

Distribution of the national debt: March 1967

This is a further article in the annual series analysing the distribution of the national debt by type of holder. It describes the disposition of the debt at 31st March 1967 and discusses some of the changes that took place during the preceding twelve months.

Distribution at March 1967

The table at the end of the article shows that at 31st March 1967 the total national debt¹ stood at £31,921 million. Of this, £9,228 million (29%) was in official hands, principally in the two funds, administered by the National Debt Commissioners, through which monies deposited in ordinary accounts at the Post Office Savings Bank and trustee savings banks are invested, and in the Issue Department of the Bank of England. Between them, these three accounted for nearly £6,100 million of official holdings. The rest was held by various government funds (in particular the National Insurance and Industrial Injuries Funds), by the Exchange Equalisation Account, by government departments that had funds temporarily surplus to their requirements, and by the Banking Department of the Bank of England.

Holdings outside the official sector amounted to £22,693 million, of which banks held some £3,540 million, other financial institutions in the United Kingdom £4,580 million, and local authorities and public corporations about £190 million. Overseas residents – mainly central monetary institutions, the International Monetary Fund, and other international organisations – held nearly £4,500 million. "Other holders", a rather heterogeneous group, were thus left with close on £10,000 million of government debt, of which only about two thirds can be linked positively with any particular type of holder. The rest, some £3,200 million, probably consisted largely of the investments of private funds, trusts, charities and partnerships (including stockbrokers), but it also reflected certain inaccuracies in the rest of the analysis. These arise partly from difficulties of valuation (nominal values are preferred, but sometimes book or market values have to be used) and partly because, for categories such as private overseas residents, individuals, and industrial and commercial companies, there are no precise statistics and the holdings have to be estimated. The degree of error thus introduced probably varies from one category of holder to another, but generally the analysis is not thought to be seriously affected.

The greater part of the national debt is in the form of stocks. At 31st March 1967 these totalled £21,610 million, or 68% of the entire debt. Treasury bills accounted for £3,885 million (12%). The balance, £6,426 million, comprised various forms of non-marketable debt – mainly national savings securities (national savings certificates, premium savings bonds, and defence and national development bonds), tax reserve certificates, and non-interest-bearing notes held, for the most part, by the I.M.F.

¹ Here defined as the total of the national debt payable in sterling, as given in the *Finance Accounts of the United Kingdom*, together with stocks issued by the nationalised industries and guaranteed by H.M. Government. In most of the data from which the figures of holdings are derived such guaranteed stocks are indistinguishable from British government stocks.

About two thirds of both official and non-official holdings were in the form of stocks, but among the non-official holders the proportion varied widely. For example, "other financial institutions" – a group which includes the insurance companies, building societies and pension funds – held almost the whole of their government debt as stock (predominantly in issues having more than five years to run to maturity) while overseas residents held only 45% in this form.

Work is continuing at the Bank on the transfer of the registers of government stock to magnetic tape and, as this operation proceeds, better statistical information will become available on the distribution of this large part of the national debt between the broad categories of holders. However, it is most unlikely that it will ever be possible to derive a fully satisfactory analysis from the registers alone because, for many stockholdings (whether held by nominees or otherwise), the information provided by the registers is insufficient for the beneficial ownership to be established. For this reason it will probably remain necessary to draw heavily on the present main source of information – separate returns from the institutions themselves.

Well over half of all Treasury bills were in official hands; most of the remainder were held by the banking sector and overseas residents, particularly overseas central monetary institutions. The rest (£119 million) were probably owned, in the main, by companies, though trusts and charities, among others, may have held a few.

About half the non-marketable debt, including the bulk of the national savings securities, was held by individuals. Non-interest-bearing notes held by the I.M.F. accounted for nearly all the non-marketable debt in the hands of overseas residents, while official holdings consisted mainly of terminable annuities issued by the Government to the National Debt Commissioners, and departmental balances lent to the Exchequer on a day-to-day basis through ways and means advances.

