Outlook 2009

ministry of Finance

Dutch State Treasury Agency

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Preface

2008 was a turbulent and challenging year for all of us. Already lingering for some time, the crisis on the financial markets deepened markedly since September. To defend financial stability, the Dutch government reacted promptly by taking unique, but decisive measures. These have raised our immediate funding need in 2008 by an unprecedented amount of € 80 bln. To obtain the extra money, the DSTA has employed its instruments in a flexible way. Most notably, we stepped up our commercial paper programme and added DTC programmes and auctions. Next year, this short-term funding needs to be rolled-over. As a result, for 2009 we set our call on the capital market at € 48 bln. For the remainder, we will continue to rely on the money market, which will stay large during the year. In 2009, the DSTA is planning to launch three new benchmark bonds, a 3-year via tap and a 5-year and 10-year bond both via the Dutch Direct Auction. For first time since 2005 two DDAs will be organised.

Despite the gloomy economic outlook, the fundamentals of the Dutch economy remain strong. The substantial investments in the financial sector have resulted in a temporary but significant increase in gross state debt. Nevertheless, the level of government debt in the Netherlands is still well-below the Euro Area average and below the 60% threshold of the Maastricht Treaty. On a net basis, government wealth has not changed as a result of the investments. The Netherlands remains one of the most credit-worthy countries in the Euro Area and worldwide, as reflected in its AAA-rating.

Also in a different context 2009 will be a challenging year for the DSTA. After 167 years, the DSTA is about to leave Amsterdam and will move to The Hague. This Outlook marks the DSTA's farewell to Amsterdam, as reflected in the pictures of the buildings in which the DSTA has had its office since 1841. The Outlook also contains photos of the newly renovated building of the Ministry of Finance where we will be located. The building combines the concrete of the old building and the glass of the new. This combination of solidity and transparency fits the DSTA very well. With the move, the opportunity was seized to merge with the Cash Management Division of the Ministry. As a result, the new DSTA will combine all internal and external treasury responsibilities of the central government. From 19 January 2009 you can find us at the Korte Voorhout in The Hague.

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Contents

The economy, the budget and the financial markets

The economic outlook is highly uncertain. World-wide, growth projections have been scaled down continuously. Growth in the Netherlands is expected to remain above the Euro Area average. Strong fundamentals provide a welcome starting position to face the current economic headwinds. After multiple years of surpluses, the budget balance is set to decline in 2009. On financial markets, Dutch bonds and bills have provided a safe haven for investors, with swap spreads widening.

1.1 The economic and budgetary outlook

Early in the financial crisis, spill-over effects to the real economy seemed relatively limited. Since mid September, the situation on the financial markets has deteriorated markedly. It is now generally acknowledged that the financial crisis will have substantial effects on the real economy. However, the uncertainty is high regarding the size of the impact. For now, it is unclear how the crisis will develop and how markets (and economic participants) will respond to measures taken by governments to promote financial stability. As a result, it is particularly difficult to make projections into the future of for instance growth, inflation and unemployment.

The economic situation

Following a buoyant economic performance in 2007, GDP growth slowed in the course of 2008, with the first quarter posting a quarter-on-quarter growth rate of 0.3%, followed by 0.0% in the second and third quarter. At -0.2%, the Euro Area saw two consecutive quarters of negative growth in the second and third quarter.

In time, projections for economic growth have been reduced, especially in the last few months. Last April and September, the CPB forecasted an economic growth of 1¼% for the Netherlands in 2009. This latest official CPB growth projection dates from mid September, shortly before the situation on financial markets deteriorated strongly. The general consensus is that the official CPB forecast is outdated. In October, the IMF scaled down it projections for world wide growth; for the Netherlands a rate of 1% was projected for 2009. On 3 November, the European Commission (EC) came out lower still, with a growth estimate for 2009 of 0.1% for the Euro Area and 0.4% for the Netherlands. That same week, the IMF scaled down its projections further, to -0.5% GDP for the Euro Area (no update available for the Netherlands).

Table 1.1 shows that despite the substantial slowdown in growth, the Netherlands is doing better than the big 3 Euro Area countries. On 9 December, the CPB will have published its new projections for 2009 (after the cut-off date of 14 November for this Outlook). It can no longer be excluded that the economy will stagnate in 2009, with growth either above or somewhat below zero. The DSTA will report on the updated economic projections for the Netherlands in its Quarterly Outlook in January 2009.

Table 1.1 **Annual GDP growth in Europe, selected countries**

	2008	2009
France	0.9	0.0
Germany	1.7	0.0
Italy	0.0	0.0
Netherlands	2.3	0.4
Spain	1.3	-0.2
Euro Area	1.2	0.1
UK	0.9	-1.0
EU 27	1.4	0.2

Source: European Commission, Economic Forecast, *Autumn 2008*

Based on the EC's forecasts, world trade is set to decline significantly resulting in a slow-down of Dutch exports to 1.3% in 2009. Consumption growth– the largest component of GDP – is set to slow down to 0.6% in 2009 (table 1.2). Negative for consumption are wealth losses following the decline in equity markets, uncertainty regarding the housing market and the less than full indexation by pension funds due to lower cover ratios, reducing purchasing power of pensioners (see Box 1). Consumer confidence indicators have fallen sharply, reflecting increased worries of consumers about their personal financial situation. Positive for consumption are the low unemployment rate, wage growth and the decline in inflation, all supporting the purchasing power of households. In light of the economic downturn, the government decided to abstain from the proposed increase in VAT of 1%-point to curb inflation, to support purchasing power and to moderate wage demands.

Table 1.2 **Key economic indicators for the Netherlands and Euro Area**

	Netherlands		Euro Area	
	2008	2009	2008	2009
GDP growth (%)	2.3	0.4	1.2	0.1
Growth domestic demand (%)	3.0	0.1	1.0	0.0
Private consumption (% growth)	2.0	0.6	0.5	0.4
Total investment (% growth)	7.1	-2.7	1.2	-2.6
Unemployment (% labour force)	3.0	3.4	7.6	8.4
Employment growth (%)	1.8	0.3	0.9	-0.4
Inflation (%)	2.5	3.0	3.5	2.2
Current account balance (% GDP)	7.1	7.1	-0.4	-0.1

Source: European Commission, Economic Forecast, *Autumn 2008*

For 2009, the EC expects an unemployment rate for the Netherlands that lies 5%-points below the Euro Area average, at 3.4% in 2009; this is somewhat higher than the 3.0% for 2008, providing relief to a tight labour market. Triggered by lower prices for oil, the inflation rate in October was 2.5% in the Netherlands, with a comparable harmonised rate in the Euro Area of 3.2%. In light of the recent price developments, the EC estimate for Dutch inflation in 2009 of 3% seems rather high. Overall, the Misery Index in the Netherlands – the sum of unemployment and inflation – is among the lowest in Europe.

Box 1 – The pension sector and the financial crisis

The Dutch pension system is internationally well known. The Netherlands ranks 2nd after Switzerland of the 11 countries with the largest pension savings measured by GDP (see the DSTA's Quarterly Outlook 4, September 2008).

The last few months, pension funds have experienced a substantial decrease in their cover ratios (measuring the ratio between nominal assets and liabilities). ABP, the third largest pension fund in the world covering government employees and teachers, published a coverage ratio of 118% at the end of September, compared to 132% in June 2008. The cover ratio of PGGM – the second largest in the Netherlands, covering the health sector – decreased from 143% in the second quarter of 2008 to 126% and the end of the third quarter. If the cover ratio falls below 130%, pension funds are required to file a long-term recovery plan indicating how to restore the ratio of 130% within the next 15 years. When a pension fund would face a cover ratio below the minimum required level of 105%, it should file a short-term recovery plan with the central bank outlining how the cover ratio will be improved to a level above 105% within 3 years.

Notwithstanding the current setbacks, in October the supervisor (DNB) emphasized that the Dutch pension system is robust and that the pension act offers adequate flexibility to do justice to the long-term nature of pension liabilities. DNB states that especially in bad times, the inherent flexibility of the system should be used. There is no need for pension funds to immediately adjust their investment policies in response to the crisis. The buffers that pension funds have built in the past, should be relied upon now.

When the situation on financial markets improves and cover ratios are rebuilt, indexation missed during this crisis could be still be granted (back-log indexation). This is also what was done following the financial market downturn earlier this decade. Different from the earlier period is that at that time pension contributions had been kept too low for too long. Contributions were corrected after 2002 and this has increased the current resilience of the Dutch pension sector.

Strong economic fundamentals

Notwithstanding the challenging economic circumstances we are now facing, the fundamentals of the Dutch economy are relatively strong, also as a result of the strong economic performance of the last couple of years and the economic reforms that have been undertaken.

The two tables below illustrate the underlying strengths of the Dutch economy. In both rankings, the Netherlands is in the top 10 of countries world wide, and one of the highest ranking countries in Europe. The table on the left represents the rankings according to the Global Competitiveness Index (GCI) of the World Economic Forum (WEF). The Dutch economy is at position 8, making it the number 3 in the Euro Area, after Finland and Germany. According to the WEF, the Netherlands is performing relatively well on several indicators. Compared to neighbouring countries, its performance is strong on macro economic stability, product market efficiency, health care, and primary and higher education. The Dutch economy ranks number 1 (of 134 countries under review) with regard to the technological readiness of the country.

Table 1.3 **Global Competitive Index**

	Country	Score
1	United States	5.74
2	Switzerland	5.61
3	Denmark	5.58
4	Sweden	5.53
5	Singapore	5.53
6	Finland	5.50
7	Germany	5.46
8	Netherlands	5.41
9	Japan	5.38
10	Canada	5.37

Source: World Economic Forum, Global Competitiveness Index 2008-2009

Table 1.4 **Credit Rating Ranking**

	Country	Credit rating
1	Switzerland	96
2	Luxembourg	95.4
3	Norway	95.2
4	Germany	95
5	Netherlands	94.7
6	Canada	94.7
7	Finland	94.6
8	Sweden	94.1
9	Denmark	94
10	Austria	93.7

Source: Institutional Investor, *September 2008*

In the credit rating ranking of the Institutional Investor of September, the Netherlands obtains the fifth position (of 177 countries) in the ranking of countries with highest credit quality. The Netherlands is the third country in the Euro Area, directly after Germany, the benchmark in the Euro Area.

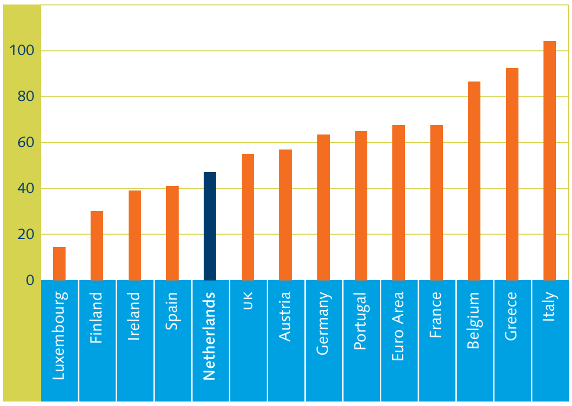
The budgetary outlook

In the Budget Memorandum published last September, budget surpluses – both actual and structural – were projected for every year up to and including 2011. Since the impact of the financial crisis appears much stronger than was anticipated last September, the budget balance is set to deteriorate. Early November, the European Commission predicted a surplus of 0.5% for 2009 and a 0.1% surplus for 2010.

Figure 1.1 **EMU-balance** (net lending +, net borrowing -) (% GDP)

Source: European Commission, Economic Forecast, *Autumn 2008*

Figure 1.2 **Gross EMU-debt 2009, general government** (% GDP)



Source: European Commission, Economic Forecast, *Autumn 2008*

Mirroring the economic fundamentals, the starting position of the budget is favourable, with the latest official estimate of a budget surplus of 1.2% GDP for 2008 (Budget Memorandum 2009). Before the Outlook went to press, no updated official budget estimate was available. The budgetary rules in the Netherlands are designed for both good times and bad times, implying that a deterioration of the budget does not instantly trigger counter measures (see below).

