

Minutes of meeting with gilt investors in Scotland on 2 February 2007

Officials from the DMO and HM Treasury met representatives of Scotland-based gilt investors in Edinburgh on 2 February 2007. The meeting complemented those held at HM Treasury, in London, on 31 January and was held to allow investors in Scotland to communicate their views on the structure of the DMO's financing remit for 2007-08. On the basis of the Pre-Budget Report forecast for the CGNCR in 2007-08 of £35 billion and gilt redemptions of £29 billion, the gross financing forecast for 2007-08 is currently forecast to be £64 billion. In discussion the following main points emerged:

Attendees suggested that next year's remit should be structured along broadly similar lines to the current remit. It was felt that, from both the issuer's perspective and that of major institutional investors, it made sense to continue with a pronounced skew towards long-dated gilt issuance (conventional and index-linked) in 2007-08. Within the long sector, it was generally felt that the weight of current demand was in the 30-40 year sector. However, some uncertainty was noted about the length of time that current strong demand for long-dated bonds would persist. Some concerns were also noted about the lengthening impact the current bias to long maturities was having on relevant gilt indices.

The importance of not neglecting 5- and 10- year benchmarks was also noted, given the existence of ongoing demand for shorter dated gilts. £10 billion (nominal) was seen as the minimum viable size for such benchmarks.

The introduction of remit flexibility was generally welcomed, although attendees thought that it had been important to contain the amount of discretion for the issuer. The trade off between flexibility and transparency was noted, but it was felt that in 2006-07 the balance had been broadly right and that it would be sensible for it to continue along similar lines in 2007-08. One aspect of the changes introduced for 2006-07 that was deemed of questionable value, however, was the earlier announcement of the quarterly auction calendar.