Dutch State Treasury Agency
Ministry of Finance

Outlook 2015

Outlook

2015

The Netherlands enjoys what is officially classified as a moderate sea climate, with relatively mild winters and summers, and rainfall throughout the whole year. The average Dutchman believes the Netherlands to be one of the wettest countries on the planet. However, this is mostly based on emotions and not supported by figures. The feeling of living in a wet country is mainly fed by the unpredictability of the weather, which can be explained by the positioning of the country by the North Sea and the absence of mountains.

Because of the unpredictability, the Dutch take advantage of every opportunity to be outside whenever the weather allows it. To illustrate: as soon as the sun shows itself in spring, there is a day called 'rokjesdag'[1] (skirtsday). This is not on a specific day, but – as if secretly agreed upon – a day on which it seems that Dutch women choose en masse to appear outside in skirts and bare legs. Another axample are terraces in the major cities, which are filling up with sun worshippers as soon as the first rays of sun break through the skies (even though it is sometimes only 10 degrees Celcius!).

A Dutch proverb goes 'na regen komt zonneschijn' which means that good things always follow bad things. This believe has been chosen as the main theme of this Outlook. After the dire economic developments of the past years, 2014 has shown some hopeful signs of recovery. Therefore the pictures of Dutch skies in this Outlook are cloudy at first, but improve as the reader continues. We believe the Dutch (economy) can weather anything, come rain or shine.

1 A term used by the Dutch writer Martin Bril, who caused the term to become so popular it is now included in the Dutch dictionary.

Preface

After a storm comes a calm is the theme on which we have based our photo selection in the Outlook 2015. The weather in the Netherlands is like the sentiment on financial markets: at times quiet and calm, but every now and then very volatile, with temperatures and Beaufort levels moving around like basis points. Mirroring developments in the real economy and the budget, dark clouds are dissolving and clear views and even sunny skies are on the horizon. Clouds are also starting to show a silver lining: important structural reforms in the last couple of years are set to improve the long term sustainability of Dutch public finances and will enable the Dutch economy to weather future storms.

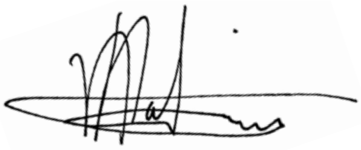
The economic situation in the Netherlands has been gradually improving. In the face of a recovering world economy, the Dutch economy has shown a hopeful upturn as well. The expectation is that domestic demand will gradually outweigh foreign demand as the engine of growth. The unemployment rate has stabilised, consumer confidence is back at its long-term average and the housing market is finally bottoming out. The budget balance is now securely below the 3% of the GDP mark, and at 70% the debt ratio is relatively favourable.

For 2015 we will have a slightly lower borrowing requirement as compared to previous years. In order to ensure an adequate buffer function of the money market, we have decided to increase the money market volume somewhat. Our capital market issuance target for 2015 is set at approximately € 48 bn. New benchmark bonds will be issued with maturities of 3- and 10-years, as we have been doing traditionally. The on-the-run 5-year DSL will be reopened four times to reach its minimum benchmark size of at least € 15 bn, and off-the-run DSLs will be reopened on two occasions. Also in 2015, the DSTA will remain active on the long-end of the curve, by reopening the on-the-run DSL 2047.

Furthermore, in the new year we will undertake an evaluation of our current interest risk framework. Since 2008, the DSTA has had a 7-year centralised portfolio as the benchmark for managing interest rate risk. In 2015, we will assess our current strategy and design a framework for the years 2016-2019. I hope to present the results of our evaluation in the Outlook 2016.

Finally, I would like to thank all employees of the DSTA, because 2014 has been a busy year. Not only did we execute our regular funding operations smoothly, we are also modernising our internal systems and procedures. Realigning our internal operations combined with a new risk management framework, will support the DSTA in an even more efficient execution of its debt management tasks and enables us to cope with any future changing weather conditions.

Niek Nahuis



Agent of the Dutch State Treasury Agency

Contents

1 The economy, the budget and financial markets

1.1

Economic outlook

Last year's Outlook predicted a return to economic growth for the Netherlands. This has indeed materialised and is set to continue, according to the latest economic forecast from the independent Netherlands Bureau for Economic Policy Analysis (CPB). Real GDP is projected to increase by ¾% this year. This is consistent with the first estimate of GDP growth in the third quarter of 2014, which came out at 0.2%. For 2015, a modest acceleration to 1¼% is foreseen (see table 1.1). This gradual improvement follows the typical pattern for the Dutch economy after a recession. The recovery started in the highly competitive Dutch export sector, followed by an increase in investments in 2014. The CPB forecasts household consumption to return to positive territory in 2015, as a result of growing purchasing power of households both this year and the next. The labour market traditionally lags behind. Unemployment reached its peak in early 2014, but has fallen since. The nature of the current recovery is a clear sign that the Dutch economy is successfully tackling the internal imbalances that became apparent at the start of the financial crisis, and is on track towards more sustainable economic growth.

Table 1.1 – Key economic indicators 2013-2015 (% change, year-on-year)

	2013	2014	2015
Gross domestic product (GDP)	-0.7	¾	1¼
Household consumption	-1.6	0	1
Investments (including inventories)	-4.9	2¾	3¾
- of which business investments	-2.5	2½	5½
- of which housing investments	-9.2	3	3
Government spending	-0.2	- ¾	0
Exports	2.0	3¼	3¾
Imports	0.8	3	3¾
Unemployment (% of labour force)	6.7	7	6¾
Labour productivity	0.6	2	1¼
Inflation (HICP)	2.6	½	1
Real disposable income	-0.9	2	1

Source: CPB, September 2014 forecast, next update 11 December 2014

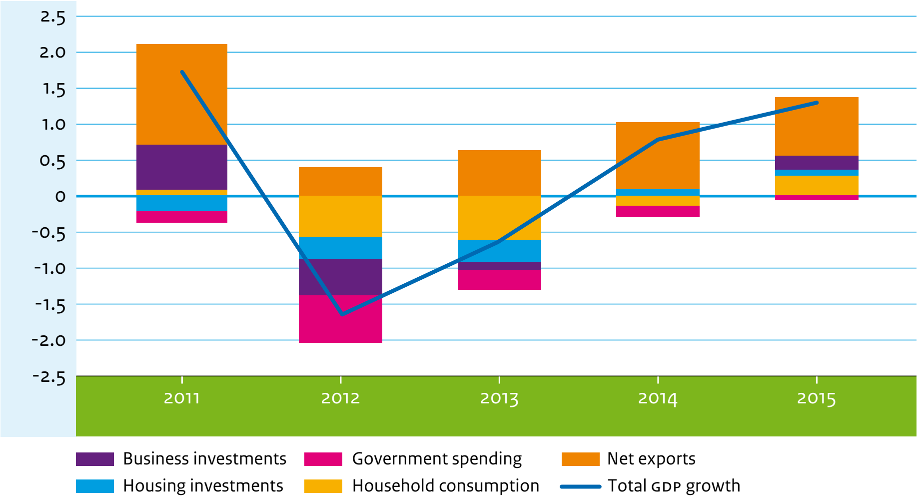
Consumption is picking up

After more than three years of declining household consumption, 2014 saw a reversal of this trend. The first quarter was still firmly negative, but this was largely explained by incidental factors. First, an unusually mild winter led to lower gas consumption. Though this is good for consumers – they pay less for an equally warm house – it results in lower consumption in the short term. Second, the ending of a tax advantage on buying cars at the end of 2013 led to extra consumption in the last two months of that year, with a negative echo in the first few months of 2014. The turnaround came in the second half of 2014, with gradually increasing growth figures. This increase in consumption is underlined by the development in consumer confidence, as published by the European Commission (EC). After recording its lowest ever level in February 2013 at -30.2, sentiment improved steadily to 2.8 in November 2014, above its long-term trend of 1.0.

In 2015, household consumption is expected to increase by 1%, contributing ¼%-point to overall growth (see figure 1.1). The increase in household consumption is mainly driven by income developments and a stabilising housing market. Real disposable income is projected to go up by 2% in 2014 and by 1% in 2015, mainly due to wage increases and lower pension contributions. The latter will be the result of a government measure to reduce annual tax advantages on such contributions, in response to the gradual increase of the retirement age. The resulting higher real disposable income is not expected to be spent completely, but will also lead to additional savings in order to restore consumers' balance sheets. As a result, the individual savings rate is expected to increase significantly in 2014, before stabilising in 2015.

Preface Contents The economy, the budget and financial markets Funding and issuance Primary and secondary markets Statistical information Photos Highlights

Figure 1.1 – Domestic demand contribution to growth is increasing (contribution to change in GDP, in %-points)



Source: CPB, September 2014 projections

Investments are rising

Investment growth turned positive at the end of 2013, partly driven by a tax advantage on company cars that expired at the end of that year. Business investments improved further throughout 2014, supported by the growing economy, low interest rates and an improving industrial capacity utilisation rate. The latter increased to over 80% in the last quarter of 2014. As a result, business investments are expected to increase by 2½% in 2014 and 5½% in 2015. The more positive sentiment is also reflected in producer confidence, which shows a gradual upward trend since late 2012. With a value of 1.1 in November 2014 (EC indicator), it is now well above the long-term average of -3.0. Housing investments are also on the rise, after a few years of negative growth. On the back of a gradually recovering housing market, investments are forecast to increase by 3% in both 2014 and 2015.

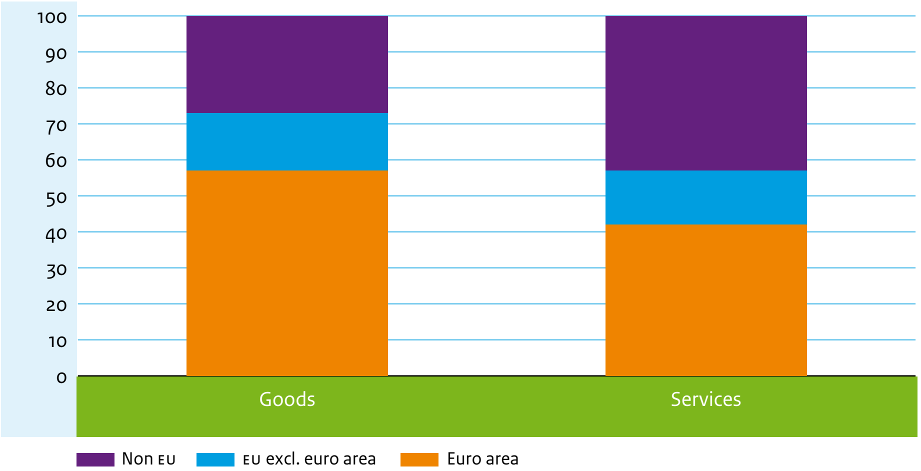
Strong export performance despite geopolitical challenges

The highly competitive Dutch export sector continues to be important for economic growth. In 2014 exports are expected to increase by 3¼% and growth will accelerate somewhat to 3¾% in 2015. Export growth is generally heavily dependent on the development of world trade. In 2014 exports have outperformed (relevant) world trade growth, a sign of the continued competitiveness of the Dutch external sector. One of the uncertainties around the forecast for 2015 is the potential risk from increased geopolitical tensions, such as those between Russia and Ukraine. However, with less than 2% of Dutch exports going to Russia, the CPB estimates that a further escalation of this conflict will only have a limited and temporary effect on the Dutch economy and will not send it back to negative growth territory. All sanctions already deployed by Russia have had no effect on the current projections for 2014 and 2015.

The strong export performance of the Netherlands throughout the financial crisis is partly due to its geographical diversification. Traditionally, a large part of exports is to other euro area countries. This is particularly so for re-exports – making up around 50% of total exports – where the Netherlands functions as a transport hub for exports to the rest of Europe. However, exports to non-euro area countries and the rest of the world make up a significant part of exports in goods and services (see figure 1.2).

In terms of value added, exports are even more diversified than the nominal figures suggest. Two factors are at play. First, the share of domestically produced goods is larger for countries outside of the euro area. As the value added of domestically produced goods is 58 cents for every euro exported, compared to around 7 cents for re-exports, this leads to a higher contribution to GDP. Second, exports of services are geographically more diversified than goods, while they also have a higher value added (75 cents for every euro exported).

Figure 1.2 – Exports geographically diversified, (shares in 2013, in %)



Source: Statistics Netherlands (CBS)

Unemployment set to decrease

As stated earlier, it is common for the labour market to lag behind the recovery after a recession. However, there are some positive developments (see figure 1.3). Following a peak in February 2014, the number of unemployed has decreased by 44,000 to 6.5% of the labour force in September 2014 (EU-harmonised definition). Additionally, the number of vacancies is growing and more companies are signalling an increase in hiring going forwards, consistent with a declining trend in unemployment.

