

Distribution of the national debt: March 1969

This article analyses the national debt by type of security and class of holder at the end of March 1969, and discusses some of the changes which took place during the preceding financial year. It also contains a short section in which the size of the national debt of the United Kingdom and of some other countries is compared with their respective national incomes. The article is one of an annual series, the first of which appeared in the June 1962 *Bulletin*, covering the financial years from 1957/58 onwards.

Distribution at March 1969

The basic figures appear in Table C on page 59. At 31st March 1969 the total national debt,¹ in nominal terms, was £33,485 million, made up of £20,982 million (63%) government and government-guaranteed stocks, £5,741 million (17%) Treasury bills, and £6,762 million (20%) non-marketable debt – mainly national savings securities,² tax reserve certificates and non-interest-bearing notes.

Of the total, U.K. official holders accounted for £9,394 million, or 28%. The principal U.K. official holders are the National Debt Commissioners (whose responsibilities include the investment of money deposited in the National Savings Bank³ and in the ordinary departments of the trustee savings banks, and the management of the national insurance funds and several other official funds); the Issue and Banking Departments of the Bank of England; the Exchange Equalisation Account; and any government departments that have money temporarily invested in government debt. The National Debt Commissioners accounted for more than half the U.K. official portfolio at end-March 1969 and the Issue Department, whose holdings of government debt form the backing for the fiduciary note issue, for most of the remainder. About 64% of all U.K. official holdings took the form of stocks, and 27% of Treasury bills. Non-marketable debt, which cannot, by definition, be used in market operations and is therefore of less practical use to the larger official holders, accounted for only 9% of the total.

The remaining £24,091 million (72%) of the national debt was in the hands of the "market", the term used throughout this article for all investors outside the U.K. official category. Of this amount, stocks accounted for £14,961 million (62%), Treasury bills £3,218 million (13%), and non-marketable debt £5,912 million (25%). The proportions held in Treasury bills and non-marketable debt were almost the reverse of those held by U.K. official holders.

Table C shows the holdings of the various groups of market investors. Apart from the largely residual category of "other holders" the biggest group was "overseas resi-

¹ Here defined as the total of the national debt payable in sterling, as given in the Consolidated Fund and National Loans Fund Accounts 1968/69, 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.

² National savings certificates, defence bonds, national development bonds, British savings bonds and premium savings bonds.

³ Post Office Savings Bank prior to 1st October 1969.

dents', whose holdings came to nearly £6,500 million. In addition to the investment of the sterling reserves of many overseas countries in British government stocks and Treasury bills, this total included a number of other components. For example, part of the holdings of Treasury bills by central monetary institutions was the sterling counterpart of outstanding drawings by the United Kingdom on special swap facilities. Again, international organisations' holdings of non-marketable debt included non-interest-bearing notes arising from this country's drawings on the International Monetary Fund, as well as from its subscriptions to this and other organisations. The total also included the holdings of 'private' overseas residents which, so far as they could be identified, amounted to well over £1,000 million.

Amongst domestic investors, the largest amount of debt, nearly £5,250 million, was held by the "other financial institutions" group. In the main, these securities represented the indirect investments of individuals through one channel or another, obvious examples being the National Savings Bank investment accounts and the special investment departments of the trustee savings banks,⁷ which together held over £400 million of government debt at end-March 1969. As part of their liquid reserves, building societies had over £550 million invested in this way – though this represented only about 7% of their total funds, most of which were used to finance house purchase. The pension funds of public authorities and of private bodies held another £1,250 million; this total does not include the national insurance funds, whose assets form part of U.K. official holdings. However, by far the largest of the institutional investors were the insurance companies, whose holdings came to nearly £3,000 million or more than the rest of the "other financial institutions" combined. This whole group's investments in government debt are concentrated almost exclusively in stocks and, in particular, in stocks having more than five years to run to maturity. "Other financial institutions" have few short-term liabilities and thus less need for short-term assets.

The remaining holdings accounted for rather more than half the market's total, and consisted of the investments of public bodies (some £200 million only), the banking sector, and 'others'. The banking sector held £2,826 million, comprising over £2,100 million of stocks (the emphasis in their case being on short-dated issues) and over £600 million of Treasury bills. The residual group of "other" holdings of government securities totalled £9,300 million, but these are the holdings for which the statistics are least accurate. The figures for individuals and industrial and commercial companies have had to be estimated, because no precise information exists. However, it is safe to attribute the great majority of the outstanding total of national savings securities and personal tax reserve certificates to individuals. The "other (residual)" figure, some £2,750 million or 8% of the entire debt, was probably due in part to

⁷ Because their deposits do not have to be invested wholly in government debt, National Savings Bank investment accounts and trustee savings banks' special investment departments are, unlike ordinary accounts, regarded as 'market' holdings.

stockbrokers, solicitors, private trusts, charities and partnerships (all categories whose holdings cannot be estimated), but also reflects unavoidable errors and omissions in the figures used for other categories.

