic and fiscal governance within the euro area is urgently needed.



3

# Crisis management in the Netherlands





# 3.1

## Stress testing government finances

Against the background of deteriorated public finances and an unprecedented uncertain economic outlook, the Netherlands has conducted a stress test of public finances. The objective of this exercise is to provide insight in the development of Dutch public finances if new setbacks were to materialise. The report – ‘The Government Finances Shock Proof – A risk analysis of Dutch public finances’ was published on 18 September 2011. The English translation can be found at [www.dsta.nl](http://www.dsta.nl).

The financial crisis has led to an increased attention for stress testing of banks. The European Union has followed the example set by the United States to conduct stress tests on major banks, coupled with concrete plans for recapitalisation if needed. The necessary interventions in the financial sector and the economic recession that followed have led to a sharp deterioration of government finances in the advanced economies. Moreover, the risk profile of many countries has worsened due to their involvement in the financial sector and an increase in contingent liabilities resulting from government guarantees. Meanwhile, the economic outlook is highly uncertain.

The current debt problems in various countries, the lack of confidence on financial markets, and the extremely uncertain economic outlook underline the importance of vigilant risk management of government debt. Various debt managers periodically produce cost-risk analyses to keep debt management policies up-to-date (see chapter 4). The IMF has recently recommended to augment such traditional cost-risk analysis with appropriately designed stress tests, that would, at a minimum, incorporate the risks stemming from the financial sector.<sup>1</sup>

On the other hand, there has been little experience worldwide with stress testing government finances. This raised interesting questions on how to shape the exercise. The Netherlands chose to look at the three channels through which government finances deteriorated during the most recent crisis. First, the economy. This includes the automatic stabilisation function of the budget, e.g. lower tax revenues and higher expenditures in times of economic setbacks. Secondly, interventions and participations, notably the risks of renewed support for the financial sector. Thirdly, the risks of government guarantees, including those stemming from European guarantees such as the EFSF (see section 3.2).

To provide insight in the fiscal position in extreme conditions, the report ‘The Government Finances Shock Proof’ looks at the impact possible new crises could have on the fiscal position and the economy. It looks at rather extreme developments, not just a pessimistic scenario compared to the baseline. It also tries to take into account possible correlations between risks. In three fictive simulations, rather large, simultaneous shocks in stock markets, house prices, exchange rates, interest rates, and world trade were assumed.

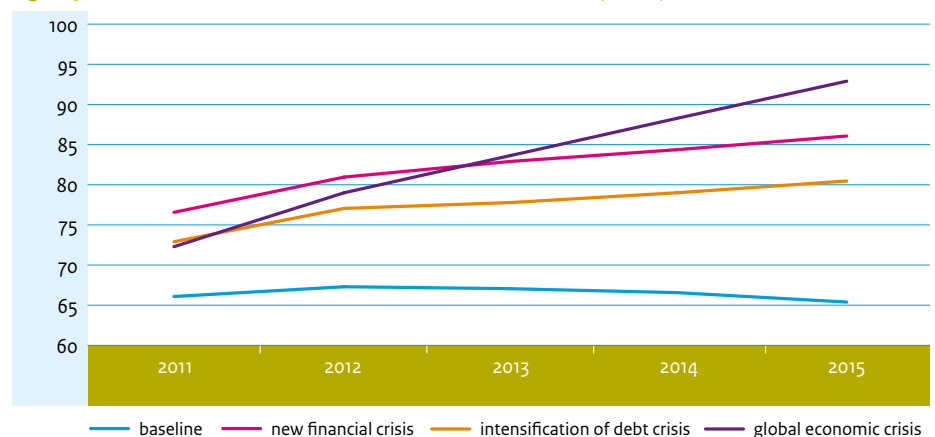
The Shock Proof was conducted in cooperation with the CPB (Netherlands Bureau for Economic Policy Analysis; see box 1.2) and the central bank (DNB, also banking supervisor). The CPB has used its macro-model to assess the impact of simultaneous shocks on economic growth and public finances. DNB has looked at possible financial sector losses, taking into account the experience with the European stress tests (EBA) and the IMF stress tests (FSAP). However, the Shock Proof has assumed somewhat larger shocks than in those stress tests. Also the assumption was made that the government will step in to support the banking sector in case of capital shortfalls, hence putting further upward pressure on the government debt level. Finally, the Ministry of Finance has had the lead on the estimation of possible losses on government guarantees. It was also tried to take into account second-round effects such as the impact of the shocks on the balance sheets of pension funds and of the ECB and thereby DNB.

<sup>1</sup> IMF, *Managing Sovereign Debt and Debt Markets through a Crisis, Practical Insights and Policy Lessons*, May 2011.

To provide insight in the fiscal position, the Shock Proof presents three purely imaginary simulations: a (new) financial crisis, an (intensification of the) European debt crisis, and a global economic crisis. While the simulations are thus to some extent inspired by recent developments, it is important to stress their purely fictitious character. Also, it should be noted that new shocks could be of a completely different nature and could hit in ways currently unforeseeable. Despite these disclaimers, the approach nevertheless seems natural for the Netherlands: a very open economy, with a large financial sector and part of a currency area.

In the three simulations, economic growth and public finances are hit hard compared to the baseline; the baseline is equal to the projected EMU-debt in the coalition agreement (see section 1.2). Asset prices and world trade plunge, and economic growth turns negative. The EMU-debt level moves away from the 60% of GDP level and approaches or – in one scenario – surpasses the 90% level, that has been associated with slower economic growth.<sup>2</sup> At the same time, the debt ratio remains below that of most other advanced economies due to the favourable starting position of the Netherlands (the debt ratio currently being well below averages of the euro area and OECD, which, by the way, are likely to increase further in case of these adverse shocks).

Figure 3.1 Baseline and three stress scenarios for the EMU-debt (% GDP)



In the simulations, the debt level increases sharply as the shock hits (see figure 3.1). This is due to the fact that new interventions in the financial sector are assumed and government guarantees such as the EFSF are triggered. The drop in the level of GDP (up to -7.8% compared to the baseline) also strongly affects tax income and government expenditures. Note that the debt level continues to rise after the initial shock. This shows the importance of a policy reaction after a shock hits. Although the simulations are run on a no-policy-basis, in reality, the government is likely to react to a shock – the Dutch budgetary rules actually prescribe doing so (see box 1.3) – just as it reacted to the financial crisis of 2008/09 with consolidation measures and structural reforms.

The possibility of a sudden, sharp increase in the debt level underlines the importance of a sound public finances and vigilant risk management to be able to absorb future shocks. The government has implemented a policy package of € 18 billion (3% of GDP) to bring back the government finances on sound footing, as explained in section 1.2. Various measures have been taken to limit the risks of the financial sector: its strength compares favourably to other countries. In Brussels, discussions are ongoing regarding the efforts needed to stabilise the euro area. Finally, the crisis has shown clearly that sound public finances depend on a strong economy. The government has therefore spelled out in its coalition agreement various measures to strengthen the competitiveness of the Dutch economy.

<sup>2</sup> See C. Reinhart and K. Rogoff, *Growth in a time of debt*, American Economic Review, January 2010.



## 3.2

### Addressing the crisis

As was explained in the previous section, negative financial and economic shocks can have a major impact on public finances. The Netherlands was able to handle the consequences of the crisis reasonably well thanks to its good financial position at the onset of the crisis. This created the budgetary scope for the necessary interventions in order to safeguard financial stability and implement a stimulus package in line with international agreements. The sustained turmoil on the financial markets, the uncertain prospects for growth and longer term trends such as ageing underline the importance of restoring sufficient fiscal space. The € 18 bln of consolidation measures should be seen in this context.

In addition to safeguarding budgetary resilience, adequate risk management by the government is required. In response to the crisis, the Dutch government implemented a number of important measures to improve risk management and the resilience of the financial system. It also contributed to European measures to safeguard the euro. This section gives an overview of the most important measures taken.

#### *Reorganisation of the financial sector*

A lot of work is in progress to reduce the likelihood of interventions in the financial sector in the future. This work is largely being done at the international level. The new international regulatory framework for banks (Basel III) prescribes substantially increased capital buffers which impose more stringent requirements on systemically important banks. In addition to higher buffers, work is also underway on a better supervisory system. The regulator will be given more powers to intervene earlier and more robustly in resolving problems in advance. In the Netherlands, crisis intervention legislation and a crisis intervention ladder are being prepared.<sup>3</sup> A framework to prevent the damage caused by disorderly bankruptcies in the financial sector is also being developed at the European level. As part of that framework, financial institutions and governments will draw up recovery and resolution plans which set out how institutions can be restructured in a crisis situation without government assistance. Work is also in progress on a more stringent supervisory system, remuneration structures, better tools for prudential supervision and crisis management, as well as the establishment of the European Systemic Risk Board to monitor and address systemic risks. The Dutch Banking Code creates better incentives and can therefore help to compel financial institutions to adopt a more long-term vision. The introduction of a banking levy will also help to create greater financial stability by making it a less appealing option to use high-risk leverage for financing purposes.

#### *Tightening guarantee policy*

The Dutch government has tightened its policy on guarantees. Usefulness and need will have to be strictly reviewed in the future before a guarantee can be provided. In principle, when it takes over risks, the government will request a premium to cover costs. The government will also keep a closer eye on guarantees already issued so that the scaling down of the government's responsibility can be addressed quickly if the guarantee arrangement ceases to be sufficiently useful and necessary.

<sup>3</sup> See Parliamentary Documents II, 2009/2010, 32 013, no. 6. Only in Dutch

**Box 3.1 Update financial sector interventions 2008/2009**

In 2008 and 2009 a number of measures were taken by the Dutch government to safeguard financial stability. This box provides an update on the measures taken.

**Financial institutions: shareholder functions and exit**

At the start of the credit crisis, the State of the Netherlands assumed substantial interests in Dutch financials:

- In the third quarter of 2008, ING, AEGON and SNS Reaal received capital injections amounting to a total of € 13.75 bln.
- Early October 2008, Fortis Bank Nederland, its stake in ABN AMRO, Fortis Corporate Insurance (now sold off) and Fortis Verzekeringen Nederland (now ASR) were taken over by the State of the Netherlands. In the course of 2010, relevant parts of ABN AMRO were separated from the consortium that acquired ABN AMRO in 2007 and were subsequently merged with FBN under the new ABN AMRO Group.

Meanwhile, the State of the Netherlands has realised a substantial part of the intended exit from the financial sector. AEGON had fully repaid its tier-1-ranking securities scheme (€ 3 bln plus interest) by the end of June 2011. Earlier this year, ING announced its intention to repay the remainder of its original € 10 bln capital injection (€ 3 bln plus interest) in 2012. SNS Reaal has repaid 25% of its € 750 mln recapitalisation.

In the course of 2011, the stakes in ASR and ABN AMRO (both 100% of common share capital) have been transferred to Netherlands Financial Institutions (NIFI), an independent body that will fulfill shareholder functions on behalf of the State.

