

Public sector debt: end-March 2002

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Public sector net debt (PSND)⁽¹⁾ stood at £310.0 billion as at end-March 2002, £4.1 billion higher than at end-March 2001. This was equivalent to 30.4% of GDP, some 0.9 percentage points lower than at end-March 2001. This annual article examines the structure of the financial liabilities of the UK public sector.

Total stock of public sector debt outstanding

PSND stood at £310.0 billion at end-March 2002, a rise of £4.1 billion on a year earlier. This was the first end-financial year rise since 1998. Although public sector consolidated gross debt fell during the 2001/02 financial year, this fall was more than offset by a lower level of public sector liquid assets (see Table A). This was largely due to a lower level of liquid assets held by the Debt Management Office. The key factor here was the rundown in short-term assets built up in 2000/01, following investment of the payments made by telecom operators to use the spectrum for third-generation mobile phones. In addition, there were redemptions of a number of foreign currency debt instruments.

PSND as a percentage of GDP fell to 30.4% at end-March 2002, compared with 31.3% the previous year. The fall continues the trend seen since 1998 (see Chart 1). And it is at a historically low level as a percentage of GDP (see Chart 2). Over the past 20 years the debt:GDP ratio has been more in line with that in the years before 1914, than at any time in between.

Analysis of public sector debt components

Central government gross debt (CGGD) accounts for almost all of public sector debt, despite significant levels of local government and public corporations' gross debt (£52.2 billion and £26.7 billion respectively at end-March 2002, see Table A). Much of local government and public corporations' debt is borrowed from central government and therefore nets out from the

public sector consolidated gross debt total. And although more than £4 billion of local government debt is held outside central government, a similar amount of central government debt is held by public corporations.

Table A
Public sector net debt

£ millions, nominal values (a); percentages or percentage points (pp) in italics

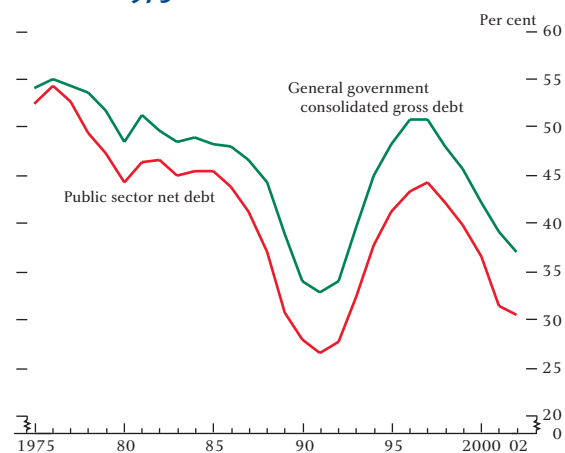
31 March (b)	2000	2001	2002	Change 2001/02
Central government gross debt	387,688	376,719	372,856	-3,863
<i>as a percentage of GDP</i>	<i>41.2</i>	<i>38.5</i>	<i>36.5</i>	<i>-2.0pp</i>
Local government				
Total gross debt	53,437	52,333	52,165	-168
<i>less holdings of other public sector debt:</i>				
Central government holdings of local government debt	46,771	48,026	47,762	-264
Local government holdings of central government debt	254	31	29	-2
General government consolidated gross debt	394,100	380,995	377,230	-3,765
<i>as a percentage of GDP</i>	<i>41.9</i>	<i>39.0</i>	<i>36.9</i>	<i>-2.1pp</i>
Public corporations				
Total gross debt	26,812	27,740	26,668	-1,072
<i>less holdings of other public sector debt:</i>				
Central government holdings of public corporation debt	26,453	27,181	26,335	-846
Local government holdings of public corporation debt	1	124	122	-2
Public corporation holdings of central government debt	6,301	6,363	5,096	-1,267
Public corporation holdings of local government debt	812	106	65	-41
Public sector consolidated gross debt	387,345	374,961	372,280	-2,681
<i>as a percentage of GDP</i>	<i>41.2</i>	<i>38.3</i>	<i>36.4</i>	<i>-1.9pp</i>
Total public sector liquid assets (Table D)	47,228	69,014	62,240	-6,774
<i>as a percentage of GDP</i>	<i>5.0</i>	<i>7.1</i>	<i>6.1</i>	<i>-1.0pp</i>
Public sector net debt	340,117	305,947	310,040	4,093
<i>as a percentage of GDP</i>	<i>36.2</i>	<i>31.3</i>	<i>30.4</i>	<i>-0.9pp</i>

(a) Figures shown may not sum to totals because of rounding.

