

## **Consultation meetings with GEMMs and End Investors – 20 January 2005**

The Financial Secretary to the Treasury chaired meetings with representatives of the End Investors and Gilt-edged Market Makers (GEMMs) on 20 January. Officials from the UK Debt Management Office (DMO) and HM Treasury were also present. These consultation meetings are held annually and are primarily intended to provide market participants with the opportunity to help inform HM Treasury's decisions regarding the financing remit for the DMO for the forthcoming financial year (2005-06 in this case).

The 2004 Pre-Budget Report forecast the Central Government Net Cash Requirement (CGNCR) for financial year 2005-06 to be £35.8 billion. Gilt redemptions for 2005-06 will be around £14.5 billion. On this basis, it was noted that the gross financing requirement for 2005-06 would be around £50 billion. It is expected that the majority of the financing requirement will be met through the sale of gilts and Treasury bills and it is intended that the DMO's new financing remit will be published alongside Budget 2005.

### **End Investors**

Nearly all attendees expressed a desire to see an increase in the proportion of index-linked gilts, also in the long end, in total gilt issuance during 2005-06, mainly to meet continued strong (and even increasing) institutional demand for index-linked assets. There was also widespread support for the proposal contained in the DMO's consultation document to issue conventional and index-linked gilts with ultra-long maturities (but with a preference for index-linked over conventional issuance). Some interest was also expressed in new issues in the range 40- to 50-years and in filling gaps in the curve at longer maturities. There was some discussion about the need to maintain liquidity in outstanding issues in the linker market.

### **GEMMs**

There was a general consensus that the proportion of index-linked issuance next year should be increased to 20% (around £10 billion based on the current assumption of a gross financing requirement of around £50 billion). Most GEMMs were comfortable with possible issuance of ultra-long conventional and index-linked gilts, expressing a preference for conventional issuance prior to index-linked issuance. Some potential difficulties with ultra-long issuance were raised concerning lack of liquidity and subsequent price volatility, as these would largely be 'buy and hold' instruments. There was a consensus that the frequency of gilt auctions should not be increased but that there was scope to increase the size of auctions next year. A number of attendees felt there was merit in filling in the gaps in maturities in the medium and longer sectors of the curve and suggested a potential for switch auctions to counter the effect of specific issues falling out of market indices.