The current budgetary policy rules have proven to be very successful and therefore internationally highly regarded (by IMF, OECD, and European Commission). The budgetary rules are based on a strict separation between revenues and expenditures and on the principle that the automatic stabilizers are allowed to work freely. This means that planned expenditures will be continued when being faced with an economic downturn, unless the pre-determined expenditures ceilings are being breached. Likewise in the situation of an economic upturn, expenditures cannot be increased. Windfalls on the revenue side are credited to the EMU-balance and setbacks on the revenue side are debited to the EMU-balance. Only in the event of setbacks that cause a breach of the early warning level of a 2% EMU-deficit, measures should be taken. But normally, there is no need for the government to react to the latest developments in the budget.

In a European perspective, the budgetary position in the Netherlands is favourable. The Autumn Forecast of the European Commission, published on 3 November, projects a EMU-deficit for the entire Euro Area of 1.8% GDP in 2009, contrasting sharply with the 0.5% GDP surplus for the Netherlands (see figure 1.1). The structural (or cyclically adjusted EMU-balance) shows a similar pattern: -1.4% GDP for the Euro Area, and +0.5% GDP for the Netherlands in 2009.

Also the level of (gross) EMU-debt is far below the average of the Euro Area as a whole. Among them, the 15 countries participating in the EMU will have a debt quote of 67.2% GDP in 2009; whereas the corresponding number in the Netherlands is 20%-points lower, at 47%, according to EC projections (see figure 1.2). The 47% includes the effect of capital investments done in the financial sector (described in section 2.1 of this Outlook). At 47%, the Netherlands is far below the 60% threshold of the Maastricht Treaty.

1.2 The DSTA and the financial turmoil

After the outbreak of the liquidity crisis in 2007, both financial institutions and debt management offices were faced with new challenges in 2008. Amidst a volatile environment in which financial institutions were confronted with more stringent balance sheets and financial stability was threatened, the DSTA had to substantially increase its funding (explained in section 2.1). This section reflects on the performance of Dutch T-bills and T-bonds.

Effects of the turmoil on the front end of the Dutch curve

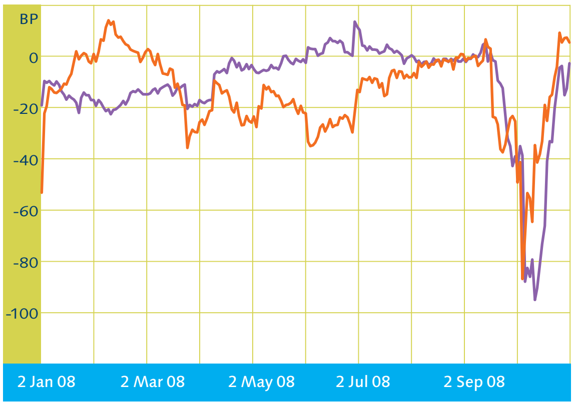
Generally speaking, DTCs have functioned as a safe haven for investors from the beginning of the crisis. At the same time, cash inflows into short term paper have been less reliable and more volatile than in more normal times. The performance of DTCs versus eonia – the DSTA's benchmark for money market transactions – has shown a pattern not unlike a rollercoaster. Caused by balance sheet pressures and increased funding costs of banks, DTC rates gradually increased towards eonia in the first half of the year. At half year end, DTCs performed slightly above eonia, for the first time since 1999. This unprecedented underperformance of DTCs was accompanied by similar or even more pessimistic results of other issuers of short term government paper in the Euro Area.

As the risk adverse sentiment among investors increased in the third quarter of 2008, the flight to safety showed itself by a strong demand for DTCs (see figure 1.3). As confidence among market participants diminished and inter-bank lending almost completely dried up, the excessive liquidity was largely invested in risk free government paper. Especially the demand for short term DTCs grew strongly in the third quarter of 2008. Testimony to the at times severe tightness in the DTC market is the relatively more frequent use of the DTC repo facility available to the DSTA's Primary Dealers and Single Market Specialist (section 3.1). To illustrate, in the first 4 weeks of September, the average daily DTC repo transaction amounted to € 190 mln. This size increased sharply to an average daily of € 760 mln in the three week period starting 29 September. In the last week of October and the first week of November, the average volume decreased again, to € 350 mln per day. Around 90% of all DTC repo transactions were overnight. As will be explained in section 2.1, the DSTA stepped up its call on the DTC programme in the fourth quarter of 2008. More recently, yields of short term paper with maturities from 3 to 6 months again moved to levels exceeding eonia rates. The yields of DTCs maturing within 3 months remained below eonia (up to early November).

In the commercial paper (CP) programme the DSTA saw interest of various investors to deposit their cash positions at relatively low yields throughout the year. As a consequence, the CP programme has accounted for a relatively large proportion of the short-term funding need and has become an important funding source for the DSTA. Unlike DTCs and DSLs, CP is largely demand-driven and tailors more to the need of investors (daily issuance and broken dates). Via the CP programme the DSTA attracts a broader range of investors, for instance those with temporary excessive cash surpluses in US dollars. As the DSTA swaps the foreign notional amounts back into euros, currency risks are fully hedged.

Mainly real money investors shifted their focus from the search for higher yields to a search for safety. Spreads between the uncollateralized depo rate vs. eonia clearly illustrate credit fears along the maturity spectrum (figure 1.4). Liquidity itself was not an issue as the ECB provided abundant liquidity to the market throughout the year for a wide variety of maturities. The reluctance to lend among market participants

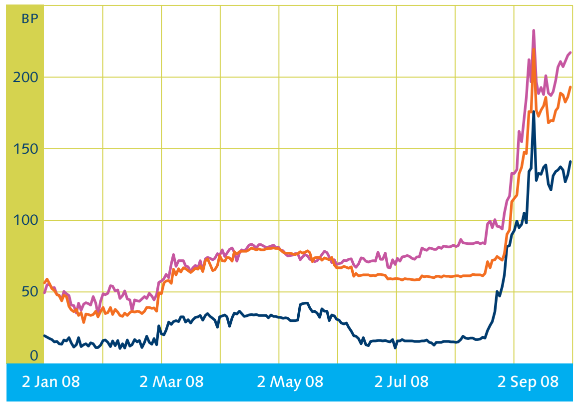
Figure 1.3 **DTC performance vis-à-vis eonia** (up to 31 Oct)



DTC 3m - Eonia 3m   DTC 6m - Eonia 6m

Source: Own calculations, based on Bloomberg data

Figure 1.4 **Credit risk: Eonia vis-à-vis depo rates** (up to 31 Oct)



Depo-eonia 1m   Depo-eonia 3m   Depo-eonia 6m

Source: Own calculations, based on Bloomberg data

contributed greatly to the widening of money market inter-bank credit spreads. As a result, financial institutions continued to hoard cash on their balances or stashed liquidity on deposit with the ECB to preserve immediate access to liquidity and minimize credit risks. To address this situation, multiple governments (including the Netherlands) have developed guarantee schemes to kick start bank lending (see section 2.1).

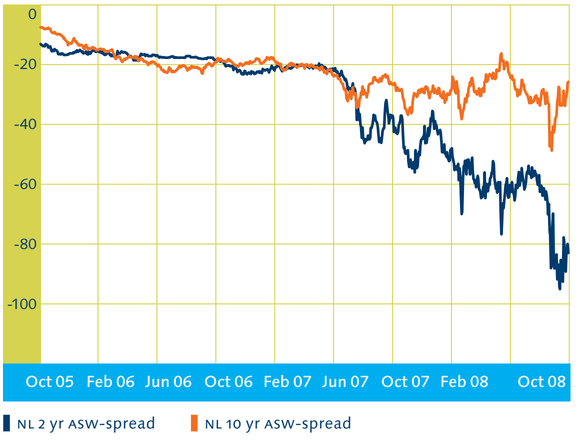
Strong demand for DSLs despite widening vis-à-vis Germany

The flight of investors into safety was mainly directed but not confined to short term paper. DSLs attracted similar strong, albeit volatile, demand from investors throughout the year. To illustrate, the cost of borrowing for a 10-year maturity fell below 4% mid February and peaked in June around 4.8%, followed by a decrease to around 4.3% in the third quarter of 2008. The demand for Dutch bonds resulted in widening of spreads measured vis-à-vis ASW (see figure 1.5)[1]. The demand for Dutch paper was so high that the continuous availability of bid and offer prices was jeopardized (see section 3.2). For this reason, the DSTA decided in September to extend the current repo facility to the vast majority of DSLs. Under the extended facility, Primary Dealers are entitled to obtain DSLs in exchange for other DSLs at a rate of at least 25 basis points above the rate in a general collateral transaction. Later, the DSTA also accepted cash in exchange for DSLs. Since its introduction, the extended DSL repo facility was used for a total amount of € 6 bln. In the year 2008 up to mid September, the total amount was a minor € 330 mln. The DSLs most frequently repo-ed were the January 2037, the July 2009 and the July 2013.

When compared to the German curve, Dutch bonds came under pressure and underperformed throughout the year (see figure 1.6). The negative yield spread widened in the second half of the year as the German curve benefited from its unique benchmark position in the Euro Area. Since there have been no structural changes in terms of credit risk, the lower cost of borrowing for Germany can entirely be explained by liquidity. Especially the use of interest rate futures (Schatz, Bobl and Bund) for hedging purposes is important here. Because these future contracts specify that a range of German bonds can be delivered ('cheapest-to-deliver') at the expiration date, the tradability of the German bonds is amplified. Although the Dutch curve came under pressure vis-à-vis Germany, the underperformance was relatively limited when compared with the performance of some other countries. Governments without an AAA-credit rating were hit hardest, particular the bonds with longer maturities.

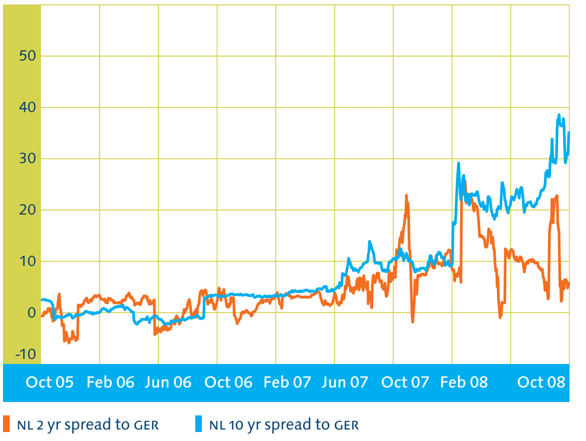
1 The asset-swap spread is used to measure the difference in yield between – in this case – a DSL and the corresponding swap rate. The basis point spread vis-à-vis the interest-rate swap curve is a measure of credit and liquidity risk.

Figure 1.5 **Performance of 2 and 10 year DSLs** (vis-à-vis ASW)



Source: Generic spreads generated by Credit Suisse Locus

Figure 1.6 **Performance of 2 and 10 year DSLs** (vis-à-vis Germany)



Source: Generic spreads generated by Credit Suisse Locus

Box 2 – Minimizing credit risk in turbulent times

From a policy standpoint, the rules of the internal risk framework to limit credit risk at the DSTA have been modified. As a result, the DSTA decided at an early stage in the crisis that cash could only be lent on an overnight basis in case no collateral is provided. The DSTA has effectively managed to minimize counterparty credit risk by following its policy of only dealing uncollateralised deposits with market participants with two credit ratings of at least AA- or equivalent. The DSTA also intensified the use of lending of cash in exchange of European government bonds (via buy sell back transactions) to avoid risk taking. For the coming period, the DSTA will continue to keep a sharp eye on current credit lines.

The DSTA uses the ISDA Master Agreement to enter into derivatives transactions. The DSTA only uses plain vanilla interest rate swaps. By entering into swaps the DSTA addresses interest rate risk (see section 2.1), but at the same time its potential credit risk exposure increases. The credit support annex to the ISDA agreement demands from the DSTA's counterparties to post collateral if their swap position with the DSTA is 'out-of-the-money'. To prevent an unacceptable exposure to a single counterparty an additional limit system is in place. An internal review has started to evaluate the current ISDA risk framework and to explore possible adjustments to limit credit risk in relation to our swap portfolio. The DSTA will consult with all parties involved on the possible adjustments.

Funding and issuance

Measures taken by the government in response to the financial market crisis have increased the funding need of the Dutch State. For 2009, the call on the capital market is estimated at € 48 billion. New benchmark bonds will be launched in the 3-year, 5-year and 10-year segments. Also an 'off-the-run'-facility is introduced for the reopening of bonds with original maturities of 10-year. On average, there will be two DSL auctions every month: one regular and one for the off-the-runs.

