# Public sector debt: end March 1998

*This article*[(1)] *continues the annual series in the* Quarterly Bulletin *analysing the debt position of the UK public sector. It looks at developments in net and gross debt in the financial year to end March 1998, and examines some of the domestic and European issues that have influenced these measures. It also analyses the composition and distribution of the national debt.*

*The Office for National Statistics published the UK National Accounts in line with the updated European System of Accounts (ESA95) for the first time in September. This has had a number of implications for how debt levels are compiled. To ensure consistency with the previous articles in this series during the transition period, the data presented here are based on the previous accounting system. However, details of the changes and estimates of how they affect public sector debt are explored in the box on pages 334–35.*[(2)]

- *In March 1998, the nominal value of the public sector's net debt stood at £352 billion, virtually unchanged from the March 1997 level of £350 billion. As a percentage of GDP,*[(3)] *this was a fall of almost 2 percentage points. Total central government gross debt increased by £2 billion in 1997/98, to £403 billion.*

- *The ratio of general government consolidated gross debt to GDP on a Maastricht basis fell during 1997/98 to 51.7%, remaining comfortably within the 60% reference level in the Maastricht Treaty. The general government financial deficit has fallen below its reference value of 3% for the first time since 1991, to 0.7% of GDP for the year to March 1998.*

- *The responsibility for gilt issuance and sterling debt management was transferred from the Bank of England to the UK Debt Management Office, an executive agency of HM Treasury, on 1 April 1998. The transfer of cash management is not expected before the end of the year at the earliest.*

## Introduction

The article begins by looking at the debt of the public sector (central government, local authorities and public corporations) and how this is related to the Public Sector Net Cash Requirement (PSNCR). The second section focuses on central government debt, as this is by far the largest component of public sector debt. Central government debt is largely composed of the liabilities of the National Loans Fund (the 'national debt'), so the next section looks at the market holdings of these liabilities by instrument. It starts by looking at British Government Securities (gilts), the structure of the outstanding gilt portfolio and developments in the gilt market during 1997/98. The other main national debt instruments are then considered—National Savings instruments, sterling Treasury bills and foreign currency debt. The following section gives an analysis of the sterling national debt by holder of the debt instruments. Finally, the article describes the effects on the debt of the recent transition in the UK National Accounts to the revised European System of Accounts (ESA95). It also looks at European debt measures compiled in line with the Maastricht Treaty.

## Public sector debt

The net debt of the public sector increased by just over 0.5% in the financial year 1997/98, from £350 billion to £352 billion (see Table A). Since GDP grew more strongly, this led to a fall of almost 2 percentage points in the ratio of debt to GDP. Within the total increase, the gross debt of central government increased by just under 0.5% and that of local authorities by just over 0.5%; the gross debt of public corporations fell by slightly more than 1%. The public sector's holdings of liquid assets, which are deducted from gross debt in the calculation of net debt, fell by more than 2%, from £52 billion to £51 billion (see Table B). This decrease in liquid assets reflects a fall in holdings of central

(1) By Bethany Blowers of the Bank's Monetary and Financial Statistics Division.
(2) Changes to the National Accounts are discussed in detail in the article on pages 361–67.
(3) The percentage of GDP data shown here, unless stated otherwise, are based on the average measure of GDP, at current market prices, for four quarters centred on 31 March. The GDP data for 1998 have been estimated.

## Table A
## Public sector net debt

£ millions, nominal values (a); percentages in italics

| 31 March (b) | 1996 | 1997 | 1998 | Changes 1997–98 |
|---|---|---|---|---|
| **Central government** | | | | |
| Market holdings of national debt (Table D) | 343,977 | 369,333 | 372,621 | 3,288 |
| *as a percentage of GDP* | *47.1* | *47.6* | *45.7* | *-1.9* |
| Net indebtedness to Bank of England Banking Department | 0 | 1,149 | 1,065 | -84 |
| Savings banks | 1,432 | 1,419 | 1,399 | -20 |
| Accrued interest and indexing on National Savings | 3,517 | 3,422 | 2,932 | -490 |
| Notes and coin in circulation | 23,427 | 25,638 | 24,768 | -871 |
| Other | 359 | 423 | 496 | 73 |
| **Total central government gross debt** | **372,711** | **401,384** | **403,281** | **1,897** |
| *as a percentage of GDP* | *51.0* | *51.7* | *49.5* | *-2.2* |
| **Local authorities** | | | | |
| Total gross debt | 50,252 | 51,299 | 51,649 | 350 |
| *less holdings of other public sector debt:* | | | | |
| Central government holdings of local authority debt | 41,266 | 42,555 | 43,390 | 835 |
| Local authority holdings of central government debt | 153 | 155 | 170 | 15 |
| **General government consolidated gross debt** | **381,544** | **409,973** | **411,370** | **1,397** |
| *as a percentage of GDP* | *52.2* | *52.8* | *50.5* | *-2.3* |
| **Public corporations** | | | | |
| Total gross debt | 26,595 | 26,093 | 25,805 | -288 |
| *less holdings of other public sector debt:* | | | | |
| Central government holdings of public corporation debt | 25,980 | 25,599 | 25,429 | -170 |
| Local authority holdings of public corporation debt | 0 | 1 | 0 | -1 |
| Public corporation holdings of central government debt | 6,500 | 7,781 | 8,124 | 343 |
| Public corporation holdings of local authority debt | 890 | 805 | 809 | 4 |
| **Public sector consolidated gross debt** | **374,768** | **401,880** | **402,813** | **933** |
| *as a percentage of GDP* | *51.3* | *51.8* | *49.4* | *-2.4* |
| **Total public sector liquid assets** (Table B) | **52,643** | **52,093** | **50,864** | **-1,229** |
| *as a percentage of GDP* | *7.2* | *6.7* | *6.2* | *-0.5* |
| **Net public sector debt** | **322,125** | **349,787** | **351,949** | **2,162** |
| *as a percentage of GDP* | *44.1* | *45.0* | *43.2* | *-1.8* |
| Memo item: | | | | |
| **General government consolidated gross debt** (Maastricht basis) | **380,231** | **408,633** | **410,461** | **1,828** |
| *as a percentage of GDP (ESA)* (c) | *53.5* | *54.6* | *51.7* | *-2.9* |

(a) Figures may not sum to totals because of rounding.
(b) Data from 1970–98 are published in the *Bank of England Statistical Abstract 1998*, Part 1, Table 13.1.
(c) Financial-year GDP as measured on an ESA79 basis (see the box on pages 334–35).

government and public corporations of £2 billion and £0.3 billion respectively, partly offset by an increase of almost £1 billion in local authorities' holdings.

This decrease in the ratio of net public sector debt to GDP is the first fall in the ratio since it began to rise sharply in 1991 (see Chart 1); the same is true for general government gross debt.(1) Recent HM Treasury figures, published in June 1998 in the 'Economic and Fiscal Strategy Report', project that net public sector debt will continue to fall as a percentage of GDP after 1998, to 38% (based on current expenditure plans) by the end of 2001/02.

