

## European Rates Watch

# 2022/23 Remit outcome reduces 2023/24 Gilt financing need by £3.3bn

### Slightly better than projected outcome in FY just finished

The UK's Public Sector Finance data for March released this morning showed the Central Government Net Cash Requirement (CGNCR), on which the Debt Management Office (DMO) bases its funding arithmetic, coming in at £111.3bn for the 2022/23 fiscal year (FY) just finished, i.e., £4.1bn below the official forecast published at the Spring Budget 2023 (Exhibit 1).

The March outcome of £25.1bn was in between the typical seasonal pattern observed on average since fiscal year 2010/11 and the Office for Budget Responsibility's (OBR) projected £29.2bn (Exhibit 2).

The National Savings and Investment (NS&I) overall Net Financing provisional outturn of £10.0bn for 2022/23 was £3.4bn higher than the Spring Budget 2023 projection of £6.6bn (inclusive of £0.5bn green NS&I). At £3.8bn, the NS&I inflow in March was the strongest in the fiscal year just finished (Exhibit 4), causing some increase in 12 month NS&I inflow (Exhibit 5).

### Small reduction in 2023/24 Remit via short and long Gilts

The DMO's financing Remit for 2023/24 has been revised following the release, with the Net Financing Requirement (NFR) now forecast to be £242.8bn, £3.3bn lower compared to the Spring Budget projection. This was in line with our expectation for a slightly higher than projected "overfund" (see Rates – UK section of the Global Rates Weekly published on 21 April).

The NFR's £3.3bn reduction reflected (1) £4.1bn lower than projected CGNCR outturn; (2) £3.4bn stronger than projected NS&I outturn; (3) £3.0bn lower than projected contribution to financing from other items and (4) £1.2bn lower than planned contribution from T-bill sales for debt management purposes.

The £3.3bn reduction in the NFR will be managed via £2.1bn reduction in sales of short conventional Gilts via auctions and a reduction of £1.2bn in sales of long conventional Gilt auctions (Exhibit 5). The reductions will be implemented via marginally lower planned average short and long Gilt auction sizes. Our own expectation heading into the outturn was for the reduction to be implemented equally across the "buckets".

### Big picture unchanged

The small -0.4% and -0.2% changes to short and long Gilt sales relative to Spring Statement does not change the big picture that short Gilt sales will comprise the largest proportion of supply by the DMO – 35.6% - versus long Gilt sales comprising 20.9%. Gilt supply to private investors from the DMO and Bank of England (BoE) combined will remain historical record high.

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Rates Research  
Europe

**European Rates Research**  
MLI (UK)

**Agne Stengeryte**  
Rates Strategist  
MLI (UK)  
[agne.stengeryte@bofa.com](mailto:agne.stengeryte@bofa.com)

**Mark Capleton**  
Rates Strategist  
MLI (UK)  
[mark.capleton@bofa.com](mailto:mark.capleton@bofa.com)

**Robert Wood**  
UK Economist  
MLI (UK)  
[robert.d.wood@bofa.com](mailto:robert.d.wood@bofa.com)

[See Team Page for List of Analysts](#)

## Borrowing undershoots

The first estimate of government borrowing in fiscal year 2022/23 undershot the Budget forecast from the fiscal watchdog, the OBR by £13bn, at £139bn vs. £152bn expected (Exhibit 6). The OBR have not published monthly borrowing profiles consistent with their March forecast. But comparing to their November figures – which were consistent with borrowing of £177bn in FY 2022/23 – most of the borrowing undershoot came from lower-than-expected spending, including on debt interest (Exhibit 7).

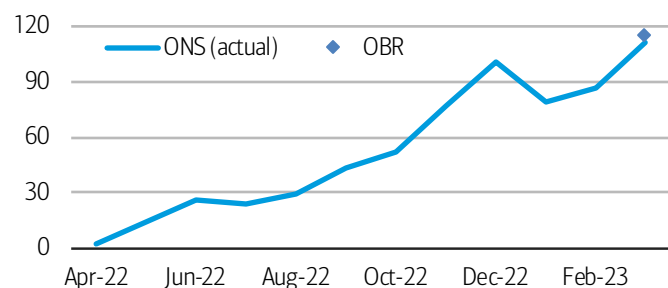
Around a third of the borrowing undershoot compared to November comes from weaker government investment. January was particularly weak with minimal catch up since. This gives a reason to be cautious. Initial estimates of public sector finances are subject to potentially large revision, especially investment.

