



Public Issuer Special: City of Amsterdam

NORD/LB Markets Strategy & Floor Research

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City of Amsterdam

Author

Dr Norman Rudschuck, CIIA
Flooranalyst, SSA/Public Issuers
Director
norman.rudschuck@nordlb.de

Assisted by
Valentin Jansen und Maurice Lautner

SSA/Public Issuers

Issuer profile: City of Amsterdam (AMSTER)

Authors: Dr Norman Rudschuck, CIAA // Valentin Jansen

The Netherlands – introduction, structure and political system

Within the scope of this new publication, we would like to look at the role of the “City of Amsterdam” as an issuer. However, let us touch on some fundamentals to begin with: the Netherlands has been structured into 12 provinces since 1986. In addition, the Kingdom of the Netherlands includes the municipalities of Bonaire, Sint Eustatius and Saba, as well as the autonomous countries of Aruba, Curaçao and Sint Maarten in the Caribbean. Unlike the German Laender, Dutch provinces do not have the status of a state and are regarded merely as administrative units of the decentralised unitary state. Their scope for action is limited to regional matters, with much prescribed by the state ministries. The provinces are entitled to levy taxes for financing purposes, among other measures. The Chairman of the respective provincial parliament and provincial government is a Commissioner of the King (Commissaris van de Koning), whose tasks, among other aspects, are to represent the interests of the province and to monitor the political decision-making processes there. The third level of administration after central government and the provinces is formed by the 342 municipalities (data as at 2023), which are gradually being merged and reduced in number. For example, two years ago there were 352 municipalities and 415 around a decade ago. In constitutional terms, the Netherlands is a constitutional monarchy, but in fact, it is a parliamentary democracy. The Monarch is the official head of state and appoints the ministers. Together with the Council of Ministers, the Monarch forms the government. The Council comprises the Prime Minister and the other ministers. In general, the strongest party in the coalition appoints the Prime Minister. Since 2010, this has been Mark Rutte of the liberal Volkspartij voor Vrijheid en Democratie (VVD), which together with two Christian Democrat parties, namely the Christen-Democratisch Appèl (CDA) and the Christen-Unie (CU), in addition to the left-wing D66 party, form the governing coalition. The bicameral legislature comprises the Senate, which is nominated by the provincial parliaments, while the House of Representatives is directly elected by the population. After symbolically resigning in January 2021, the government was re-elected following the general election held in March 2021. The longest coalition negotiations in the country's history followed, before the government was eventually officially sworn in on 10 January 2022.

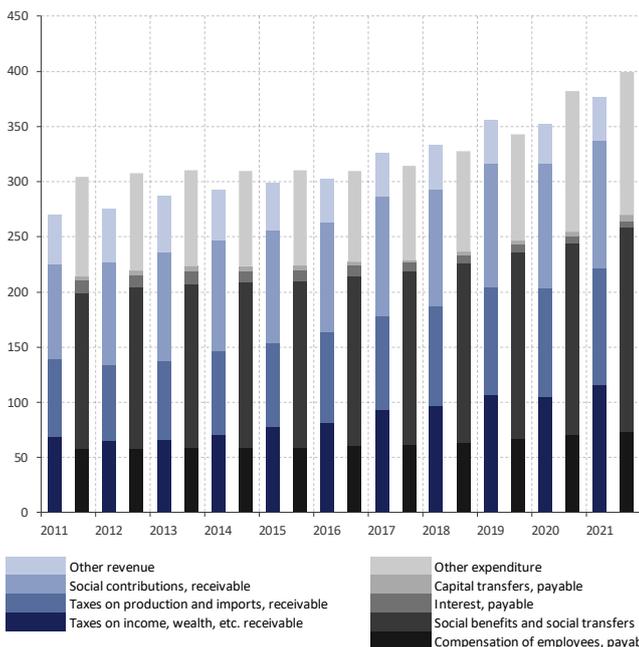
COVID-19 in the Netherlands and the ramifications of the Russia-Ukraine war

The political response to the outbreak of the pandemic in the Netherlands and measures implemented by the government were met with huge resistance from the population. At the beginning of 2022, most restrictions were lifted and work began on developing a long-term strategy. For 2023, the European Commission expects GDP growth in the Netherlands to come in at +0.9% Y/Y (2022: +4.4%), representing a continuation of the economic recovery. Regarding the Russia-Ukraine war, the Netherlands, in close coordination with the EU, is reducing its dependency on Russia by importing more liquid gas from other countries while at the same time increasing its own storage capacities. In the case of natural gas, the majority comes from the country's smaller gas fields. In this way, energy imports from Russia are limited in a European comparison, but due to the energy-intensive economy, the Netherlands is being directly impacted by energy price developments. This also applies to the key food industry and the country's agricultural sector.

