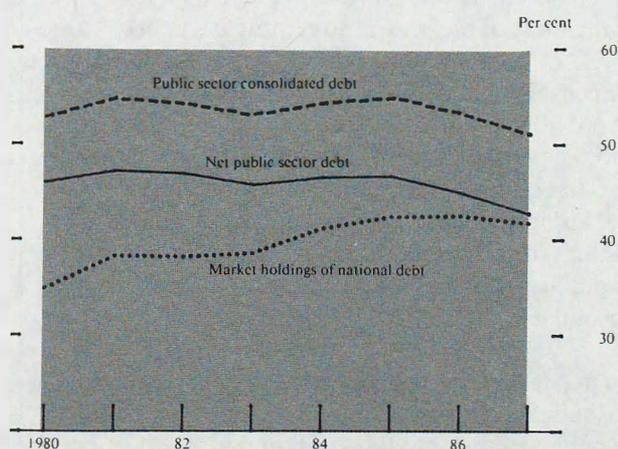


The net debt of the public sector: end-March 1987

A note on the net debt of the public sector in the March 1986 Bulletin (page 74) introduced this concept, explaining how it might diverge from the national debt or the consolidated debt of the public sector. This note updates the figures to end-March 1987.

At the end of March 1987 the net debt of the public sector amounted to £171.7 billion, an increase of £4.3 billion (2.6%) over the year before. This was a smaller rate of increase than in recent years, and as a proportion of gross domestic product⁽¹⁾ the net debt fell by 2.4 percentage points to 42.5%. This is the lowest percentage recorded since this concept was first calculated (for 1975). Market holdings of the national debt (a narrower concept which comprises part, but not all, of central government debt), by contrast, rose more strongly (by £9.8 billion or 6.2%), and fell much less as a proportion of gross domestic product, by 0.8 percentage points to 41.7%.⁽²⁾

Measures of public sector debt in relation to GDP^(a)



(a) Average measure of GDP at current market prices in four quarters centred on 31 March.

This contrasting increase arose principally because, as in 1985/86, the central government had borrowed not only to cover its own requirements, but also to lend to local authorities, enabling the latter to repay substantial amounts of market borrowing. Public corporations also put funds into the market, as their borrowing requirement was negative. For the first time the public sector borrowing requirement as a whole was actually lower than even the borrowing requirement on own account of the central government. Whereas the whole public sector borrowing requirement in 1986/87 amounted to only £3.4 billion, the central government borrowing requirement amounted to £10.5 billion, including £4.5 billion on own account (see Table A).

Table A
Composition of the PSBR

£ millions; percentages in italics	1980/81– 1984/85 (annual rate)		1985/86		1986/87	
Central government borrowing requirement: on own account	7,650	76.4	4,271	74.3	4,546	134.4
for on-lending to local authorities	1,929	19.2	5,742	99.8	5,883	174.0
for on-lending to public corporations	1,502	15.0	949	16.5	66	2.0
CGBR	11,081	110.6	10,962	190.6	10,495	310.4
Local authorities' net borrowing from markets	- 815	- 8.1	- 4,070	- 70.8	- 5,644	- 166.9
Public corporations' net borrowing from markets	- 245	- 2.5	- 1,141	- 19.8	- 1,470	- 43.5
Public sector borrowing requirement (PSBR)	10,021	100.0	5,751	100.0	3,381	100.0
Alternative analysis:						
CGBR on own account (CGBR [0])	7,650	76.4	4,271	74.3	4,546	134.4
Local authority borrowing requirement (LABR)	1,114	11.1	1,672	29.0	239	7.1
Public corporation borrowing requirement (PCBR)	1,257	12.5	- 192	- 3.3	- 1,404	- 41.5
As percentage of GDP:						
CGBR	3.9		3.0		2.7	
CGBR (on own account)	2.7		1.2		1.2	
LABR	0.4		0.5		0.1	
PCBR	0.4		- 0.1		- 0.4	
PSBR	3.5		1.6		0.9	
Memorandum item:						
GDP (£billions)	283.7		361.3		385.7	

The consolidated debt of the public sector (Table B) rose by £6.7 billion or 3.4%. Total public sector liquid assets (Table C), however, rose faster, by £2.4 billion (7.8%), which accounts for the lower rate of increase of public sector net debt.

