



Economic Affairs Committee

Corrected oral evidence: Sustainability of the UK's national debt

Tuesday 12 March 2024

4.15 pm

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Members present: Lord Bridges of Headley (The Chair); Lord Blackwell; Lord Burns; Lord Davies of Brixton; Lord Griffiths of Fforestfach; Lord Lamont of Lerwick; Lord Layard; Baroness Liddell of Coatdyke; Lord Londesborough; Lord Razzall; Lord Rooker; Lord Turnbull; Lord Verjee; Baroness Wolf of Dulwich.

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Questions 237 - 249

Witness

I: Sir Robert Stheeman, Chief Executive Officer, Debt Management Office.

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Examination of witness

Sir Robert Stheeman.

Q237 The Chair: Good afternoon and welcome back to this session of the Economic Affairs Committee. We have another excellent witness. Sir Robert, would you like to introduce yourself?

Sir Robert Stheeman: I am Robert Stheeman. I am the chief executive of the UK Debt Management Office.

The Chair: Thank you very much for coming. We have a series of questions we would like to run through. I am going to start with Lord Lamont, who I know is very interested in the first point that we want to raise with you.

Q238 Lord Lamont of Lerwick: To start rather generally: what is the market's appetite for UK public debt and what do you think are the predominant risks to the views you might have on that? I couple that with a slightly different question: could you comment on the timing and merits of the Bank's approach to reducing the size of the balance sheet as a result of QE and QT?

Sir Robert Stheeman: If I may take the first question around the market's current appetite for debt, you probably will not be surprised to hear me say it is very good. I think it is robust and strong. Also, if you look at it not just today but see what has happened over the last five years, and I take five years because during that time we have had to raise approximately £1.3 trillion through the issuance of gilts, in general that has been a very smooth process. Ultimately the market has absorbed that issuance, which has often been much higher than previously anticipated. It has absorbed it well and the market functions well, which is something we are very focused on.

We see demand from a very diverse range of investors. We have, we believe, a healthily diverse investor base. That means domestic demand, not least from the domestic pension industry—I include there the life insurance sector—from international investors and, ultimately, from a wider range and, certainly, types of investors than we had 20 or 25 years ago when the market was smaller. That is to answer the first part of the question.

On the second part, the decisions that the Bank takes on how to dispose of the APF portfolio are by necessity monetary policy decisions over which we, correctly, do not have any say. We do engage with the Bank regularly to discuss how we perceive the market conditions to be at any given time. There are regular discussions along that line, but the actual pace and size of any APF sales are all correctly for the Bank and not for us.

Lord Lamont of Lerwick: Following up on that, I hope what I am about to ask you is not out of order. When the Governor was here, I asked him about the deed of indemnity, and he said the deed of indemnity was

unique to the UK. Since then, a person who has given evidence to this committee wrote to me to say that this was not so. The Bank of Canada and the Bank of New Zealand have indemnity guarantees, but the difference is that they pursue a policy of passive QT—that is, QT holding to maturity—and that any mark-to-market losses are accounted for by a derivative entry on both sides: a derivative asset for the Bank and a derivative liability for the Government. The Bank of England appears to be unique in the policy it is following, not of passive QT but of realising asset sales and requesting a cash transfer from the Government. Would there not be much less of a fiscal problem for the Government if we pursued the policy of these other central banks?

Sir Robert Stheeman: Potentially, but again, that decision is one that has been granted to the Bank. It is not a decision which we in the Debt Management Office can or should influence, in my opinion. There are quite clear differences between what one would call active and passive QT, for obvious reasons. But the conscious decision to opt for one or another is exactly what the Bank of England itself will decide without any discussion beyond, as I say, market conditions and purely operational matters, which it might discuss with us as necessary. It is clearly a monetary policy decision of the MPC to decide to pursue active QT. That is not one which is part of our remit.