Chart 2 shows that recent debt levels as a percentage of GDP remain low by historical standards. The debt to GDP ratio may decrease, even as the nominal debt stock increases, if nominal GDP growth outpaces the rise in the

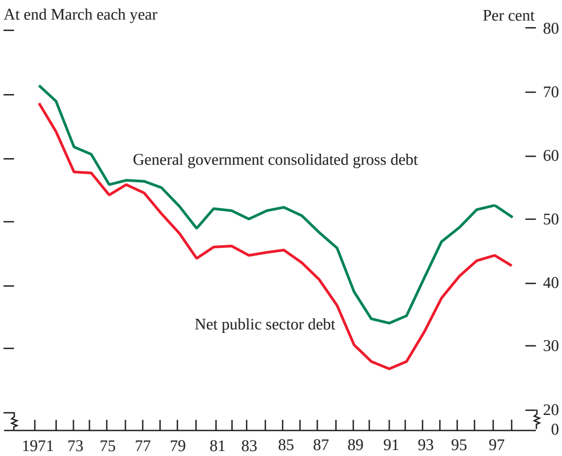
## Table B
## Public sector liquid assets

£ millions, nominal values

| 31 March (a) | 1997 | 1998 | Changes 1997–98 |
|---|---|---|---|
| **Central government** | | | |
| Gold and foreign exchange reserves | 25,547 | 21,293 | -4,254 |
| Commercial bills (including those held under repo) | 1,790 | 4,126 | 2,336 |
| British government stock held under repo (b) | 6,081 | 5,994 | -87 |
| Treasury bills held under repo | 41 | 0 | -41 |
| Loans against export credit and shipbuilding paper | 0 | 0 | 0 |
| Net claim on Bank of England Banking Department | 0 | 0 | 0 |
| Bank and building society deposits | 2,067 | 2,249 | 182 |
| **Total central government liquid assets** | **35,526** | **33,662** | **-1,864** |
| Local authorities: | | | |
| Bank deposits | 7,134 | 7,994 | 860 |
| Building society deposits | 4,142 | 3,796 | -346 |
| Other short-term assets | 3,256 | 3,693 | 437 |
| **Total local authority liquid assets** | **14,532** | **15,483** | **951** |
| **Public corporations** | | | |
| Bank deposits | 1,773 | 1,467 | -306 |
| Other short-term assets | 262 | 252 | -10 |
| **Total public corporation liquid assets** | **2,035** | **1,719** | **-316** |
| **Total public sector liquid assets** | **52,093** | **50,864** | **-1,229** |

(a) Data from 1970–98 are published in the *Bank of England Statistical Abstract 1998*, Part 1, Table 13.1.
(b) Excludes repos between public sector bodies. Claims arise in connection with the Bank of England's provision of liquidity to the money markets through its gilt repo facility. Take-up of liquidity is variable, depending on the prevailing and expected level of interest rates and forecasts of money-market liquidity.

## Chart 1
## Measures of public sector debt as a percentage of GDP

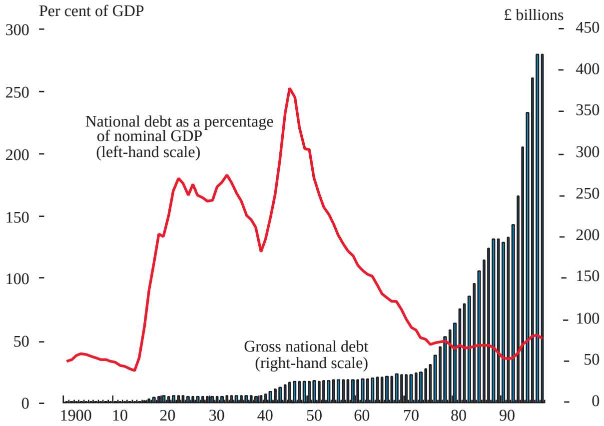



debt stock, because of either inflation or real output growth. Increases in inflation erode the real value of the debt (except for index-linked debt).

Greater attention is being paid to the net public sector debt to GDP ratio this year, as the Government focuses on its 'sustainable investment' rule. This rule states that net public sector debt, as a proportion of GDP, will be held at a stable and prudent level over the economic cycle. The Government believes that this level should be reduced to below 40% of GDP. In line with this shift in focus on fiscal policy, the Office for National Statistics has changed the

(1) See the Annex on page 336, which provides definitions of the different debt measures.

**Chart 2**
**Gross national debt: 1900–98**



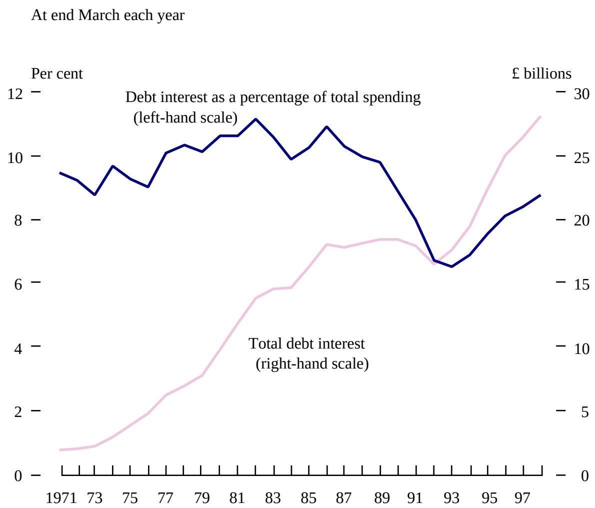

Source: HM Treasury.

way in which public finances are presented (see the box in the adjacent column).

The Government focuses particularly on the ratio of debt to GDP because nominal GDP is closely related to the tax base of the economy, and so to the Government's ability to service the debt. Any current fiscal stance is considered sustainable if the Government can maintain its current spending and taxation policies indefinitely, while continuing to meet its debt-servicing obligations.

Interest payments on public sector debt in 1997/98 rose from almost £27 billion to more than £28 billion, continuing the upward trend in this series since 1993 (see Chart 3). The level of interest payments within the PSNCR, at 8.9%, was the highest percentage of total spending since 1989/90, but smaller than at any time between 1970/71 and 1989/90. The Government has continued to emphasise its aim of reducing the debt interest bill, through policies to reduce both gilt yields and the volume of borrowing.

**Chart 3**
**Public sector debt interest**




Source: Office for National Statistics.

## The new presentation of public finances

In June, the Office for National Statistics presented statistics on public finances in a new format. This allowed the public accounts to correspond more closely with both the National Accounts and with the Government's two fiscal rules: the *sustainable investment rule* (as explained on page 325), and the *golden rule*, which states that over the economic cycle, the Government will borrow only to invest and not to fund current spending. So the changes were made primarily to focus on a measure of budget balance that excludes financial transactions, and to separate the current and capital accounts. In line with this, the format has moved the emphasis away from the Public Sector Net Cash Requirement (PSNCR), previously the PSBR, to the following fiscal measures:

- *Public sector current balance*. This shows whether all current spending is being financed by current receipts, which allows an assessment of whether the Government's 'golden rule' will be met over the economic cycle.
- *Public sector net borrowing*. This excludes privatisations and other financial transactions, and is equivalent to the public sector financial surplus/deficit in previous UK National Accounts.

