

The DMO's financing remit 2003-04

10 April 2003



Fiscal Policy Framework

- Government fiscal rules imply a 'prudent and stable' net debt:GDP ratio at or below 40% over the cycle.
- Over the cycle, Government will only borrow to finance net public sector investment.



Financing Policy

- UK Government borrows to finance its net cash requirement
 - + maturing bonds
 - + any net increase in the foreign exchange reserves
 - + any acquisition of assets through issues of bonds, bills and retail debt.



Objectives of UK Government Debt Management

“to minimise over the long term the cost of meeting the Government’s financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the objectives of monetary policy.”

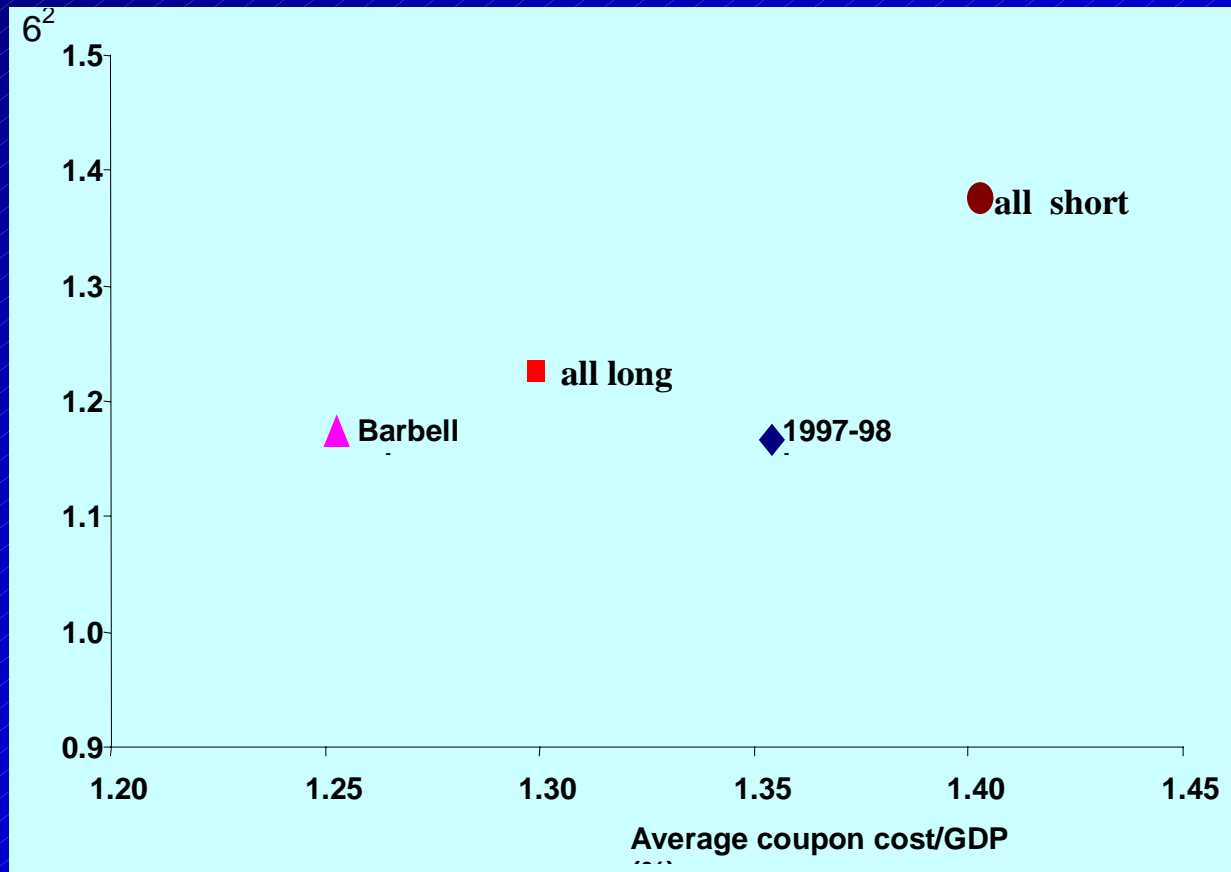


Portfolio issues

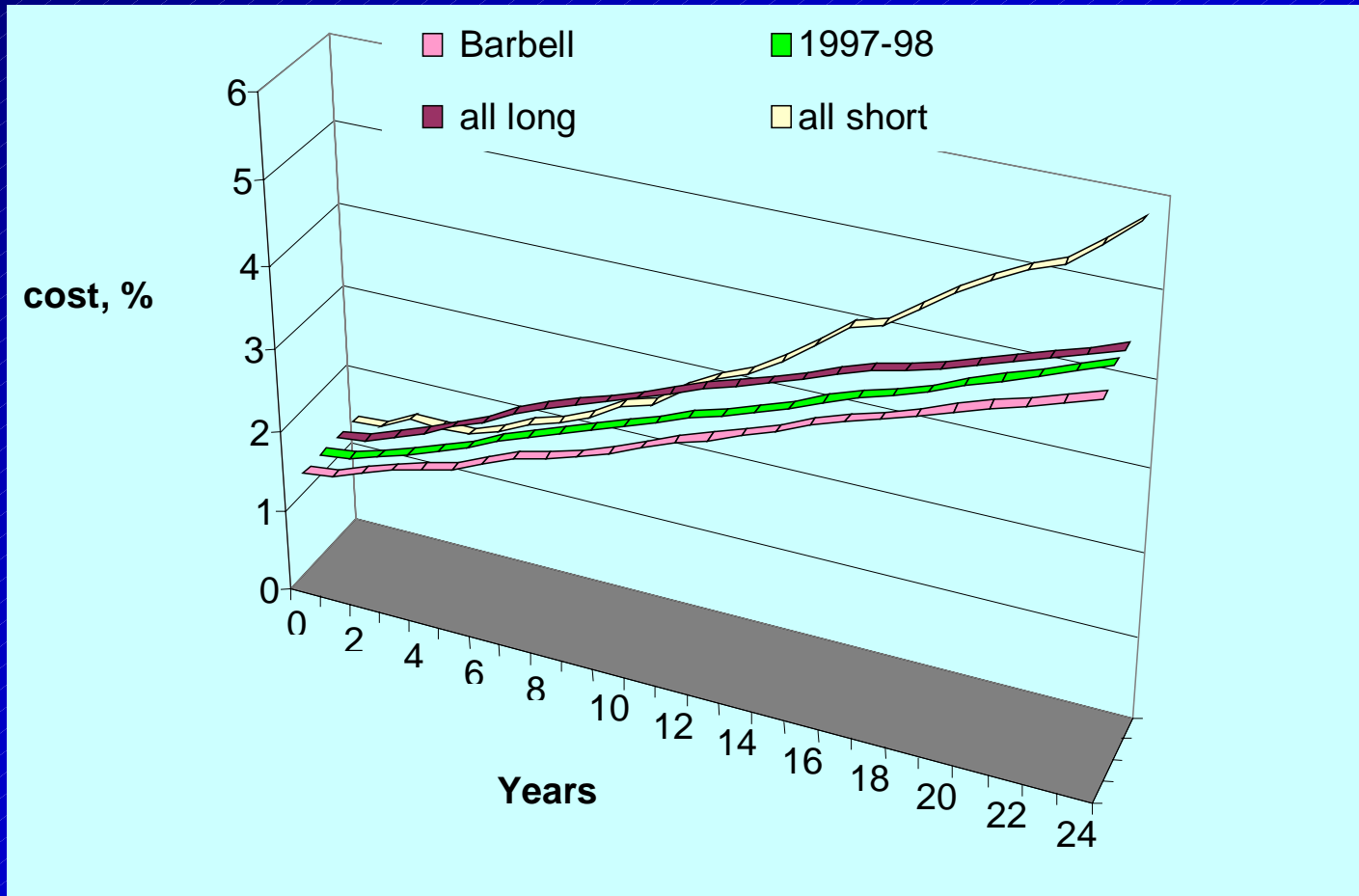
- Debt portfolio should support
 - fiscal objectives
 - credit rating
 - market infrastructure
- Identify optimal issuance strategy
 - preliminary research
 - supports some diversification
 - supports bias to longs ?
 - stress testing



Expected cost-at-risk



Absolute cost-at-risk



Factors influencing portfolio decision-making - Cost

- Absolute and relative cost of different maturities
- Pattern of implied forward rates across £ curve and against other major markets
- Implied inflation expectations/inflation risk premium
- Investor 'preferred habitats'



Factors influencing portfolio decision-making - Risk

- Refinancing risk \Rightarrow issuing longs and fixed coupon to reduce exposure to market conditions
- Maintaining gross issuance \Rightarrow issuing shorts to limit risk of buybacks
- Tax smoothing \Rightarrow issuing IGs if economy faces demand shocks and longs if supply shocks

