

CONSULTATION MEETING WITH GILT INVESTORS IN SCOTLAND: 24 JANUARY 2005

Officials from the UK Debt management Office (DMO) met representatives of gilt investors in Scotland on 24 January 2005. The meeting was scheduled primarily to seek investors' views on the DMO Financing Remit for 2005-06 (which will be published alongside Budget 2005). 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 £14½ 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. In discussion the following main points emerged.

Scottish investors were content with the frequency of gilt auctions but would be content to see the size of auctions increase (in particular for short maturities). Attendees also believed there was a case for increasing the size of index-linked gilt issuance - on the basis of the current forecast financing requirement for 2005-06 they advocated an increase to £10 billion for the next financial year – and that this should be biased towards longer-dated maturities. Investors felt that the increase could be accommodated by larger rather than more index-linked auctions.

Investors were also content with the DMO approach of issuing conventional gilts at key benchmark maturities along the curve – but suggested that in future the DMO might seek to launch benchmark issues in larger size than currently (£5 billion (nominal) was mentioned) and that such issues should be launched closer to the date when the gilt becomes a true benchmark (i.e. 5-, 10- years to maturity etc.) There were also some calls for the issuance of a Floating Rate Gilt.

The DMO consultation exercise on ultra-long gilt issuance was welcomed by investors – but they suggested that it would be important that any new gilt product issued was included in relevant industry indices – and that auctions might not necessarily be the appropriate issuance method.