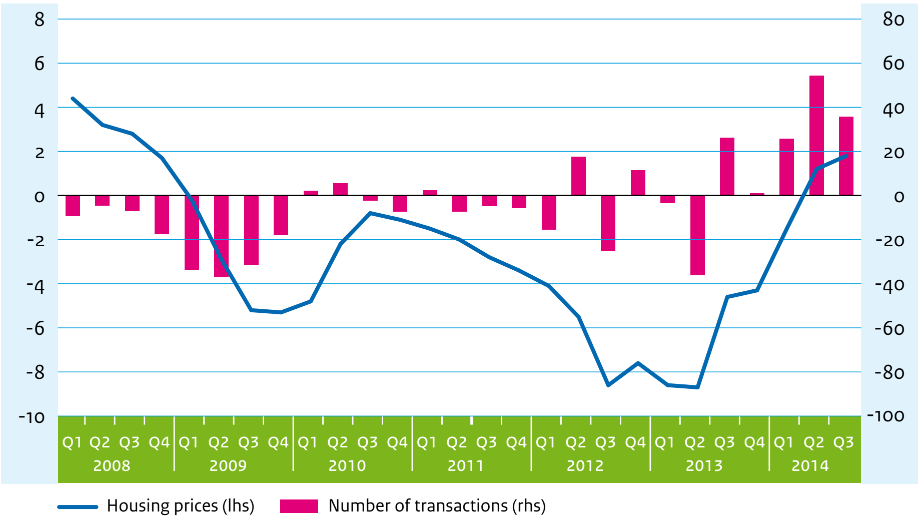
Figure 1.3 – Unemployment set to decrease

Source: CPB, September 2014 projections

Housing market stabilises

The housing market has shown signs of recovery since the summer of 2013. This is most apparent in the number of transactions, which have increased steadily after June 2013 and are now at the highest level since the start of the financial crisis (see figure 1.4). Overall, a growth rate of 13% is expected for 2014, with transactions rising slightly further in 2015. Around the same time that transactions picked up, the decline in house prices came to a halt. After their peak in 2008, nominal prices went down by 21%. Since then prices have bounced back somewhat, by 3%. For 2015, the CPB projects house prices to improve in line with inflation. In recent years, the housing market has seen a number of significant reforms. These reforms have had a negative price effect in the short term, but were implemented to structurally improve the housing market in the long run and avoid future price bubbles (see box 1.1).

Figure 1.4 – Housing market is picking up (% change y-o-y)



Source: CBS

Box 1.1 – Structural reforms improve economic competitiveness

Since the beginning of the financial crisis, the Dutch government has introduced and implemented a number of structural reforms. The crisis exposed existing economic weaknesses and imbalances and a deterioration of government finances necessitated urgent action. Below a summary of the main reforms:

Pensions/retirement
- The retirement age is foreseen to increase to 67 in 2021 and linked to life expectancy thereafter; early retirement is made fiscally less attractive.
- The maximum pension accrual qualifying for tax relief is reduced, allowing for lower pension contributions.

Healthcare
- More long-term care will be provided outside elderly homes, organised by local governments.
- Public health insurance coverage is more limited and combined with higher contributions by the insured.
- Competition in the healthcare sector will be increased.

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

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

1.2 Budgetary outlook

Over the past few years, the budget deficit has shown a clear improvement. After a peak of 5.5% of GDP in 2009, the deficit is predicted to be 2.9% in 2014 and 2.2% in 2015. This trend has slowed down the increase in the government debt-to-GDP ratio, which is projected to stabilise in 2015. With deficits forecast to remain below the 3% threshold as set by the Stability and Growth pact, this provides room to return to a more trend-based budgetary policy.

In 2014, both government spending and revenues as a percentage of GDP are expected to decrease. As revenues decrease more than spending, this results in an increase of the budget deficit, from 2.3% in 2013 to 2.9% in 2014 (EMU definition). This increase is temporary and mainly caused by incidental factors on the revenue side in 2013. First, the sale of telecom licences resulted in a one-off improvement of the deficit in 2013 by € 3.8 bn, or 0.6%-point of GDP. Moreover, revenues from gas sales were lower in 2014 due to a reduced production ceiling. These factors more than offset the policy-induced revenue increases from taxes and social security contributions. On the spending side, the decline in the spending ratio is mainly caused by a decrease in public sector costs, as a result of a continued wage freeze in combination with a decline in the number of public sector workers.

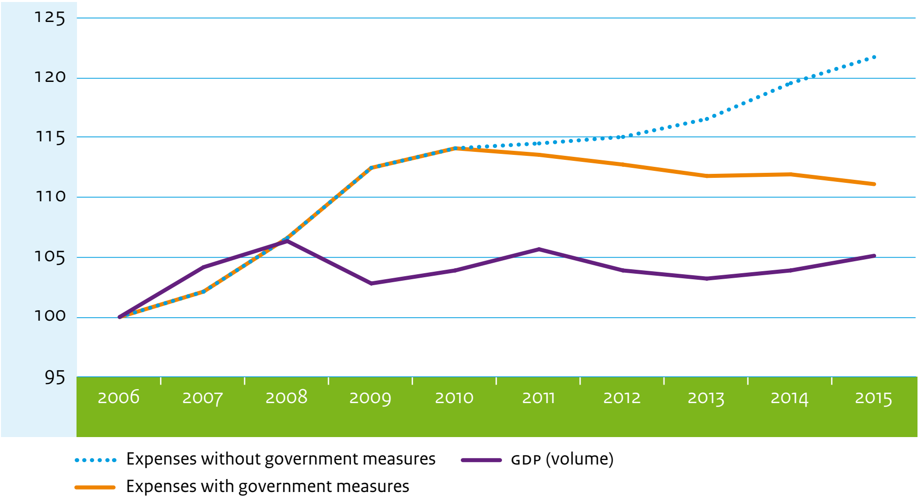
Preface
Contents
The economy, the budget and financial markets
Funding and issuance
Primary and secondary markets
Statistical information
Photos
Highlights

Lower spending reduces deficit in 2015

In 2015, the budget deficit is forecast to decrease by € 4.4 bn, to 2.2% of GDP. The main driver behind this improvement is a significant decline in public spending, largely due to budgetary measures. These measures are spread out amongst all main spending categories. Revenues from taxes and social security contributions will not rise as much as GDP, causing a slight decline in their share of GDP.

With a growing economy and declining nominal expenditure in 2015, the public expenditure ratio is projected to decrease by 0.9%-point to 46.3% of GDP. This is the lowest level since the start of the financial crisis, though still significantly higher than before the crisis in 2008. Nonetheless, the measures taken by subsequent governments since 2010 have kept overall spending in check and avoided a further worsening of government finances (see figure 1.5).

Figure 1.5 – Budgetary measures crucial in curbing government spending (index: 2006=100)



Source: Budget Memorandum, September 2014

Debt levels stabilising

Looking at the development of the budget balance, there is a clear improvement since 2009 (see figure 1.6). Over this period, the government had to take substantial measures on both the spending and the revenue side to achieve budgetary consolidation. As a result of expenditure and revenue developments, the debt-to-GDP ratio is projected to be 69.4% at the end of 2014 and slightly higher at 70.0% in 2015. These figures are substantially lower than previously reported. This can be explained by statistical revisions as of 1 September 2014 (see box 1.2).

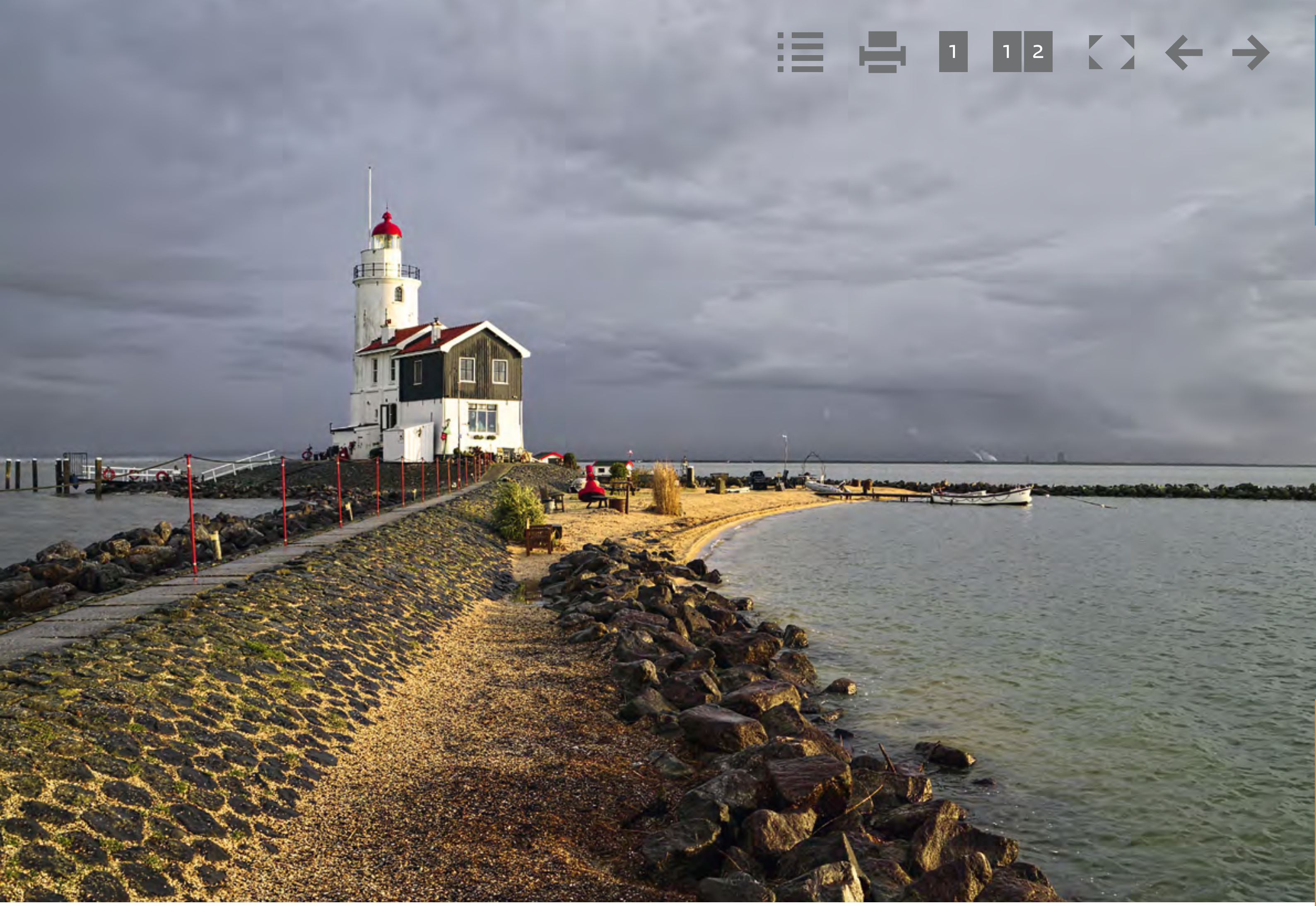
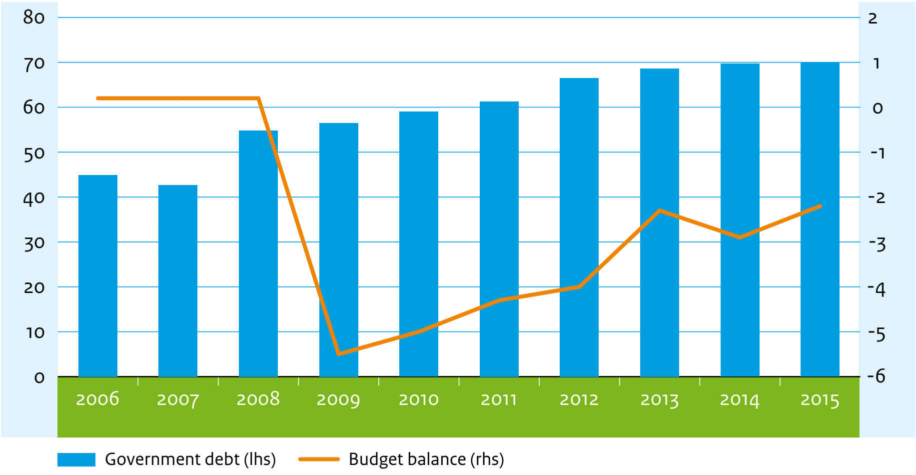


Figure 1.6 – Budget deficit improving and debt stabilising (% of GDP, EMU definition)



Source: Budget Memorandum, September 2014

The Netherlands no longer in Excessive Deficit Procedure

In 2014, the Netherlands has been dismissed from the Excessive Deficit Procedure (EDP) of the EC, because the deficit was below 3% of GDP in 2013 and is forecast to remain so for the coming years. Leaving the EDP has left more scope for a return to the traditional Dutch trend-based budgetary policy, which has been implemented since 1994. In this framework, cyclical fluctuations are accommodated in the budget balance. In order for this trend-based budgetary policy to fully function the deficit has to stay significantly below the 3% of GDP mark. To bring sustainable improvement and fully profit from the trend-based budgetary policy, the government intends to further reduce the budget deficit in the medium term.

Preface
Contents
The economy, the budget and financial markets
Funding and issuance
Primary and secondary markets
Statistical information
Photos
Highlights

Box 1.2 – Statistical revisions lead to higher GDP and lower debt-to-GDP ratios

The new guideline of the European System of Accounts 2010 (ESA 2010) provides a revised set of accounting rules, concepts, definitions and classifications. These changes led to shifts in the GDP levels of most Member States. Most important in the revision is the reclassification of R&D and military expenses. These are now classified as investments under ESA2010. Simultaneous to the implementation of ESA2010, EU member states have improved their statistical data sources. The combined impact of these changes on GDP in the EU in 2010 was 3.7% on average. Growth rates were mostly unaffected.

