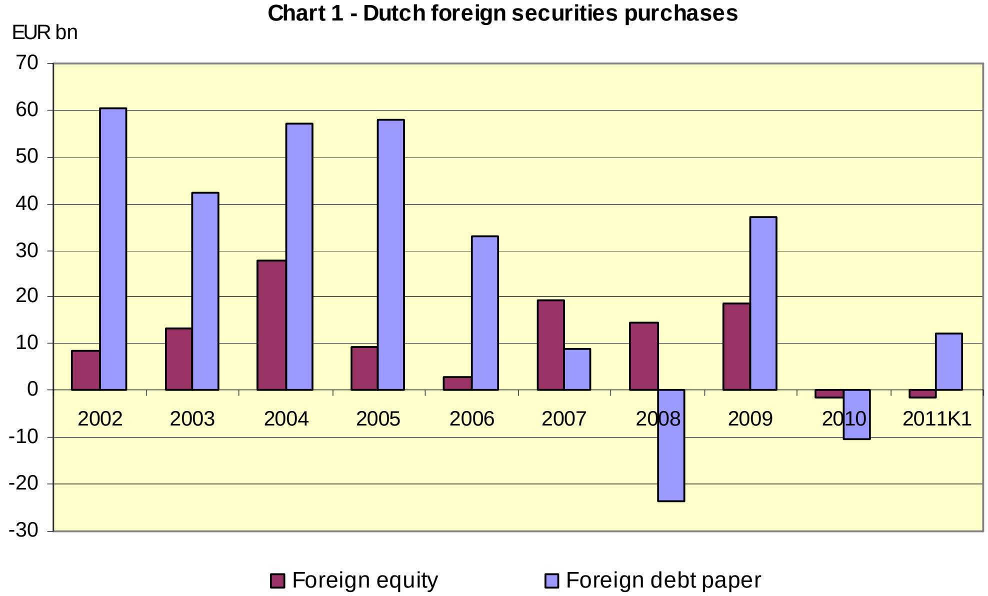
Surge in investments in German and French debt paper

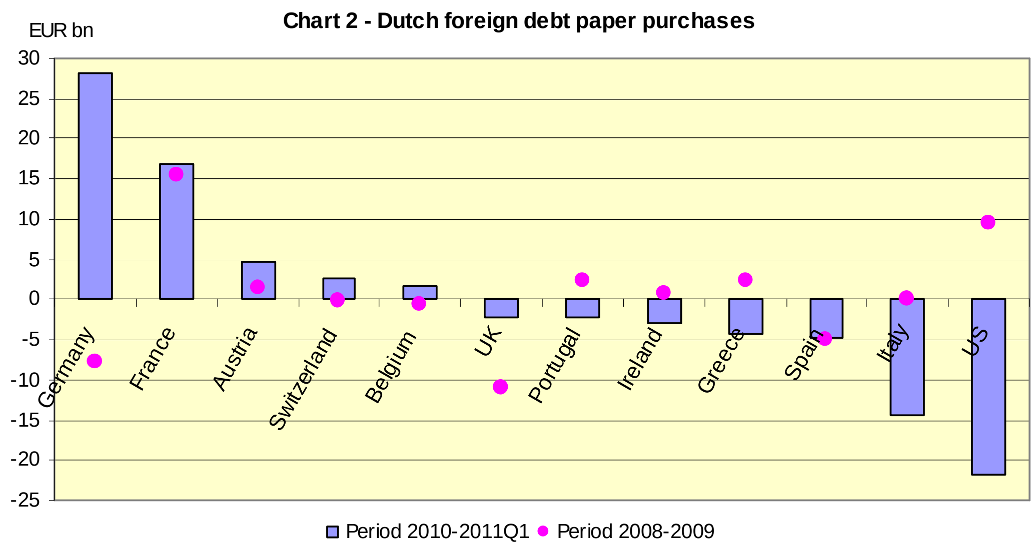
In 2010, Dutch investors on balance sold nearly EUR 12 billion of foreign securities, comprising EUR 10 billion in foreign debt securities and some EUR 2 billion in foreign equity (Chart 1).[1] It was the first time since the beginning of the 1990s that in one year on balance foreign equity was sold and – after 2008 – the second time that debt securities were divested. The first quarter of 2011 was the first of four in which foreign debt securities were purchased again, for an amount of EUR 12 billion.

