

The net debt of the public sector

The annual *Bulletin* articles on the distribution of the national debt have shown an increase in market holdings of the debt, in relation to gross domestic product, over the last ten years. This is partly because the nominal rate of growth of GDP has slowed considerably as inflation has fallen.⁽¹⁾ By contrast, there has been a fall in relation to GDP if one takes the consolidated debt of the public sector as a whole; the fall is slightly larger if one takes the net debt of the public sector in which its liquid assets are netted off its consolidated debt. This note briefly explains the principal reasons for the divergence of trend.

Market holdings of the national debt⁽²⁾ rose, as a proportion of the gross domestic product,⁽³⁾ from 34.6% to 42.9% over the ten years to 31 March 1985 (see line A on the chart). The rise was particularly marked after 31 March 1980 (when the proportion was 35.0%) although the public sector borrowing requirement (PSBR) has averaged 3.6% of GDP since then, compared with 5.6% over the previous five years.

There are two main factors accounting for the apparent discrepancy between the trends in public sector borrowing and the national debt. The first point is that the national debt consists of the liabilities of the National Loans Fund, which is responsible for raising most of the central government's debt. Within the public sector the central government has assumed a greater share of the debt raised on the markets. Thus over the five years to 31 March 1985 the central government borrowing requirement has actually exceeded the whole PSBR by 11%, whereas in the previous five years it accounted for only 82% of it. This is partly because the combined borrowing requirements of local authorities and public corporations were actually 39% lower in the more recent period than in the previous five years (whereas the central government's borrowing on own account was 67%

Gross domestic product (GDP)

In this note, GDP is valued at current market prices (not factor cost as in previous *Bulletin* articles). The *average* measure is now used (that is the average of estimates from expenditure, income and output sources). Previously the *Bulletin* articles and CSO Tables used only the expenditure measures. In Table A GDP is taken for the same period—the financial year—as the borrowing requirement figures. In Table B the end-financial-year figures for debt and assets are measured as a percentage of the GDP for the previous two and subsequent two quarters (seasonally adjusted). This also is a change from previous practice.

Table A
Composition of the PSBR

£ millions; percentages in italics

	1975/76– 1979/80	1980/81– 1984/85	Changes between periods
Central government borrowing requirement on own account	22,474	37,511	+66.9
Local authorities borrowing requirement (LABR)	10,077	5,574	-44.7
Public corporations borrowing requirement (PCBR)	10,632	6,977	-34.4
Public sector borrowing requirement (PSBR)	43,183	50,062	+15.9

The LABR and PCBR can be divided into direct borrowing from the central government (which is part of the total CGBR) and net borrowing from the market (ie their other borrowing, less net investment in the debt of the rest of the public sector, and in bank deposits or other short-term assets—sometimes called their contribution to the PSBR):

	1975/76– 1979/80	1980/81– 1984/85		
CGBR:				
on own account	22,474	52.1	37,511	74.9
for on-lending to local authorities	4,022	9.3	9,642	19.3
for on-lending to public corporations	8,777	20.3	8,318	16.6
CGBR	35,273	81.7	55,471	110.8
Local authorities' net borrowing from markets	6,055	14.0	- 4,068	- 8.1
Public corporations' net borrowing from markets	1,855	4.3	- 1,341	- 2.7
PSBR	43,183	100.0	50,062	100.0
<i>As percentage of GDP:</i>				
CGBR (on own account)	2.9		2.7	
CGBR	4.6		4.0	
PSBR	5.6		3.6	

higher) and partly because their borrowing from the central government has exceeded their total needs, and they have made net repayments on their debt in market hands. Their borrowing has therefore been reflected in the CGBR, and in market holdings of the national debt (see Table A).

