Financial institutions and enterprises issue less debt securities in 2010

Dutch financial institutions, enterprises and the government issued debt securities totalling EUR 66 billion last year. This was a sharp decline relative to 2009 when the net issuance volume was EUR 115 billion. Banks and special purpose vehicles together issued EUR 39 billion in debt securities, less than half as much as in 2009 (EUR 92 billion). Unlike in 2009, the issuing banks did not use the guarantee scheme set up by the government. Nonetheless, the Dutch banks' net issuance was relatively high compared to the rest of the euro area. Their net issues were fully bought by foreign investors, whose share in the total of Dutch banks' outstanding debt securities hence rose to more than 90%. In contrast, foreign holdings of Dutch government bonds decreased because the government redeemed (short-term) money market paper. The money market paper issued both by the government and by banks had in fact been almost completely in foreign hands. The (long-term) bonds issued by the government were primarily bought by Dutch banks, pension funds and insurers. Both the government and the banks issued bonds with a longer average maturity than in 2009 and also reduced the percentage of money market paper in total outstanding debt securities. Nevertheless, the volume of debt securities to be refinanced by the Dutch government and the Dutch banks jointly in 2011 is the highest in the euro area after France and Ireland.

Introduction

The government, banks and enterprises raise part of their funding by issuing debt securities: bonds (with a maturity of more than one year) and money market paper (maturity of less than one year). Indeed, bonds are by far the main source of government funding (86% of outstanding debt at end-2010, or EUR 294 billion[1]). Banks fund themselves mainly through deposits, but around a fifth part comes from debt securities (EUR 512 billion). For enterprises, debt securities form a moderate, but growing, share of their funding (6% of liabilities; EUR 91 billion) alongside bank loans (52%) and share capital (34%). The main corporate issuers are multinationals such as Shell, KPN and Heineken. Another three types of institutions also issue considerable amounts of debt securities: special purpose vehicles (EUR 349 billion), special financial institutions (EUR 439 billion) and other financial institutions (EUR 27 billion). Special purpose vehicles (SPVs) are institutions that are established to convert assets such as mortgages or corporate loans into marketable debt securities (a process known as securitisation). Many of these SPVs are set up by banks (90%). Special financial institutions (SFIs) are subsidiaries of foreign concerns which generally serve to channel intra-concern financial flows. Some of these SFIs issue debt securities and lend the income from them to foreign group companies (EUR 355 billion). Furthermore, the population of SFIs includes Dutch SPVs established by foreign institutions (often banks) for the purpose of securitising foreign assets (EUR 87 billion). Finally, debt

[1] Source: Statistics Netherlands, 2010 Q3.

securities are issued by holdings, for instance ING Group. These institutions are categorised as other financial institutions (OFIs).

Fall in net issues by banks and enterprises

In 2010, debt securities issued by all Dutch residents amounted to EUR 811 billion, EUR 470 billion of which had a maturity of less than one year (money market paper). The major part of the funds obtained were used for redeeming maturing debt securities (EUR 745 billion). The balance of the newly issued debt securities and the redemptions – the net issue – amounted to EUR 66 billion (4% of the outstanding value).[2] Over the past ten years, the net issue has averaged around 10% of the outstanding value.

The net issue by banks (EUR 39 billion) was lower than in 2009 (EUR 78 billion, Table 1). However, unlike in 2009, banks did not use the guarantee scheme established by the government.[3] In 2010, banks themselves redeemed EUR 10 billion of EUR 50 billion in debt securities issued under guarantee.[4] But in 2010 more debt securities were issued in the form of covered bonds (EUR 9 billion) than in 2009 (EUR 5 billion)[5]. These offer investors more certainty than regular bonds. This brought the total of covered bonds issued by banks to EUR 31 billion. The Dutch banks' net issue was high relative to that of euro area banks which, on average, issued as much debt as they redeemed. A significant part of the Dutch banks' net issue (EUR 35 billion) was accounted for by the Rabobank, the Bank for Netherlands Municipalities (BNG) and the Nederlandse Waterschapsbank (NWB), all three banks with the highest credit rating (AAA). The BNG and the NWB are government-owned and completely geared to local authorities and public sector bodies (such as health care and educational institutions).

In contrast to the banks, the net issue of debt securities by the government, enterprises, SPVs and SFIs was lower than the average per sector in the euro area (in % GDP). In the case of government bonds, this was a direct result of the relatively narrow budget deficit compared to other euro area countries. However, the government (in net terms) issued more debt securities (EUR 24 billion) than in 2009 (net redemption of EUR 13 billion), notably because it received a repayment in 2009 from a EUR 34 billion loan to Fortis.