Changes during 1968/69

Table A shows the amounts by which the various types of government debt altered during the year ended 31st March 1969, and the changes for each of the main groups of holders.¹

Table A

£ millions

Nominal values

	Total	Treasury bills	Stocks	Non-marketable debt
Official holdings	+ 226	+ 145	+ 97	- 16
Market holdings				
Public corporations and local authorities	+ 26	—	+ 4	+ 22
Banking sector	-577	- 34	-551	+ 8
Other financial institutions	+ 82	- 2	+ 86	- 2
Overseas residents	+589	+216	- 20	+393
Other holders:				
Individuals	- 76	..	-110	+ 34
Industrial and commercial companies	- 10	..	+ 5	- 15
Other (residual)	-422	- 39	-373	- 10
Total market holdings	-388	+141	-959	+430
Total debt	-162	+286	-862	+414

.. not available.

The first point to note from this table is that the total national debt fell by £162 million nominal (0.5%) during the financial year. This was the first fall since 1962/63, and it was in sharp contrast to the rise of £1,726 million (5.4%) which took place in 1967/68 and which was examined in the previous article in this series.²

The fall in 1968/69 was due mainly to the fact that the central government had an overall surplus during the year of £273 million, the first of any size since 1950/51. But other transactions, including the issue of a further £60 million of 6½% Treasury Stock 1971 in exchange for the remaining securities of the re-nationalised steel companies (an operation which had no effect on the Government's cash position), combined to reduce the impact of this surplus so far as the national debt was concerned.

Analysis by type of debt

Among the various types of debt, by far the biggest change took place in stocks; they fell, in total, by as much as £862 million. Two stocks were redeemed during the year - £533 million of 3% Funding Stock 1966/68, and £335 million of 3½% Conversion Stock 1969 - and there were no new issues apart from the £60 million of 6½% Treasury Stock 1971 already mentioned.³ Market holdings of stock fell by £959 million, even more than the reduction in the total, indicating

¹ Because of revisions to figures for 31st March 1968 (published in the March 1969 *Bulletin*), some of the changes in this table cannot be derived from the published tables of absolute holdings.

² March 1969 *Bulletin*, page 53.

³ There were also some other smaller operations, mainly cancellations of stock purchased by sinking funds.

the weakness of the gilt-edged market for much of 1968/69.

The very steep fall in stocks was largely offset by increases in both Treasury bills and non-marketable debt. Treasury bills rose by £286 million, the increase being spread almost equally between the market and U.K. official holders. As in 1967/68, the increase in the market's total – £141 million – was concentrated in overseas residents' holdings and, in particular, in those of overseas central monetary institutions. Treasury bills held by these institutions rose by £209 million, but this was much less than in 1967/68 when, reflecting the United Kingdom's greater use of overseas central bank facilities, they rose by nearly £1,400 million. Treasury bills in U.K. official hands rose by £145 million, mainly because of an increase of more than £170 million in the amount held by the Banking Department of the Bank of England; this in turn was broadly matched by a fall of £210 million in the Bank's advances to the London discount market.

The increase in non-marketable debt was £414 million. The amount in 'market' hands rose by £430 million – mainly because net U.K. drawings from the I.M.F. increased that organisation's holdings of non-interest-bearing notes. Non-marketable debt in U.K. official portfolios fell by £16 million.

The following paragraphs explain some of these changes.

Analysis by holder

Dealing first with U.K. official holdings, the Banking Department's total rose by some £180 million, reflecting mainly the increase in Treasury bills already noted. The Issue Department's holdings rose by a similar amount – about £170 million – roughly as much as the increase in the fiduciary note issue. In this case, however, the rise was concentrated in stocks and, as usual, was the net result of almost daily official transactions in the gilt-edged market. In brief, the market was weak for most of 1968/69 and, over the course of the year, the Issue Department bought in nearly £1,000 million net of short-dated stocks and sold some £200 million of other stocks. However, a large part of the short-dated purchases – about £500 million – consisted of the year's two maturities, 3% Funding Stock 1966/68 and 3½% Conversion Stock 1969, and the Issue Department's holdings of these two stocks had risen to about £375 million and £280 million by the time the respective registers were closed. Consequently, on redemption, there were very sharp falls in the Department's total stockholdings, which largely offset the heavy purchases from the market during the remainder of the year. It is perhaps worth noting that none of these figures gives any indication of the scale of the Issue Department's dealings in stocks with the market, the cash value of which approached £4,500 million for gross purchases plus gross sales during the year. Similarly the very small net change in the Department's Treasury bills, a rise of £2 million, conceals gross purchases and sales of some £3,500 million.