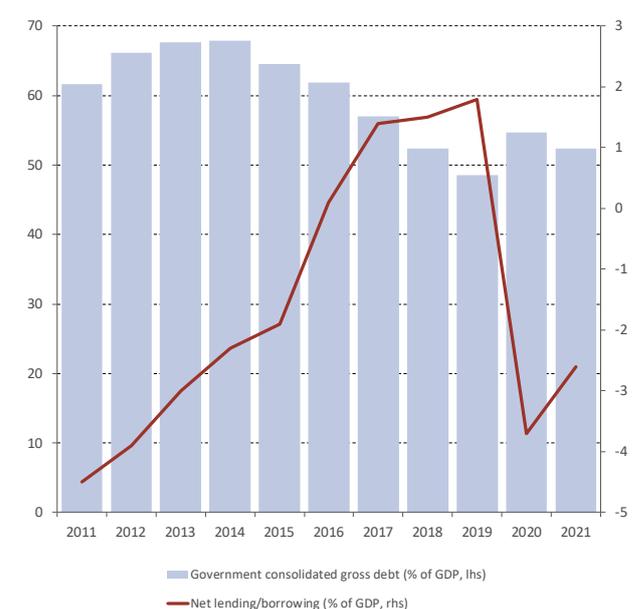
Economy of the Netherlands

The Netherlands is deemed to be a liberal economy and ranks as one of the freest economies in the EU according to the Index of Economic Freedom. As a founding member of the European Coal and Steel Community, a forerunner of the European Union of today, the Netherlands is firmly integrated into Europe. The hub of the country’s economy lies in the west of the Netherlands in the metropolitan region of Randstad, which stretches from Rotterdam and The Hague via Utrecht to Amsterdam, thereby encompassing the country’s two biggest provinces, namely Noord-Holland and Zuid-Holland. Overall, the region accounts for 20% of the country’s total surface area and is home to around 40% of its population. The Dutch economy is very trade-oriented, a situation supported in particular by the ports of Rotterdam and Amsterdam. The Port of Rotterdam is the largest port in Europe and therefore one of the biggest worldwide. In 2020, Rotterdam’s port-focused economy alone accounted for around 3% of Dutch GDP (despite the Covid-19 crisis). The manufacturing sector is broadly diversified. Stand-outs here include the food and beverage sector (Heineken), the oil industry (Shell), the chemicals industry (Akzo-Nobel) and the electrical/electronics industry (Philips). The Netherlands is also one of the world’s leading producers of agricultural products. In 2022, agricultural products totalling EUR 122.3bn were exported, which reflects a sharp rise of +17% year on year. Measured against per capita GDP of EUR 48,840 in 2021 (provisional figure), the Netherlands is among the ten largest economies in the euro area (average value: EUR 32,430). As part of the “frugal four” (together with Denmark, Sweden and Austria), the Netherlands is an advocate of a lean EU budget and has reduced its national debt considerably over recent years: at 52.4% of GDP, national debt was at a comparatively low level in 2021 and was clearly within the parameters of the EU convergence criteria. In terms of final figures for 2022 and 2023, the IMF expects a debt level of 48.3% and 46.4% of GDP respectively, which would mean that the Netherlands is already past the peak when it comes to pandemic-related debt. As such, the Netherlands continues to rank well below the EU average (2021: 87.9%).

