



United Kingdom
Debt Management
Office

Sovereign Debt and Government Borrowing in the United Kingdom

Casgrain Economic Conference

July 2019

A brief history of UK government debt 1694-2019

- UK Government debt originated in a loan in 1694 of £1.2 million – to finance a war with France
- The financiers were awarded the Charter to form the bank which became the Bank of England



A brief history of UK government debt 1694-2019

- From 1694 to 1997, the Bank of England was the Government's debt manager
- UK Debt Management Office (DMO) set up in April 1998 following decision to give Bank of England independence in setting monetary policy
- Since the DMO was established, the government has borrowed over £2 trn through the issuance of gilts



Debt management framework

Debt management objective

Government's debt management objective

‘To minimise, over the long term, the costs of meeting the Government's financing needs, taking account of risk, while ensuring that debt management policy is consistent with the aims of monetary policy’



Debt management framework

Delivered through debt management principles

Decisions made with a long term focus

- The UK is a permanent borrower, so it avoids short-term strategies that are opportunistic: it has a focus on long-term cost and risk minimisation

Debt management policy principles

- Minimising market uncertainty through principles of openness, transparency and predictability
- Maintaining a liquid and efficient gilt market and encouraging secondary market liquidity, because government will be a repeat borrower
- Issuing gilts at benchmark points of the yield curve, in large size, to achieve benchmark premia



Debt management framework

Balancing cost and risk considerations

Cost

- **Demand:** ongoing dialogue with primary dealers and end-investors to assess structural demand for gilts
- **Yield curves:** analysing impact of structural demand on shape of nominal and real yield curves, assessing potential premia within the curve
- **Interest rates:** the government takes **no** view on future path of interest rates – it doesn't attempt to outpredict the market

Risk

- **Assess balance of risks**, including **interest rate** risk, **refinancing** risk, **regret*** risk, **inflation** risk, **liquidity** and **execution** risk
- In addition, take into account **practical considerations**, e.g. number and frequency of operations

* Borrowing at fixed rates which turn out to be unfavourable



Debt management framework

Transparency a key part of the framework

The DMO's financing remit is published for the year ahead - based on principles of transparency and predictability

It is set by HM Treasury ahead of the financial year, following consultation with Gilt-edged Market Makers (GEMMs) and end-investors

The financing remit sets out:

Volumes of issuance for the coming financial year

- Amounts to be raised through conventional and index-linked gilts
 - with a breakdown by maturity for conventional gilts (short, medium and long)
- Any new instruments