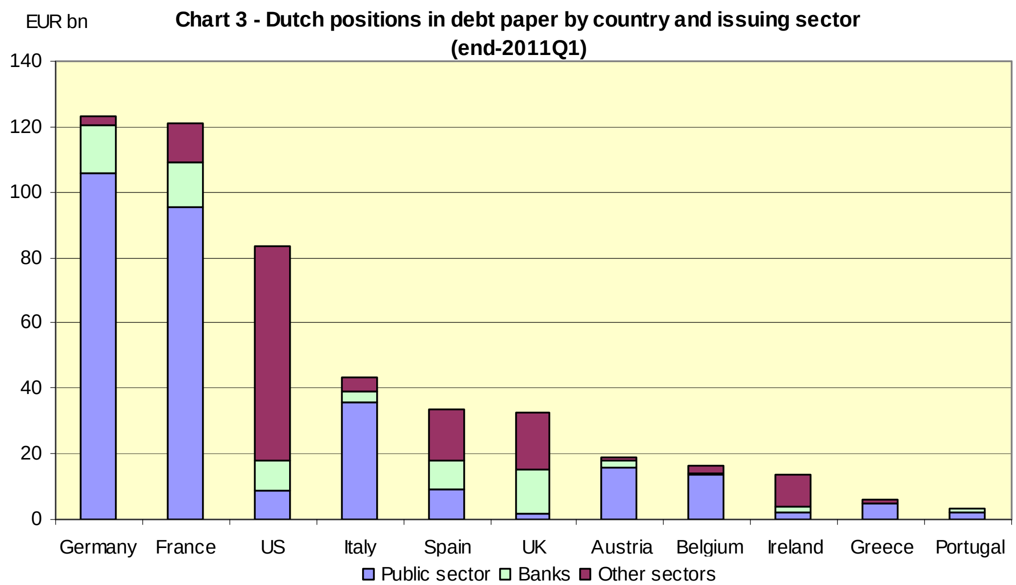
Chart 1 - Dutch foreign securities purchases



In the period from 2010 until the first quarter of 2011, a shift took place within foreign debt securities, from "GIIPS" countries to, in particular, German and French debt securities (Chart 2).[2] In addition, Dutch investors sold no less than EUR 22 billion worth of American debt securities (a fifth of all holdings at the start of 2010). The pattern differs from that of the preceding period; from 2008 to 2009, Dutch net purchases of debt from Greece, Portugal, Ireland and the United States were positive whereas German debt paper was sold.

[1] Unless otherwise indicated, DNB's balance of payments and international investment position statistics (See http://www.statistics.dnb.nl/index.cgi?lang=uk&todo=Balans) are used as a source for the developments described in this article.
[2] Except for Spain, where on balance a small amount of debt paper was purchased, the picture in the first quarter of 2011 is equal to that for the whole period of 2010-2011Q1. Besides Spain, the "GIIPS" countries are Greece, Italy, Ireland and Portugal.