2.1 Looking back

This paragraph reflects on the execution of the funding plan for 2008. The funding plan and issuance calendar were executed according to schedule up to and including September, with only some minor modifications. The decisions taken by the government in response to the financial market crisis necessitated a substantial increase in the DSTA's funding.

For the sake of clarity, the rest of this section makes a distinction between the regular activities (in the context of the funding of the government budget) and the specific operations related to the financial market crisis[1].

2.1.1 *Funding of the regular budget*

Due to a favourable development in the budget in both 2007 and 2008, the borrowing requirement in 2008 turned out lower than envisaged in the previous Outlook. It decreased by € 7.4 bln compared to the December 2007 estimate. During the year, the borrowing requirement changes one-to-one with the cash balance. The budgetary windfalls reflected both the strong economic performance of the Netherlands in recent years and higher natural gas revenues.

In 2007, the cash balance turned out at an unexpected small surplus, reducing the end-of-year money market volume; this in turn reduced the borrowing requirement for 2008. For 2008, the initial funding plan was based on a cash deficit of € 0.8 bln, whereas the September budget update indicated a surplus of € 3.9 bln. This windfall lowered the regular borrowing requirement by a further € 4.7 bln, to the current level of € 37 bln.

Table 2.1 **Borrowing requirement and funding in 2008 (excl. financial market measures)**, € bln

	Outlook 2008	End of year update	Spring update	September update
Capital market redemptions	21.5	21.5	21.5	21.5
Money market ultimate 2007	22.1	19.4	19.4	19.4
Cash balance 2008	-0.8	-0.8	+2.5	+3.9 *
Total borrowing requirement	**44.4**	**41.7**	**38.4**	**37**
Capital market	24	24	24	21
Money market ultimate 2008	20.4	17.7	14.4	16
Total funding	**44.4**	**41.7**	**38.4**	**37**

* The Autumn update was not yet available at the cut-off date

To accommodate the budgetary windfall, the main adaptation made to the original funding plan was to reduce the call on the money market and – only in second instance – to lower the call on the capital market. Absorbing budgetary windfalls by adjusting the call on the money market fits well with the DSTA's standard policy; it also illustrates the important buffer function of the money market. Because of the size of the budgetary windfall, the DSL issuance target of € 24 bln was not attainable.

The improvement in the budget was instrumental in the decision of the DSTA to hold the size of DSL auctions to the lower end of the target ranges in July and September. The money market funding also turned out lower than earlier envisaged (end of year volume of € 16 bln).

1 More than ever, due to the exceptional circumstances, the numbers in this chapter are preliminary. In January 2009, the DSTA will publish the final numbers.

As in every year, in 2008 a new benchmark 10-year bond was launched via a Dutch Direct Auction (DDA). This year, the DDA was held in February. The choice for auctioning earlier in the year than in 2006 and 2007 had practical considerations. To sample costs (and risk) as much as possible, auctions had to alternate between the new 3-year and new 10-year DSLs. In order to do so, a DDA early in the year was preferable, after having launched the new 3-year in January. Three PDs – Credit Suisse, Fortis and RBS – executed the role of DDA advisor. Demand for the new benchmark bond was healthy, with a book size at the time of closure of over € 15 bln. Total allocation was set at € 6.6 bln euros, with 60% distributed to real money accounts. The spread was fixed at 17 basis points over the German reference Bund, with a 100% allocation at the cut-off spread for real money investors and 35% to other accounts. With subsequent re-openings in June and September, the volume of this loan is now € 10.7 bln. The new 3-year bond reached a volume of € 13 bln with the last reopening in November.

DTC Issuance

The DTC issuance calendar up to September 2008 followed the usual pattern. By applying a standardised maturity composition of the DTC issuance throughout the year, the DSTA aims to obtain optimal transparency. In the year up to (and including) September, the DSTA issued a total gross amount of € 47 bln euros. After expiration of the September 2008 DTC programme, the outstanding volume was € 21.6 bln. On 7 July, an off-the-run programme – the August 2008 – was reopened, in addition to the regular schedule. With this issuance, the DSTA aimed to cover a temporarily higher funding need related to the DSL redemption on 15 July 2008. An amount of € 1 bln was raised; this was marginally less than initially planned, due to the opportunities offered in the market for commercial paper.

Box 2 – Risk management: implementing the benchmark

The Netherlands, like most other countries, applies a debt management policy to fulfil the borrowing requirement at *lowest possible* costs under *acceptable* risk. In 2008, the DSTA implemented a new risk management framework.

The new framework consists of a *7-year constant maturity portfolio* as a benchmark for the national debt, as explained in more detail in the Outlook 2008. This risk profile can be achieved by issuance in one tenor only. In practice however, the DSTA issues in different maturities using a combination of instruments. Any desirable risk profile can be achieved by entering into interest rate swap (IRS) agreements. To comply with the new risk management framework on 1 January 2008 the DSTA has been more active (on a regular basis) in the swap market during the second half of 2007. As a result of restructuring the risk profile of the State's debt portfolio, the swap portfolio grew from a notional amount of € 50 billion mid 2007 to over € 175 billion towards the end of 2007. Towards the end of 2007 the risk profile of the debt portfolio was reshaped to fit the risk profile required by the benchmark.

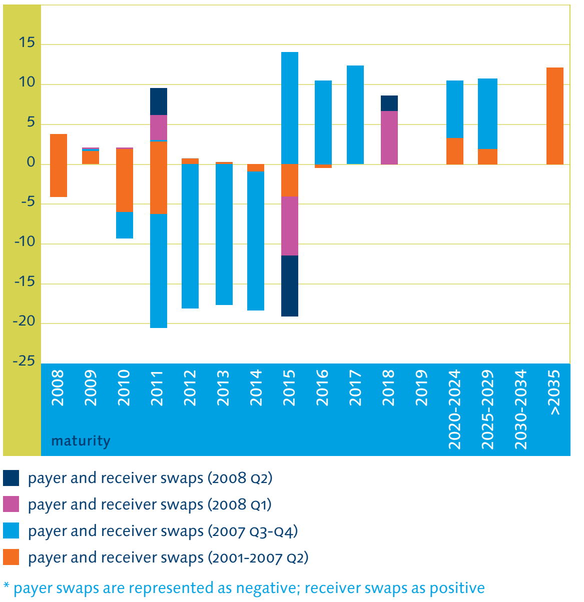
Experience so far

Looking back, the restructuring in the second half of 2007 was initiated and completed during a period in which the swap curve was rather flat, with a relatively small spread between the 3 and 10 year swap rates. The flat swap curve allowed the DSTA to restructure the risk profile at hardly any cost at all. During the restructuring the DSTA entered into a notional amount of € 71.3 billion payer swaps and into € 53.7 billion receiver swaps. A result of the restructuring the initial net swap position of € 7.6 billion paying 6 month Euribor changed into a net position of over €10 billion receiving 6 months Euribor. The size of the net position changed during 2008 by entering in new swaps and the expirations of old ones, but the position remained a net receiving position in 6 months Euribor. In the first quarter of 2008 the spread between 6 month Euribor and the 7-year swap increased, resulting in a windfall profit vis-à-vis the benchmark.

In 2008, every DSL issuance has been swapped to the 7-year benchmark. New swaps in the 3-year (receive), 10-year (receive) and 7-year segment (payer), have further increased the notional amount of our swap portfolio. Figure 2.1 represents the total notional amount of swaps concluded since 2001, the year in which the DSTA first starting using IRS's (see also table 4 in the Statistical Annex).

The goal of the DSTA is to have an actual debt portfolio (incl. swaps) that performs at least as well as the benchmark portfolio. Preliminary results indicate that until now the actual portfolio has outperformed the benchmark. In 2009, the DSTA will report on its performance vis-à-vis the 7-year benchmark.

Figure 2.1 **Size of notional swaps (as at June 2008), per maturity, since 2001*,** bln €



* payer swaps are represented as negative; receiver swaps as positive

2.1.2 *Funding related to financial market investments*

Since late September, the Dutch government took a number of far-reaching measures to help stabilise the financial sector in the Netherlands, including its financial institutions. Elsewhere in the Europe similar measures were taken.

The measures

Below, the measures taken are listed in chronological order (cut-off date is 14 November). Some measures have had a direct impact on the funding need of the Dutch State, whereas other measures only create contingent liabilities or have no impact whatsoever on the DSTA's funding. All measures are temporary.

- On 23 September, a prohibition was announced on naked short selling in shares of financial institutions. This measure was aimed at countering speculation on price losses. Later, the ban was extended to ordinary (including naked) short selling in shares of financial institutions.
- On 28 September, joint action was taken by the Dutch, Belgian and Luxembourg governments to invest € 11.2 bln in support of Fortis. The Dutch government invested € 4 bln in Fortis Bank Nederland Holding in exchange for a 49% stake. It was also decided that Fortis would sell its stake in ABN AMRO (consisting mainly of the retail business), excl. the asset management part which had already been integrated into Fortis.

- On 3 October, the Dutch State took over all shares of Fortis Bank Netherlands (FBN), Fortis Insurance Netherlands and Fortis Corporate Insurance. The shares were acquired from the listed companies Fortis SA/NV and Fortis NV, for a total of € 16.8 bln. With this transaction, the Dutch state also became owner of the Fortis share in ABN AMRO Holding. The agreement replaced the 49% participation reached one week earlier. As part of the deal, it was agreed to provide FBN with short-term funding (on market based terms) in the amount of € 34 bln, enabling them to repay short-term debts to Fortis Bank Belgium (FBB) and to repay an emergency lending facility (ELA) of the Dutch central bank[2]. Also € 16 bln in long-term debt to FBB was taken over by the Dutch State. The take-over of FBN is a temporary measure: once the international financial system has settled, the institutions will be privatised again.
- On 7 October, the government announced an increase in the maximum amount covered by the deposit guarantee scheme applicable to all banks operating under the supervision of the Dutch central bank. The limits were raised from € 20.000 to € 100.000 for the first portion, and from € 40.000 to € 200.000 for the second portion (with a 10% excess).
- On 9 October, it was announced that the Netherlands would be prepared to strengthen the balance sheet of financial institutions that are financially healthy. To that end, a minimum amount of € 20 bln was immediately made available.
- On 19 October, ING was the first to use the facility made available earlier for recapitalisation and strengthening of balance sheets of healthy financial institutions. It was agreed that the government would reinforce ING's core capital by € 10 bln, by obtaining 1 billion securities at € 10 each. The securities have largely the same features as shares and qualify therefore as core tier-1 capital. Understandings were made with respect to executive pay and the nomination by the government of two members for the Supervisory Board. The interest rate on the securities is set at 8.5%, to be payable only if dividends are paid. Should the dividend in the relevant year exceed the coupon of € 0.85, the coupon payment will be increased, up to 125% of the dividend in the third year. ING may terminate this scheme at all times by repurchasing the securities in cash at 150%. After 3 years, ING has the right to convert the securities into ordinary shares. The State has the right the decline this offer and ask for repayment of the original sum of € 10 bln.
- On 23 October, a € 200 bln guarantee scheme for the issuance of medium term debt by banks became effective. The scheme was designed to help restore the funding of financial institutions, thereby safeguarding corporate and household loans. The guarantee scheme targets non-complex senior unsecured loans; 'plain vanilla' commercial paper, certificates of deposit, and medium term notes, with maturities ranging from 3 to 36 months. Fees will depend on the creditworthiness of the banks involved and will be based on historical credit default swap spreads, with an addition of 50 basis points. Maturities of less than a year will have a fixed fee of 50 basis points. The scheme will be executed by the DSTA, publishing all relevant information for investors on its website. All Dutch banks meeting the criteria of the guarantee scheme will be eligible. The Dutch central bank will be consulted to determine the banks' solvency position and liquidity profiles.
- On 28 October, AEGON was the second financial institution to apply for a share of the € 20 bln recapitalisation fund. It was agreed that the government would reinforce AEGON's core capital by € 3 bln. The securities have largely the same features as shares and qualify therefore as core tier-1 capital. The details of the deal are largely similar to the one concluded with ING.

2 To assist the DSTA in gradually raising the capital needed to fund FBN, the Dutch Central bank granted a bridge loan to FBN. This allowed the DSTA to fund the deal more gradually. The bridge loan was repaid before the end of October.