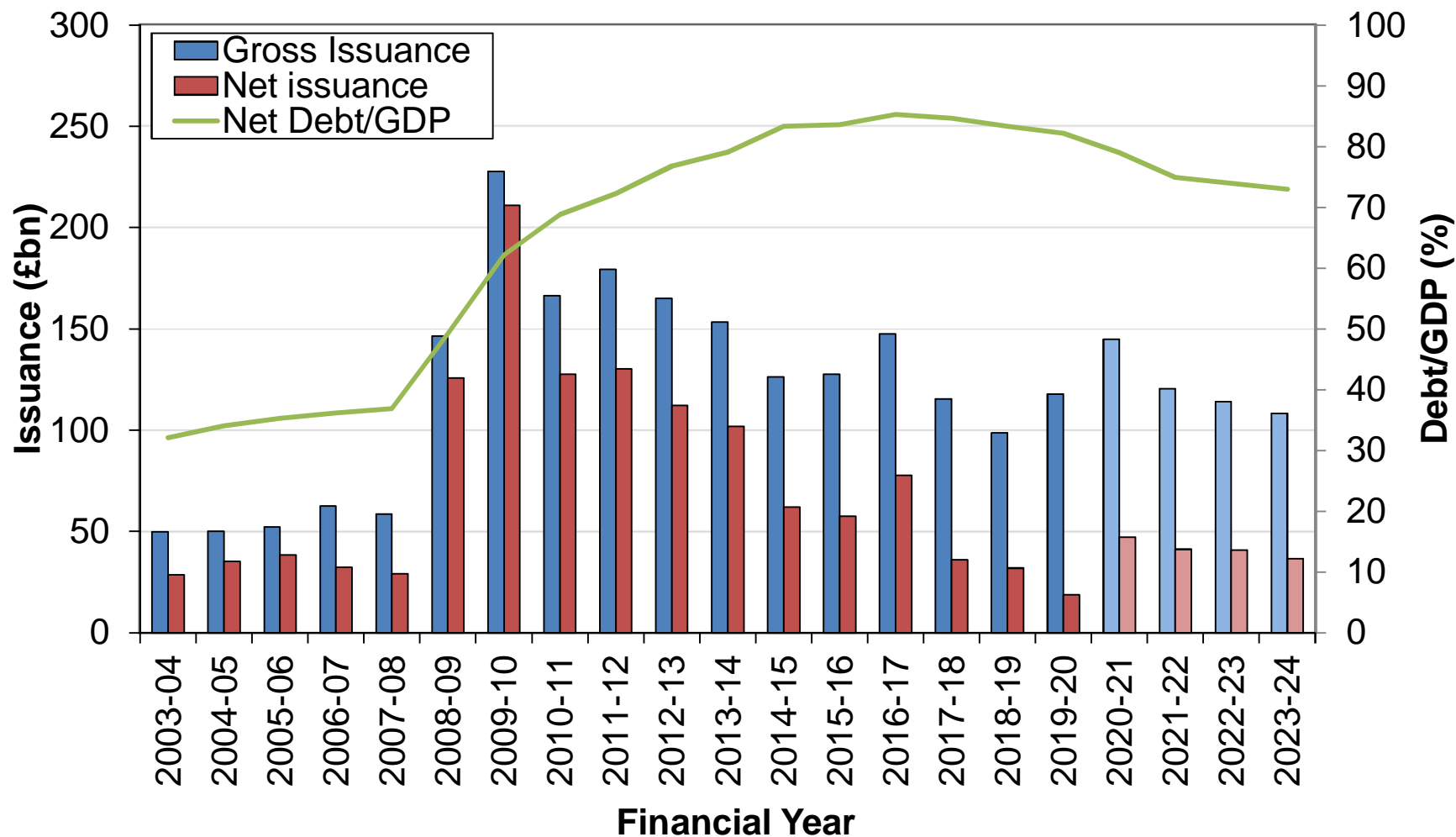
Timing of issuance and issuance methods

- Dates of planned auctions for the financial year ahead
- Details of issuance methods