Government receipts growth was very strong through the re-opening and first half of 2023 but has slowed through 2023 consistent with weakening economic growth. VAT receipts, for instance, fell yoy in March (Exhibit 8). Income tax gains also slowed close to a standstill after the surge from self-assessment receipts in January and February. Government spending growth has remained strong through 2023 as energy price subsidies flowed to households. That should wane in 2023/24 as the subsidies are scheduled to be reduced.

The FY 2022/23 borrowing undershoot suggests some downside risks to 2023/24 borrowing, but we would be cautious with the initial figures. The big picture remains, we think, of a slowing economy constrained receipts growth against pressure for greater spending on public services. We see upside risks to medium-term borrowing.

**Exhibit 1: CGNCR ex. B&B, NRAM, Network Rail and CCFF (GBPbn, cum)**

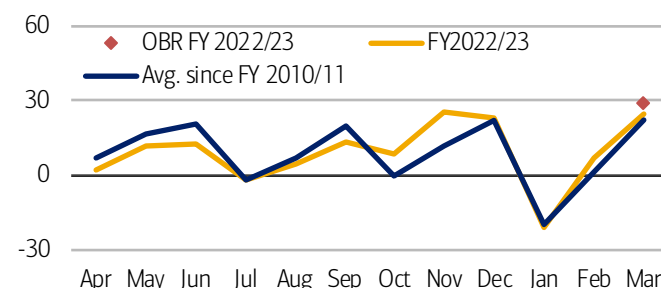
£4.1bn below projection in FY 2022/23



Source: BofA Global Research, Office for Budget Responsibility, Office for National Statistics  
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**Exhibit 2: CGNCR ex. B&B, NRAM and NR monthly fluctuations, £bn**

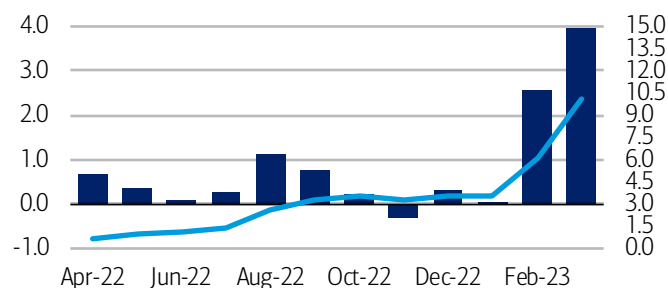
March outcome in between OBR's projection and the seasonal estimate



Source: BofA Global Research, Office for Budget Responsibility, Office for National Statistics  
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**Exhibit 3: FY 2022/23 NS&I monthly flows and cum (RHS), £bn**

Largest inflow in fiscal year to date



Source: Office for National Statistics, BofA Global Research

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**Exhibit 4: 12-months rolling NS&I flows, £bn**

Heading upwards, slowly



Source: Office for National Statistics, BofA Global Research

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**Exhibit 5: DMO financing Remit for fiscal year 2022/23 and 2023/24**

£3.3bn lower Gilt sales in fiscal year 2023/24

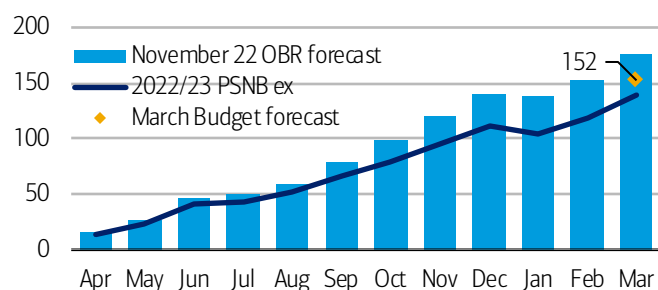
UK DMO financing Remit arithmetic (£bn)	FY 2022/23 (DMO - Mar'23)	FY 2023/24 (DMO - Mar'23)	FY 2022/23 (DMO - Apr'23)	FY 2023/24 (DMO - Apr'23)
CGNCR & Growth Plan	115.4	159.5	111.3	159.5
Redemptions	107.1	117.0	107.1	117.0
Adj. from prev. FY	-33.1	-21.3	-33.1	-24.6
<b>Gross Financing Req. (GFR)</b>	<b>189.4</b>	<b>255.2</b>	<b>185.3</b>	<b>251.9</b>
Less:				
NS&I (& green)	6.6	7.5	10.0	7.5
Other financing	1.4	1.5	-1.6	1.5
<b>Net Financing Req. (NFR)</b>	<b>181.4</b>	<b>246.1</b>	<b>176.9</b>	<b>242.8</b>
To be financed through:				
Gilt sales, through:	169.4	241.1	169.4	237.8
Short conventional	66.5	39% 86.7	36% 66.5	39% 84.6
Medium conventional	44.6	26% 65.3	27% 44.6	26% 65.3
Long conventional	40.8	24% 50.9	21% 40.8	24% 49.7
Index-linked	17.5	10% 26.2	11% 17.5	10% 26.2
Unallocated	0.0	0% 12.0	0% 0.0	0% 12.0
Net T-bill sales	33.2	5.0	32.0	5.0
<b>Total financing</b>	<b>202.7</b>	<b>246.1</b>	<b>201.4</b>	<b>242.8</b>