- On 12 November, SNS Reaal was the third party to apply for the recapitalisation fund. It was agreed that the government would reinforce the core capital of SNS Reaal by € 750 mln. The details are largely similar to the previous two deals described above.

Additional funding: the size

The measures combined caused a substantial increase in the DSTA's funding need. We have been able to fulfil the increase borrowing requirement by using the flexibility of the DTC-market and the market for ECP, and also by increasing our call on the capital market. As we value continuity highly, we chose not to dramatically alter our existing strategies.

Table 2.2 summarises the consequences of the different measures for the 2008 funding need of the Dutch State. The total funding need increased by € 80.5 bln, of which € 46.5 bln is of a more or less medium to long-term nature and € 34 bln is short-term (entirely related to funding of FBN).

Table 2.2 **Funding need related to government intervention in the financial sector**, € bln

	Total	Medium- term	Short-term
1a Acquisition of FBN (incl. ABN AMRO)	16.8	16.8	
1b Take-over of short-term debt of FBN	34.0		34.0
1c Take-over of long-term debt of FBN	16.0	16.0	
2 Core capital to ING, AEGON and SNS Reaal	13.7	13.7	
Total	**80.5**	**46.5**	**34.0**

The short-term funding need is expected to last for a maximum of approximately one year, although the exact term depends on the ability of FBN to acquire funding in the market by itself. The medium-term funding need relates entirely to the capital investments done by the government in financial institutions (and the take-over of long-term debt of FBN). The time frame of the investments is uncertain, although the Minister of Finance has indicated that his aim is to sell the government assets as soon as possible.

Additional funding: the instruments

Due to its flexibility, the vast majority of the increased funding need was covered on the money market, with the capital market satisfying only a small part. The capital market was used by increasing the regular November tap auction for the 4% DSL 15 January 2011. The initial target amount of € 1.5 – 2.5 bln was increased to € 2.5 – 4.5 bln. The total amount allocated was € 4.6 bln (incl. the non-comp.). In addition, it was decided to use the reserve tap date on 9 December.

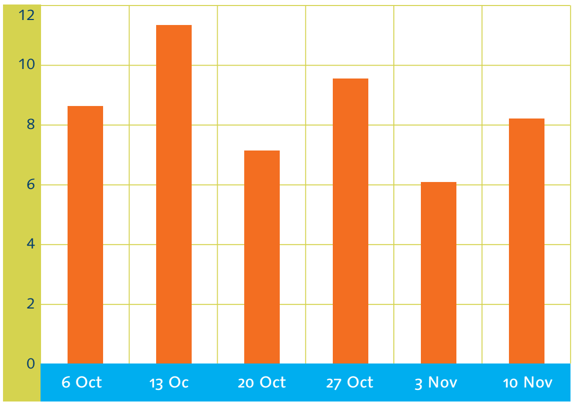
The DSTA entered the money market by using all available instruments.

Firstly, the DSTA adjusted its T-bill auction schedule to the new circumstances. That was done through four different channels:

a Stepping up the frequency of auctions – The DSTA announced that next to the regular auctions on the 1st and 3rd Monday of every month, the in-between Mondays could also be used. Although the DSTA has held weekly auctions ever since 6 October, the decision to employ the extra dates was taken on a case-by-case basis.

b Offering extra DTC-programmes – Normally, every auction offers two different programmes, one in the 3-month segment and one in the segment up to 12 months.

Figure 2.2 **Amounts raised in DTC-auctions**, € bln



Starting on 6 October, the DSTA constantly added 2 programmes to the existing calendar.

c Reopening off-the-run programmes – In normal circumstances, the segment up to 3 months is only covered by ECP and cash/deposits. In response to both the extra funding need and shortages in the market for DTCs, the DSTA decided to reopen the October and November programmes early October.

d Introducing new DTC-programmes – For cash management reasons, regular DTC-programmes have end-of-month expiration dates. The corresponding cash outflows provide a good hedge for cash inflows following tax revenues. To prevent an undue increase in roll-over risk as a result of regular programmes becoming quite large, extra T-bill programmes were added with intermediate (mid-month) expiration dates. The 19 November and 17 December 2008 programmes were first launched on 13 October. In November, the 18 February 2009 and 18 March 2009 programmes were added. All expiration dates were set to match settlement dates of regular DTC auctions.

By adapting the T-bill auctioning schedule along the lines described above, the DSTA was able to create additional funding opportunities and at the same time satisfy market demand for short-dated government paper. By adding programmes the redemption profile of T-bills was smoothed, thereby limiting roll-over risk. All-in-all, we feel that an adequate balance has been struck between long-term commitment to the DTC-market and short-term flexibility the money market offers. Figure 2.2 shows the amounts raised in subsequent DTC auctions.

Secondly, the DSTA used its Euro Commercial Paper (ECP) programme to raise large amounts of cash up to 3 months. Especially during the first weeks of October, demand for Dutch sovereign commercial paper was very high, both in US dollars and euros.

The DSTA first introduced the commercial paper programme in July 2007. It has proven to be an excellent addition to the existing money market instruments. With commercial paper, the DSTA can satisfy its short-term funding need in a flexible and cost efficient way, without interfering with the T-bill programme.

ECP has been far more successful than previously thought. The issuance of US dollar denominated paper has broadened our investor base. It has also proven cost-effective, without an increase in risk (the foreign currency exposure is fully hedged). In addition, ECP provides more flexibility than DTCs. While normally T-bills have standard maturities and fixed expiration dates, ECP can be tailor-made, agreeing on maturities between the DSTA and the investor. Especially the possibility of offering so-called broken dates has proven to be very successful in attracting (new) investors.

Initially, it was thought important to keep the market for ECP as much as possible separate from our existing well functioning market for T-bills. We feared that funding too much by ECP could cannibalize the market for T-bills. However, the two markets are clearly separated. The main distinction between the two is that ECP is largely demand-driven, that is: driven by demand of end investors. As a result, the issuance of ECP is less dependent of the willingness and ability of our Primary Dealers to take securities on their balance sheets. However, it also means that CP can not be as reliable a source of funding as DTCs.

Thirdly, on 3 November the DSTA reopened the 3 off-the-run bonds maturing in 2009. By doing so, we responded to an increased demand in the market for short-term government paper, as could be seen from significant widening of swap spreads and the large demand in the extended repo-facility for DSL (explained in section 1.2). As short term DSLs could be considered close substitutes for DTCs, the normal tap auction procedure for DSLs was replaced by the auction procedure that is employed for DTCs (uniform price auction, no non-comp). A total amount of € 2.5 bln was raised, with the majority in the 15 July 2009 DSL. By auctioning short-dated bonds, the DSTA was able to fulfil part of its additional funding need short-term, in a money market segment separated from DTCs and ECP.

At the cut-off date of this Outlook (14 November), the DSTA had a volume outstanding of € 84 bln in DTC's and ECP. Table 2.3 shows the composition.

Table 2.3 **Outstanding amounts DTCs and ECP, as at 14 November 2008**

Instrument	Amount
DTCS	€ 66.9 bln
ECP (euro)	€ 8.5 bln
ECP (dollar)	$ 10.4 bln
ECP (pounds)	£ 0.6 bln

Additional funding: the overall picture

The total additional borrowing requirement is € 80.5 bln. Of this, € 46.5 bln is of a medium-term nature (see table 2.2). In principle, the funding for the € 46.5 bln should also be medium-term (via the capital market). In 2008, a total of € 15 bln was already covered on the capital market:

- € 5 bln via an increased tap in November and by employing the reserve tap date in December[3];
- € 10 bln via a private agreement with FBB in which the Dutch State replaces FBN as a debtor for long term debts owed to FBB.

The remaining medium-term funding need will be covered on the capital market in 2009 and 2010, as will be explained in section 2.2.

Table 2.4 **Covering the extra 2008 funding need**, € bln

Covered on capital market (issuance DSLs)	5.0
Covered on capital market (private placement)*	10.0
Covered on money market**	65.5
Total	**80.5**

* This concerns € 10 bln of long-term debt of FBN
** Of which € 2.5 bln through reopening of the 3 2009 DSLs

3 This is an estimate. The result of the December auction could not be included in the Outlook (cut-off-date is 14 November).

The remaining € 65.5 bln has been covered on the money market. As a result, this is the amount by which the money market volume at the end of 2008 will increase beyond the level of € 16 bln that was already envisaged based on the funding plan for the regular budget (table 2.1). Combining regular funding and exceptional funding, the end of 2008 outstanding money market volume is now projected at € 81.5 bln.

Total funding: the overall picture

Table 2.5 splits the total borrowing requirement in 2008 into its components. The total need equals € 117.5 bln, made up of redemptions (of both DSLs and money market instruments), the cash surplus in the regular budget and the financial crisis related expenditures.

Table 2.5 **Overall borrowing requirement and funding in 2008**, € bln

Capital market redemptions	21.5
Money market ultimate 2007	19.4
Cash surplus 2008 (regular budget)*	- 3.9
Financial sector expenditures	80.5
Total borrowing requirement	**117.5**
Capital market	36.0
Money market ultimate 2008	81.5
Total funding	**117.5**

* Budget Memorandum 2009, *September 2008*

The end of year money market volume of € 81.5 bln is one of the components determining the borrowing requirement for 2009 (see the next section).

Box 3 – The impact on EMU-balance and EMU-debt

The regular cash balance in the budget is in surplus in 2008. The actual cash balance is strongly negative, due to the government's capital investments in the financial sector. Interestingly, the EMU-balance in the budget is not influenced directly by the financial sector expenditures.

The cash balance and EMU-balance are different concepts. Differences between the two concepts can be explained by two types of transactions.

First, transactions resulting in cash flows in a year different from the transaction year (the 'EMU-balance' is transaction based). These are so-called 'cash-transaction differences', resulting for instance when contracts are signed with multi-year payments. Second, financial transactions. These include, amongst others, the provision of student loans, receipts due to privatisation and loans granted by the Cash Management Division to decentralised government entities (see chapter 4). Also the € 80.5 bln expenditures done by the government in relation to the financial crisis are labelled as financial transactions. Financial transactions are left out of the EMU-balance because of the assumption that they have no impact on the government's net assets (wealth); the increase in liabilities (gross debt) is offset by an increase in financial assets. However, there is an indirect effect on the EMU-balance: interest costs on the additional funding and dividends or coupons received on the investments are included in the EMU-balance.

The € 80.5 bln extra funding need causes an immediate increase in the level of gross state debt. The extra funding equals approx. 14% GDP, increasing gross state debt from 35% to 49% GDP. Of this increase, 6% GDP is short-term (expected to be repaid before end 2009) and 8% is medium-term.

2.2 Funding plan for 2009

The borrowing requirement for 2009 has three components:

1. DSL redemptions – In 2009 three bonds with original maturities of 3, 5 and 10 year will mature. Total redemptions equal € 32.2 bln[4].
2. The budget balance – The Budget Memorandum published in September projected a cash surplus in 2009 of € 3.4 bln. The Autumn update was not yet available at the cut-off date. For now, the € 3.4 bln surplus is the number included in the funding plan.
3. The money market volume at year's end – Following the analysis in the previous section, the now anticipated money market volume at the end of 2008 amounts to € 81.5 bln (table 2.5)[4].

Altogether, this results in a total borrowing requirement for 2009 of € 110.3 bln. The exact number will depend on developments (in the budget and otherwise) in the rest of 2008. At the end of January, the DSTA will publish the updated projections for the borrowing requirement in 2009, based on the actual 2008 funding.

Table 2.6 **Borrowing requirement and funding in 2009**, € bln

Capital market redemptions	32.2
Money market ultimate 2008	81.5
Cash surplus 2009*	- 3.4
Total borrowing requirement	**110.3**
Capital market	48.0
Money market ultimate 2009	28.3
Repayment short term debt by FBN	34.0
Total funding	**110.3**

* Based on Budget Memorandum 2009, *September 2008*

As always, the total borrowing requirement is split between the capital market and the money market. The call on the capital market is set at € 48 bln. Additional funding needs arising in the rest of 2008 (the cut-off date for this Outlook is 14 November) and 2009 will be covered on the money market. If windfalls would occur, the call on the capital market will be reduced. This 'policy line' deviates from the line chosen during the most recent years, in which windfalls would lower the money market and setbacks would increase funding on the capital market. The change in policy is motivated by the already substantial call on the capital market.

