Treasury’s dash for cash to fund rescue

Philip Aldrick, Economics Editor
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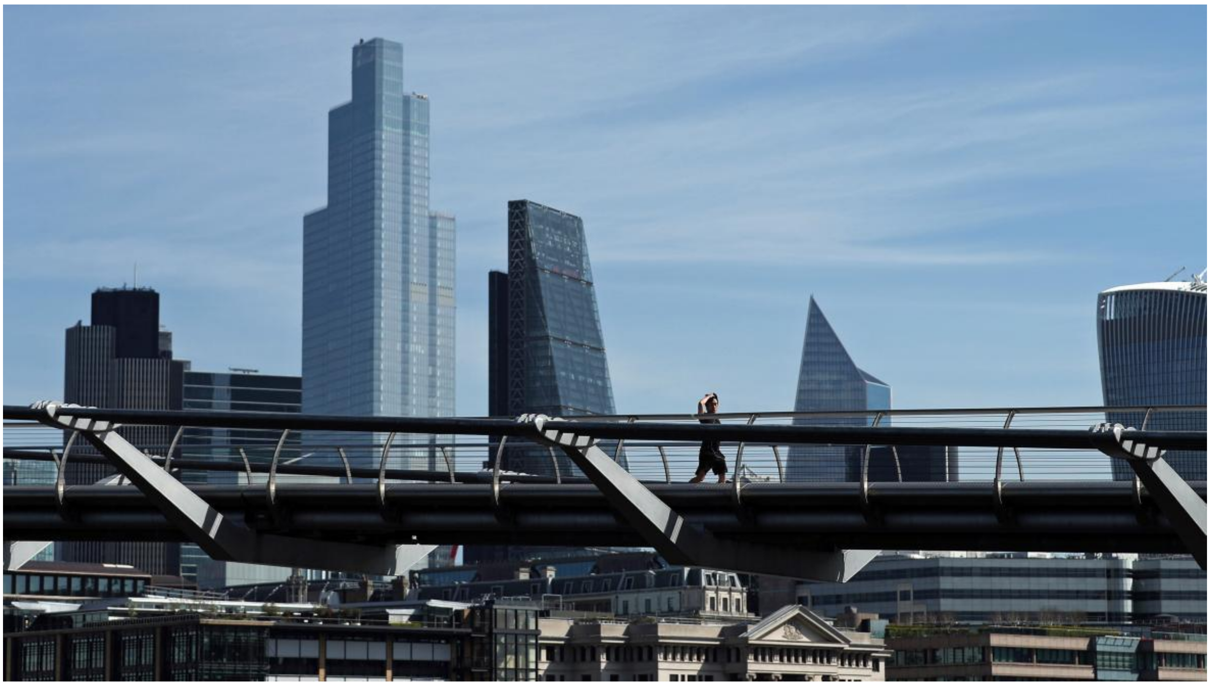
The government plans to raise £225 billion in the first four months of the financial year



The government will borrow £180 billion from the markets in the next three months to battle the economic collapse caused by the shutdown, providing the first official indication of the cost of the pandemic.

Combined with a record debt issuance of £45 billion this month, the government plans to raise £225 billion in the first four months of the financial year. In the budget of March 11, it said that it expected to raise £156 billion for 2020-21.

The Treasury’s fundraising plans suggest that it expects the cost of the pandemic to come to about £165 billion. That figure could be higher if ministers extended the lockdown for longer than currently hoped.

Before the crisis, the Debt Management Office was set to raise about £60 billion in the four months to July. The increase of £165 billion is “to meet the immediate financing need resulting from Covid-19”, the Treasury said. “This higher volume of issuance is not expected to be required across the remainder of the financial year,” it added.

Gilt issuance is not the same as the budget deficit because it includes debt that has matured and must be replaced, on top of new borrowing to finance new spending. However, the DMO’s remit clearly shows that the deficit will surpass the £158 billion peak in 2009-10 in the aftermath of the financial crisis and is certain to top that year’s gilt issue record of £227.6 billion.

Richard Hughes, an associate at the Resolution Foundation think tank, said: "The combination of falling tax receipts as economic activity declines and extra spending to combat the economic crisis means that the government is facing a dash for cash to cover its huge financing requirements.

"The £225 billion of gilts that will be issued over four months shows the scale of cash the government needs, and that need may grow if economic activity continues to be significantly depressed for over three months."

In the financial year to March 2020, the government borrowed £48.7 billion, according to the Office for National Statistics, £1.3 billion more than projected in the budget.

The Office for Budget Responsibility, the government's independent fiscal forecaster, said the figure was likely to be "revised up, perhaps significantly" because of the pledge to pay 80 per cent of the wages of furloughed workers.

At the March budget, Rishi Sunak set the DMO's financing remit for this year at £156 billion and the OBR forecast the deficit this year would be £54.8 billion. That was changed this month, when it said the huge rescue package — which includes the furlough scheme, tax breaks and increased welfare — and the cost of the recession would drive the deficit this year to a record £273 billion.

Its forecasts also indicated the state would have to raise £381 billion in the market to cover all financing needs. The new DMO remit suggests the Treasury believes it will approach those levels.

Resolution estimated that a six-month lockdown would require the government to raise about £500 billion in financing this financial year. The £60 billion average gilt issuance planned for each of the next three months will be a monthly record.

The Bank of England's quantitative easing programme will help to ensure that debt markets continue to function and there is no shortage of buyers. The Bank has increased QE by £200 billion and is buying roughly £50 billion a month of gilts, allowing institutions to flip their purchases on to the Bank.

Marc Ostwald, chief economist at ADM Investor Services International, said that the issuance would "certainly present a demand challenge" for the markets, which never before experienced this level of gilt supply, "The Bank's QE purchases will offer considerable alleviation," he added.

Mr Hughes said: "Close cooperation between the government, the Bank, and the gilt market will be needed."

The Treasury will announce how much further borrowing it will need for the rest of the year on June 29.