(b) Data from 1977–2002 are published in the *Bank of England Statistical Abstract 2002*, Part 1, Table 15.1.

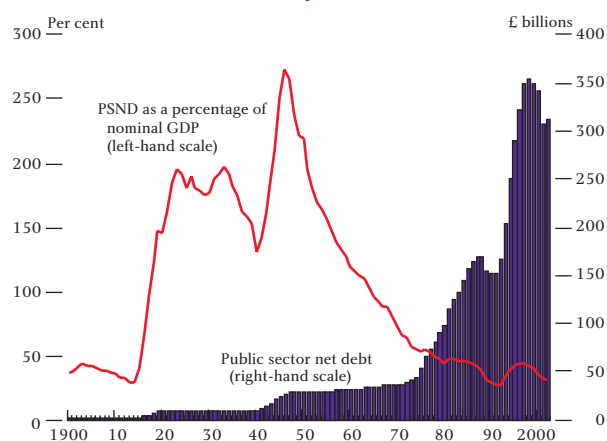
(1) Net debt is defined as gross financial liabilities at nominal value minus liquid financial assets. Marketable debt instruments are recorded at nominal value for measurement purposes. All figures are given at nominal value in this article, except where current market value is reported.

Chart 1
Measures of public sector debt as a percentage of GDP: 1975–2002^(a)



(a) At end-March each year.

Chart 2
Public sector net debt: 1900–2002



British government stocks (gilts)

Gilts are the main component of CGGD, accounting for 73% of the total at end-March 2002 (see Table B and Chart 3), slightly less than in the previous financial year. The outstanding stock of conventional gilts in market hands was over £3 billion lower at end-March 2002. The stock of index-linked gilts continued to rise, albeit at a slower rate than in recent years. Including capital uplift,⁽¹⁾ the total held outside central government rose by £0.1 billion to £70.4 billion at end-March 2002.

The average remaining life of dated gilts outstanding was 11.0 years at end-March 2002, the same as the previous year (see Table C). The modified duration⁽²⁾ figure for all stocks was 7.5 years at end-March 2002 (a fall of 0.1 from a year earlier).

Table B
Central government gross debt

£ millions, nominal values; percentage of total in italics

End-March (a)	2001		2002	
British Government Stocks	274,601	72.9	271,250	72.6
of which: <i>index-linked</i>	70,316	18.7	70,417	18.8
<i>conventional</i>	204,285	54.2	200,833	53.8
Sterling Treasury bills	3,521	0.9	9,700	2.6
National Savings and Investments	62,161	16.5	62,298	16.7
Certificates of tax deposits	491	0.1	478	0.1
Other sterling debt	28,244	7.5	26,297	7.0
Central government sterling gross debt	369,018	98.0	370,023	99.0
North American government loans	286	0.1	239	0.1
US\$ floating-rate notes	1,407	0.4	–	0.0
US\$ bonds	3,517	0.9	2,107	0.6
Euro Treasury notes	2,486	0.7	1,225	0.3
Debt assigned to the government	5	0.0	4	0.0
Central government foreign currency gross debt	7,701	2.0	3,575	1.0
Total central government gross debt	376,719	100.0	373,598	100.0

(a) Data from 1977–2002 are published in the *Bank of England Statistical Abstract 2002*, Part 1, Table 15.2.

