

## THE UK DEBT MANAGEMENT OFFICE'S FINANCING REMIT 2022-23

### MINUTES OF CONSULTATION CONFERENCE CALLS WITH GEMMs AND GILT INVESTORS, HELD ON 17 JANUARY 2022

The Economic Secretary to the Treasury chaired annual consultation conference calls with representatives of the Gilt-edged Market Makers (GEMMs) and gilt investors on 17 January 2022. Officials from HM Treasury and the UK Debt Management Office (DMO) also took part. These calls provided gilt market participants with the opportunity to inform HM Treasury's decisions regarding the DMO's financing remit for 2022-23.

The gross financing requirement for 2022-23 is currently projected to be £215.0 billion, as published in the Office for Budget Responsibility's (OBR's) Economic and Fiscal Outlook on 27 October 2021. The DMO's financing remit for 2022-23 will be published on 23 March 2022.

The Economic Secretary opened both meetings by thanking attendees for their commitment to the gilt market in 2021-22.

The main points arising at the meetings are summarised below.

#### **GEMMs**

**2021-22:** Most GEMMs commented that the current remit had been delivered relatively smoothly given the challenging backdrop. However, some attendees noted the period of lower liquidity towards the end of 2021 and recommended that options should be considered going forward for containing the impact of large swings in gilt supply, particularly late in a financial year.

**2022-23:** Many attendees recommended that the proportion of index-linked gilts should be increased in 2022-23 relative to plans for the current financial year, given the strength of demand for inflation protection: proportions of between 12% and 16% were mentioned by most who expressed a specific view.

In general, GEMMs advocated a modest proportionate increase in short conventional issuance in 2022-23 accommodated primarily by a reduction in the proportion of medium conventional gilts. Although there were some suggestions that the share of long conventional gilts could also be reduced slightly, views were mixed with others recommending that the proportion of long gilts be increased somewhat relative to the current financial year.

Further green gilt issuance was widely supported, with recommendations for both re-openings of the two existing green gilts and for one or more new maturity points to be added. Some attendees recommended that re-openings of existing green gilts could be delivered via auctions with new lines being launched via syndication. A new maturity in the 20-year area was most widely proposed, but there were isolated calls for new green gilts in the 5-year and 40-year maturity areas, with potential scope for an index-linked green gilt also mentioned by one attendee.

Some GEMMs advised that the size of the green gilt programme should be identified separately rather than being included in the unallocated portion of issuance, in order to provide greater clarity about the programme from the beginning of the financial year. In general, the continued use of the unallocated portion was seen by a number of attendees as providing a valuable element of flexibility to assist with remit delivery.

The continued use of syndications was supported, although a few GEMMs noted that this issuance method could be used more sparingly than in recent years, suggesting that somewhat fewer such operations than in the current financial year would be suitable in 2022-23. There were also some calls for larger and less frequent auctions relative to the current financial year, with isolated suggestions that the Post Auction Option Facility could be reduced from 25% back to 15%.

Widespread support was expressed for an increase in the planned outstanding stock of Treasury bills by the end of March 2023, in order to reverse the impact on the Treasury bill market resulting from the reduction implemented at the October 2021 remit revision. Recommended increases ranged between £10.0 billion and £25.0 billion.

## **Gilt investors**

**2021-22:** A number of investors noted the adverse impact on the functioning of the gilt market that had resulted from the large reduction in gilt supply announced in the October 2021 remit revision. In order to reduce the likelihood of such impacts in future, it was suggested that consideration should be given to smoothing the supply of gilts in-year including potentially via more frequent revisions to the financing remit if required.

**2022-23:** Many attendees recommended that the proportion of index-linked gilt issuance in 2022-23 should be maintained at least at the same level as in the current financial year and ideally increased modestly, given the strength of demand from the pension fund sector for risk hedging assets.

There was also a general preference for an increase in the proportion of short conventional gilt issuance, motivated by the cessation of new gilt purchases by the Bank of England's Asset Purchase Facility, anticipated ongoing demand from overseas investors and the size of upcoming gilt redemptions. Alongside this, there was a general preference for a reduction in the proportion of medium conventional issuance.

While some attendees recommended issuing a slightly higher proportion of long-dated conventional gilts in 2022-23 relative to the current financial year, others felt that the overall proportion need not change significantly, or could even fall modestly.

There was strong support for further green gilt issuance with views divided over the relative importance of building a curve through the launch of one or more new maturities (for example, at the 20-year point) and increasing the outstanding amount of the two existing green gilts. There were also a few calls for the launch of a new index-linked green gilt.

Some investors recommended that green gilt issuance should be separately identified in the remit rather than being included in the unallocated portion of issuance. It was

suggested that the unallocated portion could then be used more flexibly to increase the size of syndications where warranted and also potentially to issue other types of gilts.

Where views were expressed, participants welcomed continued use of syndications to deliver a minority of the financing programme in 2022-23, including for the launch of any new green gilts. Views were mixed on the appropriate number of syndications to schedule in 2022-23, with between six and eight such transactions suggested by those that provided an opinion.

Many attendees advocated for an increase in the planned Treasury bill stock by the end of March 2023, in order partially or fully to reverse the reduction that had been implemented at the October 2021 revision to the 2021-22 financing remit.

**18 January 2022**