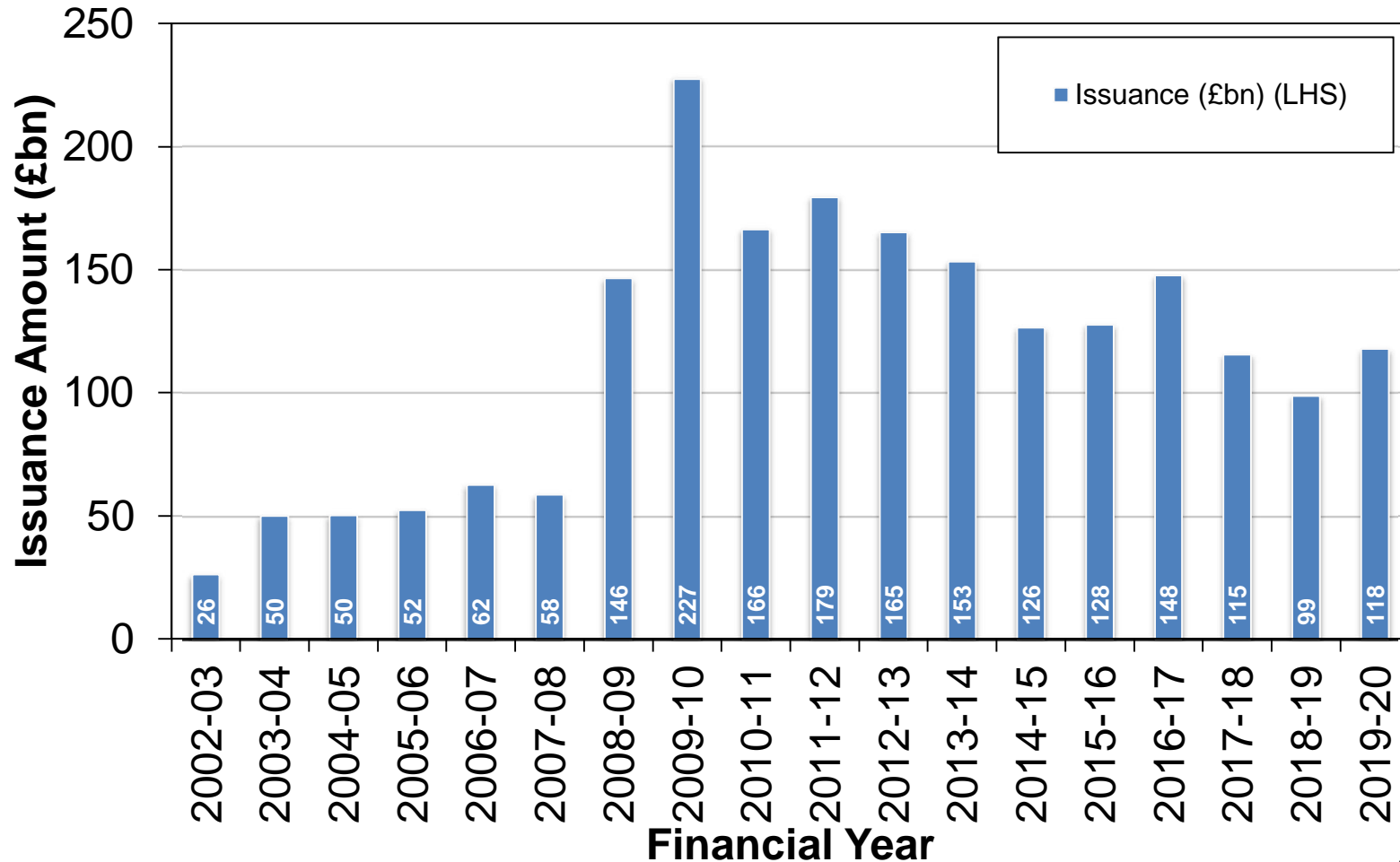
Economic and fiscal background

Gross and net issuance



Issuance amount in billions

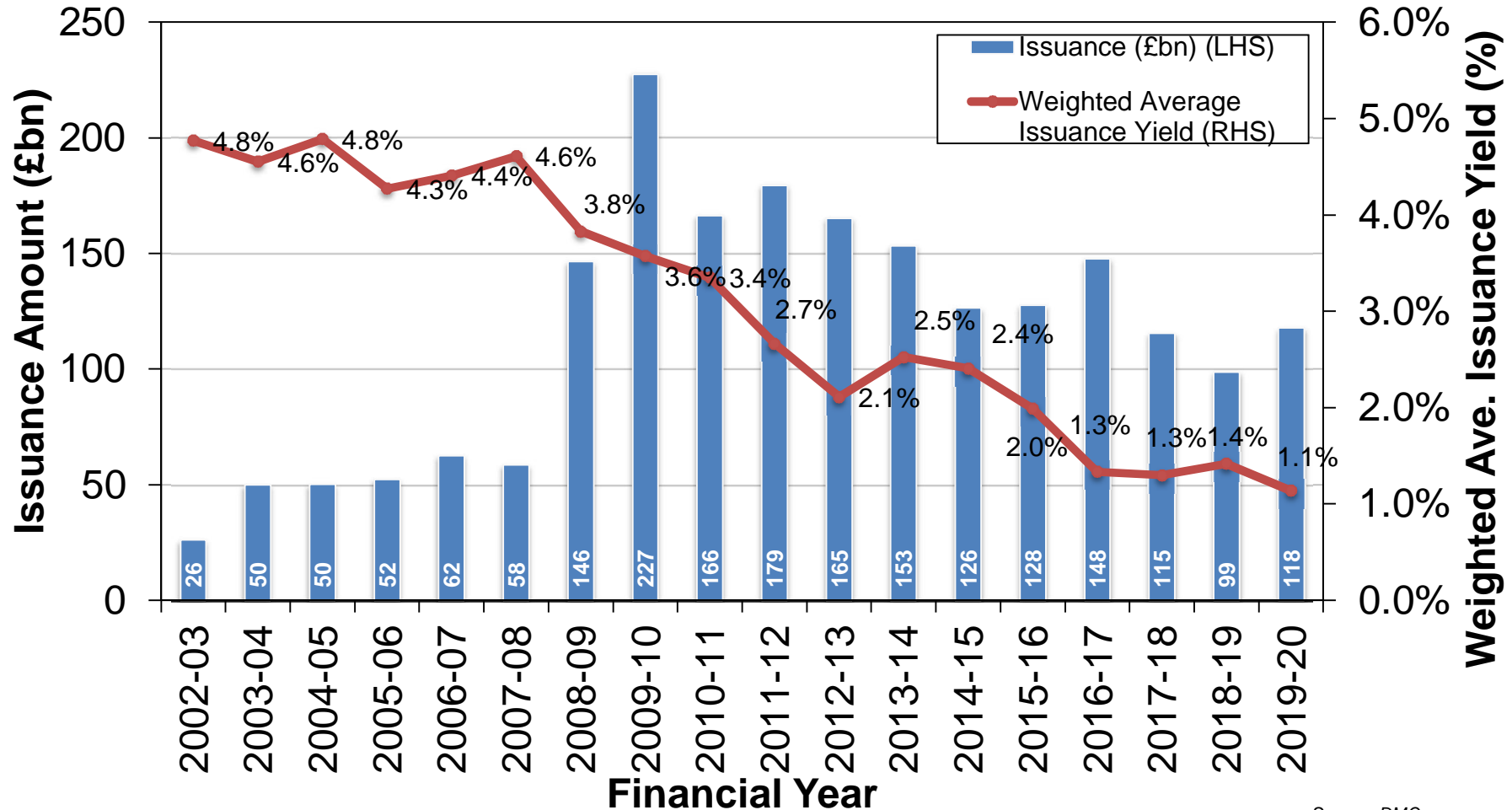
2002-03 to 2019-20



Source: DMO
Rounded to nearest £bn
