

PRE-BUDGET REPORT 2008: REVISION TO THE DMO'S FINANCING REMIT

As a result of the revised forecast of the public finances published today in PBR 2008, planned gilt sales are being increased by £36.4 billion to £146.4 billion (compared to the revised remit announced on 14 October in connection with the financing of bank recapitalisation). 10 gilt auctions and 4 mini-tenders are being added, taking the programme of gilt operations for the financial year to 58 auctions and 8 mini-tenders. The calendar of operations for Q4 2008-09 is shown at Annex A.

The development of the gilt financing remit in-year and the additional gilt sales planned at PBR are being split as follows

£ billions	Original Remit	14-Oct	Increase at PBR	New total	Auctions added at PBR
Short conventional	25.0	46.0	16.8	62.8	4*
Medium conventional	12.8	19.8	13.3	33.1	4
Long conventional	24.2	25.2	5.3	30.5	1*
Index-linked	18.0	19.0	1.0	20.0	1
	80.0	110.0	36.4	146.4	10

**in addition one mini tender of short-dated and three mini-tenders of long-dated conventional gilts will be held.*

Changes to the CGNCR since Budget 2008

The revised forecast for the Central Government Net Cash Requirement (CGNCR) for 2008-09 is £152.9 billion, an increase of £93.6 billion compared to the forecast published at Budget 2008. A number of specific factors account for the bulk of this increase:

- £37.0 billion for the Government's Bank Recapitalisation Fund (as announced on 13 October);
- £21.0 billion to refinance the Bank of England's loans to the Financial Services Compensation Scheme (FSCS) for retail depositors in Bradford & Bingley and UK subsidiaries of Icelandic banks eligible for payments from the FSCS and Icelandic Depositors' and Investors' Guarantee Fund (ICS);
- £5.7 billion to refinance the Bank of England's working capital loan to Bradford & Bingley;
- a payment of £5.4 billion for retail depositors in Bradford & Bingley and UK subsidiaries of Icelandic banks covering that part of the deposits above the compensation limits; and
- a downward revision in the forecast of the amount outstanding on the Government's loan to Northern Rock as at 31 March 2009 from £14.0 billion at Budget 2008 to £12.2 billion.

Changes to the DMO net financing requirement since April 2008

Other factors, in addition to changes in the CGNCR, which have affected the DMO's net financing requirement for 2008-09 since the last restatement of the financing arithmetic are:

- an increase of £1.0 billion (to £18.3 billion) in gilt redemptions (as a result of the mini-tender of 4% Treasury Stock 2009 held on 20 October); and
- an increase of £7.0 billion (to £11.0 billion) in the forecast net contribution to financing by National Savings and Investments (NS&I).
- A change in the financing assumptions for the official reserves of £2.0 billion.

Together the factors above have led to an increase of £85.6 billion (to £157.7 billion) to the DMO's net financing requirement since the financing arithmetic was last restated in April 2008.

Gilt sales

Additional planned gilt sales finance £66.4 billion of the increase in the net financing requirement since the April revision of the financing remit. £30.0 billion additional gilt sales were announced in the remit revision on 14 October, in connection with banking sector re-capitalisation, and a further increase of £36.4 billion is being announced today.

Short term debt

Net short term debt is forecast to contribute the remaining £19.2 billion to meet the increased net financing requirement. This is made up of:

- £15.4 billion from Treasury bill sales, which have moved from planned net sales of -£0.9 billion in April to +£14.5 billion at PBR (planned sales of Treasury bills had previously been increased by £7.0 billion in the remit revision announced on 14 October). The PBR revision results in a current planning assumption for the end-financial year Treasury bill stock (in market hands) of £32.1 billion; and,
- a temporary increase of £3.8 billion in short-term borrowing from the Ways and Means in order to smooth the impact of the financing of part of the Bank of England's loans to the FSCS. The Government had earlier repaid £7.0 billion of the Ways and Means Advance, and as a result of the change announced today, the net repayment of the Ways and Means in 2008-09 is expected to be £3.2 billion.

Introducing a planning assumption about the end-year Treasury bill stock rather than a target means that in practice the DMO has greater flexibility over the extent to which it uses Treasury bill issuance or other cash management instruments to finance the increases in short-term debt.

Mini-tenders of gilts

Mini-tenders were introduced as part of the additional operations scheduled in the remit revision announced on 14 October to finance the recapitalisation of the banking sector. Three of the four mini-tenders scheduled for Q3 2008-09 have now been held. HM Treasury has agreed that these operations may be incorporated into the 2008-09 financing remit and the following text will be inserted into the debt management remit, between paragraphs 5.10 and 5.11¹:

“The above programme of conventional and index-linked gilt auctions and any others that may be added during the year may be supplemented between auctions by official sales of gilts by the DMO by mini-tender. In its quarterly issuance calendar the DMO will specify the week(s) in which any tenders will take place. Advance notice will be given of the specific details of the tenders”.