Lord Lamont of Lerwick: May I try another question? We had drawn to our attention a study by the BIS, Bank of International Settlements, about the drivers of real and nominal interest rates. According to its study, it examined the claim that, for the last two or three decades, this has been driven by an excess of savings and demography and the decline of interest rates in that period. But if you went back further to the mid-19th century, it felt that this link did not exist and that the idea was all due to a surplus of savings was peculiar to the last three decades, not over the longer period. I wondered if you had any thoughts on that. You look very sceptical.

Sir Robert Stheeman: I am only sceptical about myself because I am not sure I have any particular thoughts about that. It is almost one of wider economic theory. It is probably not directly one that is pertinent to our work in the Debt Management Office, which is all about trying to sell the gilt or conduct government borrowing as cost-effectively as possible. The factors behind that cost are clearly—this has become very apparent, in particular over recent years—ones of monetary policy again. I come back to this issue of monetary policy, but it is by far the single largest determinant of the cost of government borrowing. I would argue to some extent that it has a greater influence than purely the supply that we are issuing into the market.

Lord Lamont of Lerwick: Could I make one final attempt which I think is within your remit? QE drastically shortened the duration of public debt stock. Does that pose a risk to the funding of the debt, in your opinion?

Sir Robert Stheeman: Not to the funding but it has a direct impact, arguably, on the volatility of debt interest payments. That is a point the

OBR has made but in terms of the actual funding and our role, I do not believe it poses a risk.

Q239 Lord Burns: Could I ask a follow-up and possibly indelicate question? You mentioned how your remit requires you to engage in these activities with the debt market in a cost-effective way. That of course is very sensible. What I am curious about—I tried to question the Governor on this issue—is that it appears, when making these monetary policy decisions, that no thought or weight is given to the cost effects of the policies being pursued. That seems rather inconsistent with the general approach and the general remit that you have been given, so I am surprised about this. Are you surprised?

Sir Robert Stheeman: The way I would phrase it or respond to that is that we each have to follow the remits and objectives which we have been given. We have a debt management objective, which is explicitly about minimising cost, and the objective of the Monetary Policy Committee is around price stability. Those are two very different things. That does not mean that it pursuing its objectives does not have an impact on our cost. That is exactly the point I was trying to make in answer to Lord Lamont: namely, that it is monetary policy which has been and is most likely, in my opinion, to continue to be the single biggest determinant of cost.

Lord Burns: I do not think I have ever been involved in a decision of any kind in my professional life where you did not have to take account of cost. Now I have come across this issue where people are making decisions for the monetary policy, which I understand is the primary reason, but that appear not to be taken with any consideration of cost. That is a bit surprising.

Sir Robert Stheeman: I think that that question really is not one for the Debt Management Office.

Lord Burns: I thought it was in debt management.

Lord Davies of Brixton: You have never been tempted to think, "I wish I had some input into that process"?

Sir Robert Stheeman: I am always tempted but I try to resist. I hope I have been successful.

Q240 Lord Layard: If I continue on the structure of the debt, which Lord Lamont started on, what are your thoughts about the optimal structure of the debt that you would like to get to? How would you get there from where you are now?

Sir Robert Stheeman: I am not convinced that there is an optimal structure. However, there are structures that are more appropriate in times of heavy borrowing than in times of lighter borrowing. What I mean by that is, for instance, that having a diverse investor base—which I referred to earlier, especially at a time like now, when we are borrowing very significant amounts—is one of the strengths that we have. It means

that at any one time when, for whatever reason, one part of the investor base may potentially not be inclined to be involved in the market, there is always going to be another part of that base that should pick up the slack, so to speak.

Again, if I can draw the comparison to the very early days of the Debt Management Office—but also even before I started there—in the financial year 2000-01, the DMO did not issue a single gilt with a maturity of less than 15 years. In the current year we are issuing across all maturities, including shorter-dated issuance, which is now quite substantial, and medium-dated issuance in particular. It is across a variety of maturities in total. But back then in the year 2000-01, we had a gilt remit of £10 billion. In the current year, which is about to end, it is over £230 billion. In the coming year it is going to be over £260 billion. You have to design an issuance profile and structure that meets demand from as broad a spectrum as possible in order to have the confidence that the market can take that down.

