

Distribution of the national debt at end-March 1978

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

Provisional details of the national debt outstanding at 31st March 1978, analysed by type of debt, have already been published in the May 1978 issue of *Financial Statistics*. This analysis concentrates on the holders of the debt. It first distinguishes between official holdings (i.e. all debt held by central government funds and accounts—including, for example, those of the Paymaster General and the national insurance funds—and by the Bank of England), and market holdings, and then goes on to analyse in detail the distribution of market holdings of sterling debt by type of holder.

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

£ millions, nominal		Percentage of market holding		in italics	
	End-March 1977		End-March 1978		
Official holdings	14,418		18,363		
Market holdings					
Sterling marketable debt:					
Government and government-guaranteed stocks (b)	36,813	68.7	43,496	70.6	
Treasury bills	3,637	6.8	3,065	5.0	
Sterling non-marketable debt:					
National savings securities	5,285	9.9	5,828	9.5	
Interest-free notes due to the IMF(c)	3,429	6.4	4,146	6.7	
Tax instruments	18		451	0.7	
Other	4		3		
Total	49,186		56,989		
Foreign currency debt:(d)					
HMG euro-currency loans	2,034		2,147		
North American government loans	2,265		1,994		
Anglo-German Offset Agreement	73		67		
Foreign currency bond issue	—		421		
Total	4,372	8.2	4,629	7.5	
Total market holdings	53,558	100.0	61,618	100.0	
Total	67,976		79,981		
<i>of which, nationalised industries' stocks guaranteed by the Government(e)</i>	<i>808</i>		<i>808</i>		

[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 1973. 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 and, at end-March 1977, £1 million due to the International Development Association.

[d] Sterling valuation rates:
End-March 1977 £1 = \$1.7201 = Can.\$1.8217
End-March 1978
£1 = \$1.8625 = Can.\$2.1092 = DM3.7362 = Yen 412.1199 = Sw.fr.3.4175.

[e] Full details appear in the *Consolidated Fund and National Loans Fund Accounts Supplementary Statements*.

[1] As explained in last year's article and, in greater detail, in the article by D. J. Reid, 'Public sector debt', *Economic Trends*, May 1977, the increase in the nominal value of the debt in market hands during the financial year differs from the CGBR for a number of reasons:

The CGBR is a cash flow, rather than a change in nominal debt outstanding. (Thus, for example, the national debt rises by the full nominal value of stocks issued below par, whereas the contribution in cash terms of such stocks to the financing of the CGBR will be somewhat smaller—although in 1977/78 this shortfall, which amounted to more than £0.5 billion, happened to be offset by further instalments on a stock issued in the previous financial year.)

The CGBR is not affected by borrowing needed to finance changes in certain financial assets held by the central government, in particular the official reserves.

There are some differences in definition (the national debt comprises the liabilities of the National Loans Fund only rather than those of the central government as a whole and excludes the debt of certain other central government bodies—in particular, notes issued by the Bank of England Issue Department).

In this article the Banking Department of the Bank of England is regarded as an official body, whereas in other statistics, it is shown as part of the market which contributes to the financing of the CGBR.

[2] Converted at the exchange rates ruling at the time. 45% of the bonds were denominated in US dollars, 23% in deutschemarks, 21% in Swiss francs and 11% in yen.

At 31st March 1978, the nominal total of the national debt (including foreign currency debt) was £80.0 billion, an increase of £12.0 billion on a year earlier (see Table A). About one third of the increase was accounted for by official holders, largely the national insurance funds and the Issue and Banking Departments of the Bank of England. However, the major part (£8.1 billion) was in market holdings and broadly reflects the combination of a central government borrowing requirement (CGBR) of £4.4 billion and a very large increase (£6.3 billion) in the official reserves over the financial year.[1] (The cost of the rise in the reserves increased the overall amount of finance which the Government had to raise, but not the size of the CGBR itself.)

About £1.0 billion of the increase during the year in the debt outside official hands was related to direct external borrowing.

There was an increase in sterling liabilities to the International Monetary Fund (IMF). 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 (which include those issued to maintain the value of the United Kingdom's subscription to drawings from the IMF) rose by £717 million during the year, and the proportion of debt in this form rose from 6.4% to 6.7%.

The sterling equivalent of debt payable in foreign currencies rose by £257 million, but it accounted for only 7.5% of the total debt in market hands at end-March 1978, compared with 8.2% a year earlier. The Government made further drawings (£287 million) on their \$1.5 billion foreign currency loan negotiated in January 1977 and, as a contribution to the orderly reduction in the international reserve currency rôle of sterling, made a special issue in April 1977 of bonds equivalent to £395 million [2] payable in foreign currency. Against this, however, the sterling value of existing foreign currency debt on balance declined as a result of the appreciation of the pound over the financial year.