The Central Statistical Office publishes each February figures for market holdings of all public sector debt at the end of each financial year.⁽⁴⁾ The CSO first of all adds to market holdings of the national debt certain other central government liabilities—for example notes and coin in circulation and the accrued interest and indexing on national savings—to form a complete record of central

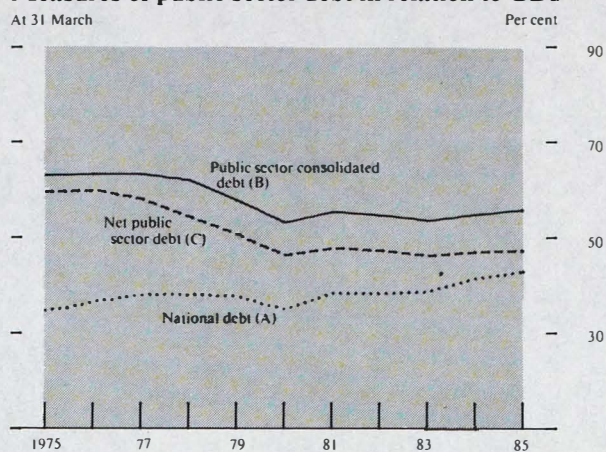
(1) For example, the annual growth of nominal GDP averaged 17.5% in 1976–80 and only 8.9% in 1981–85.

(2) ie the liabilities of the National Loans Fund, excluding those held by other parts of the central government or by the Bank of England Banking Department.

(3) The measure of GDP used in this note has been changed since the article on the distribution of the national debt in the December 1985 *Bulletin*—see box above.

(4) See Table S1 in *Financial Statistics* February 1986.

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.

government debt. (These items have increased rather more slowly than market holdings of the national debt.) Then market holdings of local authority and public corporation debt are added in. All holdings of each other's debt by these three parts of the public sector are netted out to produce a consolidated total. The figures are shown in Table B. The relationship of the consolidated public sector debt to GDP is shown as line B on the chart; although of course it is higher than that of the national debt alone, it fell quite sharply from 1978 to 1980, and has risen only moderately since.

The second reason for the discrepancy arises from the growth of public sector liquid assets, the increase in which is deducted from the growth in liabilities in the calculation of the PSBR. They have not, hitherto, been netted off from the levels of debt in UK official statistics. The

consolidated public sector debt, as in Table B, rose by 88% in the five years from 31 March 1975 and by a further 61% in the next five years. The liquid assets grew faster, by 346% and 91%. In the first period, the dominant feature was the increase in the gold and foreign currency reserves: there were some substantial inflows, particularly in 1977/78, but some of the increase is attributable to a change in the official methods of valuation (see the notes to Table C). In the second period, the principal increases were in assets held directly or indirectly as a result of money-market assistance.

There was a very sharp buildup in the Issue Department's holding of commercial bills (particularly in 1981/82), and also at various times the department offered purchase and resale agreements to the banks which temporarily put in its hands large amounts of British government stocks,⁽¹⁾ and of promissory notes relating to export credit and domestic shipbuilding. In 1984/85 a further asset is shown; money-market assistance was also extended on a large scale through the Banking Department of the Bank of England, which was financed substantially by a very large deposit from the National Loans Fund. This turned the usual net indebtedness of the central government to the Banking Department (included among the central government liabilities outside the national debt) into a substantial net claim by the government on the department.

Details of such assets (including some others treated similarly in the calculation of the PSBR, such as public sector bank deposits) are given in Table C.⁽²⁾ Line C on the chart shows the sharper decline in the ratio to GDP of market holdings of public sector debt, net of these assets.

(1) See the notes to Table C.

(2) Figures for money-market assistance cannot be obtained exactly from this table, mainly because the Banking Department has other sources and uses of funds than the NLF deposit and money-market assistance. In addition the Issue Department may provide assistance by purchasing local authority bills (or placing deposits), which is netted off here. Banking and Issue Department transactions in commercial bills etc are discussed further in the note on page 81.

