

## **PUBLICATION OF THE DMO's REMIT FOR 2006-07**

The DMO's Remit for 2006-07 has been published today as part of the Budget 2006 announcements. The main points are summarised below.

### **Debt issuance by the DMO**

The DMO plans to raise £65.0 billion in 2006-07. This will be divided between:

- £63.0 billion gilt sales and;
- a £2.0 billion increase in the stock of Treasury bills.

### **Planned gilt sales**

Gilt sales will include:

- A minimum pre-committed issuance programme of £53.0 billion and;
- a supplementary issuance amount of £10.0 billion to be allocated on a quarterly basis through the financial year (approximately £2.5 billion per quarter). The allocation from the supplementary amount to be issued in Q1 is announced today as part of the remit and will take the form of £2.5 billion long conventional gilt issuance

The pre-committed programme announced today therefore comprises:

- At least £10.0 billion short conventional gilt sales in at least 4 auctions;
- At least £10.0 billion medium conventional gilt sales in at least 4 auctions;
- At least £19.5 billion long conventional gilt sales<sup>1</sup> in at least 9 auctions;
- At least £16.0 billion index-linked gilt sales in at least 16 auctions;

### **Introduction of temporary changes to the pre-commitment framework to allow greater responsiveness of gilt issuance in a potentially challenging market environment**

The pre-committed (core) programme aims at ensuring predictable and regular issuance across the maturity spectrum throughout the year and at building up benchmarks at key maturities (e.g. 5-year and 10-year for conventional issuance).

The supplementary issuance amount is intended to provide an enhanced ability for the DMO to respond to any substantial changes in demand for gilts. The allocation of the supplementary amount to be issued in each subsequent quarter will be the subject of discussion at the quarterly consultation meetings hosted by the DMO and will be announced as part of the quarterly gilt sales announcements.

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<sup>1</sup> Including £17.0 billion from the core programme and £2.5 billion of supplementary gilt issuance in Q1.

Supplementary issuance may comprise additional auctions and/or increases to the sizes of the pre-committed auctions as required.

This change is being introduced on a temporary basis to allow the DMO to respond to a potentially challenging market environment. The DMO will seek feedback from the market on the impact of the modification, with a view to informing the Government's decisions about the DMO financing remit for 2007-08.

### **Frequency and regularity of issuance**

The DMO will aim to hold at least one short and one medium conventional gilt auction each quarter and to hold at least two long conventional gilt auctions each quarter.

The DMO will also aim to hold at least one long index-linked gilt auction every month.

These plans are intended to increase the transparency and predictability of the DMO policy of regular and evenly spaced issuance across the financial year.

### **Earlier dates for quarterly gilt issuance announcements**

With the exception of the first quarter, the consultation meetings (and the subsequent quarterly calendar announcements) will be brought forward by one month (to May, August and November) to provide a greater degree of predictability and pre-commitment throughout the year.

Following the quarterly consultation meetings on 27 March 2006 further details of the gilt auction calendar for April-June 2006 will be announced by the DMO at 3.30pm on Tuesday 28 March.

### **Gilt auction calendar**

The gilt auction calendar is reproduced at Table 1. This calendar will be updated, as necessary, as any additional auctions are scheduled in the final three quarters of the financial year, as part of the implementation of the unallocated gilt issuance programme.

### **Switch auctions**

The DMO has no plans to hold any switch auctions in 2006-07. Switch auctions will no longer be used to accommodate secondary market events, for example, facilitating switches out of a particular gilt when it is about to fall out of a significant maturity bracket. Switch auctions will, however, continue to be available for debt management purposes, for example, in order to build up the size of new gilt benchmarks more quickly than can be achieved through outright auctions alone (which is particularly

relevant in times of low financing requirements). The DMO is today publishing updates to its operational notices to take this amendment into account.

### **Treasury bill sales**

The stock of Treasury bills in market hands is scheduled to rise by £2.0 billion in 2006-07, taking the planned stock at-end March 2007 to £21.1 billion.

### **Changes to the financing requirement**

The Debt and Reserves Management Report (DRMR) includes new forecasts for the Central Government Net Cash Requirement (CGNCR) of £40.6 billion for 2005-06 and £41.2 billion in 2006-07. These are a reduction of £2.7 billion and an increase of £1.2 billion respectively since the forecasts published in the Pre-Budget Report (PBR) 2005. The other changes contributing to financing in 2005-06 since PBR 2005 are:

- an increase of £0.6 billion in net sales by National Savings & Investments (NS&I), taking their contribution to financing to £4.8 billion;
- secondary market net purchases of gilts by the DMO of £0.1 billion.