The main component of the rise is in assets held by local authorities, which increased their bank deposits sharply from £2.0 billion to £3.5 billion, while their other short-term assets (mainly deposits with building societies) rose from £0.2 billion to £0.9 billion. The central government's assets fell slightly; gold and foreign currency reserves rose by £4.2 billion, but various instruments used for official assistance to the money market were reduced by £3.4 billion, and outstanding instalments on partly-paid government stocks were £0.9 billion lower. Public corporations' bank deposits were £0.4 billion higher.

(1) Average measure of GDP at current market prices in four quarters centred on 31 March.

(2) This figure is different from that given in the article on the distribution of the national debt in the November 1987 Bulletin (page 550) mainly because of revisions to the GDP estimates. The level of market holdings is now based on the definitive national debt figures published in December.

Table B
Public sector debt

£ millions, nominal values; percentages in italics

31 March	1980	1981	1982	1983	1984	1985	1986	1987	Increases			
									1980-85	1985-86	1986-87	
Central government												
Market holdings of national debt etc <i>as percentage of GDP</i>	78.121 <i>34.9</i>	94.983 <i>38.3</i>	104.108 <i>38.2</i>	114.213 <i>38.6</i>	130.907 <i>41.2</i>	146.684 <i>42.4</i>	158.432 <i>42.5</i>	168.247 <i>41.7</i>	68.563	11.748	9.815	
Net indebtedness to Bank of England Banking												
Department	599	650	725	676	474	—	—	319	- 599	—	319	
Savings banks	3.087	2.856	2.640	2.480	2.396	2.052	1.796	1.666	-1.035	- 256	- 130	
Accrued interest and indexing on national savings	1.430	1.954	2.493	3.002	3.795	4.629	5.508	6.076	3.199	879	568	
Notes and coin in circulation	10.667	11.204	11.386	12.590	12.895	13.794	14.539	14.231	3.127	745	- 308	
Other	1.001	892	848	754	852	925	876	872	- 76	- 49	- 4	
Total	94.905	112.539	122.200	133.715	151.319	168.084	181.151	191.411	73.179	13.067	10.260	
less held by local authorities and public corporations	- 931	- 1.196	- 1.293	- 1.421	- 1.936	- 1.657	- 1.836	- 1.279	- 726	- 179	557	
Net total	93.974	111.343	120.907	132.294	149.383	166.427	179.315	190.132	72.453	12.888	10.817	
Local authorities												
Total debt	34.113	36.382	36.325	36,673	38,248	41,021	43,425	45,948	6,908	2,404	2,523	
less held by central government and public corporations	-15,808	-16,973	-16,048	-18,533	-21,794	-24,932	-30,397	- 36,127	-9,124	- 5,465	- 5,730	
Net total	18,305	19,409	20,277	18,140	16,454	16,089	13,028	9,821	-2,216	- 3,061	- 3,207	
Public corporations												
Total debt	30.026	31,278	31,603	32,430	33,451	31,640	30,920	28,223	1,614	- 720	- 2,697	
less held by central government and local authorities	-24,270	-26,058	-25,145	-26,006	-26,659	-23,883	-24,839	- 23,018	387	- 956	-1,821	
Net total	5,756	5,220	6,458	6,424	6,792	7,757	6,081	5,205	2,001	- 1,676	- 876	
Public sector: consolidated total <i>as percentage of GDP</i>	118,035 <i>52.8</i>	135,972 <i>54.8</i>	147,642 <i>54.2</i>	156,858 <i>53.0</i>	172,629 <i>54.3</i>	190,273 <i>54.9</i>	198,424 <i>53.2</i>	205,158 <i>50.8</i>	72,238	8,151	6,734	

Table B, which summarises the figures that appear in *Financial Statistics* this month⁽¹⁾ shows the compilation of the public sector consolidated debt; this starts from the market holdings of the national debt, adds other debt of the central government and debt of the rest of the public sector and deducts from each sub-sector the amount of debt held by other sub-sectors, to show the market debt of each sub-sector and of the whole public sector. Table D is an alternative arrangement, published for the first time. It deducts from the market holdings of each sub-sector's debt its own holdings of other sub-sectors' debt, and its own holdings of other liquid assets, to reveal each sub-sector's true share of the net public sector debt. Changes in these totals between periods can be related to the borrowing requirements of each sub-sector in these periods (as in Table A).