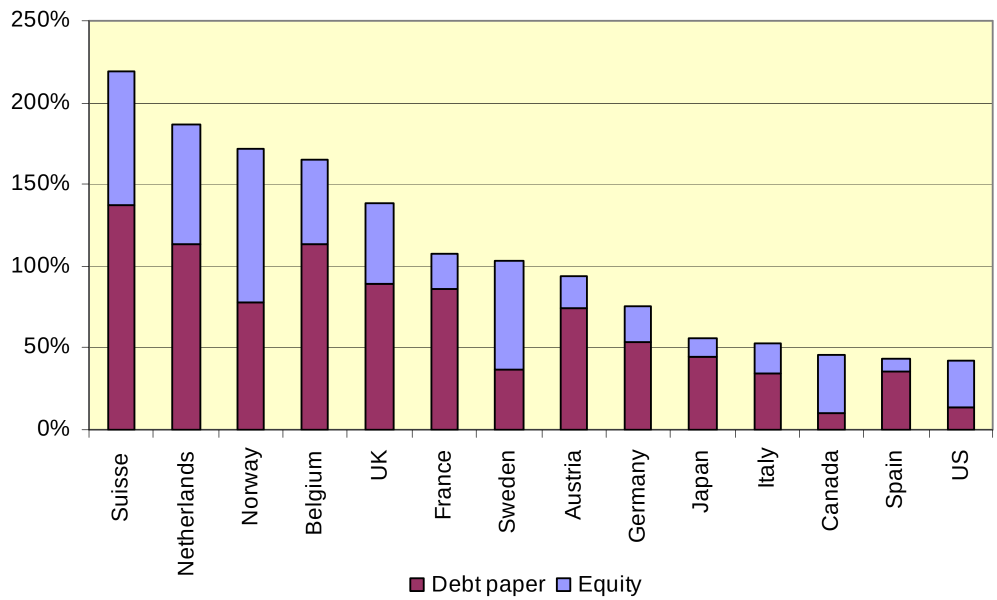


Germany and France are also the most important countries in terms of Dutch *positions* in foreign debt paper (Chart 3). Of the total portfolio of foreign debt paper at the end of the first quarter of 2011, 42 per cent consisted of German and French debt. Dutch investors have invested approximately 80 per cent of their investment capital in government bonds of these two countries. The investments in debt paper from the United States still amounted to EUR 83 billion; of this, the share of paper issued by the private sector is actually much larger (almost 90 per cent). At the end of the first quarter, Italy and Spain were still in the top five of countries in whose debt paper the Netherlands had invested most. The Italian investments are mainly in government bonds, while Spanish investments are primarily in paper issued by the private sector.

Almost half of the British debt paper owned by Dutch investors originates from the banking sector.

Major institutional investments, combined with the relatively small domestic market, make the Netherlands the second country in the world with respect to size of total foreign portfolio investments in relation to GDP, after Switzerland (Chart 4).[3] In terms of absolute value of the investments, the United States is the global leader with a value of more than EUR 4,000 billion at the end of 2009; the Netherlands comes sixth with over EUR 1,000 billion. In Norway, Sweden, Canada and the United States more than half of cross-border investments consist of equity holdings. Dutch investors hold 61 per cent in foreign debt paper and 39 per cent in foreign equity.[4]

Chart 4 - Countries having the largest foreign portfolio investments (% GDP)



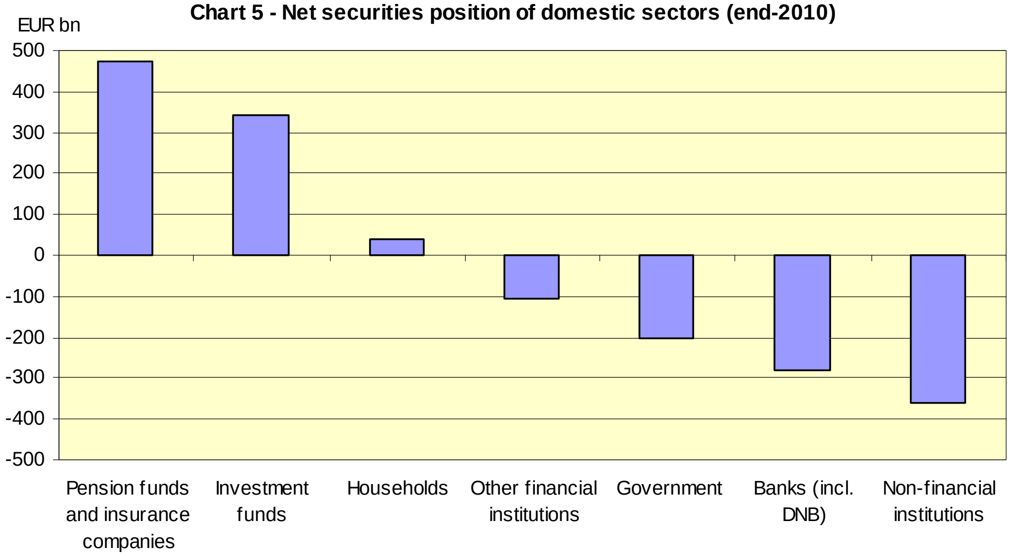
[3] Source: IMF CPIS 2009 (for more information: http://www.imf.org/external/np/sta/pi/datarsl.htm). CPIS has 74 participating countries worldwide. Luxembourg and Ireland (respectively 5083 per cent and 810 per cent of GDP) have not been included in the chart as important places of establishment of many large investment funds. For the Netherlands (as for other countries), the chart includes the investments of special financial institutions (SFIs).

