

## Distribution of the national debt: March 1968

*At 31st March 1968, about two thirds of the national debt consisted of government and government guaranteed stocks, and the rest Treasury bills and non-marketable debt in roughly equal proportions. More than a quarter of the entire debt was in U.K. official hands. In the financial year 1967/68 the debt increased by £1,726 million (5.4%) to £33,647 million. The rise was mainly in Treasury bills held by overseas residents and included the sterling counterpart of central bank assistance. But there was also a rise in stocks, in particular those held by "other financial institutions", partly because of the issue of steel compensation stock. The average life of dated gilt-edged stocks in market hands is at present somewhat longer than that of similar debt in most other major industrialised countries. While the number of accounts on the Bank of England stock registers is much the same as thirty years ago, the average stock-holding is considerably larger.*

Every March since 1963 this *Bulletin* has contained an analysis of the national debt by type of holder and a short discussion of the main changes in its size, composition and distribution.<sup>1</sup> This article deals with the position at the end of March 1968 and the principal developments during the financial year 1967/68. It also briefly compares the average life of the United Kingdom's national debt with that of some other leading industrial countries, and comments on changes which have taken place in the average size of holding of British government and government guaranteed stocks over the last thirty years.

### Distribution at March 1968

At 31st March 1968 the nominal value of the national debt<sup>2</sup> was £33,647 million, of which over a quarter, £9,168 million, was in U.K. official hands. The remaining £24,479 million was held mainly by individuals, banks, and other monetary and financial institutions at home and abroad. £21,844 million – 65% of the entire debt – was in government and government guaranteed stocks, the balance being more or less evenly divided between Treasury bills on the one hand and non-marketable debt (such as tax reserve certificates and national savings securities<sup>3</sup>) on the other. The detailed position is set out in Table C on page 60.

Official holdings consisted of £5,924 million (65%) stocks, £2,378 million (26%) Treasury bills, and £866 million (9%) non-marketable debt. As explained in previous articles, these official holdings arise in several ways. About one third of the total represents the securities held by the Issue Department of the Bank of England as backing for the fiduciary note issue, and a further third the investments of the two funds, managed by the National Debt Commissioners, which contain money deposited in ordinary accounts at the Post Office Savings Bank and the trustee savings banks. The remainder – some £2,850 million at the

<sup>1</sup> An earlier article, dealing with the distribution of the debt at the end of March 1953, 1959, 1960 and 1961, was published in the June 1962 *Bulletin*.

<sup>2</sup> 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.

<sup>3</sup> National savings certificates, defence bonds, national development bonds and premium savings bonds.

end of March 1968 – is divided between other government funds (many of which are also managed by the National Debt Commissioners), the Exchange Equalisation Account, the Banking Department of the Bank of England, and those government departments that have money temporarily available for investment in government debt.

Generally speaking the type of debt held by the individual constituents of the official sector varies little from year to year. The funds for which the National Debt Commissioners have responsibility are invested chiefly in stocks and, to a much smaller extent, in terminable annuities, a form of non-marketable debt which only the Commissioners hold. The Issue Department of the Bank of England, however, not only has large amounts of stock but also Treasury bills – both types of security being bought and sold in the course of official transactions in the money and gilt-edged markets. The Banking Department's holdings of debt also comprise both Treasury bills and stocks, whereas operational considerations dictate that the sterling funds of the E.E.A. and of government departments be kept in a highly liquid form such as Treasury bills and ways and means advances.

Holdings outside the U.K. official sector comprised £15,920 million (65%) stocks, £3,077 million (13%) Treasury bills, and £5,482 million (22%) non-marketable debt. Unlike most of the official sector, non-official investors are not confined exclusively to government debt as a repository for their funds. But, in so far as they hold such debt, the composition of their holdings remains substantially unchanged from one year to the next, in the same way as the official sector's. For domestic investors the position at 31st March 1968 was fairly typical. About four fifths of the banks' holdings of £3,403 million was in stocks and one fifth in Treasury bills; the total for other financial institutions – a group which includes insurance companies, building societies and pension funds – was £5,263 million, held almost exclusively in stocks, while the estimated £9,732 million owned by "other holders" was nearly all in stocks or in various forms of non-marketable debt, particularly national savings securities. Banks, other financial institutions, and other holders accounted for 14%, 22%, and 40% respectively of the total debt in non-official or 'market' hands. However, the composition of the debt held by overseas residents tends to change more than that in the hands of the other groups of holders, not only because overseas residents shift their funds into and out of sterling, but also because the total includes the holdings of overseas central monetary institutions, in particular the counterpart of central bank assistance given to the United Kingdom which can vary considerably at different dates. These factors apart, overseas residents – who also include other overseas official bodies – normally hold sizable amounts of stock and Treasury bills in addition to the non-interest-bearing notes (part of non-marketable debt) owned by international organisations, mainly the International Monetary Fund. At the end of March 1968 the total national debt in overseas hands came to £5,891 million, or 24% of the non-official total.