The statistical revisions had the largest positive impact on GDP in Cyprus and the Netherlands, while relatively small or even negative changes were observed in Luxembourg and Latvia. For the Netherlands, GDP in 2010 increased by 7.6%. The methodological changes under ESA2010 were responsible for an increase in Dutch GDP of 1.7% (largely due to reclassification of R&D expenses). The statistical data improvements by the Statistics Netherlands (CBS) led to an increase in GDP of 5.9% (EU average increase: 1.3%). Due to the revision, the Dutch EMU debt-to-GDP ratio decreased by more than 4%-points.

Long-term sustainability of public finances improved by reform efforts

In light of the ageing population and therefore increasing pensions and healthcare costs, as well as decreasing gas revenues, the long-term sustainability of public finances has gained in importance. In order to measure this, the Netherlands Bureau for Economic Policy Analysis (CPB) calculates the so-called fiscal sustainability gap. It represents the permanent adjustment of the budget, in %-points, that is required to make long-term debt developments sustainable. This sustainability gap is also in use by the European Commission.

In recent years, the government implemented important reforms, particularly in pensions, healthcare, and the housing and labour markets (see box 1.1). These reforms will improve the growth prospects of the Dutch economy. The financial rewards of these reforms are reflected in the current deficit and debt figures, but will have an even larger effect in the long run. The most recent calculations of the CPB show that the reform efforts have significantly contributed to a sustainability surplus (instead of a deficit, or gap) of 0.4% of GDP, an overall improvement of 6.1%-points as compared to 2010. A surplus implies that long-term finances are currently on a sustainable path.

One note of caution is in place when interpreting these numbers. The long-run nature of these calculations implies relatively strong assumptions and large uncertainties, based on current trends and policies. As an illustration, the latest (2012) figure based on the EC methodology shows a sustainability gap of 5.9% of GDP, instead of the surplus in the CPB calculations. An important factor explaining the difference is that the CPB takes into account the latest government policies, whereas the EC only incorporates measures for which legislation was adopted at the time. However, there are also some methodological differences, mainly about the way future tax income is calculated.

1.3

Financial market developments

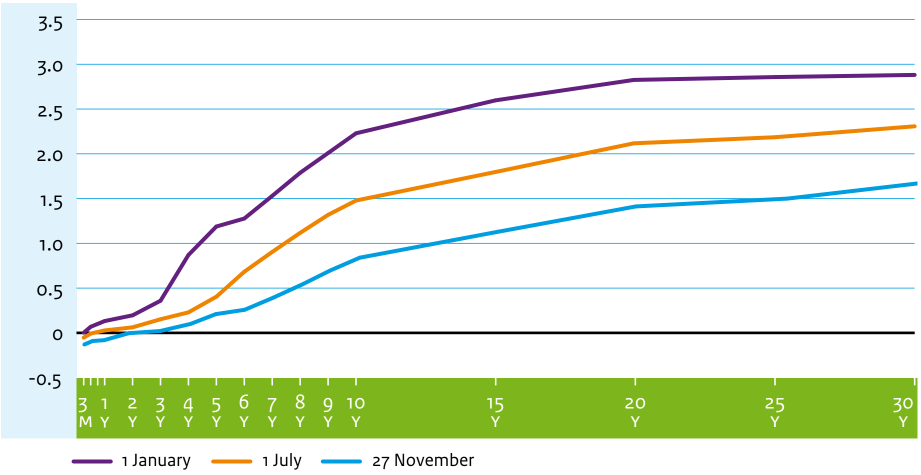
After positive sentiments dominated in 2013, financial markets were more mixed in 2014. Equity markets increased slightly during the year, while government bond yields decreased considerably. Both movements were mainly driven by macroeconomic and geopolitical developments.

In response to the low inflation environment in the euro area, the European Central Bank (ECB) announced a new set of extraordinary policy measures. First, interest rates were lowered, with the deposit rate moving into negative territory (-0.2%). Second, banks are now allowed to engage in long-term borrowing from the ECB at a rate of only 0.15%, provided they use the proceeds to provide credit to the real economy. Finally, the ECB started to re-inflate its balance sheet by purchasing asset-backed securities and covered bonds.

Yield curve shifting downwards

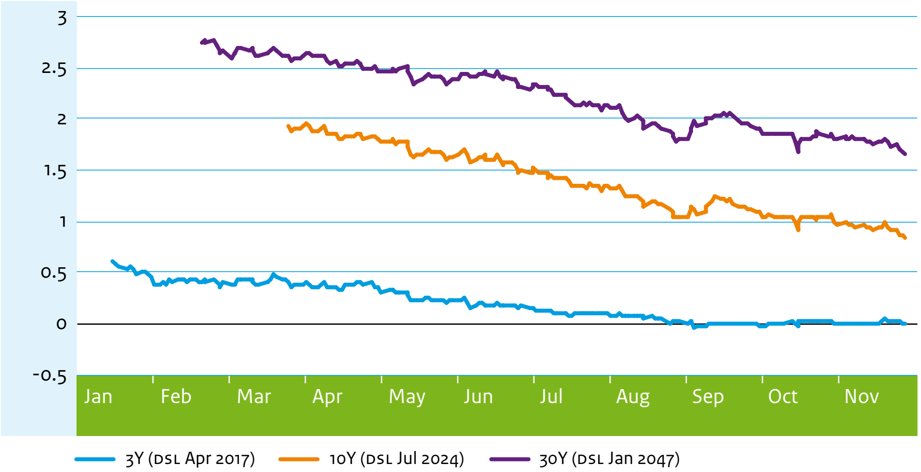
For the Netherlands, the most visible result of ECB policies can be observed at the short end of the yield curve. Bonds with maturities of around two years are now steadily yielding below 0% and 3-year bonds are yielding around 0%. However, not only short-end yields decreased in 2014, the entire Dutch yield curve experienced a downward shift (see figure 1.7), with 10-year Dutch bond yields even trading below 1% since early November. The long end of the curve remains relatively flat, albeit somewhat steeper than last year. Rates on the three new Dutch bonds, all first issued in the first quarter of 2014, decreased significantly during the year. This allowed the DSTA to tap DSLs at historically low yields (see figure 1.8).

Figure 1.7 – Dutch yield curve shifted downwards in 2014 (in %)



Source: Bloomberg

Figure 1.8 – Significant decrease in yields on newly issued Dutch bonds (in %)

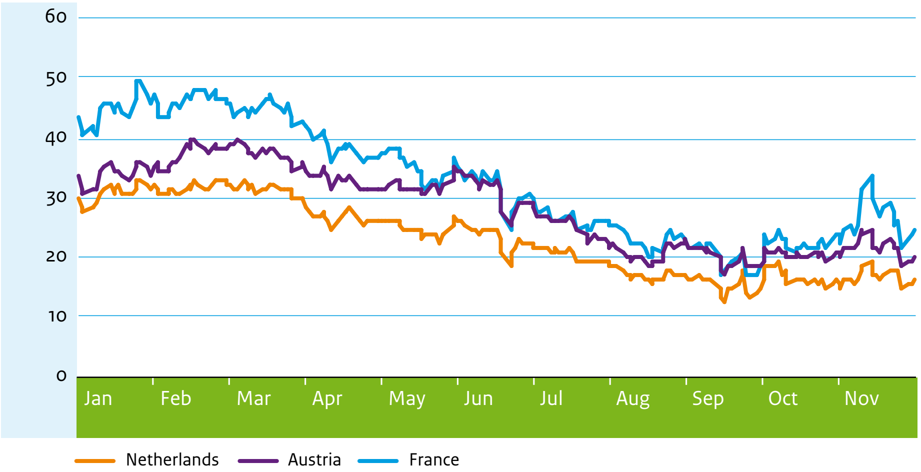


Source: Bloomberg

Interest rate spread with Germany tightening

European 10-year spreads versus German 10-year Bunds narrowed in 2014. This downward spread movement might be a reflection of investors' search for yield. As in previous years, the Dutch yield is tracking its German counterpart closely. In 2014, the 10-year Dutch-German spread moved in a range of 13-33 basis points (see figure 1.9).

Figure 1.9 – European 10-year spreads versus Germany declining in 2014 (in basispoints)



Note: spreads of 10-year bonds issued in 2013 were used for comparability.
Source: Bloomberg

Preface
Contents
Funding and issuance
Primary and secondary markets
Statistical information
Photos
Highlights

Update on developments in the Dutch financial sector

Since 2008, the Dutch government has taken a number of measures to support the Dutch financial sector. Below, a short update on the developments in 2014 is provided.

In January 2009, the Dutch State and ING agreed on the creation of the Illiquid Asset Backup Facility (IABF). The transaction resulted in a transfer of the risk on 80% of ING's portfolio of US Alt-A mortgage-backed securities to the Dutch State. In return, the State received a loan from ING to fund this purchase. On 1 November 2013, the Dutch State announced to have reached an agreement with ING to unwind the IABF. Via one auction in 2013 and two auctions in 2014 the DSTA sold all assets. The total proceeds of the sales amounted to $8.9 bn. These proceeds were used to pay off the loan from ING in full. Proceeds in excess of the loan, totalling approximately $1.9 bn (€ 1.4 bn), have been used to reduce the government debt.

In addition to the IABF, ING received a capital injection of € 10 bn during the financial crisis. In the course of 2014, ING repaid the last tranches of this amount. The final instalment of € 1 bn was repaid half a year earlier than foreseen. ING repaid a total amount of € 13.5 bn, including interest and premiums.

With regards to its shareholdings in ABN Amro, SNS REAAL and ASR, the Dutch government has communicated that it does not see a role for the government as a long-term investor in these financial institutions. The three financial institutions will be sold into private ownership if the following criteria are met: (1) the financial sector must remain sufficiently stable, (2) the market should be able to absorb the intended transaction, and (3) the relevant institutions must be ready for the intended form of privatisation. In addition, the aim is to receive as high a return as possible on the capital that was invested by the State.

Finally, in October 2008, the State of the Netherlands introduced a Credit Guarantee Scheme for the issuance of medium term debt instruments by banks. Up to the end of 2010, a total amount of over € 50 bn in guarantees was provided to a total of seven financial institutions. On 2 December 2014, the last guaranteed loan under the Credit Guarantee Scheme will have been repaid.

2 Funding and issuance

Preface
Contents
The economy, the budget and financial markets
Primary and secondary markets
Statistical information
Photos
Highlights

2.1

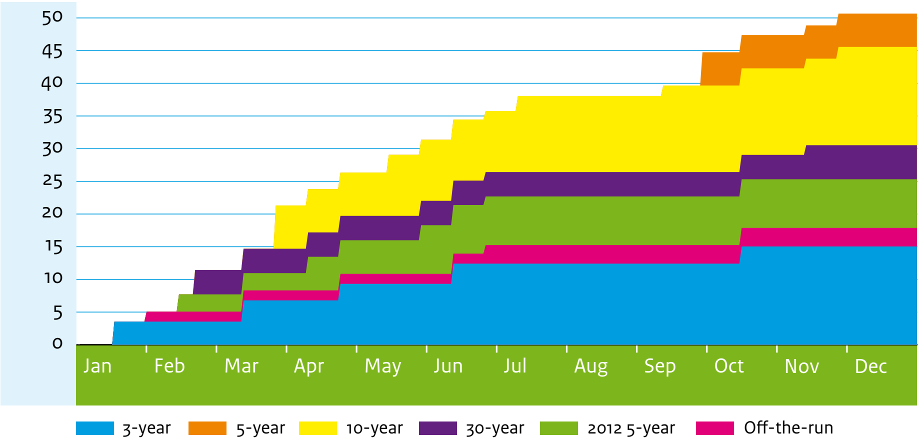
Looking back on funding in 2014

This section reflects on the execution of the funding plan for 2014, which was announced in the previous edition of the Outlook. Looking back, it can be concluded that the fulfillment of the funding plan 2014 has been in line with the DSTA's commitment.

Capital market issuances in 2014

The funding plan for 2014 was built around a capital market issuance of approximately € 50 bn. With all capital market auctions now executed, capital market issuances have totaled € 50.9 bn, in line with the DSTA's commitment (see figure 2.1).

Figure 2.1 – DSL issuance in 2014 by maturity in € bn



As in previous years, the DSTA started 2014 with the issuance of a new 3-year benchmark bond in January, the DSL 0.5% 15 April 2017. As usual, this DSL was launched through a regular tap auction. After the initial tap of € 3.5 bn, the bond was reopened four times in 2014 to achieve a total outstanding amount of € 15 bn, in line with the committed benchmark volume.

In February, the first Dutch Direct Auction (DDA) of the year was held for the launch of a new 30-year benchmark bond, the DSL 2.75% 15 January 2047. After € 3.7 bn had been raised in the DDA, the bond was reopened once to raise the outstanding amount to € 5.2 bn. The DSTA's objective is to raise the outstanding amount of this bond to at least € 10 billion in 2015 (see paragraph 2.2).