The gross financing requirement for 2006-07 is forecast to be £68.0 billion<sup>2</sup>. After taking account of National Savings & Investments' estimated net contribution to financing of £3.0 billion, the net financing requirement is forecast to be £65.0 billion. This is being financed by gilt sales of £63.0 billion, and an increase in the Treasury bill stock of £2.0 billion.

The financing arithmetic for 2005-06 and 2006-07 is reproduced at Table 2. The split between the core and the unallocated gilt issuance programmes is summarised in Table 3. Also reproduced at Table 4 are illustrative financing projections out to 2010-11.

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<sup>2</sup> After taking account of a necessary run-down of £3.1 billion in the DMO's net short-term cash position at the end of 2005-06.

**Table 1: Gilt auction calendar**

<b>2006</b>	
4 April	Conventional
11 April	Index-linked
25 April	Index-linked
11 May	Conventional
23 May	Index-linked
25 May	Conventional
7 June	Conventional
22 June	Conventional
27 June	Index-linked
4 July	Conventional
11 July	Index-linked
25 July	Index-linked
1 August	Conventional
23 August	Index-linked
5 September	Conventional
21 September	Conventional
27 September	Index-linked
3 October	Conventional
12 October	Index-linked
24 October	Index-linked
23 November*	Conventional
28 November*	Index-linked
5 December*	Conventional
6 December*	Conventional
14 December*	Index-linked
<b>2007</b>	
9 January	Conventional
18 January	Index-linked
25 January	Index-linked
20 February*	Index-linked
22 February*	Conventional
6 March*	Conventional
15 March*	Conventional
27 March*	Index-linked

\* Subject to confirmation following the Chancellor's decisions on the Budgetary timetable.

**Table 2: Financing arithmetic table**

Financing arithmetic (£bn)	2005-06	2006-07
CGNCR	40.6	41.2
Redemptions	14.6	29.9
Financing for reserves	0.0	0.0
Buy-backs	0.1	0.0
Planned short-term financing adjustment <sup>1</sup>	-2.5	-3.1
<b>Financing requirement</b>	<b>52.8</b>	<b>68.0</b>
Less		
NS&I	4.8	3.0
<b>Net financing requirement</b>	<b>48.0</b>	<b>65.0</b>
Financed by		
<b>1. Debt issuance by the DMO</b>		
a) T bills	-1.2	2.0
b) Gilt sales	52.3	63.0
<b>2. Other planned change in short term debt<sup>2</sup></b>		
Ways and Means	0.0	0.0
<b>3. Unanticipated change in short term cash position<sup>3</sup></b>	<b>3.1</b>	<b>0.0</b>
<b>Total financing</b>	<b>51.1</b>	<b>65.0</b>
<b>Short-term debt levels at end of financial year</b>		
T bill stock (in market hands)	19.1	21.1
Ways and Means	13.4	13.4
DMO net cash position	3.3	0.2
<i>1. To accommodate changes to the current year's financing requirement resulting from (i) publication of the previous year's outturn CGNCR and/or (ii) carry over of unanticipated changes to the cash position from the previous year.</i>		
<i>2. Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment, (ii) Treasury bill sales and (iii) changes to the level of Ways and</i>		
<i>3. A negative (positive) number indicates an increase in (reduction of) the financing requirement for the following financial year.</i>		

**Table 3: Core and unallocated gilt issuance table**

<b>Planned gilt sales (£bn)</b>		<b>63.0</b>	<b>Q1</b>	<b>Q1</b>
<b>Core issuance programme</b>	<b>Min</b>		<b>Additional Allocated</b>	<b>Updated programme</b>
Conventional				
Short	10.0			10.0
Medium	10.0			10.0
Long	17.0		2.5	19.5
	<b>37.0</b>			<b>39.5</b>
Index-linked	16.0			16.0
<b>Total</b>	<b>53.0</b>		<b>2.5</b>	<b>55.5</b>
<b>Gilt sales to be allocated</b>				
	<b>10.0</b>			<b>7.5</b>

**Table 4: Illustrative financing projections.**

<b>Illustrative financing projections (figures may not sum due to rounding)</b>				
<b>£bn</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
<b>CGNCR projections</b>	<b>35</b>	<b>30</b>	<b>31</b>	<b>28</b>
<b>Redemptions</b>	<b>29</b>	<b>18</b>	<b>16</b>	<b>23</b>
<b>Financing Requirement*</b>	<b>64</b>	<b>48</b>	<b>47</b>	<b>51</b>
<b>CGNCR change since PBR</b>	<b>-2</b>	<b>-1</b>	<b>-2</b>	<b>-1</b>

*\*indicative gross financing requirements.*

More details about the Governments financing programme for 2006-07 and the DMO Remit are included in the Debt and Reserves Management Report (DRMR) 2006-07, which can be found at [www.dmo.gov.uk/remit/drmr0607.pdf](http://www.dmo.gov.uk/remit/drmr0607.pdf)