

Distribution of the national debt at end-March 1977

This article continues the annual series which began in June 1962.

Provisional details of the national debt outstanding at 31st March 1977, analysed by type of debt, have already been published in the July 1977 issue of *Financial Statistics*. The present analysis looks at the holders of the debt. First, it distinguishes between market holdings, and official holdings (i.e. all debt held by central government funds and accounts – including, for example, the Exchange Equalisation Account and the national insurance funds – and by the Bank of England), and shows how much of the various forms of debt were held in market hands. It goes on to analyse in detail the distribution of sterling debt by type of holder. In Table B, figures for the market value of gilt-edged stocks are included for the first time, as well as the usual estimates mainly at nominal value; holdings of gilt-edged stocks are increasingly being reported at market value, but both the nominal and market value series are still partly estimated.

At 31st March 1977, the nominal total of the national debt (including foreign currency debt) was £68.0 billion, an increase of £10.5 billion on a year earlier. The bulk of this increase (£9.7 billion) was in market holdings; official holdings rose by only £0.8 billion.[1]

Table A
Official and market holdings of national debt(a)

	End-March 1976	Percentage of market holding	End-March 1977	Percentage of market holding
Official holdings	13,634		14,418	
Market holdings				
Sterling marketable debt:				
Government and government-guaranteed stocks(b)	29,148	66.5	36,813	68.7
Treasury bills	4,828	11.0	3,637	6.8
Sterling non-marketable debt:				
National savings securities	4,334	9.9	5,285	9.9
Interest-free notes due to the IMF and IDA(c)	2,059	4.7	3,429	6.4
Other	38	0.1	22	—
Total	40,407		49,186	
Foreign currency debt(d)				
HMT euro-currency loans	1,305		2,034	
North American government loans	2,072		2,265	
Anglo-German Offset Agreement	65		73	
Export-Import Bank of Washington	9		—	
Total	3,451	7.9	4,372	8.2
Total market holdings	43,858	100.0	53,558	100.0
Total	57,492		67,976	
<i>of which, nationalised industries' stocks guaranteed by the Government</i>	908		808	

[a] The national debt, as conventionally defined, comprises all liabilities of the National Loans Fund. The figures quoted in this article include in addition nationalised industries' stocks guaranteed by the Government, because the markets, and most of the sources used for identifying holders, do not generally distinguish them from government stocks.

[b] The Bank are prepared to make available, for research purposes, figures for total market holdings (defined for the purpose as all holdings except those of the National Debt Commissioners and of the Issue and Banking Departments of the Bank of England) of individual government and government-guaranteed stocks at 31 March of each year from 1960 to 1972. These figures may be obtained by writing to the Economic Intelligence Department at the address given on the reverse of the contents page.

[c] Includes the sterling counterpart of IMF drawings.

[d] Sterling valuation rates – end-March 1976 £1 = \$1.9160 = Can. \$1.8857
– end-March 1977 £1 = \$1.7201 = Can. \$1.8217.

There are a number of reasons why the increase in the nominal value of the debt in market hands during the financial year 1976/77 differs from the central government borrowing requirement, which was £5.9 billion. To start with, there is the question of valuation: the CGBR is a cash concept, which is by no means the same as the change in nominal debt outstanding

[1] Most of the increase in official holdings reflects the investment of the national insurance funds, which were in substantial surplus during the year.

(for example, when gilt-edged stocks are issued below par, the national debt rises by the full nominal value of the stocks, whereas the contribution in cash terms of such stocks to financing the CGBR will be somewhat less); secondly, the CGBR does not include any borrowing needed to finance changes in certain financial assets held by the central government, in particular the official reserves, additions to which amounted to some £2.2 billion; [1] and, thirdly, there are some differences in definition (the national debt is confined to the liabilities of the National Loans Fund and excludes the debt of certain other central government bodies – in particular, notes issued by the Bank of England Issue Department). [2] Nevertheless, the unusually large increase in market holdings in the latest financial year broadly reflects the combination of a large borrowing requirement and a big increase in the official reserves.