**Illiquid back-up facility to ING**

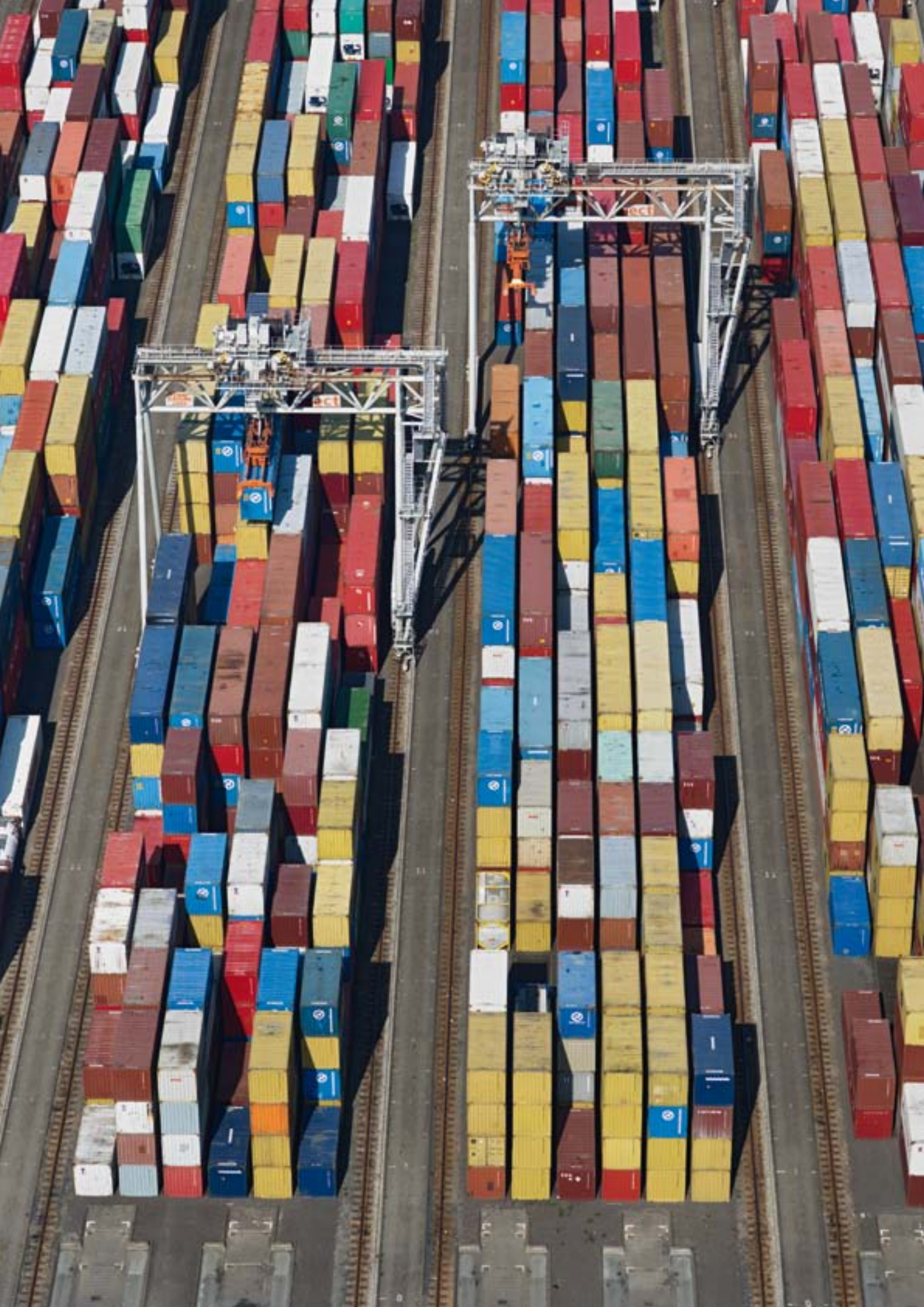
On 26 January 2009, ING and the State of the Netherlands agreed upon an Illiquid Assets Back-up Facility (IABF). The transaction resulted in a transfer of the risk on 80% of ING's Alt-A residential mortgages backed securities portfolio to the State of the Netherlands at a discount of 10% of par value. The size of the portfolio at the time of the agreement amounted to \$ 30.9 bln (par value); the total liability of the State to ING amounted to \$ 27.8 bln. Both the size of the portfolio and of the liability have decreased since then, to an estimated \$ 18.1 bln and \$ 13.6 bln respectively at the end of 2011. The liability to ING is part of the EMU-debt.

The restructuring plan of ING that has been imposed by the European Commission contains, inter alia, the sale of ING Direct us. As a result of this sale, the characteristics of the IABF transactions will fundamentally remain unchanged. However, in order to secure that the State only guarantees ING and not a third party, the structure of the facility will be slightly adjusted.

**Credit Guarantee Scheme for bank debt**

In October 2008, the State of the Netherlands introduced its Credit Guarantee Scheme of € 200 bln. The Credit Guarantee Scheme has been extended twice, most recently on 1 July 2010, up to 31 December 2010. As of 1 January 2011 the Scheme has been suspended. At the same time, banks that have used the guarantee scheme were given the possibility to buy back guaranteed debt from the capital market. Early July 2011, it was decided to keep this buy-back facility in place permanently. For each guaranteed loan that the bank has bought back a 'closing out fee' is due. Up till mid-November, a total amount of € 3.2 billion was redeemed early. A full overview of the conditions can be found in the Rules on [www.dst.nl](http://www.dst.nl). At the end of October 2011, € 34.2 bln of issued debt was still guaranteed by the State of the Netherlands, of which approx. €14 bln will mature in 2012 and with the last guarantees expiring in 2014.





### *The European dimension*

In 2010, the European Union took various measures to foster the stability of the euro. Specifically, the measures included a support package for Greece, the European Financial Stability Facility (EFSF) for the euro area and the European Financial Stability Mechanism (EFSM) for all Member States. In 2011, the European Stability Mechanism (ESM) was announced as the permanent successor to the EFSF starting in mid 2013.

#### *Package of support for Greece*

In May 2010, the euro area countries announced a coordinated effort with the IMF to support Greece to an amount of € 110 billion, with € 80 billion contributed by the euro area countries and € 30 billion coming from the IMF. Each individual euro area country's share in the total amount will be determined by the ECB capital key. The Dutch contribution amounts to € 4.7 billion. The support package takes the form of bilateral loans to Greece. In 2010 and 2011 (up to October), the Netherlands has lent a total of € 2.8 billion to Greece. The amounts lent raise the EMU-debt. The second support package for Greece as agreed in October 2011 will be done through the EFSF.

#### *European Financial Stability Mechanism*

Having come into effect on 13 May 2010, the European Financial Stability Mechanism (EFSM) is managed by the European Commission and can issue loans up to € 60 billion. The European Commission is authorised to borrow money for the facility on the capital market. The Member States act indirectly as guarantors through the EU budget in accordance with their share in the European budget. EU Member States may draw on money from this mechanism. Any support provided must comply with strict policy conditions. If a country fails to comply with its obligations towards the EFSM, the consequences will in principle be absorbed within the EU budget. If this does not prove to be entirely feasible, the Member States will be asked to contribute more to the EU budget in accordance with their share in the EU budget. The Netherlands' share in the EU budget amounted to 4.98% in 2010.

#### *The European Financial Stability Facility*

The European Financial Stability Facility (EFSF) was established on 7 June 2010. The EFSF can grant loans to euro area countries in financial distress and was set up to protect the financial stability of the euro area. Bonds issued by the EFSF are guaranteed by euro area countries pro rata according to the ECB capital key. To arrive at an effective lending capacity of € 440 bln, the euro area countries have put up a total of € 726 billion in guarantees for the principal obligations entered into by the EFSF to fund loans to programme countries.

At the European summit on 21 July, government leaders and heads of state decided to expand the maturity of the loans that can be issued by the EFSF and to make the existing instruments more flexible. Due to the extension of the maturity of EFSF loans and the Dutch budget law requirements, the total guarantees of the Netherlands for EFSF as taken up in the National Budget have risen to a maximum of € 97.8 bln. The overall guarantee consists of a combination of primary and over-guarantees. The primary guarantees provide direct coverage for the bonds issued by the EFSF and the interest payments attached to those bonds. Supplementary over-guarantees are necessary to guarantee the EFSF's AAA rating.



## 3.3

### *The European Stability Mechanism (ESM)*

The ESM will succeed the temporary emergency mechanisms EFSF and EFSM starting in mid 2013. The ESM Treaty needs to be ratified by the Dutch parliament. It has been agreed that the ESM will be given an authorised capital of € 700 billion, of which € 80 billion will be paid-in capital and € 620 billion will be callable capital. According to the ECB key, the Netherlands' share in this amount is 5.72%. The Dutch share in the callable capital, which is similar to a guarantee commitment and does not immediately result in cash expenditure, is € 35.5 billion. This implies that the Netherlands should deposit an annual € 915 million in the period 2013 to 2017, equalling a total paid-in capital of € 4.6 billion. The expenditures in terms of paid-in capital will be included in the cash balance and therefore in the EMU-debt.

### **Safeguarding the future of the euro area**

The European debt crisis demonstrates the need for stricter European rules and especially better compliance with these rules to foster budgetary and financial stability in the euro area. The Dutch government has fought hard to upgrade the current rules regarding budgetary and economic discipline, resulting in what is known as the 'six pack', allowing the European Union to take action when dealing with Member States that face unsustainable budgetary and macro-economic policies. The six pack will be officially adopted in December 2011, allowing the European Commission to apply the new rules as of January 2012.

The six-pack includes the following:

- 1 Strengthening the preventive effect of the Stability and Growth Pact (SGP): Member States facing major risks to the sustainability of public finances and/or a debt level exceeding 60% of GDP will have to make progress more quickly towards a balanced budget in the medium term. There will also be an increased focus on growth in government expenditures.
- 2 Strengthening the corrective effect of the SGP: In addition to the deficit, more attention will be paid in the future to the level of and change in government debt. This will make it possible to deal with Member States that have a relatively small deficit, but a very high level of debt and are not doing enough to reduce their debt.
- 3 New sanctions in the SGP: The Commission will be able to propose financial sanctions at an earlier stage. Member States will be given fewer opportunities to block proposals for decisions made by the European Commission. The aim is to improve compliance with the SGP by making the decision-making about sanctions semi-automatic.
- 4 Introduction of a procedure related to macroeconomic imbalances: Damaging macro-economic imbalances such as persistent large current account deficits or inflated housing prices must be avoided.
- 5 Financial sanctions in the imbalances procedure: Financial sanctions may be imposed on Member States who undermine the stability of the euro area if they repeatedly fail to take sufficient corrective policy action.
- 6 A directive containing minimum requirements for national budget frameworks: Member States will have to comply with a directive containing minimum requirements for national budget frameworks.

The six-pack contains a considerable strengthening of economic governance in the euro area. It should send a strong signal to the financial markets that the European Union is determined to solve its problems. The Dutch government welcomes these important steps, but is convinced that more is needed. In an op-ed in the Financial Times on 7 September 2011, prime minister Rutte and Minister of Finance De Jager stressed the importance of the independence of supervision of the Member States. Therefore, the Dutch government wants an independent European Commissioner for budgetary discipline installed. His or her powers should be comparable to those of the Competition Commissioner.

This Commissioner should have the authority to force a country to take actions to put its finances into order, for example by raising additional tax revenue or cut expenditures. The required actions to be taken by the Member State should be proportional to the extent and the duration of the breach of the rules of the Stability and Growth Pact. Other measures within the Commissioners' authority should be imposing sanctions, such as reducing pay-outs from Cohesion and Structural Funds, or obliging Member States to paying higher contributions to the EU budget. The ultimate sanction in this process will involve preventive supervision, entailing that national budgets have to be approved by the Commissioner before it can be presented to the national parliament. The suspension of voting rights in this situation should not be excluded.