In 2010, special purpose vehicles issued as much in debt securities as they redeemed, whereas their net issue was EUR 15 billion in 2009 and as high as a total of EUR 166 billion in 2007 and 2008. Owing to the large-scale restructuring of ongoing programmes, both the gross issues and the

[2] This is not the same as the change in the (nominal) value of the outstanding debt securities. Changes in the nominal value of debt securities issued in foreign currency can also result from exchange rate fluctuations.
[3] This scheme offered banks the facility of issuing debt securities, with the government (for a fee) guaranteeing repayment.
[4] Source: Dutch State Treasury Agency.
[5] These figures relate to debt securities issued in the Netherlands.

redemptions (both EUR 124 billion) were considerably higher than in 2009 (41 billion and 28 billion respectively). Since the outset of the credit crisis, the securitisation of assets has mainly served to create collateral for the Eurosystem's liquidity operations. The market for the debt securities issued by SPVs had evaporated. In 2010, the revival of the European market for securitised products, that was already budding in 2009, continued. Whereas at end-2009 a small volume of debt securities (less than EUR 1 billion) issued by Dutch SPVs had been sold to (foreign) investors, in 2010 this increased to EUR 19 billion (out of the total gross issue of 124 billion). The debt securities sold to investors by Dutch SPVs thus represented the second highest percentage (19%), next to the UK (37%), of the total of debt securities issued by SPVs sold on the European market.[6]

In 2010, enterprises issued EUR 7 billion in debt securities. This is considerably less than in 2009, when some EUR 18 billion in debt securities was issued. Nonetheless, this is a continuation of the increase in the use of debt securities for corporate funding seen since the beginning of the credit crisis. While enterprises had outstanding debt securities of EUR 49 billion at the beginning of 2007 for EUR 49 billion (4% of total corporate funding), this had almost doubled to EUR 90 billion at end-2010 (6%). In the period prior to the credit crisis (2002-2007), enterprises' outstanding debt securities were virtually stable.

Finally, SFIs redeemed EUR 2 billion in debt securities in net terms, against net issuance of EUR 19 billion in 2009. This resulted in part from net redemptions (EUR 7 billion) of the debt securities issued by SPVs with a foreign originator. The low net issuance of SFIs and SPVs was consistent with the lower issuance of similar institutions in the euro area.

The government and banks reduce reliance on short-term financing…

Following the sharp reduction in short-term interest rates by the monetary authorities at end-2008, long-term interest rates also declined in 2010. From a cost perspective, it hence became more attractive to issue debt securities with longer maturities (Chart 2). Owing in part to the issuance of two bonds with a maturity of 30 years, the (weighted) average maturity of issues by the Dutch government in 2010 (10 years) was considerably higher than in 2009 (6 years, Chart 3). The average maturity of bonds issued by banks also increased in 2010, from on average 5 to 6.5 years. A singular event was the Rabobank's issue of a bond with a maturity of 100 years (with a volume of EUR 270 million). Among banks themselves, the average maturity of the debt securities issued in 2010 ranged from 3.5 to 8 years.

[6] Source: JP Morgan

In addition, the government also further reduced its outstanding exposure to money market paper to 18%, thus bringing it more into line with the euro area average (14%, Chart 4). Dutch banks also moderately reduced their reliance on money market paper (from 16% to 15%, versus an average of 12% for the euro area banks[7]). Still, for both the Dutch government and Dutch banks, funding through money market paper as a percentage of total funding through debt securities was over twice as high as before the credit crisis and also higher than the euro area average. The debt securities to be refinanced by the Dutch government and banks in 2011 together amount to approximately 37 % of GDP. After France and Ireland, this is the highest percentage in the euro area (Chart 5)[8].

… and on foreign investors

At end-2010[9], three-quarters of the total outstanding debt securities issued by Dutch residents was owned by foreign investors. The main foreign holders were residents from other euro countries (41% of total outstanding debt securities), the UK (6%) and the US (6%, Chart 6a). The outstanding money market paper was even almost fully in the hands of foreign investors. Giving its liquid nature, this paper was popular among central banks of, say, emerging economies and Japan (19%, Chart 6b). These expanded their official reserves over the past few years by buying short-term debt securities issued by governments and banks from EMU Member States, the United States and the United Kingdom. Other significant holders of Dutch money market paper were euro area residents (51%), the US (10 %) and Switzerland (4 %). From a number of countries, including China, no information is available on holdings of Dutch debt securities.[10]

At end-2010, EUR 219 billion (70%) of outstanding Dutch government bonds was foreign-owned. The primary domestic holders were the banks (EUR 32 billion) and insurers and pension funds (together EUR 44 billion). In 2010, foreign investors made net sales of EUR 6 billion, notably of money market paper. Dutch banks (EUR 14 billion), insurers and pension funds (EUR 12 billion), in contrast, made net purchases of (long-term) government paper.