This second measure of the fiscal stance tightened considerably in 1997/98; projections published by the Government in June forecast that this tightening will continue. The tightening in 1997/98—of more than 2% of GDP—was the largest change in cyclically adjusted public sector net borrowing since 1981. The estimated current budget for 1997/98 was close to balance, with a steadily rising surplus expected in the medium term, to a level of £13 billion in 2001/02 (not cyclically adjusted).

Public sector net debt and the PSNCR are closely related. The stock of debt is basically the sum of previous net cash requirements, and so the change in debt for a given year is approximately that year's PSNCR. The box on page 327 explains why these measures, though closely related, are not equal.

The PSNCR declined very sharply in 1997/98, from more than £22.5 billion to just over £1 billion (see Table C). Within this, the central government net cash requirement fell from £25 billion to just under £3.5 billion. Local authorities slightly decreased their net repayment. Public corporations' net repayment also fell, from £1.4 billion to £0.7 billion.

The new format of the public finances also brings the United Kingdom closer into line with international standards, and is consistent with concepts used for international comparisons of budget deficits. The deficit

## The PSNCR and changes in public sector net debt: reconciliation

Public sector net debt is a stock measure, and its change is calculated on a nominal, accrued basis. By contrast, the PSNCR, financed by transactions in assets and liabilities, is measured on a cash-flow basis. This leads to small differences between the change in public sector net debt and the PSNCR for any given period, mainly because of the following:

- The value of foreign currency liabilities and assets is affected by fluctuations in exchange rates, and so the debt changes independently of any transactions that affect the PSNCR.

- When gilts are issued (or bought in ahead of their redemption date) at a discount or premium, the PSNCR is financed by the actual cash amount received (or paid out). The level of debt, however, is deemed to have changed by the nominal value of gilts issued (or redeemed). Current practice is to issue gilts with coupons close to the market rate at the time of initial issue, so discounts/premia are usually small.

- The capital uplift on index-linked gilts is recorded in the PSNCR only when it is paid out, ie when the stock is redeemed. In the measure of debt outstanding, it is accrued over the life of the stock.

| £ billions | Year ending March 1998 |
|---|---|
| **PSNCR** | **1.1** |
| *Plus* | |
| Revaluation of foreign currency assets/liabilities | 0.9 |
| Capital uplift on index-linked gilts | 1.8 |
| Discount/premium on gilt issues | -0.5 |
| Other | -1.3 |
| *Equals* | |
| **Change in public sector net debt** | **2.0** |

Note: Figures may not sum to total because of rounding.

### Table C
### Composition of the PSNCR[(a)]

£ millions

| | 1996/97 | 1997/98 |
|---|---|---|
| **Central government net cash requirement (CGNCR)** | **25,051** | **3,411** |
| Memo item: CGNCR on own account | 24,890 | 2,524 |
| Local authority net cash requirement (LANCR) | -838 | -820 |
| *less borrowing from central government* | *1,517* | *955* |
| **General government net cash requirement (GGNCR)** | **22,696** | **1,636** |
| Public corporations' net cash requirement (PCNCR) | -1,395 | -654 |
| *less borrowing from central government* | *-1,356* | *-68* |
| **Public sector net cash requirement (PSNCR)** | **22,657** | **1,050** |
| *As a percentage of GDP* | *2.9%* | *0.1%* |

(a) Prior to the transition to ESA95—see the box on pages 334–35.

measure examined under the Maastricht Treaty is the general government financial deficit (GGFD), as defined by European national accounting standards. In the year to March 1998, the United Kingdom's GGFD was 0.7% of GDP, and so lay well below the 3% Maastricht reference level. This contrasts significantly with the year to March 1997, when GGFD was 4.0% of GDP.

To monitor debt under the Maastricht convergence rules, EU Member States use the harmonised measure of the ratio of general government consolidated gross debt to GDP. For the year to March 1998, the United Kingdom's general government debt was 51.7% of GDP (with both concepts defined according to European standards of national accounting), and so remained comfortably within the 60% Maastricht reference level. The decision about which Member States should move to the third stage of the single currency process was taken in May 1998, after submission of 1997 data. Further information on these European debt and deficit issues is given in the box on pages 334–35.

## Analysis of central government debt by instrument

As shown in Table A, public sector debt is made up almost entirely of central government debt, of which by far the biggest constituent is market holdings of national debt. Total national debt represents the liabilities of the National Loans Fund.[(1)]

During 1997/98, total national debt fell by just over £½ billion (see Table D). Within this, market holdings of national debt increased by £3 billion to almost £373 billion, an increase over the year of almost 1%. Offsetting this, official holdings[(2)]—holdings by other central government bodies and the Issue and Banking Departments of the Bank of England—decreased by £4 billion. The structure of market holdings of national debt remained broadly unchanged from 1997, as did marketable debt, the proportion of debt that can be traded in a secondary market (gilts, Treasury bills and some foreign currency instruments). The composition of market holdings of national debt is shown in Chart 4. A more detailed analysis of the major national debt instruments is given later.

At end March 1998, there were four main components of central government debt, other than market holdings of national debt. Two were the ordinary account deposits lodged in the National Savings Bank, and accrued interest and indexing on other National Savings products. The other two were net indebtedness to the Bank of England Banking Department, and notes and coin in circulation (though this has now changed, as the United Kingdom has moved to a new EU standard of national accounting—see the box on pages 334–35). These last two items also partly offset the effect of subtracting official holdings from national debt

(1) Stocks of nationalised industries guaranteed by the government are not strictly part of the national debt, but would be included here since the market does not generally distinguish them from government stocks; no such stocks are currently outstanding.
(2) See the box on pages 334–35 for an explanation of official holders both prior to, and following, the introduction of ESA95.

## Table D
## Market and official holdings of national debt

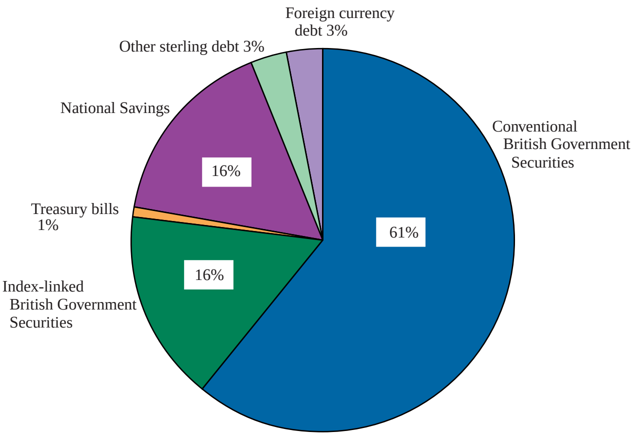
£ millions, nominal values; *percentage of market holdings in italics*