A new 10-year benchmark bond, the DSL 2% 15 July 2024, was launched in March via DDA. After the initial issue of € 6.6 bn, the new DSL was reopened four times in order to reach an outstanding amount of € 15.3 bn, which is slightly higher than the minimum committed outstanding amount.

The fourth and final launch of a new bond in 2014 was a new 5-year benchmark bond, the DSL 0.25% 15 January 2020. The DDA of this bond took place in September and raised an amount of € 5.1 bn. The targeted minimum outstanding amount of € 15 bn will be reached in 2015.

Starting with this DDA, the DSTA has changed the investor classification. Treasuries and ALM accounts of banks are from now on classified as 'real money' accounts, whereas all remaining accounts of banks are classified as 'other' accounts. This change in classification reflects the changes in regulation (such as Basel III) due to which treasuries and ALM accounts of banks are required to hold larger liquidity buffers. As highly rated sovereign bonds are an important asset class for liquidity purposes, the DSTA has decided to label bank treasuries (including ALM desks) as 'real money' investors.

Furthermore, over the year the DSTA tapped the on-the-run 5-year DSL 1.25% 15 January 2019 for a total of € 7.4 bn. Combined with the issuance already done in 2013, the committed volume of € 15 bn was reached before the summer. To complete the capital market funding requirements, the DSTA reopened off-the-run bonds maturing in 2016, 2037 and 2042 for a total amount of € 2.8 bn.

T+2 as standard settlement period for DSLs

As announced in the June Quarterly outlook, the DSTA has decided to further harmonise the standard settlement period for OTC transactions in DSLs in primary markets with secondary markets. Therefore, as of 6 October 2014 the standard settlement period for newly issued DSLs is t+2. T+2 was already standard practice for DTCs. This modification followed the new European regulation on Securities Settlement and Central Securities Depositories (CSDR). The enhanced harmonisation across primary and secondary markets will reduce operational inefficiencies and risks for cross-border transactions. A majority of trading venues has currently implemented the t+2 settlement cycle.

Money market issuance in 2014

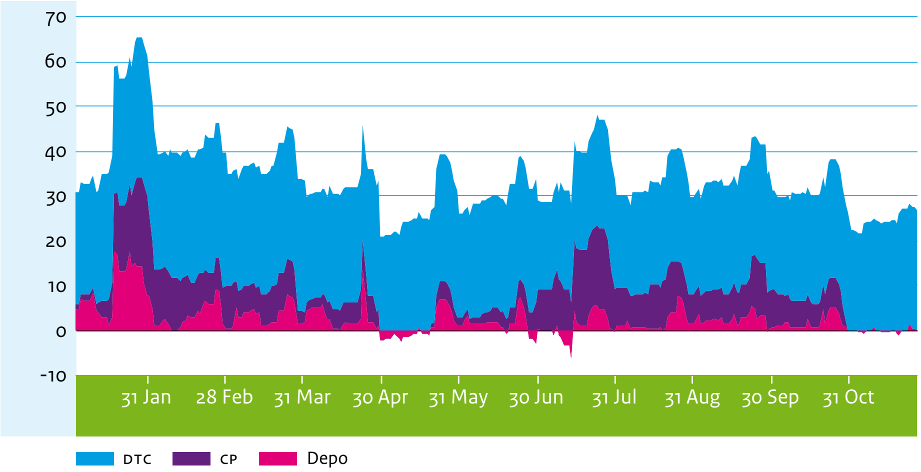
Since the money market serves as a buffer for financing adjustments, changes in the borrowing requirement during the year are absorbed by the money market. Various instruments are deployed by the DSTA to optimise the management of money market funding. Traditionally, Dutch Treasury Certificates (DTCs) have been the cornerstone of money market issuances for the DSTA. With issuance sizes of between € 1 and 2 bn, combined with four offerings every month, the average outstanding amount of DTCs was approximately € 25 bn in 2014.

Between January and November 2014, a gross amount of € 53 bn was issued in DTCs, which is 25% lower than in 2013. This can be explained by a combination of three factors: a lower money market at the end of 2013 which had to be refinanced in 2014, a strong and unexpected influx of cash collateral due to an increase in the market value of the derivative portfolio of the DSTA, and higher than expected cash inflows, resulting among other things from the winding down of the Illiquid Assets Back-up Facility (IABF) and the early repayment of the State support by ING (see box 1.3). Due to these developments, the DSTA decided to cancel the last two DTC auctions which were scheduled for 1 and 8 December 2014.

Commercial paper (CP) and deposits add flexibility to our cash management, since maturity, currency and amount can be tailored to specifically suit both investors and the DSTA. Figure 2.2 gives an overview of the outstanding amount (in euros) of DTCs, CP and deposits throughout 2014, excluding collateral received, repo's and buy-backs. The outstanding amount on the money market visibly fluctuates during the year, reflecting the cash requirements for the DSTA. The negative outstanding amounts in the months of May, July and November reflect the lending of cash surpluses by the DSTA to market participants via (collateralised) depo's.

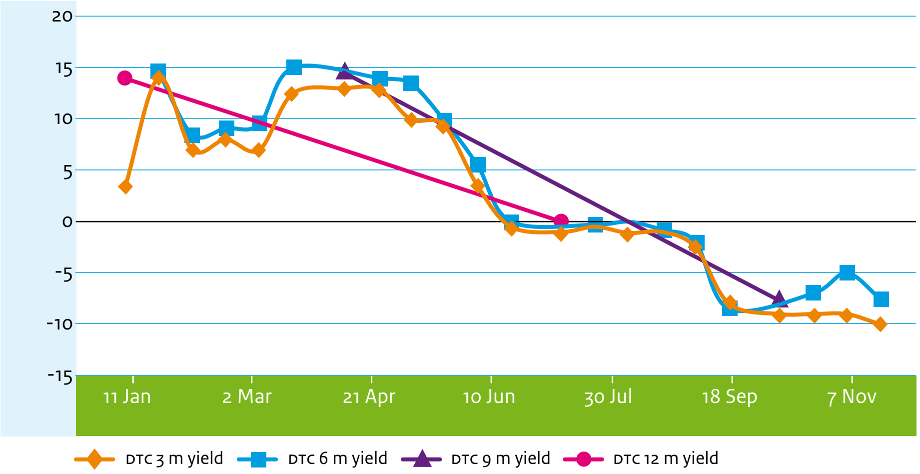
Preface Contents The economy, the budget and financial markets Primary and secondary markets Statistical information Photos Highlights

Figure 2.2 – Outstanding amounts of money market instruments fluctuate during 2014 in € bn



Following policy decisions by the ECB, the front end of the Dutch curve entered negative yield territory again in the second half of 2014. Although negative yield auctions were first held in December 2011, the trend became more persistent after the ECB cut its deposit rate to -0.1% in June and -0.2% in September of 2014 (see Figure 2.3).

Figure 2.3 – Absolute DTC yields in basis points at auctions for all maturities declining in 2014



As in previous years, the DSTA's CP programme has had two issuance peaks matching the redemption of the January 2014 and July 2014 DSLs and coupon payments on DSLs. The majority of CP was issued in US dollars due a favorable USD/EUR FX-swap (see table 2.1). Due to strong market appetite, the DSTA was able to swap the majority of the CP issuances back to negative levels in euro. The DSTA was therefore able to issue CP at an average spread of -9.6 basis points versus Eonia, which was better than the average spread of DTCs versus Eonia of -4.2 basis points.

Table 2.1 – CP issued per currency in 2014 in € bn

Currency	Amount
USD	70.6
EUR	18.2
OTHER	2.5

* Amounts in euro as quoted against the exchange rates at the time of the transactions

Preface Contents The economy, the budget and financial markets Funding and issuance Primary and secondary markets Statistical information Photos Highlights

Buybacks of DSLs with a short remaining maturity

In March 2012 the DSTA started its buyback facility for DSLs. The aim of the buyback programme is to further improve the DSTA's cash management by reducing surplus cash positions and redemption peaks. The DSTA only buys back bonds that will mature in the current or the next calendar year (year t or t+1). Buybacks are not performed through pre-announced auctions. Instead, the DSTA determines on a day-by-day basis whether, and to what extent, it will buy back DSLs. Buyback operations always take place via a PD. DSLs that have been bought back by the DSTA are cancelled immediately. To ensure that the liquidity of the eligible bonds remains sufficiently high, DSTA is committed to preserve a minimum outstanding volume per DSL of € 10 bn. The DSLs will continue to be available to PDs in the repo facility.

Up to and including November 2014, the DSTA bought back € 12.6 bn of DSLs of which € 8.7 bn of DSLs that will mature in 2015. The amount that has been bought back has increased substantially, as compared to 2013. Main drivers for this increase were incidental cash inflows – such as the sale of the Alt-A portfolio – and an increase in the amount of cash collateral. Thus, the DSTA was able to smoothen the redemption profile in the near future by buying back 2015 DSLs.

Box 2.1 Buyback of historical perpetual debt

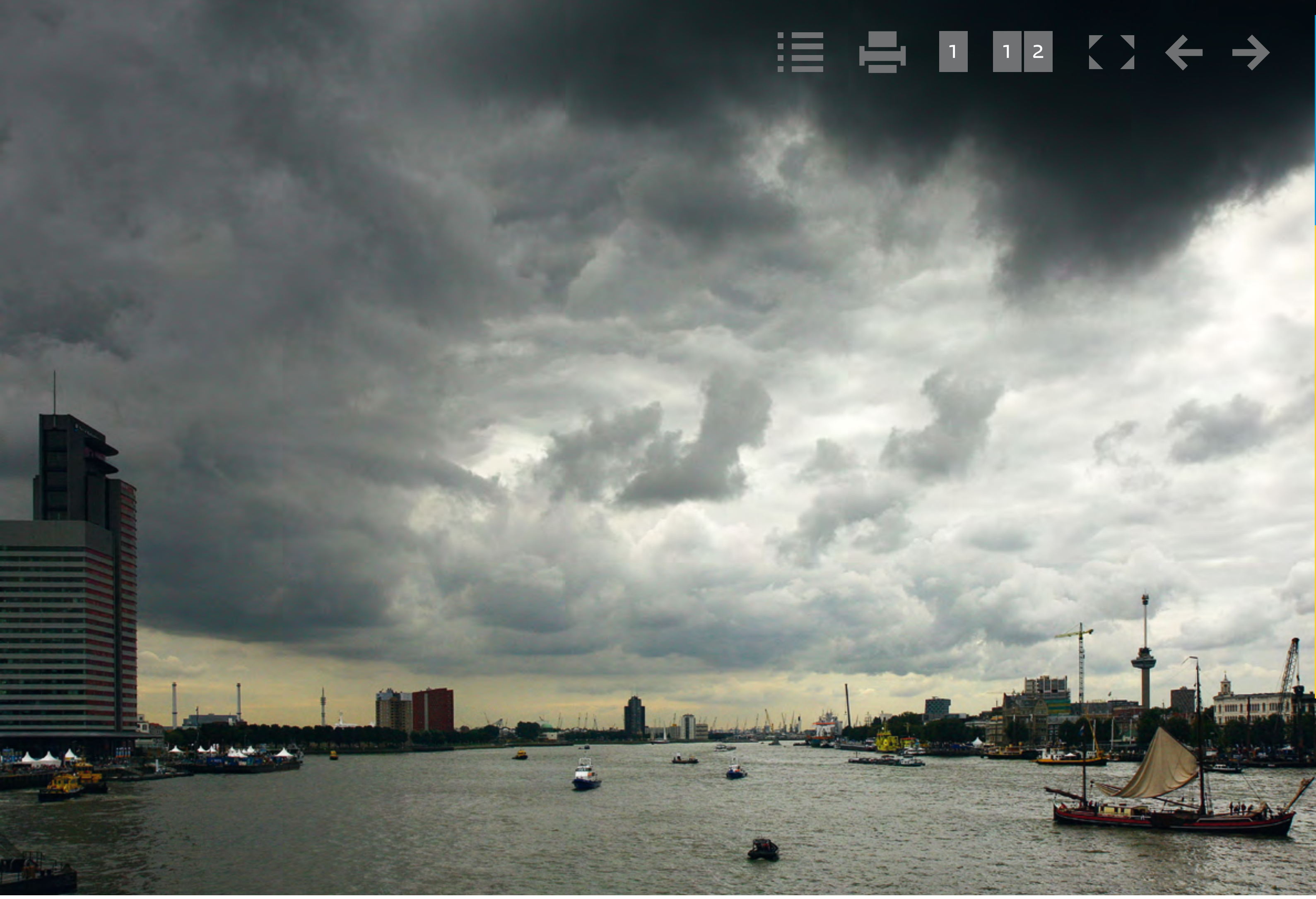
The oldest debt administrated by the DSTA consists of perpetual loans that were first issued in 1814. At this time the Dutch cash reserves were completely exhausted, while the State debt was exceptionally high and consisted of a wide variety of loans. To diminish this diversity and streamline the debt position, in 1814 the Dutch government restructured the loans into a perpetual debt obligation with a 2.5% coupon. Over the next years two more perpetual loans were issued, one with a 3% and one with a 3.5% coupon.