Total revenue vs. total expenditure (EURbn)



Government debt vs. budget balance (%)



Source: Bloomberg, Eurostat, NORD/LB Markets Strategy & Floor Research

Details on the City of Amsterdam

As the national capital, Amsterdam is also the most populous city in the Netherlands, with around 873,000 inhabitants in the urban core (2022) and around 1.4 million in the Amsterdam Metropolitan Area (Groot Amsterdam). Although the seat of the government is located 60km away in The Hague, Amsterdam has been the constitutional capital since 1983. Amsterdam is part of the province of Noord-Holland, which has 2.9 million inhabitants, and is the second largest province after Zuid-Holland (3.7 million). The municipality of Amsterdam comprises the sub-municipalities (districts) of Amsterdam-Centrum, A-Noord, A-West, A-Nieuw-West, A-Zuidoost, A-Oost and A-Zuid. With its numerous canals running through the whole of the city centre, Amsterdam is a world-famous city and a popular destination for tourists from all over the globe. Accordingly, tourism is an important sector of the economy here: In the years prior to the Covid-19 pandemic, around 20 million tourists descended on Amsterdam every year. According to the national statistical office, the pre-crisis level (2019) had already been exceeded again by Q3 2022. In the global Euro-monitor “Top 100 City Destinations Index”, Amsterdam ranks third after Paris and Dubai.

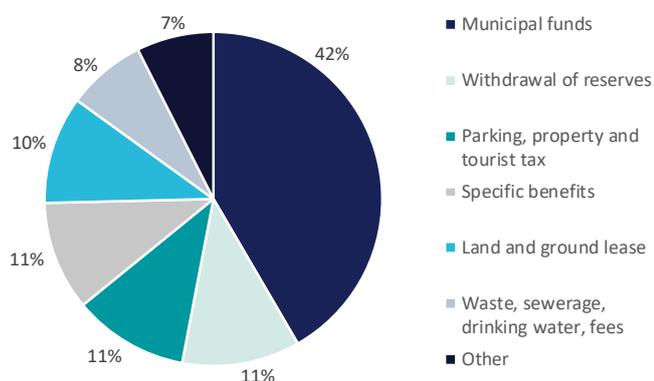
Economy of Amsterdam

With GDP per capita amounting to EUR 63,200 (2021, provisional value), Noord-Holland has been the strongest province in the Netherlands in economic terms for many years now. This is due in large part to the economic output of Amsterdam, whose inhabitants make up around one third of the population of Noord-Holland. With GDP per capita of EUR 85,200 (most recent data set: 2020), the Amsterdam Metropolitan Area is primarily responsible for the province’s economic strength, while the surrounding regions of Noord-Holland report below-average economic output compared with the rest of the Netherlands. Amsterdam has a long tradition as an economic centre and plays a prominent role in global economic history: in the Dutch Golden Age during the 17th Century, Amsterdam became the commercial and financial centre of Europe and the birthplace of liberal capitalism. The Dutch East India Company (VOC) was founded here and quickly became the most powerful trading company in the world. The Amsterdam Stock Exchange was founded in 1611 and became the first securities exchange in the world, facilitating trading in shares in the Dutch East India Company. In the decades that followed, Amsterdam grew to be one of the richest cities in the world. Today, the Dutch capital remains one of the leading economic centres across Europe. In addition to the many Dutch companies headquartered here (see above), the city also attracts a large number of international companies as the location for their European headquarters – a situation which is not least due to the tax advantages offered to them. Financial services continue to play an important role and the city is home to many international financial companies as well as to Dutch banks. As a financial centre, Amsterdam has also benefited enormously from Brexit. In January 2021, the Dutch capital replaced London as the biggest equity trading location in Europe after many investors relocated to Amsterdam following the United Kingdom’s withdrawal from the European Union. As a European start-up stronghold, Amsterdam also promotes ventures in the area of science and innovation. The Amsterdam Science Park is home to over 170 enterprises and provides wide-ranging support for start-ups. Moreover, (maritime) trade continues to play an important role in the economy of Amsterdam. Handling cargo traffic of 71.3 million tonnes (2021), the port is the second largest in the Netherlands after the Port of Rotterdam. Amsterdam Airport Schiphol is another key economic factor as the fourth-largest passenger airport in Europe.