In studying Table C it should be borne in mind that some of the figures are not exact. For certain categories the

nominal values of the holdings are not available, and book or market values have been used instead. For others, such as individuals, industrial and commercial companies, and private overseas residents, there are no precise statistics of any description and the figures quoted are only broad estimates. Because the total national debt is known exactly, any errors arising in this way fall into the residual category near the end of the table. This category amounted to £2,924 million at the end of March 1968, about 9% of the entire debt. Some of this can probably be attributed to private trusts, charities, and partnerships, the holdings of which cannot be estimated; but the rest reflects the extent to which information about the other categories is either inaccurate or incomplete.

### Changes during 1967/68

The national debt rose by £1,726 million (5.4%) in the financial year 1967/68, compared with £603 million (1.9%) during the previous year. The principal reasons for the large increase in 1967/68 were the central government's overall deficit of £1,331 million and the issue, mainly in July 1967, of £508 million of 6½% Treasury Stock 1971 in exchange for the securities of the re-nationalised steel companies.

Within the total increase, non-official holdings rose by £1,786 million while official holdings fell by £60 million. Table A shows how these changes were spread between the various types of debt and the main groups of holders.<sup>1</sup>

**Table A**

£ millions  
Nominal values

	Total	Treasury bills	Stocks	Non-market-able debt
<b>Official holdings</b>	— 60	+ 216	— 213	— 63
<b>Non-official holdings</b>				
Public corporations and local authorities	— 3	..	— 3	..
Banking sector	— 136	— 39	— 91	— 6
Other financial institutions	+ 677	— 3	+ 675	+ 5
Overseas residents	+ 1,374	+ 1,396	+ 52	— 74
Other holders:				
Individuals	+ 119	..	— 16	+ 135
Industrial and commercial companies	— 56	..	— 55	— 1
Other (residual)	— 189	—	— 115	— 74
<b>Total non-official holdings</b>	<b>+ 1,786</b>	<b>+ 1,354</b>	<b>+ 447</b>	<b>— 15</b>
<b>Total debt</b>	<b>+ 1,726</b>	<b>+ 1,570</b>	<b>+ 234</b>	<b>— 78</b>

.. not available.

### Analysis by type of debt

As the table shows, Treasury bills rose by £1,570 million and accounted for the bulk of the increase in the total debt; official holdings of bills went up by £216 million and non-official holdings by £1,354 million. Within this last total, bills held by overseas residents rose by £1,396 million, reflecting

<sup>1</sup> Because of minor revisions to the figures for 31st March 1967 (published in the March 1968 *Bulletin*), some of the changes in this table are not deducible from the published annual tables of absolute holdings.

not only the investment of the sterling counterpart of drawings by the United Kingdom during the year on overseas central bank facilities, but also movements caused by the normal investment of the sterling reserves of overseas central monetary institutions and by the numerous investment transactions of other overseas residents.

Stocks rose by £234 million during the year and, more significantly, there was an increase of £447 million in non-official holdings. This was the net result of day-by-day official dealings on the one hand and, on the other, of several large operations by the Government, notably the issue of £508 million of steel compensation stock already mentioned.

As in 1966/67, the change in non-marketable debt was comparatively small – a net reduction of £78 million. The £63 million fall in official holdings was more than accounted for by the redemption of some of the terminable annuities held by the National Debt Commissioners.

#### **Analysis by holder**

The fall in terminable annuities was one of several factors which combined to reduce total *official holdings* by £60 million. Another was a fall in stocks which, in turn, can be almost entirely attributed to a net reduction in the holdings of the Issue Department of the Bank of England. Apart from the £508 million of steel compensation stock, the Government issued two stocks for cash to a total nominal value of £1,300 million and redeemed three others (including some 2½% Savings Bonds 1964/67 which were not converted into either of the two stocks offered) for a total of £1,525 million. These and other, smaller, operations<sup>1</sup> were responsible for the overall increase of £234 million in stocks noted above. However, because non-official holdings rose by £447 million, official holdings, mainly those of the Issue Department, were reduced by £213 million – stocks with up to five years to run to maturity falling by £322 million and longer-dated issues rising by £109 million.