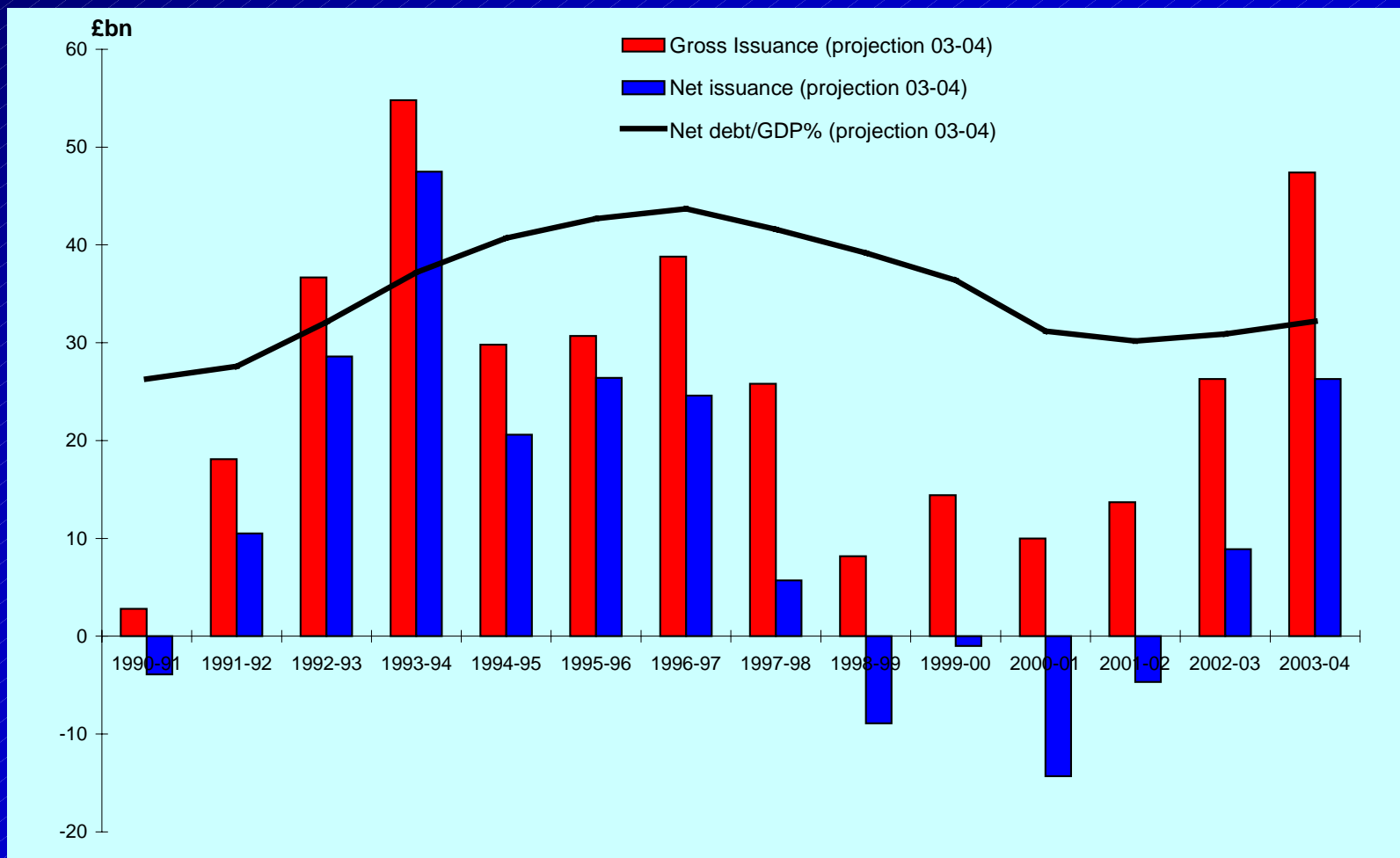


Financing arithmetic

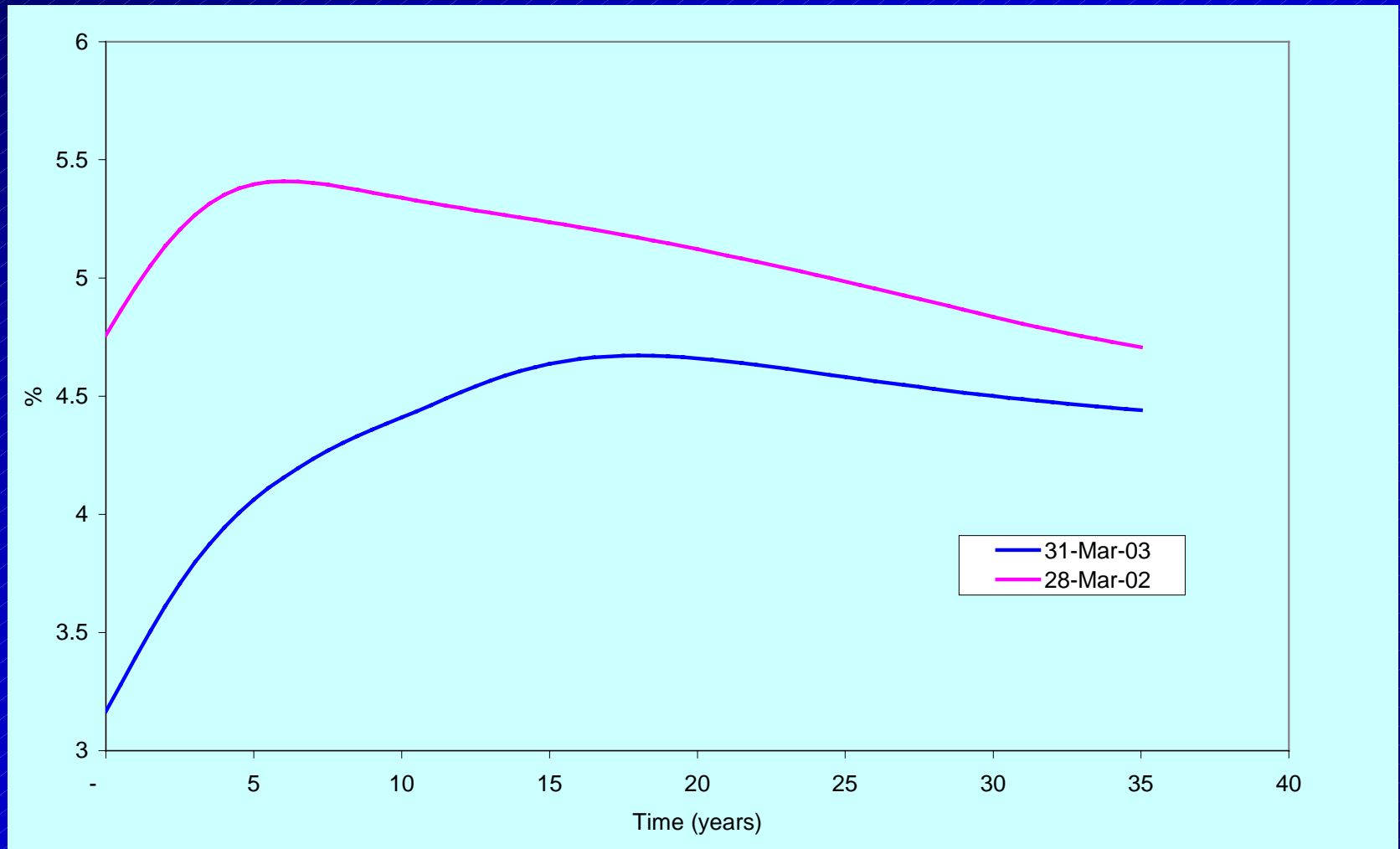
The financing arithmetic (£ billions)	2002-03 Budget 2003	2003-04 Budget 2003
CGNCR forecast	21.4	35.3
Gilt redemptions	17.0	21.1
Buy-backs	0.4	0.0
Financing Requirement	38.8	56.4
<i>less</i>		
National Savings and Investments	0.7	1.5
DMO cash deposit at Bank of England	-0.2	0.1
Net Financing Requirement	38.3	54.8
Planned gilts sales	26.3	47.4
Planned net short-term debt sales	12.0	7.4
Short term debt levels		
Ways & Means at end of FY	13.4	13.4
T bill stock at end of FY	15.0	18.2
DMO net cash position***	4.5	0.2
<i>** excluding changes in the DMO's deposit at the Bank of England</i>		
<i>*** including the DMO cash deposit at the Bank of England</i>		