(b) Sterling valuation rates:

31 March 2001: £1 = US\$ 1.4217, Can\$ 2.2385, €1.6090

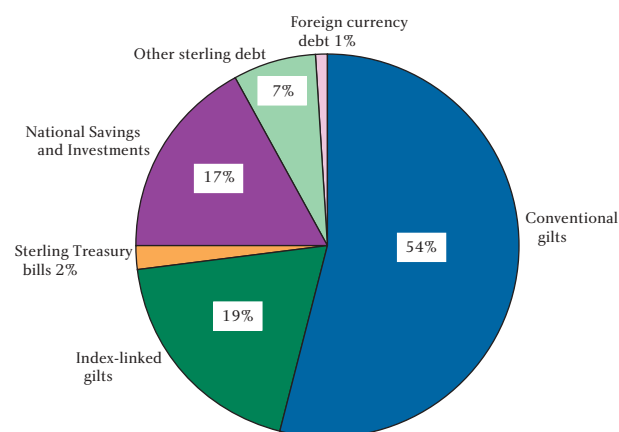
31 March 2002: £1 = US\$ 1.4240, Can\$ 2.2720, €1.6320

National Savings and Investments

The outstanding balance of National Savings and Investments' instruments was £62.3 billion at end-March 2002, around £0.1 billion higher than a year earlier. The balance is projected to fall during the current financial year to £61.1 billion at end-March 2003. This largely reflects the high level of maturities on the fixed-rate products.

National Savings and Investments' instruments accounted for 17% of CGGD at end-March 2002 (see Chart 3). Over half of this was concentrated in just two

Chart 3
Composition of central government gross debt by instrument: end-March 2002



(1) The nominal value has been raised by the accrued inflation-linked valuation adjustment.

(2) Modified duration is a measure of the price sensitivity of a bond with respect to small changes in yield.

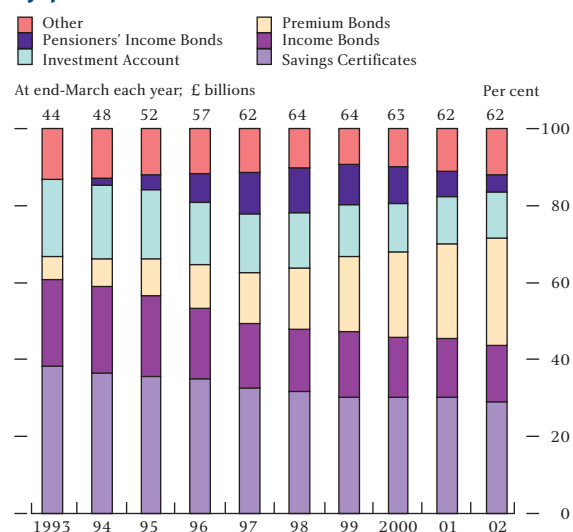
Table C
Average remaining life of gilts outstanding

Years to maturity at end-period

	Mar. 2001	Dec. 2001	Mar. 2002
Average length until redemption			
All stocks	11.0	11.3	11.0
Conventional stocks only	10.2	10.6	10.2
Index-linked stocks only	14.0	13.5	13.4
Modified duration			
All stocks	7.6	7.8	7.5
Conventional stocks only	6.6	6.9	6.6
Index-linked stocks only	11.2	10.7	10.6

Source: Debt Management Office.

Chart 4
Composition of National Savings and Investments by product



products: Savings Certificates (29%) and Premium Bonds (28%). Sales of Premium Bonds recorded a ninth consecutive annual increase. As a result, the share of other products fell during 2001/02, particularly Pensioners' Guaranteed Income Bonds, Savings Certificates and Income Bonds.

Sterling Treasury bills

Sterling Treasury bills accounted for 2% of CGGD at end-March 2002. At £9.7 billion, this was £6.2 billion higher than the previous year. That was consistent with the DMO's intention that sterling Treasury bills would play an increasingly important part in its Exchequer cash management operations.⁽¹⁾

Foreign currency liabilities and assets

At end-March 2002, the sterling value of foreign currency denominated central government debt was £3.6 billion. This was £4.1 billion lower than a year earlier. Redemptions of two US dollar-denominated

instruments, along with one euro-denominated Treasury note were almost entirely responsible for this fall.

The government's foreign currency reserves are an important element of the public sector's liquid assets (see Table D). Reserves (at market value) totalled £28.1 billion at end-March 2002, £2.4 billion lower than a year earlier. This largely reflected the inclusion of some of the 3G spectrum auction receipts in 2001 that were subsequently used to finance foreign currency debt redemptions (see Table E). Of the £28.1 billion, £11.4 billion was held in euros; £7.0 billion in US dollars; and £3.2 billion in yen. The sterling equivalent of the gold component of the reserves was £2.1 billion.