The fall in official holdings of stocks was almost exactly matched by a rise of £216 million in Treasury bills. The Issue Department's holding of Treasury bills was increased by more than £400 million, partly replacing the stock sold to non-official holders, and partly covering the £150 million increase in the fiduciary note issue which took place during the year. On the other hand, the Banking Department sold more than £150 million of bills – which nearly matched the net increase in its advances to members of the London discount market. Other movements in official Treasury bills included, first, an increase in the total held as counterpart for foreign currency deposited by certain overseas central banks with the Bank of England and, second, a reduction in the holdings of the E.E.A. There was relatively little change in the Treasury bills or stocks held by the National Debt Commissioners, the effect of continued withdrawals from P.O.S.B. ordinary accounts being absorbed by the redemption of terminable annuities mentioned earlier.

*Non-official holdings* of debt rose, in total, by £1,786 million. Overseas residents accounted for £1,374 million of this, a little less than the overall rise of £1,396 million in their Treasury bills already described. (The difference of £22

<sup>1</sup> Mainly cancellations of stock purchased by sinking funds.

million was due to a fall of £74 million in non-marketable debt, mainly non-interest-bearing notes, offset by an increase of £52 million in stocks.) The "other financial institutions" group also made a major contribution – its recorded holdings increased by £677 million, mostly in stocks. This was a very big increase compared with previous years, but it was due, in part, to a number of special factors. The most important of these was the exchange of steel securities for gilt-edged stock. This operation added more than £150 million of stock to the group's total holdings, the largest share falling to the insurance companies. Second, the life funds of Commonwealth insurance companies were brought within the scope of the statistics for the first time; this added over £150 million to the insurance companies' total – and doubtless more than accounted for the reduction of £115 million in stocks falling into the "other (residual)" category. Last, P.O.S.B. investment accounts which, in 1967/68, were still a comparatively new medium for savings, continued to attract deposits, and the corresponding holdings of government debt increased by £42 million. These three items together accounted for a rise of some £350 million in the group's holdings. The remaining increase of over £300 million, although not so large as in the previous year, was nevertheless substantial; it was probably again due to some extent to the high yields offered by gilt-edged stocks for much of the period. Insurance companies, building societies (whose uncommitted funds reached new peaks towards the end of 1967) and private pension funds each increased their gilt-edged stocks substantially. In fact the only institutions to reduce their holdings of stocks were the investment and unit trusts – their total fell by £16 million after, for them, a sizable increase in 1966/67.

In contrast with previous years, individuals are thought to have increased their holdings of debt during 1967/68 by over £100 million. National savings securities, instead of falling as in 1966/67, rose over the year, and holdings of tax reserve certificates also increased, mainly because of net purchases by surtax payers to whom the effective rate of interest is especially attractive. Had it not been for the re-nationalisation of steel, individuals' holdings of stock would probably have fallen substantially, as they have done for many years. But in 1967/68 they received up to £150 million of compensation stock which almost offset their 'normal' disinvestment. Industrial and commercial companies' stockholdings, on the other hand, are believed to have fallen by about £50 million during the year.

Transactions by other holders resulted in the banks reducing their aggregate holdings of debt by £136 million during the year. They ran down their stocks by £91 million and their non-marketable debt (in the form of tax reserve certificates) by £6 million; meanwhile their Treasury bills also fell – by £39 million. However, amongst the various classes of banks, the deposit banks increased their stocks and reduced their Treasury bills (there was a rise in their other liquid assets) while the discount market, the accepting houses, and the overseas and other banks sold stocks and bought Treasury bills.

### **The average life of the national debt in the United Kingdom and abroad**

Because some constituents of the national debt, for example tax reserve certificates, national savings securities and some stocks, have no specific maturity date, it is not possible to calculate the average life to maturity of the debt as a whole. However, a calculation is possible for dated stocks. At the end of March 1968 the average remaining life to maturity of dated stocks in non-official or market hands – about 40% of the entire debt – was 12.6 years compared with 12.9 years in March 1967,<sup>7</sup> and an average of 12.8 years at the end of March in each of the past five years. The reduction of 0.3 years in 1967/68 reflects the inevitable shortening of the remaining life of dated stocks with the passage of time, offset in part by the combined effect of the various stock transactions outlined earlier.