Changes during 1966/67

The following table shows the changes during 1966/67 among the main groups of holders, by type of debt.¹

£ millions nominal

	Total	Treasury bills	Stocks	Non-marketable debt
	— 50	— 655	+ 698	— 93
Official holdings				
Non-official holdings				
Public corporations and local authorities	+ 4	..	+ 4	..
Banking sector	+ 180	— 450	+ 562	+ 68
Other financial institutions	+ 363	— 2	+ 362	+ 3
Overseas residents	— 70	— 94	+ 58	— 34
Other holders:				
Individuals	— 229	..	— 173	— 56
Industrial and commercial companies	+ 11	..	— 5	+ 16
Others (residual)	+ 394	— 36	+ 412	+ 18
Total non-official holdings	+ 653	— 582	+ 1,220	+ 15
Total debt	+ 603	— 1,237	+ 1,918	— 78

.. not available.

¹ Because of revisions to the figures for 31st March 1966 (published in the March 1967 *Bulletin*), particularly those for individuals, some of the changes in this table will not match the changes which can be deduced by comparing the published annual tables of absolute holdings.

The national debt rose by £603 million (1.9%) compared with £857 million (2.8%) during the previous year. The amount of debt in non-official hands rose by £653 million while official holdings fell by £50 million.

One of the main factors which contributed to the fall of £50 million in official holdings was the withdrawal of over £100 million from deposits in ordinary accounts at the Post Office Savings Bank. Some of this money was transferred to P.O.S.B. investment accounts which were introduced during June 1966 and offered a higher rate of interest than ordinary accounts. Investment accounts, like special investment departments of trustee savings banks, do not have their deposits invested wholly in government securities; their investment transactions are therefore regarded as those of a financial intermediary in the market, and their holdings of government debt are included in the tables under "other financial institutions".

Holdings of government debt by both the Banking and the Issue Departments of the Bank of England, however, rose over the year and to some extent offset the withdrawal of funds from P.O.S.B. ordinary accounts. The Banking Department's holdings rose because of the call in July 1966 of £101 million Special Deposits from the London clearing and the Scottish banks (the counterpart of Special Deposits usually takes the form of government securities held by the Banking Department) offset in part by the repayment of a special £54 million swap with the U.S. authorities, the proceeds of which had been invested in Treasury bills. The rise in the Issue Department's holdings reflected an increase in notes in circulation.

While official holdings did not change much in total during 1966/67, there was a very large switch from Treasury bills to stocks. When a new issue of stock is made, it is normal for only a small part to be taken up directly by non-official holders; the remainder is absorbed initially into official portfolios, usually that of the Issue Department of the Bank of England. In 1966/67 four new stocks were issued to a nominal value of £2,000 million. The authorities' net sales of stock, together with direct subscriptions to these new issues by the public, though exceptionally large, fell some £780 million short of this total of £2,000 million. One reason was that the authorities were buying in, during the closing months of the year, large amounts of the next two maturities - 2½% Savings Bonds 1964/67 and 5% Exchequer Stock 1967 - neither of which was redeemed before the end of the period. Thus there was a rise of some £700 million¹ in official holdings of stock, which was concentrated in issues having less than five years to run to maturity. It was largely matched by a fall of £655 million in Treasury bill holdings.

Because of the large amount of longer-dated stocks sold by the authorities during 1966/67 against purchases of short-dated issues (in particular, the two maturing stocks noted above), the average life of dated stocks in the hands of the market rose over the year from 12.7 to 12.9 years, the highest figure recorded since the end of March 1964.

Despite their large acquisitions of stock, non-official holders increased their total government debt by only £653

¹ The shortfall of some £80 million between, on the one hand, the nominal value of new issues less net disposals of stock by the authorities and, on the other, the change in official holdings is mainly accounted for by the cancellation of stock purchased by sinking funds.

million because their Treasury bill holdings declined by £582 million. Holdings of non-marketable debt were little changed.

The total of £653 million was mainly taken up by investors outside the banking sector. "Other financial institutions" acquired as much as £363 million, mainly longer-dated stocks which offered attractive yields for most of the year. Part of the rise, £41 million, was accounted for by the new P.O.S.B. investment accounts noted earlier; but even allowing for this, the increase was exceptionally large. Insurance companies, the biggest institutional investors in government debt, acquired a further £112 million, compared with £30 million during the previous year. Building societies enlarged their holdings by £85 million, again more than in 1965/66; their purchases were heaviest in the first quarter of 1967 when they increased the rates of interest paid to shareholders and depositors and attracted more funds than could be lent immediately for house purchase. The other institutions in this group, including the public and private sector pension funds, all increased their holdings of government debt to some extent; the investment and unit trusts, which are not usually very active in this market, more than doubled their aggregate holdings of longer-dated stocks during the year.