Currently three forms of these perpetual loans remain:

- Loans which are held in paper form by individual owners. To cash the accompanying coupons, the owners have to go to the Dutch Central Bank in person
- Registered loans which are administrated by the DSTA. The coupons are paid directly to the owners by bank transfer.
- Dematerialised loans which are held by the owners on a investor account at their own bank. The DSTA does not know who the owners are, and the coupons are paid via Euroclear NL.

At the beginning of 2014 approximately 800 counterparties held the registered debt part of the perpetual loans. The ownership per counterparty varies from fifty to several thousand of euros, therefore, the amounts involved are relatively small. Because of labour intensiveness and a wish to incorporate the perpetual debt in the treasury management system, the DSTA started a buyback programme to decrease the volume of outstanding loans. In July and August 2014 a pilot was held for the buyback of the 3.5% loan. This was followed by a second programme for the other two loans, running from October halfway through December. So far, this second programme has resulted in the buyback of more than 250 loans with a total nominal amount of nearly € 1.8 million.

The DSTA will evaluate both buyback programmes before the ending of the last programme, and has the intention to make the buyback of perpetual loans under the new conditions a permanent service.



2.2

Funding plan 2015

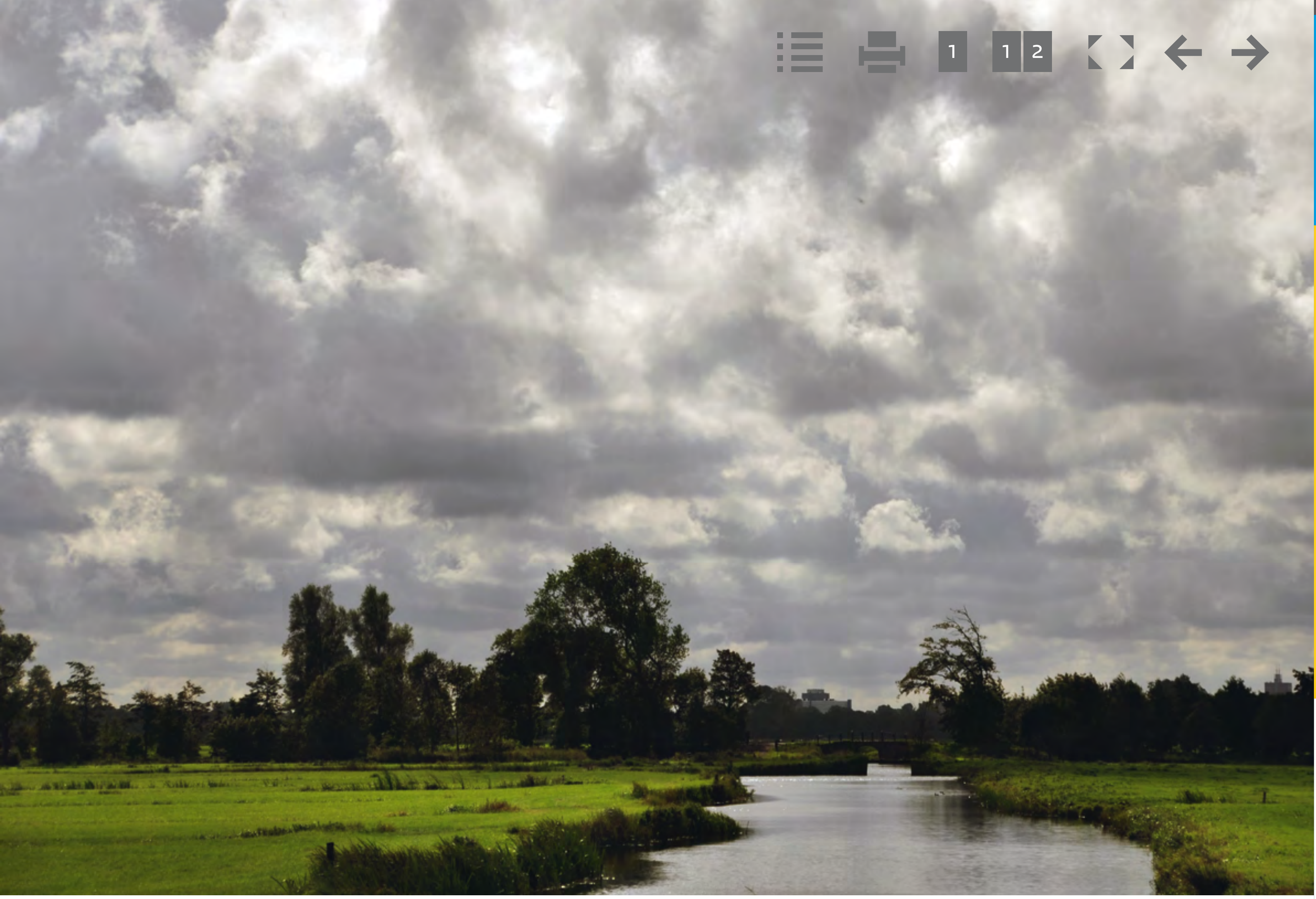
The DSTA's borrowing requirement in any year is the sum of the outstanding volume on the money market at the close of the preceding year, the capital market redemptions, and the expected cash deficit in the budget. For 2015, this implies the following:

- In principle, determining the capital market redemptions for 2015 is fairly straightforward. However, due to the possibility of the DSTA to buy back DSLs maturing in 2015 also in the remainder of 2014 (see the previous paragraph), the final volume of capital market redemptions for 2015 may be subject to change. At the closing date of the Outlook, capital market redemptions in 2015 amount to € 39.9 bn.
- The outstanding volume of the money market at the end of the current year is subject to some uncertainty as well. The exact size can only be determined at the end of 2014; at this moment its estimated size equals € 42.3 bn. This is a bit lower than previously expected due to an improvement in the cash deficit for 2014.
- The estimate of the cash deficit for 2015 is equal to the estimate in the Budget Memorandum which was published in September (see paragraph 1.2). This is the most recent budgetary projection available. An update of the budget will be published at the end of May 2015.

The DSTA's total projected borrowing requirement for 2015 is summarised in table 2.2.

Altogether this results in a preliminary external borrowing requirement for 2015 of € 94.4 bn. This amount is € 3.9 bn lower than the previous estimate as communicated in the Quarterly outlook of September 2014. This reduced funding need can be explained by lower capital market redemptions due to buy backs of DSLs maturing in 2015 and a lower money market at the end of 2014.

The borrowing requirement will be updated in January 2015, and furthermore during the year when new information on the budget becomes available.



In 2015, the DSTA intends to raise approximately € 48 bn in the capital markets through the issuance of Dutch State Loans (DSLs). The remaining borrowing requirement will be covered in the money market (including collateral), resulting in an estimated volume at year-end 2015 of approximately € 46.4 bn. This split between the capital market and the money market should result in a € 4 bn increase in the oustanding money market at the end of 2015 compared to the expected size at the end of 2014.

Table 2.2 – Borrowing requirement and funding in 2015 (€ bn)

Borrowing requirement 2015	
Capital market redemptions 2015	39.9
Money market ultimo 2014*	42.3
Cash deficit 2015	12.2
Total borrowing requirement	**94.4**

Funding 2015	
Capital market	48
Money market ultimo 2015*	46.4
Total funding 2015	**94.4**

* Including cash collateral received

A slightly higher money market volume

The increase in money market funding ensures that the money market remains able to serve as a buffer. The DSTA aims for a money market volume, excluding collateral, of approximately € 30 bn. The increased size of the money market is deemed adequate for absorbing both windfalls and setbacks to the funding need.

For 2015 there are two main uncertainties that could affect the money market volume negatively. First, it is hard to predict the development of cash collateral in 2015. Driven by declining interest rates and the composition of the swap portfolio, the amount of cash collateral at the DSTA has increased substantially during 2014. As a result, cash collateral (which stood at approximately € 20 bn at the end of November) has become an important source of short-term funding, in addition to Dutch Treasury Certificates (DTCs), Commercial Paper (CP) and deposits. As a result, outstanding DTC and CP volumes have declined over the course of the year.

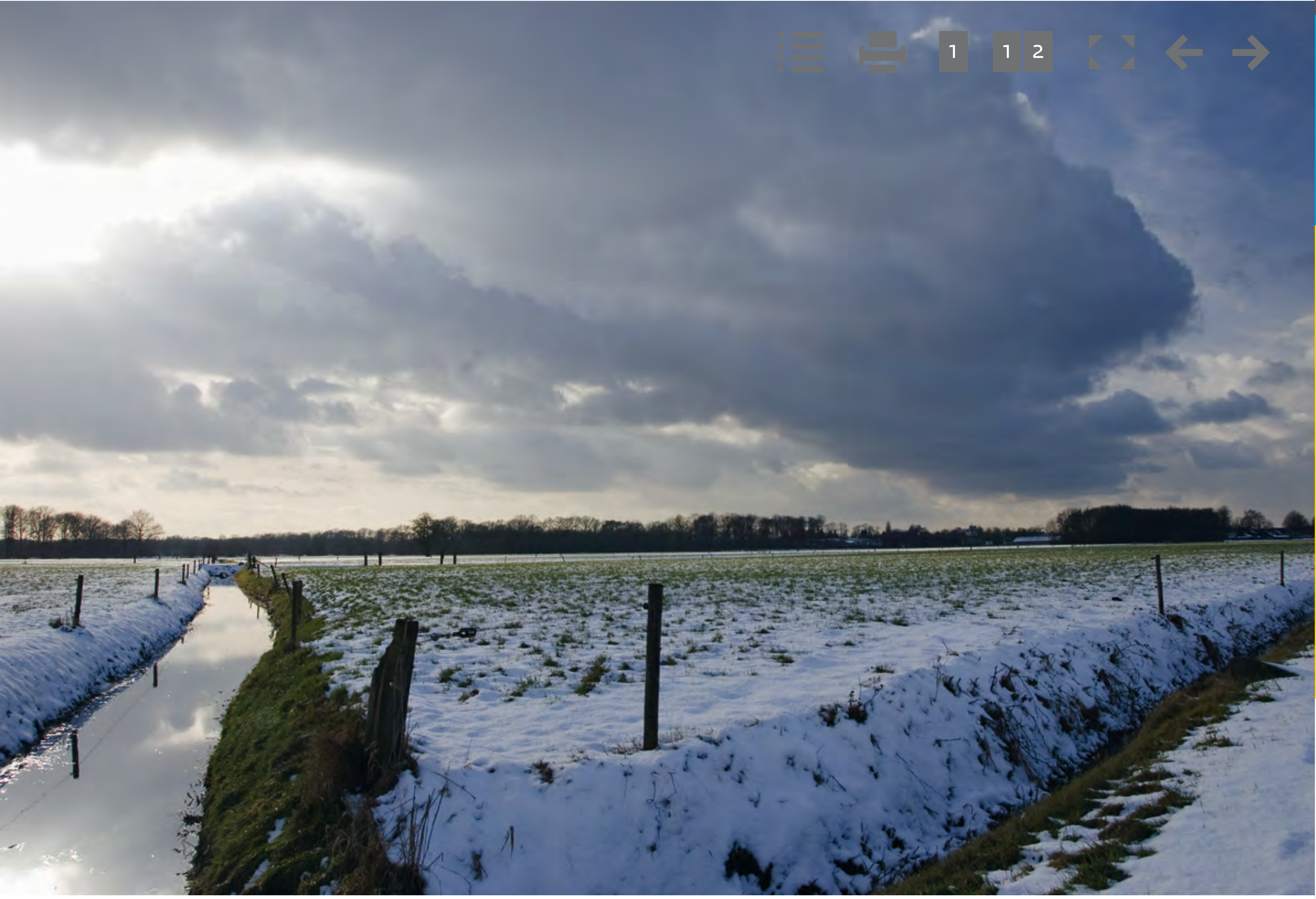
Second, there is a chance that in the coming years the financial institutions that have been nationalised in 2008 (ABN Amro and ASR) and 2013 (SNS REAAL) will partly be brought back to the market. Additional cash revenues following privatisations would reduce the external borrowing requirement and therefore automatically lower the call on the money market.

Taking these uncertainties into account, a somewhat higher targeted money market volume is desirable. This necessitates a minor reduction in the call on the capital market, from approximately € 50 bn in 2013 and 2014, to approximately € 48 bn in 2015.

Capital market issuances in 2015

The DSTA will fulfill its capital market funding target of approximately € 48 bn by:

- Launching a new 3-year benchmark DSL. As usual, the launch will be executed by means of a tap auction. Subsequent reopenings throughout the year will enable the bond to reach its benchmark size of at least € 15 bn by the end of 2015. The bond's coupon date will fall in April.
- Launching a new 10-year benchmark DSL. The launch will be executed by means of a Dutch Direct Auction (DDA) in February or March. By the end of 2015 a minimum outstanding volume of € 15 bn will be reached through 4 additional reopenings. The bond's coupon date will fall in July.
- Reopening the on-the-run 5-year DSL. The 5-year DSL 0.25% January 2020 has a current outstanding volume of € 5.2 bn. The bond will be reopened on 4 occasions to reach its benchmark size of at least € 15 bn within a year of its launch (which was on 24 September 2014);
- Reopening the on-the-run 30-year DSL. The 30-year DSL 2.75% January 2047 has a current outstanding volume of € 5.1 bn. In 2015 an additional € 5 bn will be raised through 3 reopenings in order to breng the outstanding volume to its benchmark volume of at least € 10 bn.
- Reopening off-the-run DSLs on two occasions for an indicative amount of € 3 bn. The announcement of the selection of the DSLs to be reopened will take place on the regular Wednesday prior to the auction date (t-6). While the DSTA may choose to reopen any off-the-run DSL, certain bonds have a higher probability of being reopened, such as bonds maturing in a year in which redemptions are relatively low or bonds that seem to be less liquid or for which a healthy market demand is expected.