There are several reasons why the borrowing requirements figures, which relate solely to transactions,⁽²⁾ are not the same as the increases in net debt. Among these are the following:

- Changes in exchange rates affect the value of foreign currency liabilities and assets independently of transactions;
- When British government stocks are issued at a discount the borrowing requirement is financed by the actual amount received, while the debt includes the full nominal value;
- The borrowing figures include the uplift on index-linked British government stocks when it is paid out, but the national debt figures as it accrues over the life of the stock in market hands;
- Borrowing requirements do not include the changes in assets and liabilities that arise from changes in the boundary of the public sector (eg, in 1986-87, the exclusion from the public sector of British Gas and British Airways because of privatisation).

Definition of terms

The **national debt** consists of the liabilities of the National Loans Fund (which is responsible for raising most of the central government's debt).

The **consolidated debt of the public sector** includes not only the national debt, but also those forms of central government debt excluded from the national debt. In addition, it includes market holdings of local authority and public corporation debt. All holdings of each other's debt by these three parts of the public sector are netted out to produce a consolidated total.

The **net debt of the public sector** is derived from the consolidated debt of the public sector by deducting the public sector's holdings of liquid assets.

(1) Exceptionally, Table B includes in market holdings of British government stocks amounts temporarily held by the Bank of England on purchase and resale terms (repos). These are therefore also included in Table C as central government assets.

(2) Exceptionally, the interest (including index-linking) on national savings certificates and SAYE contracts is counted in the CGBR and PSBR as it accrues, because it can be withdrawn by holders on demand.

Table C
Public sector liquid assets

£ millions, nominal values; percentages in italics

31 March	1980	1981	1982	1983	1984	1985	1986	1987	Increases			
									1980-85	1985-86	1986-87	
Central government												
Gold and foreign exchange reserves	12,460	12,583	10,637	11,702	11,619	10,998	12,686	16,855	- 1,462	1,688	4,169	
Commercial bills	789	2,804	7,044	6,257	9,843	7,148	8,710	7,012	6,359	1,562	-1,698	
British government stock held under purchase and resale agreements	713	—	—	158	—	813	358	108	100	- 455	- 250	
Export credit and shipbuilding paper held under purchase and resale agreements	—	—	—	440	—	2,599	1,926	954	2,599	- 673	- 972	
Net claim on Bank of England Banking Department	—	—	—	—	—	4,297	527	—	4,297	-3,770	- 527	
Bank deposits	564	682	807	766	851	791	768	840	227	- 23	72	
Instalments due on British government stocks	31	1,803	328	653	801	—	2,826	1,876	- 31	2,826	- 950	
Total	14,557	17,872	18,816	19,976	23,114	26,646	27,801	27,645	12,089	1,155	- 156	
Local authorities												
Bank deposits	228	334	492	772	1,001	1,329	2,041	3,498	1,101	712	1,457	
Other short-term assets	4	33	21	28	42	113	204	929	109	91	725	
Total	232	367	513	800	1,043	1,442	2,245	4,427	1,210	803	2,182	
Public corporations												
Bank deposits	384	587	612	715	697	844	977	1,398	460	133	421	
Other short-term assets	39	22	26	29	49	53	45	7	14	- 8	- 38	
Total	423	609	638	744	746	897	1,022	1,405	474	125	383	
Public sector consolidated liquid assets	15,212	18,848	19,967	21,520	24,903	28,985	31,068	33,477	13,773	2,083	2,409	
<i>as percentage of GDP</i>	<i>6.8</i>	<i>7.6</i>	<i>7.3</i>	<i>7.3</i>	<i>7.8</i>	<i>8.4</i>	<i>8.3</i>	<i>8.3</i>				
Consolidated public sector debt (Table B)	118,035	135,972	147,642	156,858	172,629	190,273	198,424	205,158	72,238	8,151	6,734	
Net public sector debt	102,823	117,124	127,675	135,338	147,726	161,288	167,356	171,681	58,465	6,068	4,325	
<i>as percentage of GDP</i>	<i>46.0</i>	<i>47.2</i>	<i>46.9</i>	<i>45.7</i>	<i>46.5</i>	<i>46.6</i>	<i>44.9</i>	<i>42.5</i>				
Memorandum items: GDP (£ billions)	223.6	248.0	272.3	295.9	317.9	346.3	372.7	403.7				