Lord Layard: If I could quote something from you, you have said that the job of issuing bonds is “getting harder”. Maybe you have already answered that in what you just said, but could you elaborate a little more on it?

Sir Robert Stheeman: I am sure you are right; I must have said that. I hope I used “interesting” instead of “harder”. I think I did use the word “interesting”. It is more challenging, but challenging inasmuch as everything about designing gilt issuance remits, arguably since the financial crisis of 15 or 16 years ago, when the borrowing requirement started to rise significantly, has meant that we have had to think about new ways of approaching the market and potentially expanding the investor base. “Hard” sounds to me, perhaps in this context, a bit negative. If I did say “hard”, I should probably have used the word “challenging”, but there are some challenges which those of us who work in this world find quite interesting and rewarding.

Q241 The Chair: Sir Robert, can I pick up on this point to try to clarify something in my tiny brain? Sorry, I am rather rudely looking at my phone because there is an *FT* article here, “UK told to issue more short-dated debt as pension fund demand wanes”. I will just read you the first paragraph. It says, “The UK Government has been told to scale back its issuance of long-dated and inflation-linked bonds as pension funds’ appetite for such debt wanes in a ‘significant structural change’ to demand”. Are you able to comment on that and tell us what you see going on and how you would respond to that, if you accept that analysis?

Sir Robert Stheeman: I think I do and that analysis, unless I am mistaken, is based on the published minutes of the annual consultation meetings that occur with the market every year in the Treasury—with the Treasury Minister, who you have just seen—where in particular our primary dealers, the so-called gilt edge market makers, and representatives of end investor groups are invited to offer their views about the structure of the forthcoming remit for next year. The message

that was conveyed then—and it caught attention, as you obviously note—was one of a slow, gradual but still noticeable shift in the structural demand that we have seen in the market for the better part of at least a generation, if not longer.

There has been a unique demand in this country by our domestic pension industry for long-dated but also for inflation-linked assets. That is slowly, gradually and unsurprisingly, in my opinion, reducing. It is not happening overnight. It is not a huge sudden shift but a gradual shift. I personally would not be surprised if it turns out to be a permanent, slow and gradual shift. However, it does not mean that demand for long and very long-dated government assets is going to dry up. I think that is highly unlikely. It just will not be as prevalent as it has been.

The Chair: That is interesting. Looking ahead, assuming that trend continues, what does that do for our debt sustainability and the servicing of our debt if the weighting towards the short term increases, as it might?

Sir Robert Stheeman: It changes the structure of the portfolio. Clearly—the Minister referred to this—we have enjoyed, as a result of this demand, an ability to issue very long-dated debt. A few years ago, the average maturity of our debt was approximately 15 years. I checked and as of this morning it is 14.2 years, so you can see already a gradual shift. But I would say that the maturity of the portfolio is a little bit like a supertanker. It takes an awfully long time for these shifts to feed through. That means we will have to think more closely about other parts of the investor base. This is where what we have tried to do, namely by issuing in key maturities across the whole curve to promote a sustainable debt market, is paying off, as I would like to think, and it needs to pay off in the future as well.

The Chair: I am sorry to Lord Londesborough because I want to have one follow-up question, if I may. Just so we are clear, in terms of the profile now and if this trend continues, how does that put us in an international context?

Sir Robert Stheeman: The average maturity of our debt is still by a long way, in terms of the major G7 economies, the longest average maturity. Immediately after us you will find Japan with 8.9 years; you will find the US with approximately six years. Even with a significant decline in demand at the long end, which I am not anticipating, it will take many years for the average maturity to decline significantly.

The Chair: Forgive me for pressing you—I do not want you to put an exact figure—but when you say “many years”, is that a decade?