Table D
Public sector liquid assets

£ millions, nominal values

31 March (a)	2000	2001	2002	Change 2001/02
Central government				
Official reserves	21,498	30,423	28,055	-2,368
Other short-term assets	6,635	18,460	13,580	-4,880
Total central government liquid assets	28,133	48,883	41,635	-7,248
Local government				
Bank deposits	7,434	7,443	7,159	-284
Building society deposits	4,324	4,071	4,405	334
Other short-term assets	4,754	5,772	5,966	194
Total local government liquid assets	16,512	17,286	17,530	244
Public corporations				
Bank and building society deposits	1,455	1,633	1,895	262
Other short-term assets	1,128	1,212	1,180	-32
Total public corporation liquid assets	2,583	2,845	3,075	230
Total public sector liquid assets	47,228	69,014	62,240	-6,774

(a) Data from 1977–2002 are published in the *Bank of England Statistical Abstract 2002*, Part 1, Table 15.1.

Government balance sheet

The government's debt measured at nominal value closely reflects its financial liabilities, but there was a gap of some £20 billion at end-March 2002 between debt at market and nominal prices. The balance sheet includes debt at market prices. See Table E, which also provides a balance sheet extract of total government assets.⁽²⁾ The general government (ie central and local government) is a net borrower in financial balance sheet terms, with total financial assets falling short of total liabilities by some £300 billion at end-December 2001. However, taking into account the high current market value of its non-financial assets (including buildings and infrastructure), the 'net worth' of the general

(1) Further detail is given in the DMO 'Exchequer cash management in the UK: a DMO handbook' of 20 February 2002. Available at www.dmo.gov.uk/cash/public/cmbook200202.pdf

(2) Further detail is given in *Blue Book 2002*, Office for National Statistics, June 2002.

Table E
General government balance sheet

£ billions

31 December	1999	2000	2001
Non-financial assets			
Tangible assets			
Residential buildings (a)	1.6	1.4	1.2
Agricultural assets	2.0	2.1	2.1
Commercial, industrial and other buildings	112.3	117.6	123.9
Civil engineering works	197.2	217.1	245.0
Plant and machinery	35.7	37.8	34.4
Vehicles, including ships and aircraft	3.4	3.3	5.7
Stocks and work in progress	0.3	0.2	0.1
Spectrum (b)	n.a.	22.2	20.9
Total tangible assets	352.5	401.6	433.2
Total intangible assets	1.0	1.1	1.1
Total non-financial assets	353.4	402.7	434.3
Total financial assets	175.7	210.1	201.5
Total assets	529.1	612.8	635.8
Total liabilities	505.6	529.5	502.2
Total net worth (c)	23.5	83.3	133.6

n.a. = not available.

Source: ONS, *Blue Book*.

- (a) Council housing has now been transferred from General Government to the Public non-financial corporations sector.
 (b) Following the grant of licences to mobile phone companies, the 3G spectrum is included as an asset for the first time in 2000.
 (c) Net worth was previously defined as net wealth.

government sector was almost £134 billion at end-December 2001.

The Office for National Statistics (ONS) include the 3G spectrum as a general government non-financial asset, reflecting the income accruing to the Government from allowing the mobile phone companies to use it.

HM Treasury publishes a more comprehensive asset breakdown in the National Asset Register (NAR).⁽¹⁾ This is a list of all UK central government and public corporations' fixed assets and their valuations. The NAR does not include local government fixed assets, which belong to them rather than the central government. Included within the NAR are the following:

- all tangible fixed assets (including military and heritage assets);
- intangible fixed assets (such as intellectual property rights); and
- fixed asset investments (such as share holdings).

In deciding which fixed assets to include, government departments have to follow standard accounting rules

for the recognition of assets. Contingent assets and liabilities are not included, eg pension commitments to public sector employees.