| End March (a) | 1997 | | 1998 | |
|---|---|---|---|---|
| **Market holdings** | | | | |
| British government stocks | 281,780 | *76.3* | 289,418 | *77.7* |
| of which: index-linked | 51,534 | *14.0* | 58,728 | *15.8* |
| other | 230,246 | *62.3* | 230,691 | *61.9* |
| Treasury bills | 4,952 | *1.3* | 2,091 | *0.6* |
| National Savings | 56,915 | *15.4* | 58,963 | *15.8* |
| of which: index-linked | 8,076 | *2.2* | 8,910 | *2.4* |
| other | 48,839 | *13.2* | 50,053 | *13.4* |
| Interest-free notes due to the IMF | 5,638 | *1.5* | 5,162 | *1.4* |
| Certificates of tax deposit | 852 | *0.2* | 706 | *0.2* |
| Other | 4,855 | *1.3* | 4,819 | *1.3* |
| **Market holdings of sterling debt** | **354,992** | ***96.1*** | **361,159** | ***96.9*** |
| North American government loans | 644 | *0.2* | 533 | *0.1* |
| US$ floating-rate note | 1,227 | *0.3* | 1,194 | *0.3* |
| US$ bonds | 3,067 | *0.8* | 2,985 | *0.8* |
| Ecu Treasury bills | 2,488 | *0.7* | 2,248 | *0.6* |
| Ecu 9⅛% 2001 bond | 1,777 | *0.5* | 1,606 | *0.4* |
| Ecu Treasury notes | 3,199 | *0.9* | 2,890 | *0.8* |
| DM 7⅛% 1997 bond | 1,828 | *0.5* | 0 | *0.0* |
| Debt assigned to the government | 111 | *0.0* | 7 | *0.0* |
| **Market holdings of foreign currency debt** (b) | **14,341** | ***3.9*** | **11,462** | ***3.1*** |
| **Total market holdings of national debt** | **369,332** | ***100.0*** | **372,621** | ***100.0*** |
| Official holdings | 50,577 | | 46,623 | |
| **Total national debt** | **419,909** | | **419,244** | |

(a) Data from 1970–98 are published in the *Bank of England Statistical Abstract 1998*, Part 1, Table 13.2.
(b) Sterling valuation rates:
31 March 1997: £1 = US$ 1.6303, Can$ 2.2448, ECU 1.4068, DM 2.7345.
31 March 1998: £1 = US$ 1.6745, Can$ 2.3821, ECU 1.5565, DM 3.0963.

when calculating central government debt. Net indebtedness reflects the Banking Department's holdings of central government debt, and notes in circulation are backed by assets held by the Bank of England Issue Department. Some of these assets are national debt instruments. So central government gross debt and national debt are very closely related.

## Chart 4
## Composition of market holdings of national debt by instrument: at end March 1998




# National debt instruments

### *British Government Securities*

British Government Securities (gilts) are the largest component of national debt. In March 1998, market holdings of gilts[1] were almost £289.5 billion, accounting for 78% of total market holdings of national debt. This was a rise of almost 3% from the previous year. Within this, there was a 14% increase in market holdings of index-linked gilts, taking the total outstanding to nearly £59 billion.

In total, £20 billion of conventional gilts were issued during 1997/98. The majority of these were extra issues of existing stocks (7% Treasury Stock 2002, 8% Treasury Stock 2021 and 7¼% Treasury Stock 2007). Two new conventional stocks were also created: a five-year benchmark (6½% Treasury Stock 2003) in December, and a long benchmark (6% Treasury 2028) in January. The lower coupons of the new issues brought down the weighted-average coupon of conventional issues over the year to 7.2%, from 7.6% last year.

All conventional gilt issuance in 1997/98 was done via sales at auctions. This completed a process begun in 1990/91 to move away from tap issues of conventional gilts, to the more structured and predictable system that auctions allow. The government has reiterated its policy that gilt issuance of conventional stocks via taps will be used as a market management instrument only if there is temporary excess demand in a particular stock or sector. It envisages that such tapping will account for less than 5%, if any, of expected total conventional issues in 1998/99.

Index-linked issuance in 1997/98 was £2.9 billion nominal (not including capital uplift), conducted solely via the tap mechanism. During the year, HM Treasury, along with the UK Debt Management Office (DMO)[2] and the Bank of England, discussed with a range of market participants their proposals for moving index-linked gilt issuance to an auction programme. Firm proposals on the format of index-linked auctions were published on 10 June 1998, and a separate list of index-linked gilt-edged market makers was issued on 10 September 1998. Following these, the first index-linked auction will take place on 25 November 1998. The Government intends that this will be the primary issuance method for index-linked as well as conventional gilts in the longer term.

The forecast in March 1997 for the gross gilt sales target for 1997/98 was £36.5 billion. This was lowered to £25.1 billion in July 1997, in the Government's first Budget, following a reduction in the Central Government Net Cash Requirement from £20 billion to £12.4 billion. The target announced in the *Pre-Budget Report* in November 1997 was £25.4 billion. Actual gilt sales over the year were £25.8 billion.

(1) Unless otherwise stated, all figures are in nominal terms and include capital uplift accrued on index-linked stock.
(2) See the box on page 329 for details on the role of the UK DMO.

## The role of the UK Debt Management Office

On 6 May 1997, the Chancellor announced that the Bank of England's role as the Government's agent for debt management, cash management and oversight of the gilts market was being transferred to HM Treasury. This formed part of his announcement granting the Bank operational independence to set interest rates; the transfer was deemed necessary to ensure that debt management decisions could not be perceived as being influenced by inside information on interest rate decisions.

In light of this, the UK Debt Management Office (DMO)—an executive agency of HM Treasury—was established on 1 April 1998, with the responsibility for all official operational decision-making in the gilt market. It is not expected that cash management will transfer from the Bank before end December 1998. The aim of the DMO is to carry out the Government's debt management policy of:

> 'minimising over the long term the cost of meeting the Government's financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the objectives of monetary policy'.

This is achieved by pursuing an issuance policy that is open, predictable and transparent, and developing a liquid and efficient gilts market. The DMO has eight strategic objectives that flow from its aim. These are set out in a *Framework Document*, published in March 1998, and broadly relate to:

- meeting the Government's gilt Remit;
- maintaining market liquidity;
- responding to the demand for new products;
- providing a high-quality service to customers; and
- developing a successful cash-management function.

In institutional terms, the DMO is legally and constitutionally part of HM Treasury but, as an executive agency, it operates at arm's length from ministers. The Chancellor of the Exchequer determines the policy and financial framework within which the DMO operates, but delegates to the Chief Executive operational decisions on debt and cash management, and day-to-day management of the Office. The Chief Executive is accountable to Parliament for the DMO's performance and operations, both for the Office's administrative costs and for the Debt Management Account—the warehousing account being established to handle debt and cash management operations.

In May 1998, the DMO published its *Corporate Overview and Business Plan 1998/99*. The Corporate Overview develops a strategic framework for the next three years, identifying the main aims of the DMO, possible changes in its environment, and how it will be organised to meet its policy objectives. The Business Plan focuses in more detail on the activities, priorities and risks in 1998/99.

The 1997/98 Remit also specified that about 20% of gilt sales should be index-linked, with the remainder split broadly evenly between short, medium and long-dated conventionals. The actual distribution of sales came very close to this target.

Five stocks, totalling £20 billion, were redeemed during the year, including the largest single redemption in the history of the UK gilt market: £8,150 million of $7^1/_4$% Treasury Stock 1998.

## Structure of the gilt portfolio

The maturity structure of the stock of gilts outstanding at end March 1998 was slightly longer than at end March 1997 (see Table E). The average remaining maturity of all dated stocks in market hands rose from 10.1 years to 10.2 years. Excluding index-linked gilts, average maturity rose from 8.8 years to 9.0 years. This partly reflects the increased emphasis on long-dated issuance with the creation of 6% Treasury Stock 2028 in January. The maturities of dated stocks in market hands as at end March 1998 are shown in Chart 5.