In essence, the nature (if not the size) of the national debt in the principal industrialised countries abroad is similar to that of the United Kingdom's debt. Their governments generally issue a wide range of marketable and non-marketable securities, from government bills with lives of only a few weeks to very long-dated bonds, and these are taken up both by the general public and by official holders such as departments of state or national pension funds.

There are, admittedly, a number of obstacles to an accurate comparison of the average life of the United Kingdom's debt with that of other countries. Apart from a shortage of suitable statistics, perhaps the most intractable is the wide variation in the size and content of the various public sectors, and in the means of financing their constituents. Public service industries provide the best example of this differing financial treatment; in the United Kingdom the borrowing requirements of many of them are largely met by the central government, whereas in countries like France and Italy their main sources of funds are sales of securities in their own names or borrowing through special institutions.

These differences are, however, not serious enough to invalidate a broad comparison, which suggests that dated debt (excluding Treasury bills) in market hands has a distinctly longer average life in the United Kingdom than in other leading industrialised countries as a whole: in fact only in France does it seem to be longer. In Italy the average is a little shorter than in the United Kingdom, and in the United States, Canada, Western Germany, Switzerland and Japan (where the statutory maximum for new issues is only seven years) it is quite a lot shorter. The fact that in the United Kingdom the market holds proportionally more longer-dated debt than is so in these other countries reflects not only the success of the U.K. authorities' efforts in selling longer-dated securities whenever conditions in the gilt-edged market allow, but also the size and flexibility of the market itself, and the preference of the institutional investors who form such a large part of it.

### **Average holdings of stock**

Figures published in this series of articles over the last few years have shown a generally rising trend in the total national debt and particularly in the amount of stock out-

<sup>7</sup> In this calculation it is assumed that stocks with optional redemption dates will mature on the final date and 4% Victory Bonds on a date corresponding to their average life to redemption.

standing. The amount outstanding has in fact been increasing for a much longer period but, as Table B shows, the number of separate accounts fell after the mid-1950's while the average size of stockholding continued to increase substantially and fairly steadily.

**Table B<sup>a</sup>**

End-March	Number of accounts thousands	Average stockholding per account £
1936	2,169	2,159
1941	2,290	2,720
1946	2,676	4,658
1951	3,188	4,567
1956	3,054	5,854
1961	2,731	6,881
1966	2,307	8,359
1967	2,249	9,422
1968	2,303	9,281

<sup>a</sup> The figures refer to British government stocks (and stocks guaranteed by H.M. Government, mainly those of the nationalised industries) on the Bank of England register only. No account has been taken of stocks which are held in their entirety by the National Debt Commissioners.

There were special reasons for some of the changes shown in the table. The most obvious example is the financing of the 1939-45 War which caused both a rise in the number of accounts and, because of the enormous increase in the total of stock, a very sharp rise in the average holding. Another is the nationalisation operations which were carried out in the early post-war years<sup>1</sup> and in July 1967; these also produced a rise in the number of accounts but, because of the very many relatively small holdings of industrial securities which had to be exchanged for government stock, a fall in the average holding.

But perhaps the most important, and lasting, influence on the figures has been the expansion of the public sector to include, through nationalisation, some heavily capital-intensive industries; this, combined with the fall in the value of the pound, has inevitably entailed a very substantial rise in the absolute level of the national debt. Another major factor has been the trend, particularly evident since the war, towards private saving through financial institutions; this has led to a running down of individuals' holdings of stock and a rise in the holdings of the institutions (which have themselves tended to merge into large units). Also the Government themselves might be said to have made some contribution by their active promotion of national savings; without this campaign it is quite possible that some of the funds now invested in national savings would have been used to buy small holdings of gilt-edged stock. So long as the national debt expands, or the current pattern of investment by individuals is maintained, there seems every reason to expect that the average holding of gilt-edged stock will continue to increase.

<sup>1</sup> These operations were described in the article "The Bank of England as Registrar" in the March 1963 *Bulletin*.

