

Meeting with gilt investors in Scotland: 10 February 2006

Officials from the UK DMO met representatives of gilt investors in Scotland, on 10 February 2006 in Edinburgh. The meeting complemented those held at HM Treasury, in London, on 1 February and was held to allow investors in Scotland the opportunity to provide their views on the structure of the DMO's financing remit for 2006-07. On the basis of the Pre-Budget Report forecast for the CGNCR in 2006-07 of £40 billion and gilt redemptions of £30 billion, the gross financing forecast for 2006-07 is currently forecast to be in the region of £70 billion. In discussion, the following main points emerged.

Attendees recommended that gilt issuance should be further weighted toward long-maturities next financial year. However, the importance of not neglecting shorter maturities was also emphasised, and, even within long maturities, attendees advised that most issuance be directed at maturities shorter than 50-years. It was noted that there may be benefits in establishing benchmarks at a range of maturities (approx £10 billion was seen as the required size of a conventional benchmark).

All recommended that index-linked gilt issuance also be increased next year. In general, it was felt that index-linked could account for up to approximately one third of total issuance.

There were mixed views about the balance to be struck between smaller and more frequent, and larger, less frequent gilt auctions, although, given the scale of the likely financing requirement, it was recognised that there were likely to be more outright auctions next year. However, regularity and frequency were seen as being particularly relevant considerations for index-linked auctions.

Attendees suggested that some increases in remit flexibility were desirable (ranges for sale targets or quarterly adjustments were suggested) but, in general, it was felt important not to prejudice the benefits of transparency and predictability in the current regime. There was no support for the use of switch auctions to manage forthcoming index-events.