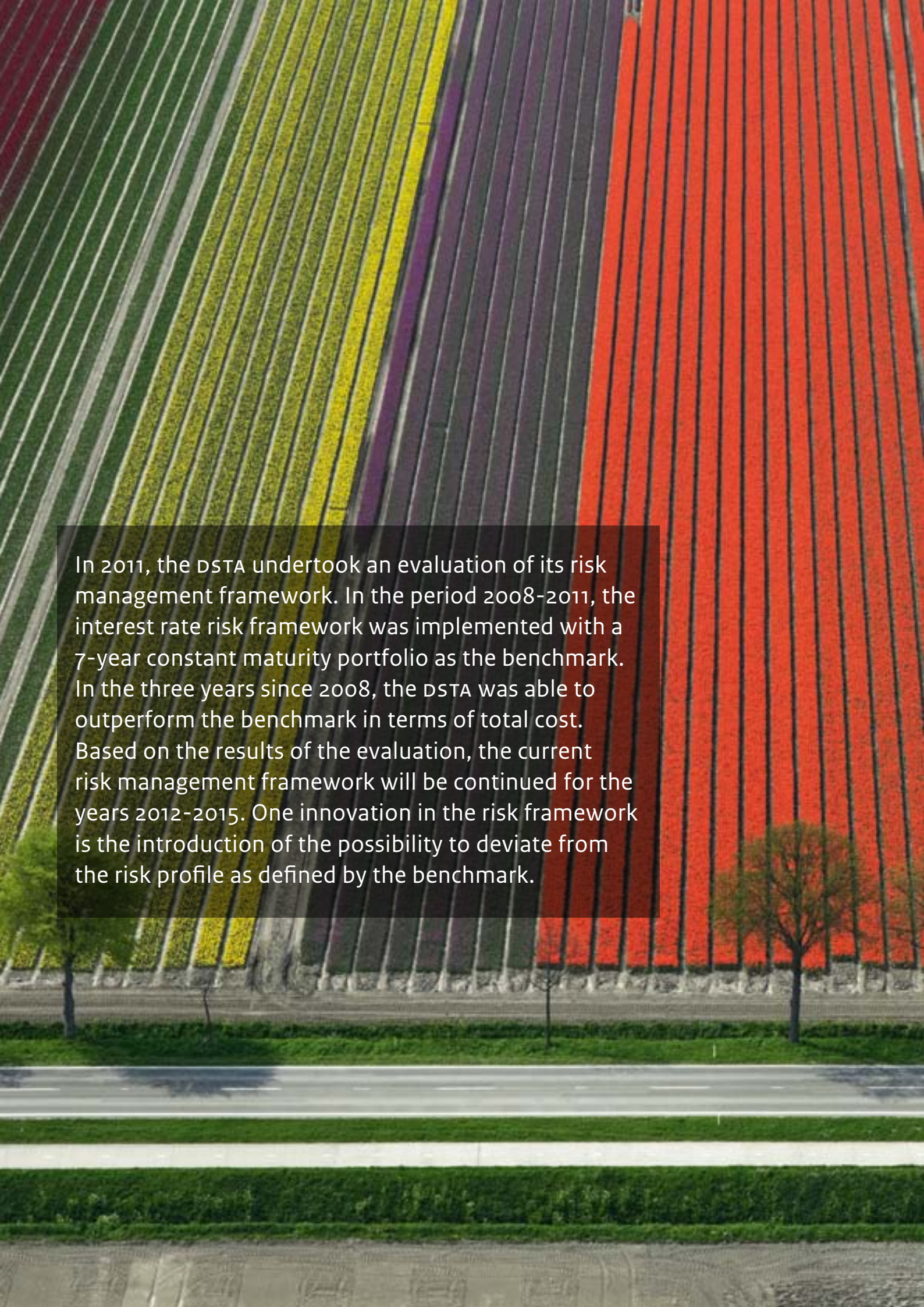
The Euro Summit of 26 October 2011 endorsed the idea to strengthen the role of the competent Commissioner for closer monitoring and additional enforcement of budgetary discipline, in line with the proposals of the Dutch government. However, more will be needed to strengthen the position of the competent Commissioner relative to the position of the Council. It was agreed that the European Commission will put forward a proposal on closer monitoring of Member States to the Council and the European Parliament in November. Moreover, further strengthening budgetary discipline will also be part of the topics that President van Rompuy will tackle in a report to the European Council in December 2011, to be finalised and endorsed by the European Council in March 2012.

#### *Macroeconomic imbalances procedure*

A new element in European economic policy coordination, also part of the six-pack mentioned above, is the procedure for preventing and/or mitigating macro-economic imbalances. The experiences in the euro area so far are proof of the fact that not only a lack of budgetary discipline but also large macro-economic imbalances, such as an unsustainable current account deficit or bubble in the housing market, can bring Member States – and therefore the euro area at large – into difficulties. Excessive macroeconomic imbalances should therefore be prevented and corrected. The imbalances procedure puts in place an alert mechanism for early detection of emerging macroeconomic imbalances. It should be based on an indicative and transparent scoreboard comprising indicative thresholds for a limited set of economic, financial and structural indicators, combined with economic judgment. If severe macroeconomic imbalances are identified by the Council on a proposal of the European Commission, namely imbalances that jeopardize the proper functioning of economic and monetary union, a Member State can be placed under the excessive imbalance procedure. The Member State should establish a corrective action plan, including deadlines, setting out the details of its policies designed to correct the identified macroeconomic imbalances.

The Dutch government is a strong supporter of the macroeconomic imbalances procedure. The Dutch government regards a strict and independent role for the European Commission in this procedure of great importance<sup>4</sup>. The Dutch government emphasizes that it is not the aim to prescribe specific policy measures to Member States. Nevertheless, Member States that do not intend to come up with a set of corrective measures themselves to solve their macroeconomic imbalances, need to be confronted with the consequences of their policy choices. These imbalances can, as we have seen, have significant negative cross-border consequences jeopardizing the economic health of other Member States and the European Union as a whole.





In 2011, the DSTA undertook an evaluation of its risk management framework. In the period 2008-2011, the interest rate risk framework was implemented with a 7-year constant maturity portfolio as the benchmark. In the three years since 2008, the DSTA was able to outperform the benchmark in terms of total cost. Based on the results of the evaluation, the current risk management framework will be continued for the years 2012-2015. One innovation in the risk framework is the introduction of the possibility to deviate from the risk profile as defined by the benchmark.



4

Risk  
management  
by the DSTA





# 4.1

## Looking back: Evaluation and results of the 2008-2011 risk framework

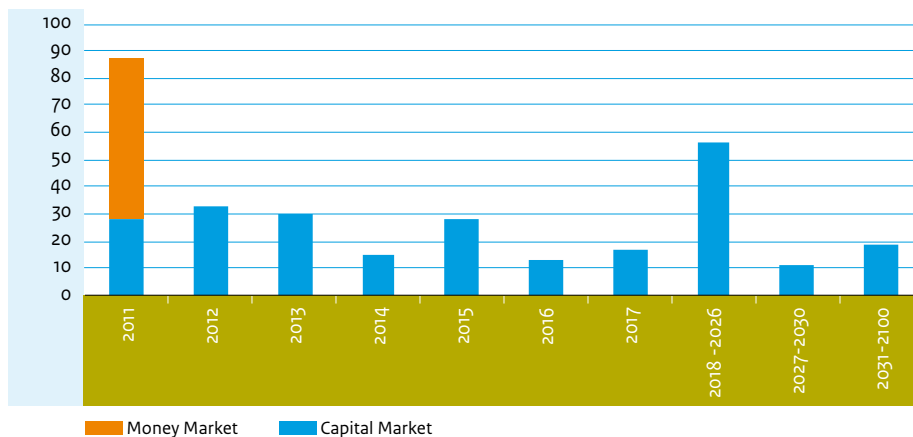
Once every four to five years, the DSTA undertakes an evaluation of its risk management framework. The ultimate aim of the evaluation is to formulate a risk management strategy for the upcoming period. In 2011, the evaluation was done for the period 2008-2011. This current section discusses the results of the evaluation, while the next section presents the risk framework for 2012-2015. This chapter is based on the report ‘Risk management of the national debt. Evaluation of the 2008-2011 policy & 2012-2015 policy’. This report was published on 23 November, and is available at [www.dsta.nl](http://www.dsta.nl).

### The DSTA’s risk management framework

The Dutch State uses a risk framework to finance the deficit and to (re)finance the debt. This risk framework focuses on ‘debt financing at as low an interest rate as possible with an acceptable risk for the budget’. ‘Risk’ is defined as the possibility of fluctuations in interest costs.

The funding policy is the cornerstone of debt financing (see also chapter 2). The main principles are predictability, continuity, transparency, tradability and flexibility. The total annual borrowing requirement is covered partly by issuances on the capital market and partly by funding on the money market. If the borrowing requirement changes during the year, the call on the capital market will be left unchanged as much as possible, with the money market providing the necessary flexibility. The DSTA’s funding decisions in the past produced a repayment profile at year-end 2010 as shown in figure 4.1.

Figure 4.1 Repayment profile at year-end 2010 (€ bln)



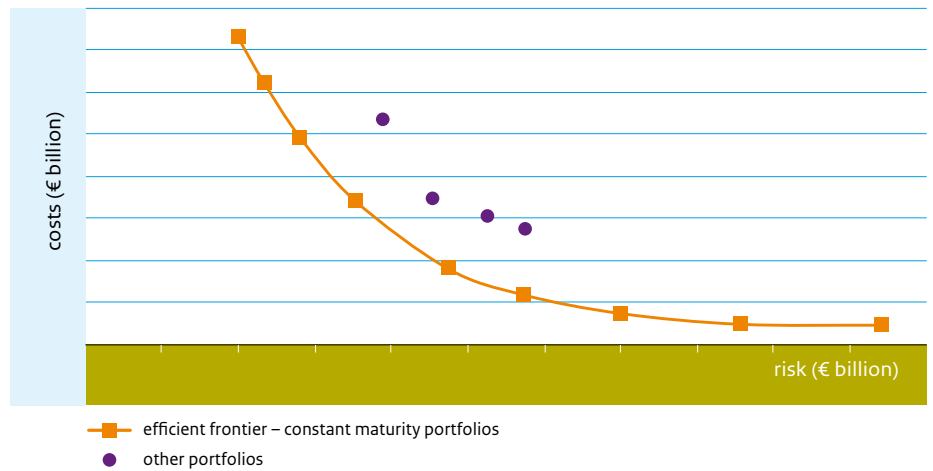
The interest rate risk is controlled by the interest rate risk framework, which helps to ensure sustainable and predictable public finances in the short, medium and long term. As well as having a direct impact on the budget, fluctuations in interest costs also contribute directly to the EMU-balance. The interest rate risk framework is assessed in principle once every four years.

The risk framework focuses on the trade-off between costs and risk. The trade-off can be illustrated on a graph showing the risk (€ billions) over a particular period of time on the horizontal axis and the costs (€ billions) over that same period on the vertical axis (see figure 4.2).

1 This is the general policy objective in the Budget on National Debt, which is published annually on the third Tuesday in September for the upcoming year. The budget is only available in Dutch.

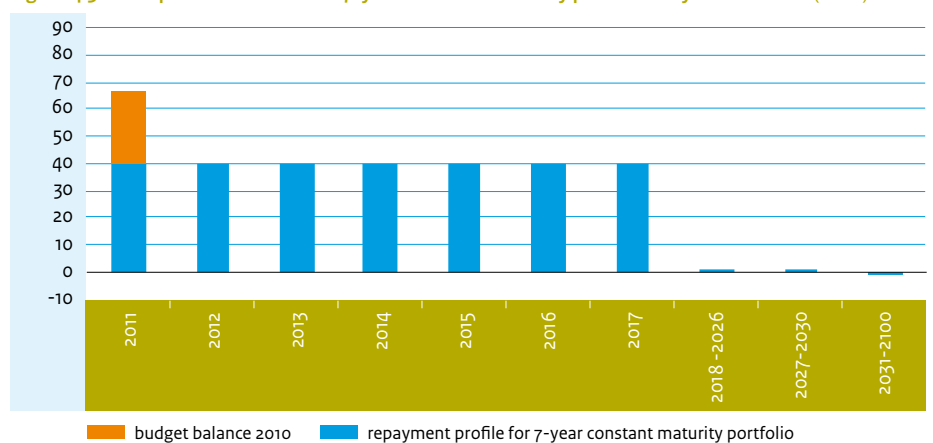


Figure 4.2 Trade-off between costs and risk over a specific period of time



Each point on the graph in figure 4.2 corresponds to a specific funding strategy which results in a specific composition of the debt portfolio. Strategies consisting of funding in primarily short maturities are characterised by low costs and high risk (bottom right in the figure), while strategies where funding is primarily in longer maturities are characterised by high costs and a low level of risk (top left). A strategy is efficient if it entails the lowest level of costs taking into account the risk or the lowest level of risk for a specific level of costs. The collection of points where there is an optimal trade-off between costs and risk is known as the efficient frontier. The efficient frontier consists of constant maturity portfolios. A constant maturity (or centralised) portfolio is characterised by funding in a single maturity. The repayment profile (or interest rate risk profile) of a 7-year constant maturity portfolio is shown in figure 4.3. It represents the DSTA’s benchmark repayment profile, as explained below.