This analysis excludes outstanding foreign currency borrowing by public sector bodies other than the central government, which amounted to \$12.2 billion at 31st March 1978 (of which \$10.0 billion—at market rates—was under the exchange cover scheme).[1]

Among the other components of the national debt, the largest increase was in gilt-edged stocks, and the proportion of market-held debt in this form rose to 70.6%, the highest since end-March 1974. Seventeen stocks were issued during the year with a total nominal value of £12.8 billion (details of these are set out in the financial review of previous issues of the *Bulletin* and in *Financial Statistics*).[2] Eight of these stocks were payable in instalments.[3] A new development was the experimental issue of two variable rate stocks in order to test market demand for this type of borrowing instrument. The rate of interest payable on these variable rate issues is the daily average, over a six-month reference period, of the average rate of discount at the weekly Treasury bill tenders, with the addition of a fixed margin of $\frac{1}{2}\%$. [4] In addition, about £24 million of 9 $\frac{3}{4}\%$ Treasury Stock 1981 was issued during the year as compensation for the nationalisation of parts of the aircraft and shipbuilding industries. Five stocks, with a total nominal value of £3.2 billion, were redeemed during the year, and about £15 million of other stock was cancelled, mainly through the operation of sinking funds.

About half of the new stocks were short-dated. The average life of dated stocks in market hands fell by 0.3 of a year to 12.2 years, [5] and the average amount of such stock to be redeemed in each of the next five years rose to over £3 billion.

The value of national savings securities outstanding (excluding accrued interest and index-linked increases) rose by £543 million, but even so the percentage of market debt in this form fell slightly to 9.5%. Sales of the fourteenth issue of savings certificates (reintroduced from 1st April 1977) picked up in the second half of the financial year and the successful index-linked retirement certificates brought in a further £175 million (making over £600 million since they were first offered in 1975).

There had been only small purchases of certificates of tax deposit (a form of tax instrument introduced in October 1975) until the summer of 1977 but, as other interest rates fell, their yield became attractive and many companies took the opportunity to purchase them. Sales were exceptionally high in the autumn but then fell back when their rates were reduced. Over £700 million had been invested by end-December before substantial surrenders were made in January to meet corporation tax payments. Nevertheless, approximately £450 million were outstanding at end-March 1978—representing 0.7% of market debt.

In contrast, market holdings of Treasury bills declined during the year by £0.6 billion, and at end-March 1978 represented only 5.0% (the lowest for four years) of the debt held by the market.

Table B below gives an analysis by holder of the debt payable in sterling, as at end-March 1978, in much the same form as in previous articles and, as last year, includes figures for the market value of gilt-edged holdings. The information is taken from a variety of sources and in some cases the figures for nominal and/or market values are little more than broad estimates (see notes on sources and definitions). The increase in debt during the financial year 1977/78 (other than non-interest-bearing notes already mentioned) was reflected in all sectors but mainly in the holdings of the financial institutions outside the banking sector and in the partly residual category 'other holders'.

Within non-bank financial institutions, insurance companies and superannuation funds were the major purchasers of gilt-edged stocks, mainly long-dated; building societies' holdings of short-dated gilt-edged also rose, quite sharply, reflecting substantial inflows during 1977/78, which were used partly to restore liquidity. In addition, during the summer of 1977, the return on deposits with the National Savings Bank investment account became increasingly attractive. This led to large inflows,[6] a substantial proportion of which was held in liquid form (Treasury bills) as a precaution against sudden withdrawals; as a result, the non-bank financial institutions' holdings of Treasury bills more than doubled during 1977/78. Overall, this sector's holdings of government debt have grown steadily in recent years and at end-March 1978 accounted for over 40% of total sterling debt in market hands, compared with under 30% six years ago.

The banking sector's holdings increased more modestly—a large rise in holdings of gilt-edged stocks being partly offset by a reduction in holdings of Treasury bills. The banking sector accounted for 9.2% of market holdings of government debt in March this year, slightly less than last year.

The proportion of debt held by overseas residents fell from 14.5% to 14.3% despite the increase in non-interest-bearing notes, and net investment in gilt-edged. Overseas central monetary institutions halved their holdings of Treasury bills—partly in order to finance the purchase of the foreign currency bonds already mentioned above.

Some £19.8 billion of the market's holdings at end-March 1978 is included under 'other holders', a category which in total is derived by residual. Some £13.4 billion (compared with £12.5 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] It should, however, be

[1] Capital repayments and interest payments on public sector foreign currency debt outstanding at end-September 1978 are shown in Tables 25.2 and 25.3 respectively of the statistical annex (where borrowing from the IMF is included as foreign currency debt).

[2] Table 3.6 in the August 1978 issue.