Data at 4 June 2019



Issuance and average issuance yield

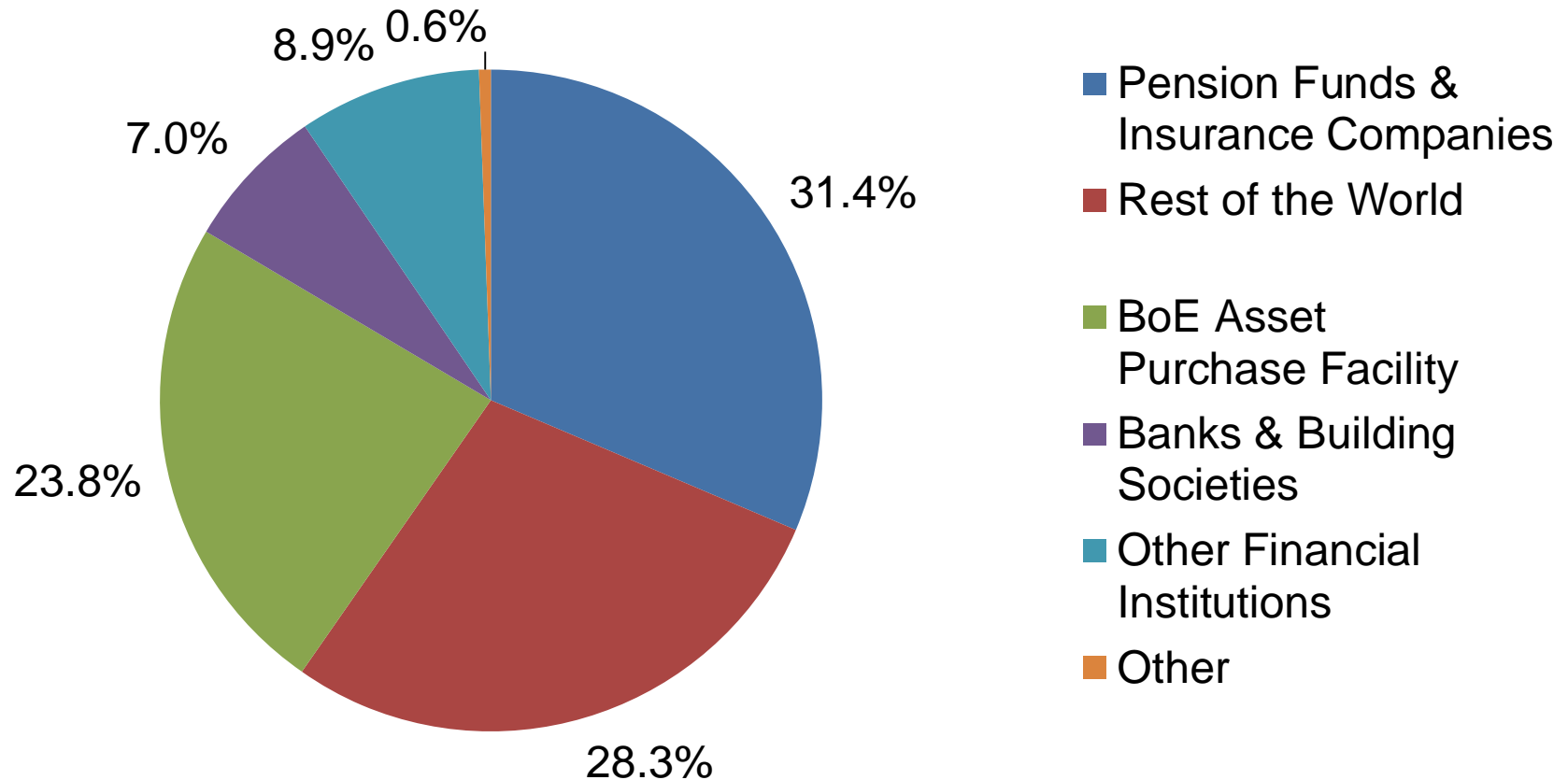


Source: DMO
Rounded to nearest £bn
Data at 4 June 2019



The gilt market

...for a diverse investor base...