The size of the money market at the end of 2009 will be determined in part by the degree in which FBN will be able to repay its short term funding to the Dutch State. For now, it is presumed that FBN will repay all short term debt before the end of 2009. In that case, an end of year money market volume is projected of € 28.3 bln. The relatively higher level compared to previous years can be explained by the fact that part of the additional medium-term funding need (see table 2.2) will be temporarily covered short-term in 2009.

Capital market issuance in 2009

The DSTA is planning to satisfy the call on the capital market of € 48 bln by issuing three new benchmark bonds and by reopening a number of off-the-run bonds. More specifically:

- A new 3-year bond (the DSL 15 January 2012) will be launched in January 2009, via

4 For sake of clarity and with reference to section 2.1, the € 2.5 bln that was raised in the 3 2009 DSLs on 4 November is included in the money market volume ultimate 2008.

a regular tap auction. Subsequent reopenings should increase the outstanding volume of the bond to a level between € 10 and 14 bln before year's end.

- A new 10-year bond will be issued in February 2009, through a DDA. Subsequent reopenings should increase the outstanding amount of the bond to a level between € 10 and 14 bln before year's end.
- A new 5-year bond will be issued later in the year, also by means of a DDA. Subsequent reopenings should increase this bond to a level between € 10 and 14 bln within 12 months of its initial launch.
- The 5.5% DSL 15 January 2028 will be reopened once for a target amount of € 1.5 to 2.5 bln. This will increase its total size to a level above the benchmark volume of € 10 bln. The timing of this bond auction strongly depends on market circumstances.
- A number of off-the-run bonds will be reopened for a total amount of € 10 to 14 bln. The selection of the specific DSLs will be made on a case-by-case basis, depending for instance on market circumstances and the demand in the market (benefiting from the information of Primary Dealers). The focus will be on the DSLs maturing between 2011 and 2016.
- Other possibilities for issuance on the capital market are a foreign currency bond (if the market would offer such an opportunity) and the issuance of principals of the 3.75% DSL January 2023 (if there would be sufficient market demand).

In 2009, two DDAs are planned for, one in February (10-year) and one later in the year; the specific window for the second DDA will be determined later. The new 3-year bond will be launched through a regular tap auction. Reopenings of all the three new benchmark bonds will be done through regular tap auctions to be held on every second Tuesday of the month.

By reopening the original 30-year DSL launched in 1998, the DSTA shows its commitment to the long end of the curve. At this time, no plans exist for a new 30-year bond. Taking into account the 7-year benchmark – as the operational risk management tool for the national debt, see section 2.1 – the long term segment of the DSL curve is not attractive at this time. The preferred trade-off between costs and risk therefore does not allow for new ultra-long benchmark bond. If market circumstances change, the appraisal may change as well.

The reopenings of the off-the-run bonds will not take place on the regular tap dates. It was decided to fix the date for the reopening facility on the fourth Tuesday of the month. The first off-the-run auction will be on 26 January. Different from regular DSL auctions is that the DSTA will make available a number of different off-the runs at the same time. The selection of the specific off-the runs will be made public in the quarterly issuance calendars. By auctioning more than one DSL, the DSTA is able to increase the outstanding amount of bonds gradually, while at the same time having the opportunity to respond to market circumstances (in casu: allocating more in those bonds where demand is highest). In principle, the off-the-run facility will be employed every month or at least until the total target volume (of between € 10 and 14 bln) has been reached.

The issuance calendar is included at the end of this chapter. The first quarter starts with the launch of the new 3-year benchmark DSL 15 January 2012, followed by the DDA for the new 10-year DSL in February. The regular tap date in February will not be used. In March the new 3-year will be reopened. Every fourth Tuesday, the reopening facility will be activated for a number of different off-the-run DSLs. In January, the DSTA will outline in more detail how the off-the-run facility will be operated and by which auction method. The specific details for rest of the year are made public via the consecutive quarterly issuance calendars and the Quarterly Outlooks.

Box 4 - Additional report on inflation linked bonds

In 2005, a study was published on the merits of issuing inflation-linked bonds. The study – a combined effort of DNB, CPB and DSTA – concluded that the Dutch State would not issue index-linked bonds. The principal argument was that adding index-linked bonds to the national debt portfolio would not offer any efficiency benefits. The addition of index-linked bonds would result in greater fluctuations in interest costs, without being balanced by commensurate savings. In terms of costs and risks in the budget, the existing (i.e. nominal) portfolio would be economically more efficient. In September 2008, the DSTA updated the 2005 study. The additional report was written in response to a request by the Dutch parliament. The full report is available on the DSTA's website. This box summarizes the report.

Index-linked bonds and associated derivates make it possible for savers and pension funds to hedge their inflation risks. Index-linked bonds and inflation derivates make up a growing share of the portfolios of Dutch pension funds. Similarly, the number of countries issuing index-linked bonds is also rising steadily. Despite these developments, however, there are no indications that in the present situation index-linked bonds would result in lower borrowing costs for the Dutch State given the level of risk, compared with the current nominal money and capital market instruments. As such, in terms of the business case, the analysis does not present any grounds for revising the 2005 conclusions.

Two qualifications should be made here. Firstly, the willingness of investors to pay for index-linked bonds linked to the Dutch CPI may be greater than the premium that investors pay for index-linked bonds linked to the French or European price index, based in part on the volume of Dutch pension savings and on the emphasis on defined benefit systems. Secondly, the need for a pension fund to limit risks depends on the age-profile of its members. The older a pension fund's members are, the lower its targeted risk profile is. This may have a positive effect on the demand for index-linked bonds. As such, it is possible that as some point index-linked bonds may become an attractive economic alternative for financing the national debt.

In addition to economic arguments, other reasons may exist for the government to issue index-linked bonds. For example, index-linked bonds may help stabilise the EMU balance, if inflation and the EMU-balance are positively correlated. As was the case with the previous study, insufficient evidence has been found of a positive correlation between the Dutch rate of inflation and the EMU-balance, and as such insufficient grounds exist for assuming that issuing index-linked bonds will result in a more stable EMU-balance. However, the possibility should not be excluded that following the current budgetary rules – in which interest costs have been excluded from the expenditure framework – the correlation between inflation and the EMU-balance could become stronger. Unforeseen changes in interest costs do no longer trigger changes elsewhere in the budget.

Another argument for structurally issuing index-linked bonds would be to promote financial innovation. The government could serve as the driving force behind a private market for inflation-indexed products. The desirability of such a scenario should be determined by comparing the societal benefits of this missing market with the additional costs that the government expects to incur for a particular risk.

DTC Issuance

The DTC calendar follows the usual pattern. Each quarter, two new 6-month programmes and one new 12-month programme will be introduced. DTC auctions will take place on the first and the third Monday of the month. Auctions start at 11.00 hrs CET and end at 11.30 hrs CET. The (provisional) calendar for the entire year is published at the end of this chapter. The calendar is similar to the calendar issued last year.

Following the adjustments made to the DTC auction schedule in the last quarter of 2008 (see section 2.1), the DSTA explicitly keeps open the option of adding additional programs to existing auctions or to add auction dates. Adjustments will be made if the funding need necessitates doing so. Changes to the calendar will be published well in advance.

DSL calendar 2009			
	Regular auction		Off-the run facility
Month of issue	**Auction date** (2nd Tuesday)	**details**	**Auction date** (4th Tuesday)**
January	13	tap NEW 3-year	27
February	*	DDA 10-year	24
March	10	reopening 3-year	24
April	14	tap	28
May	12	tap	26
June	9	tap	23
July	14	tap	28
August		no auction	no auction
September	8	tap	22
October	13	tap	27
November	10	tap	24
December	8	tap	22

* Date for the DDA is to be determined
** Action dates will be used as long as the total target volume has not yet been reached.
Announcement for all auctions is at t-6 (Wednesday prior to the auction)
Settlement is t+3 (Friday following the auction)

DTC calendar 2009					
Date auction	**Date settlement**	**DTC 3-month**	**DTC 6-month**	**DTC 9-month**	**DTC 12-month**
05-01-09	07-01-09	31-03-09			31-12-09
19-01-09	21-01-09	30-04-09		30-09-09	
02-02-09	04-02-09	30-04-09	31-07-09		
16-02-09	18-02-09	29-05-09			31-12-09
02-03-09	04-03-09	29-05-09	31-08-09		
16-03-09	18-03-09	30-06-09	30-09-09		
06-04-09	08-04-09	30-06-09			31-03-10
20-04-09	22-04-09	31-07-09		31-12-09	
04-05-09	06-05-09	31-07-09	30-10-09		
18-05-09	20-05-09	31-08-09			31-03-10
02-06-09 *	04-06-09	31-08-09	30-11-09		
15-06-09	17-06-09	30-09-09	31-12-09		
06-07-09	08-07-09	30-09-09			30-06-10
20-07-09	22-07-09	30-10-09		31-03-10	
03-08-09	05-08-09	30-10-09	29-01-10		
17-08-09	19-08-09	30-11-09			30-06-10
07-09-09	09-09-09	30-11-09	26-02-10		
21-09-09	23-09-09	31-12-09	31-03-10		
05-10-09	07-10-09	31-12-09			30-09-10
19-10-09	21-10-09	29-01-10		30-06-10	
02-11-09	04-11-09	29-01-10	30-04-10		
16-11-09	18-11-09	26-02-10			30-09-10
07-12-09	09-12-09	26-02-10	31-05-10		
21-12-09	23-12-09	31-03-10	30-06-10		

* Tuesday
Shaded areas indicate new programmes

Primary and secondary markets

Primary Dealers and Single Market Specialists help the DSTA to achieve the goal of maintaining a healthy and liquid market for Dutch securities. For 2009, the DSTA has selected a group of 16 market makers, of which 13 are Primary Dealers. Since 1 April 2008, PD's select a platform of choice to fulfil their quotation obligations. The primary objective is to secure price transparency. First experiences with the new system are encouraging.

3.1 PDs and SMSs: ranking 2008 and selection 2009

Since 1999, every year Primary Dealers are selected to promote, distribute, and contribute to the secondary market liquidity of DSLs and DTCs. The DSLs are sold to the Primary Dealers through tap auctions held by the DSTA. New benchmark issuances are sold directly to end investors through the Dutch Direct Auction method, with the Primary Dealers as intermediates. DTCs are distributed to both Primary Dealers and Single Market Specialist through regular single-price (Dutch) auctions.

Being a Primary Dealer entails both rights and obligations. Primary Dealers have the exclusive right to buy DSLs from the DSTA. Furthermore, they can conduct swaps with the Dutch state and are entitled to the repo and strips facility. For their efforts, Primary Dealers receive compensation, in the form of a non-competitive bid, i.e. the right to buy additional bonds up to 3 days after auction, at the weighed average price of the auction. Whether a Primairy Dealer receives the right of non-comp depends on whether he has met his quotation obligation on the secondary market (see section 3.2) and on the volumes purchased in the tap auction (the amount should be at least 3% of the total). Compensation in the DDA is settled in the form of fees, which depend on the volume of DSLs that a Primary Dealer is able to place with end investors and on the type of investor. Full details of the mutual rights and obligations can be found in the contracts, available on-line at www.dsta.nl.

Ranking 2008

Primary Dealers and Single Market Specialist are periodically evaluated with respect to their primary market performance. Their performance depends on the volume of purchases in the DSL and DTC auctions. The top 5 performers in the DSL and the DTC primary markets in 2008 are ranked below.

Top 5 Primary Dealers for DSLs based on primary issuance, January - 14 November 2008
Fortis Bank NV/SA
Royal Bank of Scotland*
ING
Credit Suisse
HSBC France

* Including the share of ABN-AMRO in the first quarter

Top 5 Primary Dealers and Single Market Specialists for DTCs based on primary issuance, January – 14 November 2008
Royal Bank of Scotland*
BNP Paribas
Société Générale
ING
Citigroup

* Including the share of ABN-AMRO in the first quarter

Primary Dealers and Single Market Specialists in 2009

Each year the Primary Dealers are selected based on the business plan they have submitted to the DSTA. Once approved, the Primary Dealer contract is valid for one calendar year. The DSTA is proud to present its list of Primary Dealers for 2009. New in 2009 is NATIXIS, which has been a long standing Single Market Specialist. The bank is now welcomed in the group of PDs. The DSTA has a total of 13 PDs in 2009.