### Table E
### Average remaining life of dated stocks in market hands[a]

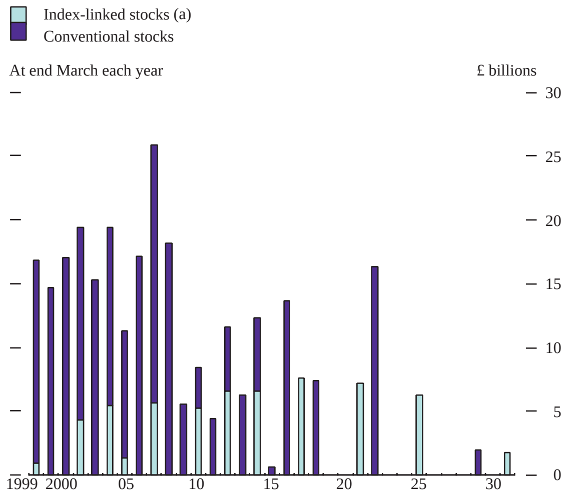
Years to maturity at 31 March

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|---|---|
| Latest possible redemption: | | | | | | | | |
| All dated stocks (b) | 9.9 | 10.0 | 10.8 | 10.6 | 10.4 | 10.1 | 10.1 | 10.2 |
| Excluding index-linked stocks | 8.0 | 8.4 | 9.4 | 9.1 | 9.1 | 8.8 | 8.8 | 9.0 |
| Earliest possible redemption date: | | | | | | | | |
| All dated stocks | 9.6 | 9.8 | 10.5 | 10.4 | 10.2 | 9.9 | 9.9 | 10.0 |
| Excluding index-linked stocks | 7.7 | 8.1 | 9.0 | 8.9 | 9.1 | 8.8 | 8.7 | 8.9 |

(a) These data are based on the nominal value of dated stocks in market hands at 31 March each year.
(b) Index-linked stocks are given a weight reflecting capital uplift accrued to 31 March.

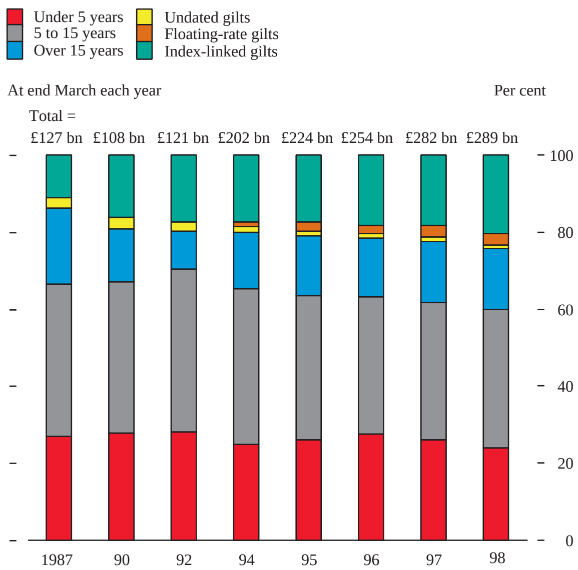
The most marked change in market holdings of gilts across each type of instrument in 1997/98 was an increase of 2 percentage points in the proportion of market holdings of gilts held as index-linked gilts. This came mainly at the expense of reduced holdings of short-dated conventional gilts. Overall, the proportions of each type of gilt held by the market remained similar to last year. Chart 6 shows how the breakdown of market holdings of gilts in 1997/98 compares with the previous decade.

**Chart 5**
**Maturities of dated stocks in market hands (as at end March 1998)**




(a) Figures include accrued capital uplift to 31 March 1998.

**Chart 6**
**Breakdown of market holdings of gilts**

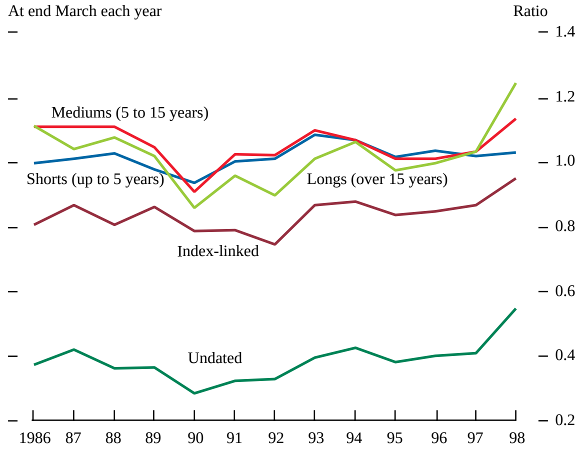



## The gilt market in 1997/98

1997/98 was a strong year for the UK gilt market, partly reflecting lower inflation expectations, with the Bank of England having been given operational responsibility for interest rate decisions. The UK gilt market also took on a ‘safe-haven’ status from both EMU uncertainty and, later in the year, turbulence in Far Eastern markets. Gilt yields fell sharply; at the longer end, they reached their lowest levels since the 1960s, falling by almost 200 basis points. Medium and short yields also fell during the year, by 79 basis points and 122 basis points respectively.

This strength could also be seen clearly in the ratio of the market:nominal value of gilts. The market value of all gilts in market hands at end March 1998 was £316 billion, 9% higher than the nominal value. This was a large premium compared with the previous year, when the nominal and market values were very close, and 1996, when there was a discount of 1.3%. The market:nominal ratios for each category of gilts for the past decade are shown in Chart 7. For index-linked gilts, the nominal value includes capital uplift accrued to 31 March each year.

**Chart 7**
**Ratios of market to nominal values of stocks in market hands**




The premium on long-dated stocks of 25.5% took the market:nominal value ratio above those for short and medium-dated stocks for the first time in ten years. The premia on short and medium-dated stocks were 4.1% and 14.5% respectively. Index-linked gilts were trading at a discount of 4% at end March 1998. Overall, the market value of the undated stocks has a disproportionate effect on the total ratio; they account for 1% of total gilts in market hands, but normally trade at less than 50% of their nominal value.

A significant development in the gilt market in 1997/98 was the launch of the official strips facility on 8 December 1997. The concentration on issuance in strippable benchmark issues with common coupon dates has partly been aimed at building up the potential size and liquidity of the strips market. However, activity in the strips market has so far been low, with limited participation by institutional investors. The total nominal amount of strippable stocks outstanding on 30 March 1998 was £84 billion. Of this, 2% were stripped.

## The financing Remit for 1998/99

The Government’s Remit to the DMO was published in March 1998, with a target for gilt sales in 1998/99 of £14.2 billion. The target for index-linked issuance was increased from 20% to 25% of this total. Of the remainder, the maturity structure for conventional gilt issuance in the Remit specified long issuance of 50%, and short and medium issuance of 25% each. This is a change from previous years, in order to build up the outstanding issue of the new long benchmark conventional gilt, to allow it to become strippable, and to support the move to index-linked auctions. However, the Government has specifically stated that it will not necessarily continue with these proportions in the future.

