THE DEBT MANAGEMENT OFFICE'S REMIT 2007-08: MINUTE OF CONSULTATION MEETINGS WITH GEMMs AND INVESTORS ON 31 JANUARY 2007

The Economic Secretary to the Treasury chaired the regular annual meetings with representatives of the Gilt-Edged Market Makers (GEMMs) and gilt investors on 31 January 2007. Officials from HM Treasury and the Debt Management Office (DMO) were also present. These consultation meetings are designed to provide gilt market participants with the opportunity to inform HM Treasury's decisions regarding the financing remit for the forthcoming financing year, 2007-08.

The forecast in the 2006 Pre-Budget Report for the Central Government Net Cash Requirement (CGNCR) for 2007-08 is £35 billion. Gilt redemptions in 2007-08 will be £29 billion. On this basis, the gross financing requirement for 2007-08 would be around £64 billion. It is expected that most of the financing requirement will be met by the sale of gilts. The DMO's financing remit for 2007-08 will be published alongside Budget 2007.

The main points discussed at the meetings are set out below.

GEMMs

Most GEMMs stated that the remit for 2007-08 should be structured along similar lines to 2006-07. In particular, gilt issuance in 2007-08 should be skewed towards long conventional and index-linked gilts, at least as much so as this current financial year. GEMMs stated that there was a continued shortage of such gilts, that demand was currently high and that long-dated issuance represented value-for-money for the Government, given the sustained inversion of the yield curve. GEMMs further advised that the proportion of index-linked gilts in total issuance should be, if anything, as high or even higher as in 2006-07, given the strength of end-user demand in this market segment. If necessary, to accommodate long gilt sales, the GEMMs suggested that the stock of Treasury bills could be reduced.

The need to maintain a liquid and efficient market across the yield curve, particularly at the ten-year maturity was, however, also noted and most attendees recommended that the DMO continue to build up 5- and 10- year benchmark gilts. As regards the long end of the curve, there were mixed views about the most desirable maturity dates for new gilts. GEMMs favoured fewer, but larger, gilt auctions.

GEMMs welcomed the introduction of temporary flexibility in 2006-07 and recommended that it be retained in 2007-08. It was commented, however, that in a relatively stable market environment the issuance flexibility afforded by the remit had not been fully tested. As regards other innovations in 2006-07, some commented that the earlier announcement of the quarterly auction calendar had yielded little benefit.

Investors

Attendees strongly recommended a marked skew towards long and index-linked gilts in 2007-08, with many arguing for an increase in the issuance of these instruments compared to 2006-07. Investors stated that there exists high and continued demand at the long end, particularly from the pension fund sector, that is not being fully met at current levels of supply. They suggested that this mismatch is reflected in the current shape of the yield curve. Some concerns were expressed about a lack of liquidity in the index-linked gilt market. There were some calls for the DMO to fill existing gaps in the real yield curve, e.g. by opening a new 40-year index-linked gilt.

There was some discussion on the appropriate size and frequency of auctions. Investors were generally supportive of the current increase in frequency and regularity of issuance and would prefer to see smaller and more frequent auctions rather than fewer and larger.

Investors' views were evenly split on whether remit flexibility should be retained for 2007-08. Some investors noted that it had been a positive development, whilst others stated a preference for greater certainty about the Government's annual gilt sales plans at the start of the year.