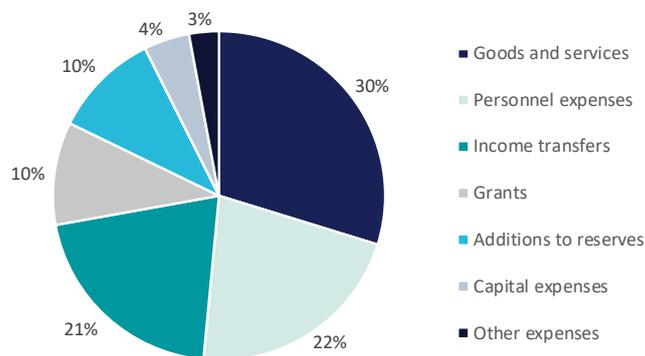
Budget plan 2023

The budget for the City of Amsterdam for 2023 stands at around EUR 6.68bn and has therefore grown by around EUR 140m versus the previous year (EUR 6.54bn). As such, Amsterdam has the largest municipal budget in the Netherlands. Around 53% of the planned revenues come from the municipal fund and special state subsidies. The remaining 47% is primarily composed of tax revenues, levies and the release of cash reserves and, overall, form the planned revenue side of the City of Amsterdam. In contrast, planned total expenditure is split into a total of 11 categories in the amount of EUR 6.68bn, meaning that the budget for 2023 is balanced. The largest shares on the expenditure side are attributable to areas including “goods and services such as administration and maintenance” (30%) and “personnel costs” (22%). This includes expenditure earmarked for areas such as healthcare, nursing, youth work and diversity, as well as public spaces, water traffic and sustainability in the construction industry. The budget breakdown also reflects the impacts of the Covid-19 pandemic and Russian invasion of Ukraine, and continues to focus on supporting the labour market and the economic recovery. The climate crisis and the lack of housing are also addressed by the 2023 budget.

Budgeted revenues (2023)



Budgeted expenditures (2023)



Source: Gemeente Amsterdam, NORD/LB Markets Strategy & Floor Research

Outstanding volume

In contrast to our reports focused on Belgian and French issuers, the spotlight here is on just a single relevant local issuer. Nevertheless, even with this narrow definition there are 52 bonds outstanding. This number already indicates a certain level of granularity in Amsterdam’s regional bonds. In total, a volume of EUR 2.6bn is outstanding on the capital market. We have derived this figure from bonds listed under the AMSTER ticker, although we also have to assume that other bilateral financing instruments are used as well, the precise volume of which, however, we are unable to ascertain. We also saw no evidence of foreign currencies in the funding mix. As such, any diversification takes place solely in terms of maturities. In this context, less than 2% (or approximately EUR 50m) is only set to fall due after 2033, which reflects a refinancing portfolio more geared towards the short to medium term. At a cumulative total of EUR 600m, the funding requirement pertaining to maturing bonds in 2023 and 2024 is certainly of relevance. Benchmark bonds are not part of the refinancing sources. The largest outstanding bond comprises a volume of EUR 125m, which matures in 2025. Aside from this, there are a further eight bonds with outstanding to the extent of EUR 100m.

