

UK BANK RE-CAPITALISATION: RECORD OF THE MEETINGS WITH GILT MARKET PARTICIPANTS TO DISCUSS THE FINANCING PROGRAMME

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 13 October 2008. The meetings were primarily intended to inform the structure of the planned £37 billion financing programme for the re-capitalisation of UK banks

The following main points emerged in discussion.

GEMMs

There was a general preference for the programme to be financed by gilts rather than Treasury bills (most suggested a Treasury bill contribution in the £5 - £10 billion range). There was some support, however, for the introduction of one-year Treasury bills. Within gilts, there was a general preference for a bias towards short-dated issuance but with some difference of emphasis about whether the focus should be on sub three-year or five-year issuance – with the potential ‘crowding out’ effect of Government-guaranteed bank borrowing impacting on the former. Mixed views were also expressed on the need for a new short-dated benchmark, as opposed to the merits of re-opening existing issues from 2010 onwards. It was suggested that the maximum size of short auctions might be increased to up to £5 billion. General support was expressed for re-opening existing gilts in the 5-10 year sector, with 4% 2016, 5% 2018 and 4½% 2019 often mentioned. Despite the clear emphasis on short- and medium- dated issuance, some attendees also felt it was important not to neglect entirely the long-dated sector. Here a re-opening of 4¼% 2055 was most often suggested. There was limited support for index-linked issuance, but amongst those that did advocate extra issuance here, most attendees suggested that it should be long-dated, but could, to some extent, be accommodated by issuing larger sizes in those auctions already scheduled.

Investors

Views were mixed about the potential contribution by Treasury bills to the package, with some attendees advocating a contribution of approximately a third of financing from this source, whilst others suggested a much smaller proportion. The existing facility to issue bills bilaterally was highlighted. Here too, there was a general preference for biasing the gilt programme towards short- and medium- dated issuance. However, whilst most acknowledged the current structural demand for short-dated assets, some concerns were also expressed about the potential ‘crowding out’ effect of sub three-year guaranteed bank lending on ultra-short gilts. Notwithstanding this, attendees were generally open to the notion of a new short-dated gilt. Most often mentioned among the long-maturities was the 2055 gilt. Sharply contrasting views were expressed about the scope for index-linked issuance to contribute to the programme, but some pointed to the highly inverted nature of the real yield curve in particular as evidence of continuing structural demand.

Details of the programme will be announced at 3.30pm today. The next quarterly consultation meetings will be held at the DMO on Monday 17 November 2008 (subject to confirmation depending on the date of the Pre-Budget Report).