

CORRECTIONS

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Article: **Distribution of the national debt at end-March 1979**

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Table B: Estimated distribution of the sterling national debt: 31 March 1979

Category: Other holders

The brackets should embrace 'Industrial and commercial companies' and 'Other (residual)', and not as shown.

Statistical annex

Table 4.3: Special and supplementary deposits

Column headed 'Special deposits: rate of call (per cent)'

The figures omitted against the dates July 18 and August 15 should be $\frac{1}{2}$ and $1\frac{1}{2}$ respectively.

Distribution of the national debt at end-March 1979

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

At 31st March 1979, the nominal total of the national debt was £87.7 billion, some £7.7 billion higher than a year earlier. A provisional breakdown by instrument was published in the May 1979 issue of *Financial Statistics*. [1] This article concentrates first on distinguishing between official and market holdings of debt (see Table A), and then attempts to analyse the distribution of sterling debt in market hands by type of holder (see Table B).

Table A
Official and market holdings of national debt

£ millions, nominal		End-March 1978		End-March 1979	
<i>Percentage of market holding in italics</i>					
Official holdings		18,364		17,741	
Market holdings					
Sterling marketable debt:					
Government and government-guaranteed stocks		43,497	70.6	51,525	73.7
Treasury bills		3,065	5.0	2,225	3.2
Sterling non-marketable debt:					
National savings securities		5,832	9.5	7,149	10.2
Interest-free notes due to the IMF[a]		4,146	6.7	3,176	4.5
Tax instruments		452	0.7	1,571	2.3
Other		3		4	
Total		56,995		65,650	
Foreign currency debt:[b]					
HMG syndicated credits		2,147		1,936	
North American government loans		1,994		1,726	
Anglo-German Offset Agreement		67		61	
New York bond issue		—		169	
Other foreign currency bonds		421		396	
Total		4,629	7.5	4,288	6.1
Total market holdings		61,624	100.0	69,938	100.0
Total		79,988		87,679	
<i>of which, nationalised industries' stocks guaranteed by the Government[c]</i>		808		794	

[a] Includes the sterling counterpart of IMF drawings.

[b] Sterling valuation rates:
End-March 1978
£1 = \$1.8625 = Can.\$2.1092 = DM3.7362 = Yen 412.1199 = Sw.fr.3.4175.
End-March 1979
£1 = \$2.0665 = Can.\$2.4002 = DM3.8612 = Yen 433.50 = Sw.fr.3.5062.

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

Official holdings

Debt in official hands declined by £0.6 billion in the year ended March 1979. Holdings of Treasury bills by the Banking Department of the Bank of England fell by £1.5 billion (largely reflecting a reduction during the year in the rate of call for special deposits), but this was partly offset by a rise of £0.7 billion in debt held by the Issue Department (representing the counterpart to the increase in the note circulation).

[1] Supplementary Table A, page 154.

[2] The change in the nominal value of the debt in market hands during the financial year may differ from the central government borrowing requirement for a number of reasons. These differences are explained in previous articles and in greater detail in the article by D. J. Reid, 'Public sector debt', *Economic Trends*, May 1977.

[3] The whole nominal amount of stocks (including those payable by instalment) is included in the national debt from their date of issue.

[4] Because some of the constituents of the national debt do not have final maturity dates, it is not possible to calculate the average maturity of total debt outstanding.

[5] This bonus was discontinued in June 1979.

Market holdings

Market holdings of debt rose by £8.3 billion during the year, broadly reflecting the large central government borrowing requirement of £8.1 billion. [2] Among the components of market-held debt, the largest increase was in gilt-edged stocks. [3] The total of this form of debt rose to £51.5 billion, representing nearly three quarters of total market holdings. Details of the twelve stocks issued and four stocks redeemed during the year have been set out in the financial review of previous issues of the *Bulletin* and in *Financial Statistics*. In addition in 1978/79 some £132 million of 9¾% Treasury Stock 1981 (£24 million in 1977/78) was issued as compensation for the nationalisation of part of the aircraft and shipbuilding industries, and about £40 million of other stock was cancelled, partly through the operation of sinking funds. A new development during the year was the issue of stock by a form of tender technique, with a minimum tender price set in line with market yields at the time of announcement of the issue.

The average life of dated stocks in market hands rose by 0.3 years to 12.5 years, [4] and the average amount of such stock to be redeemed in each of the next five years increased to £3.5 billion.

The total of national savings securities outstanding (excluding accrued interest and index-linked increases) also rose and represented 10.2% of market-held debt, compared with 9.5% a year earlier. In November 1978, a new issue of savings certificates was announced—the eighteenth—which was available from 29th January when the fourteenth issue was suspended.