General information**Outstanding bond volume**

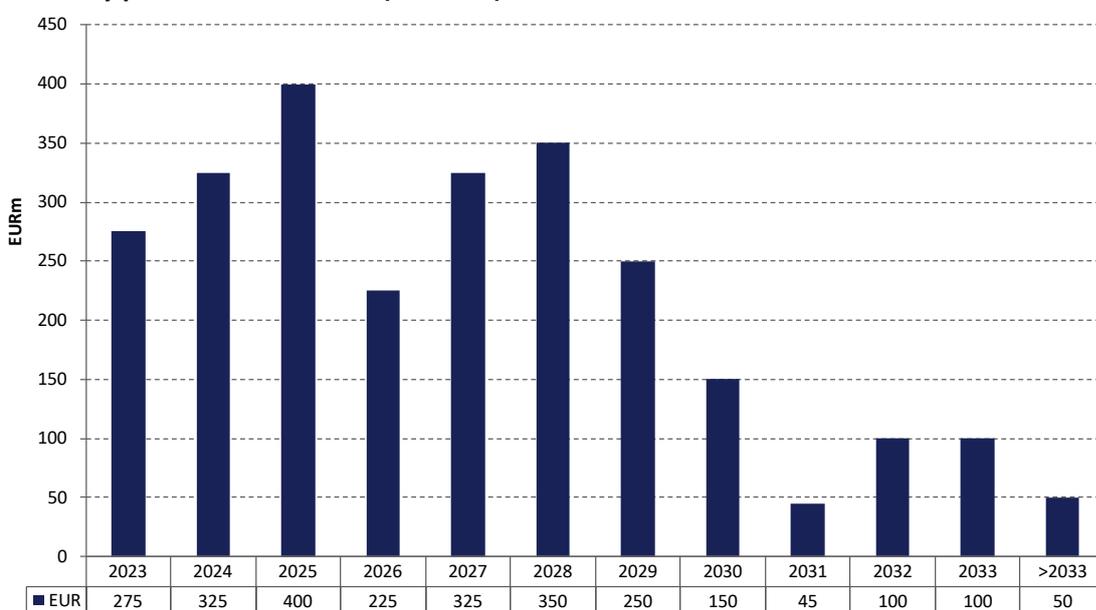
EUR 2.6bn

Of which EUR bonds

EUR 2.6bn

Bloomberg ticker

AMSTER

Maturity profile – Amsterdam (AMSTER)

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Fixed coupons dominate

Fixed coupons account for the largest share of bonds issued under the AMSTER ticker. Of the EUR bonds (52) we have identified, a total of 49 feature a fixed coupon. This equates to a share of 94.2%. The remaining bonds are classified as zero coupon (5.8%). Overall, the issuer regularly turns to tenders for private placements and bilateral loans as part of the refinancing strategy. There is also the possibility of tapping individual European funding pots. However, this can in turn reduce the respective funding requirement. The proportion of fixed coupons, as measured against the German Laender (around 68%), for instance, is very high. As outlined above, the funding strategy is sufficiently diverse with regard to maturities.

Liability mechanism

There is no explicit guarantee on the part of the Kingdom of the Netherlands for regional governments and local authorities (RGLAs). Unlike German municipalities, Dutch municipalities are theoretically eligible for insolvency. Pursuant to Article 12 of the Dutch Financiële-verhoudingswet (Law on Financial Relations) of 1897, municipalities experiencing a very poor financial situation are, however, put into administration by the government – in return, they must accept stringent financial monitoring. In this case, the municipality concerned receives additional funds from the national Gemeente- en Provinciefonds, which de facto rules out insolvency. At present, just two of the 342 municipalities (Vlissingen and Lelystad) are receiving support on the basis of Article 12.

Regulatory overview for RGLAs* / ** (Examples)

Issuer	Risk weight	LCR classification	NSFR classification	Solvency II classification
Belgian regions	0%	Level 1	0%	preferred (0%)
German Bundeslaender	0%	Level 1	0%	preferred (0%)
French regions	20%	Level 2A	15%	preferred (0%)
Dutch regions	0%	Level 1	0%	preferred (0%)
Austrian Bundeslaender	0%	Level 1	0%	preferred (0%)
Spanish regions	0%	Level 1	0%	preferred (0%)

*Regional governments and local authorities

** NB: in the absence of an explicit guarantee from the respective nation state, the current LCR level is dependent on the relevant rating (see CQS classification and LCR classification of assets).

Source: NORD/LB Markets Strategy & Floor Research

Exceptions to scope of application of the Leverage Ratio (CRD IV Art. 2 no. 5) (examples)

EU	Central banks of member states
Belgium	Former exceptions prior to the amended law of 29 Dec. 2020: Institut de Réescompte et de Garantie/- Herdisconteringen Waarborginstituut
Germany	Kreditanstalt für Wiederaufbau (KfW), Rentenbank, regional promotional banks explicitly listed under No. 5, undertakings which are recognised under the "Wohnungsgemeinnützigkeitsgesetz" as bodies of state housing policy and are not mainly engaged in banking transactions, and undertakings recognised under this same law as non-profit housing undertakings
France	Caisse des Dépôts et Consignations (CDC)
The Netherlands	Nederlandse Investeringsbank voor Ontwikkelingslanden NV, NV Noordelijke Ontwikkelingsmaatschappij, NV Limburgs Instituut voor Ontwikkeling en Financiering, Ontwikkelingsmaatschappij Oost-Nederland NV and credit unions (kredietunies)

Source: CRD IV, NORD/LB Markets Strategy & Floor Research

Regional governments and local authorities (solvency stress factor allocation of 0% possible; examples)

