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Financial Markets Research Team**Nick.kounis@nl.abnamro.com**

Tel: +31 20 343 5616

nick.kounis@nl.abnamro.com

The rapidly shrinking Dutch funding need

Euro Governments Bonds: Dutch Budget points to lower funding need – The Dutch care-taker government published its 2018 Budget today. As expected, the budget did not contain any new major policy initiatives. However, the strength of the Dutch economy allows a rise in government expenditures, without preventing an improvement in government finances. The latest projections of the EMU budget balance and cash balance point towards another fall in the 2017 borrowing requirement and downward pressure for 2018. The main drivers behind the improvement in Dutch public finances are the ongoing flourishing economy and proceeds resulting from divestments of state owned companies. As a result, we expect that the Dutch Treasury will need to publish a lower 2017 funding need this Friday. We expect the DSTA to lower its 2017 T-bill issuance and continue to forecast that the bond issuance will only reach the lower end of the official target range of EUR 30-35bn. For next year, we have incorporated the newest projections and judge that the starting position is already quite favourable. We now expect that net bond supply (issuance – redemptions) will reach a record low level of EUR minus 14bn while risks are skewed to even less supply. (Kim Liu, Aline Schuiling and Nico Klene).

Euro Macro: Germany's ZEW signals pick-up in growth – Germany's ZEW economic sentiment indicator increased from 10 in July to 17 in August. The indicator gauges the expectations for changes in economic conditions in the next six months and tends to track changes in GDP growth. Indeed, we expect Germany's economy to have strengthened somewhat in Q3 after it grew by 0.6% qoq in Q2. Export growth should continue to benefit from ongoing robust growth in the global economy, with the negative impact of the stronger euro not kicking in until around the end of the year. On top of that, private consumption will be fuelled by strong job growth and gradually rising real wage growth. Also, we expect fixed investment, which has remained relatively subdued so far during the current economic upswing, to accelerate in the second half of the year. Finally, according to the recent polls, the most likely outcome of Sunday's general elections – again – is a stable government led by Angela Merkel, which will be supportive of business sentiment (see our publication on the elections [here](#)). A pick-up in GDP growth in Q3 has also been signalled by the levels of the Ifo business climate indicator, the composite PMI and consumer sentiment during the summer. (Aline Schuiling)

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ABN AMRO Bank
Gustav Mahlerlaan 10 (visiting address)
P.O. Box 283
1000 EA Amsterdam
The Netherlands

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