Office for National Statistics

Compendium

Current Account

Inward and outward transactions, providing a net flow of transactions between the UK and the rest of the world and how that flow is funded.

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1 . Correction

Update 20 January 2015

Following the announcement on 24 November 2014 that an error had been identified in the geographic data for Trade in Goods, ONS has now corrected the data. Upon further investigation it was found that the error only impacted on tables 9.2, 9.3, 9.4 and 9.8 for the years 2009 to 2012. The corrected data makes the Pink Book 2014 dataset comparable with the UK Trade October 2014 and UK Economic Accounts Q3 2014 datasets.

ONS apologises for any inconvenience caused.

2 . Key points

- The United Kingdom Balance of Payments Pink Book 2014 for the first time reflects the new definitions and methods set out in the Balance of Payments Manual sixth edition (BPM6). Data in the Pink Book 2014 are consistent with the Balance of Payments 2014 Q2 statistical bulletin, published on 30 September 2014. The Balance of Payments Q2 2014 statistical bulletin included an annex to explain the impact the changes have on annual data for the period 1997 to 2013

- ONS has produced a brief explanatory video to explain how the current account and financial account fit together

- The deficit on the current account balance widened in 2013 to £72.4 billion, the highest recorded in cash terms. It was equivalent to 4.2% of GDP, the highest since 1989 (4.7%)

- In 2013, the trade in goods deficit widened by £1.2 billion. This was mainly due to the deficit on finished manufactured goods increasing by £3.6 billion, which was offset by oil and semi-manufactured goods narrowing

- The surplus on trade in services widened to £78.1 billion in 2013 from £74.5 billion in 2012

- The primary income deficit widened to £13.1 billion in 2013, from £5.3 billion in 2012. This was due to credits decreasing more than debits

- In 2013, there was a deficit for secondary income of £27.2 billion. This was due to general government transfers increasing by £4.5 billion

3 . Introduction

The balance of payments is one of the UK’s key economic statistical series. It measures the economic transactions between UK residents and the rest of the world. It also draws a series of balances between inward and outward transactions, provides a net flow of transactions between UK residents and the rest of the world and reports how that flow is funded. Economic transactions include:

- exports and imports of goods, such as oil, agricultural products, other raw materials, machinery and transport equipment, computers, white goods and clothing,
- exports and imports of services such as international transport, travel, financial and business services,
- income flows, such as dividends and interest earned by foreigners on investments in the UK and by UK residents investing abroad,
- financial flows, such as direct investment, investment in shares, debt securities, loans and deposits, and
- transfers, which are offsetting entries to any one-sided transactions listed above, such as foreign aid and funds brought by migrants to the UK.

Closely related to the balance of payments is the international investment position series of statistics. The international investment position measures the levels of financial investment with the rest of the world, inward and outward.

More detailed information on the Balance of Payments is available in the guidance and methodology area of the National Statistics website.

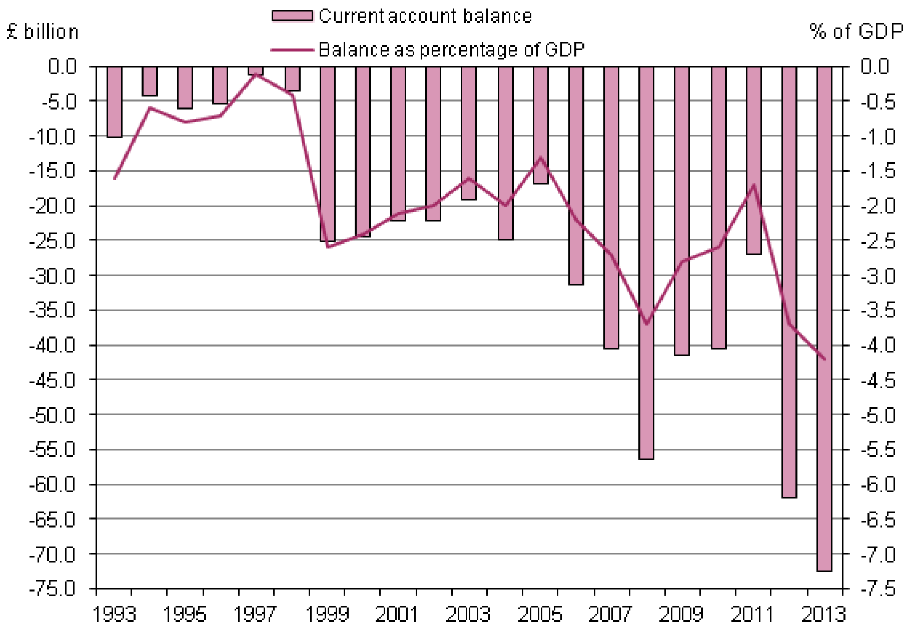
A printable version of the Pink Book 2014, Part 1: Current Account data is available (130.1 Kb Pdf).