Country	Regional and local governments
Belgium	Communities (Communautés/Gemeenschappen), regions (Régions/Gewesten), Municipalities (Communes, Gemeenten) & provinces (Provinces, Provincies)
Germany	Bundeslaender, municipalities & municipal associations
France	Regions (région), municipalities (commune), "Départements"
The Netherlands	Provinces (Provincies), municipalities (Gemeenten) & water associations (Waterschappen)

Source: (EU) 2015/2011, NORD/LB Markets Strategy & Floor Research

Summary of AMSTER

Risk weighting	0%
LCR classification	Level 1
NSFR classification	0%
Solvency II classification	Preferred (0%)

Issuer (Ticker)	Inhabitants	Unemployment (2021)	GDP per capita (2020)	Outstanding volume	No. of bonds	Rating
AMSTER	873,338	6.6%	EUR 85,200*	EUR 2.6bn	52	(-)**
The Netherlands (NETHER)	17.5m	4.0%	EUR 45,670	EUR 353.4bn	245	(AAA / Aaa / AAA)

*Most recent value for the Amsterdam Metropolitan Area (Groot-Amsterdam).

**Dutch municipalities do not have their own ratings. The sovereign rating can also be applied to the municipalities through the Dutch Law on Financial Relations (Financiële-verhoudingswet).

Source: Bloomberg, CBS, Province of North Holland, European Commission, NORD/LB Markets Strategy & Floor Research (Rating: Fitch / Moody's / S&P)

ECB purchase programmes: APP and PEPP

In comparison with the Belgian (e.g., WALLOO, FLEMISH) and French issuers from the Greater Paris region (IDF, VDP), which have been the focus of previous publications, the Eurosystem purchasing activity in relation to the City of Amsterdam has been uninteresting so far. To date, AMSTER has not yet been acquired by any national central bank. Under the ECB's purchase programmes, only the familiar Dutch tickers BNG, NEDWBK and NEDFIN are included on the list of agencies.

Conclusion

The City of Amsterdam boasts comparatively strong economic framework conditions: its economic output is significantly higher than the European average and its financial situation, as reflected in the debt level, for example, can certainly be described as stable. With AAA/Aaa ratings, the Netherlands also gets top marks from the three major rating agencies. The Dutch municipalities are not rated separately, although the sovereign rating can also be applied to the municipalities through the Dutch Law on Financial Relations (Financiële-verhoudingswet). It is interesting that the City of Amsterdam has not opted for any currency diversification in its role as an issuer. Denominated in EUR, there is in part a wide range of bonds under the AMSTER ticker that encompasses the entire maturity spectrum. Added to the predominant share of fixed coupons, the issuer also appears to be open to niche products as part of its refinancing strategy (sub-benchmarks and private placements as well). While the level of information provided may be suitable for a sub-benchmark issuer, we would of course like to see the City of Amsterdam expand its Investor Relations activities. With an outstanding volume of volume of EUR 2.6bn, AMSTER can be regarded as larger than comparable German municipalities and cities. Even the established joint municipal bonds from NRW under the ticker NRWGK (currently five outstanding) cannot compete in this regard.

Appendix

Contacts at NORD/LB

Markets Strategy & Floor Research



Dr Frederik Kunze

Covered Bonds/Banks

+49 172 354 8977

frederik.kunze@nordlb.de



Melanie Kiene

Covered Bonds/Banks

+49 172 169 2633

melanie.kiene@nordlb.de



Stefan Rahaus

Covered Bonds/Banks

+49 172 6086 438

stefan.rahaus@nordlb.de



Dr Norman Rudschuck

SSA/Public Issuers

+49 152 090 24094

norman.rudschuck@nordlb.de



Jan-Phillipp Hensing

SSA/Public Issuers

+49 172 425 2877

jan-phillipp.hensing@nordlb.de

Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Sales MM/FX	+49 511 9818-9460
Sales Europe	+352 452211-515

Origination & Syndicate

Origination FI	+49 511 9818-6600
Origination Corporates	+49 511 361-2911

Treasury

Collat. Management/Repos	+49 511 9818-9200
Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

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Covereds/SSA	+49 511 9818-8040
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Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9550
Frequent Issuers	+49 511 9818-9640

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Firmenkunden	+49 511 361-4003
Asset Finance	+49 511 361-8150

Relationship Management

Institutionelle Kunden	rm-vs@nordlb.de
Öffentliche Kunden	rm-oek@nordlb.de

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