

Distribution of the national debt at end-March 1981

This article, which continues the annual series, analyses the national debt by instrument and by holder. British government stocks (+£15½ billion nominal) and national savings (+£3½ billion) were the main constituents of the increase in the outstanding debt over the year. Non-bank financial institutions, the largest market holders of the debt, invested a further £6¾ billion (net).

The nominal total of the national debt at 31 March 1981 was £113.3 billion.⁽¹⁾ Official holdings⁽²⁾ were little changed, but the nominal amount of debt in market hands was £17½ billion more than a year earlier. The market's holdings rose by considerably more than the central government borrowing requirement (CGBR), which was £12.9 billion during the 1980/81 financial year. Some of the reasons for such a difference were described in previous articles in this series, and also in an article by D J Reid in the May 1977 issue of *Economic Trends*. In 1980/81, the principal technical reasons why the change in the nominal amount of debt in market hands was so much greater than the CGBR were: a considerably higher level of outstanding instalments due on partly-paid stocks than was the case at the end of the previous financial year;⁽³⁾ the aggregate discount on new issues of stock (particularly, but not solely, low-coupon stocks), which amounted to £1¼ billion; and a very large rise (£1¾ billion) in holdings of commercial bills and local authority debt by the Issue Department of the Bank of England and the National Debt Commissioners.⁽⁴⁾ On the other hand, there were the usual increases in both notes and coin in circulation and accrued interest on national savings which went some way to offset the factors described above.

There was one major statistical change during the year. From 1 January 1981, the National Loans Fund assumed the liability for investment account deposits with the National Savings Bank, then amounting to £1,871 million, and these became part of the national debt. The National Loans Fund was given a similar claim on the National Debt Commissioners, who administer the National Savings Bank Investment Fund (NSBIF), through which investment account deposits were invested. At that date, NSBIF held £1,708 million (nominal) of British government stocks and £41 million of Treasury bills, as

well as other assets. In previous articles in this series, the Fund's holdings of central government debt were included within the holdings of other financial institutions, but from 1 January 1981 they have formed part of official holdings. The immediate effect of the reclassification was therefore to increase the national debt by £1,871 million (in the form of market holdings of non-marketable debt) and to switch £1,749 million of marketable debt from market to official holdings.

After 1 January 1981, increases in investment account deposits are no longer invested through NSBIF, and the Fund's investment will be steadily liquidated over the years, so reducing official holdings of marketable debt.

Analysis by instrument (Table A)

The nominal amount of gilt-edged stocks in market hands increased by £15¼ billion during 1980/81 to account for 80% of total market holdings of debt by the end of the year (compared with 78% in March 1980). Of nineteen issues of stock made directly to the public, eight were further tranches of existing stocks. In addition, the authorities on two occasions issued stock directly to the Bank for later sale to the market,⁽⁵⁾ first in December with the issue of three small additional tranches of existing stocks,⁽⁶⁾ and again in March with a new stock.⁽⁷⁾ Altogether, stock with a total nominal value of £16.1 billion was offered directly to the public.⁽⁸⁾ Details of individual issues are given in the financial review in the relevant issues of the *Bulletin*, in the Bank's *Annual Report*, and in Table 3.9 of *Financial Statistics*. In nearly all cases, payment was made in instalments to co-ordinate receipts with the expected funding needs of the Government and to smooth the impact of sales on conditions in the money markets: only the four issues of low-coupon stocks were payable in full at tender.

(1) Provisional figures for the national debt, analysed by instrument but excluding nationalised industries' stocks guaranteed by the Government, were published in the May 1981 issue of *Financial Statistics* (page 149). Further data are shown in the *Consolidated Fund and National Loans Fund Accounts 1980-81 Supplementary Statements*, published by HM Stationery Office. For details of the composition of the national debt, see the notes at the end of this article.

(2) Debt held by certain central government funds and accounts and by the Bank of England.

(3) In this article, the national debt includes all stocks at their full nominal value from their date of issue. The balance due on partly-paid stocks as at 31 March in recent years was: 1977 £0.3 billion; 1978 nil; 1979 £1.1 billion; 1980 £0.4 billion; 1981 £2.0 billion.