Figure 4.3 Risk profile of the DSTA’s 7-year constant maturity portfolio at year-end 2010 (€ bln)



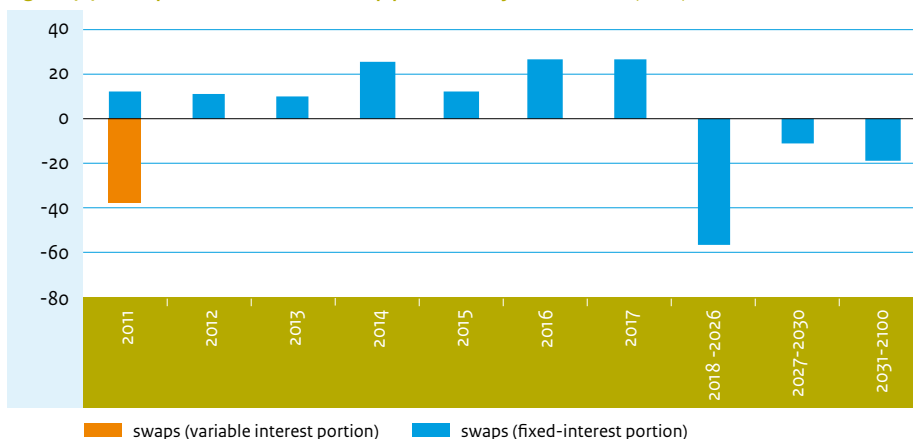
If the size of the debt remains unchanged, a 7-year constant maturity portfolio can be maintained by constantly refinancing repayments in the same maturity (7 years). In practice, however, the size of the debt changes constantly as the result of deficits or surpluses in the budget. The budget balance causes temporary inefficiencies in the risk profile. This inefficiency is removed during the subsequent year by distributing the budget balance in the benchmark across the seven buckets (this is called ‘rebalancing the benchmark’). Of course, a new deficit (or surplus) is created in the year in which the budget balance from the previous year is rebalanced. That new deficit (or surplus) is again financed temporarily in the first bucket at the short-term interest rate.

**Experiences with the 7-year benchmark**

In the 2008-2011 period, the interest rate risk framework was implemented with 7-year constant maturity portfolio as the benchmark. The benchmark prescribes how funding should be arranged in theory (always issue debt in the same maturity). In principle, the benchmark can only be replicated by funding in exactly the same manner at exactly the same yield. This does not mean, however, that the debt manager will apply exactly that strategy. The actual strategy will involve a combination of funding policy and the use of swaps to manage interest rate risk.

Interest rate swaps can be used to achieve any risk profile from a specific repayment profile. The swap portfolio (see figure 4.4) is used to turn the less efficient interest rate risk profile from figure 4.1 into the more efficient interest rate risk profile from figure 4.3.

**Figure 4.4 Risk profile of the DSTA’s swap portfolio at year-end 2010 (€ bln)<sup>2</sup>**



The DSTA faces counterparty risk (credit risk and concentration risk) because of the use of interest rate swaps. How the DSTA manages counterparty risk is explained in section 4.3.

2 Excluding swaps entered into for managing interest rate risk on loans to Fortis.  
 3 In practice, however, the safety net role was not really put to the test with respect to the development of interest rates. In times of crisis and high deficits, it is reasonable to expect that interest rates and interest costs will also increase. However, interest rates have not increased for the Netherlands during the recent crisis, as explained in section 1.3.

The benchmark proved its usefulness as a safety net during the recent financial crisis<sup>3</sup>. It was proven during the 2008-2011 period that the benchmark was a practicable control variable with a sufficient degree of flexibility. A large number of measures were taken in 2008 to safeguard stability in the financial sector. The result was an unforeseen increase in the borrowing requirement, which was initially absorbed by the money market. This practical approach is in line not only with the principles of the DSTA’s funding policy, but also with the way in which unforeseen positive and negative developments in the budget are treated in the benchmark. The consequences of the financial crisis (including excess liquidity on money markets) and the subsequent European debt crisis and in particular the flight into safe AAA government paper contributed strongly to the relatively low (re)financing costs for the Dutch State in the 2008-2011 period.



The introduction of a benchmark was also in line with the aim for transparency. Since the benchmark is a an unambiguous portfolio, this makes it possible to show the result ex post of the actual debt funding strategy (issuance and swaps) in terms of cost and risk compared to the benchmark. In practice, the debt manager attempted to achieve a risk profile similar to the risk profile prescribed by the benchmark; an active position vis-à-vis the benchmark was not taken<sup>4</sup>. This explains why deviations from the benchmark in terms of costs remained small as well. As already stated, the choice of a constant maturity portfolio as the benchmark increases efficiency ex ante. The fact that there was no deviation from the benchmark in terms of risk therefore increased efficiency in practice as well.

Table 4.1 shows a positive result vis-à-vis the benchmark for the period 2008-2010 (column A)<sup>5</sup>. Without the swaps entered into in the period 2008-2010 and with an unchanged funding policy, there would have been a deviation in the actual risk profile from the benchmark. In case of deviations from the risk profile also deviations from the benchmark in terms of costs can be a lot larger. In this case, as is shown by comparing column C to column A, the result vis-à-vis the benchmark would have been more positive. Swaps from the 2008–2010 period increased efficiency and effectively reduced the interest rate risk. Swaps can be seen as an insurance against rising interest rates. Swaps brought the level of risk of the debt portfolio in line with the level of risk of the benchmark. The reduction of interest rate risk was paid for by extra interest costs (column B). The results for 2011 will be published in the Annual Report on National Debt in May 2012.

4 With the exception of a limited position on the money market.

5 The results are part of the Annual Report on national Debt. This report is only available in Dutch. A detailed explanation on the results for 2010 is also available in English on [www.dsta.nl](http://www.dsta.nl) (subject Risk management).

**Table 4.1 Results compared to the benchmark including and excluding swaps for 2008-2010 (€ mln)**

Debt financing result compared to the benchmark – 2008 to 2010	A total cost	B total cost (swaps 2008-2010)	C total cost (excl swaps from 2008-2010)
Result compared to the benchmark	182	-2390	2572

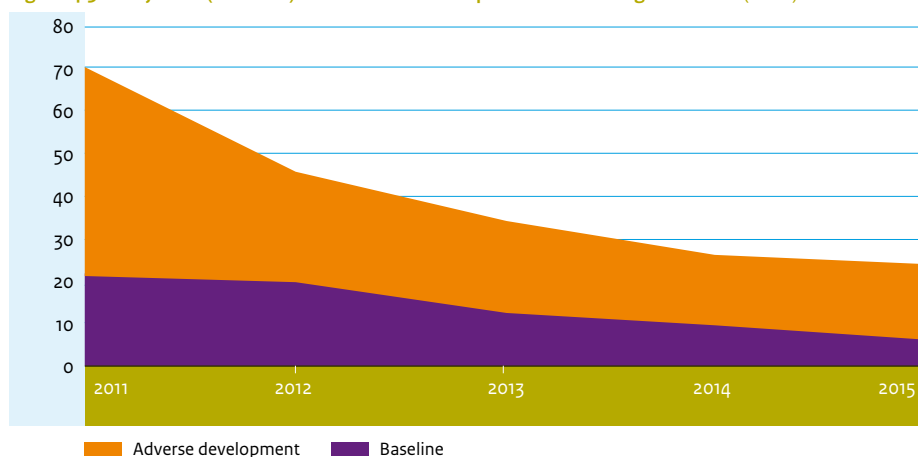
# 4.2

## The new risk framework 2012-2015

The assessment of the current risk framework (2008-2011) shows that the introduction of the benchmark has helped to increase transparency regarding the costs and risk of the debt and swap portfolio compared to a target debt portfolio with an optimum trade-off between costs and risk. The benchmark has also proven to be practicable in times of crisis. New analyses in 2011 confirmed the previous finding that constant maturity portfolios are efficient. The benchmark and the choice for a constant maturity portfolio will therefore be retained for the 2012-2015 period.

In 2011, the DSTA performed a number of analyses of different funding strategies for different scenarios for the development of the budget and the interest rates in order to determine which constant maturity portfolio would be the best fit for the government's fiscal policy and its risk preference. The projected baseline development of the budget balance follows from the current government's coalition agreement (see section 1.2)<sup>6</sup>. As the main function of the risk framework is to act as a safety net (which must still be effective even in the worst-case scenario), the risk of a deterioration in the budget balance and the resulting impact on interest costs must explicitly be taken into account. Therefore in figure 4.5 a stress scenario for the budget balance is included<sup>7</sup>. In this adverse scenario, the deficit increases to € 70 bln in the first year, declining to € 25 bln after 4 years.

Figure 4.5 Projected (baseline) and adverse development of the budget balance (€ bln)



### Interest costs and risk for the 2011-2015 period

In addition to an unfavourable scenario for the budget, also for a possible adverse development of interest rates a stress scenario was formulated. In the calculations, the interest rate level varies from approx. 2% to 4% in the baseline scenario to the historic highs of the early 1990s (approx. 8%) in the unfavourable scenario.

Table 4.2 shows the costs and risk for the 2011-2015 period for different constant maturity portfolios. Because the DSTA's debt and swap portfolio as at year-end 2010 was taken as the basis, the costs of migrating the current portfolio into a longer or shorter-term portfolio have also been incorporated in the results.

6 The term budget balance as used in this context refers to the cash balance, not the EMU-balance.

7 The stress case scenario for the budget taken here is based on one of the three scenario's from the report 'The Government Finances Shock Proof. A risk analysis of Dutch public finances' which was published on 18 September 2011 (available on [www.dsta.nl](http://www.dsta.nl)). A summary of this report can be found in section 3.1 of this Outlook.



**Table 4.2 Interest costs and risk for the 2011-2015 period (€ bln)**

Constant maturity portfolio	4-year	5-year	6-year	7-year	8-year	9-year	10-year
Interest costs with the projected (baseline) development of the budget balance ( A )	61.2	61.7	62.3	63.0	63.7	64.3	65.0
Interest rate risk = extra costs because of an unfavourable development of interest rates ( B )	32.0	28.5	26.4	24.9	23.9	23.1	22.6
'Maximum' costs with an unfavourable development of interest rates (C= A+B )	93.2	90.2	88.7	87.9	87.5	87.5	87.6
'Maximum' costs with both an unfavourable development of interest rates and the budget balance (D )	122.5	119.4	117.7	116.8	116.4	116.3	116.3
Budget risk (D-C)	29.7	29.3	29.1	29.0	28.9	28.9	28.8
Δ cost/Δ risk  (insurance premium)		0.1	0.3	0.5	0.7	0.9	1.2

Taking the baseline development of the budget balance and a continuation of the 7-year constant maturity portfolio as the benchmark, the costs over a five-year period would be approx. € 63 billion at the current interest rates (see line A in table 4.2). If interest rates develop unfavourably, however, and would increase to approx. 8% by 2015, those costs could increase by approx. € 24.9 billion (see line B in table 4.2). If the budget deficit reaches € 70 billion and declines in the years following (the adverse development in figure 4.5), there would be extra interest costs of approx. € 30 billion over a five-year period in the worst-case scenario. This is called the budget risk in table 4.2.