Primary Dealers for 2009 in alphabetical order
Barclays Capital
BNP Paribas
Calyon
Citigroup
Credit Suisse
Deutsche Bank
Dresdner Bank
Fortis Bank NV/SA
HSBC France
ING
NATIXIS
Royal Bank of Scotland
Société Générale

Additional to the group of Primary Dealers, also a number of Single Market Specialists is selected. Just like the Primary Dealers, the Single Markets Specialists have the right to participate in the DTC auctions and have market making obligations in the secondary DTC market. The list of Single Markets Specialists in presented below. With a group of in total 16 banks for DTCs, the promotion and distribution of DTCs is adequately safeguarded.

Single Market Specialists for 2009 in alphabetical order
Goldman Sachs
JP Morgan
Rabobank

3.2 First experiences with multiplatform quotation

In April 2008, the DSTA introduced a new method for the quotation of Dutch bonds. Since then Primary Dealers (PDs) are allowed to select a platform of choice on which to fulfill their quotation obligation, provided that the platform meets certain objective criteria. PDs are obliged to quote firm prices of DSLs within a certain spread for a minimum of five hours per day. Although our experiences are still limited, our impression is that the new rules are successful. The accomplishments of the PDs have visibly improved, whereas the daily feedback by the DSTA on their performance is more accurate and transparent. Several other DMO's are looking into the possibilities of adopting the multiplatform system as well.

Background

The aim of the quotation obligation is to provide all market participants with price transparency through arbitrage free reference prices. Over the last few years, the notion has grown that the quotation obligation should no longer be restricted to a single platform. Technological change has made it possible for market makers to aggregate quotes from different platforms in such a way that a trader is able to automatically execute transactions at the best possible prices available to the platforms that are accessible. Allowing PDs to fulfill their quotation obligation on more than one platform promotes competition. In combining low entry barriers for market takers, the DSTA is creating one virtual arbitrage free marketplace.

At this time the four platforms that are selected for quotation are ICAP Electronic Broking, EUREX Bonds GmbH, BGC Brokers LP en MTS Amsterdam BV. The DSTA uses an open ended application procedure, meaning that a platform can be added if put forward by a PD and if it meets the necessary requirements. Among the most important requirements is that the bid and offer prices at which PDs can execute trades are available to investors in real time and 'at reasonable commercial terms'. Since its inception, the majority of PDs chose to fulfil by their quotation obligation through MTS Amsterdam.

The system

Under 'normal' circumstances PDs have to quote DSLs within a given spread (which depends on the maturity of the bond, see table 3.1). Under 'exceptional' circumstances, this system is replaced by one based on peer review, in which PDs should quote a bond within one standard deviation of the average spread quoted. When spreads are tightening, the quotation requirement may enter a situation of normal circumstances. This happens when more than half the PDs reach a spread within the standard limitation (in table 3.1). Whether normal or exceptional circumstances apply can therefore differ from bond to bond, depending on the accomplishments of the PDs.

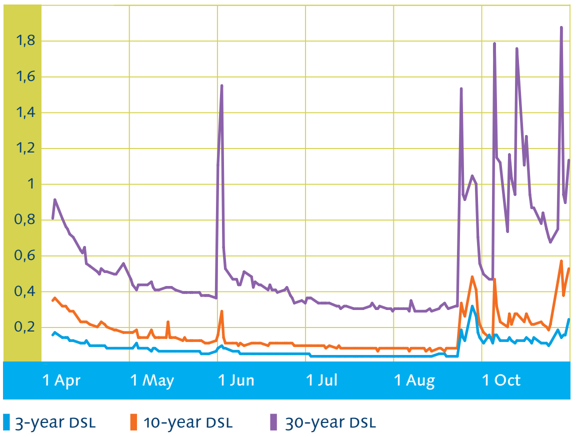
Table 3.1 **Quotation obligations under normal circumstances**

	Maximum b/o spread	Minimum quantity
DTCs	4 basis points	€ 10 million
Bonds 1¼ years to 3½ years*	4 ticks #	€ 10 million
Bonds 3½ years to 6½ years*	5 ticks	€ 10 million
Bonds 6½ years to 13½ years*	7 ticks	€ 10 million
Bonds 13½ years to 17½ years*	12 ticks	€ 5 million
Bonds over 17½ years*	20 ticks	€ 5 million

* remaining maturity
# 1 tick is 1 euro cent per € 100

Fulfilling the quotation obligation is a necessary condition for PDs to obtain the non-competitive bid (NCB) rights they can receive following a DSL auction. A PD fulfils his quotation obligation if, on a monthly basis, he reaches an average daily score of at least 90% for the months between two DSL auctions. The specific score of a PD depends on three variables: the number of DSLs quoted, the tightness of the b/o-spread and the number of hours during which the bonds are quoted. PDs that buy at least 3% of the tap auction and have been compliant with the quotation obligation are entitled to 15% NCB rights in proportion to their participation in the tap auction concerned. The NCB rights of PDs that do not fulfill these requirements are redistributed among the PDs that are entitled. As a consequence, NCB rights of individual PDs may exceed their 15% share.

Figure 3.1 **Average bid/offer spread*, 1 April - 31 October 2008**



* Average bid/offer spread in euro's per € 100

Impact on the market

Given this year's market situation it will be no surprise that up till now exceptional circumstances have prevailed. This means that right from the start, the system has been based on peer review. Even under difficult market circumstances PDs have been able to continue quoting DSLs, which implies that liquidity and the availability of an arbitrage free price have been secured at all times. Spreads have tightened a lot since the start of the multiplatform environment, only to widen again from the start of September, when the situation on the financial markets deteriorated remarkably (see figure 3.1).

The DSTA will continue to improve the multiplatform system by maintaining a continuous dialogue with traders and platforms. Adding DTCs to the range of products that can be quoted dealer to dealer in a multiplatform environment will be considered.


Agentschap

The DSTA: Move and Merger

In January 2009, the DSTA will merge with the Cash Management Division of the Ministry of Finance. The new DSTA will then combine all internal and external treasury functions of the central government. At the same time, the DSTA will relocate from Amsterdam to The Hague, to move in with the Ministry of Finance. The move and merger open up a new chapter in the rich history – since 1841 – of the DSTA.

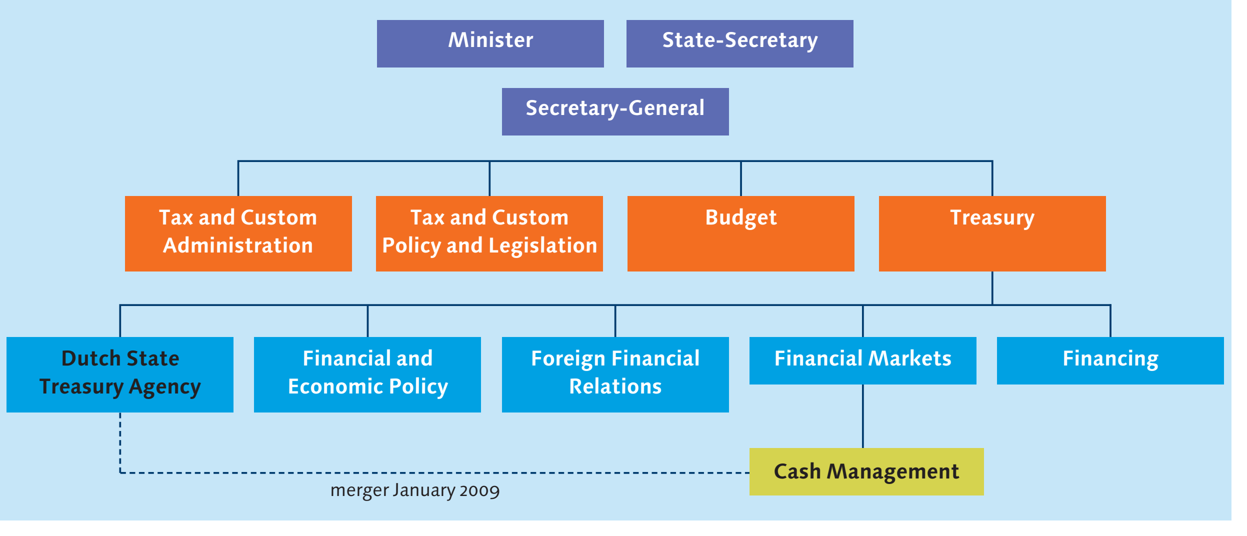
4.1 Reorganisation of the DSTA

Nowadays, being a Dutch debt manager is a challenging job. The funding plan for 2009 has been adapted significantly due to the financial crisis, implying more frequent issues by the DSTA on the money and capital markets. The implementation and execution of the guarantee system for bank debt has had a large impact on the organisation; we now do not just manage explicit debt, but also contingent liabilities.

Besides these challenges, the DSTA opens up another chapter in its rich history, or actually two chapters. 167 years after its foundation, the DSTA will leave Amsterdam. On 19 January 2009, the DSTA will relocate to The Hague and move in with the Ministry of Finance. The pictures in this Outlook serve as a kind of farewell to Amsterdam, showing the different buildings the DSTA has been housed in since it started its business, including pictures of the newly renovated Ministry of Finance at the Korte Voorhout in The Hague.

With the move, the opportunity was seized to merge the DSTA and the Cash Management Division of the Ministry of Finance (see chart below) into a new directorate.

Organisational chart Ministry of Finance



The name of the new organisation remains Dutch State Treasury Agency. Not much will change for our counterparts in the market, except the phone numbers and having to take the train south from Schiphol Airport instead of north to Amsterdam. This chapter will elaborate on the motives behind the move and on the implications of the merger for the internal organisation.

Background

Historically, most DMO's are located in the national financial centre. As such the DSTA has always resided in Amsterdam. This is not a coincidence. Only a few decades ago, financial markets were bound by domestic borders and all major financial institutions were clustered within a limited circle of a few square kilometres. This clustering was a logical consequence of how the financial system worked. There used to be a close physical interaction between the debt manager and the national financial institutions. To illustrate, securities were transported physically – even by bicycle! – and investors had to collect their interest payments at the Agency in cash.

Box 5 – The history of the DSTA

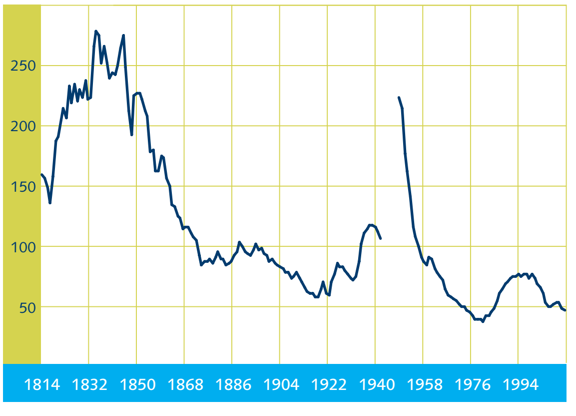
The Netherlands inherited a substantial debt from the Napoleon era. To finance this debt, all outstanding loans were combined in 1815 into one national debt with an interest rate of 2.5%. One third of this debt was perpetual, and two thirds redeemable. The so-called Amortization Syndicate – which could be considered a predecessor of the DSTA – was made responsible for the redemption of, approximately, 1200 million Guilders. The perpetual debt is still under management of the DSTA, under the name of Inscription Registers. The amount outstanding is now a mere € 30 million.

William I was appointed King in 1815. He considered the State's finances as his sole domain. Under the command of King William I infrastructure was built, industry was developed and the merchant navy was expanded. All this involved substantial sums of money. On top of that, Belgium separated itself from the Netherlands in 1830, to be recognised by King William I only in 1839. In the nine years in between, a sizeable army had to be maintained.

When William I resigned in 1840, finances became the responsibility of the Minster of Finance. At the same time, the state of the public finances was made public. It was at that time that it became apparent that the Amortization Syndicate had neglected its task of redeeming the national debt. Consequently, the organisation was dismantled and on the 21st of March 1841 the Dutch State Treasury Agency was founded in Amsterdam. The Memorandum of Association was somewhat vague on the specific responsibilities of the DSTA. It stated that the newly founded Agency would be responsible for the 'management of business to serve national interests'. During the years, this rather broad mission of the DSTA was narrowed down from serving the national interests to providing a solid and efficient funding of the State's debt.