Sir Robert Stheeman: A decade and possibly even decades to get to those levels, because I still think there will always be residual demand. If I may make one very quick point about average maturity—forgive me if it is a statement of the obvious—every day, the average maturity of the debt portfolio shortens by one day. Imagine a situation where we had no need to borrow. We would have, by definition, a very short average

maturity. When I started, the average maturity of the debt portfolio 21 years ago was just over 11 years. It is now longer. One of the reasons it is longer is because we have had to borrow more. That sounds all a bit counterintuitive, but it is worth internalising.

The Chair: That is a very good point.

Q242 Lord Londesborough: Sir Robert, you have said, and I quote directly, that “policy-making cannot be divorced from the reality of the market” especially “In a world where we have debt to sell”. That fiscal credibility is increasingly called into question with the huge growth of our debt, which I think has grown eightfold during your 21 years in the DMO. I am not holding you responsible. How does this fiscal credibility gap show itself? Specifically, what lessons are there to be learned from the market turbulence, particularly in the bond and currency markets, that we saw after the mini-Budget in September 2022?

Sir Robert Stheeman: This time I do recall saying exactly those words, and the point that I was trying to convey is that each time we approach the market, we are asking it to take down our supply. The market, not ourselves, will determine what the right price for that is in the market’s eyes. You used the words “fiscal credibility”. It is important that in everything about the UK—this goes way beyond just what we do in the Debt Management Office—in terms of wider economic policy-making, but also how the robustness of the institutional framework is perceived by the market, all these factors are ones that we need to pay consideration to. They play a role in investors’ minds. Credibility is essential and it is so intrinsic to what we have to do. The etymology of the word “credibility” and “credit” are very similar. Sovereign debt is ultimately about the belief by the market in the issuer—not just the product but the issuer. That credibility, in my opinion, is essential.

Lord Londesborough: Interestingly, in the previous session with the Economic Secretary, he admitted that there is an increased sensitivity to Chancellors “getting the wrong side of the market”. Given the scar tissue that we perhaps bear from the Truss-Kwarteng mini-Budget, how much is there a danger of a credibility trap for the Chancellor in terms of having to be excessively cautious and sacrificing ambition, particularly in a low-growth economy that we have now?

Sir Robert Stheeman: It is important for what we do that fiscal policy and economic policy-making in general is deemed credible by the market. Arguably, that point was made very emphatically by the market itself a year and a half ago. Clearly, that point has been made. It has dominated. It is very important in our world that we are not perceived as an outlier or an experimental outlier when it comes to policy-making because, especially in the world of sovereign debt where markets are as large, as liquid and as open as they are, the market can pass judgment very swiftly.

That might be uncomfortable for policymakers. I am making a very general comment in response to your question, but it is probably the best

way of saying it. However, we must not forget that, ultimately, we are asking investors to buy our debt. They will determine what that price should be and if they feel that the underlying policy framework does not have credibility in their eyes, they may demand a higher premium for that.

Lord Lamont of Lerwick: When you were quoting the 14 or so years' average or medium average, I think it was, maturity of the stock of gilts, that is the stock of gilts. It is not the Treasury's liabilities as a whole. The effect of QE in replacing gilts by deposits would have a much shorter maturity, would it not?

Sir Robert Stheeman: Not maturity; duration is the word. Without getting horrendously technical—

Lord Lamont of Lerwick: Are we talking about two years or something?

Sir Robert Stheeman: Yes, but we have to be clear that the maturity of the gilt portfolio has not changed at all as a result of QE and QT. What has changed, as the OBR has pointed out, is the duration, if you like; the best and clearest way to describe it is the sensitivity of government liabilities to changes in short-term interest rates.

Lord Lamont of Lerwick: Public sector consolidated liability, which is, as you say, quite exposed now.

Sir Robert Stheeman: It is more exposed than it was but on the maturity of our debt, and there is a reason why I am picking hairs and labouring this point, from where we sit what we have to think about is exactly how much we need to finance in cash when our maturities fall due. That does not change as a result of QE. The amount that we might need to raise as a result of the overall APF operations and, potentially, any payments that need to be made underneath that, obviously can and will change.