(4) The Issue Department is treated as part of the central government for statistical purposes. In the central government accounts, however, market operations by the Issue Department and the acquisition of local authority debt by the National Debt Commissioners are included among the items financing the CGBR rather than contributing to it.

(5) This device was previously used in November 1979 when a second tranche of 13½% Treasury Stock 2000/03 was issued in this way; it had also been used for the issue of the variable-rate Treasury stocks in 1977 and 1979.

(6) £100 million each of 12½% Exchequer Stock 1992; 12½% Exchequer Stock 1994; and 10½% Exchequer Stock 1997.

(7) £1,000 million of 12½% Exchequer Stock 1990.

(8) This figure excludes the £1.3 billion issued first to the Bank and £1.7 billion of stock reserved for the National Debt Commissioners.

Table A
Official and market holdings of national debt

£ millions, nominal

Percentage of market holding in italics

	End-March 1980		End-March 1981	
Official holdings(a)	18,161		18,277	
Market holdings(a)				
Sterling marketable debt:				
Government and government-guaranteed stocks	60,297	77.9	75,536	79.5
Treasury bills	2,281	2.9	1,209	1.3
Sterling non-marketable debt:				
National savings(a)	7,902	10.2	11,556	12.2
Interest-free notes due to the IMF(b)	2,157	2.8	2,189	2.3
Certificates of tax deposit(c)	618	0.8	1,108	1.2
Other	203	0.3	302	0.3
Total	73,458	94.9	91,900	96.8
Foreign currency debt:(d)				
HMG syndicated credits	1,848		1,115	
North American government loans	1,580		1,467	
New York bond issue	162		156	
Other foreign currency bonds	359		345	
Total	3,949	5.1	3,083	3.2
Total market holdings	77,407	100.0	94,983	100.0
Total	95,568		113,260	
<i>of which,</i>				
nationalised industries' stocks guaranteed by the Government	254		224	
(a) The split between official and market holdings and the definition of national savings in 1981 are affected by the reclassification of the NSB investment account with effect from 1 January 1981, as explained at the beginning of the article.				
(b) Includes the sterling counterpart of IMF drawings.				
(c) Includes a negligible amount of tax reserve certificates.				
(d) Sterling valuation rates: End-March 1980 £1 = \$2.1640 Can. \$2.5800 DM4.2162 Yen 540.87 Sw.fr. 4.0012. End-March 1981 £1 = \$2.2420 Can. \$2.6560 DM4.6962 Yen 472.87 Sw.fr. 4.2862.				

There were two novel elements in the official funding programme towards the end of 1980/81. In January the authorities announced a new type of convertible stock,⁽¹⁾ 12% Exchequer Convertible Stock 1985, which was well received by the market. But in March there was a more radical innovation when the first index-linked gilt-edged stock, 2% Index-Linked Treasury 1996,⁽²⁾ was issued; ownership was restricted to certain eligible holders—essentially approved pension schemes or funds and, in respect of their UK pension business, life insurance companies and registered friendly societies.

Some £78 million of 10% Exchequer Stock 1983 was issued during 1980/81 under the continuing programme of compensation for the nationalisation of parts of the aircraft and shipbuilding industries under the Aircraft and Shipbuilding Industries Act 1977.

£3.7 billion of stocks were redeemed for cash during the year, including one small North of Scotland electricity stock: this leaves only one government-guaranteed stock currently with the market.⁽³⁾ About £12 million of other stock was cancelled, mainly as a result of sinking fund purchases.

The average life of dated stocks in market hands fell by 0.5 year to 12.4 years,⁽⁴⁾ and the average amount of such stock to be redeemed annually over the next five years increased from £3.7 billion to £4.2 billion.