4 . Chapter 1: Summary of balance of payments

Current account

The UK has recorded a current account deficit in every year since 1984. From 1984, the current account deficit increased steadily to reach a high of £24.7 billion in 1989. This is equivalent to 4.7% of Gross Domestic Product (GDP). From 1990 until 1997, the current account deficit narrowed to a low of £1.3 billion in 1997, equivalent to 0.1% of GDP. Between 1998 and 2008, it widened sharply, peaking at £56.4 billion in 2008. The current account deficit narrowed over the following three years to reach £27.0 billion in 2011, before widening significantly in 2012 when it recorded a deficit of £61.9 billion. In 2013, the deficit reached a record £72.4 billion, the highest recorded in cash terms. It was equivalent to 4.2% of GDP, the highest since 1989 (4.7%).

Figure 1.1: Current account balance and balance as percentage of GDP



Source: Office for National Statistics

The last trade in goods surplus, in 1982, contributed to a current account surplus. Following 1982, the goods balance went into deficit and this increased to a peak of £25.2 billion in 1989. This contributed to the current account balance deteriorting to a deficit of £24.7 billion. From 1989 until the late 1990s, both the trade in goods and current account deficits broadly narrowed and subsequently widened. From 2001 to 2003, while the goods deficit continued to grow, the current account deficit narrowed due to increasing surpluses on both investment income and trade in services. From 2004, the current account deficit has fluctuated as the surplus on investment income has increased and decreased. This was most notable in 2012, when the investment income balance switched to a deficit for the first time since 1999, which led to the current account deficit widening significantly. In addition to the investment income switching from a surplus of £18.7 billion in 2011 to a £4.8 billion deficit in 2012, the trade in goods deficit widened by £12.5 billion. These were offset by the trade in services surplus increasing by £1.8 billion. In 2013, the current account balance widened further to a deficit of £72.4 billion. This was mainly due to the investment income deficit widening by £7.5 billion to £12.3 billion. Also, the deficit on secondary income widened by £5.0 billion to £27.2 billion and the trade in goods deficit widened by £1.2 billion to £110.2 billion. Partially offsetting these was an increase in the trade in services surplus of £3.6 billion to £78.1 billion.

Trade in goods and services

The trade in goods account recorded net surpluses in 1980 to 1982, largely due to the growth in exports of North Sea oil. Since then, the trade in goods account has remained in deficit. The deficit grew significantly in the late 1980s to reach a peak of £25.2 billion in 1989, before narrowing in the early 1990s to levels of around £10 billion to £14 billion. In 1998, the deficit jumped by £9.5 billion to £22.2 billion and increased in every year since, except for 2009 and 2011. In 2013, the deficit reached £110.2 billion.

Figure 1.2: Trade in goods and services balances

Source: Office for National Statistics

The trade in services account has shown a surplus for every year since 1966 and has increased in every year apart from in 1988, 1998, 1999, 2000 & 2008. The surplus on services generally increased until 1987 where it reached £9.2 billion, before declining in 1988 to £7.5 billion. The services surplus then again increased steadily from 1989, reaching £17.5 billion in 1997. It then decreased over the next three years to reach £13.9 billion in 2000. Since 2000, the surplus has increased in each year, reaching £78.1 billion in 2013.