Table 4.2 also shows that extending the debt portfolio's maturity causes the costs to increase and the interest rate risk to decrease. Shortening would reduce the costs, but would increase the interest rate risk. The insurance premium (the bottom row in the table) shows that every euro of risk reduction achieved by extending from a 7-year to an 8-year portfolio costs approx. 70 eurocents. Approx. 90 eurocents has to be paid for the subsequent euros of risk reduction. Every euro of risk reduction costs more than one euro in the case of an extension from a 9- to a 10-year constant maturity portfolio.

The data in table 4.2 were obtained from a modelling exercise. Actual interest costs for the national debt during the period 2011-2015 may develop differently from what is shown here. It should be noted however that the stress scenario for the interest rate is characterised by exceptionally high interest rates, which only seem realistic in a situation in which the Netherlands were to lose its AAA rating or in a high inflation period.

However, table 4.2 does present a useful analysis of the risk framework as a safety net. Analyses have shown that the interest rate risk framework for the national debt can provide no protection against budget risk and hardly any extra protection against extreme interest rate shocks. The size of the budget risk is approx. € 30 billion regardless of the maturity of the portfolio. The difference in the 'maximum' costs in the event of an unfavourable interest rate development for a 7-year and a 10-year constant maturity portfolio are relatively small (see line C in Table 4.2). Furthermore, in general it is relatively expensive to extend the maturity of the portfolio. Since longer-term financing is more expensive, an extension would complicate achieving the budget balance targeted by the government (section 1.2). It might look tempting to decrease interest costs from a fiscal policy perspective by reducing the average maturity of the portfolio. However, in periods of increasing debt levels, deficits and (one-sided) uncertainty





regarding the budget balance this does not seem obvious. A reduction of the average maturity of the portfolio would be accompanied by an increase of the interest rate risk and possible setbacks in interest costs. These setbacks would come on top of the already existing uncertainty regarding the budget balance.

A 7-year constant maturity portfolio offers sufficient protection to absorb temporary and small shocks in interest rates. Table 4.3 shows that the interest rate risk of a more reasonable interest rate shock to a maximum of approx. 5% by 2015 (B') is a lot smaller than in the stress scenario for interest rates (B, see also B from table 4.2), assuming that the budget balance develops according to the baseline.

**Table 4.3** Consequences for the interest rate risk (2011-2015) if the interest rate increases to approx. 5% by 2015 (€ bln)

Constant maturity portfolio	4-year	5-year	6-year	7-year	8-year	9-year	10-year
Interest rate risk = extra costs because of an unfavourable development of interest rates ( B )	32.0	28.5	26.4	24.9	23.9	23.1	22.6
Interest rate risk = extra costs because interest rate increases to 5% ( B' )	8.0	7.1	6.6	6.2	6.0	5.8	5.6

All other things being equal<sup>8</sup>, spending cuts will be necessary to absorb (small) shocks in the interest rate since the interest costs are included in the expenditure framework (as explained in section 1.2). In the case of a 7-year constant maturity portfolio, structural cuts of approx. € 0.4 to € 0.5 billion (0.06% to 0.07% of GDP) will be needed annually in case there is a gradual increase in the interest rate to approx. 5% by 2015. The total structural level of cuts will reach approx. € 2.1 billion – or approx. 0.3% of GDP – by 2015. The total extra interest costs over a five-year period amount to € 6.2 billion. This seems manageable.

It can be concluded that a 7-year constant maturity portfolio offers sufficient protection to absorb temporary and small shocks in interest rates. A 7-year constant maturity portfolio will therefore be retained as the benchmark in the 2012-2015 period.

**New from 2012 onwards: Room for deviations**

The aim for the 2008-2011 period was to make financing as efficient as possible by replicating the 7-year benchmark as well as possible through a combination of issuance policy and swaps. The focus was on both costs and risk. As a result, deviations from the risk profile prescribed by the benchmark as well as deviations from the cost level remained relatively small.

To take into account current market circumstances and the fiscal outlook (with more than average uncertainty) deviations from the optimal risk profile will be part of the 2012-2015 risk management framework. In light of current market circumstances (with relatively low interest rates), it might be advisable to pay a little extra compared to the 7-year interest rate to hedge the risk of setbacks in interest costs in later years. This type of decisions will cause larger differences between the risk profile of the actual portfolio and the risk profile of the benchmark than in the 2008-2011 framework. Such a deviation from the benchmark portfolio can be motivated by administrative or political considerations (e.g. greater fiscal stability because interest costs are locked-in for a longer period of time) or for the purpose of realising lower interest costs.

<sup>8</sup> The need for spending cuts becomes less obvious if the economic situation would be different, for instance when inflation and/or growth are high.

## 4.3

To ensure that debt policy does not unduly interfere with the budgetary goals set by the government, two preconditions apply in any event in respect of possible deviations from the benchmark's risk profile. The first is that deviations cannot result in an increased risk to the budget. This implies that only deviations that will extend the average maturity of the portfolio are allowed, since a reduction of the average maturity would imply higher risk than prescribed by the benchmark. The second precondition is that these deviations must fit within the budget. This condition should avoid that interest costs will exceed earlier estimates as a result of deviations. Only deviations that keep interest costs within current long term estimates are allowed.

Since the results of deviations compared to the benchmark will be presented in the Annual Report on National Debt accounts, it will become clear ex post whether the decision to deviate from the benchmark was wise. The accounts will show the size of the deviation vis-à-vis the benchmark not only with respect to risk, but also with respect to costs.

### Risk management

In its daily operations as a debt manager, the DSTA faces a number of risks, such as credit risk, settlement risk, concentration risk, foreign currency risk and operational and legal risk. How the DSTA manages these risks is laid-out below.

#### *Counterparty risk: credit, settlement and concentration risk*

Transactions – both in cash and the swap market – entail counterparty risk. This risk is managed in a number of ways.

#### *Credit risk*

The Dutch State takes credit risk on excess funds lent on a temporary basis. In order to limit this risk, counterparties with whom the debt manager can conduct transactions must comply with minimum rating requirements. Credit risk is also restricted by minimising unhedged lending and not lending for longer periods of time. As a result, the preference is for buy-and-sell-back transactions (hedged deposits) in which collateral in the form of government bonds from the most creditworthy euro area countries is deposited with the State. This collateral can be sold off if a counterparty would fail to meet its obligations. The economic crisis has resulted in a further tightening of the rules. For example, the possibility of lending without collateral is restricted to one day ('overnight') for most counterparties.

The State enters into swaps under a standard contract (ISDA Master Agreement)<sup>9</sup> as part of risk management of the national debt (as explained in the previous sections). In principle, the State only enters into the most common form of interest-rate swaps and currency swaps (plain vanilla) and does not employ complex derivatives. A customised Credit Support Annex (CSA) to the ISDA contract helps to limit the credit risk from counterparties. This CSA states that the counterparties must provide collateral (cash or government paper) when an obligation towards the State is created. An obligation towards the State is created when the swap has a positive market value for the State. The CSA agreed between the DSTA and its counterparties does not require the State to provide its counterparties with collateral. The size of the collateral required for most parties is determined based on daily valuation of the swaps. In principle, the DSTA only enters into swaps with Primary Dealers (PD) or – in the case of Eonia swaps – with Single Market Specialists (SMS) who exhibit a high creditworthiness (a minimum of AA- from S&P/Fitch or Aa3 from Moody's for at least two of the three ratings). Counterparties with a lower rating (A+ or A1) are required to pay an additional margin.

<sup>9</sup> ISDA stands for International Swaps and Derivatives Association. The standardisation of contractual terms and conditions by the ISDA helps to create an efficient market.



#### Settlement risk

Settlement risk is part of counterparty risk. Settlement risk is the risk that the counterparty with whom transactions have already been concluded but not yet settled will no longer be able to fulfil its obligations, as a result of which losses may be incurred. The form of the obligation depends on the instrument. In the case of swaps, there is a risk that the counterparty will not comply with its obligation to provide collateral or that the counterparty will fail to pay a fixed (or variable) interest (although netting does mitigate this risk). When debt is issued, settlement risk is the risk that party A will pay, but party B will not deliver. This risk is mitigated by the 'payment versus delivery' principle.

#### Concentration risk

Concentration risk is the risk that a large portion of the total counterparty risk (as a result of funds lent or because of swaps) will be run on a single or a small number of parties. Consequently, there is a limit system to avoid concentration risk. The limit system prescribes the portion of the total credit risk that may be run on a single counterparty. Credit risk itself is (often) hedged by collateral. Concentration risk is important in the event of a default by a counterparty; unhedged receivables then become part of the default procedure and swap positions would fall away. The State then has an open position because of the terminated swaps. This position has to be closed to avoid an undesirable interest rate or currency position for the State. In the unlikely event that a counterparty with a good rating were to default, the collateral available is an important risk-mitigating tool.

#### Currency risk

In principle, the Dutch State borrows on the capital market in euros. Preparations were made in recent years for issuing capital market loans in us dollars because that would increase the investor base, on condition that lower costs can be achieved. The Dutch State has also been issuing Commercial Paper (CP) on the money market in foreign currencies with terms of up to one year since 2007. However as the State would be running a foreign exchange risk by borrowing in foreign currencies, it enters into currency swaps to hedge this risk. As a result, there is effectively no currency risk run on the national debt<sup>10</sup>.

#### Operational risk

The DSTA is divided into a front, middle and back office (see Outlook 2009 for more detail on the organisational structure of the DSTA). A clear division of functions reduces operational risk and facilitates internal control. Moreover, only standardized, well-known financial instruments are used, and legal risk is minimized by exclusively using standardized contracts. Procedures have been defined for the individual tasks, and all procedures are maintained on an ongoing basis and executed on an four-eyes basis.

<sup>10</sup> The one exception is a small foreign exchange risk on the Antillean debt securities that were taken over in October 2010 from the former country the Netherlands Antilles and the former island territory of Curacao. These loans are denominated in Antillian guilders (NAf). Because of the fixed link between the NAf and the US dollar, there is a euro-dollar risk on these debt securities.





# 5

## Primary and secondary markets

Primary Dealers and Single Market Specialists help the DSTA to achieve the goal of maintaining liquid markets for DSLs and DTCS. For 2012, the DSTA selected a group of 22 market makers, of which 16 Primary Dealers. The DSTA aims to secure and improve the liquidity of DSLs through a number of instruments. Among them are market makers' quotation obligations for both DSLs and DTCS. Reflecting uncertain market conditions, bid/offer spreads have been more volatile than usual and are at higher levels than last year.



# 5.1

## Looking Back: Primary Dealers and Single Market Specialists in 2011

Every year, the DSTA appoints Primary Dealers to promote and distribute DSLs and DTCs, and to contribute to the secondary market liquidity of DSLs and DTCs. Single Market Specialists fulfil a similar task for only DTCs. In this way, Primary Dealers and Single Market Specialists help the DSTA to place its securities and to achieve the goal of maintaining a liquid market for Dutch sovereign securities. DSLs are sold to Primary Dealers through tap auctions held by the DSTA. New benchmark issuances are sold directly to end investors by means of the Dutch Direct Auction (DDA), with the Primary Dealers as intermediaries. DTCs are distributed to both Primary Dealers and Single Market Specialists through regular single-price (Dutch) auctions.

Being a Primary Dealer (PD) entails both rights and obligations. PDs have the exclusive right to buy DSLs from the DSTA. Furthermore, they are entitled to use the repo and strips facility. The repo facility applies to all DSLs and DTCs. All DSLs can be stripped with the DSTA if a PD wishes to do so. On the condition that PDs sign the ISDA Master Agreement and meet the minimum requirements of the Credit Support Annex (CSA), they are also entitled to conduct swaps with the Dutch State. The CSA aims to mitigate credit risk (see section 4.3 for more information on risk management of derivatives).