Table C

## Estimated distribution of the national debt: 31 March 1968

£ millions

Nominal values<sup>a</sup>

	Total	Treasury bills	Stocks			Non-market-able debt
			Total	0-5 years to maturity	Over 5 years and undated	
<b>Official holdings<sup>b</sup></b>	<b>9,168</b>	<b>2,378</b>	<b>5,924</b>	<b>1,328</b>	<b>4,596</b>	<b>866</b>
<b>Non-official holdings</b>						
Public bodies:						
Public corporations	82	—	82	17	65	..
Local authorities	108	..	108	31	77	..
Total public bodies	190	..	190	48	142	..
Banking sector:						
Deposit banks	1,906	333	1,573	1,066	507	} 62
Overseas banks and other banks	517	56	461	299	162	
Accepting houses	90	18	72	66	6	
Discount market	828	255	573	556	17	
Total banking sector	3,403 <sup>c</sup>	662	2,679	1,987	692	62
Other financial institutions:						
Insurance companies	2,812	—	2,812	134	2,678	—
Building societies	577	4	562	352	210	11
Post Office Savings Bank, investment accounts	83	—	82	25	57	1
Trustee savings banks, special investment departments	286	—	286	142	144	—
Local authority pension funds	296	—	296	8	288	—
Other public sector pension funds	249	—	249	20	229	—
Private sector pension funds	886	2	884	99	785	—
Investment and unit trusts	74	—	74	26	48	—
Total other financial institutions	5,263	6	5,245	806	4,439	12
Overseas residents: <sup>d</sup>						
International organisations	1,525	56	12	12	—	1,457
Central monetary institutions	3,202	2,219	983	615	368	—
Banks overseas	} 1,164	} 24	208	89	119	—
Other			900	210	690	32
Total overseas residents	5,891	2,299	2,103	926	1,177	1,489
Other holders:						
Public Trustee and various non-corporate bodies	207	3	203	21	182	1
Individuals	6,076	..	2,650	550	2,100	3,426
Industrial and commercial companies:						
Quoted companies	305	..	170	} 1,375	} 1,475	} 135
Unquoted companies	80	..	80			
Friendly societies etc.	140	..	140			
Other (residual)	2,924	107	2,460			357
Total other holders	9,732	110	5,703	1,946	3,757	3,919
<b>Total non-official holdings</b>	<b>24,479</b>	<b>3,077</b>	<b>15,920</b>	<b>5,713</b>	<b>10,207</b>	<b>5,482</b>
<b>Total debt</b>	<b>33,647</b>	<b>5,455</b>	<b>21,844</b>	<b>7,041</b>	<b>14,803</b>	<b>6,348</b>

Of which:

Nationalised industries' stocks guaranteed by H.M. Government

1,755                      1,755                      478                      1,277

<sup>a</sup> Some of the holdings are at book or market values and at dates other than 31 March: see notes on sources and definitions.<sup>b</sup> U.K. official holdings.<sup>c</sup> Includes total identified non-marketable debt which cannot be allocated between the various constituents of the sector; see notes on sources and definitions.<sup>d</sup> Including overseas official holders.

.. 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 2 on page 53. Excludes debt payable in overseas currencies (£2,302 million at 31st March 1968) and securities tendered in payment of death duties and held by the National Debt Commissioners until redeemed (£74 million at 31st March 1968).

The classification adopted is comparable with that used in Table 13 of the statistical annex (transactions in British Government stocks on the London stock exchange).

### Stocks

Classified according to final redemption date: Victory Bonds according to their average life to maturity.

### Official holdings

Holdings of U.K. official bodies including 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 for 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 only 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.

### Other financial institutions

*Insurance companies* Holdings of 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; also the holdings of the U.K. life funds of Commonwealth insurance companies which are B.I.A. members, and of 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*.

### Overseas residents

Including overseas official holders. The figures for Treasury bills, together with those of stocks

held by international organisations, central monetary institutions and banks overseas, come from Table 20 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 1967, 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* The figure for quoted companies' stocks is based on a large number of published accounts of public companies. That for unquoted companies 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. British government securities are often included indistinguishably with total investments on these accounts and the figures are therefore only estimates. Also, investments are invariably shown at book or market values in companies' accounts and no attempt has been made to convert them to nominal amounts.

An estimate of tax reserve certificates held by quoted companies is shown under "non-marketable debt". Companies' holdings of Treasury bills are included in the residual category.

*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 1967) are estimated from information in the *Report of the Chief Registrar of Friendly Societies*.