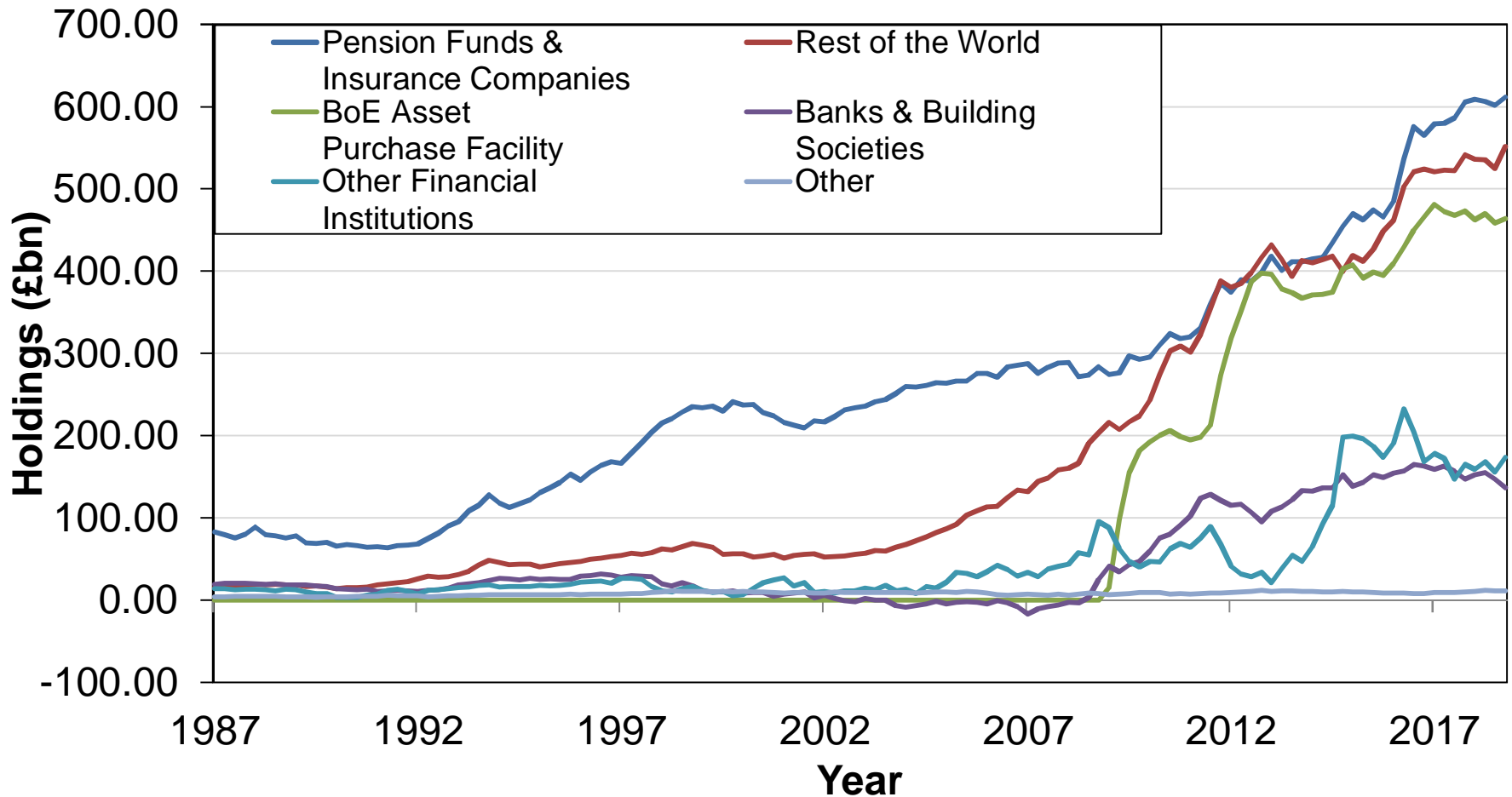


Source: ONS
Market value, gilt holdings, end-December 2018



The gilt market

...that has evolved significantly in recent years



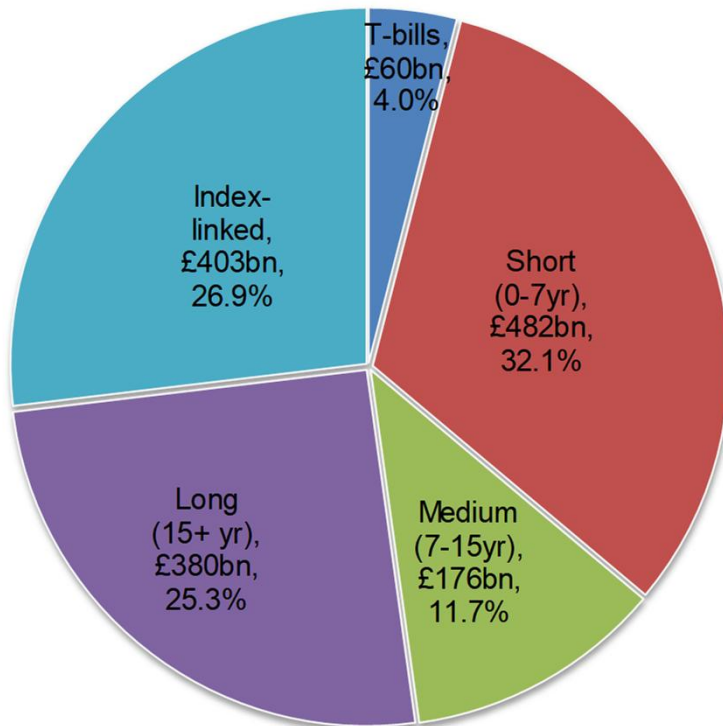
Source: ONS
Market value, end-December 2018