Holdings of certificates of tax deposit more than trebled during the year to stand at nearly £1.6 billion, or 2.3% of debt in market hands, at end-March 1979. In August 1978, an interest bonus of 1% was introduced for certificates held for more than six months and subsequently surrendered for tax. [5]

In contrast, market holdings of Treasury bills continued to decline, leaving £2.2 billion outstanding at end-March 1979, representing only 3.2% of debt held by the market, compared with 11% three years earlier.

External liabilities also fell. In the first place, sterling liabilities to the International Monetary Fund (IMF)—in the form of non-interest-bearing Treasury notes—fell by nearly £1.0 billion, principally reflecting early repayment of the UK drawings made in 1976 and 1977. Secondly, the sterling equivalent of debt payable

Table B
Estimated distribution of the sterling national debt: 31 March 1979

£ 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	17,741		2,630	7,815	7,505	4,033	2,290	1,492	7,296
Market holdings									
Other public sector:									
Public corporations	159		11	142	134	120	22	—	6
Local authorities	50		..	50	45	11	13	26	..
Total	209	0.3	11	192	179	131	35	26	6
Banking sector:[c]									
Banks	3,459		676	2,658		2,388	270	—	125
Discount market	1,514		813	698		668	30	—	3
Total	4,973	7.6	1,489	3,356	3,316	3,056	300	—	128
Other financial institutions:									
Insurance companies	15,314		3	15,311	13,240	1,853	2,920	10,538	—
Building societies	3,747		27	3,511	3,400	3,303	206	2	209
National Savings Bank investment account	1,041		5	1,034	984	394	420	220	2
Trustee savings banks, new departments	1,712		—	1,712	1,692	1,309	273	130	—
Local authority pension funds	1,711		—	1,711	1,451	21	315	1,375	—
Other public sector pension funds	2,272		—	2,272	1,938	86	426	1,760	—
Private sector pension funds	4,578		9	4,569	3,946	276	1,226	3,067	—
Investment trusts	297		5	290	263	111	74	105	2
Unit trusts	26		—	26	24	8	5	13	—
Other	105		70	23	20	4	2	17	12
Total	30,803	46.9	119	30,459	26,334	7,365	5,867	17,227	225
Overseas holders:									
International organisations	3,341		21	144	141	165	75	4	3,176
Central monetary institutions	1,446		489	957	938	360	248	349	—
Other	2,213		11	2,201	1,988	651	473	1,077	1
Total	7,000	10.7	521	3,302	3,067	1,076	796	1,430	3,187
Other holders:									
Public Trustee and various non-corporate bodies	320		14	304	268	59	72	173	2
Individuals and private trusts[d]	15,498		..	8,852	7,986	2,972	2,338	3,542	6,554
Industrial and commercial companies	1,665		71[e]	523[f]	4,398	2,882	775	1,403	1,071
Other (residual)	5,182		—	4,537					737
Total	22,665	34.5	85	14,216	12,652	5,913	3,185	5,118	8,364
Total market holdings	65,650	100.0	2,225	51,525	46,172	17,541	10,183	23,801	11,900
Total debt	83,391		4,855	59,340	53,677	21,574	12,473	25,293[g]	19,196
<i>of which,</i> nationalised industries' stocks guaranteed by the Government[h]	794			794	671	570	10	214	

 .. 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 1978 and cash transactions in the first quarter of 1979; certain 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] Direct holdings only; see notes on sources and definitions.

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

[f] Holdings (at book value) of some 200 large companies covered by the Department of Industry's survey of company liquidity.

[g] Of which undated £3,307 million.

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

in foreign currencies fell from £4.6 billion to £4.3 billion,[1] mainly because sterling appreciated against the US dollar. The only new external central government debt incurred during the year was the \$350 million bond issue floated on the New York market in May 1978. Initially, the sterling value of this loan was £191 million but by the end of March 1979 it had declined to £169 million.

Analysis of sterling debt by holder

Table B above gives an analysis by holder of debt payable in sterling as at end-March 1979. The information is drawn from a variety of sources, and in certain cases the figures, as in previous years, are little more than broad estimates (see notes on sources and definitions).

The increase during the year in market holdings was reflected mainly in the holdings of financial institutions outside the banking sector. Within this sector, insurance companies continued to be by far the largest holders of debt and increased their share of total market holdings from 19.7% to 23.3%. The percentage held by pension funds also rose significantly during the year, from 10.7% to 13.0%. On the other hand, building societies' holdings were little changed in percentage terms, reflecting a fall in their liquidity ratio as inflows fell back but the level of lending remained buoyant. In total, the non-bank financial institutions accounted for 46.9% of sterling debt in market hands at end-March 1979 compared with 41.5% a year earlier and under 30% at the beginning of the decade.