With regard to the issuance of US dollar bonds, the DSTA's policy is unchanged. The precondition for issuing debt in US dollars is that a funding advantage can be realised vis-à-vis a comparable bond issued in euros. Additionally, since the DSTA has determined that DSLs issued in foreign currency will impinge on money market funding, a second important condition for a US dollar issuance is that it must not jeopardise the existence of a sufficiently liquid market for DTCs.

Table 2.3 summarises the DSL issuance in 2015. The DSL issuance calendar can be found on the next page.

Table 2.3 – DSL issuance in 2015 (€ bn)

DSL	Indicative amounts
New 3-year DSL	15
New 10-year DSL	15
On-the-run 5-year DSL	10
On-the-run 30-year DSL	5
Reopening off-the-run DSLs	3
Total DSL funding	**48**

Money market issuances in 2015

The DTC calendar will follow the usual pattern with auctions held on the first and third Monday of every month. There will be two alterations in the issuance strategy and communications of DTCs in 2015. First, in reaction to market preferences and to increase its own flexibility, the DSTA will no longer issue 9- and 12-month DTC programmes in 2015. Instead, all new programmes will be launched as 6-months programmes, to be re-issued several times after that. During the year, there will still be 12 different DTC programmes (at the end of every month a DTC programme will expire). At every auction a somewhat longer programme will be tendered in combination with a shorter-dated programme.

The second change is that the DSTA will no longer announce an indicative calendar for DTCs for the whole year. The indicative DTC issuance calendar will be announced two weeks prior to the start of a new quarter via a press release, in the same way as the quarterly issuance calendars for DSLs are published traditionally. This will provide the DSTA with more flexibility to respond to both market circumstances and fluctuations in the short-term funding need. As usual, all DTC programmes to be auctioned will be announced on the Wednesday prior to the auction (t-5). The indicative DTC calendar for the first quarter of 2015 can be found on the next page. Unforeseen circumstances may lead to changes in the calendar.

Box 2.2 – Risk management: reassessing the risk framework

Every four years the DSTA reassesses its interest rate risk management framework. As the latest policy review was completed in 2011, the new evaluation is planned for 2015. Following the results of this evaluation, the DSTA will formulate a risk management strategy for the upcoming period (2016-2019).

The DSTA applies a debt management policy to finance budget deficits and (re)finance its debt. The risk management framework focuses on financing debt against the lowest possible interest costs with an acceptable risk for the government budget. Risk is hereby defined as the possibility of fluctuations (increases) in interest costs.

A benchmark portfolio consisting of a 7-year constant maturity profile was introduced in 2008 and has been reaffirmed in the 2011 assessment for the period 2012-2015. This means that in order for the DSTA to replicate the benchmark as closely as possible, it should solely issue 7-year bonds on a daily basis. However, due to practical considerations, the actual debt portfolio of the Dutch State contains bonds in different maturities. Interest rate swaps are used to manage the interest rate risk separately. The results of this strategy both in terms of costs and risks are presented annually to parliament in the Annual Report.

Since 2012, the DSTA is allowed to deviate from the benchmark under strict conditions: deviations must reduce the interest rate risk of the portfolio and should not result in an increase of the total interest expenditures in the budget. By deviating from the benchmark, the DSTA locks in the current low interest rates for the long term, in order to attain budgetary stability. Due to an asymmetry in the possible movement of the current interest rates, the risk of deviating from the benchmark is relatively low, taking into account a lower boundary for nominal interest rates.

The evaluation in 2015 will determine whether a benchmark portfolio is still a suitable control variable. The evaluation assesses two further aspects. First, the DSTA will consider whether a 7-year maturity still matches the risk preference of the government. Second, the practical implementation of the new risk framework will be assessed.

Indicative DSL calendar 2015

Month of issuance	Auction Date 2nd Tuesday	Details	Auction date 4th Tuesday	Details	DDA window
January	13	Tap new 3-year: DSL 15 April 2018	27	Tap 30-year: 2.75% DSL 15 January 2047	
February	10	Tap 5-year: 0.25% DSL 15 January 2020	24	No tap	New 10-year: DSL 15 July 2025
March	10	Reopening new 3-year	24	No tap	
April	14	Tap	28	Tap	
May	12	Tap	26	Tap	
June	9	Tap	23	Tap	
July	14	Tap	28	Tap	
August	Reserve dates				
September	8	Tap	22	Tap	
October	13	Tap	27	Tap	
November	10	Tap	24	Tap	
December	Reserve dates				

Note: the timing of the DDA may lead to changes in the DSL calendar.

Indicative DTC calendar for 2015

Auction date	Settlement date	Short term programme	Longer term programme
05-01-2015	07-01-2015	31-03-2015	29-05-2015
19-01-2015	21-01-2015	31-03-2015	30-06-2015
02-02-2015	04-02-2015	30-04-2015	30-06-2015
16-02-2015	18-02-2015	30-04-2015	31-07-2015
02-03-2015	04-03-2015	29-05-2015	31-07-2015
16-03-2015	18-03-2015	29-05-2015	31-08-2015

Note: shaded fields indicate new programmes.

3 Primary and secondary markets

3.1

Looking back: Primary Dealers and Single Market Specialists in 2014

Every year, the DSTA appoints Primary Dealers (PDS) to promote and distribute Dutch State Loans (DSLS) and Dutch Treasury Certificates (DTCS), and to contribute to the secondary market liquidity of Dutch sovereign securities. Single Market Specialists (SMSS) fulfil a similar task exclusively for DTCS. DSLS are sold to PDS through tap auctions organised by the DSTA. New benchmark issuances with a maturity of five years or more are sold directly to end investors by means of a Dutch Direct Auction (DDA), with the PDS acting as intermediaries. DTCS are distributed to both PDS and SMSS through regular single-price (Dutch) auctions.

Being a PD entails both rights and obligations. PDS have the exclusive right to buy DSLS in tap auctions from the DSTA. Furthermore, they are entitled to use the DSTA's repo facility, which is available for both DSLS and DTCS. PDS may also strip and reconstitute DSLS with the DSTA if they wish to do so. An overview of the amount of every DSL that has been stripped is available in the monthly report on the DSTA's website.

Ranking 2014

PDS and SMSS are evaluated periodically with respect to their primary market performance. Since 2012 the performance ranking is based on duration-weighted issuance. The weighting factors and corresponding maturities, that were first applied in 2012, will continue to apply in 2015 (see table 3.1).

Table 3.1 – Weighting factors Dutch State Loans in 2015

DSL maturity year	Weighting factor
Before 2017	1
In 2017-2018	2.5
In 2019-2021	5
In 2022-2025	8.5
In 2026-2036	13
In 2037-2047	18

The top five performers in the DSL and DTC primary market in 2014 are shown below.

Top 5 Primary Dealers for DSLS in 2014	
1	ING Bank
2	Commerzbank
3	Rabobank
4	Nomura
5	HSBC France

Top 5 Primary Dealers and Single Market Specialists for DTCS in 2014	
1	Commerzbank
2	ING Bank
3	HSBC France
4	Société Générale
5	Citigroup

3.2 Primary Dealers and Single Market Specialists in 2015

Primary Dealers (PDs) are selected annually for the upcoming calendar year based on a business plan they submit to the DSTA and their performance in the previous year(s). The appointment of a PD or a SMS is effective for one year, starting on 1 January.

The DSTA is proud to present its selection of 15 PDs for 2015:

List of Primary Dealers for 2015 *in alphabetical order*	
ABN Amro Bank	Jefferies
Barclays Capital	NATIXIS
Citigroup	Nomura
Commerzbank	Rabobank
Deutsche Bank	Royal Bank of Scotland
Goldman Sachs	Santander GB&M
HSBC France	Société Générale
ING Bank	

In addition to PDs, the DSTA also appoints a number of Single Market Specialists (SMSs). SMSs have the right to participate in the DTC auctions together with the PDs. Both PDs and SMSs have market-making obligations in the secondary DTC market. Including the 15 PDs, the promotion and distribution of DTCs will be safeguarded by 21 banks, including the SMSs below:

List of Single Market Specialists for 2015 *in alphabetical order*	
BBVA	DZ Bank
Crédit Agricole	Nordea
Credit Suisse	UBS

Commercial Paper Dealers

The DSTA's Commercial Paper (CP) programme allows the DSTA to issue shorter-dated debt to satisfy its short term funding need in a flexible and cost efficient manner, without interfering with its DTC programme. Currently, the DSTA issues commercial paper in euros, US dollars, British pounds, Swiss francs, and Norwegian kroner.

CP is not issued by means of auctions at predetermined dates, but rather on an 'if needed' basis. Since issuance in broken dates is possible, CP has proven successful in attracting new investors with (temporary) excess liquidity. For the DSTA it is a very valuable cash management instrument. Indicative prices and maturities can be found on the pages of the DSTA on Bloomberg (DSTA06) and Reuters (DSTA06).

Issuance of CP continues to take place through a panel of designated dealers, that are responsible for the distribution to end investors. The dealer group of the DSTA can be rotated a yearly basis, based on performance, with a maximum of eight dealers. Only PDs or SMSs of the DSTA are eligible to become a CP Dealer. This system enables the entrance of new parties into the dealer group.

The CP Dealers for 2015 are listed in the table below:

List of Commercial Paper Dealers for 2015 *in alphabetical order*	
Barclays	ING Bank
Citibank	Rabobank
Commerzbank	Royal Bank of Scotland
Deutsche Bank	UBS

3.3

Liquidity and secondary markets

Ensuring liquidity of Dutch bonds

A market is liquid when market participants are able to execute buy and/or sell orders in an easy manner and at low costs. Promoting the liquidity of bonds is a key goal for the DSTA. The DSTA aims to secure and improve the liquidity of DSLs through several instruments.

Most importantly, the DSTA ensures that the outstanding amount of new bond issuances with a maturity of 3-, 5- and 10-year reaches at least € 15 billion within one year of their launch. The DSTA issues new 3- and 10-year bonds annually. With these issuances, the market is offered not only a regular supply of new bonds to guarantee a sufficient depth of the market, but also a sufficiently liquid curve up to 10 years to facilitate trading across the DSL curve. The DSTA may also reopen off-the-run bonds that have already reached their benchmark size to improve their liquidity. Furthermore, DSLs with a maturity of five years or longer are launched via Dutch Direct Auctions (DDAs) to issue in a sufficient benchmark size to help guarantee liquidity instantly. Finally, PDs have access to the DSTA's repo facility for DSLs and DTCs, and may strip or reconstitute DSLs with the DSTA. All this should safeguard the opportunity for investors to trade larger volumes of DSLs without influencing the market price.

Another aspect of liquidity is to have continuous prices available in the markets. To ensure tradable prices for both DSLs and DTCs in the secondary market at all times, the DSTA has imposed a quotation obligation on its PDs. PDs must quote DSLs within a specified bid-ask (b/a) spread during 6 hours per day. Quotation can be done on a platform of choice as long as the platform qualifies as a designated trading platform[1]. The maximum bid-ask spread is set in terms of either a fixed number of basis points (depending on the remaining maturity of the bond) or one standard deviation (sd) from the average bid-ask spread of all PDs, whichever is higher.

Table 3.2 – Quotation obligations

Instrument and remaining maturity	Maximum b/a spread*
DTCs	4 basis points or average b/a +1 sd
DSLs up to 3½ years	4 cents or average b/a + 1 sd
DSLs 3½ years to 6½ years	5 cents or average b/a +1 sd
DSLs 6½ years to 13½ years	7 cents or average b/a +1 sd
DSLs 13½ years to 17½ years	12 cents or average b/a +1 sd
DSLs over 17½ years	20 cents or average b/a +1 sd

* Minimum quantity of € 10 mln.