The gilt market

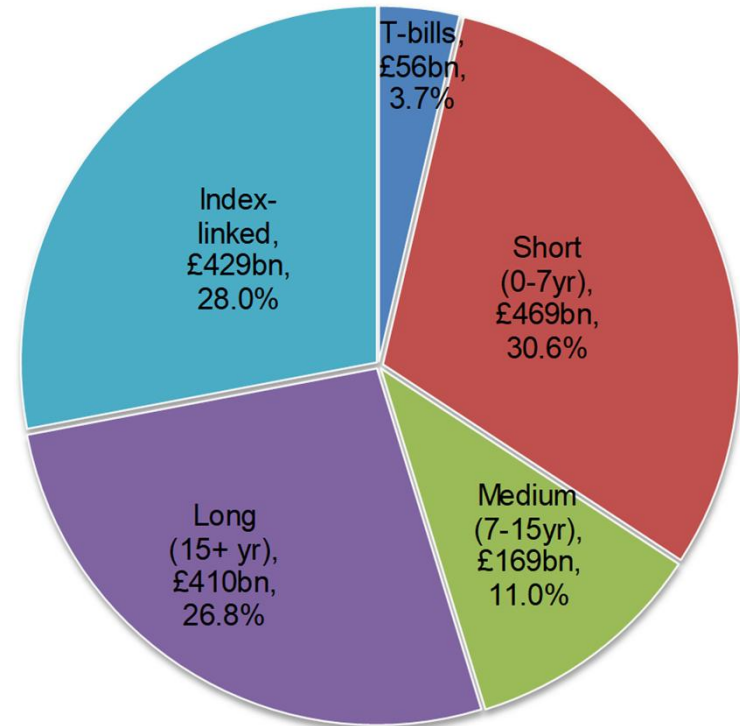
A diverse set of instruments and maturities...