About a quarter of the increase in the debt outside official hands was in two elements directly related to external borrowing to augment the official reserves. The sterling equivalent of debt payable in foreign currencies rose by £921 million, and by end-March 1977 accounted for 8.2% of the total debt in market hands compared with 7.9% a year earlier. Over half of this increase (£581 million) represents drawings on the Government's \$1.5 billion foreign currency loan negotiated in January 1977; most of the remainder reflects the increase in sterling terms (brought about by the depreciation of the pound during 1976) of existing foreign currency debt.

The second element, drawings on the International Monetary Fund, shows up in the tables as an increase in sterling debt; technically, the transactions with the IMF take the form of purchases of foreign currencies for sterling which is reinvested by the Fund in non-interest-bearing Treasury notes. The value of such notes outstanding held by the IMF and the International Development Association rose by £1,370 million during the year, and the proportion of debt in this form rose from 4.7% to 6.4%.

Except for those stocks issued by nationalised industries and guaranteed by the Government, borrowing by local authorities and public corporations is not, by definition, included in the national debt. Nevertheless this borrowing has many of the characteristics of central government borrowing, and is controlled by the authorities in such a way as to ensure that the borrowing needs of the public sector as a whole are met at least cost. Moreover, individual local authorities may often have the choice between borrowing from the central government or from the market. The first course increases the national debt whereas the second leaves it unchanged. Foreign currency borrowing by local authorities and public corporations has also often taken the place of central government borrowing. Since 1973, nationalised industries and, to a lesser extent, local authorities have again been encouraged to borrow abroad under the exchange cover scheme (whereby capital and interest payments are guaranteed by the Treasury against exchange risk) in order to strengthen the country's official reserves. In such cases, however, as explained above, there will be a corresponding increase in the national debt because the Government will need to finance the rise in the reserves which results from such borrowing. Outstanding foreign currency borrowing by public sector bodies other than the central government amounted to \$10.7 billion at 31st March 1977 (of which \$9.6

[1] Although changes in the official reserves do not affect the CGBR itself, the net cost or gain in sterling from such changes forms part of the financing of the CGBR, and a rise in the reserves increases the overall amount of finance which the Government have to raise.

[2] These statistical differences are explained in detail in the article by David J. Reid: 'Public sector debt'. *Economic Trends*, May 1977.

billion was under the exchange cover scheme – see Table 24 / 1 of the statistical annex).[1]

Among the rest of the national debt, the largest increase was in gilt-edged stocks, and the proportion of market-held debt in this form rose from 66.5% to 68.7%. Fourteen stocks (including additional tranches) were issued during the year with a total nominal value of £9.7 billion (details of these were given in the financial review in the relevant issues of the *Bulletin*; a full list is to be found in the May 1977 issue of *Financial Statistics*, Table 3.6). The coupon on new long-dated gilt-edged issues rose to a new peak with the issue of two tranches of 15½% Treasury Loan 1998 in October and December 1976. A new development was the issue of a government stock payable in instalments, the first since 1940; on 24th March 1977, £800 million 12¼% Exchequer Stock 1992 was issued at 96%, with 15% payable on application and the balance falling due in the next financial year.[2] At the same time it was announced that, until further notice, the terms of that and future issues would not carry any general exemption from UK taxation for non-residents, and that there was to be no facility for conversion into bearer bonds. Stocks already issued were naturally not affected by the above changes. Five stocks, with a total nominal value of £2.8 billion, were redeemed during the year, and about £20 million of other stock was cancelled, mainly through the operation of sinking funds.

With most of the new stocks being long-dated, the average life of dated stocks rose by 0.1 of a year to 12.5 years.[3] Nevertheless, the increase in total outstanding short-dated stocks raised the average amount of stock to be redeemed in each of the next five years to over £3 billion.

The value of national savings securities outstanding (excluding accrued interest and index-linked increases) rose by £951 million, but even so the percentage of market debt in this form was unchanged at 9.9%. Gross sales of the sixteenth issue of savings certificates – introduced in mid-December 1976 for a limited period ending 31st March 1977 – exceeded £900 million; the index-linked retirement certificates brought in a further £200 million (making £450 million since they were first offered in 1975).