Primary income

The primary income account (previously called 'income account') is comprised of compensation of employees, investment income and other primary income.

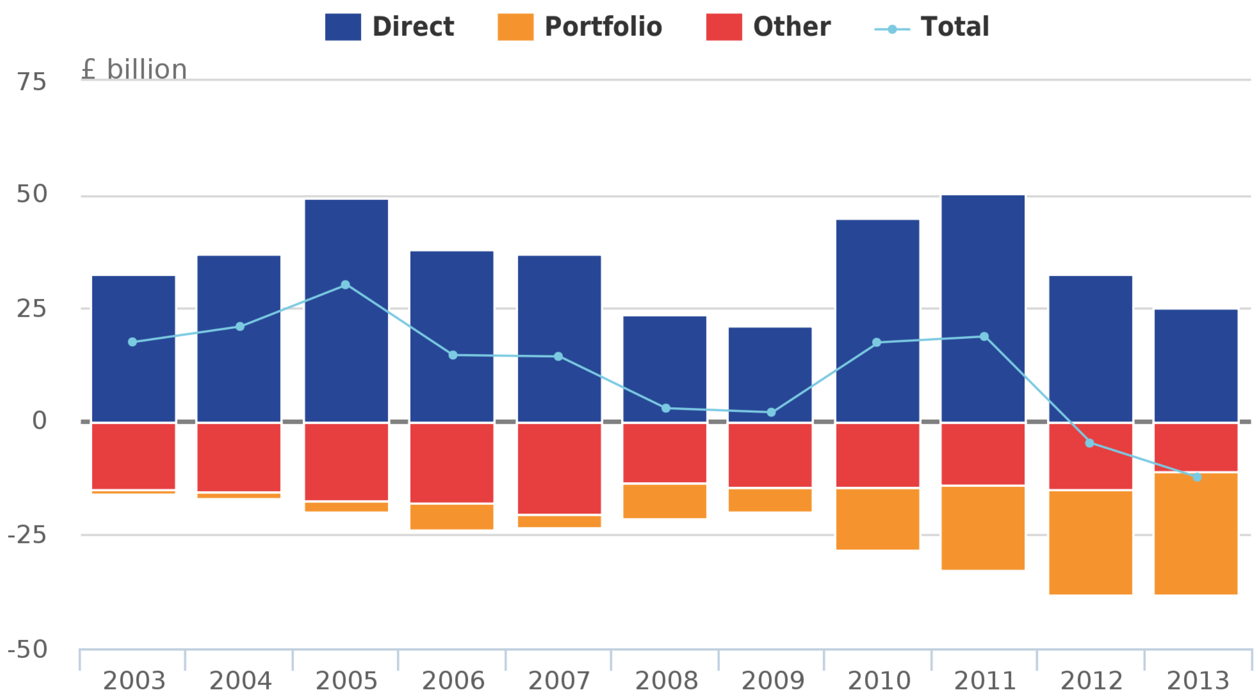
Compensation of employees

Historically, the balance on compensation of employees has generally been in deficit apart from periods in the late 1990s, and early 2000s.

Investment income

Figure 1.3: Investment income balances

Credits less debits



Source: Source: Office for National Statistics

The investment income balance (the largest component of primary income) was in surplus until 1976, but then showed a deficit in most years until 1999 before returning to a surplus position in 2000. The surplus between 2000 and 2011 was due to the direct investment income surplus being partly offset by deficits on earnings from portfolio investment and other investment. The investment income surplus grew strongly in 2002, reaching £16.2 billion, and continued to increase over the next three years, reaching a record surplus of £30.2 billion in 2005. The surplus then fell back to £14.6 billion in 2006, before decreasing slightly further to £14.3 billion in 2007. As a result of the economic downturn the surplus decreased significantly to £2.9 billion in 2008 and to £2.0 billion in 2009, mainly due to the surplus on direct investment narrowing. In 2010, the investment income surplus increased to £17.4 billion as the direct investment surplus recovered. Having recorded a surplus of £18.7 billion in 2011, the investment income balance switched to a deficit of £4.8 billion in 2012. This was mainly due to a decline in the surplus on direct investment. The deficit widened in 2013 to £12.3 billion as the surplus on direct investment declined further.