The Government revised the gilt funding requirement downward in June to £11.6 billion, reflecting a larger funding overshoot from 1997/98 and a lower estimate of the Central Government Net Cash Requirement for 1998/99. Following this, the previous emphasis towards long-dated sales was reduced, and the proportion of planned index-linked sales was further increased, to keep the original notional amount to be issued constant at around £3.5 billion. The revised Remit proportions were 30% index-linked and 70% conventional, with the latter split between 38% long and 31% each of short and medium issuance.

### *National Savings*

At March 1998, £63.3 billion of National Savings instruments was outstanding. This increase of £1.5 billion from the previous year constitutes the net funding contribution during the year. The gross sales of National Savings products for 1997/98 was approximately £13 billion.

The composition of total products outstanding remained broadly the same as last year (see Chart 8). The proportion of savings held in Premium Bonds again rose, from 13% to 16% of the total, compared with only 6% in 1993. The share of Pensioners' Income Bonds also continued to increase, rising by 1 percentage point over the year. These increases have come largely at the cost of reduced holdings of conventional Income Bonds and Investment Account deposits.

**Chart 8**
**Composition of National Savings by product**


Source: Department for National Savings.

National Savings products are treated slightly differently in the national debt and central government debt. Total National Savings products outstanding include approximately £4.3 billion of ordinary account deposits with the National Savings Bank, and accrued interest and index-linked increments on other National Savings products. These are excluded from the national debt, but included when calculating central government debt. National Savings products accounted for almost 16% of market holdings of national debt in 1997/98.

The net contribution of National Savings to the Government's financing programme for 1998/99 was initially expected to be around £1 billion, with gross sales of around £12 billion. This was subsequently reduced to £0.5 billion in June.

### *Sterling Treasury bills*

Market holdings of Treasury bills fell sharply in 1997/98 from £5 billion to £2 billion, to just over 0.5% of market holdings of national debt. This followed a similar fall of more than 50% in 1996/97. The more recent fall reflects a reduction in the size of the Treasury bill tender during 1997/98 to relieve the pressure on the daily money-market shortages—in April 1997, the weekly tender fell from £400 million to £200 million, and fell further in October 1997 to £100 million per week. In July 1997, a weekly tender of £300 million of 28-day Treasury bills was introduced, which ran until September 1997. This was a technical adaptation to the regular programme of Treasury bill issues, designed to smooth the pattern of daily money-market shortages/surpluses, and to take particular account of the large redemption of £5.6 billion of 8¾% Treasury Stock 1997 on 1 September 1997.

The Government restated in the *Debt Management Report* that it had no plans to use marketable debt instruments of less than three years' maturity to meet the financing requirement. This means that the outstanding stock of Treasury bills is largely determined by the Bank of England's sterling money-market operations. The responsibility for the government's cash management is not expected to transfer to the DMO before the end of this year (see box on page 329). This will include responsibility for the issuance and management of Treasury bills.

### *Foreign currency debt*

The sterling value of market holdings of foreign currency debt outstanding, shown in Table D, fell by 20% during 1997/98, from £14.3 billion to £11.5 billion. As a result, foreign currency debt as a proportion of total market holdings of national debt fell from 4% to 3% of the total. This largely reflected the redemption in October 1997 of the 7.125% DM 5 billion bond, which was not refinanced. Part of the fall can also be attributed to sterling's appreciation over the year.

## Sterling national debt: analysis by holder

Tables F and G show an estimated distribution by sector of the sterling national debt at end March 1998.(1)

Table F shows that this distribution has remained broadly unchanged from last year. Institutional investors remain by far the largest holders of sterling national debt, accounting for 53% of total market holdings in 1997/98, having increased their holdings by £19 billion during the year. Table G shows that these holdings are concentrated largely in medium and long-dated stocks, reflecting the institutions' need to match their assets with their typically longer-term liabilities. Insurance companies increased their holdings of gilts by 6% during the year, and investment and unit trusts by 5%. Pension funds' holdings of gilts increased by £13 billion, to 25% of total market holdings of gilts. This was up from 22% of total market holdings of gilts in 1997/98, and shows pension funds again increasing their involvement in this market. This may have been encouraged by the introduction of the minimum funding requirement solvency test, which came into force in April 1997, following the Pensions Act 1995.

The sharp fall in building societies' holdings of sterling national debt instruments (from £6.9 billion in 1996/97 to £1.0 billion in 1997/98) partly reflects the conversion of a number of building societies into banks, leaving a much reduced building society sector. Banks did not show a corresponding increase; their holdings of sterling national debt instruments fell by some £7 billion. The maturity distribution of their remaining holdings of gilts was broadly the same as in 1996/97: in 1997/98, their holdings of

### Table F
### Distribution of the sterling national debt: summary(a)

£ billions; *percentage of market holdings in italics*

| Amounts outstanding at 31 March | 1997 | | 1998 | | Change in 1997/98 |
|---|---|---|---|---|---|
| **Market holdings** | | | | | |
| Other public sector | 7.0 | *2.0* | 7.1 | *2.0* | 0.1 |
| Banks | 20.4 | *5.7* | 13.9 | *3.9* | -6.5 |
| Building societies | 6.9 | *2.0* | 1.0 | *0.3* | -5.9 |
| Other financial institutions | 173.3 | *48.8* | 192.4 | *53.3* | 19.1 |
| Overseas residents | 48.4 | *13.6* | 57.2 | *15.8* | 8.8 |
| Individuals and private trusts | 68.6 | *19.3* | 74.4 | *20.6* | 5.8 |
| Other (including residual) | 30.2 | *8.5* | 15.0 | *4.2* | -15.2 |
| **Total market holdings** | **355.0** | ***100.0*** | **361.2** | ***100.0*** | **6.3** |
| Official holdings | 49.3 | | 45.6 | | -3.7 |
| **Total sterling debt** | **404.3** | | **406.8** | | **2.5** |

Note: Figures shown may not sum to totals because of rounding.

(a) See Table G for a more detailed analysis. Data for 1970–98 are published in the *Bank of England Statistical Abstract 1998*, Part 1, Table 13.

### Table G
### Estimated distribution of the sterling national debt: 31 March 1998

£ billions, nominal value (a) (b)