Source: Debt Management Office, BofA Global Research

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**Exhibit 6: Public sector net borrow, £bn**

Borrowing below Budget forecast

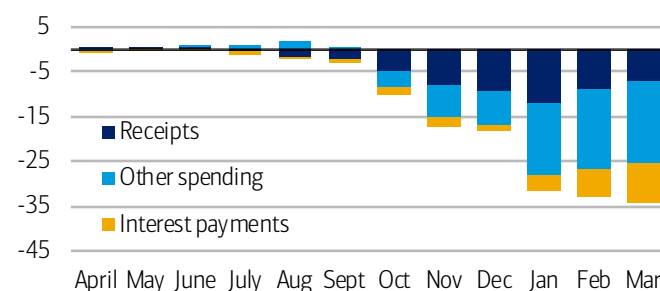


Source: BofA Global Research, ONS, OBR

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**Exhibit 7: Monthly outturns relative to OBR November forecast**

Relative to November forecast receipts and spending all contributed to borrowing undershoot

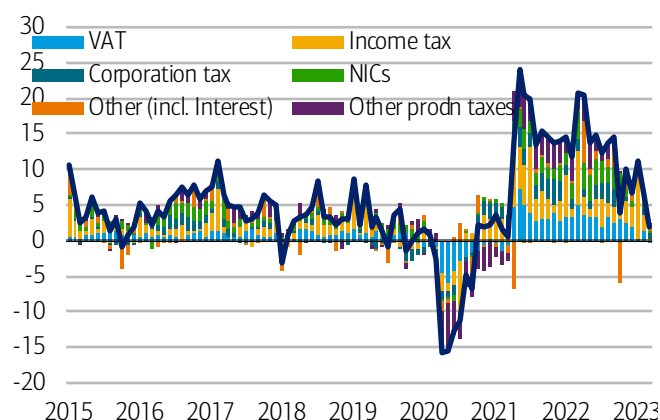


Source: BofA Global Research, ONS, OBR

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**Exhibit 8: Contributions to government receipts, % yoy**

Receipts growth slowed markedly at end-FY 22/23

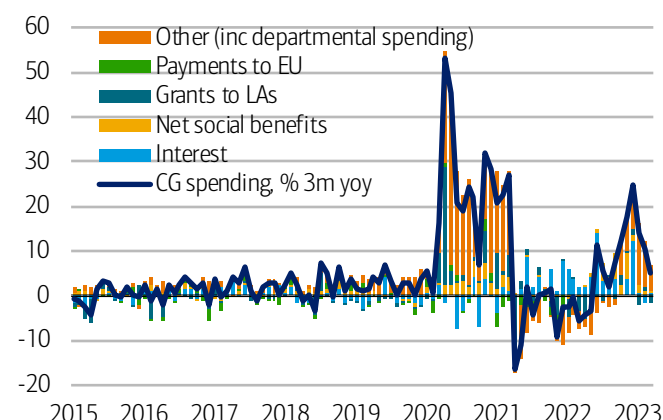


Source: BofA Global Research, ONS.

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**Exhibit 9: Contributions to government spending, % yoy**

Spending growth slowing but strong because of energy price subsidies



Source: BofA Global Research, ONS.

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# Research Analysts

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## European Rates Research

**Ralf Preusser, CFA**

Rates Strategist  
MLI (UK)  
[ralf.preusser@bofa.com](mailto:ralf.preusser@bofa.com)

**Sphia Salim**

Rates Strategist  
MLI (UK)  
[sphia.salim@bofa.com](mailto:sphia.salim@bofa.com)

**Mark Capleton**

Rates Strategist  
MLI (UK)  
[mark.capleton@bofa.com](mailto:mark.capleton@bofa.com)

**Ronald Man**

Rates Strategist  
MLI (UK)  
[ronald.man@bofa.com](mailto:ronald.man@bofa.com)

**Erjon Satko**

Rates Strategist  
BoFASE (France)  
[erjon.satko@bofa.com](mailto:erjon.satko@bofa.com)

**Agne Stengeryte**

Rates Strategist  
MLI (UK)  
[agne.stengeryte@bofa.com](mailto:agne.stengeryte@bofa.com)

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