The market's holding of Treasury bills, at £1.2 billion, was just over half that of a year earlier; in part, the decline reflected the Bank's greater emphasis on open market operations than on loans to the discount market for purposes of money management.⁽⁵⁾

The substantial increase in national savings⁽⁶⁾ reflects not only the changes in coverage resulting from the sectoral reclassification of the National Savings Bank (NSB) investment account referred to above, but also the increased emphasis placed by the authorities on national savings as a source of government finance. The national savings component of the national debt amounted to £11.5 billion at 31 March 1981, 12.2% of the total debt in market hands; this is some two percentage points higher than in recent years but still a considerably lower proportion than in the late 1960s and early 1970s when national savings accounted for some 15%–17% of debt in market hands. The nineteenth issue 'conventional' savings certificate was on sale throughout 1980/81 and, with a tax-free yield equivalent to 10.33% per annum (if held for five years), sold in very large amounts in the last quarter of the financial year. Moreover, during the three months to end-March the interest rate on NSB investment accounts,⁽⁷⁾ which had remained at 15% (gross) since 1 January 1980, proved increasingly attractive, with the building society recommended ordinary share rate having been cut from 10.5% (net) to 9.25% (net) on 1 January 1981 (equivalent in gross terms to a cut from 15% to 13.2% for a standard-rate taxpayer). On 17 November 1980 the second index-linked issue savings certificate replaced the earlier retirement issue, and attracted considerable funds. The initial terms, which remained in force until the end of the 1980/81 financial year, made the certificate available to all persons aged 60 and over, subject to a maximum individual holding of £3,000 but, unlike its predecessor, the certificate did not then carry a terminal bonus. During 1981/82 the terminal bonus has been restored, the certificate has become available to all, and the holding limit has been increased to £5,000.

A new certificate of tax deposit (CTD) prospectus was issued on 31 July 1980, introducing the power for these certificates to carry an 'interest supplement' on deposits which are applied against tax. The size and duration of the supplement are variable. Prior to the introduction of this facility it was impossible to generate yield curves for CTDs matching the downward-sloping yield curves which were a feature of financial markets in 1980. As a consequence the

(1) See the March 1981 *Bulletin*, page 28.

(2) See the June 1981 *Bulletin*, page 175.

(3) 3% British Gas 1990/95. 3% North of Scotland Electricity Stock 1989/92 is held entirely in official funds.

(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) See the March 1981 *Bulletin*, page 24.

(6) Excluding accrued interest and index-linked increases. Accrued interest, index-linked increments and bonuses outstanding on national savings certificates, Save As You Earn contracts and the National Savings Bank investment account totalled some £1.9 billion at 31 March 1981.

(7) Some £2.2 billion of the figure shown for national savings as at 31 March 1981 in Table A represents deposits with the NSB investment account.

authorities were unable to market CTDs competitively and with purchases much reduced from their 1979 levels, CTD holdings were at a low point at the end of the 1979/80 financial year. Under the new prospectus it was possible to market CTDs more successfully, and they began to attract substantial funds for the payment of petroleum taxes from companies operating in the North Sea. At 31 March 1981, holdings had risen to £1.1 billion, almost double the size of a year earlier. There can be considerable fluctuations in holdings, reflecting surrenders against petroleum and other corporate tax liabilities.

Other sterling non-marketable debt rose to £0.3 billion, representing a further deposit by the British Gas Corporation with the National Loans Fund.

Foreign currency debt, which in this analysis includes only borrowing by the central government⁽¹⁾ together with interest-free notes held by the International Monetary Fund, fell by £0.8 billion. Most of the fall resulted from the early repayment of the \$1.5 billion syndicated eurocurrency credit raised by the Government in 1977; but some of the reduction is attributable to the effect of the appreciation of sterling on the sterling value of the debt payable in foreign currencies.

Analysis by holder (Table B)

The information on the disposition of the debt payable in sterling is drawn from a wide variety of sources, but in some cases the published figures are indicative only of broad estimates of magnitude and, as such, should be used with caution (see the notes at the end of the article). Altogether, some £7.8 billion of debt cannot be accounted for in the analysis shown in Table B. This includes holdings by unincorporated businesses, charities, individuals and companies not elsewhere identified, and also any net balancing adjustments arising from differences of valuation and definition elsewhere in the table.

Non-bank financial institutions, whose holdings of the national debt grew by £6.7 billion,⁽²⁾ were again responsible for most of the increase in market holdings; almost all of this represented an increase in holdings of gilt-edged stocks.

The share of total sterling debt in market hands taken by individual types of institution within this group was little changed since last year; the insurance companies remain by far the most significant holders, with a share of about 25%; the building societies and private sector pension funds each account for about 6%. Non-bank financial institutions as a whole accounted for 47% of debt in market hands; this is a somewhat smaller proportion than a year ago but over half of the apparent fall is explained by the reclassification of the NSB investment account.

