

JULY 2015 BUDGET: REVISION TO THE DMO FINANCING REMIT 2015-16

1. Following the publication today of the new fiscal aggregates announced in the Office for Budget Responsibility's (OBR's) July 2015 *Economic and Fiscal Outlook*, the DMO's net financing requirement for 2015-16 is falling by £14.0 billion compared to the remit revision announced in April 2015.
2. Planned gilt sales are being reduced by £3.5 billion, taking the new total for gilt sales in 2015-16 to £127.4 billion, and planned net sales of Treasury bills are being reduced by £10.5 billion.
3. The tables below show the changes to the overall split of gilt issuance and the reductions in planned sales at auctions. No gilt auctions are being cancelled. The currently assumed breakdown of gilt sales by type/maturity and method of issuance is shown at Annex A.

Changes to the overall split of gilt issuance

| Overall split of gilt issuance | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--|--------------|
| (£bn) | April | | July |
| Short | 33.2 | | 32.3 |
| Medium | 26.2 | | 25.4 |
| Long* | 36.7 | | 36.8 |
| Index-linked* | 30.8 | | 30.2 |
| Unallocated | 4.0 | | 2.7 |
| | 130.9 | | 127.4 |
| (%) | April | | July |
| Short | 25.4% | | 25.4% |
| Medium | 20.0% | | 19.9% |
| Long | 28.0% | | 28.9% |
| Index-linked | 23.5% | | 23.7% |
| Unallocated | 3.1% | | 2.1% |
| * The long conventional and index-linked gilt sales totals for July include transfers from the initially unallocated supplementary issuance programme. £1.0bn was allocated to long conventional gilts (via a mini-tender) and £0.3bn was allocated to index-linked gilts (via a syndicated offer). | | | |

Reductions in planned gilt sales at auctions

| | Reductions in gilt sales at auctions (£bn) | New Totals |
|-----------------|--------------------------------------------|-------------|
| Auctions | | |
| Short | 0.9 | 32.3 |
| Medium | 0.8 | 25.4 |
| Long | 0.9 | 26.5 |
| Index-linked | 0.9 | 15.0 |
| | 3.5 | 99.2 |

4. The consequential reductions in average sizes of gilt auctions for the remainder of the financial year are shown in the table below.

Reductions in average auction sizes

| | Short | Medium | Long | Index-linked | Totals |
|------------------------------------------------|--------------|--------------|--------------|--------------|----------------|
| April targets | 33,200 | 26,200 | 27,400 | 15,900 | 102,700 |
| July Budget reductions | 900 | 800 | 900 | 900 | 3,500 |
| New targets | 32,300 | 25,400 | 26,500 | 15,000 | 99,200 |
| Average auction sizes: pre-July Budget | 4,124 | 3,321 | 2,250 | 1,446 | |
| Average auction sizes: post-July Budget | 3,944 | 3,188 | 2,138 | 1,333 | |
| Reduction at Budget | - 180 | - 133 | - 113 | - 113 | |

Treasury bill sales

5. The planned end-March 2016 stock of Treasury bills is being reduced by £10.5 billion relative to that planned at the April remit revision, to £61.5 billion. It is now anticipated that the stock of Treasury bills in market hands will fall by £3.5 billion in 2015-16 as opposed to the planned stock-build of £7.0 billion announced at the remit revision in April.

Changes to the financing requirement at the July Budget 2015

6. The OBR's latest forecast for the Central Government Net Financing Requirement (excluding Northern Rock (Asset Management) (NRAM), Bradford & Bingley (B&B) and Network Rail (NR) - i.e. CGNCR exc. NRAM, B&B and NR) in 2015-16 is £71.6 billion, a reduction of £14.0 billion from the forecast at the March 2015 Budget. The updated financing arithmetic is shown at Annex B.