Every year the Dutch government publishes its financial results, including a chapter on the National Debt. Debt management is in the public domain, with transparency as a key principle. A situation like the one in the 19th century – when the level of debt level could explode without being noticed – is now unimaginable. After the Second World War, debt declined rapidly.

Figure 4.1 **Government debt (% GDP), 1815-2007**



Source: CPB

The landscape of financial markets has changed dramatically, especially over the last decades. Money and capital markets in Europe have been largely integrated, physical transport of securities is a rarity, and coupons and principals are paid electronically. Furthermore, investors all over the world have Dutch State Loans and Dutch Treasury Certificates in their portfolios. The DSTA's direct counterparts, like Primary Dealers, mimic this geographical diversification.

Cover of a classical DSL

The globalisation of financial markets and dematerialisation of securities opened up the possibility to relocate to The Hague, the governmental and political capital of the Netherlands. At the same time, the decision was made to merge with another part of the Ministry of Finance, the division responsible for cash management of the central government. This merger creates a full fledged Treasury department, combining internal treasury functions and external treasury activities. Starting in January, the DSTA will not only be responsible for its traditional debt and cash management, but also for internal cash management of the central government, for the strategic organisation of the State's payment infrastructure and for estimating the budgetary cash balance.

The merger and move to The Hague fit the general tendency of centralizing and bundling activities that are interrelated and exhibit similar characteristics. In addition, the operation is part of the overall plan of the central government to increase its efficiency and effectiveness. Underlying is the expectation of synergies and therefore cost savings. The realisation of synergies is based on the observation that the two merging organisations both fit into the traditional model of a front, middle and back office. The already close collaboration can be further improved when located in the same office. Furthermore, being part of a larger institution enables the DSTA to utilise the central facilities of the Ministry of Finance.

In addition to the aforementioned cost savings it is expected that the physical presence of the DSTA within the Ministry will stimulate knowledge spill-overs to and from the rest of the Ministry of Finance and other public entities. For instance, the DSTA has an important advisory function toward the rest of the Ministry, especially at this juncture of financial instability. The trend of recent years – in which the DSTA played an important advisory role as an execution office for other central government agencies – will be continued. The Box will explain this in more detail.

Box 6 – The DSTA as an execution office

Over the last couple of years, the DSTA has been operating more and more as an execution office for other parts of the government. As such, the knowledge and infrastructure of the DSTA have been put to use for the benefit of other government entities. This box provides a number of examples.

- In close cooperation with the department responsible of the export insurance scheme, the DSTA has concluded credit default swaps (CDSs) on Indonesia. Over the last two years, the € 210 million of protection has been bought via banks from private counterparts. This protection facilitated extra export to Indonesia, because limits on the existing exposure to Indonesia had been reached. The DSTA has been able to execute these (adjusted) CDS's in a cost-effective way, meaning that the costs have been fully covered by the premiums which the Netherlands has received from exporters.
- The DSTA is preparing auctions of carbon rights. In 2008, the DSTA has started a tender process regarding the carbon dealership. Because of internal and external factors, the allocation of carbon rights in the Netherlands has been delayed. Therefore, the tender procedure has been temporarily put on hold until more clarity exists on the allocation of rights.
- The DSTA assists in the debt relief programme for the Netherlands Antilles. In the context of reforming the constitutional relations within the Kingdom of the Netherlands, the Netherlands Antilles are granted debt relief to guarantee them a healthy budgetary starting position in the new set-up. For now, the DSTA helps the Ministry of Internal Affairs with the design of the programme; once T-bonds and T-bills issued by the Antilles will have been taken over by the State, the DSTA will include them in its regular debt management.
- In October 2008, the State of the Netherlands implemented the 200 bln guarantee scheme for the issuance of medium term bank debt. The DSTA is responsible for the execution of the scheme. This means that the DSTA will receive the applications, assess them (in cooperation with the Dutch Central Bank), perform the administration and assign the applicable fees. Guaranteed loans will be published on the website of the DSTA. The window for the application process will remain open until the end of 2009.

Cash Management within the new DSTA

Most notable about the new DSTA will be that all functions related to cash management of the central government will be consolidated into one organisation.

The current Cash Management Division (CMD) is the central treasury for all spending departments, social security funds and a large number of (semi) public organisations. Most of these public organisations have a decentralised public responsibility for the execution of tasks assigned to them by law or otherwise. A number of schools and police regions also choose to participate in the central treasury, on a voluntary basis. All entities participating are independent in the execution of their (legal) responsibilities, with the exception of their treasury functions. They are obliged to hold their current accounts at the Ministry of Finance. They also have the possibility to put money on deposits at the Ministry of Finance and to borrow for investments. All organisations still have their current accounts at commercial banks, but only for the execution of their payment transactions. At the end of every day, all current accounts at commercial banks are pooled and regulated (that is: brought to zero). As a result, no money is held overnight at commercial banks. On a daily basis, all current accounts are cleared into the DSTA's single treasury account at the central bank. This bundling avoids simultaneous borrowing and lending within the central government. The DSTA's account at the central bank is what the dealers have to deal with on the money market, either by borrowing or lending. At the end of the day, DSTA transactions bring the Treasury account at the central bank to a level between

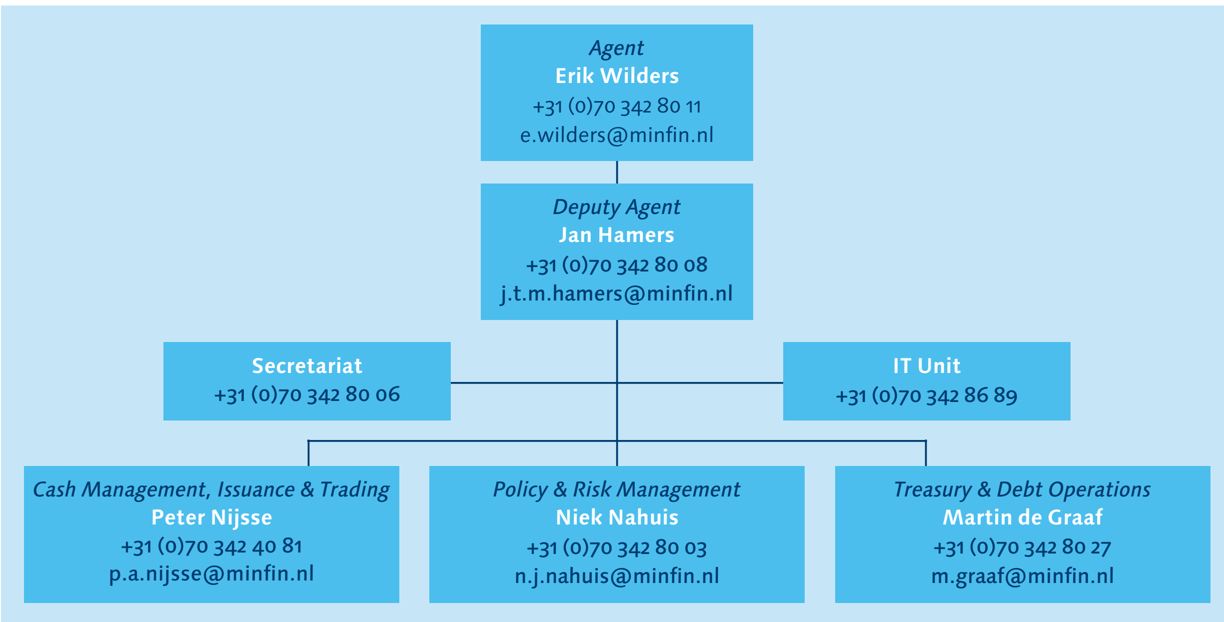
€ 0 and € 50 mln. The CMD employees responsible for estimating cash flows to and from the central government update their estimates continuously to ensure that funding by the dealers is as precise as possible (avoiding excess lending and borrowing).

4.2 Organisational structure

Although the move and merger constitute a large organisational change, many things will remain the same. The DSTA will remain to conduct its businesses at arms length and no changes are foreseen in its communication policies. Transparency and predictability continue to be cornerstones of the DSTA's policies. The DSTA's website will be restyled and the cash management part will be added, but the web address – www.dsta.nl – stays the same.

The organisation will be built around a separation of responsibilities, in line with the best practices of debt management offices (as described by the OECD and IMF). The DSTA will be organised in three divisions and two supporting units.

Organisational chart DSTA



The DSTA remains part of the Treasury directorate of the Ministry of Finance. The director – the Agent – will head the new DSTA. He is responsible for the policies and operations of the agency. The management team will consist of the agent, the deputy agent and the 3 heads of division. The general management will be supported by a secretariat of two and an ICT-unit supporting the ICT-infrastructure. The total head count will be approx. 58 employees.

Introducing the body parts of the agency

The division Cash Management, Issuance and Trading (CMIT), is the **heart** of the agency (the front office). It includes the dealingroom. The division is responsible for debt management operations, such as organizing DSL and DTC auctions, the daily funding of the cash balance and the transactions on the eonia and euribor swap markets. Furthermore, this division is the service centre for (semi) public organisations that participate in the central treasury (as described above). Every organisation has an account manager at CMIT, available for information on for instance deposit rates and loan structures. In addition to this, CMIT is responsible for tendering of the payment structure of the entire central government. Last but not least, this division is the primary source of information on capital and money markets for other parts of the Ministry and the political leadership. Especially during (recent) crisis times, the information channels from the dealingroom – **the eyes and ears** – have proven very valuable for assessing developments and for interpreting events.

Policy and Risk Management (PRM) is the **brains** of the DSTA. This division formulates the policy framework and guidelines for the agency on all topics that are relevant for an efficiently operating DMO. Topics include among others the desirable risk profile of the debt portfolio, credit risk management, issuance and funding strategies and the payment infrastructure. An important task for PRM is its responsibility for all external communication. This includes informing investors and the market at large via publications such as this Outlook, Quarterly Outlooks, press releases and the website. The Budget on National Debt is the document through which the DSTA is accountable to parliament.

The division Treasury & Debt Operations (TDO) can be seen as the **hands** of the DSTA (the back-office). In the end, the majority of the activities result in transactions and financial flows. Among the many tasks are clearing & settlement, registration, bookkeeping and monitoring risks (f.i. credit ratings, VARs). It is the responsibility of TDO to process all data into the ICT-systems with adequate checks and balances, to draft the borrowing conditions for DSLs and DTCs and to provide management with all relevant information on debt, cash flows and risks. Being one of the most creditworthy countries in the world is not only about macro economic issues, but also depends on being a reliable counterparty in its daily operations, for instance by ensuring the timely payment of interest and principals. TDO also regulates and predicts the cash balance of the central government.

Statistical information

1 Interest costs of central government debt

The cut-off date for data in the Statistical Appendix is 14 November 2008 (unless otherwise specified)

In millions of euros

	2007	2008	2009
Interest paid			
Interest cost on fixed debt	8,093	8,369	8,306
Interest cost on floating debt (DTC, CP, and other short-term borrowing)	1,246	1,430	1,720
Buyback premium	2	0	0
Total interest cost	**9,341**	**9,799**	**10,026**
Interest received			
Received interest on floating debt (including central bank account)	128	87	49
Net interest received on EURIBOR swaps	109	88	154
Net interest received on EONIA swaps	10	0	0
Total interest received	**247**	**175**	**203**
Net interest cost	**9,094**	**9,624**	**9,823**
Net interest cost, in % GDP	1.6%	1.6%	1.6%

Interest costs in 2007 are realised costs.
The results for 2008 are preliminary and based on the 2009 Budget Memorandum (September 2008).
Projections for 2009 are also based on the 2009 Budget Memorandum.
The 2009 Budget Memorandum is the latest forecast available at the cut-off date; as a result, the effect of government measures in response to the financial market crisis could not yet be included.