March 2018



£1,501bn

March 2019

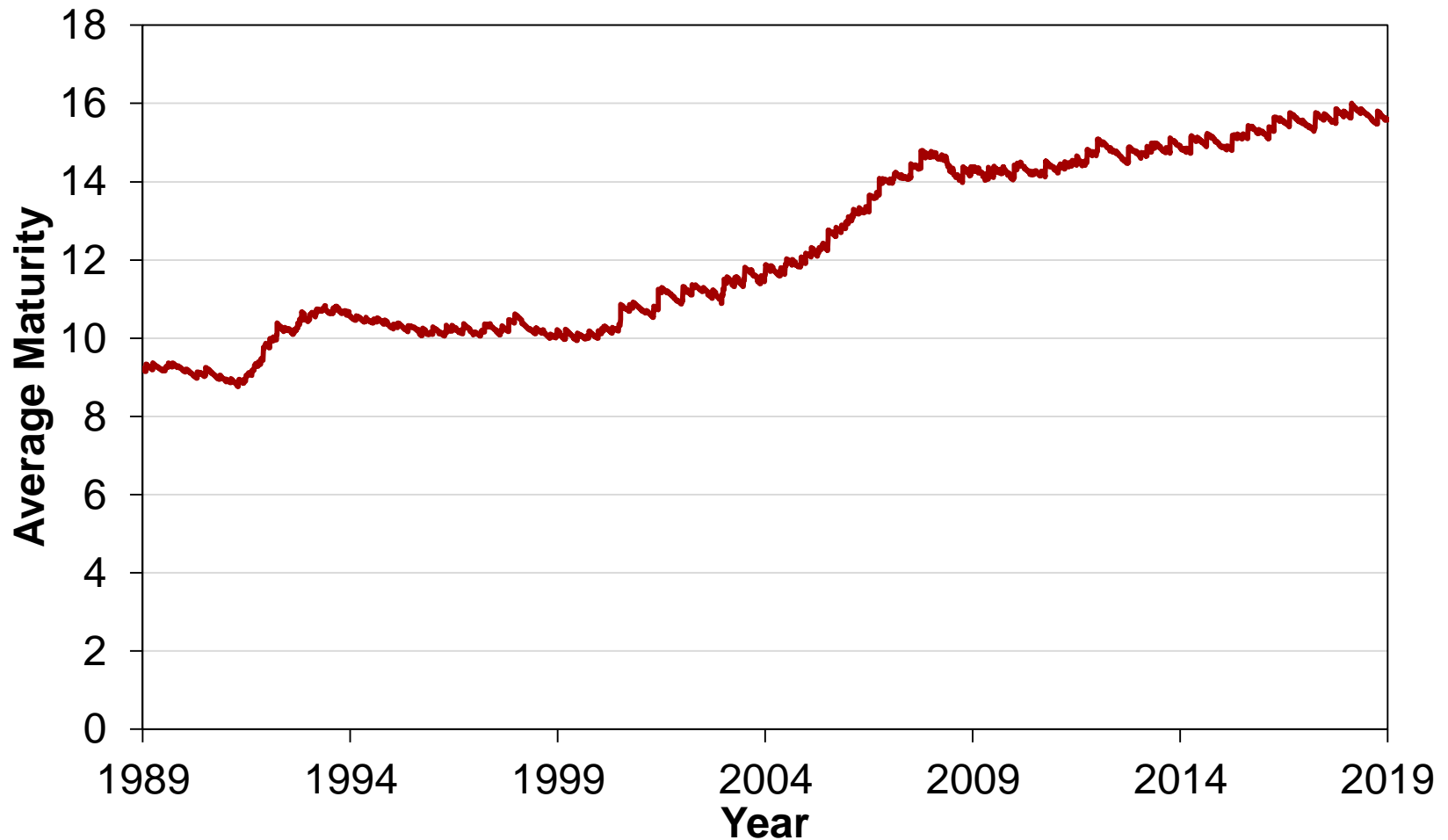


£1,533bn



The gilt market

The longest average debt maturity in the G7

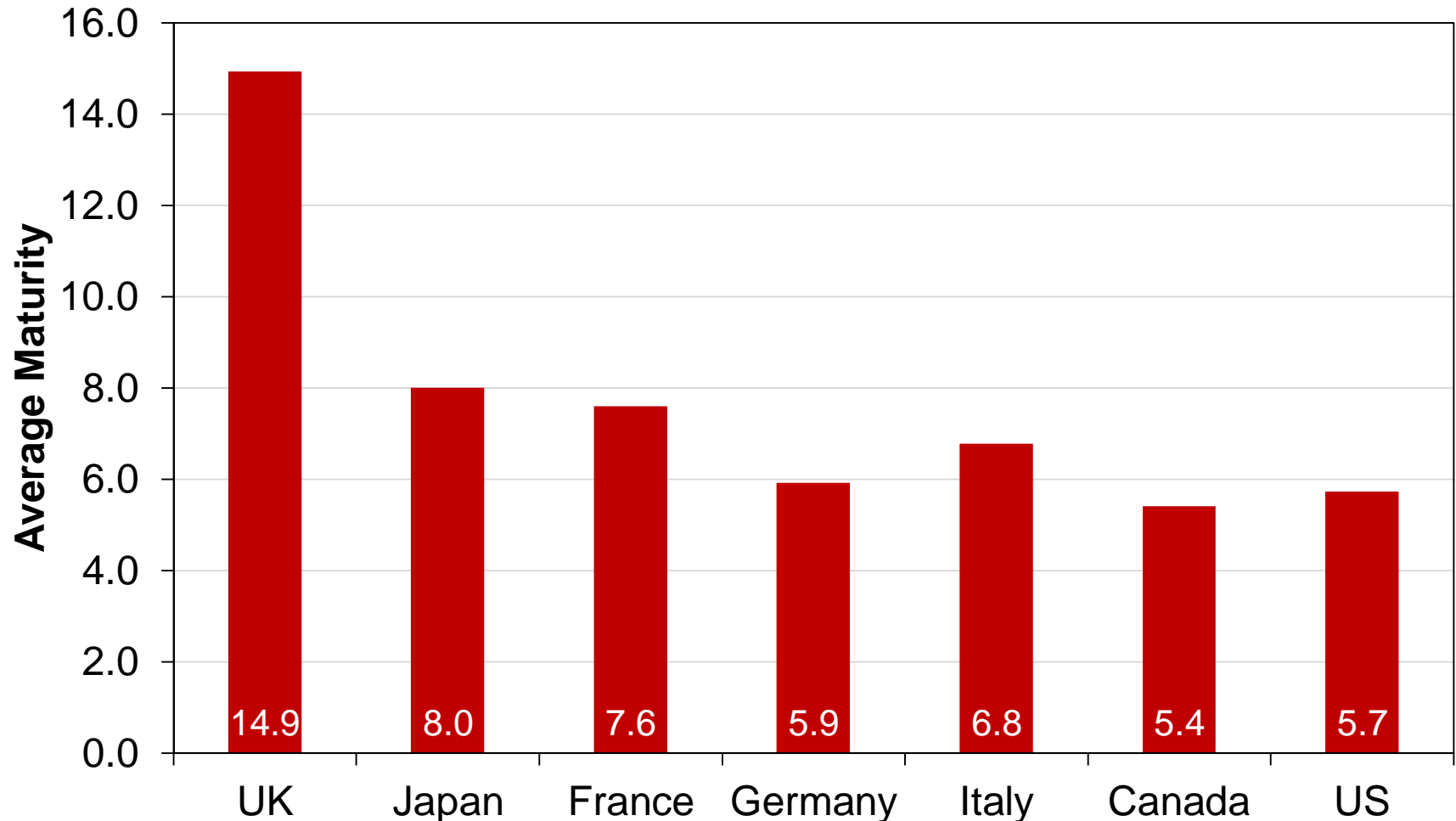


Source: DMO
Average maturity calculated using gross nominal, excluding Treasury bills, including inflation uplift.