[4] In conformity with international balance of payments requirements, investments in foreign investment funds fall in the equity category; also funds that for example only invest in bonds.

Foreign portfolio investments in the Netherlands increase

The sizeable Dutch portfolio investments abroad are countervailed by portfolio investments in the Netherlands (EUR 1,040 billion against EUR 1,132 billion at the end of 2010). The presence of a number of large listed companies leads to a considerable foreign position in equity of the Dutch non-financial sector (Chart 5).[5] In addition, Dutch banks have a significantly higher amount of debt paper and (to a lesser extent) equity outstanding abroad than the value of their own foreign portfolio investments. Foreign holdings of Dutch government debt at the end of 2010 amounted to EUR 200 billion, slightly less than the preceding year (see further on). On balance, income from securities holdings, i.e. dividend on shares and interest on debt paper, also made a negative contribution to the balance of the Dutch current account. In 2010, Dutch investors in total received EUR 28 billion in income on their foreign portfolio investments, whereas EUR 35 billion in income was paid to foreign portfolio investors.

Chart 5 - Net securities position of domestic sectors (end-2010)



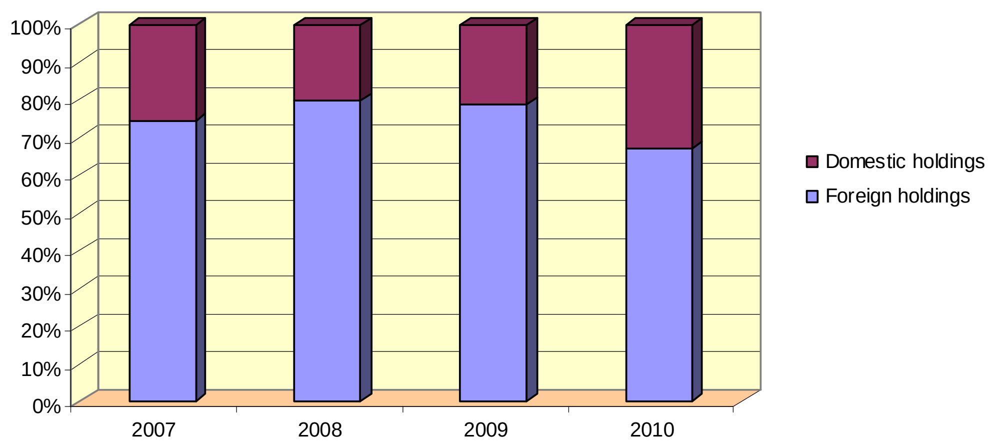
In contrast to Dutch investors, who withdrew portfolio investments from abroad, foreign investors on balance bought Dutch securities in 2010. The purchases for EUR 9.5 billion consisted of Dutch equity and for EUR 27 billion of Dutch debt paper. These amounts do not deviate strongly from the purchases made in 2009. Foreign investors in 2010 bought EUR 40 billion of debt paper issued by Dutch banks, approximately equal to the net emissions of the banks. Foreign holdings of debt paper

[5] A positive (negative) value in Chart 5 represents the value of foreign securities investments of the relevant domestic sector that is larger (smaller) than the foreign holdings of securities issued by that sector.

from other Dutch sectors decreased. This was particularly true for government paper, for which the decline as a result of net sales by non-residents and redemptions totalled EUR 10 billion.