[3] Although payable in instalments, the whole nominal amount of these stocks is included in the national debt from their date of issue.

[4] See the September 1977 *Bulletin*, page 302 for further details.

[5] Because some constituents of the national debt do not have final maturity dates, it is not possible to calculate the average maturity of total debt outstanding. An article in the September 1977 *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.

[6] Most of these inflows occurred before a Statutory Instrument imposing a maximum limit of £50,000 on balances in this account was introduced in July 1977.

noted that this figure does not include individuals' stock holdings held through nominee companies, which cannot be identified in the registers. Companies' holdings of government stocks rose somewhat, but these are almost certainly underestimated as the figures apply only to the 200 or so large firms covered by the Department of Industry's survey of companies' liquid assets.

Even so, some £5.2 billion of debt remains unclassifiable, compared with £4.9 billion at end-March 1977. In concept, this includes holdings of unincorporated businesses, charities, individuals and companies not already identified; it is also affected by valuation and other errors elsewhere in the analysis.

Table B
Estimated distribution of the sterling national debt: 31 March 1978

£ 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	18,363		4,293	8,616	8,214	4,091	2,121	2,404	5,454
Market holdings									
Other public sector:									
Public corporations	109		70	39	38	31	6	2	—
Local authorities	32		..	32	28	5	9	18	..
Total	141	0.2	70	71	66	36	15	20	—
Banking sector:(c)									
Banks	3,725		577	3,105		2,910	195	—	43
National Girobank	4		—	4		4	—	—	—
Discount market	1,539		1,112	427		417	10	—	—
Total	5,268	9.2	1,689	3,536	3,560	3,331	205	—	43
Other financial institutions:									
Insurance companies	11,216		—	11,216	9,950	953	1,857	8,406	..
Building societies	3,226		29	3,160	3,070	2,632	524	4	37
National Savings Bank, investment account	1,206		375	831	780	265	271	295	—
Trustee savings banks, new department	1,257		—	1,257	1,158	767	313	177	—
Local authority superannuation funds	1,375		—	1,375	1,146	60	185	1,130	—
Other public sector superannuation funds	1,360		10	1,350	1,136	65	365	920	—
Private sector superannuation funds	3,431		6	3,425	2,881	250	665	2,510	—
Investment trusts	331		—	331	300	144	68	119	—
Unit trusts	34		—	34	29	4	9	21	—
Other	226		204	22	22	22	—	—	—
Total	23,662	41.5	624	23,001	20,472	5,162	4,257	13,582	37
Overseas holders:									
International organisations	4,395		49	200	180	50	150	—	4,146[d]
Central monetary institutions	1,573		368	1,205	1,112	568	229	408	—
Other	2,174		9	2,163	1,961	638	281	1,244	2
Total	8,142	14.3	426	3,568	3,253	1,256	660	1,652	4,148
Other holders:									
Public Trustee and various non-corporate bodies	345		45	298	229	58	66	174	2
Individuals and private trusts(e)	13,418		..	7,929	6,183	2,411	1,887	3,631	5,489
Industrial and commercial companies	844		211[f]	413[g]	4,878	2,864	-189	2,418	220
Other (residual)	5,169		—	4,680	—	—	—	—	489
Total	19,776	34.7	256	13,320	11,290	5,333	1,764	6,223	6,200
Total Market Holdings	56,989	100.0	3,065	43,496	38,641	15,118	6,901	21,477	10,428
Total Debt	75,352		7,358	52,112	46,855	19,209	9,022	23,881[h]	15,882

of which,
nationalised industries' stocks guaranteed
by the Government(j)

.. 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 1977 and cash transactions in the first quarter of 1978; 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 £3,346 million.

[j] Full details appear in the Consolidated Fund and National Loans Fund Accounts Supplementary Statements.

[1] The number of accounts of this type on the Bank of England stock register fell slightly during the year to just over 1,800,000 with the nominal value of holdings rising by £0.5 billion.

Notes on sources and definitions

National debt

Comprises the total 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 £850 million), Consolidated Fund liabilities,^[1] liabilities of other central government funds (notably the Issue Department's note liabilities, 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 1978 (excluding nationalised industries' stocks) were given in the May 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 HM Stationery Office 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 largely 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, government departments (including the Paymaster General), 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 department 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 largely estimated from information published in public corporations' annual reports.

Local authorities

As defined for national income statistics.

Banking sector

Comprises the banks, National Girobank and the discount market, but excludes the Bank of England, Banking Department (which, in this article, 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-1977 and cash transactions in the quarter to end-March 1978.

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 register. The bulk of national savings securities has been allotted to 'individuals and private trusts'. The remainder (nearly £500 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 certificates of tax deposit and tax reserve certificates 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.

[1] Including contingent liabilities, e.g. coin.