

25 May 2012

## **PRESS NOTICE**

### **LAUNCH OF A CONSULTATION ON THE POTENTIAL ISSUANCE OF 'SUPER-LONG' AND/OR PERPETUAL GILTS**

The United Kingdom Debt Management Office ("the DMO") is today launching a consultation on the case for issuance of gilts with maturities potentially significantly longer than those currently in issue (i.e. in excess of 50 years) referred to as 'super-long' gilts, and/or perpetual gilts.

The DMO seeks feedback from as wide a range of interested stakeholders as possible, in order to build an evidence base to enable an informed decision to be taken by the Government on whether or not to issue super-long and/or perpetual gilts. The consultation will seek to establish the likely sources, strength and sustainability of demand for such instruments, the cost effectiveness and risks of issuance, the impact on market liquidity and the good functioning of the gilt market.

No presumption has been made that issuance of these instruments will take place; any such decision will be taken on the basis of an assessment of the value for money of issuance for the Exchequer and how, consistent with achieving the Government's debt management objective, such issuance would contribute to the overall balance of cost and risk in debt management, particularly during the current period of fiscal consolidation.

The closing date for the submission of written views to the DMO is 17 August 2012. If any decision is made by the Government to proceed with issuance in-year, this would be reflected at the time of the next planned remit revision, currently anticipated to be Autumn Statement 2012.

## NOTES TO EDITORS

At Budget 2012 on 21 March 2012 the Government announced its intention to launch a consultation towards the end of the first quarter of 2012-13 on the potential issuance of super-long and/or perpetual gilts.

The DMO consulted in 2004-05 on extending the gilt yield curve from around 30- to 50-years. There was a clear consensus amongst respondents that there was significant and sustainable structural demand for longer-dated assets from, in particular, the UK pension and insurance sectors. The Government's conclusion was that issuing ultra-long gilts would be consistent with its debt management objective of minimising cost over the long term, while taking account of risk and the DMO consequently began issuing gilts with 50-year maturities in 2005<sup>1</sup>.

Conventional and index-linked gilts with initial maturities of around 35-50 years are typically referred to as 'ultra-long' gilts. Issuance into this sector since 2005 has taken the stock of ultra-long gilts in issue to £118 billion<sup>2</sup>, around 10% of the gilt portfolio, and this has contributed to the lengthening of the average maturity of the UK gilt portfolio to 15.2 years<sup>3</sup>, around twice the length of the next longest portfolio average maturity amongst G7 issuers.

Since ultra-long gilts were introduced, the shape of the gilt yield curve has changed significantly, reflecting wider macroeconomic developments. However, there has remained an inversion at the very long-end, indicating the continued existence of a preferred habitat for gilts with the longest maturities. The Government believes that issuance of ultra-long gilts has been, and continues to be, a cost-effective debt management strategy and in this context has decided to revisit the question of the maximum maturity of gilt issuance as well as to explore the extent of demand for new perpetual gilts.

This press notice will be appearing on the DMO's website at: [www.dmo.gov.uk](http://www.dmo.gov.uk)

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<sup>1</sup> 4¼% Treasury Gilt 2055 was first auctioned on 26 May 2005 and 1¼% Index-linked Treasury Gilt 2055 was first sold via a syndicated offering on 22 September 2005.

<sup>2</sup> In uplifted nominal terms at end-April 2012.

<sup>3</sup> At end-April 2012.