Other primary income

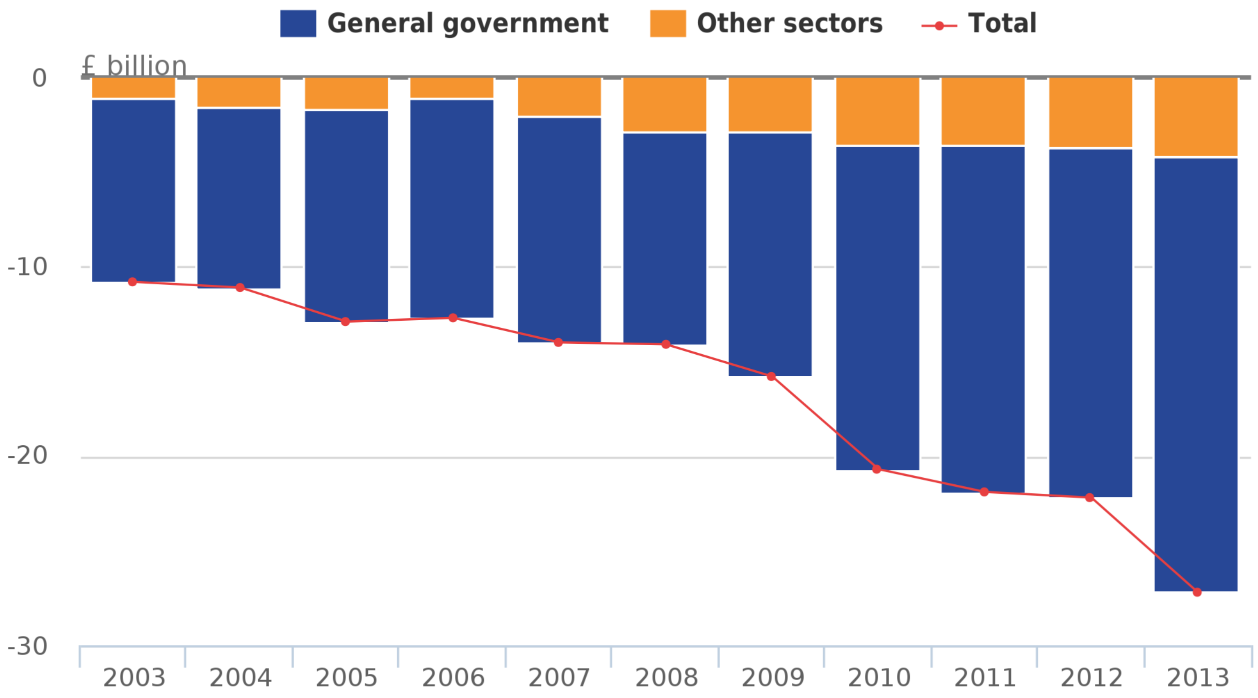
In 2013, other primary income recorded a deficit of £0.5 billion, compared with £0.3 billion in 2012. Prior to 2012, other primary income recorded a surplus, peaking at £1.3 billion in 2004.

Secondary income

The secondary income account (previously called ‘current transfers’) has shown a deficit in every year since 1960. The deficit increased steadily to reach £4.8 billion in 1990. In 1991, the deficit reduced to £1.0 billion, reflecting £2.1 billion receipts from other countries towards the UK’s cost of the first Gulf conflict. The deficit has since increased, reaching a record £27.2 billion in 2013. Separate data for general government and other sectors are available from 1986. It shows that both have been consistently in deficit since 1992. The volatility in this account is due to fluctuating net contributions to EU institutions. For a complete picture of the UK’s official transactions with institutions of the EU, see table 9.9 (528 Kb Excel sheet).