1 Conditions are specified on: http://www.dsta.nl/english/Subjects/Multiplatform

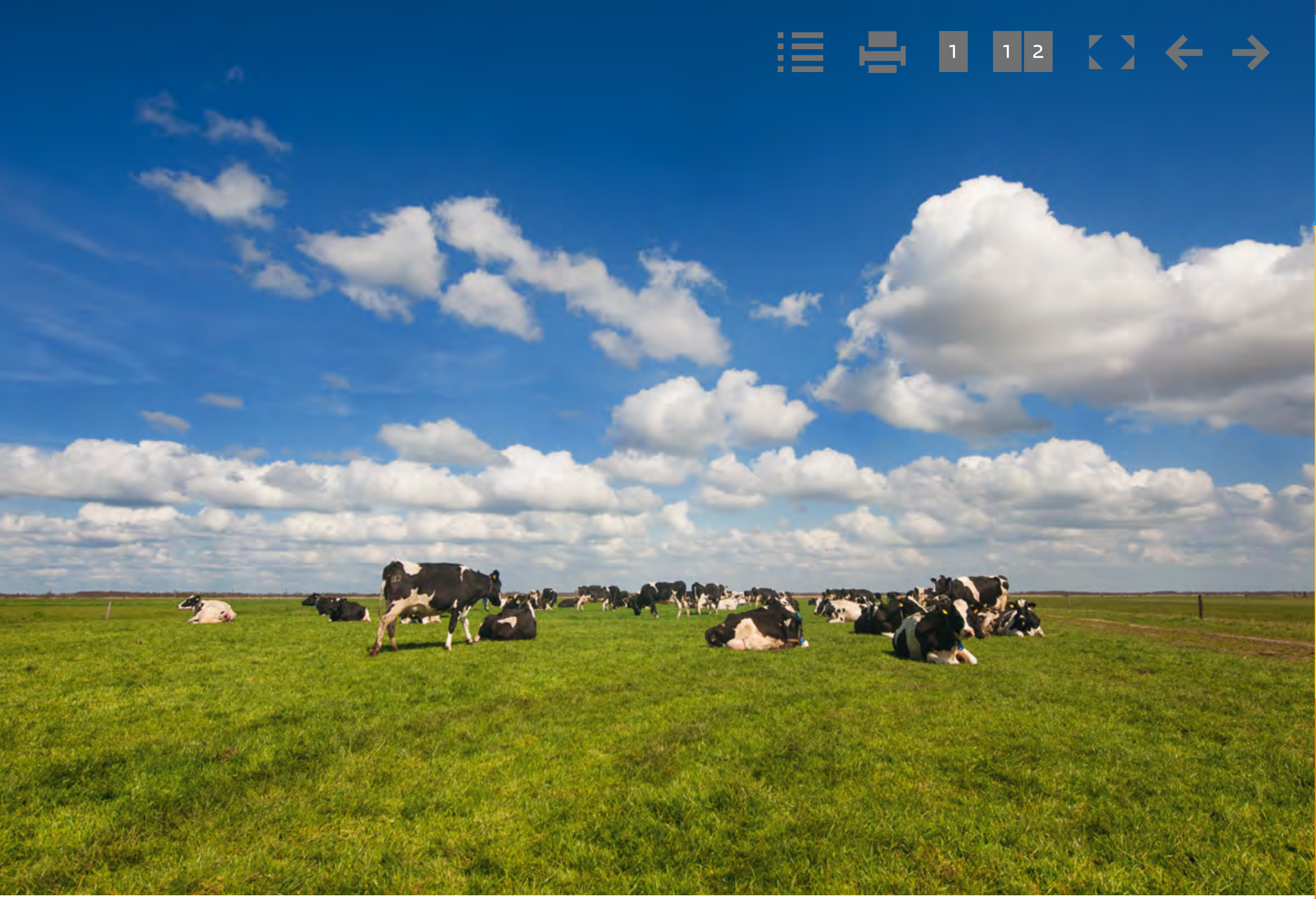
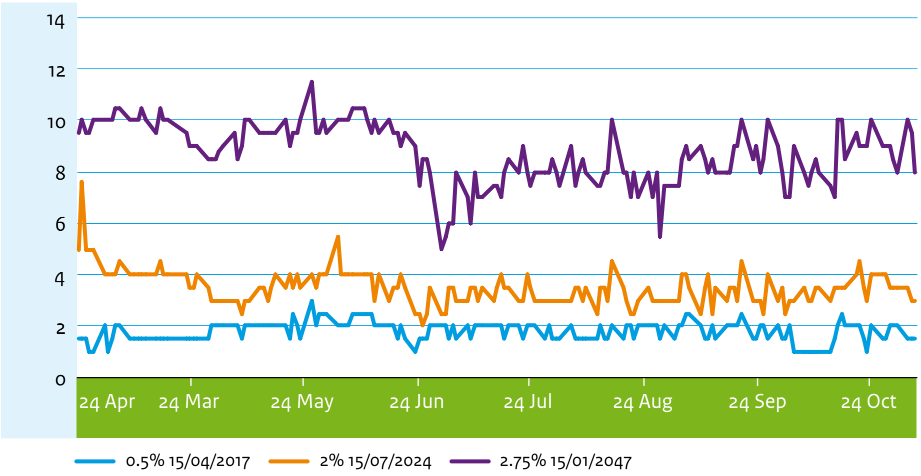


Figure 3.1 shows the development of the bid-offer spread on the designated platforms in 2014 of the three on-the-run DSLs issued in that year. Bid-offer spreads have been stable during most of 2014, and have been significantly lower when compared to recent years. During 2014, the bid-offer spreads of the 3- and 10-year DSLs have remained relatively tight, while the longest bond shows the highest volatility and the highest spread, as can be expected. This can be explained by the smaller outstanding size of the long bond as compared to the other two, and the tendency that a higher proportion of long-dated bonds are kept in 'hold-to-maturity' portfolios. Furthermore, market makers seek to compensate the higher interest rate sensitivity (duration) of longer dated bonds vis-à-vis shorter dated bonds by increasing the spread.

Figure 3.1 – Bid-ask spreads for DSLs of different maturities in 2014 (in cents per € 100)

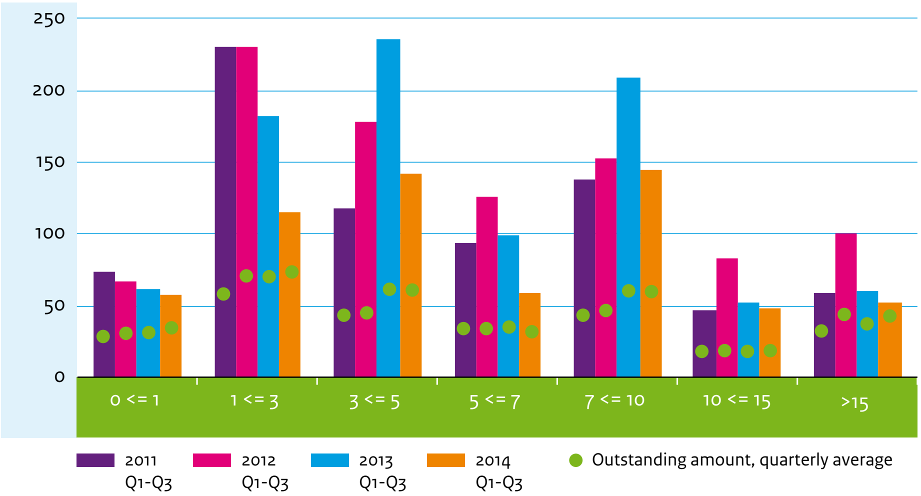


Source: Bloomberg

Secondary market transactions

Primary Dealers and Single Market Specialists (in this paragraph we refer to both as PDs) are required to provide the DSTA with monthly information about their trades in Dutch securities in the secondary market. This information is submitted according to the harmonised EU reporting format, which allows banks to report to debt managers in the euro area countries in a uniform manner[2]. The data reported by PDs does not capture all secondary market transactions in DSLs or DTCs, but only the transactions in which a PD operated on one side of the transaction. The data thus does not provide a complete picture of the trade in Dutch securities, but it nevertheless gives a general view on trends in the secondary market.

Figure 3.2 – Primary Dealer reported DSL turnover, 2011-2014 Q3, by remaining maturity (in € bn)



2 Information on the reporting format and client types can be found on the webpage of the European Commission: http://europa.eu/efc/sub_committee/primary_dealer/annexes_en.htm

Figure 3.2 shows the turnover of DSLs in the secondary market, divided into remaining maturity categories[3]. The figure also shows the average outstanding amount of DSLs for each category during each period. For each year, the turnover is the total of the first three quarters of the year. The total reported annual turnover is, on average, about 3 times the outstanding stock of DSLs. Turnover is the highest for DSLs with a remaining maturity of 1 to 5 years and 7 to 10 years and the lowest for bonds that will expire within 12 months or after more than ten years.

Figure 3.3 – Primary Dealer reported DSL turnover 2011-2014 Q3, by remaining maturity and client type (in % of total)

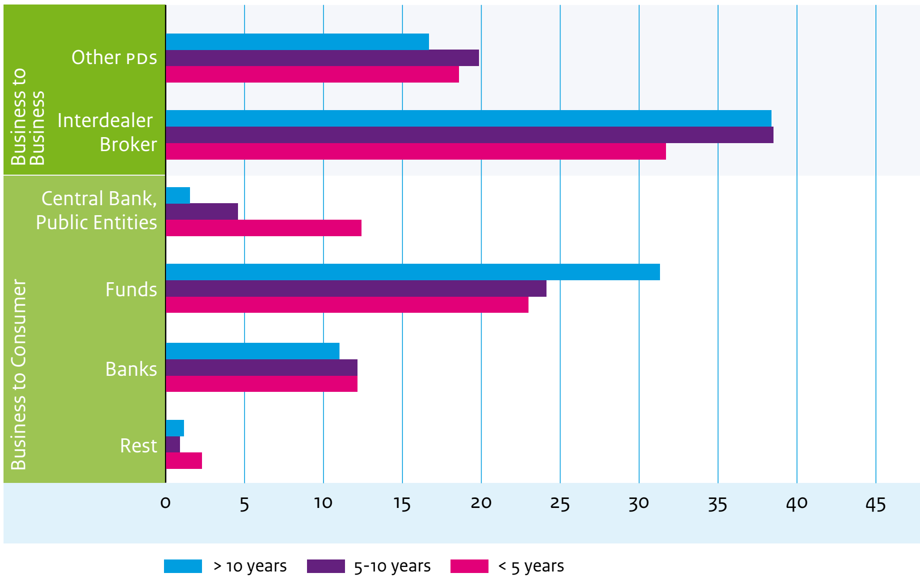


Figure 3.3 shows the share of different client types in the reported secondary market turnover in DSLs from 2011 up until 2014-Q3. Client types are divided between the business-to-business (BtoB) and business-to-consumer (BtoC) segments. The BtoB category comprises transactions between PDs and 'interdealer brokers', as well as transactions with other PDs (defined as PDs for the DSTA or for at least three other euro-area DMOs). Overall, most secondary market transactions are with interdealer brokers. Interdealer brokers are non-bank regulated financial intermediaries who typically trade on behalf of a client. For these transactions, the type of client that ultimately buys or sells the DSL remains unknown to the PDs.

Funds are the most active category within the BtoC segment of the secondary market. This category contains transactions by PDs with fund managers, pension funds, insurance companies and hedge funds. As expected, funds are relatively more active in the market for longer term DSLs. Central banks and other public entities are more active in DSLs with shorter remaining maturities.

3 Turnover is defined as the sum of both purchases and sales by PDs in the secondary market. If a PD buys € 10 mn of DSLs from an end-investor and sells the same bonds to another end-investor, the turnover is € 20 mn. If the purchase was made from the DSTA, the turnover is €10 mn.

Statistical information

1 Interest costs of Central Government debt

The cut-off date for data in the Statistical Appendix is 28 November 2014 (unless otherwise specified)

In millions of euros

	2013	2014	2015
Interest paid			
Interest costs on fixed debt	9,528	8,896	8,638
Interest costs on floating debt (DTC, CP and other short-term borrowing)	55	97	55
Total interest costs	**9,583**	**8,993**	**8,693**
Interest received			
Received interest on fixed debt (net interest received on Euribor swaps)	-	307	1,169
Received interest on floating debt (including central bank account)	104	108	107
Total interest received	**104**	**415**	**1,276**
Net interest costs	**9,479**	**8,578**	**7,417**
Net interest costs, in % of GDP	1.5%	1.3%	1.1%

The results for 2014 are preliminary and based on the 2015 Budget Memorandum (September 2014).
Projections for 2015 are also based on the 2015 Budget Memorandum.

2 Changes in long-term debt in 2014

In thousands of euros

Position on 31 December 2013		**326,188,435**
New issues in 2014		
Public bonds	50,921,503	
Private placements	759	
	add	**50,922,262**
Redemptions in 2014		
Regular redemptions		
Public bonds	32,027,846	
Private placements	65,401	
Early redemptions		
Public bonds	8,679,782	
Private placements	-	
	less	**40,773,029**
Position on 28 November 2014		**336,337,668**

Preface
Contents
The economy, the budget and financial markets
Funding and issuance
Primary and secondary markets
Photos
Highlights

3 Annual interest payments and repayments of principal, 2014-2047

In millions of euros

	Interest payments	Redemptions
28-11-2014 to 31-12-2014	22	1
2015	9,241	39,888
2016	8,402	30,126
2017	7,785	51,294
2018	6,607	30,751
2019	5,799	29,446
2020	5,040	20,222
2021	4,495	16,544
2022	3,957	15,333
2023	3,607	29,920
2024	2,552	15,338
2025	2,243	22
2026	2,242	24
2027	2,240	28
2028	2,238	13,054
2029	1,520	13
2030	1,519	10
2031	1,519	-
2032	1,519	16
2033	1,518	10,049
2034	1,267	-
2035	1,267	-
2036	1,267	-
2037	1,267	13,697
2038	719	-
2039	719	-
2040	719	-
2041	719	-
2042	719	15,332
2043	144	-
2044	144	-
2045	144	-
2046	144	-
2047	144	5,206
Total		**336,314**

4 Interest rate swaps

In millions of euros

Bucket (year of maturity)	Net nominal amount	Pay or receive* (net)
2014	1,971	Pay
2015	6,937	Pay
2016	23,456	Pay
2017	6,902	Pay
2018	21,362	Pay
2019	13,187	Pay
2020	26,394	Pay
2021	24,014	Pay
2022	21,823	Receive
2023	18,166	Receive
2024	15,315	Receive
2026	1,610	Receive
2027	8,350	Receive
2028	3,707	Receive
2032	16	Receive
2033	2,208	Receive
2035	6,010	Receive
2036	1,825	Receive
2037	4,955	Receive
2042	10,586	Receive
2055	33	Receive
Net total	**29,619**	**Pay**

* 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.