The gilt market

The longest average debt maturity in the G7

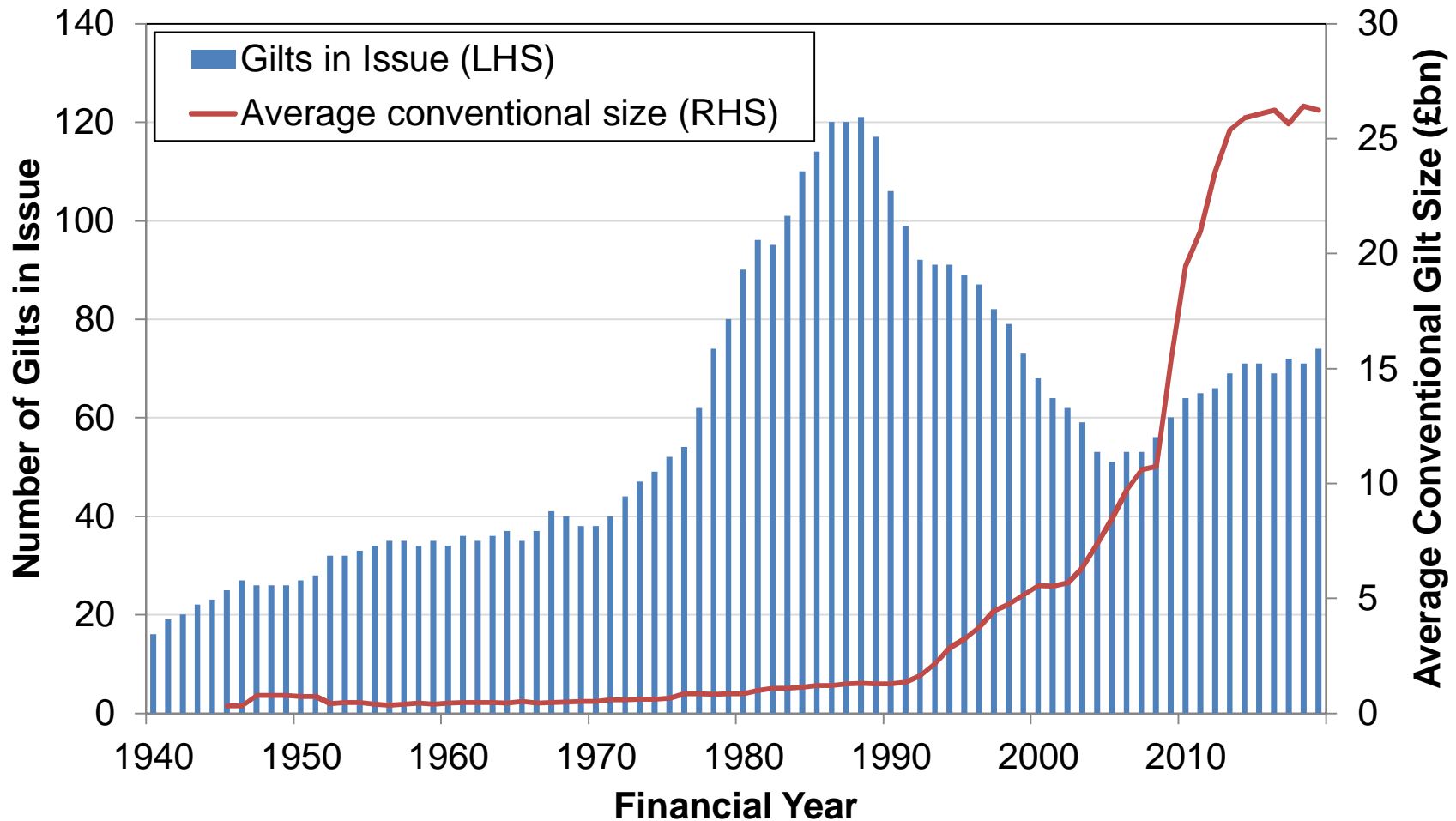


Source: Bloomberg (4 June 2019)
Methodology for calculating average maturity
is based on gross nominal values, includes Treasury bills.



Debt management framework

Example of benchmark building in practice



Source: DMO



The gilt market today - risk free & liquid, across the maturity spectrum

- The risk-free asset in sterling: gilts are zero-risk weighted
- Benchmark issues across the maturity spectrum
- Major market for inflation-indexed sovereign debt
- Supported by a primary dealer system of Gilt-edged Market Makers (GEMMs)
- A deep and liquid market, supporting efficient price adjustment



Financing in 2019-20

Summary of Financing Requirement

Net Financing Requirement of £121.8bn for 2019-20

Gilt sales

£117.8bn

Conventional:	Short: £30.5bn	Medium: £25.8bn	Long: £32.3bn
Index-linked:	£22.6bn		
Unallocated:	£6.6bn		

To be financed via:

Auctions:	£89.3bn	37 auctions
Syndications:	£21.4bn	5 syndications (3 conventional, 2 IL)
Tenders:	£0.5bn	1 tender

Net Treasury bill sales

£4.0bn



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