In contrast, market holdings of Treasury bills declined by £1.2 billion, and at end-March 1977 represented only 6.8% of the debt held by the market compared with 11.0% in March 1976.

Table B gives an analysis by holder of the debt payable in sterling, as at end-March 1977, in broadly the same form as in previous articles. The information is taken from a variety of sources and in some cases the figures are little more than broad estimates (see notes on sources and definitions). The increase in debt during the financial year 1976/77 (other than non-interest-bearing notes already mentioned) was reflected mainly in the holdings of the financial institutions outside the banking sector and in the partly residual category, 'other holders'. Holdings of the banking sector and of overseas holders (other than the IMF) declined.

Non-bank financial institutions continued to increase their holdings: insurance companies and superannuation funds were heavy buyers of gilt-edged stocks, mainly long-dated, particularly in late 1976 and the early part of 1977; building societies' holdings

[1] Further details were published in an *Economic Progress Report* (No. 86, May 1977) prepared by the Information Division of the Treasury. Capital repayments on public sector foreign currency debt outstanding at end-September 1977 are shown in Table 24 / 2 of the annex.

[2] Although payable in instalments, the whole amount of the stock was included in the national debt from its date of issue.

[3] Because some constituents of the national debt (e.g. national savings) do not have final maturity dates, it is not possible to calculate the average maturity of total debt outstanding. An article in the September *Bulletin*, page 319, discussed longer-term trends in average maturity and explained some of the difficulties of using this concept as a measure of the refinancing burden.

Table B

Estimated distribution of the sterling national debt: 31 March 1977

£ millions

Nominal values[a]

Market values in italics[b]

	Total debt	Percentage of market holdings	Treasury bills	Stocks			Non-marketable debt		
				Total	Up to 5 years to maturity	Over 5 and up to 15 years		Over 15 years and undated	
Official holdings	14,418		7,566	5,690	5,246	2,536	1,554	1,600	1,162
Market holdings									
Other public sector:									
Public corporations	35		—	35	34	28	5	2	—
Local authorities	31		..	31	25	6	5	20	..
Total	66	0.1	—	66	59	34	10	22	—
Banking sector: [c]									
Banks	3,336		1,119	2,217		2,036	181	—	—
National Giro	15		5	10		8	2	—	—
Discount market	1,406		1,077	329		321	8	—	—
Total	4,757	9.7	2,201	2,556	2,711	2,365	191	—	—
Other financial institutions:									
Insurance companies	9,215		17	9,198	7,753	1,152	1,181	6,865	..
Building societies	2,293		3	2,290	2,230	1,898	384	8	—
National Savings Bank, investment account	474		9	465	405	67	182	216	—
Trustee savings banks, new departments	1,032		12	1,020	945	421	403	196	—
Local authority superannuation funds	1,150		—	1,150	938	50	100	1,000	—
Other public sector superannuation funds	1,255		5	1,250	1,038	50	100	1,100	—
Private sector superannuation funds	3,007		7	3,000	2,491	300	300	2,400	—
Investment trusts	261		5	256	200	79	82	95	—
Unit trusts	37		—	37	37	11	16	10	—
Other	174		169	5	5	5	—	—	—
Total	18,898	38.4	227	18,671	16,042	4,033	2,748	11,890	—
Overseas holders:									
International organisations	3,601		93	79	76	19	60	—	3,429[d]
Central monetary institutions	1,719		711	1,008	937	607	170	231	—
Other	1,805		12	1,791	1,508	415	248	1,128	2
Total	7,125	14.5	816	2,878	2,521	1,041	478	1,359	3,431
Other holders:									
Public Trustee and various non-corporate bodies	309		39	268	200	56	49	163	2
Individuals and private trusts[e]	12,480		..	7,620	5,926	2,838	1,504	3,278	4,860
Industrial and commercial companies	644		354[f]	286[g]	3,584	2,761	110	1,883	4
Other (residual)	4,907		—	4,468	—	—	—	—	439
Total	18,340	37.3	393	12,642	9,710	5,655	1,663	5,324	5,305
Total market holdings	49,186	100.0	3,637	36,813	31,043	13,128	5,090	18,595	8,736
Total debt	63,604		11,203	42,503	36,289	15,664	6,644	20,195[h]	9,898

of which,

nationalised industries' stocks guaranteed by the Government

.. not available, assumed negligible.
 — nil or less than £½ million.

