

## **Explanation of the Financing Arithmetic 2008-09**

### **A. Introduction**

1. In accordance with the principles of openness and transparency in debt management policy, this announcement explains the 2008-09 financing arithmetic table published in the Debt and Reserves Management Report (DRMR) 2008-09 alongside Budget 2008, focussing in particular on the net financing requirement and planned debt issuance by the DMO in 2008-09. The updated financing arithmetic for 2007-08 together with the published financing arithmetic for 2008-09 is set out in Table 2 in the DMO's financing remit screen and website announcement published today. This announcement does not attempt to explain the fiscal aggregates published in Budget 2008 including the overall structure of the Central Government Net Cash Requirement (CGNCR) and the aggregates used to assess performance against the fiscal rules.

### **B. Derivation of the Net financing requirement**

2. Central Government Net Cash Requirement (CGNCR). The 2008 Budget forecast for the 2008-09 CGNCR is £59.3bn. The CGNCR forecast includes the impact of HM Treasury's decision to replace the loan from the Bank of England to Northern Rock plc with a direct loan from HM Treasury to Northern Rock, which is required to comply with restrictions in the Treaty establishing the European Community on central bank financing of government undertakings. The net amount outstanding of that loan at 31 March 2009 is projected to be £14.0bn and this is the amount by which the CGNCR is increased as a result of this refinancing decision. The forecast for CGNCR including the impact of the loan will, as normal, be subject to update as necessary at the Pre-Budget Report in Autumn 2008.

3. Gross gilt redemptions are expected to be £17.3bn in 2008-09.

4. Financing for the official reserves. The Government's US\$3bn 5-year bond matures in July 2008 and the bond will be refinanced through sterling issuance. In addition there will be a small increase in the hedged reserves to be financed through sterling. These factors will increase the gross financing requirement by £2.0bn.

5. Planned short-term financing adjustment. A £4.2bn planned short-term financing adjustment will increase the gross financing requirement in 2008-09. This arises as a result of several factors that impact the financing arithmetic in 2007-08 that are carried forward into 2008-09. The largest of these factors is the partial repayment in 2007-08 of £6.0 billion of the Treasury's Ways & Means Advance at the Bank of England, which was financed through the DMO's cash management operations during 2007-08. However, other factors reduce the impact on financing of this repayment, including in-year adjustments to National Savings & Investments' (NS&I's) net contribution to

financing. The total impact of these factors leaves the end-March 2008 DMO net cash position at -£3.7bn. In order to rebuild the DMO's net cash position to its planned level of £0.5bn by end-March 2009, a short-term financing adjustment of £4.2bn will be required during 2008-09.

6. The sum of the above factors leads to a forecast gross financing requirement in 2008-09 of £82.8bn.

7. National Savings & Investments. NS&I is assumed to make a £4.0bn net contribution to financing in 2008-09.

8. Net financing requirement. The assumed net contribution to financing from NS&I is deducted from gross financing to get to a net financing requirement of £78.8bn.

### **C. Debt issuance by the DMO**

9. Total planned gross debt issuance by the DMO in 2008-09 is £85.8bn comprising £80.0bn of gilt issuance and £5.8bn of net Treasury bill issuance (leading to a planned end-financial year stock of T-bills of £22.0bn). Gross debt issuance is, therefore, £7.0bn higher than the net financing requirement.

10. Further repayment of the Treasury's Ways & Means Advance in 2008-09. The £7.0bn addition to total debt issuance by the DMO on top of the net financing requirement arises from HM Treasury's intention to repay during 2008-09 up to a further £7.0bn of its Ways & Means Advance at the Bank of England. In the financing arithmetic table this is recorded as a reduction in planned short-term debt. The intention to make further repayments during 2008-09 is being announced at Budget 2008 in order to ensure debt issuance plans are as transparent as possible.

### **D. Gilt issuance split**

11. The financing arithmetic table sets out the split of issuance between conventional and index-linked gilts together with the allocation of conventional issuance between the short, medium and long maturity baskets. Further analysis underpinning decisions on gilt issuance, together with the DMO's financing remit is set out in the DRMR 2008-09.