Lord Griffiths of Fforestfach: To what extent does the credibility of our fiscal position depend on the debt-income ratio, the overall public sector debt ratio to GDP?

Sir Robert Stheeman: Obviously, it has a real influence. It is very hard to determine to what extent. I go back to my earlier comment about the importance of us not being an outlier. Yes, debt to GDP in this country has risen. It has also risen in other jurisdictions—major jurisdictions—and one should not lose sight of that. What we do not want to become is an outlier. Having approximately 100% debt to GDP in terms of the major G7 economies does not, if I may put it this way, look too egregious in the case of the UK. A number of other countries have greater or larger debt to GDP ratios, but it is a concern that could be applied to all major economies and all major sovereign bond markets, also the US market.

The Chair: I have one quick question on your point about us not being an outlier. As you say, a number of developed economies as well as emerging markets are seeing their debt rising very fast, especially the

US. While we are not an outlier, how much does it concern you that we are all in the same boat and that it is sinking under debt and making the whole system a lot more fragile? We can be within the pack but we are all going down together, if that makes sense.

Sir Robert Stheeman: I do not want to come across as horrendously pessimistic. We have these problems globally. There must be some kind of global solution; it really is beyond my remit to say what that will be. But I genuinely think that assumptions that used to exist about overall debt ratios and what might be acceptable or adequate, and what is not—because of the events in recent years, for instance the pandemic and borrowing during that period—have had to be revised. They have had to be challenged.

That does not mean that I am totally confident about the future. If I had been asked this 10 years ago, when debt to GDP in this country was 80%, and I was told that it would be 100% in 10 years' time, I would have probably been a lot less comfortable than I feel now. Where this ends up globally is a very good question. I do not have an answer for that.

The Chair: It comes back to the question that Lord Layard asked. Is it the case though that, essentially, the debt markets are becoming more fragile and the resilience therefore is becoming more and more important?

Sir Robert Stheeman: The resilience is certainly important and will be increasingly important, simply because of what we have to do. I do not think that debt markets are necessarily becoming more fragile. I would say debt markets are, in many respects, more robust than they were not that long ago in terms of their depth. I am talking specifically about our market and the gilt market depth, liquidity, participation rates and general turnover. I believe that the debt market itself is very robust, which is why I felt confident enough at the beginning to answer your question by saying that demand is good.

Q243 Lord Davies of Brixton: You suggest that you have to please the market, but to the extent that there are solvency requirements on insurance companies and pension funds, they have effectively taught themselves—pension funds in particular—that they need to hold a high level of gilts. Some have even suggested that goes as far as a form of covert financial repression. How significant do you think that is?

Sir Robert Stheeman: When I hear that expression “financial repression”—I know why it is suggested by some—my experience is that people are ascribing a level of cunning sophistication to the authorities which they might not possess. This is linked to the shortening in the average maturity and the shortening in demand patterns that we are beginning to observe. The marginal buyer will always be the one determining the price. The identity of that marginal buyer is likely, I think, to change over time. It already has.

Again, when I started, more than two-thirds of the entire investor base—almost 70%, I believe—were in the UK domestic pension industry. I think it was about two-thirds, 66% or 67% at the time. That figure is now below 30%, so it has changed. But other types of investors, other sectors, are showing demand as well for different reasons and potentially in different maturities. That gap has to be filled somewhere and it is being filled by a whole array of other investors.

Q244 Lord Turnbull: Can I start by thanking you for the wisdom and skill with which you have managed the Debt Management Office over your 20 years? I wonder whether you have ever calculated that if you said, “I will take one-tenth of a penny in the pound of every gilt I have sold”, as a golden handshake, how much that would be. Anyway, I will leave it there. It is a lot of money.

This sounds slightly an off-beam question but in the animal world, it is often said that creatures detect things going wrong before we do: birds stop singing or cows lie down. Are there things in the market that you think you keep your eye on because there could be a problem?