[a] With some exceptions; see notes on sources and definitions.

[b] Some of these estimates are based on reported market values at end-December 1976 and cash transactions in the first quarter of 1977; others rely on broad nominal-market value ratios.

[c] Excludes the Bank of England, Banking Department (which is included among official holders). Holdings of stocks are at book value or cost. All stock holdings over five years to maturity have been assumed to be under fifteen years.

[d] Includes non-interest-bearing notes due to the International Monetary Fund in respect of UK drawings of foreign currency.

[e] Direct holdings only; see notes on sources and definitions.

[f] The residual after other holders of Treasury bills have been identified; the total may thus include unidentified holdings of other sectors.

[g] Holdings (at book value) of some 200 large companies covered by the Department of Industry's survey of companies' liquid assets.

[h] Of which undated £3,360 million.

of gilt-edged fell, but only slightly. On the other hand, these institutions' holdings of Treasury bills, which had risen steeply in the previous year, fell somewhat in 1976/77. Overall, this sector's holdings of government debt have grown steadily in recent years and at end-March 1977 accounted for 38% of total sterling debt in market hands compared with 35% a year earlier and 29% five years ago.

In contrast, the banking sector accounted for only 9.7% of market holdings of government debt in March this year, compared with 12.6% a year earlier. There was some increase in this sector's holdings of gilt-edged stocks, but holdings of Treasury bills, which rose during the first half of 1976/77, fell back sharply following heavy official sales of gilt-edged stocks in the latter part of 1976 and in early 1977.

The proportion of debt held by overseas residents fell from 15.7% to 14.5% despite the increase in non-interest-bearing notes. This was mainly because overseas central monetary institutions sharply reduced their holdings of Treasury bills; there was also some decline in their holdings of gilt-edged, although the drop was

exaggerated by a switch from lower-coupon into higher-coupon stocks (giving lower holdings at nominal values). Other overseas holders increased their holdings of gilt-edged.

About 37% (virtually the same proportion as a year earlier), or £18.3 billion, of the market's holdings at end-March 1977 is included under 'other holders', a category which in total is derived as a residual. Some £12.5 billion (compared with £10.2 billion a year earlier) of this can be broadly identified, largely from the government stock registers, as being held by individuals and private trusts.[1] However, this figure does not include individuals' holdings held through nominee companies which cannot be identified in the registers. Companies' holdings of government stocks rose slightly, but these are almost certainly underestimated as the figures apply only to the 200 or so firms covered by the Department of Industry's survey of companies' liquid assets. On the other hand, there was a drop in unidentified holdings of Treasury bills which are all attributed to this sector.

After making the above estimates, some £4.9 billion of debt, compared with £3.7 billion a year earlier, is left in the residual category. In concept, this includes all holdings of unincorporated businesses and charities and those holdings of persons and companies not already identified, but it will also be affected by valuation and other errors elsewhere in the analysis.

[1] The number of accounts of this type on the Bank of England register increased by over 7% during the year to 1,835,000, with the nominal value of stock holdings rising by £1.4 billion spread evenly throughout the maturity range.

Notes on sources and definitions

National debt

The total of liabilities of the National Loans Fund, together with nationalised industries' stocks guaranteed by the Government (as contingent liabilities of the Government these are not strictly part of the national debt; but the markets, and the sources used for the estimates, do not generally distinguish them from government stocks, while the authorities carry out transactions in them in the same way as in government stocks). The total excludes accrued interest (including index-linked increases) on national savings securities (approximately £650 million), Consolidated Fund liabilities, liabilities of other central government funds (notably the Issue Department's note liabilities, coin, Northern Ireland government debt and stocks issued by certain government funds), and sundry other contingent liabilities and guaranteed debt. Provisional figures for the national debt as at 31 March 1977 (excluding nationalised industries' stocks), were given in the July issue of *Financial Statistics*. Firmer figures appear in the *Annual Abstract of Statistics*, and full details will be given in the *Consolidated Fund and National Loans Fund Accounts Supplementary Statements* to be published by HMSO later this month.

