

THE DEBT MANAGEMENT OFFICE'S REMIT 2008-09: MINUTE OF CONSULTATION MEETINGS WITH GEMMs AND INVESTORS 11 DECEMBER 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 11 December 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, 2008-09.

The forecast in the 2007 Pre-Budget Report for the Central Government Net Cash Requirement (CGNCR) for 2008-09 is £38 billion. Gilt redemptions in 2008-09 are forecast to be £17 billion. On this basis, the gross financing requirement for 2008-09 would be around £55 billion (compared to £62.5 billion this financial year). It is expected that most of the financing requirement will be met by the sale of gilts. The DMO's financing remit for 2008-09 will be published alongside Budget 2008.

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

GEMMs

There was general support for a continued bias toward index-linked issuance (particularly long-dated). It was felt that within a potentially smaller financing requirement, the current proportion of index-linked issuance should at least be maintained, with some calls for it to be increased. Views were divided over the merits of/need for increased short-dated conventional issuance next financial year, with a significant number of GEMMs citing strong ongoing structural demand for long-dated maturities and recommending that the proportion of long-dated issuance should at least be maintained at the level of the current financial year. Others, however, cited the need for a modest increase in short-dated issuance – including at the expense of some medium-maturity issuance. There were also mixed views over the possible use of switch offers/conversion offers to build up amounts in issue of current coupon conventional gilts at the short and medium sectors of the curve. There were also some calls for the restoration of remit flexibility and a relaxation in the terms of the DMO's standing repo facility.

Investors

Investors generally advocated a similar split of issuance next financial year as in the current one – citing strong ongoing demand from UK based investors for long-dated assets (particularly index-linked). Difficult trading/liquidity conditions at the short-end of the curve were, however, acknowledged, as was the different investor base at the short-end. Accordingly, some investors suggested a modest increase in short-dated conventional issuance might be useful. Views were mixed on the possible use of switch auctions to build up the size of issues at the short end of the curve. In addition, some concerns were expressed about the impact of 2½% IL 2013 falling out of its key maturity index in August 2008. Here too, there were some calls for the reintroduction of remit flexibility, with others opposing.