Table B
Public sector debt

£ millions, nominal values; percentages in italics

31 March	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Increases		
												1975-80	1980-85	
Central government														
Market holdings of national debt etc <i>as percentage of GDP</i>	34,510 <i>34.6</i>	43,850 <i>36.7</i>	53,556 <i>38.2</i>	61,625 <i>38.1</i>	70,137 <i>37.7</i>	78,121 <i>35.0</i>	94,983 <i>38.4</i>	104,108 <i>38.4</i>	114,209 <i>38.8</i>	130,902 <i>41.4</i>	146,668 <i>42.9</i>	43,611	68,547	
Net indebtedness to Bank of England Banking Department	1,255	1,554	1,397	2,193	653	599	650	725	676	474	—	— 656	— 599	
Savings banks	3,132	3,288	3,174	3,454	3,514	3,087	2,856	2,639	2,479	2,403	2,074	— 45	— 1,013	
Accrued interest and indexing on national savings	547	569	653	844	1,087	1,430	1,954	2,493	3,002	3,795	4,634	883	3,204	
Notes and coin in circulation	5,994	6,613	7,346	8,628	9,658	10,666	11,203	11,386	12,592	12,915	13,815	4,672	3,149	
Other	1,427	1,288	1,199	1,097	1,038	927	837	714	605	702	791	— 500	— 136	
Total	46,865	57,162	67,325	77,841	86,087	94,830	112,483	122,065	133,563	151,191	167,982	47,965	73,152	
less held by local authorities and public corporations	— 52	— 54	— 66	— 141	— 209	— 404	— 520	— 680	— 865	— 1,340	— 992	— 352	— 588	
Net total	46,813	57,108	67,259	77,700	85,878	94,426	111,963	121,385	132,698	149,851	166,990	47,613	72,564	
Local authorities														
Total debt	24,319	26,995	28,656	30,127	31,181	34,113	36,382	36,325	36,673	38,248	41,021	9,794	6,908	
less held by central government and public corporations	— 10,875	— 12,275	— 13,284	— 14,167	— 14,658	— 15,808	— 16,973	— 16,048	— 18,533	— 21,794	— 24,932	— 4,933	— 9,124	
Net total	13,444	14,720	15,372	15,960	16,523	18,305	19,409	20,277	18,140	16,454	16,089	4,861	— 2,216	
Public corporations														
Total debt	19,090	22,310	25,306	26,838	27,455	30,479	32,097	32,646	34,174	35,047	33,066	11,389	2,587	
less held by central government and local authorities	— 16,385	— 18,383	— 19,344	— 20,297	— 21,395	— 24,720	— 26,811	— 26,109	— 27,596	— 28,256	— 25,310	— 8,335	— 590	
Net total	2,705	3,927	5,962	6,541	6,060	5,759	5,286	6,537	6,578	6,791	7,756	3,054	1,997	
Public sector: consolidated total <i>as percentage of GDP</i>	62,962 <i>63.1</i>	75,755 <i>63.3</i>	88,593 <i>63.2</i>	100,201 <i>61.9</i>	108,461 <i>57.7</i>	118,490 <i>53.1</i>	136,658 <i>55.3</i>	148,199 <i>54.6</i>	157,416 <i>53.5</i>	173,096 <i>54.8</i>	190,835 <i>55.8</i>	55,528	72,345	

Notes and definitions

Market holdings of the national debt etc

See the article 'Distribution of the national debt: end-March 1985' in the December 1985 *Bulletin*, page 576. The figures include the nominal value of government-guaranteed stocks of nationalised industries (which are therefore excluded from public corporations' debt later in the table). Some figures from earlier articles have been revised—in particular to include in market holdings stocks temporarily held by the Issue Department under purchase and resale agreements (this adjustment prevents a direct comparison being made with the data published in Table S1 in *Financial Statistics*).

Net indebtedness to the Bank of England Banking Department

The Banking Department's holdings of central government debt (principally Treasury bills and British government stocks) less the deposits of the National Loans Fund and Paymaster General. At end-March 1985 this became a net claim—see Table C.

Savings banks

Deposits on ordinary accounts of the National Savings Bank plus (up to 1979) deposits with the Ordinary Department of the Trustee Savings Bank, and, following this department's reclassification as part of the private sector in 1979, the liability to the TSB of the Fund for the Banks for Savings (a government fund operated by the National Investment and Loans Office).