Largely because the institutions acquired so much government debt during the year, the banking sector was left to take up only £180 million, less than half that taken up in 1965/66. However, the banks bought a very large amount of stock – £562 million, mainly short-dated issues – and increased their holdings of tax reserve certificates by £68 million following the introduction of company certificates (with improved terms) in June 1966. These purchases were substantially offset by a fall of £450 million in their Treasury bill holdings.

The changes that occurred in overseas residents' holdings were comparatively small. These holdings fell by £70 million in total, and this was more than accounted for by a reduction of £89 million in the amount of Treasury bills held by overseas central monetary institutions. But there was also a fall of £30 million in non-interest-bearing notes issued to the I.M.F. (mainly because other member countries drew sterling from the Fund) and a rise of £58 million in stock held by overseas residents, partly reversing their net disinvestment in 1965/66.

By contrast with most other domestic holders, individuals reduced their holdings of debt – the fall is estimated at £229 million – but this continued the pattern of recent years. Their stocks fell by £173 million and their non-marketable debt by £56 million. The fall in stocks was concentrated in the longer and undated issues (short-dated holdings rose a little). The fall in non-marketable debt was mainly the result of reduced investment in national savings securities – a heavy fall in holdings of defence bonds was only partially offset by net purchases of national savings certificates, premium bonds and national development bonds.¹

The small rise of £11 million in the amount of debt held by industrial and commercial companies was entirely attributable to a net increase in their tax reserve certificates;

¹ A new issue of national savings certificates was introduced on 28th March 1966 and a new issue of national development bonds on 11th July 1966.

holdings of these had been declining for several years, but the trend was reversed with the introduction of company certificates.

Estimated distribution of the national debt: 31 March 1967

£ millions nominal^a

	Total	Treasury bills	Stocks			Non-marketable debt
			Total	0-5 years to maturity	Over 5 years and undated	
Official holdings	9,228	2,162	6,137	1,650	4,487	929
Non-official holdings						
Public bodies:						
Public corporations	81	—	81	21	60	..
Local authorities	112	..	112	35	77	..
Total public bodies	193	..	193	56	137	..
Banking sector:						
Domestic banks	1,892	425	1,467	899	568	
Overseas banks in the United Kingdom	558	43	515	248	267	68
Accepting houses	124	14	110	88	22	
Discount market	897	219	678	627	51	
Total banking sector	3,539^b	701	2,770	1,862	908	68
Other financial institutions:						
Insurance companies	2,351	—	2,351	54	2,297	—
Building societies	516	6	503	284	219	7
Post Office Savings Bank, investment accounts	41	1	40	13	27	—
Trustee savings banks, special investment departments	268	—	268	122	146	—
Local authority pension funds	264	..	264	5	259	—
Other public sector pension funds	232	—	232	17	215	—
Private sector pension funds	818	2	816	59	757	—
Investment and unit trusts	90	—	90	25	65	—
Total other financial institutions	4,580	9	4,564	579	3,985	7
Overseas residents:						
International organisations	1,606	68	8	8	—	1,530
Central monetary institutions	1,856	822	1,034	634	400	—
Overseas banks	1,020	13	188	60	128	—
Other			786	158	628	33
Total overseas residents	4,482	903	2,016	860	1,156	1,563
Other holders:						
Public Trustee and various non-corporate bodies	194	2	190	25	165	2
Individuals	5,967	..	2,678	427	2,251	3,289
Industrial and commercial companies:						
Quoted companies	316	..	180	802	2,260	136
Unquoted companies	100	..	100			..
Friendly societies etc.	140	..	140			..
Other (residual)	3,182	108	2,642			432
Total other holders	9,899	110	5,930	1,254	4,676	3,859
Total non-official holdings	22,693	1,723	15,473	4,611	10,862	5,497
Total debt	31,921	3,885	21,610	6,261	15,349	6,426

Of which:

Nationalised industries' stocks guaranteed by H.M. Government

1,757 1,757 295 1,462

^a Some of the holdings are at book or market values and at dates other than 31 March; see notes on sources and definitions.

