

THE UK DEBT MANAGEMENT OFFICE'S FINANCING REMIT 2023-24

MINUTES OF ANNUAL CONSULTATION MEETINGS WITH GEMMs AND GILT INVESTORS HELD AT HM TREASURY ON 23 JANUARY 2023

The Economic Secretary to the Treasury chaired annual consultation meetings with representatives of the Gilt-edged Market Makers (GEMMs) and gilt investors on 23 January 2023. Officials from HM Treasury and the UK Debt Management Office (DMO) also took part. These meetings provided gilt market participants with the opportunity to inform HM Treasury's decisions regarding the DMO's financing remit for 2023-24.

The gross financing requirement for 2023-24 is currently projected to be £305.1 billion, as published alongside the Office for Budget Responsibility's (OBR's) Economic and Fiscal Outlook (EFO) on 17 November 2022. The DMO's financing remit for 2023-24 will be published alongside the Budget on 15 March 2023, following an updated OBR EFO.

The Economic Secretary opened both meetings by thanking attendees for their commitment to the gilt market in 2022-23 and their time to provide feedback on government debt issuance.

The main points arising at the meetings are summarised below.

GEMMs

2022-23

It was generally felt that the 2022-23 remit has been delivered smoothly to-date, given the challenging market conditions, although it was also noted that conditions have been improving recently.

2023-24

Given the current forecast size of the financing requirement, there was a general view that the issuance programme next year should be skewed more towards the short and medium maturities relative to the current financial year. While there were mixed views on the appropriate absolute size of the long programme, a number of GEMMs suggested that the proportion of long gilts should be reduced somewhat. Further green gilt issuance was welcomed with recommendations for new maturities to be launched.

Taking into account the current expected size of the overall gilt financing programme, caution was advised about the absolute size, and as a consequence the proportion, of index-linked gilt issuance in 2023-24.

Support for the continued use of auctions and syndications in broadly the same way as they have been used in 2022-23 was expressed by those who offered a view.

Attendees were supportive of the continued use of the post auction option facility (PAOF), with a few suggesting that the PAOF timing window could be extended. Others suggested that the PAOF could be extended to green gilt auctions.

Given the expected size of the financing programme, a number of attendees recommended that a greater contribution could be made to financing via Treasury bill sales, noting that, whilst the stock was high in absolute terms, it was relatively small as a proportion of the total outstanding stock of debt. In this context, some GEMMs also noted the strong demand for shorter-dated assets more generally.

The potential for retail investors to contribute more significantly to meeting the overall financing requirement was also discussed.

Some attendees also highlighted the importance of maintaining smooth gilt supply over time, as far as practicable, suggesting that greater flexibility around the financing programme towards the end of the financial year could be considered.

Gilt investors

2023-24

Where attendees expressed a view, it was felt that similar or potentially slightly larger programmes of short and medium issuance relative to the current financial year would be appropriate. Some investors mentioned potentially increased demand from banks/financial institutions for shorter dated gilts. Where comments were offered, attendees suggested some caution about the absolute size of the long conventional gilt programme, taking into account the shape of the yield curve and expectations of long gilt sales by the Bank of England.

Support was expressed for further green gilt issuance next year with some suggestions that new maturities should be launched. There was a recognition that the size of the green gilt programme is determined by the amount of eligible government spending.

Mixed views were expressed about the appropriate absolute amount and proportion of index-linked gilt issuance in 2023-24. Amongst those who provided their opinions, a few suggested a higher proportionate skew towards index-linked gilts, with others recommending caution particularly about the absolute amount of such issuance.

Attendees remained supportive of the continued use of auctions and syndications next year, with some calls for slight changes in the number, size and frequency of operations in comparison with the programme in 2022-23.

In the context of the expected large size of the total financing programme in 2023-24, some attendees suggested that a greater contribution could be made to meeting the financing requirement by a combination of more Treasury bill issuance and higher retail financing.

Some attendees referred to the importance of flexibility in delivering next year's financing programme, including scope for a somewhat larger initially unallocated portion of issuance, greater use of gilt tenders and the desirability of increased flexibility around the financing programme towards the end of the financial year.

24 January 2023