Future illustrative gross financing requirements

7. The OBR's July 2015 *Economic and Fiscal Outlook* includes updated projections for the CGNCR exc. NRAM, B&B and NR from 2016-17 to 2020-21. Revised illustrative gross financing projections are shown below. These illustrations include forecasts of gilt redemptions in these years (which make no assumptions about future gilt issuance) and forecasts of financing for the Official Reserves.
8. The illustrative gross financing projections shown in the table below are not gilt sales forecasts; they make no assumptions about any contributions to financing from net Treasury bill sales or National Savings & Investments (NS&I).

| (£ billion) | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|-------------------------------------------------|------------|------------|-----------|-----------|-----------|
| CGNCR exc. NRAM, B&B, and NR forecasts | 59 | 34 | 14 | -2 | 11 |
| Gilt redemptions | 70 | 79 | 67 | 93 | 64 |
| Financing for the Official Reserves | 6 | 6 | 6 | 6 | 0 |
| Illustrative gross financing requirement | 135 | 120 | 87 | 97 | 75 |
| <i>Figures may not sum due to rounding.</i> | | | | | |

Annex A: Planned split of gilt issuance by type, maturity and method of sale.

| | Auction | Syndication | Mini-tender | Unallocated supplementary | Total |
|--------------------------------------------|--------------|--------------|-------------|---------------------------|--------------|
| Short conventional | | | | | |
| £ billion | 32.3 | | | | 32.3 |
| Per cent | | | | | 25.4% |
| Medium conventional | | | | | |
| £ billion | 25.4 | | | | 25.4 |
| Per cent | | | | | 19.9% |
| Long conventional | | | | | |
| £ billion | 26.5 | 9.3 | 1.0 | | 36.8 |
| Per cent | | | | | 28.9% |
| Index-linked | | | | | |
| £ billion | 15.0 | 15.2 | | | 30.2 |
| Per cent | | | | | 23.7% |
| Unallocated | | | | | |
| £ billion | | | | 2.7 | 2.7 |
| Per cent | | | | | 2.1% |
| Total £ billion | 99.2 | 24.5 | 1.0 | 2.7 | 127.4 |
| | 77.9% | 19.2% | 0.8% | 2.1% | |
| <i>Figures may not sum due to rounding</i> | | | | | |

Annex B: Updated financing arithmetic for 2015-16

| Financing Arithmetic 2015-16 | April revision | July Budget |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------|
| a) Financing items | | |
| Central Government Net Cash Requirement exc. NRAM, B&B & Network Rail | 85.6 | 71.6 |
| Gilt redemptions | 70.2 | 70.2 |
| Financing for the Reserves | 5.3 | 5.3 |
| Financing adjustment carried forward from the previous financial years | -13.1 | -13.1 |
| Gross Financing Requirement | 148.1 | 134.1 |
| <i>Less:</i> | | |
| Net contribution from National Savings & Investments | 10.0 | 10.0 |
| Other financing items* | 0.2 | 0.2 |
| Net Financing Requirement for DMO (NFR) | 137.9 | 123.9 |
| b) Financed by: | | |
| 1. Debt issuance by the DMO | | |
| a) Treasury bills (planned change in stock issued at tenders) | 7.0 | -3.5 |
| b) Gilt sales (planned outright sales) | 130.9 | 127.4 |
| - Short conventional | 33.2 | 32.3 |
| - Medium conventional | 26.2 | 25.4 |
| - Long conventional | 36.7 | 36.8 |
| - Index-linked | 30.8 | 30.2 |
| - Unallocated supplementary sales | 4.0 | 2.7 |
| 2. Planned change in the level of the Ways and Means | 0.0 | 0.0 |
| Total financing | 137.9 | 123.9 |
| Short-term debt/cash levels at end of financial year | | |
| Treasury bill stock via tenders (in market hands)** | 72.0 | 61.5 |
| Ways and Means | 0.4 | 0.4 |
| DMO net cash position | 0.5 | 0.5 |
| <i>Figures may not sum due to rounding.</i> | | |
| *Prior to publication of the end-year outturn in April 2016, the figure for 2015-16 will only comprise estimated revenue from coinage. | | |
| **The DMO has operational flexibility to vary the end-financial year stock by a maximum of £5 billion relative to the planning assumption, to offset any anticipated net Exchequer cash surplus or deficit towards year-end. | | |