OUR REMIT

EXTRACT FROM ANNEX B OF FSBR, 9 MARCH 1999

Financing policy

Table B22 updates the financing arithmetic for 1998-99 to allow for the latest central government net cash requirement forecast, and sets out the financing arithmetic for 1999-2000.

The gilts issuance programme for 1998-99 was revised in November 1998, following the November Pre-Budget Report. However at that stage, gilt sales in 1998-99 had already reached £6.5 billion, against a revised gilts financing requirement in the Pre-Budget Report of £6.4 billion. The Government announced that, although there would be no further issuance of conventional gilts in 1998-99, the remaining index-linked auctions would take place as planned. If this resulted in excess gilt sales, such sales were necessary in order to meet the commitment to a minimum issuance of £2.5 billion (cash) of index-linked gilts in 1998-99 (and in future years) in support of the move to index-linked auctions. The latest view of the financing arithmetic in Table B21 shows forecast excess gilt sales of £2.3 billion in 1998-99. These excess sales will be unwound in 1999-2000 by a residual adjustment which reduces the initial requirement for gilt sales in that year.

The requirement for gilt sales in 1999-2000 is further reduced by the increase in the level of the stock of Treasury bills and other short-term debt which will be required if, as planned, the DMO take over responsibility for cash management in that year. However this is largely offset by the additional requirement in 1999-2000 to finance investment in the foreign currency reserves which has previously been financed by issuance of Euro Treasury bills. The main details of the debt management plans for 1999-2000 are contained in the remits to the UK Debt Management Office and National Savings announced on 9 March. Full details, including the remits, will be published in the 1999-2000 Debt Management Report.

Table B22: Financing requirement forecasts for 1998-99 and 1999-2000

	£ billion 1998-99				1999-00
	March 1998 original remit	June 1998 EFSR	November 1998 Pre-Budget Report	March 1999 Budget	March 1999 Budget
CGNCR	3.7	3.5	-2.1	-2.7	6.2
plus expected net financing for reserves [1]	0.0	0.0	0.0	0.0	2.4
plus expected gilt redemptions	16.7	16.8	16.8	16.9 [2]	14.8
plus residual unwinding excess gilt sales from previous financial year	-5.1	-8.2	-8.2	-8.2	-2.3
Financing requirement	15.2	12.1	6.5	6.1	21.0
less Net National Savings inflow	1.0	0.5	0.1	0.2	0.1
less net increase in T-bills and other short-term debt [3]	0.0	0.0	0.0	0.0	3.6
Gilt sales required	14.2	11.6	6.4	5.8	17.3
of which:					
assumed gilt sales:					
index-linked gilts				2.6	3.5
short conventional gilts (3-7 years)				0.0	5.0
medium conventional gilts (7-15 years)				2.5	3.0
long conventional gilts (>15 years)				3.1	5.8
change in short-term borrowing in-year to offset excess gilt sales				-2.3	

[1] The Reserves require financing in 1999-2000 to replace €3.5 billion of Euro Treasury bills. Estimated at current exchange rate

[2] Includes ESA95 reclassification of Bank of England holdings

[3] The stock of T-bills and other short-term debt will need to increase during 1999-2000 to accommodate the DMO's cash management operations

Additional background:
Explanation of increase in short-term debt for cash management

The financing requirement in 1999-2000 is reduced by a "gilt sales residual" which unwinds excess sales of gilts in 1998-99, based on the forecast for the 1998-99 CGNCR in the Budget. This "gilt sales residual" in the financing arithmetic actually increases the issuance of short-term debt in 1999-2000 (thereby reducing the financing requirement), and unwinds the expected reduction in short-term debt in 1998-99 that was necessary to accommodate the excess gilts sales. It therefore leaves the stock of Treasury bills and other short term debt unchanged over 1998-99 and 1999-2000.

In recent years, the decision to unwind the previous year's undershoot or overshoot in gilt sales has been a portfolio decision. This year, the inclusion of the residual which unwinds the previous year's excess gilt sales is only a presentational device. This year, as part of its portfolio decisions, the government has decided to issue more Treasury bills in order to build up the stock of these bills to a level that will enable the DMO to start to use them as the main instrument for smoothing the government's cash flow, as a key part of the cash management operations. This requires an increase in short-term debt over and above that necessary for unwinding the effects of excess gilt sales in 1998-99. The total increase in short-term debt is assumed to be £5.9 billion. This increase has been split in the financing arithmetic into the unwinding residual and the expected net increase in short-term debt issuance as a presentational device to make it clear how much of the increase is necessary to leave the stock of short-term debt unchanged, and the amount of short-term debt that the government plans to issue as an actual net increase to reach the higher level of stock that is needed initially for cash management. This is illustrated in the following table:

Change in short-term debt in 1999-2000 for cash management

	£ billion
Increase in Treasury bills	6.2
Financing of cash deposit in Bank of England	0.2
Expected repayment of Ways and Means	-0.5
Total net increase in short-term debt	**5.9**
Presentation in financing arithmetic:	
Residual unwinding decrease in short-term debt in 1998-99 [1]	2.3
Expected net increase in issuance to meet initial requirements on DMO's cash management operations in 1999-2000	3.6
Total net increase in short-term debt	**5.9**

[1] The stock of short-term debt was reduced in 1998-99 to offset excess gilt sales

For the purposes of these plans, the net increase in Treasury bills and Ways and Means in 1999-2000 is assumed to achieve a stock of Treasury bills issued outside central government of about £10 billion and a level of Ways and Means of about £17 billion, by 31 March 2000. This is the assumed level at which Ways and Means will be frozen, following completion of cash management transfer. These 31 March 2000 stock level figures are only planning assumptions. In the event that the government revises its financing programme for 1999-2000, any changes in the financing requirement could be accomodated by changes to planned issuance of short-term debt and therefore to these figures for the stock of Treasury bills and other short-term debt at 31 March 2000, as well as by changes to planned gilt issuance. Further details of how any changes to the financing requirement might be accomodated are written into paragraphs 9 and 10 of the DMO remit.