Of the outstanding debt securities issued by Dutch banks, EUR 467 billion (91%) was in foreign hands. In addition, foreign residents in 2010 made a net purchase of EUR 40 billion in bank bonds, including the whole net issue of money market paper (EUR 10 billion). Insurers and pension

[7] Data from November 2010.
[8] Derived from data from the Statistical Data Warehouse (ECB). Cyprus, Estonia, Malta, Luxembourg, Slovakia and Slovenia are not included in the analysis.
[9] Based on provisional data.
[10] Where the breakdown between domestic and foreign holdings is derived from the balance-of-payments data drawn up by DNB, data on the geographical breakdown of these foreign holdings are not available. The geographical breakdown of the foreign holdings of Dutch debt securities is based on the data collated by the IMF (CPIS). The most recent survey relates to 2009. However, some countries, including China, do not supply such data to the IMF. The volume of the debt securities held by foreign holders whose residency is unspecified is unknown.

funds excepted, Dutch residents made net sales of banks’ debt securities. Collectively, Dutch residents sold EUR 7 billion of them.

As vast amounts of debt securities issued by SPVs were transferred to balance sheets, foreign holdings of such securities were relatively low (EUR 90 billion, 28%) while Dutch banks’ holdings were substantial (EUR 223 billion). Whereas in 2009 banks bought EUR 32 billion in debt securities issued by SPVs, this figure dropped down to EUR 3 billion in 2010. In net terms, EUR 18 billion of the foreign-held debt securities issued by Dutch SPVs was redeemed.

Foreign residents held 85% of corporate bonds (EUR 68 billion). The domestic holdings (EUR 11 billion) were reasonably evenly spread across all sectors. SFI and OFI debt securities were primarily foreign-owned (EUR 432 billion, 95%).

Conversely, foreign debt securities accounted for a quarter of Dutch holdings of debt securities. For insurers and pension funds, these formed three-quarters of their total debt securities holdings (EUR 252 billion), and for investment firms as much as 89% (EUR 138 billion).

Chart 1a Net issue of debt securities by Dutch residents

EUR billion

Central government
Non-financial corporations
Special financial institutions
Banks
Special purpose vehicles

Chart 1b Amounts outstanding of debt securities issued by Dutch residents

EUR billion
Central government
Non-financial corporations
Special financial institutions
Banks
Other financial institutions
Special purpose vehicles

Table 1 **Outstanding debt securities and net issue per sector**

Sector

Position

Net issue

Net issues in the euro area

EUR billion

EUR billion

(% of position)

Government

Banks

Enterprises

SPV

SFI

OFI

Total

Only aggregated data are available for the SPV, SFI and OFI sectors.

Chart 2 **Difference between 10-year and 1-year interest rates (spread)**

Basis points

Chart 3 **Average maturity of issued bonds**

Years

Government

Banks

Minimum banks

Maximum banks

Chart 4 **Share of money market paper**

Percentages of total outstanding debt securities

NL banks

NL government

Euro area banks

Euro area government

Chart 5 Debt securities to be refinanced in 2011 (% of GDP)

Spain

Greece

Portugal

Austria

Finland

Belgium

Italy

Germany

Netherlands

Ireland

France

government

banks

Chart 6a Geographical breakdown of holders of Dutch debt securities

UK

US

Central banks worldwide

Japan

Switzerland

Other

Unknown

Domestic

Euro area

Chart 6b Geographical breakdown of holders of Dutch money market paper

Central banks

US

Switzerland

UK

Other

Unknown

Domestic

Euro area

Table 2 Holders of debt securities by sector, November 2010

Issuing sectors

Enterprises

SPVs

SFI and OFI

Banks

Government

Foreign

Total

Holdings [links, verticaal]

Households

Enterprises *

Insurance corporations and pension funds

OFIs

Investment firms

Other OFIs *

Banks **

Government **

Foreign

Total (market value)

Issue statistics (nominal value)

* Based in part on data from Statistics Netherlands

** Based on the banks' monetary reports.

*** This table was compiled using a combination of different sources: besides the issuance statistics, these were direct reports, monetary reports by banks, and data from the National Accounts of Statistics Netherlands.