^b Includes total identified non-marketable debt which cannot be allocated between the various constituents of the sector; see notes on sources and definitions.

.. not available but, apart from industrial and commercial companies' holdings of Treasury bills, thought to be small.
— nil or less than ½.

Notes on sources and definitions

National debt

As defined in footnote 1 on page 41. Excludes debt payable in overseas currencies (£1,822 million at 31st March 1967) and securities tendered in payment of death duties and held by the National Debt Commissioners until redeemed (£80 million at 31st March 1967).

The classification adopted is comparable with that used in the article on turnover in British government stocks (page 48) and is broadly in line with sector financing statistics.

Stocks

Classified according to final redemption date.

Official holdings

Includes the Bank of England, the Exchange Equalisation Account, the National Debt Commissioners and government departments.

Non-marketable debt consists mainly of terminable annuities due to the National Debt Commissioners and ways and means advances. Non-marketable Treasury bills are included under Treasury bills.

Public bodies

Public corporations As defined in national income statistics, but excluding the Bank of England.

Local authorities The holdings of local government and miscellaneous local authorities in the United Kingdom, including those of municipal banks.

Banking sector

As in Table 8 of the annex, but excluding the Banking Department of the Bank of England (which is included in official holdings). The figures for stocks are at book value (except for the discount market, where nominal values are used).

Non-marketable debt consists entirely of tax reserve certificates acquired by the banking sector since the introduction of company certificates in June 1966; it is not possible to allocate the total figure between the various constituents of the sector. Tax reserve certificates acquired prior to June 1966 form part of non-marketable debt shown under "other (residual)", but the amount involved is thought to be small.

Other financial institutions

Insurance companies Holdings by U.K. branches of all members of the British Insurance Association whose parent companies are registered in the United Kingdom and whose head offices are there; and by members of the Association of Collecting Friendly Societies.

Building societies Estimates based on figures appearing in *Financial Statistics* and in the *Report of the Chief Registrar of Friendly Societies*.

Post Office Savings Bank, investment accounts These were introduced from 20th June 1966.

Overseas residents

The figures for Treasury bills, together with those of stocks held by international organisations, central monetary institutions and overseas banks, come from Table 21 of the annex and include the sterling counterpart of central bank facilities

drawn upon by the United Kingdom. The maturity analysis of stocks is partly estimated. "Other" overseas holdings are estimated from information extracted from the registers of government stocks and from returns rendered by banks and the Crown Agents.

Non-marketable debt comprises interest free notes held by international organisations and various sterling loans from overseas governments.

Other holders

Public Trustee and various non-corporate bodies A few identified holders, in particular the Public Trustee, the Church Commissioners and the Charity Commissioners.

Individuals The figures are based on the Inland Revenue's estimates of individuals' holdings in 1966, compiled from statistics of death duties. Stocks have been converted approximately to nominal values. Non-marketable debt includes £5 million of life annuities, as well as national savings securities and tax reserve certificates.

Industrial and commercial companies

1 Quoted companies The figure for stocks is based on a large number of published accounts of public companies. In these accounts, British government securities are often included indistinguishably with total investments and the figure is therefore an estimate. Also, investments are invariably shown at book or market values in companies' accounts and no attempt has been made to convert the figure to a nominal amount. An estimate of tax reserve certificates held by companies is shown under "non-marketable debt". Companies' holdings of Treasury bills are included in the residual category.

2 Unquoted companies The figure is based on a sample of accounts of exempt private companies engaged in manufacturing and distribution, and a sample of accounts of public unquoted and non-exempt private industrial and commercial companies. In these accounts, British government securities are often included indistinguishably with total investments and the figure is therefore an estimate. Also, investments are invariably shown at book or market values in companies' accounts and no attempt has been made to convert the figure to a nominal amount.

Friendly societies etc. Societies registered under the Friendly Societies Acts, the Industrial and Provident Societies Acts and the Trade Union Acts, with the exception of collecting societies, insurance and superannuation societies and co-operative banks. Holdings (at book value and at the end of 1966) are estimated from information in the *Report of the Chief Registrar of Friendly Societies*.