| | Total holdings of sterling debt | British government stocks (c) *Total* | Up to 5 years to maturity | Over 5 years and up to 15 years | Over 15 years and undated | Treasury bills | Non-marketable debt |
|---|---|---|---|---|---|---|---|
| **Market holdings** | | | | | | | |
| Other public sector: | | | | | | | |
| Local authorities | 0.2 | *0.2* | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Public corporation | 7.0 | *2.1* | 0.9 | 1.1 | 0.1 | 0.0 | 4.8 |
| **Total public sector** | **7.1** | ***2.3*** | **0.9** | **1.2** | **0.2** | **0.0** | **4.8** |
| Banks | 13.9 | *13.5* | 7.9 | 4.9 | 0.7 | 0.3 | 0.1 |
| Building societies | 1.0 | *1.0* | 0.8 | 0.2 | 0.0 | 0.0 | 0.0 |
| Institutional investors: | | | | | | | |
| Insurance companies | 114.2 | *114.1* | 21.1 | 50.6 | 42.4 | 0.1 | 0.0 |
| Pension funds | 73.9 | *73.6* | 13.3 | 40.6 | 19.8 | 0.3 | 0.0 |
| Investment and unit trusts | 4.3 | *4.3* | 1.4 | 2.0 | 0.9 | 0.0 | 0.0 |
| **Total institutional investors** | **192.4** | ***192.0*** | **35.8** | **93.2** | **63.0** | **0.4** | **0.0** |
| Overseas holders: | | | | | | | |
| International organisations | 5.2 | *0.1* | 0.0 | 0.0 | 0.0 | 0.0 | 5.2 |
| Central monetary institutions | 12.6 | *11.9* | 7.4 | 3.3 | 1.2 | 0.7 | 0.0 |
| Other | 39.4 | *38.9* | 11.7 | 17.1 | 10.0 | 0.5 | 0.0 |
| **Total overseas holders** | **57.2** | ***50.9*** | **19.1** | **20.5** | **11.3** | **1.2** | **5.2** |
| Other holders: | | | | | | | |
| Individuals and private trusts | 74.4 | *15.2* | 4.9 | 7.7 | 2.6 | 0.0 | 59.2 |
| Industrial and commercial companies | 1.2 | *0.7* | 0.3 | 0.3 | 0.2 | 0.1 | 0.4 |
| Other (residual) | 13.8 | *13.8* | 13.5 | 0.1 | 0.3 | 0.0 | 0.0 |
| **Total market holdings** | **361.2** | ***289.4*** | **83.1** | **128.0** | **78.3** | **2.1** | **69.6** |
| Official holdings (d) | 45.6 | *7.9* | 2.9 | 3.8 | 1.2 | 3.6 | 34.1 |
| **Total sterling national debt** | **406.8** | ***297.4*** | **86.1** | **131.8** | **79.5** | **5.7** | **103.8** |

Note: Figures shown may not sum to totals because of rounding.

(a) For explanations, see the notes to similar tables on pages 439–40 of the November 1992 *Quarterly Bulletin*.
(b) Some of these estimates are based on reported market values; others rely on broad nominal/market value ratios.
(c) A sectoral analysis of gilt holdings from 1970–98 is published in the *Bank of England Statistical Abstract 1998*, Part 1, Table 13.4.
(d) Official holders include the Issue and Banking Departments of the Bank of England.

(1) These tables are compiled from a variety of sources, though the majority of the data are taken from the ONS' quarterly and annual survey data of various financial and non-financial companies.

short-dated gilts (less than five years' residual maturity) accounted for 59% of their total gilt holdings, and in 1996/97 they accounted for 53%. Banks' holdings of Treasury bills decreased sharply again this year, from £2.7 billion in 1996/97 to £0.3 billion in 1997/98. This reflects a general fall in market holdings of Treasury bills. This fall also meant that overseas residents had the largest share of market holdings of sterling Treasury bills at end March 1998, with a 57% market share. (In 1996/97, banks were the largest holders, with 54% of the total.)

Individuals' and private trusts' holdings of sterling national debt instruments increased during 1997/98 by almost £6 billion, to £74.4 billion. The majority of holdings were again in National Savings products. Individuals' and private trusts' holdings of gilts increased by £3.6 billion, with the emphasis on short to medium-term holdings.

Total sterling national debt held by overseas residents increased during the year by £9 billion, almost entirely because of their increased investment in gilts. As in 1996/97, their investment was concentrated in the short to medium-term end of the market. This increase means that overseas residents' holdings of gilts accounted for just over 17.5% of total market holdings of gilts, an increase of more than $2^1/_2$ percentage points from 1996/97. As explained earlier, this may be because of the perception among overseas investors of the United Kingdom as a 'safe haven' from both EMU uncertainty and, later in the year, turbulence in Far Eastern markets.

# European debt measures and the transition to the European System of Accounting

The European Union requires each European Member State to submit data on its debt and financial deficit twice a year under the 'Excessive Deficit Procedure'. These measures give an indication of each country's current budgetary situation; they form part of the overall package of convergence criteria against which each Member State's readiness to join Economic and Monetary Union (EMU) is assessed.

The Council of the European Union completed its analysis of which countries could move to the third stage of economic and monetary union in the first wave by looking at end-1997 data; Member States submitted their data to the European Commission in February 1998. In March 1998, both the European Commission and the European Monetary Institute published reports analysing the progress that each Member State had made towards convergence. The Commission also laid down its recommendations to the Council on which Member States had adequately fulfilled the convergence criteria.

## European debt and deficit data for the United Kingdom

For 1997, the United Kingdom submitted levels for general government debt and deficit(1) of 53.4% and 1.9% of GDP respectively, both comfortably within the reference values of 60% and 3% identified in a protocol(2) to the Maastricht Treaty.(3) The latest ONS Maastricht press release in August 1998 revised these levels to 53.5% and 2.1% respectively, and to 51.7% and 0.7% for 1997/98. The fall in the deficit for 1997/98 continued the steep downward trend seen since 1994; between 1993/94 and 1997/98, the deficit as a percentage of GDP fell by a total of 7 percentage points. Recent government forecasts estimate that the deficit will be in balance in March 1999, followed by a steady surplus of between 0.1% and 0.3% of GDP in the medium term.

The 1.2 percentage points fall in debt during 1997, from 54.7%, was the largest fall since this measure was first compiled in 1991. Within this, 27% of the debt was classified as short term (less than one year to maturity), including debt linked to short-term interest rates. This short-term level was higher than that of almost two thirds of the other Member States. However, the UK level was distorted by its unique statistical compilation of debt, which included notes in circulation (treated as a debt of central banks in all other EU countries) and medium-term National Savings instruments with a residual maturity of less than one year. In 1997, these items amounted to around 17% of general government consolidated gross debt; this suggests that actually only some 10% of UK debt was sensitive to short-term interest rate changes. This treatment has changed since the United Kingdom adopted the revised European accounting standards, as outlined below.

Although the decision on which Member States will be part of EMU in the first wave has now been taken, future European debt and deficit data remain vitally important; all Member States will continue to report biannually under the Excessive Deficit Procedure. As well as providing further convergence data on those Member States that have not joined EMU in the first wave, they also form the basis on which adherence to the Stability and Growth Pact will be measured.

## European System of Accounts

All Member States compile data for the Excessive Deficit Procedure according to a common accounting framework: the European System of National and Regional Accounts, second edition, 1979 (ESA79). Member States are gradually bringing their national accounts into line with a later edition of this framework, ESA95. (Data for the Excessive Deficit Procedure will remain on an ESA79 basis.) The Office for National Statistics (ONS) published UK National Accounts on an ESA95 basis for the first time in September this year.

## The transition from UK National Accounts to ESA95

This transition from UK National Accounts to ESA95 affects how UK debt is compiled. Under ESA95, the ONS introduced a central bank sector, outside central government, into the National Accounts. This means that the sector classification of the Bank of England has changed. The central bank sector in the United Kingdom is now as follows:

- *The Bank of England Issue Department* has the primary function of issuing banknotes, and holds assets to back the note issue.

- *The Bank of England Banking Department* reflects the rest of the Bank's business, eg banker to the government, other UK banks and overseas central banks.