Sir Robert Stheeman: That is a really good question. The answer to that is it is something that we look at very closely. It does not mean we are necessarily very good at identifying what that is. It is in the nature of these things that the surprises are surprising. It is always hard to anticipate that, but we do look most closely, above all, at what I would call good market functioning. I tend to bang on a bit when I am asked questions about what we do about the importance of market liquidity. Anything that undermines market liquidity is a worry. That is the first thing. That could be inefficient markets or disruptive political events; it could be any number of things, but those things are a worry.

Another key issue is about how we issue debt. I referred earlier to the gilt-edged market makers. They are our primary dealers. We grant our primary dealers exclusive competitive bidding rights at auction. Effectively, well over 99% of all our auctions are taken down directly by the primary dealers—in effect, it is 100%. Behind that they have their own investors, a whole array of investors, but for them to fulfil this function they are acting as intermediaries. They have to allocate risk capital to not just our auction programme and I would also say balance sheet capacity, to intermediating between us and the market and their investor base. That is a key function.

I cannot emphasise enough the importance of having a robust primary dealer system that allows that to happen. If there are things that impact negatively on those primary dealers and on their ability effectively to warehouse our supply, if necessary, before they can sell it on to the investors, then that is a concern.

Personally—and this is a personal view—I have always been very wary not of regulation per se, but of what I would call misapplied regulation. I always feel quite strongly that any regulator ought to have two signs above his or her desk. One should say, “Thou shalt not cause

unnecessary harm". The second would be, "Beware the law of unintended consequences". I do not want to say that I have a particular piece of regulation in mind, but it is interesting that in the period since the financial crisis we have seen, for all sorts of good reasons, the banking sector having to cope with new regulation. Where that impacts on its ability to take down our supply in an orderly fashion, it is potentially a concern.

Q245 Lord Turnbull: Some people saw the last frisson in the market, in 2022, as a statement that the Government were going to be issuing a lot more debt or had spending plans that were unfunded. Alternatively, you could see it as what caused the stir was the uncoupling of three parts of the structure: the Treasury, the Bank of England and the OBR. Do you think it was the second of those? Was the changing of that process a lot more important than the actual value of tax cuts, spending cuts or whatever that was in play?

Sir Robert Stheeman: In my personal opinion, the simple answer to that is yes. I referred earlier to the institutional framework and the whole question of credibility. The importance of institutions is something that the market places emphasis on, and we have to bear that in mind. That was exactly what I meant by the comments that were quoted earlier. I believe that things such as having a credible institutional framework and being perceived to have a rational approach to fiscal policy-making support investors' view of the UK sovereign and that needs to be borne in mind.

Q246 Lord Turnbull: Do you take the view that if we are going to make changes, you telegraph them and do not make them too suddenly?

Sir Robert Stheeman: You telegraph them. There may be cases where you can and should do something suddenly. The best example, perhaps, is what happened at the beginning of the pandemic. Exactly four years ago, in March 2020 and at the time of the Budget, I believe we announced a gilt remit of £156 billion for the coming year, that is 2020-21. By the end of that year, we had raised nearly £500 billion. We had to ramp up issuance at an unprecedented rate but the market understood why.

The market gave us and other countries, for the same reason, the benefit of the doubt that this was something which needed to be done. It is not a hard-and-fast rule about supply, speed or telegraphing, but yes, telegraphing plans in advance massively helps credibility where you can. For good reason, the Government could not arguably foresee at the beginning of 2020 what was going to happen.

Q247 Lord Verjee: You do not write the fiscal rules, of course, but what would you regard as a meaningful fiscal rule for the UK Government to adopt when considering long-term fiscal stability? As a follow-up question, the fact that we are producing a report on UK debt sustainability means, by definition, that we are concerned about it. An area that troubles me—I do not know if we have covered it so far—is: should we be allowing for black

swan events? Are these 100-year events or with events in our recent history, having had the financial crisis, the pandemic and the Ukraine war, should we be allowing and reserving for an unknown black swan event in our fiscal rules?