2 Changes in long-term debt in 2008

In thousands of euros

Position as at 31 December 2007		**192.238.839**
New issues in 2008		
Public bonds	26,732,980	
Private placements	3,569	
	add	26,736,549
Redemptions in 2008		
Regular redemptions		
Public bonds	21,340,031	
Private placements	7,719	
Early redemptions		
Public bonds	3,276	
Private placements	18,950	
	less	21,369,976
Position as at 14 November 2008		**197,605,412**

3 Issuance of bonds for the 2007 and 2008 borrowing requirement

In billions of euros

Month of issuance	ISIN-code	Bond issued	Issue	Raised amount	Yield
2007					
January	NL0000102234	4% NETH 2005 due 15 January 2037	reopening	1.5	4.13%
March	NL0000101707	2.75% NETH 2006 due 15 April 2009	reopening	3.3	3.91%
May	NL0000102234	4% NETH 2005 due 15 January 2037	reopening	2.8	4.40%
June	NL0000102671	5% NETH 2007 due 15 July 2012	reopening	1.9	4.56%
July	NL0006007239	4.5% NETH 2007 due 15 July 2017	first issuance	6.1	4.60%
September	NL0006007239	4.5% NETH 2007 due 15 July 2017	reopening	3.5	4.24%
November	NL0006007239	4.5% NETH 2007 due 15 July 2017	reopening	2.6	4.22%
			Total	**21.6**	
2008					
January	NL0006173015	4% NETH 2008 due 15 January 2011	first issuance	3.2	3.93%
February	NL0006227316	4% NETH 2008 due 15 July 2018	first issuance	6.6	4.19%
April	NL0006173015	4% NETH 2008 due 15 January 2011	reopening	3.2	3.76%
June	NL0006227316	4% NETH 2008 due 15 July 2018	reopening	2.0	4.73%
July	NL0006173015	4% NETH 2008 due 15 January 2011	reopening	2.0	4.46%
September	NL0006227316	4% NETH 2008 due 15 July 2018	reopening	2.1	4.31%
November	NL0000102101	2.75% NETH 2003 due 15 January 2009	reopening	0.2	3.00%
	NL0000101707	2.75% NETH 2006 due 15 April 2009	reopening	0.6	2.89%
	NL0000102416	3.75% NETH 1999 due 15 July 2009	reopening	1.8	2.82%
	NL0006173015	4% NETH 2008 due 15 January 2011	reopening	4.6	2.94%
			Total	**26.3**	

4 Concluded interest rate swaps

Position as at 14 November 2008, in millions of euros

Bucket (year of maturity)	Net nominal amount	Pay or receive* (net)
2008	3,647	receive
2009	2,104	receive
2010	7,479	pay
2011	5,064	pay
2012	17,387	pay
2013	17,549	pay
2014	18,392	pay
2015	16,708	pay
2016	10,095	receive
2017	14,675	receive
2018	10,724	receive
2019	58	receive
2020	53	receive
2021	3,531	receive
2022	6,571	receive
2023	350	receive
2026	1,910	receive
2027	8,500	receive
2028	450	receive
2032	16	receive
2035	6,010	receive
2036	2,075	receive
2037	4,695	receive
2055	33	receive
Net total	**7,082**	**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 Results of the money market benchmark

In millions of euros

	2002	2003	2004	2005	2006	2007	accumulated
Results EONIA-benchmark compared to funding before 2002	29.6	17.0	-2.6	-17.3	-25.6	-9.1	-8.0
Outperformance of the benchmark	2.7	11.9	8.2	12.0	21.0	30.4	86.2
Total result	**32.3**	**28.9**	**5.6**	**-5.3**	**-5.6**	**21.3**	**77.2**

6 Key figures of individual bonds in 2008

In thousands of euros

Movements in 2008	Total 31-12-2007	Issues	Redemptions	Total 14-11-2008	ISIN-code
A. Public Bonds					
2.50 pct DSL 2005 due 15 January 2008	10,222,000		10,222,000	0	NL0000102150
5.25 pct DSL 1998 due 15 July 2008	11,118,031		11,118,031	0	NL0000102291
2.75 pct DSL 2003 due 15 January 2009	10,366,430	190,000		10,556,430	NL0000102101
2.75 pct DSL 2006 due 15 April 2009	10,776,000	570,000		11,346,000	NL0000101707
3.75 pct DSL 1999 due 15 July 2009	11,063,000	1,830,000		12,893,000	NL0000102416
3.00 pct DSL 2004 due 15 January 2010	12,121,486			12,121,486	NL0000102309
7.50 pct DSL 1995 due 15 April 2010	529,504		2,454	527,051	NL0000102192
5.50 pct DSL 2000 due 15 July 2010	10,227,366			10,227,366	NL0000102580
4.00 pct DSL 2008 due 15 January 2011	0	13,010,000		13,010,000	NL0006173015
5.00 pct DSL 2001 due 15 July 2011	12,455,000			12,455,000	NL0000102606
5.00 pct DSL 2002 due 15 July 2012	12,427,000			12,427,000	NL0000102671
4.25 pct DSL 2003 due 15 July 2013	12,433,000			12,433,000	NL0000102689
3.75 pct DSL 2004 due 15 July 2014	11,709,846			11,709,846	NL0000102325
3.25 pct DSL 2005 due 15 July 2015	10,083,765			10,083,765	NL0000102242
4.00 pct DSL 2006 due 15 July 2016	10,045,467			10,045,467	NL0000102283
4.50 pct DSL 2007 due 15 July 2017	12,154,990			12,154,990	NL0006007239
4.00 pct DSL 2008 due 15 July 2018	0	10,667,020		10,667,020	NL0006227316
3.75 pct DSL 2006 due 15 January 2023*	6,618,850		465,960	7,084,810	NL0000102275
7.50 pct DSL 1993 due 15 January 2023*	5.460,639	465,960		4,994,679	NL0000102077
5.50 pct DSL 1998 due 15 January 2028	8,886,814			8,886,814	NL0000102317
4.00 pct DSL 2005 due 15 January 2037	12,043,427			12,043,427	NL0000102234
2 1/2 pct Inscription register	21,097		553	20,545	NL0000006286
3 1/2 pct Inscription register	364			364	NL0000002707
3 pct Inscription register	8,359		269	8,090	NL0000004802
	190,772,437	**26,732,980**	**21,809,267**	**195,696,150**	

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

Summary

In thousands of euros

Movements in 2008	Total 31-12-2007	Issues	Redemptions	Total 14-11-2008
A Public Bonds				
Total public bonds	190,772,437	26,732,980	21,809,267	195,696,150
B Private placements				
Total private placements	1,466,402	3,569	26,669	1,443,302
Total	**192,238,839**	**26,736,549**	**21,835,936**	**197,139,452**

7 Annual interest payments and repayments of principal, 2008-2037

In millions of euros, according to the long-term debt position as at 14-11-2008

	Interest payments	Redemptions
17-11 to 31-12-2008	**36**	**5**
2009	8.276	34.833
2010	7.181	22.908
2011	6.213	25.625
2012	5.058	12.753
2013	4.411	12.590
2014	3.871	11.748
2015	3.429	10.126
2016	3.098	10.095
2017	2.693	12.444
2018	2.123	10.724
2019	1.692	57
2020	1.688	52
2021	1.684	38
2022	1.682	71
2023	1.677	12.086
2024	973	0
2025	973	29
2026	972	0
2027	972	2
2028	972	8.887
2029	483	0
2030	483	0
2031	483	0
2032	483	16
2033	482	0
2034	482	0
2035	482	0
2036	482	0
2037	482	12.043


SCANCLIMBER

Dutch State Treasury Agency buildings

page 2
Herengracht 342-344
Amsterdam
Fromer orphanage 'De Oranje Appel'

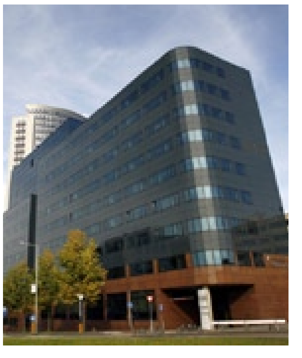
page 6, 7
Herengracht 380
Amsterdam
Built in 1888
Architect: Gerlof Bartholomeus Salm

page 16
Korte Spinhuissteeg 3
Amsterdam
Built in 1645
Former penitentiary for women

page 17
Herengracht 410-412
Amsterdam
Built in 1644
Architect: Philips Vingboons

page 32
Herengracht 342-344
Amsterdam
Built in 1720
Fromer house of parson Ferdinand Domela Nieuwenhuis

page 33
Oude Turfmarkt 127
Amsterdam
Built in 1868
Architect: Willem Anthonie Froger
Former headquarter of De Nederlandsche Bank



page 38, 39
Orlyplein 32
Amsterdam
Built in 1992
Architect: AGS Architecten & Planners B.V.

page 46, 47, 57
Korte Voorhout 7
Den Haag
Built in 1975
Architect: Jo Vegter and Mart Bolten
Renovated 2006-2008
Architect: Meyer en Van Schooten Architecten

The cut-off date for data in the Outlook 2009 is 14 November 2008 (unless otherwise specified)

Colophon

Design Studio Tint, The Hague
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Highlights of the DSTA Outlook 2009

- **Targeted capital market funding in 2009: € 48 bln.**
- **Expected money market volume at year end 2009: € 28 bln.**
- **During the year, the borrowing requirement will be updated regularly.**
- DSLs: **new 3-year, new 5-year, and new 10-year.**
- In January 2009: **launch of the new 3 year DSL through tap.**
- **Dutch Direct Auction (DDA) for new 10-year DSL in February 2009.**
- Later in 2009: **DDA for the new 5-year.**
- **One reopening of the DSL 15 January 2028.**
- New: **reopening facility for off-the-run DSLs.**
- DSL auctions: **on average twice a month, on the 2nd Tuesday (regular auction) and on 4th Tuesday (for off-the-runs).**
- DTC auctions: **24 in total, on every 1st and 3rd Monday.**
- **Quarterly issuance calendars published in March, June and September.**
- **Commercial Paper in euros and foreign currencies is a full-fledged money market instrument for maturities up to 3 months.**
- **A strong group of 13 PDs and 3 SMSs guarantees liquidity and price transparency of DSLs and DTCs.**

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DSL calendar 2009			
	Regular auction		**Off-the run facility**
Month of issue	**Auction date** (2nd Tuesday)	**details**	**Auction date** (4th Tuesday)**
January	13	tap NEW 3-year	27
February	*	DDA 10-year	24
March	10	reopening 3-year	24
April	14	tap	28
May	12	tap	26
June	9	tap	23
July	14	tap	28
August		no auction	no auction
September	8	tap	22
October	13	tap	27
November	10	tap	24
December	8	tap	22

* Date for the DDA is to be determined
** Action dates will be used as long as the total target volume has not yet been reached.
Announcement for all auctions is at t-6 (Wednesday prior to the auction)
Settlement is t+3 (Friday following the auction)

DTC calendar 2009					
Date auction	**Date settlement**	**DTC 3-month**	**DTC 6-month**	**DTC 9-month**	**DTC 12-month**
05-01-09	07-01-09	31-03-09			31-12-09
19-01-09	21-01-09	30-04-09		30-09-09	
02-02-09	04-02-09	30-04-09	31-07-09		
16-02-09	18-02-09	29-05-09			31-12-09
02-03-09	04-03-09	29-05-09	31-08-09		
16-03-09	18-03-09	30-06-09	30-09-09		
06-04-09	08-04-09	30-06-09			31-03-10
20-04-09	22-04-09	31-07-09		31-12-09	
04-05-09	06-05-09	31-07-09	30-10-09		
18-05-09	20-05-09	31-08-09			31-03-10
02-06-09 *	04-06-09	31-08-09	30-11-09		
15-06-09	17-06-09	30-09-09	31-12-09		
06-07-09	08-07-09	30-09-09			30-06-10
20-07-09	22-07-09	30-10-09		31-03-10	
03-08-09	05-08-09	30-10-09	29-01-10		
17-08-09	19-08-09	30-11-09			30-06-10
07-09-09	09-09-09	30-11-09	26-02-10		
21-09-09	23-09-09	31-12-09	31-03-10		
05-10-09	07-10-09	31-12-09			30-09-10
19-10-09	21-10-09	29-01-10		30-06-10	
02-11-09	04-11-09	29-01-10	30-04-10		
16-11-09	18-11-09	26-02-10			30-09-10
07-12-09	09-12-09	26-02-10	31-05-10		
21-12-09	23-12-09	31-03-10	30-06-10		

* Tuesday
Shaded areas indicate new programmes

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