Table D
Net debt of the elements of the public sector

£ millions, nominal values; percentages in italics

31 March	1980	1981	1982	1983	1984	1985	1986	1987	Increases			
									1980-85	1985-86	1986-87	
Central government												
Total market holdings of debt (Table B)	94,905	112,539	122,200	133,715	151,319	168,084	181,151	191,411	73,179	13,067	10,260	
less holdings of local authority and public corporations debt	-38,478	-41,400	-39,445	-43,041	-46,942	-47,415	-53,879	-58,002	- 8,937	- 6,464	- 4,123	
less holdings of other liquid assets (Table C)	-14,557	-17,872	-18,816	-19,976	-23,114	-26,646	-27,801	-27,645	-12,089	- 1,155	156	
Net total	41,870	53,267	63,939	70,698	81,263	94,023	99,471	105,764	52,153	5,448	6,293	
<i>as percentage of GDP</i>	<i>18.8</i>	<i>21.6</i>	<i>23.5</i>	<i>23.9</i>	<i>25.6</i>	<i>27.2</i>	<i>26.7</i>	<i>26.2</i>				
Local authorities												
Total debt (Table B)	34,113	36,382	36,325	36,673	38,248	41,021	43,425	45,948	6,908	2,404	2,523	
less holdings of central government and public corporations debt	- 1,420	- 1,425	- 1,530	- 1,246	- 1,194	- 1,182	- 1,098	- 1,047	238	84	51	
less holdings of other liquid assets (Table C)	- 232	- 367	- 513	- 800	- 1,043	- 1,442	- 2,245	- 4,427	- 1,210	- 803	- 2,182	
Net total	32,461	34,590	34,282	34,627	36,011	38,397	40,082	40,474	5,936	1,685	392	
<i>as percentage of GDP</i>	<i>14.5</i>	<i>13.9</i>	<i>12.6</i>	<i>11.7</i>	<i>11.3</i>	<i>11.1</i>	<i>10.7</i>	<i>10.0</i>				
Public corporations												
Total debt (Table B)	30,026	31,278	31,603	32,430	33,451	31,640	30,920	28,223	1,614	- 720	- 2,697	
less holdings of central government and local authority debt	- 1,111	- 1,402	- 1,511	- 1,673	- 2,253	- 1,875	- 2,095	- 1,375	- 764	- 220	720	
less holdings of other liquid assets (Table C)	- 423	- 609	- 638	- 744	- 746	- 897	- 1,022	- 1,405	- 474	- 125	- 383	
Net total	28,492	29,267	29,454	30,013	30,452	28,868	27,803	25,443	376	- 1,065	- 2,360	
<i>as percentage of GDP</i>	<i>12.8</i>	<i>11.8</i>	<i>10.8</i>	<i>10.1</i>	<i>9.6</i>	<i>8.3</i>	<i>7.5</i>	<i>6.3</i>				
Net public sector debt (Table C)	102,823	117,124	127,675	135,338	147,726	161,288	167,356	171,681	58,465	6,068	4,325	
<i>as percentage of GDP</i>	<i>46.0</i>	<i>47.2</i>	<i>46.9</i>	<i>45.7</i>	<i>46.5</i>	<i>46.6</i>	<i>44.9</i>	<i>42.5</i>				
Memorandum item: GDP (£ billions)	223.6	248.0	272.3	295.9	317.9	346.3	372.7	403.7				

Notes and definitions

For the main notes and definitions, see the article in the March 1986 *Bulletin*. Two refinements were made in the May 1987 *Bulletin*:

- (1) 'Other' liabilities of the central government were expanded to include balances with the Paymaster General of certain public corporations. (As these were also included in public corporations' holdings, this did not lead to any change in the central government or public sector net liabilities.)
- (2) Public corporations' holdings of central government debt were expanded to include estimates of notes and coins held, slightly reducing estimates of the consolidated and net debt of the public sector.

In this article the main revisions (apart from GDP estimates) arise from the reclassification throughout the period shown of the Housing Corporation from public corporations to the central government. The main effect, in Table B, is to reduce (equally) the total debt of public corporations and the amount of it held by the central government. This also causes some revisions in Table A, principally switches within the CGBR between 'Borrowing on own account' and 'Borrowing for on-lending to public corporations'.