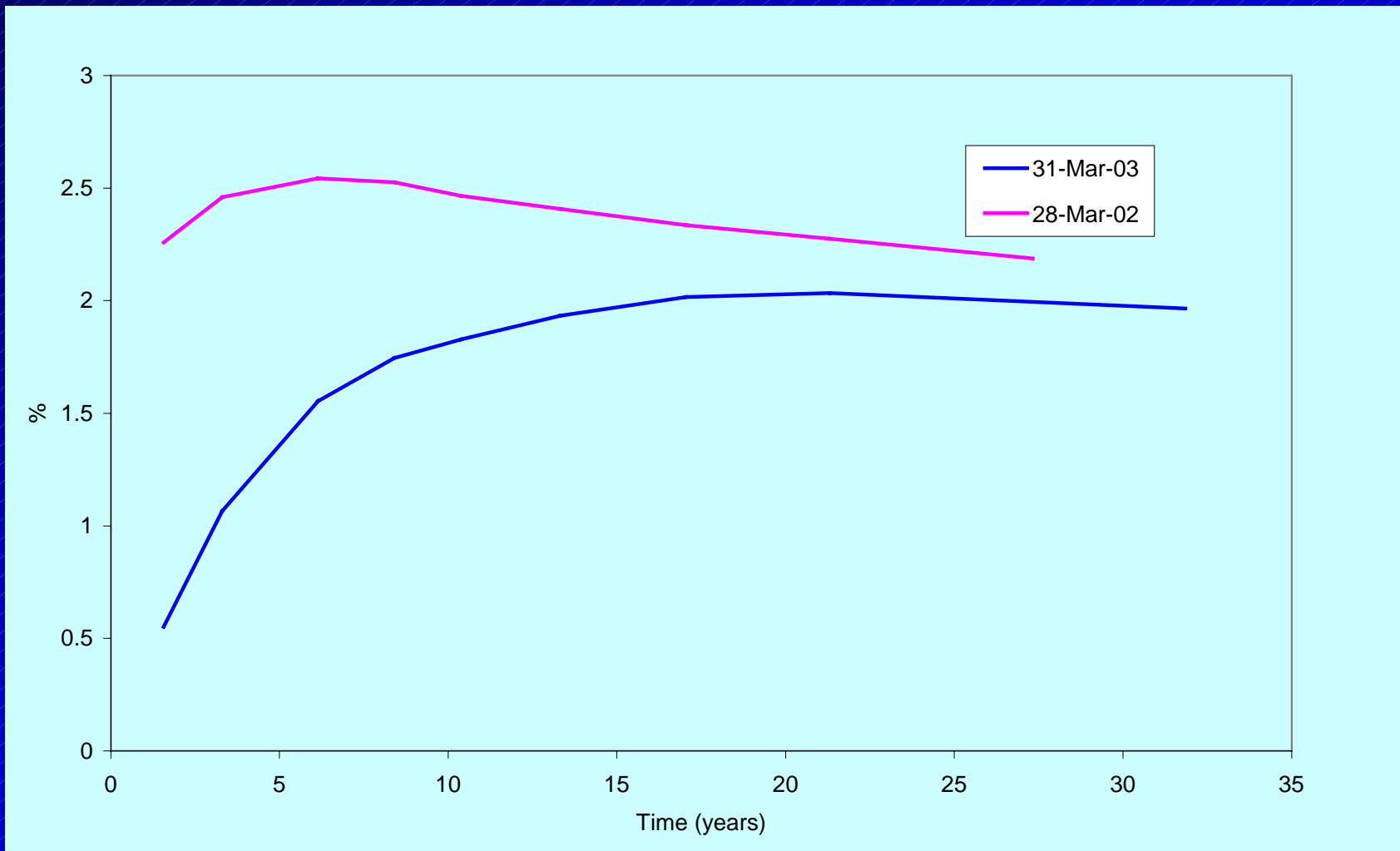
Issuance history



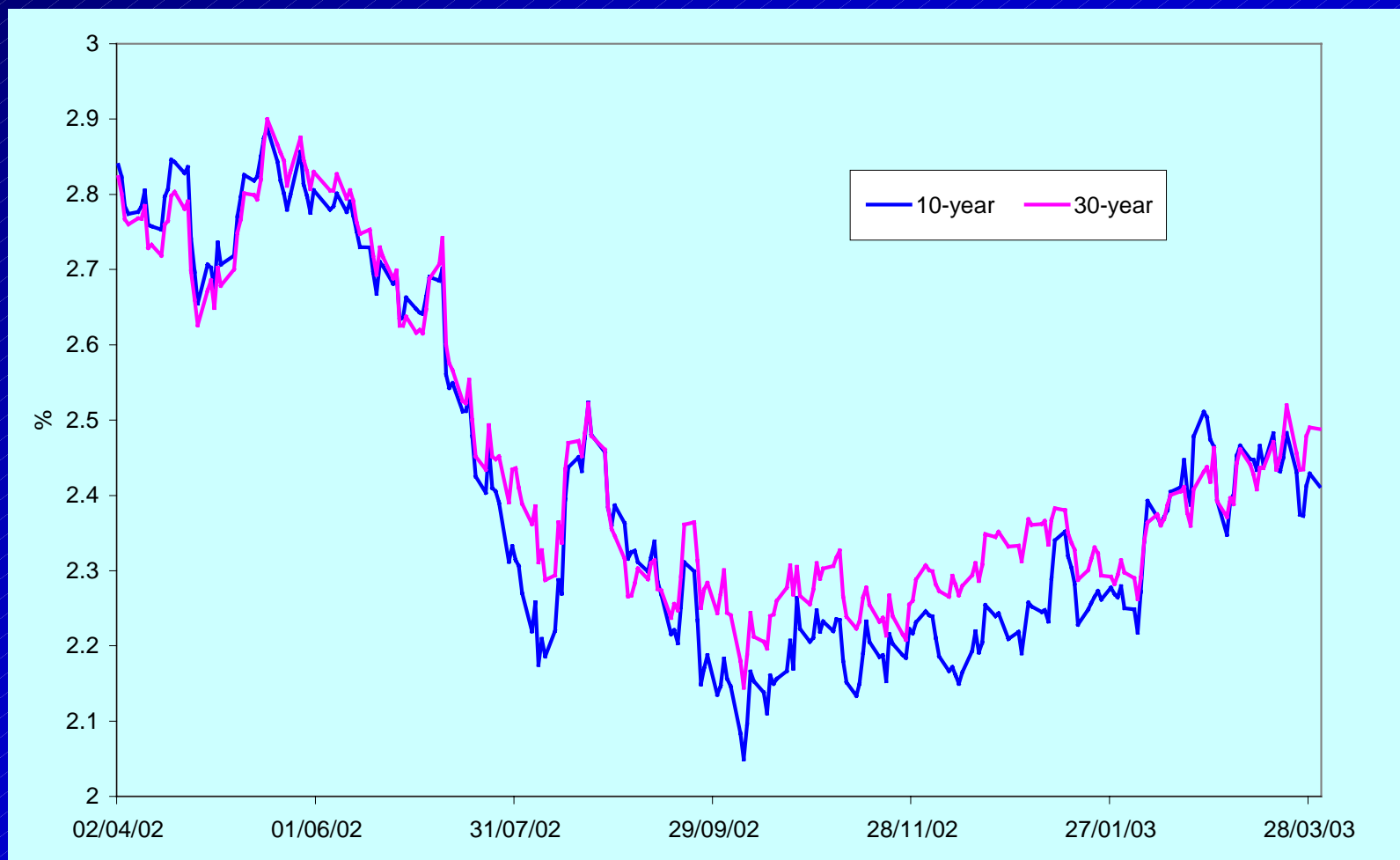
Nominal curve



Real curve



Break-even inflation rates



Financing remit 2003-04

- Gilt sales of £47.4bn
 - £16.4bn shorts
 - £13.2bn mediums
 - £11.3bn longs
 - £6.5bn index-linked
- 23 gilt auctions
- Increase in stock of Treasury bills of £3.2bn to £18.2bn
- Wind-down of £4.2bn in net cash position in line with commitment of PBR 2000



Other

- Positive contribution from NS&I of £1.5bn
- Financing of reserves - depends on relative cost advantages of sterling or FX financing



Contingencies

- Financing requirement less than forecast:
 - reduce conventional gilt sales
 - reduce the planned stock of Treasury bills by £2bn
- Financing requirement greater than forecast:
 - increase conventional gilt sales
 - increase the planned stock of Treasury bills by £2bn
- The decision on which contingency to trigger will be taken in light of market circumstances at the time.



Future financing needs

£bn	2004-05	2005-06	2006-07	2007-08
CGNCR projections (Budget 03)	28	26	28	26
Redemptions	15	15	18	26
Financing Requirement*	43	41	46	52

**indicative gross financing requirement*



Notes

- IL accrual adjustment on 2 1/2 % Index-linked 2003
- Tbill dematerialisation expected Sept 2003