Sir Robert Stheeman: You are right. It is not the role of the Debt Management Office to devise fiscal rules. We have a debt management objective, which has remained unchanged since the mid-1990s, of minimising cost subject to risk over the long term. If you think about that objective, which genuinely guides all the decisions that we take and all the advice that we give to the Treasury on what the gilt issuance remit should look like, it is almost a subsidiary of a sensible fiscal rule. It talks about the long term and about balancing cost and risk. While I am not trying to elevate it to the status of a fiscal rule, I think it is linked closely to sustainable fiscal and debt management over the long term. That must be a good thing, so that is what I say to that part of the question.

On the question about whether we should be planning and potentially leaving any specific headroom: ideally, yes. But it is almost impossible, I imagine, to know what or how large that should be in advance. It is easy—I know some commentators have done this now—to argue that we do not have the same level of flexibility that we once had in terms of, for instance, debt ratios. That may be the case. From where I sit, though, we have a much better functioning market than we did 20 years ago.

Q248 The Chair: Can I pick you up on that? It brings into view the question that you touched on earlier and again then: what are the metrics we should be thinking about when we think about debt sustainability, in simple terms? A number of people have been saying that the blunt percentage to GDP seems pretty blunt. Would you like to comment on that? What would you suggest that we, in the public discourse, should be looking at in terms of the metrics?

Sir Robert Stheeman: I wish I had a good answer for that question. I do not but, to almost explain why I do not, especially around the time of the financial crisis—I am sure people remember it—the very eminent economists, Rogoff and Reinhart, proposed strongly that there was this 80% threshold, after which we are all in trouble. On that basis, we are all in trouble because we have all exceeded it, with one or two noble exceptions. The point I am trying to make is that there is no straightforward answer to that question. The moment you start trying to have a specific target, you create a rod for your own back. You also have something that, by definition, is always going to be proven wrong in any case.

The Chair: Do you think that one metric and one target is just too blunt and therefore one should have a dashboard? I am sorry, I am making this up as a question. Is there any country you can point to that has this correct or, if you had a magic wand, would it be just a dashboard of different metrics?

Sir Robert Stheeman: It is literally horses for courses. It depends on the nature of the economy in question. If you look at the debt to GDP ratio of Japan, for instance, which is much larger than ours, and at the debt to GDP ratio of Switzerland, which is much smaller than ours, both countries, I would argue, are pretty wealthy and successful. I do not think it is that easy to devise something that is universal.

Q249 The Chair: Understood. I am sorry but I am going to detain you for one second, because we have you here, for a final question from us all. If you were to get out your crystal ball, having heard what we were discussing with the Economic Secretary about the challenges we face, especially the demographic challenge, when you think about that challenge and about the role of the DMO, how is that going to impact it? When you are thinking now on the foreseeable future—the next few years from here to the end of the decade, say—what impact do you see that potentially having?

Sir Robert Stheeman: We are clearly, from where I sit, going to be borrowing. You can see that in the projections that were made by the OBR last week for the forecast period of the next four years or so. We will be borrowing significant amounts of money until the end of this decade. Any thought, from where I sit, that we would go back to the sort of gilt-issuance remits that we saw in the early years of my tenure are illusory. That is something we need to consider, which is why I say it is also for my successor and for the Treasury. The attention that we have to pay to a well-functioning market to allow that debt issuance to be absorbed smoothly is absolutely essential.

The Chair: There was an interesting debate in this context between Professor Goodhart and Andrew Bailey, who had different views about the rate of interest and where it will be long term. Charles Goodhart was saying we would be potentially quite a lot higher than Andrew Bailey did—than where we are now. Do you have a view on that at all from where you sit?

Sir Robert Stheeman: I do not. I am not going to offer one, simply because I will be proven wrong. I apologise.

The Chair: With that, thank you very much. It has been a fascinating session. Just to repeat what Lord Turnbull said, thank you very much for all you have done at DMO for the last 20 years. I think it has been tremendous.