[1] This analysis excludes outstanding foreign currency borrowing by public sector bodies other than the central government, which amounted to \$12.2 billion at end-March 1979 (of which \$9.9 billion—at market rates—was under the exchange cover scheme).

The proportion of debt held by the banking sector fell during the year from 9.2% to 7.6%. The reduction in banks' holdings of gilt-edged stocks partly reflects the special temporary purchase of short-dated stock by the Bank of England in March 1979.

Overseas holdings of marketable debt were little changed, but, with the sharp fall in non-interest-bearing notes due to the IMF mentioned above, this sector's share of total market holdings declined to 10.7% from 14.3% a year earlier.

Of a total of £22.7 billion classified as belonging to 'other holders', about £15.5 billion can be broadly identified, largely from the stock registers, as held by

individuals and private trusts.[1] This represented 23.6% of total market holdings at end-March 1979, almost the same proportion as a year earlier. Industrial and commercial companies' holdings of debt doubled during the year mainly because of substantial purchases of certificates of tax deposit. Their holdings of stocks also showed a modest increase, but, as mentioned in previous articles, these holdings are almost certainly underestimated.[2]

Some £5.2 billion of debt remains unclassifiable. 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.

[1] The number of accounts of this type on the Bank of England stock register rose during the year by some 70,000 to just over 1,870,000.

[2] The figures apply only to about 200 large companies covered by the Department of Industry's survey of company liquidity.

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 £1,090 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 1979 (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. 9% Treasury Loan 1992/96 is classified as maturing in 1996 and therefore in the over 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 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 national accounting 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 partly estimated from information published in public corporations' annual reports.

Local authorities

As defined for national income statistics.

Banking sector

Comprises the banks 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-1978 and cash transactions in the quarter to end-March 1979.

Overseas holders

Treasury bills held by overseas residents are as in Table 16 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 the International Monetary Fund, 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 stock register. The bulk of national savings securities has been allotted to 'individuals and private trusts'. The remainder (about £700 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).

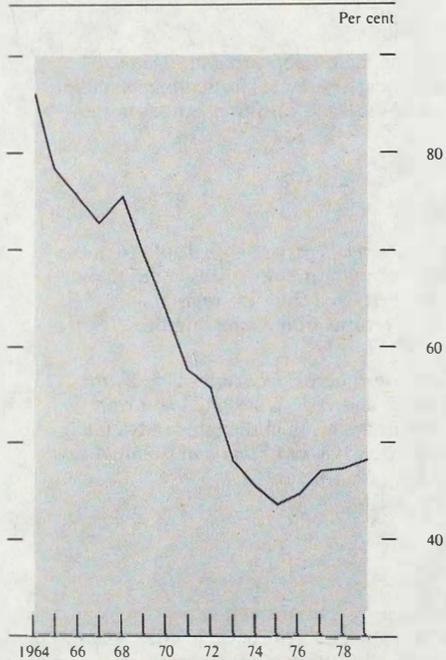
Industrial and commercial companies

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.

The national debt: a supplementary note

Total market holdings of national debt as a proportion of GDP^[a]



[a] National debt (including foreign currency debt) outstanding at end-March, as a percentage of GDP in years ending March. Because of the inclusion of foreign currency debt, the figures underlying the chart differ from those in Table A on page 320 of the September 1977 Bulletin.

Although the national debt in market hands has grown in nominal terms, as a proportion of GDP it was no higher in March 1979 than in March 1973 (see chart). An important reason for the relative constancy of the burden of the national debt in the mid to late 1970s, despite relatively large central government borrowing requirements (CGBR), is brought out in a recent *Bank Discussion Paper*.^[1] Gross debt interest, which in the last six years has been the equivalent of about 70% of the CGBR, overstates the true or real interest cost of the national debt. Inflation erodes the real value of debt denominated in nominal terms, and nominal interest rates rise to compensate. High nominal interest rates as a result of inflation effectively involve an early repayment of capital, compensating for the decline in the real value of the principal at redemption. If an amount given by the rate of inflation is re-invested in debt, the real value of the principal would then be maintained. The *Discussion Paper* presents estimates of each sector's saving after adjusting for the effective repayment of the capital element in debt interest. After such adjustment, both the personal sector's surplus and the general government's deficit during the 1970s are much reduced.

[1] C. T. Taylor and A. R. Threadgold, ' "Real" national saving and its sectoral composition'. *Bank of England Discussion Paper No. 6*, October 1979.