This central bank definition does not include the official reserves held in the Exchange Equalisation Account at

(1) The harmonised measures used for these monitoring purposes are the General Government Consolidated Gross Debt and the General Government Financial Deficit. Both these and the GDP measure are compiled according to the European System of Regional and National Accounts, 2nd edition, 1979.
(2) Protocol on the Excessive Deficit Procedure.
(3) Article 104c of the Treaty on European Union.

the Bank of England; these remain in the central government sector.

Prior to the implementation of ESA95, the Issue Department was classified in the National Accounts within the central government sector; notes issued by the Issue Department were recorded in central government debt as a liability of central government. The Banking Department was classified in the banking sector, and so as part of the market. However, Banking Department's holdings of national debt instruments were classified as official holdings, and reflected in central government debt through net indebtedness to the Bank of England Banking Department.

Both the Issue and Banking Departments of the Bank of England are now classified in the central bank sector, a sub-sector of the monetary financial institutions sector. As the Issue Department is now treated as part of the market, liabilities of the Issue Department—notes in circulation—are no longer counted as components of central government gross debt. Similarly, Issue Department's holdings of central government debt instruments are now treated as market holdings of debt. The Banking Department remains as part of the market. For simplicity, both the Banking and Issue Departments' holdings of national debt instruments are now classified as market holdings of national debt. The concept of net indebtedness to the Bank of England Banking Department therefore disappears.

Overall, these changes have led to a downward movement in gross debt measures, because Issue Department's assets include non-government debt instruments. The effect on net debt measures is broadly neutral, since decreases in gross debt have been offset by the reduction in central government's liquid assets. The table below illustrates these changes to central government gross debt in more detail.

**Central government gross debt at end March 1998**

£ millions

| | Before introduction of central bank sector | | | *After introduction of central bank sector* | |
|---|---|---|---|---|---|
| | Market holdings of national debt (excludes holdings of the Issue and Banking Departments of the Bank of England). | 372,621 | | Market holdings of national debt (*includes* holdings of the Issue and Banking Departments of the Bank of England). | *387,044* |
| + | Net indebtedness to Bank of England Banking Department | 1,065 | | *Banking Department's holdings are included in market holdings of national debt* | *0* |
| + | Savings banks | 1,399 | + | Savings banks | 1,399 |
| + | Accrued interest and indexing on National Savings | 2,932 | + | Accrued interest and indexing on National Savings | 2,932 |
| + | Notes and coin in circulation | 24,768 | + | *Coin in circulation* | *2,472* |
| + | Other | 496 | + | Other | 496 |
| = | **Total central government gross debt** | **403,281** | = | ***Total central government gross debt*** | ***394,343*** |

# Annex
# Notes and definitions[1]

## The national debt

The *national debt* represents the total liabilities of the National Loans Fund (NLF). *Market holdings* include holdings by local authorities and public corporations, but exclude holdings by other central government bodies (principally the funds of the National Investment and Loans Office, the Exchange Equalisation Account, government departments and the Issue Department of the Bank of England) and by the Banking Department of the Bank of England (together called 'official holders').

The national debt comprises:

*British Government Securities (BGS):* Sterling, marketable, interest-bearing securities issued by the UK Government. The nominal value of index-linked gilt-edged stocks is increased by the amount of accrued capital uplift. The whole nominal value of all issued stocks is recorded, even where outstanding instalments are due from market holders (where this is the case, the outstanding instalments are recorded as holdings of liquid assets). This article uses the same definition of short and medium-dated gilts as the National Loans Fund accounts (under five years and five-ten years, respectively). In the financing requirement, however, and in general market usage, short-dated gilts are defined as three-seven years, and medium-dated as seven-fifteen years.

*Treasury bills:* Short-term instruments, generally with a maturity of 91 days. The bills, which can be traded on the secondary market, are sold at a discount and redeemed at par. The amount of discount depends on the price accepted by the Bank at the tender.

*National Savings securities:* Non-marketable debt, comprising a variety of products available to the public. The national debt excludes deposits in ordinary accounts of the National Savings Bank, as well as accrued interest and indexing on National Savings products.

*IMF interest-free notes:* Non-marketable non interest bearing Treasury notes, issued by the Bank on the authority of warrants from HM Treasury. The warrants authorise various sums to be placed at the disposal of the International Monetary Fund (IMF) as a reciprocal facility for loans received by the United Kingdom. All transactions are initiated by the IMF.

*Certificates of tax deposit:* Non-marketable debt available to taxpayers generally, which may be used in payment of most taxes.

*Other sterling debt:* Includes *ways and means advances* (the method by which government departments etc lend overnight to the NLF), *NILO stocks* (non-marketable stocks, issued directly to the National Debt Commissioners, whose terms reflect those on existing BGS), and the *temporary deposit facility* (deposits by central government bodies and public corporations with the NLF).

*Foreign currency debt:* Converted to sterling at end-period middle-market closing rates of exchange, and comprising *foreign currency bonds* (denominated in US$, DM and Ecu), *Ecu Treasury notes and bills, long-term post-war loans* from the governments of the United States and Canada and *assigned debt* (debt originally drawn under the Exchange Cover Scheme, and transferred to the government following privatisations of public corporations).

## Central government gross debt

This includes *market holdings of national debt*, and also any market holdings of other central government gross debt, which comprises:

*Net indebtedness to the Bank of England Banking Department*: The Banking Department's holdings of central government debt (principally, sterling Treasury bills and British Government Securities) less its deposit liabilities to the National Loans Fund and Paymaster General. Where this is a net claim, it is recorded in the accounts as a liquid asset (and so does not contribute towards gross debt).

*National Savings ordinary account, accrued interest and indexing on National Savings*: Excluded from market holdings of national debt.

*Notes and coin in circulation:* Excludes holdings by the Banking Department of the Bank of England, which are subsumed within the figure for 'Net indebtedness'.

*Other central government gross debt:* Comprises market holdings of *Northern Ireland government debt* (principally, Ulster Savings Certificates), *bank and building society lending* and the *balances of certain public corporations with the Paymaster General*.

## Public sector consolidated gross debt

This includes *central government gross debt*, as well as *all local authority and public corporation debt*. All holdings of each other's debt by these three parts of the public sector are netted off to produce a consolidated total.

(1) These notes and definitions (along with the data in this article) are in line with the method used for compiling the UK National Accounts prior to September 1998. The accounting standards used now (ESA95) have changed some of the definitions. These are discussed in the box on pages 334–35.

The local authorities sector comprises all bodies required to make returns under the various local authorities acts. Public corporations are trading bodies (including nationalised industries), which have a substantial degree of independence from the public authority that created them, including the power to borrow and maintain reserves. For further details, see Chapter 4 of the *Financial Statistics Explanatory Handbook,* published by the Office for National Statistics.

### Public sector net debt

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

### General government consolidated gross debt (GGCGD)

This is central government and local authorities' gross debt, with holdings of each other's debt netted off to produce a consolidated total. The Maastricht measure of GGCGD is calculated on the European System of National and Regional Accounts (ESA) basis, which differs slightly from the UK National Accounts definition. In accordance with the ESA, IMF interest-free notes are excluded from the calculation of general government debt, but as a liability of the National Loans Fund, they are included in the other measures of government debt used in this article. There are other miscellaneous instruments that are included in government debt on an ESA basis, but excluded on a domestic basis.