Movements in other U.K. official portfolios, which were less affected by conditions in the market, were smaller. There were, however, some changes. For example, repayments of terminable annuities, a type of non-marketable debt

held only by the National Debt Commissioners, amounted to £83 million, in line with a fall in deposits in ordinary accounts at the National Savings Bank. On the other hand, ways and means advances (also part of non-marketable debt) rose by £60 million, mainly because of an increase in the funds temporarily invested by government departments.

As in 1967/68, the biggest change in market holdings took place in the "overseas residents" group, where the total rose by £589 million. The main elements were the increases in the holdings of Treasury bills and non-interest-bearing notes already mentioned.

In contrast to the overseas sector, the banking sector reduced its holding of debt sharply in 1968/69, the disinvestment being concentrated in short-dated stocks. The overall fall was £577 million, the discount houses accounting for rather more than half, and the deposit banks and the other banks for about one quarter each. Falls on this scale in the banking sector's holdings of government securities – and particularly of stocks – are uncommon. The principal reason was that the central government's revenue receipts, and the resulting surplus, were exceptionally large in the March quarter of 1969. The banks and discount houses usually meet the demands of the revenue quarter by running down their holdings of Treasury bills, which would ordinarily have been built up between the previous April and December. Because the pressures upon them were much heavier than usual in the March quarter of 1969, however, they had to sell large amounts of stocks – holdings of which had already been depleted earlier in the financial year – as well as of Treasury bills.

A newcomer to the banking sector in 1968/69 was the National Giro, which opened for business in October 1968. By the end of March 1969 it had £2 million of government debt, the bulk of its funds being in short-term assets such as money at call with the discount market and temporary loans to local authorities.

The "other financial institutions" group had a far smaller appetite for government securities in 1968/69 than in 1967/68. In the earlier year there were several periods in which the gilt-edged market was buoyant. There were also some special factors then (in particular the exchange of the bulk of the steel securities for 6½% Treasury Stock 1971), and the group's total debt holdings increased by nearly £600 million. In 1968/69, however, the gilt-edged market was generally weaker, and there were no major special factors; the result was a rise of only £86 million in stocks and of £82 million in government debt as a whole. Some of the institutions, notably the insurance companies, the local authority pension funds, and the National Savings Bank investment accounts, increased their holdings; but others, including the building societies, the private sector pension funds, and the investment and unit trusts, reduced theirs. The comparatively small rise, on balance, in the group's holdings of government debt in 1968/69 occurred not because the institutions had significantly fewer funds to invest than in the previous year, but rather because they chose to invest them to a far greater extent in equities and other private sector assets.

Among "other holders", individuals are thought to have reduced their stocks in 1968/69, but to have increased their holdings of non-marketable debt. The fall in stocks is put at about £100 million and continued a trend which had been in evidence for many years, mainly in long and undated issues. Individuals' non-marketable debt rose by £34 million, a rise of £42 million in personal tax reserve certificates having been partly offset by a net fall of £8 million in national savings securities. Among the latter, premium savings bonds, benefiting from the new £25,000 weekly prize, increased by about £80 million; but the other savings securities suffered a net fall of nearly £90 million.

Pressure on the liquidity of industrial and commercial companies intensified in 1968/69 but is not thought to have affected their holdings of stock significantly; there was, in fact, a recorded increase of £5 million, although this reflects improved coverage rather than new investment. Companies' non-marketable debt, a more accurately known figure, fell by £15 million because of a reduction in holdings of tax reserve certificates.

National debt in the United Kingdom and abroad

The weight of a country's national debt can be assessed by relating the debt to the nation's resources, human or material. Perhaps the most convenient measure of resources is gross national product. The United Kingdom's total sterling debt, in nominal terms, at March 1969 was equal to about 89% of G.N.P. in 1968. If U.K. official holdings of debt are excluded, together with non-interest-bearing notes held by the I.M.F., the proportion falls to 59%. It is not easy to compare these figures with those of other leading industrial countries, for there are large differences in structure and size of the public sectors, and in the definitions of the debt; and in some cases the necessary statistics are not available. But the following table gives the broad orders of magnitude:

Table B

	G.N.P. at current prices and factor cost 1968	Total national debt	National debt excluding official holdings and I.M.F. notes	Item 2 as percentage of G.N.P.	Item 3 as percentage of G.N.P.
	1	2	3	4	5
Canada; \$ mns.	62,000	23,000	18,000	37	29
France; Fcs. mns.	543,000	98,000	73,000	18	13
Italy; Lire mds.	41,000	25,000	22,000	61	54
Japan; Yen mds.	48,000	5,000	2,000	10	4
Netherlands; Fl. mns.	82,000	29,000	16,000	35	20
United Kingdom; £ mns.	37,000	33,000	22,000	89	59
United States; \$ mns.	787,000	360,000	228,000	46	29
Western Germany; DM mns.	464,000	137,000	88,000	30	19