For their efforts, PDs receive compensation in the form of a non-competitive bid (non-comp), i.e. the right to buy additional bonds up to 3 days after a tap auction, at the weighted average price of the auction. To qualify for the non-comp, PDs have to fulfil their quotation obligations on the secondary market (see section 5.3) and purchase at least 3% of the total nominal amount issued in a tap auction. The maximum amount for the non-comp is set at 15% of the total amount allocated in the auction. In 2011 (up to 18 November), the total amount issued through the non-comp facility was € 2.2 bln, equalling 4.3% of the total DSL issuance.

For every DDA, three PDs are selected to execute the role of DDA advisor, for which they receive an advisory fee. Compensation in the DDA for all PDs is settled in the form of fees, the size of which depends on the volume of DSLs that a PD is able to place with end investors and on the type of investor (real money or others). Full details of the mutual rights and obligations of the PDs can be found in the PD contract and conditions, available on-line at [www.dsta.nl](http://www.dsta.nl).

### Ranking 2011

PDs and Single Market Specialists are evaluated periodically with respect to their primary market performance. As in previous years, in 2011, the performance was based on the nominal volume purchased in DSL and DTC auctions. The top 5 performers in the DSL and the DTC primary markets in 2011 (up to 18 November) are ranked below. From 2012 onwards, the methodology underlying the DSL ranking will be changed (see next section).

Top 5 Primary Dealers for DSLs, Based on nominal primary issuance, January – November 2011	Top 5 Primary Dealers and Single Market Specialists for DTCs, Based on nominal primary issuance, January – November 2011
1 Rabobank	1 ING Bank
2 ABN AMRO Bank	2 Commerzbank
3 ING Bank	3 Rabobank
4 Commerzbank	4 BNP Paribas
5 NATIXIS	5 ABN AMRO Bank



## 5.2

### Primary Dealers and Single Market Specialists in 2012

Primary Dealers (PDs) are selected annually for the upcoming calendar year based on a business plan they submit to the DSTA. The appointment is valid for one year, starting on 1 January 2012. Financial institutions interested in becoming a Single Market Specialist may also apply during the year. This open application procedure also holds for Commercial Paper dealers.

For 2011 the DSTA is proud to present its selection of 16 PDs. The composition of the PD group has slightly changed compared to last year. There is 1 newcomer in the group, and 1 bank ended its Primary Dealership with the Dutch State.

#### List Primary Dealers for 2012, in alphabetical order

ABN AMRO Bank	HSBC France	Royal Bank of Canada
Barclays Capital	ING Bank	Royal Bank of Scotland
BNP Paribas	Jefferies	Santander G&M
Citigroup	NATIXIS	Société Générale
Commerzbank	Nomura	
Deutsche Bank	Rabobank	

#### New Primary Dealer ranking method in 2012

The performance of Primary Dealers is periodically evaluated with respect to the volumes purchased in auctions (including DDAs). Two or three times a year, the DSTA publishes the top 5 performing Primary Dealers in DSLs and DTCS.

As from 2012, the DSTA will change its methodology underlying the ranking of PDs in the primary DSL market. Up till now, the DSL ranking was based on *nominal* volumes purchased. The DSTA will shift to a *duration-weighted* issuance ranking. In the view of the DSTA, a weighted issuance ranking provides more support for achieving a balanced demand for DSLs across the different maturities. Furthermore, the weighted issuance method better reflects the performance and commitment of a PD vis-à-vis the DSTA, given that bonds with a higher duration entail more risk for a bank and face more difficult market circumstances than shorter-dated bonds. The DSTA will continue to publish the DSL ranking in Quarterly Outlooks and in the annual Outlook. The weights for 2012 are listed in table 5.1. They are fixed for at least 1 calendar year, and will be updated annually in the Outlook. The ranking methodology for DTCS remains unchanged, and will still be based on nominal DTC purchases in auctions.

Table 5.1 Weights Dutch State Loans (DSL) 2012

DSL maturing	Weighting factor
Before 2014	1
in 2014 – 2015	2.5
in 2016 – 2018	5
in 2019 – 2022	8.5
in 2023 – 2033	13
in 2034 – 2042	18

In addition to the PDs, the DSTA also appoints a number of Single Market Specialists. Just like PDs, Single Market Specialists have the right to participate in the DTC auctions and have market making obligations in the secondary DTC market. Including the 16 PDs, the promotion and distribution of DTCS is safeguarded by a group of 22 banks.

**List Single Market Specialists for 2012, in alphabetical order**

BBVA
Crédit Agricole
Credit Suisse
DZ Bank
Goldman Sachs
UBS

**Commercial Paper dealers**

Since 2007, the Commercial Paper (CP) program has played a substantial role in fulfilling the DSTA’s money market funding needs. CP is used to satisfy short-term funding needs in a flexible and cost-efficient way, without interfering with the T-bill program. Next to issuance in euros, CP is also issued in us Dollars, Swiss Francs, British pounds and Norwegian kroners, with the majority done in us dollars.

Issuance of CP takes place through a panel of designated dealers, which are responsible for distributing the securities to end-investors. CP is not issued by means of auctions at pre-determined dates, but the market is entered on a ‘if needed’-basis. Since issuance in broken dates is possible as well, CP has proven to be successful in attracting new investors with (temporary) excess liquidity. Indicative prices and maturities can be found on the pages of the DSTA on Bloomberg (DSTA06) and Reuters (DSTA10).

**List Commercial Paper dealers 2012, in alphabetical order**

Barclays Capital
Citigroup
Credit Suisse
Deutsche Bank
ING Bank
Rabobank
Royal Bank of Scotland
UBS

# 5.3

**Liquidity in DSLs**

Most of the time market liquidity is taken as given by market participants and central banks when they value financial instruments and implement monetary policy, respectively. However, every now and then the precarious character of liquidity becomes painfully clear. History provides several examples, such as the global stock market crash in October 1987, the Asian financial crisis in 1997, and of course the credit crisis that started in 2007 and culminated in a broader financial crisis. During these events, liquidity unexpectedly and rapidly declined in a large number of main financial markets, putting the functioning of financial markets in general under severe pressure.

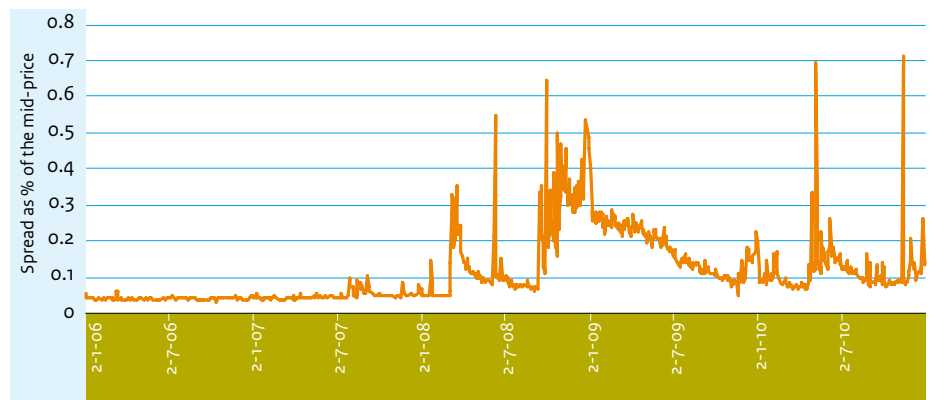
A market is described as liquid when market participants are able to execute buy and/or sell orders easily and at low costs. Liquidity can be further specified in three dimensions: tightness, depth and resilience. Tightness represents the spread between bid and offer prices, equalling the transaction costs in the market. Depth illustrates the size of trades that can be undertaken without influencing the price. Lastly, resilience (not further discussed here) reflects the market’s ability to return to ‘normal’ after a trade.

1 This section is based on research conducted by an intern at the DSTA. For further details, see J. van Tol, 2011, Determinants of liquidity in the government bond market: Evidence from the Dutch Treasury bond market.

Research at the DSTA<sup>1</sup> on liquidity of DSLs in the secondary market over the period 2006-2010 led to a number of conclusions. First, in line with the so-called inventory view, older bonds are less liquid than bonds issued more recently since an increasing fraction of the outstanding amount ends up in inactive buy-and-hold portfolios. It also corresponds to the notion that longer dated bonds have a higher interest rate risk. Second, a bond tends to experience a liquidity boost when it is used as a benchmark by traders. Especially in the years prior to 2008, the benchmark property played an important role in enhancing liquidity, in terms of tightness and depth. Third, in the flight to quality during the financial crisis, the amount outstanding of a bond was helpful in explaining the levels of depth yet irrelevant for the bid/offer spreads. Fourth, the amount issued during an auction turned out to be insignificant for predicting the level of liquidity.

The financial crisis has altered liquidity after September 2008. Bid/offer spreads (interdealer based on MTS-data) widened and the tradable size fell considerably during the third quarter of 2008. Figure 5.1 illustrates the course of average bid-offer spreads of all Dutch bonds over the period 2006-2010. Before the financial crisis, bid-offer spreads remained relatively stable around 0.05% of the mid-price. After the bankruptcy of Lehman Brothers, a significant and prolonged increase in spreads was observed. During this first crisis period, the average spread nearly quintupled to 0.23%. In the summer of 2009, spreads started to gradually diminish again and they stabilised around 0.12%. The last two upsurges indicate the bailout package for Greece and renewed concerns about debt sustainability in Europe.

**Figure 5.1** Average bid/offer spread for DSLs (in % of the mid-price)



Source: MTS

**Liquidity enhancements by the DSTA**

The conclusions drawn above emphasise the importance of liquidity, which is in line with the view of the DSTA. The DSTA aims to secure and improve the liquidity of DSLs through several instruments.

Most importantly, the DSTA is committed to raise outstanding amounts of new 3-, 5- and 10-year DSLs to at least € 15 billion within the first 12 months of issuance. Before 2010, the targeted benchmark volume equalled € 10 bln. In line with the research findings mentioned above, an increase in benchmark volumes should turn out positively for liquidity (the depth of the market). The DSTA has the commitment towards the market to issue new 3- and 10-year bonds annually. Through these commitments, the market is offered not only a regular supply of new bonds to guarantee sufficient depth of the market, but also a sufficiently liquid curve up to 10 years to facilitate trading across the DSL curve. All this should safeguard the opportunity for investors to trade larger volumes of DSLs without influencing the market price.

Important for instant liquidity after the first issuance, is that new 5- and 10-year (and 30-year) DSLs are always launched through a DDA. In most cases, a DDA target volume of ‘at least € 5 billion’ is set. This should safeguard liquidity from the outset.

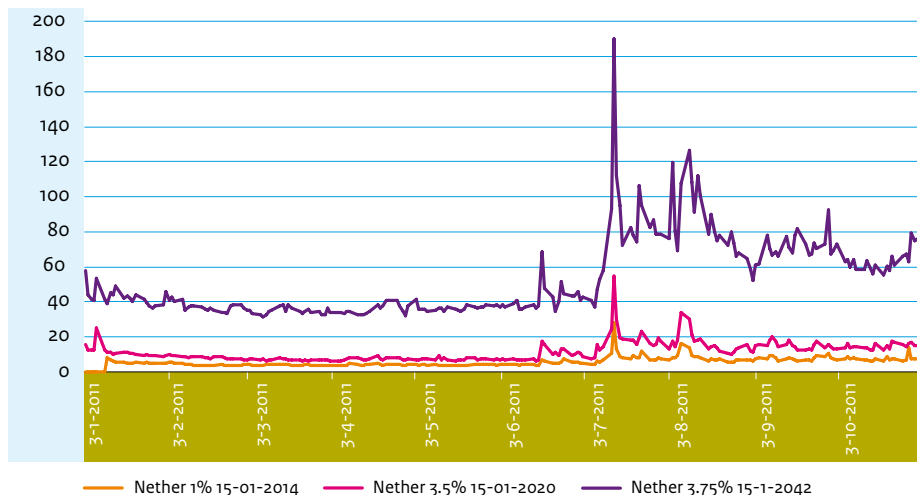
Off-the-run bonds are frequently reopened. One of the benefits of the so-called off-the-run facility, which has been employed since 2009, is that it not only meets demand in the market, but it should also help to alleviate the aforementioned inventory problem of older bonds. As explained in the previous paragraph a fresh supply of old bonds is expected to have a positive effect on liquidity, since a relatively large proportion of these bonds are invested in inactive buy-and-hold portfolios.