Stocks

Classified by final redemption date, e.g. 5½% Funding Stock 1982/84 is classified as maturing in 1984 and therefore in the 5-15 year band. 9% Treasury Convertible Stock 1980 is classified as maturing in 1980.

Non-marketable debt

Comprises national savings securities (see below), tax reserve certificates, certificates of tax deposit, international organisations' holdings of non-interest-bearing notes drawn on the National Loans Fund, terminable annuities due to the National Debt Commissioners (issued between 1943 and 1950 and now gradually being run off), life annuities, ways and means advances (through which government departments etc. lend overnight to the National Loans Fund), debt to the Bank of England [see footnote (a) to Table 1 in the statistical annex and pages 56-7 of the Bank's 1971 *Report and accounts*], and various sterling loans from overseas governments. National savings securities comprise national savings certificates (excluding accrued interest), British savings bonds, premium savings bonds, national savings stamps and gift tokens, and the contractual savings schemes (Save As You Earn) of the Department for National Savings and of the trustee savings banks (excluding accrued interest). Ordinary deposits with the National Savings Bank and trustee savings banks are only included in this analysis indirectly, to the extent that the funds are reinvested in government debt.

Official holdings

The holdings of the Issue and Banking Departments of the Bank of England, the Exchange Equalisation Account, government departments, the Northern Ireland Government, and the National Debt Commissioners (excluding the National Savings Bank investment account).

In accordance with normal statistical practice, the ordinary departments of the National Savings Bank and the trustee savings banks are included in the central government, and their holdings of government debt (invested through the National Debt Commissioners) are included in official holdings. Holdings of the National Savings Bank investment account (which is managed by the National Debt Commissioners) and of the trustee savings banks' new departments are regarded as 'market' holdings, as are those of local authorities and public corporations.

Public bodies

Public corporations

As defined for national income statistics, but excluding the Bank of England. The figures are estimated from information published in public corporations' annual reports.

Local authorities

As defined for national income statistics.

Banking sector

Comprises the banks, National Giro and discount market, but excludes the Bank of England, Banking Department (which is included among official holders).

Other financial institutions

Estimates are based largely on figures appearing in *Financial Statistics*. Some stock holdings are estimates from nominal and/or market value holdings at end-1976 and cash transactions in the quarter to end-March 1977.

Overseas holders

Treasury bills held by overseas residents are as in Table 19 in the statistical annex. Holdings and maturities of stocks are each partly estimated from information extracted from the registers of government stocks and from returns from banks and the Crown Agents.

Non-marketable debt comprises interest-free notes held by international organisations and various sterling loans from overseas governments. Details are given in the table of National Loans Fund liabilities in the *Consolidated Fund and National Loans Fund Accounts Supplementary Statements*.

Other holders

Public Trustee and various non-corporate bodies

A few identified holders, in particular the Public Trustee, the Church Commissioners, and the Official Custodian for Charities.

Individuals and private trusts

Derived chiefly from an analysis of the principal government stock register, which is maintained by the Bank. The accuracy of the analysis is impaired by the large number of nominee accounts, which conceal the identity of the beneficial owners. The figures shown in Table B also include an estimate of private holdings on the National Savings Bank's and trustee savings banks' stock registers. The bulk of national savings securities has been allotted to 'individuals and private trusts'. The remainder (some £400 million) is no more than a broad estimate covering other holders (for example, charities and friendly societies are allowed to hold national savings certificates and British savings bonds, and the latter may be held also by corporate bodies).

Industrial and commercial companies

Holdings of gilt-edged stocks are based on quarterly returns to the Department of Industry by about 200 large companies. Other companies' holdings thus remain unidentified in the residual category. The holdings are at book values and no attempt has been made to convert them to nominal or market values. An estimate of tax reserve certificates and certificates of tax deposit held by these companies is shown under 'non-marketable debt'. Figures for Treasury bills held by all companies are obtained by residual, after other holders of market Treasury bills have been identified; these figures thus include unidentified holdings by other sectors.