The figures, which have been rounded, have been drawn from the official publications of the countries concerned. Those relating to national debt are for end-March 1969, except those for France, Italy, the Netherlands and Western Germany which are for end-December 1968. Debt payable in foreign currencies and, in Column 3, holdings of I.M.F. notes, are excluded as far as possible. Debt incurred by subordinate authorities is excluded except for Western Germany, where that of the Länder is included. Debt of the main state corporations is included for Italy and Western Germany, but is generally excluded elsewhere.

For all the statistical uncertainties, it is apparent from the table that the United Kingdom has a substantially heavier burden of debt than any of the other countries mentioned. This is primarily due not to years of peacetime deficit financing but rather to the massive cost of the two world wars.

For the most part, other countries either incurred less debt during the wars in relation to their resources, or had the effective value of it drastically reduced afterwards by inflation and sometimes by currency reorganisation.

The size of the United Kingdom's debt poses particular problems for monetary management. The problems are perhaps not quite as acute as may appear at first sight because, as last year's article showed, the average life of dated debt (excluding Treasury bills) in market hands – 13.3 years at end-March 1969 – is distinctly longer in the United Kingdom than in most other leading industrialised countries. Nevertheless the weight of maturing obligations is larger in the United Kingdom than elsewhere, and therefore creates greater difficulties for the authorities. If holders of these maturing stocks (other than banks and discount houses) cannot be persuaded to reinvest in government debt, the initial result is inevitably a rise in bank deposits. Efforts to control the growth of the money supply through strong budgetary policies and a strict control over bank lending would then be partly or wholly frustrated.

Table C

Estimated distribution of the national debt: 31 March 1969

£ millions

Nominal values^a

	Total	Treasury bills	Stocks			Non-market-able debt
			Total	0-5 years to maturity	Over 5 years and undated	
U.K. official holdings	9,394	2,523	6,021	1,906	4,115	850
Market holdings						
Public bodies:						
Public corporations	112	—	90	20	70	22
Local authorities	104	..	104	31	73	..
Total public bodies	216	..	194	51	143	22
Banking sector:						
Deposit banks	1,755	297	1,458	914	544	} 70
National Giro	2	1	1	1	—	
Accepting houses, overseas banks and other banks	484	69	415	260	155	
Discount market	515	261	254	252	2	
Total banking sector	2,826^b	628	2,128	1,427	701	70
Other financial institutions:						
Insurance companies	2,959	1	2,958	108	2,850	—
Building societies	564	1	554	343	211	9
National Savings Bank, investment accounts	118	—	117	27	90	1
Trustee savings banks, special investment departments	285	1	284	143	141	—
Local authority pension funds	323	—	323	6	317	—
Other public sector pension funds	227	—	227	16	211	—
Private sector pension funds	716	1	715	49	666	—
Investment and unit trusts	42	—	42	11	31	—
Total other financial institutions	5,234	4	5,220	703	4,517	10
Overseas residents: ^c						
International organisations	1,946	81	10	10	—	1,855
Central monetary institutions	3,422	2,428	994	630	364	—
Banks overseas	} 1,112	6	184	75	109	—
Other			895	170	725	27
Total overseas residents	6,480	2,515	2,083	885	1,198	1,882
Other holders:						
Public Trustee and various non-corporate bodies	202	4	197	25	172	1
Individuals	5,865	..	2,540	554	1,986	3,325
Industrial and commercial companies:						
Quoted companies	295	..	175	} 1,149	1,450	120
Unquoted companies	80	..	80			..
Friendly societies etc.	140	..	140			..
Other (residual)	2,753	67	2,204			482
Total other holders	9,335	71	5,336	1,728	3,608	3,928
Total market holdings	24,091	3,218	14,961	4,794	10,167	5,912
Total debt	33,485	5,741	20,982	6,700	14,282	6,762
<i>Of which:</i>						
Nationalised industries' stocks guaranteed by H.M. Government	1,754		1,754	827	927	

^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.

^c 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 £500,000.

Notes on sources and definitions

National debt

As defined in footnote 1 on page 52. Excludes debt payable in overseas currencies (£2,253 million at 31st March 1969) and securities tendered in payment of death duties and held by the National Debt Commissioners until redeemed (£69 million at 31st March 1969).

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 1968, compiled from statistics of death duties. Stocks have been converted approximately to nominal values. Non-marketable debt includes £4 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 a broad estimate originally 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 1968) are estimated from information in the *Report of the Chief Registrar of Friendly Societies*.