5 Key figures of individual bonds in 2014

In thousands of euros

	Total 31-12-13	Issues	Redemptions	Total 28-11-14	Isin code
1.00 pct DSL 2011 due 15 January 2014	15,679,000		15,679,000		NL0009690593
3.75 pct DSL 2004 due 15 July 2014	16,348,846		16,348,846		NL0000102325
2.75 pct DSL 2009 due 15 January 2015	15,488,940		5,055,500	10,433,440	NL0009213651
0.75 pct DSL 2012 due 15 April 2015	15,005,000		1,976,600	13,028,400	NL0010055703
3.25 pct DSL 2005 due 15 July 2015	15,109,765		1,645,000	13,464,765	NL0000102242
0.25 pct DSL USD 2012 due 12 September 2015	2,792,722			2,792,722	XS0749484217
0.00 pct DSL 2013 due 15 April 2016	15,238,000			15,238,000	NL0010364139
4.00 pct DSL 2006 due 15 July 2016	13,311,467	1,417,000		14,728,467	NL0000102283
2.50 pct DSL 2011 due 15 January 2017	15,638,920			15,638,920	NL0009819671
1.00 pct DSL USD 2012 due 24 February 2017	2,511,619			2,511,619	XS0827695361
0.5 pct DSL 2014 due 15 April 2017		15,036,000		15,036,000	NL0010661930
4.50 pct DSL 2007 due 15 July 2017	14,654,990			14,654,990	NL0006007239
1.25 pct DSL 2012 due 15 January 2018	15,472,425			15,472,425	NL0010200606
4.00 pct DSL 2008 due 15 July 2018	15,081,020			15,081,020	NL0006227316
1.25 pct DSL 2013 due 15 January 2019	7,884,224	7,437,000		15,321,224	NL0010514246
4.00 pct DSL 2009 due 15 July 2019	14,056,398			14,056,398	NL0009086115
0.25 pct DSL 2014 due 15 January 2020		5,089,184		5,089,184	NL0010881827
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	16,493,985			16,493,985	NL0009712470
2.25 pct DSL 2012 due 15 July 2022	15,252,147			15,252,147	NL0010060257
3.75 pct DSL 2006 due 15 January 2023 *	10,828,450	553,762		11,382,212	NL0000102275
7.50 pct DSL 1993 due 15 January 2023 *	3,241,039		553,762	2,687,277	NL0000102077
1.75 pct DSL 2013 due 15 July 2023	15,825,963			15,825,963	NL0010418810
2.00 pct DSL 2014 due 15 July 2024		15,315,132		15,315,132	NL0010733424
5.50 pct DSL 1998 due 15 January 2028	13,028,814			13,028,814	NL0000102317
2.50 pct DSL 2012 due 15 January 2033	10,048,900			10,048,900	NL0010071189
4.00 pct DSL 2005 due 15 January 2037	13,187,427	510,000		13,697,427	NL0000102234
3.75 pct DSL 2010 due 15 January 2042	14,420,910	911,000		15,331,910	NL0009446418
2.75 pct DSL 2014 due 15 January 2047		5,206,187		5,206,187	NL0010721999
2½ pct Grootboek	16,222		1,804	14,582	NL0000006286
3½ pct Grootboek	249		60	189	NL0000002707
3 pct Grootboek	6,206		817	5,421	NL0000004802
Total	**321,693,263**	**51,475,265**	**41,261,390**	**331,907,139**	

* These issues and redemptions are the result of the conversion of the 7.5% to the 3.75% bond.

6 Short-term debt and eonia swaps in 2014

In millions of euros

Key figures of T-bills	Total 31-12-13	Issues	Expirations	Total 28-11-14	ISIN-code
DTC 2014-01-31	5,430	-	5,430	-	NL0010511028
DTC 2014-02-28	5,100	-	5,100	-	NL0010556601
DTC 2014-03-31	4,100	1,740	5,840	-	NL0010558862
DTC 2014-04-29	2,900	2,580	5,480	-	NL0010605150
DTC 2014-05-30	3,030	2,220	5,250	-	NL0010610283
DTC 2014-06-30	4,320	3,630	7,950	-	NL0010524427
DTC 2014-07-31	-	4,050	4,050	-	NL0010696662
DTC 2014-08-29	-	3,510	3,510	-	NL0010721809
DTC 2014-09-30	-	4,470	4,470	-	NL0010730636
DTC 2014-10-31	-	4,120	4,120	-	NL0010762050
DTC 2014-11-28	-	4,730	4,730	-	NL0010763595
DTC 2015-01-06	-	6,090	-	6,090	NL0010661880
DTC 2015-01-30	-	4,390	-	4,390	NL0010800991
DTC 2015-02-27	-	3,520	-	3,520	NL0010858445
DTC 2015-03-31	-	2,490	-	2,490	NL0010872487
DTC 2015-04-30	-	2,350	-	2,350	NL0010937090
DTC 2015-05-29	-	1,210	-	1,210	NL0010948287
DTC 2015-06-30	-	2,150	-	2,150	NL0010832267
	24,880	**53,250**	**55,930**	**22,200**	

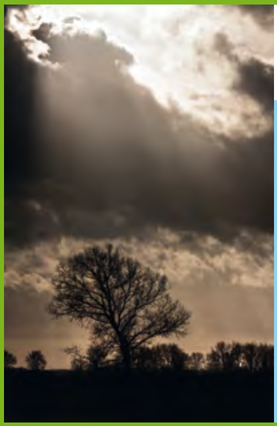
Commercial paper	Total 31-12-13	Issues	Expirations	Total 28-11-14
ECP EUR	-	18,235	18,235	-
ECP USD	919	70,534	71,453	-
ECP GBP	287	1,768	2,056	-
ECP CHF	-	-	-	-
ECP NOK	-	717	717	-
	1,206	**91,255**	**92,461**	**-**

Other short-term debt (mainly deposits)	Total 31-12-13	Issues	Expirations	Total 28-11-14
Borrow	2,940	396,341	399,281	-
Lend	-	52,057	51,757	300
	2,940	**344,284**	**347,524**	**300**

Eonia swaps (position on 28 November 2014)		
Bucket (year of maturity)	Net nominal amount	Pay or receive (net)
2014	-	
2015	22,200	Receive
	22,200	**Receive**

Photos

1 Quiet landscape on a bright morning (cover)



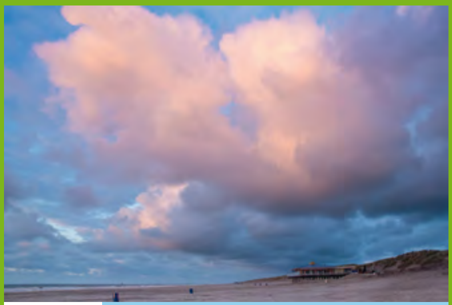
2 Sunrays breaking through the clouds (p. 4)

3 Clouds over a lake (p. 6)

4 Dark clouds over a quiet stream (p.11)

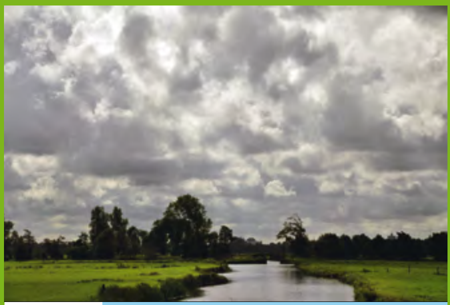
5 Lighthouse of Marken under a dark sky (p. 14)

6 Different types of clouds reflected in the sea during sunset (p. 19)



7 A pink cloud over a North Sea beach (p. 20)

8 Bad weather approaching over Rotterdam (p. 26)



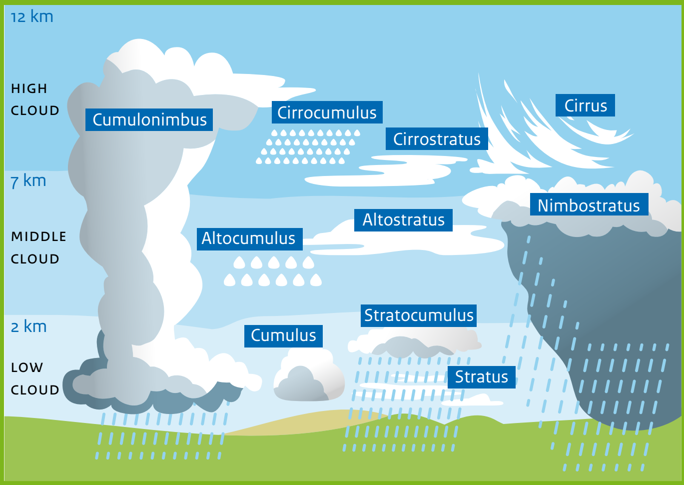
9 Grayish clouds over a meadowland (p. 27)

Clouds
A cloud is a collection of extremely small water drops, ice crystals or a combination of both. Clouds change constantly, influenced by air currents and physical processes. Meteorology distinguishes between different cloud types, sorted for example by height, shape and structure.

The Royal Netherlands Meteorological Institute (KNMI) publishes weather observations from different weather stations. When no phenomena such as mist, precipitation, thunder or storm are observed, an estimation of the current cloudiness is reported. Terms used by weather observers and forecasters are:

Clear - A sky condition with less than $\frac{1}{10}$th cloud coverage.
Few - Clouds that cover between $\frac{1}{8}$th and $\frac{2}{8}$ths of the sky.
Scattered - Clouds that cover between $\frac{3}{8}$ths and $\frac{1}{2}$ of the sky.
Broken Clouds - Clouds that cover between $\frac{5}{8}$ths and $\frac{7}{8}$ths of the sky.
Cloudy - A sky with $\frac{7}{10}$ths or more covered by clouds.

This infographic gives an overview of several cloud types. On close inspection one may even distinguish some of these clouds in the pictures of this Outlook.



10 Dark clouds over a snowy countryside (p. 29)

11 Misty sunrise in the countryside (p. 32)

12 Clear sky over cows in a meadow (p. 37)

13 Blue sky and a few clouds reflected in a lake (p. 38)

14 White clouds in a clear sky over a cycling path (p. 40)

15 Grain field on a bright day (back cover)

The cut-off date for data in the Outlook 2015 is 28 November 2014, unless otherwise specified

Colophon
Design Studio Tint, The Hague
Photography Nationale Beeldbank

11 December 2014

Highlights of the DSTA Outlook 2015

- Targeted capital market funding in 2015: approximately € 48 bn
- DSL auction dates: second and fourth Tuesday of the month
- Two new DSLs in 2015: a 3-year and a 10-year
- Window for the new 10-year DDA: February - March
- On-the-run 5-year DSL: four reopenings in 2015 to reach its benchmark volume of at least € 15 bn
- On-the-run 30-year DSL: three reopenings in 2015 to reach its benchmark volume of at least € 10 bn
- Off-the-run facility continued with two auctions in 2015
- Expected money market volume at year's end 2015 (incl. collateral): approximately € 46 bn
- DTC auction dates: first and third Monday of every month; two programmes per auction
- All DTC programmes launched as 6-months programmes and reopened several times
- Announcement of DTC calendars aligned with announcement of DSL calendars
- Commercial Paper in Euros, US dollars, British pounds, Swiss francs and Norwegian kroner with maturities up to 1 year
- Borrowing requirement and funding plan will be updated on a regular basis during the year
- Quarterly issuance calendars for DSLs and DTCs to be published in March, June, September and December

Contacts

Agent
Niek Nahuis
+31 (0)70 342 80 03

Deputy Agent
Peter Nijsse
+31 (0)70 342 40 81

Secretariat
+31 (0)70 342 80 06

IT-Specials

Internal Audit

Controlling, Accounting & Reporting
Roelant Nieboer
+31 (0)70 342 81 91

Cash Management, Issuance & Trading
Peter Nijsse
+31 (0)70 342 40 81

Policy & Risk Management
Emile Spijkerman
+31 (0)70 342 86 81

Treasury & Debt Operations
Ids Tijsseling
+31 (0)70 342 70 26

Dutch State Treasury Agency
Ministry of Finance
PO Box 20201
2500 EE The Hague
Netherlands
www.dsta.nl