United Kingdom
Debt
Management
Office

Eastcheap Court
11 Philpot Lane
London
EC3M 8UD

Tel. 020 7862 6500
Fax. 020 7862 6509

29 November 2011

PRESS NOTICE

RESPONSE TO THE CONSULTATION ON CPI-LINKED GILTS

The United Kingdom Debt Management Office (“DMO”) announces that after careful consideration and taking into account the feedback received to its recent consultation, the Government has taken the decision not to issue CPI-linked gilts in 2012-13.

The Government judges that issuance of CPI-linked gilts in the near-term would be unlikely to be cost-effective and would involve a number of risks, although it is possible that this could change over time.

The decision not to issue CPI-linked gilts in 2012-13 does not preclude CPI-linked gilt issuance in the medium term, should there be a case to do so. The Government will therefore keep the case to issue CPI-linked gilts under review.

For issuance to occur at some point in the future, the Government would need to come to a judgement that the potential benefits of issuance outweighed the potential costs and risks, both for itself as issuer and for the gilt market. In particular, once the key uncertainties around the future composition of the Consumer Prices Index (CPI) are resolved, the Government would need to be satisfied that any demand for CPI-linked gilts would be sufficiently strong and sustainable and that issuance would be cost-effective.

Were the Government to take the decision to issue CPI-linked gilts in the future, it would announce this in a manner consistent with the principles of transparency and predictability; and it would allow sufficient lead time between making an announcement and inaugural issuance to give the market time to prepare for the event.

NOTES TO EDITORS

On 29 June 2011, the DMO launched a consultation on CPI-linked gilts to build an evidence base to inform the Government's consideration of whether to issue such instruments. The consultation ran for 12 weeks and closed on 22 September 2011.

In total, 51 written responses were received. The consultation attracted varied responses; views were expressed both for and against CPI-linked gilt issuance. Many of the responses highlighted some of the potential benefits of CPI-linked gilts, but tempered this with an appraisal of the uncertainty over whether demand would be sustainable over the long term, and/or an appraisal of the risks, costs and challenges around issuance, which led them either to favour waiting until some of these issues were resolved, or to arrive at an inconclusive view overall.

A number of respondents emphasised the benefits of CPI-linked gilts, primarily from an investor perspective, suggesting that they would be a desirable asset with which to hedge CPI-linked liabilities. In general, however, the majority of respondents who commented on the cost-effectiveness of issuance indicated that they felt that it would be unlikely that investors would be prepared to pay a premium to buy CPI-linked gilts over gilts linked to the Retail Prices Index (RPI), at least at this point in time.

The consultation responses also highlighted several uncertainties and risks that suggest that the decision as to whether the Government should issue CPI-linked gilts is not straightforward. These uncertainties and risks are primarily related to:

- the depth and sustainability of CPI-linked gilt demand;
- the potential inclusion of owner occupiers' housing (OOH) in the CPI and the prospects for the index that will be used over the medium term to determine the annual Revaluation Order for pensions uprating; and
- fragmentation in the index-linked gilt market, and associated illiquidity.

Further details of the responses received and the Government's assessment of them are available in the DMO's formal response document, which is being published today and which will be appearing on the DMO's website at:

http://www.dmo.gov.uk/index.aspx?page=Gilts/consultation_papers

This press release will also be available on the DMO website: www.dmo.gov.uk