Size of benchmark gilts

In order both to widen issuance choices and to contribute to managing the frequency and timing of the launch of new gilts, the DMO is prepared to re-open individual gilts to larger sizes than has been the practice to date. In decisions on the maturity of new gilts the DMO will have explicit regard to the impact on the redemption profile.

¹ Available at www.dmo.gov.uk/documentview.aspx?docname=remit/drmr0809.pdf&page=Remit/full_details

The revised financing arithmetic is shown in the table below.

2008-09 Financing arithmetic (£bn)	April 2008 revision	PBR
CGNCR	59.3	152.9
Gilt redemptions	17.3	18.3
Financing for reserves	2.0	0.0
Buy-backs	0.0	0.0
Planned short-term financing adjustment ¹	-2.5	-2.5
Financing requirement	76.1	168.7
Less		
NS&I	4.0	11.0
Net financing requirement	72.1	157.7
Financed by		
1. Debt issuance by the DMO		
a) Treasury bills²	-0.9	14.5
b) Gilt sales	80.0	146.4
of which:		
Short-dated conventionals	25.0	62.8
Medium-dated conventionals	12.8	33.1
Long-dated conventionals	24.2	30.5
Index-linked gilts	18.0	20.0
2. Other planned change in short term debt		
Ways and Means	-7.0	-3.2
3. Change in short term cash position³	0.0	0.0
Total financing	72.1	157.7
Short-term debt levels at end of financial year		
Assumed Treasury bill stock (in market hands)	16.7	32.1
Ways and Means	0.4	4.2
DMO net cash position	0.5	0.5
<p>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.</p>		
<p>2 The stock change shown here is a planning assumption. The DMO may finish the financial year with a higher or lower Treasury bill stock than indicated here, depending primarily on the extent to which the DMO uses other short term cash instruments to raise finance.</p>		
<p>3. The zero change for the short-term cash position assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. To the extent that the DMO uses alternative short-term cash instruments to raise finance within year, this will be reflected (as a negative number) in this line of the financing arithmetic table. A negative (positive) number here indicates an increase in (reduction of) the financing requirement for the following financial year.</p>		

Illustrative gross financing projections

Updated PBR projections of the CGNCR from 2009-10 to 2012-13 (derived from the published figures expressed as a percentage of GDP beyond 2009-10) are shown in the table below². These have been added to the redemption totals for the years in question to produce illustrative gross financing requirements. These are not gilt sales forecasts and make no assumptions about either the forecast contribution to financing by NS&I or short-term debt sales.

Illustrative financing projections (Pre-Budget Report 2008)				
£bn	2009-10	2010-11	2011-12	2012-13
CGNCR projections	126	108	97	80
Gilt redemptions	17	39	38	24
Financing requirement*	143	147	135	104
CGNCR change since Budget 2008	77	67	57	48
<i>*indicative gross financing requirements.</i>				

Gilt sales and the new remit at PBR 2008

Gilt sales v new remit at PBR 2008 (£ millions)					
	Conventional Gilts			Index-linked gilts	Total
	Short	Medium	Long		
Gilt sales to date	31,671	17,591	16,543	11,547	77,352
Total planned sales	62,800	33,100	30,500	20,000	146,400
Total auctions planned	16	11	12	19	58
Sales remaining	31,129	15,509	13,957	8,453	69,048
Auctions remaining	8	5	5	8	26
Mini-tenders remaining	1	0	3	1	5

² Numbers may not sum due to rounding.

Annex A

Operations calendar: January-March 2009 (Operations added at PBR in bold)	
Date	Type
wc 5 Jan	Conventional mini-tender
7-Jan	Conventional auction
13-Jan	Conventional auction
15-Jan	Index-linked auction
wc 19 Jan	Conventional mini-tender
22-Jan	Conventional auction
27-Jan	Index-linked auction
29-Jan	Conventional auction
3-Feb	Conventional auction
4-Feb	Conventional auction
10-Feb	Conventional auction
12-Feb	Index-linked auction
wc 16 Feb	Conventional mini-tender
19-Feb	Conventional auction
24-Feb	Index-linked auction
26-Feb	Conventional auction
3-Mar	Conventional auction
4-Mar	Conventional auction
10-Mar	Conventional auction
12-Mar	Index-linked auction
wc 16 Mar	Conventional mini-tender
19-Mar	Conventional auction
25-Mar	Conventional auction
26-Mar	Index-linked auction

Operation dates in February and March 2009 are subject to confirmation following the Chancellor's decisions on the Budgetary timetable.