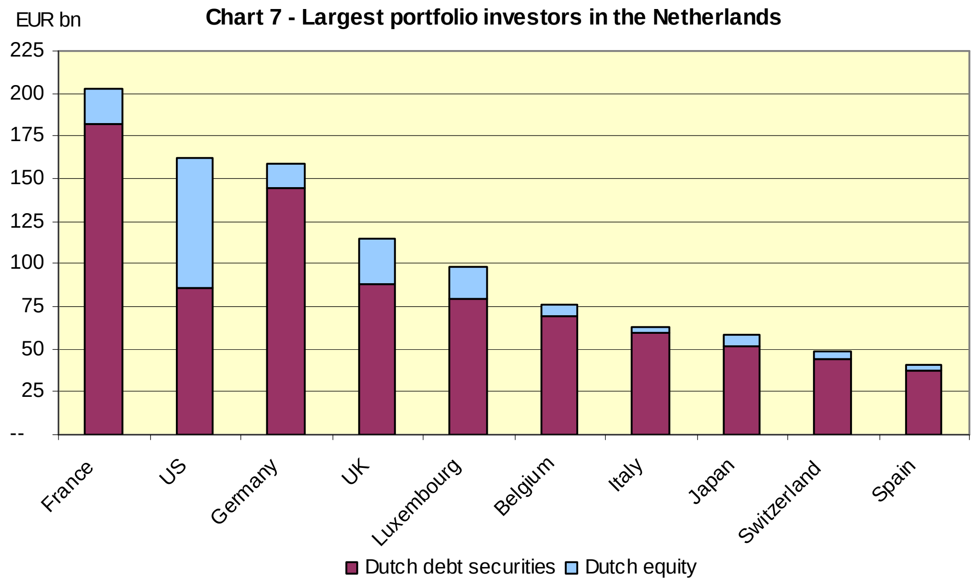
As the government in 2010 issued EUR 24 billion of new net debt, sales by foreign investors led to a drop in relative foreign holdings. At the end of 2010, foreign investors owned 67 per cent of Dutch (marketable) government debt, 12 percentage points less than a year earlier (Chart 6). This means that, in addition to their holdings of German and French debt paper (See Chart 1), Dutch investors also considerably increased their positions in relatively safe Dutch government paper.

Chart 6 - Spread of Dutch government debt holdings domestic / foreign



DNB does not have data on the nationality of investors of Dutch securities holdings, but reports from other countries on investments in Dutch securities by their residents give an indication.[6] At the end of 2009, France appeared to hold the most Dutch securities with EUR 200 billion in debt paper and equity, followed by the United States and Germany (Chart 7). The Dutch foreign securities debt is for 36 per cent owned by these three countries. US investors have by far the largest amount of Dutch equity in their portfolios (EUR 75 billion, representing 25 per cent of the total value of equity held abroad).

[6] Source: IMF CPIS 2009 (see also footnote 1).



Within the total investments in Dutch debt paper, the importance of paper with a maturity of up to one year increased sharply over the past few years (Chart 8). Since the end of 2007, the amount invested in money market paper almost quadrupled, while investments in long-term debt paper in this period increased 17 per cent in value. As a result, the share of short-term debt paper in the total debt owned by foreign investors rose from 6 to 16 per cent. Part of this increase was caused by the mainly short financing of the takeover of Fortis Nederland and ABN Amro by the Dutch State in the fourth quarter of 2008, which in the following quarters was only partially converted into long-term debt. In addition, since the beginning of 2009 banks have increasingly started to issue money market paper.