For the third successive year, the proportion of debt held by the banking sector as shown in Table B has been reduced by the effect of transactions with the authorities designed to smooth the operation of the money markets. At 31 March 1980, £0.7 billion of banking sector holdings of gilt-edged stocks were included within 'official' holdings as at that time they were being held by the Bank of England under purchase and resale agreements; at 31 March 1981, some £0.2 billion of Treasury bills were temporarily treated in a similar manner.

Overseas residents acquired £2.1 billion of gilt-edged stocks during 1980/81; central monetary institutions were responsible for £0.9 billion of this, but over the same period they ran down their holdings of Treasury bills by £0.3 billion.

The share of total sterling debt in market hands identified as held by individuals and private trusts⁽³⁾ was again just under 25%. As already noted, there was a very sharp rise in national savings—which are overwhelmingly held by the personal sector—but personal holdings of gilt-edged stocks also increased, by £1.5 billion. Industrial and commercial companies' identified holdings of gilt-edged stocks are now estimated at just over £1 billion—considerably more than shown in previous articles in this series. These figures are now derived by the Department of Industry by grossing up the data received from the 200 large companies which contribute to their survey of liquidity,⁽⁴⁾ whereas in previous articles only stocks actually held by those companies covered by the survey were included.

(1) Outstanding foreign borrowing by public sector bodies other than the central government amounted to \$10.3 billion at end-March 1981. Of this, \$8.4 billion was under the exchange cover scheme; \$0.6 billion of the remainder was denominated in sterling.

(2) The amounts quoted throughout this analysis are derived from the nominal value figures shown in Table B.

(3) This is a broad estimate derived from the stock registers. It does not include stock held by individuals through nominee companies, as the beneficial ownership of these cannot be ascertained from the registers. There were just over 1,956,000 identified accounts on the Bank of England stock register for individuals and private trusts at end-March 1981, a rise of more than 60,000 over the year.

(4) See the notes and definitions at the end of this article.

Table B
Estimated distribution of the sterling national debt: 31 March 1981

£ 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 years and up to 15 years	Over 15 years and undated		
Official holdings	18,277		848	10,939	9,994	4,528	4,953	1,458	6,490
Market holdings									
Other public sector:									
Public corporations	464		31	75	69	48	27	—	358
Local authorities	56		—	55	47	14	14	27	1
Total	520	0.6	31	130	116	62	41	27	359
Banking sector:(c)									
Banks	4,854		383	4,343		3,078	1,063	202	128
Discount market	1,451		149	1,302		1,230	72	—	—
Total	6,305	6.9	532	5,645	5,894	4,308	1,135	202	128
Other financial institutions:									
Insurance companies	22,618		4	22,614	19,056	1,757	6,032	14,825	—
Building societies	5,768		—	5,608	5,213	4,382	1,224	2	160
Trustee savings banks	2,089		2	2,087	1,921	1,471	511	105	—
Local authority pension funds	2,347		—	2,347	1,960	61	436	1,850	—
Other public sector pension funds	3,776		—	3,776	3,145	58	481	3,237	—
Private sector pension funds	5,912		—	5,912	4,937	90	1,714	4,108	—
Investment trusts	281		—	281	241	56	96	129	—
Unit trusts	106		—	106	90	—	47	59	—
Other	115		36	76	70	56	2	18	3
Total	43,012	46.8	42	42,807	36,633	7,931	10,543	24,333	163
Overseas holders:									
International organisations	2,569		14	366	300	211	155	—	2,189
Central monetary institutions	2,550		463	2,087	1,905	1,352	427	308	—
Other	5,014		15	4,998	4,215	265	2,601	2,132	1
Total	10,133	11.0	492	7,451	6,420	1,828	3,183	2,440	2,190
Other holders:									
Public Trustee and various non-corporate bodies	450		85	363	347	74	142	147	2
Individuals and private trusts(d)	21,873		..	11,415	10,302	3,100	4,826	3,489	10,458
Industrial and commercial companies	1,818		27(e)	1,090	5,861	3,653	2,751	1,321	701
Other (residual)	7,789		—	6,635					1,154
Total	31,930	34.7	112	19,503	16,510	6,827	7,719	4,957	12,315
Total market holdings	91,900	100.0	1,209	75,536	65,573	20,956	22,621	31,959	15,155
Total sterling debt	110,177		2,057	86,475	75,567	25,484	27,574	33,417(f)	21,645
<i>of which,</i>									
nationalised industries' stocks guaranteed by the Government	224			224	113	—	10	214	