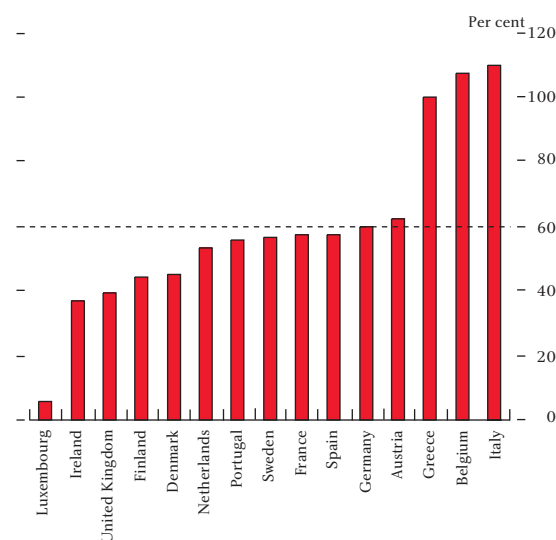
Comparisons with other EU countries

The Maastricht Treaty requires the United Kingdom, along with other EU countries, to report government finance statistics to the European Commission. These statistics are used by the Commission to monitor the sustainability (or otherwise) of fiscal positions.

The Stability and Growth Pact includes restrictions on general government consolidated gross debt, as a percentage of nominal GDP. GDP and the tax base of the economy are closely linked, and affect the government's ability to service its debt. If the government can maintain its current spending and taxation plans indefinitely, while servicing its debt, its fiscal position is considered sustainable.

The latest Maastricht figures submitted to the Commission showed that UK gross government debt accounted for 39.0% of GDP at end-September 2001 (see Chart 5). This is the third lowest in the EU countries and well below the Maastricht reference value of 60%. Debt ratios reported by Greece, Belgium and Italy remained well above the 60% reference value in 2001, although debt:GDP ratios have fallen in most EU countries in recent years.

Chart 5
General government consolidated gross debt: end-September 2001



(1) Available at www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/National_Asset_Register/pss_nar_2001index.cfm

Annex Notes and definitions

Central government gross debt

Comprises:

British government stocks (BGS): sterling, marketable, interest-bearing securities issued by the British government. The nominal value of index-linked securities is increased by the amount of accrued capital uplift. The whole nominal value of all issued securities is recorded, even where outstanding instalments are due from holders. Where this is the case, the outstanding instalments are recorded as holdings of liquid assets.

Sterling Treasury bills: short-term instruments generally issued with either a one-month, three-month or six-month maturity. 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 Debt Management Office at the tender.

National Savings and Investments products: non-marketable debt comprising a variety of products available to the public.

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

Other sterling debt: includes the following instruments. *Coin* in circulation; *Ways and Means advances* (short-term lending by the Bank of England to the Government). Also includes *NILO (National Investment and Loans Office) stocks*; these are non-marketable stocks, issued directly to the National Debt Commissioners, whose terms reflect those on existing BGS. The *temporary deposit facility* (deposits by central government bodies and public corporations with the National Loans Fund); also includes local government deposits with the Debt Management Office. Deposits with the National Debt Commissioners of *funds lodged in courts*. Market holdings of *Northern Ireland government debt* (mainly Ulster Savings Certificates). *Bank and building society lending, balances of certain public corporations with the Paymaster General, funds held on behalf of the European Commission*. Other

third-party deposits (from the Insolvency Service), and the *net liabilities, guaranteed by government, of the Guaranteed Export Finance Company (GEFCO)*, following the reclassification of its transactions to central government in 1987.

Foreign currency debt: converted to sterling at end-period middle-market closing rates of exchange. Comprises *foreign currency bonds* (denominated in US dollars), *euro notes, 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).

Public sector consolidated gross debt

This includes *central government gross debt*, as well as all *local government and public corporations' 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 local government sector comprises all bodies required to make returns under the various local government acts. Public corporations are trading bodies 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 the *Financial Statistics Explanatory Handbook*, published by the Office for National Statistics.

Public sector net debt

Public sector net debt is derived from the consolidated debt of the public sector by deducting the public sector's holdings of liquid (short-term) assets.

General government consolidated gross debt ('Maastricht debt')

Central government and local government gross debt, with holdings of each other's debt netted out to produce a consolidated total.