Additionally, PDS have quotation obligations to ensure that tradable prices for DTCS and DSLs are available at all times at the tightest spreads possible, even in turbulent periods. PDS have the opportunity to select a platform of choice to fulfil their quotation obligations. A platform should meet a number of minimum criteria. One of these criteria is transparency; bid and offer prices should be available to professional investors in real time at ‘reasonable commercial terms’. This should promote tradability. For retail investors, prices should be available free of charge with a maximum delay of 15 minutes. Currently, PDS can fulfil their quotation obligations on MTS, BGC Brokers LP, ICAP Electronic Broking and EUREX Bonds GmbH. Web-links to price information on platforms can be found on the DSTA’s website, at the subject ‘Multiplatform’.

PDS and SMSs select one or more platforms of their choice. Allowing the quotation obligations to be fulfilled on more than one platform promotes competition and creates one virtual arbitrage-free marketplace with the lowest transaction costs possible. The DSTA’s market makers have the obligation to quote DSLs and DTCS for at least five hours a day. They are required to quote DSLs within one standard deviation of the average bid/offer spread quoted by all PDS. This system of peer review should help to keep bid/offer spreads as tight as possible.

Figure 5.2 shows the bid/offer spreads for a selection of three DSLs during 2011. Most notable is that since the spike in July, bid/offers seem to have levelled off at higher spreads. Up until now, spreads have not returned to levels seen prior to July 2011. Nevertheless, spreads in DSLs have remained relatively tight.

Figure 5.2 Bid/offer spreads in three selected DSLs (in cents per € 100)





Also contributing to liquidity in the market is that PDs have access to a repo facility. PDs have the possibility to use the repo facility to obtain DSLs (both off-the runs and on-the runs) and DTCS from the DSTA, for instance to cover shorts. For this 'lender of last resort' facility, the PD pays a premium of 25 basis points.

Liquidity and tradability of DSLs is further enhanced by a strip facility. PDs have access to this facility through which a DSL can be stripped into separate coupon strips and one principal strip. The amount of DSLs that is stripped is available in the Monthly report on the DSTA's website.

#### Box 5.1 Short selling and the sovereign bond market

On October 18, 2011, the Council of the EU and the European Parliament reached an agreement on a draft for a EU regulation regulating short selling of sovereign debt instruments and credit default swaps on sovereign debt (sovereign CDS). The regulation will now have to be formally endorsed by the European Parliament, the Council of Ministers and the European Commission.

While acknowledging that short selling is an important activity contributing to market liquidity, EU member states noted that there could be situations in which uncovered short selling could lead to undesired and excessive volatility in financial markets. This could potentially lead to inefficient market outcomes.

The regulation will give the supervisors/regulators the authority to implement temporary short selling restrictions on sovereign bonds and on sovereign CDS transactions. Furthermore, supervisors will be able to require more transparency about existing short positions, apart from the regular reporting on short positions that will be required. So called 'naked' short positions in sovereign CDS will be banned. Naked short positions in sovereign bonds will also be forbidden, but short positions remain possible as long as there is a reasonable expectation that settlement can be effected when it is due. There will be special exemptions for primary dealers and market makers, so as to make it possible for them to continue to act as liquidity providers in the market.

To ensure adequate co-ordination among national authorities within the European financial market, there will be a strong role for the European Securities Markets Authority (ESMA) in assessing proposed measures by national authorities. Moreover, in exceptional circumstances with a cross border impact, the ESMA will be able to act on its own. The regulation is expected to enter into force in November 2012.

In the discussion preceding the agreement on the EU regulation, together with a number of other countries the Netherlands has constantly stressed the importance of short selling for ensuring liquidity in sovereign bond markets. Taking into account the benchmark function of sovereign debt, it should be noted that restrictions on short selling could unduly harm liquidity and the efficiency of pricing. At the same time, short selling should not be misused to manipulate markets and distort trading. The exemption for primary dealers and other market makers should safeguard liquidity provision and an efficient pricing process. It also helps sovereigns in auctioning their bonds and bills.





# Statistical information





# 1 Key figures on the national budget

The cut-off date for data in the Statistical Appendix is 18 November 2011 (unless otherwise specified)

In billions of euros

	2010	2011	2012
<b>Central government</b>			
Total tax revenues	135.7	134.6	140.2
of which indirect taxes	70.6	69.0	71.3
of which direct taxes	65.2	65.6	68.9
Social security contributions	80.3	86.6	91.7
<b>Total tax and social security contributions central government</b>	<b>216.0</b>	<b>221.2</b>	<b>231.9</b>
Social security expenditures	61.1	69.7	69.7
Health expenditures	58.7	61.2	63.5
Expenditures other departements	121.4	111.5	112.2
<b>Total expenditures central government</b>	<b>241.2</b>	<b>242.4</b>	<b>245.4</b>
<b>General government (EMU-basis)</b>			
Revenues central government	171.8	161.5	165.8
Revenues social security funds	105.8	103.4	110.2
Revenues local governments	94.3	95.2	96.9
Consolidation: central government to social security funds	-25.5	-16.8	-18.5
Consolidation: central government to local governments	-68.9	-70.2	-71.5
<b>Total revenues general government (A)</b>	<b>277.5</b>	<b>273.1</b>	<b>282.9</b>
Expenditures central government	195.3	176.1	176.1
Expenditures social security funds	107.5	109.9	113.4
Expenditures local governments	99.0	99.6	101.3
Consolidation: central government to social security funds	-25.5	-16.8	-18.5
Consolidation: central government to local governments	-68.9	-70.2	-71.5
<b>Total expenditures general government (B)</b>	<b>307.4</b>	<b>298.6</b>	<b>300.7</b>
EMU-balance (A-B)	-30.0	-25.6	-17.8
of which central government	-23.4	-14.6	-10.3
of which social security funds	-1.8	-6.5	-3.1
of which local governments	-4.8	-4.4	-4.4
EMU-balance, % GDP	-5.1%	-4.2%	-2.9%
EMU-debt, € bln	369.9	391.4	407.1
EMU-debt, % GDP	62.9%	64.7%	65.3%

Source: National Statistics (CBS) and Budget Memorandum 2012

## 2 Interest costs of central government debt

In millions of euros

	2010	2011	2012
<b>Interest paid</b>			
Interest cost on fixed debt	9,377	9,624	9,884
Interest cost on floating debt (DTC, CP and other short-term borrowing)	456	798	1,078
<b>Total interest cost</b>	<b>9,833</b>	<b>10,422</b>	<b>10,962</b>
<b>Interest received</b>			
Received interest on fixed debt (net interest received on EURIBOR swaps)	0	0	0
Received interest on floating debt*	249	149	118
<b>Total interest received</b>	<b>249</b>	<b>149</b>	<b>118</b>
<b>Net interest cost</b>	<b>9,584</b>	<b>10,273</b>	<b>10,844</b>
Net interest cost, in % GDP	1.6%	1.7%	1.7%

\* Including interest on the central bank account and the loans to ABN Amro (formerly Fortis Bank Netherlands)  
Interest costs in 2010 are realised costs.  
The results for 2011 are preliminary and based on the 2012 Budget Memorandum (September 2011).  
Projections for 2012 are also based on the 2012 Budget Memorandum.

### 3 Changes in long-term debt in 2011

In thousands of euros

<b>Position as at 31 December 2010</b>		<b>250,051,740</b>
<b>New issues in 2011</b>		
Public bonds	50,884,905	
Private placements	461	
	<b>add</b>	<b>50,885,366</b>
<b>Redemptions in 2011</b>		
<b>Regular redemptions</b>		
Public bonds	27,932,000	
Private placements	286,500	
<b>Early redemptions</b>		
Public bonds	1,306	
Private placements		
	<b>less</b>	<b>28,219,806</b>
<b>Position as at 18 November 2011</b>		<b>272,717,300</b>



## 4 Annual interest payments and repayments of principal, 2011-2042

In millions of euros, according to the long-term debt position as at 18-11-2011

	Interest payments	Redemptions
18-11 to 31-12-2011	41	32
2012	9,645	34,154
2013	8,578	31,302
2014	7,614	27,485
2015	6,937	30,761
2016	6,008	13,466
2017	5,465	26,306
2018	4,564	15,272
2019	3,949	14,128
2020	3,382	15,136
2021	2,849	15,548
2022	2,343	88
2023	2,336	14,093
2024	1,558	21
2025	1,556	21
2026	1,554	22
2027	1,553	26
2028	1,551	12,167
2029	882	12
2030	881	9
2031	881	0
2032	881	16
2033	879	0
2034	879	0
2035	879	0
2036	879	0
2037	879	12,043
2038	398	0
2039	398	0
2040	398	0
2041	398	0
2042	398	10,585

## 5 Interest rate swaps

Position as at 18 November 2011, in millions of euros

Bucket (year of maturity)	Net nominal amount	Pay or receive* (net)
2011	950	pay
2012	15,325	pay
2013	14,092	pay
2014	18,104	pay
2015	14,806	pay
2016	32,975	pay
2017	22,056	pay
2018	25,722	pay
2019	14,114	receive
2020	15,022	receive
2021	18,775	receive
2022	6,571	receive
2023	2,340	receive
2026	1,610	receive
2027	8,350	receive
2028	3,707	receive
2032	16	receive
2035	6,010	receive
2036	1,825	receive
2037	4,445	receive
2042	10,586	receive
2055	33	receive
<b>Net total</b>	<b>50,626</b>	<b>pay</b>

\* Receiver swaps are swap contracts in which the Dutch State receives a long-term fixed interest rate and pays a short-term floating interest rate.  
Payer swaps are swap contracts in which the Dutch State pays a long-term fixed interest rate and receives a short-term floating interest rate.

## 6 Key figures of public bonds in 2011

In thousands of euros

Movements of public bonds in 2011					
	Total 31-12-10	Issues	Redemptions	Total 18-11-11	ISIN code
4.00 pct DSL 2008 due 15 January 2011	13,856,000		13,856,000		NL0006173015
5.00 pct DSL 2001 due 15 July 2011	14,076,000		14,076,000		NL0000102606
2.50 pct DSL 2009 due 15 January 2012	14,361,000			14,361,000	NL0009041359
5.00 pct DSL 2002 due 15 July 2012	14,064,000	1,200,000		15,264,000	NL0000102671
1.75 pct DSL 2010 due 15 January 2013	15,043,000			15,043,000	NL0009331461
4.25 pct DSL 2003 due 15 July 2013	14,983,000	1,000,000		15,983,000	NL0000102689
1.00 pct DSL 2011 due 15 January 2014		13,009,000		13,009,000	NL0009690593
3.75 pct DSL 2004 due 15 July 2014	14,324,846			14,324,846	NL0000102325
2.75 pct DSL 2009 due 15 January 2015	13,474,940	2,014,000		15,488,940	NL0009213651
3.25 pct DSL 2005 due 15 July 2015	14,032,765	1,077,000		15,109,765	NL0000102242
4.00 pct DSL 2006 due 15 July 2016	13,311,467			13,311,467	NL0000102283
2.50 pct DSL 2011 due 15 January 2017		8,200,920		8,200,920	NL0009819671
4.50 pct DSL 2007 due 15 July 2017	13,154,990	1,500,000		14,654,990	NL0006007239
4.00 pct DSL 2008 due 15 July 2018	13,472,020	1,609,000		15,081,020	NL0006227316
4.00 pct DSL 2009 due 15 July 2019	13,006,398	1,050,000		14,056,398	NL0009086115
3.50 pct DSL 2010 due 15 July 2020	15,069,615			15,069,615	NL0009348242
3.25 pct DSL 2011 due 15 July 2021		15,493,985		15,493,985	NL0009712470
3.75 pct DSL 2006 due 15 January 2023*	9,869,850	431,700		10,301,550	NL0000102275
7.50 pct DSL 1993 due 15 January 2023*	4,199,639		431,700	3,767,939	NL0000102077
5.50 pct DSL 1998 due 15 January 2028	10,983,814	1,160,000		12,143,814	NL0000102317
4.00 pct DSL 2005 due 15 January 2037	12,043,427			12,043,427	NL0000102234
3.75 pct DSL 2010 due 15 January 2042	7,013,910	3,571,000		10,584,910	NL0009446418
2½ pct Inscription register	19,583		1,154	18,429	NL0000006286
3½ pct Inscription register	364		33	331	NL0000002707
3 pct Inscription register	7,032		119	6,913	NL0000004802
	<b>240,367,660</b>	<b>50,884,905</b>	<b>27,933,306</b>	<b>263,319,259</b>	

\* The issues and redemptions mentioned are the result of the conversion of the 7.5% to the 3.75% bond. These are not included in the totals.