.. not available, assumed negligible.
 — nil or less than £1 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 1980 and cash transactions in the first quarter of 1981; 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.

(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 and differences in valuation in other sectors.

(f) Of which undated £3,282 million.

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, Consolidated Fund liabilities (including contingent liabilities, eg coin), 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 1981 (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 are given in the *Consolidated Fund and National Loans Fund Accounts 1980-81 Supplementary Statements*.

Statistics covering the nominal amount of debt outstanding of central government as defined in the national accounts, local authorities and public corporations (ie the public sector as a whole), are published annually as a Supplementary Table in *Financial Statistics*. The table will next appear in the February 1982 issue, to include figures up to 31 March 1981.

Stocks

Classified by final redemption date, eg 6 $\frac{3}{4}$ % Treasury Loan 1995/98 is classified as maturing in 1998 and therefore in the over 15-year band.

Non-marketable debt

Comprises national savings (see below), certificates of tax deposit, tax reserve certificates, the International Monetary Fund's holdings of interest-free notes drawn on the National Loans Fund, deposits with the National Loans Fund, 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 page 56 of the Bank's 1971 *Report and accounts*—and a sterling debt to an overseas government.

National savings comprise national savings certificates (excluding accrued interest and index-linked increases), British savings bonds, premium savings bonds, national savings stamps and gift tokens, the contractual savings scheme (Save As You Earn) of the Department for National Savings (excluding accrued interest and index-linked increases), and, with effect from 1 January 1981, deposits with the National Savings Bank investment account (excluding interest not yet credited to accounts). Ordinary deposits with the National Savings Bank and the trustee savings banks' claim on the Fund for Savings are only included in this analysis indirectly, to the extent that the funds are reinvested in government debt, when they are included within official holdings.

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.

Following the National Loans Fund's assumption of the liability for investment accounts with the National Savings Bank and the consequent reclassification of the National Savings Bank investment account as part of the central government sector with effect from 1 January 1981 (previously it had been treated as an 'other financial institution'), its holdings of government debt (which are invested through the National Debt Commissioners) are included within 'official' holdings; previously they were regarded as part of 'market' holdings.

In accordance with national accounting practice, the ordinary department of the National Savings Bank is included in the central government, and its holdings of government debt (invested through the National Debt

Commissioners) are included in official holdings. Holdings of the trustee savings banks are regarded as 'market' holdings, as are those of local authorities and public corporations.

Market holdings

Public corporations

As defined for national income statistics, but excluding the Bank of England.

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). Market values are based on information reported by the banks at end-1980, using cash transactions in the quarter to end-March 1981. The maturity analysis of stock holdings is partly estimated from the principal government stock register, which is maintained by the Bank.

Other financial institutions

Estimates are based largely on figures reported by the institutions and published in *Financial Statistics*. Most stock holdings are estimates from market value holdings at end-1980 using cash transactions in the quarter to end-March 1981.

Overseas holders

Treasury bills held by overseas residents are as in Table 16.1 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 a sterling debt to an overseas government. Details are given in the table of National Loans Fund liabilities in the *Consolidated Fund and National Loans Fund Accounts 1980-81 Supplementary Statements*.

Other holders

Public Trustee and various non-corporate bodies

Comprises 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 £1,100 million) is no more than a broad estimate covering other holders (for example, charities and friendly societies are allowed to place deposits with the National Savings Bank investment account and to hold national savings certificates and British savings bonds; British savings bonds may also be held 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, grossed up roughly to give a broad estimate for all industrial and commercial companies. The holdings are at book values (generally purchase values) and no attempt has been made to convert them to nominal or market values. An estimate of holdings of certificates of tax deposit 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.