Other

Comprises the liability of the Consolidated Fund to the Post Office Superannuation Fund (now fully repaid), funds lodged in the Supreme Court and county courts, other stocks issued by government funds and market holdings of Northern Ireland government debt (principally Ulster savings certificates).

Table C
Public sector liquid assets

£ millions, nominal values; percentages in italics

31 March	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Increases		
												1975-80	1980-85	
Central government														
Gold and foreign exchange reserves	2,458	3,082	5,592	10,910	10,620	12,460	12,583	10,637	11,702	11,619	10,998	10,002	-1,462	
Commercial bills	270	7	96	126	25	789	2,804	7,044	6,257	9,843	7,148	519	6,359	
British government stocks held under purchase and resale agreements	—	—	—	—	199	713	—	—	158	—	813	713	100	
Export credit and shipbuilding paper held under purchase and resale agreements	—	—	—	—	—	—	—	—	440	—	2,599	—	2,599	
Net claim on Bank of England Banking Department	—	—	—	—	—	—	—	—	—	—	4,297	—	4,297	
Bank deposits	331	435	455	479	613	559	665	773	729	702	706	228	147	
Instalments due on British government stocks	—	—	552	—	1,013	31	1,803	328	653	801	—	31	-31	
Total	3,059	3,524	6,695	11,515	12,470	14,552	17,855	18,782	19,939	22,965	26,561	11,493	12,009	
Local authorities														
Bank deposits	181	254	234	276	245	228	334	492	722	1,001	1,329	47	1,101	
Other short-term assets	—	—	—	—	—	4	33	21	28	42	113	4	109	
Total	181	254	234	276	245	232	367	513	750	1,043	1,442	51	1,210	
Public corporations														
Bank deposits	174	278	372	507	407	389	604	646	752	846	929	215	540	
Other short-term assets	—	—	—	34	44	39	22	26	35	35	54	39	15	
Total	174	278	372	541	451	428	626	672	787	881	983	254	555	
Public sector consolidated liquid assets	3,414	4,056	7,301	12,332	13,166	15,212	18,848	19,967	21,476	24,889	28,986	11,798	13,774	
<i>as percentage of GDP</i>	<i>3.4</i>	<i>3.4</i>	<i>5.2</i>	<i>7.6</i>	<i>7.0</i>	<i>6.8</i>	<i>7.6</i>	<i>7.4</i>	<i>7.3</i>	<i>7.9</i>	<i>8.5</i>			
Consolidated public sector debt (Table B)	62,962	75,755	88,593	100,201	108,461	118,490	136,658	149,199	157,416	173,096	190,835	55,528	72,345	
Net public sector debt	59,548	71,846	81,292	87,869	95,295	103,278	117,810	128,232	135,940	148,207	161,849	43,730	58,571	
<i>as percentage of GDP</i>	<i>59.7</i>	<i>60.1</i>	<i>58.0</i>	<i>54.3</i>	<i>50.7</i>	<i>46.3</i>	<i>47.7</i>	<i>47.3</i>	<i>46.2</i>	<i>47.0</i>	<i>47.3</i>			

... not available.

Notes and definitions

Gold and foreign currency reserves

These are at the official dollar valuation (see notes and definitions to Table 17.1), converted to sterling at the end-March middle market closing rate. Note that there was a change in the basis of valuation at end-March 1979.

British government stocks held under purchase and resale agreements

These are included as official assets because (as described in the notes on Table B) the figures for market holdings of the national debt now include stocks held by the Issue Department on purchase and resale agreements—ie they are not netted off from government liabilities.

Net claim on the Bank of England Banking Department

At end-March 1985, for the first time at the end of a financial year, the deposits of the National Loans Fund and Paymaster General exceeded the Banking Department's holdings of central government debt.

Instalments due on British government stocks

The national debt includes the whole nominal value of all issued stocks, even where there are outstanding instalments due from market holders; a counter entry is, therefore, included in assets.