## 7 Short-term debt and eonia swaps in 2011

In millions of euros, movements in 2011

Key figures of T-bills					
	Total 31-12-10	Issues	Expirations	Total 18-11-11	ISIN-code
DTC 2011-01-31	9,740	-	9,740	-	NL0009313063
DTC 2011-02-28	8,300	-	8,300	-	NL0009313071
DTC 2011-03-31	11,640	5,790	17,430	-	NL0009313022
DTC 2011-04-29	3,520	8,940	12,460	-	NL0009313097
DTC 2011-05-31	4,010	2,860	6,870	-	NL0009313105
DTC 2011-06-30	7,990	2,900	10,890	-	NL0009313055
DTC 2011-07-29	-	7,730	7,730	-	NL0009688613
DTC 2011-08-31	-	6,180	6,180	-	NL0009712694
DTC 2011-09-30	2,700	7,890	10,590	-	NL0009313089
DTC 2011-10-31	-	12,660	12,660	-	NL0009693852
DTC 2011-11-30	-	7,050	-	7,050	NL0009755859
DTC 2011-12-30	-	10,050	-	10,050	NL0009688621
DTC 2012-01-31	-	7,380	-	7,380	NL0009798743
DTC 2012-02-29	-	3,770	-	3,770	NL0009822022
DTC 2012-03-30	-	5,850	-	5,850	NL0009755867
DTC 2012-04-27	-	4,020	-	4,020	NL0009853787
DTC 2012-06-29	-	3,810	-	3,810	NL0009822030
DTC 2012-09-28	-	1,130	-	1,130	NL0009979855
	<b>47,900</b>	<b>98,010</b>	<b>102,850</b>	<b>43,060</b>	

Commercial paper (in €)				
	Total 31-12-10	Issues	Expirations	Total 18-11-11
ECP EUR	180	14,794	14,811	163
ECP USD	4,792	21,924	24,585	2,131
ECP GBP	445	3,904	2,996	1,353
ECP CHF	-	28	28	-
ECP NOK	-	368	219	149
	<b>5,418</b>	<b>41,018</b>	<b>42,639</b>	<b>3,796</b>

Other short-term debt (mainly deposits)				
	Total 31-12-10	Issues	Expirations	Total 18-11-11
borrow	3,282	366,812	368,500	1,594
lend	-	493,797-	490,705-	3,092-
	<b>3,282</b>	<b>126,985-</b>	<b>122,205-</b>	<b>1,498-</b>

Eonia swaps (position as at 18 November 2011)		
Bucket (year of maturity)	net nominal amount	pay or receive (net)
2011	13,818	receive
2012	27,838	receive
	<b>41,656</b>	<b>receive</b>





# Photo locations



**1** Port of Rotterdam  
(*Rotterdam Maasvlakte*),  
Container Terminal  
(cover+p. 40)



**2** Amsterdam,  
Container Terminal  
(p. 4)



**3** Groningen, Cooling-water  
from sugar factory  
(p. 6-7)



**4** Hoorn, Orchard in  
the Autumn  
(p. 22-23)



**5** Katwijk, Beach cabins  
(for rent)  
(p. 29 + back cover)



**6** IJmuiden, Transhipment  
and storage of ore  
(p. 34-35)



**7** Lisse, Bulb fields in  
full bloom  
(p. 44-45)



**8** Port of Rotterdam  
(*Rotterdam Maasvlakte*),  
Container Terminal  
(p. 49)



**9** IJmuiden, Tata Steel Factory  
(p. 52)



**10** Flevopolder, Bulb fields in  
full bloom  
(p. 56-57)



**11** Westland (in the province of  
Zuid-Holland), Greenhouses  
(p. 64-65)



**12** Groningen, Fields of Colza  
(p. 73)



**13** Oud Loosdrecht (lake),  
Skaters on natural ice  
and refreshments stall  
(*Koek-en-Zopie*) (p. 76-77)





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The cut-off date for data in the Outlook 2012 is  
18 November 2011 (unless otherwise specified)

#### **Colophon**

**Design** Studio Tint, The Hague

**Photography** Aerophoto-Schiphol luchtfotografie

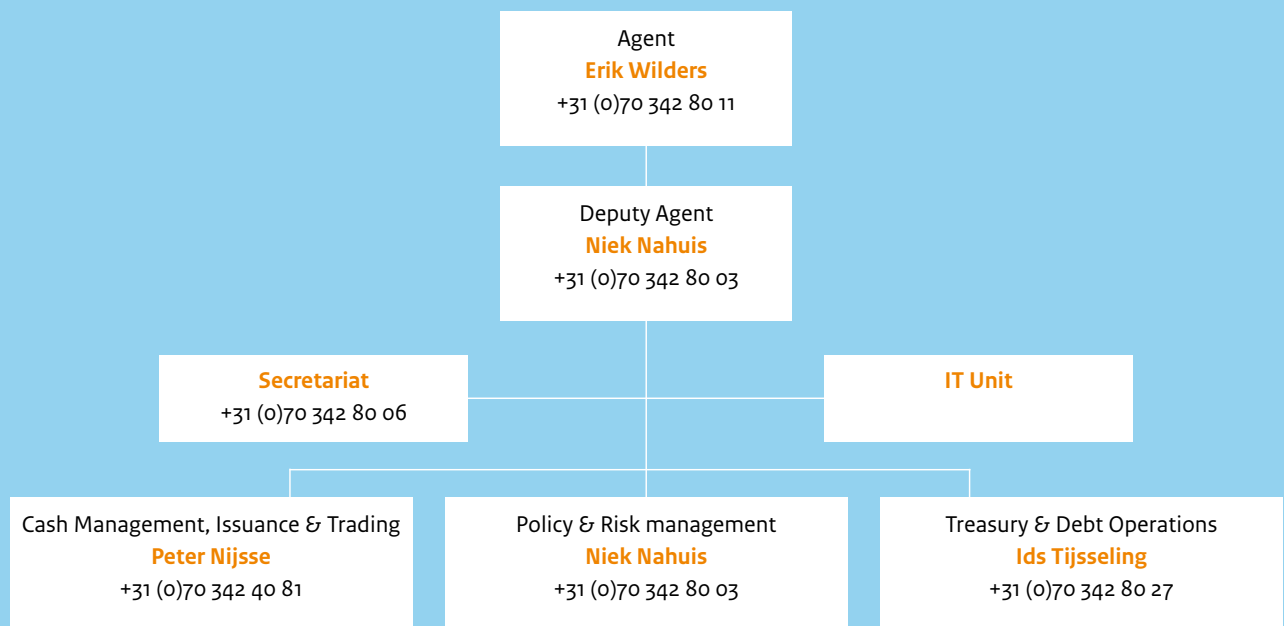
**Printing** Drukkerij van Deventer, 's-Gravensande

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# Highlights of the DSTA Outlook 2012

- Targeted capital market funding in 2012: approx. € 60 bln
- Expected money market volume at year's end: approx. € 40 bln
- During the year, the borrowing requirement and funding plan will be updated regularly.
- Quarterly issuance calendars in March, June and September.
- Traditional auction dates: second and fourth Tuesday of month
- Three DDA's to be scheduled
- Off-the-run facility continued (once every quarter).
- DTC auctions: first and third Monday every month; two programmes per auction
- Four new DSLs in 2012: 3-year, 5-year, 10-year and 20-year.
- On-the-run 5-year DSL: two reopenings in 2012 to reach target volume of € 15 bln
- Commercial paper in Euros, us Dollars, British Pounds, Swiss francs and Norwegian kroner, maturities up to 1 year.
- If window of opportunity: US dollar bond issue in 2012.
- A total of 6 auctions in the first of quarter 2012:
  - Launch and reopening of new 3-year: DSL 15 April 2015
  - Reopening of on-the-run 2.5% DSL 15 January 2017
  - Two Dutch Direct Auctions: new 10-year DSL and new 20-year DSL
  - Off-the-run facility
- DDA window for new 5-year: June/July.

## Contacts



### Indicative DSL calendar 2012

Month of Issuance	Auction Data (2nd Tuesday)	Details	Auction Data (4th Tuesday)	Details	DDA-window
January	10	Tap new 3-year: DSL 15 April 2015	24	Off-the-run	DDA new 10-year + DDA new 20-year
February	14	Tap 5-year: 2.5% DSL 15 January 2017	No tap		
March	13	Reopening new 3-year	No tap		
April	10	Tap	24	Off-the-run	DDA new 5-year
May	8	Tap	22	Tap	
June	12	Tap	26	Tap	
July	10	Tap	24	Off-the-run	
August	Reserve dates				
September	11	Tap	25	Tap	
October	9	Tap	23	Off-the-run	
November	13	Tap	27	Tap	
December	Reserve dates				

### Indicative DTC calendar 2012

Auction date	Settlement date	3-month DTC-programme	6-, 9-, 12-month DTC-programme
03-01-12*	05-01-12	30-03-2012	27-12-2012
16-01-12	18-01-12	27-04-2012	29-06-2012
06-02-12	08-02-12	27-04-2012	31-07-2012
20-02-12	22-02-12	31-05-2012	31-08-2012
05-03-12	07-03-12	31-05-2012	28-09-2012
19-03-12	21-03-12	29-06-2012	28-09-2012
02-04-12	04-04-12	29-06-2012	27-12-2012
16-04-12	18-04-12	31-07-2012	31-10-2012
07-05-12	09-05-12	31-07-2012	30-11-2012
21-05-12	23-05-12	31-08-2012	30-11-2012
04-06-12	06-06-12	31-08-2012	27-12-2012
18-06-12	20-06-12	28-09-2012	31-01-2013
02-07-12	04-07-12	28-09-2012	28-06-2013
16-07-12	18-07-12	31-10-2012	31-01-2013
06-08-12	08-08-12	31-10-2012	28-02-2013
20-08-12	22-08-12	30-11-2012	28-02-2013
03-09-12	05-09-12	30-11-2012	28-03-2013
17-09-12	19-09-12	27-12-2012	28-03-2013
01-10-12	03-10-12	27-12-2012	28-06-2013
15-10-12	17-10-12	31-01-2013	29-04-2013
05-11-12	07-11-12	31-01-2013	31-05-2013
19-11-12	21-11-12	28-02-2013	29-04-2013
03-12-12	05-12-12	28-02-2013	31-05-2013
10-12-12#	12-12-12	28-03-2013	28-06-2013

Shaded areas indicate new programmes

\* Tuesday

# Second Monday





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