Figure 1.4: Secondary income account balances

Credits less debits



Source: Source: Office for National Statistics

Investment flows, levels and income

One important set of relationships within the balance of payments is the link between:

- the financial account (investment flows),
- the international investment position (levels or balance sheets), and
- the income deriving from the balance sheets.

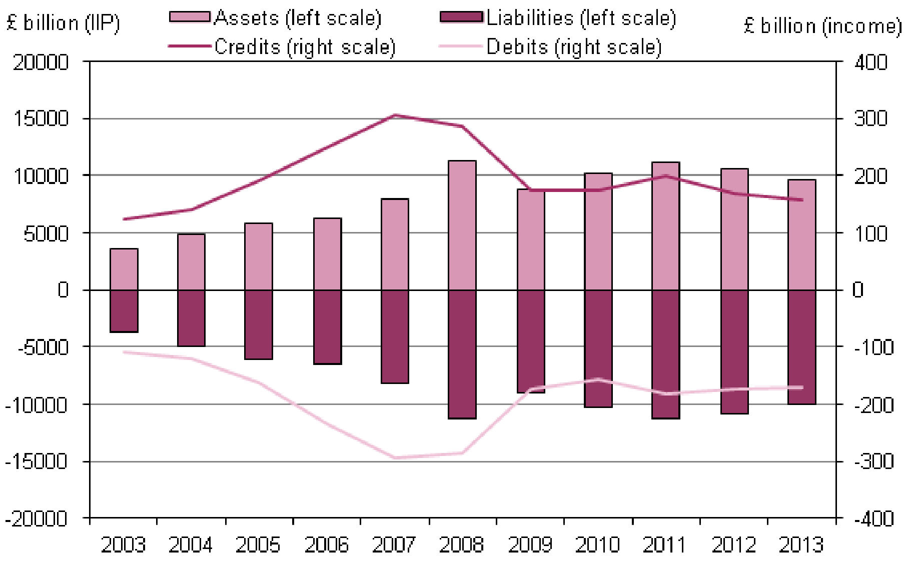
This is explained in more detail in the introduction to the UK Balance of Payments. Although a reconciliation statement between opening and closing levels and flows is not officially compiled in the UK, table 1.3 (134 Kb Excel sheet) shows the rudiments of this relationship over the years for which consistent detailed data are available. Within the three main categories of investment (direct, portfolio and other), as well as reserve assets, the difference in the values of the balance sheet at the end of a year and the previous year is approximately equal to the value of the financial transactions in that year. The difference between the two amounts is explained by valuation, exchange rate and other effects such as company write-offs.

The value of both external assets and liabilities in the international investment position has been rising steadily since 1980. This reflects both the increased global investment and the increasing prices of external assets and liabilities. A major exception to this was 2009, when both assets and liabilities decreased significantly as an impact of the economic crisis. This was due to a combination of a sharp drop in financial derivatives assets and liabilities, disinvestments over the period and the appreciation of sterling, which has the effect of reducing UK assets and liabilities valued in foreign currency. The value of external assets recovered in 2010 and 2011, but did not reach the peak seen in 2008, while the recovery in external liabilities exceeded the level achieved in 2008. However, the level of both external assets and liabilities declined in 2012 and 2013 as the level of financial derivatives declined. Except for 1990, the UK's external assets exceeded external liabilities in every year until 1995. From 1995 to 2007, external liabilities exceeded external assets. In recent years, due to the financial crisis the net investment position has been volatile. UK external assets exceeded external liabilities in 2008, but since 2009 external liabilities have exceeded external assets.

At the end of 2013, external assets stood at £9,708.3 billion, while external liabilities stood at £9,974.8 billion. This resulted in a net liability position of £266.5 billion.

Figure 1.5: International investment position and investment income

Credits less debits



Source: Office for National Statistics

Implied 'rates of return'

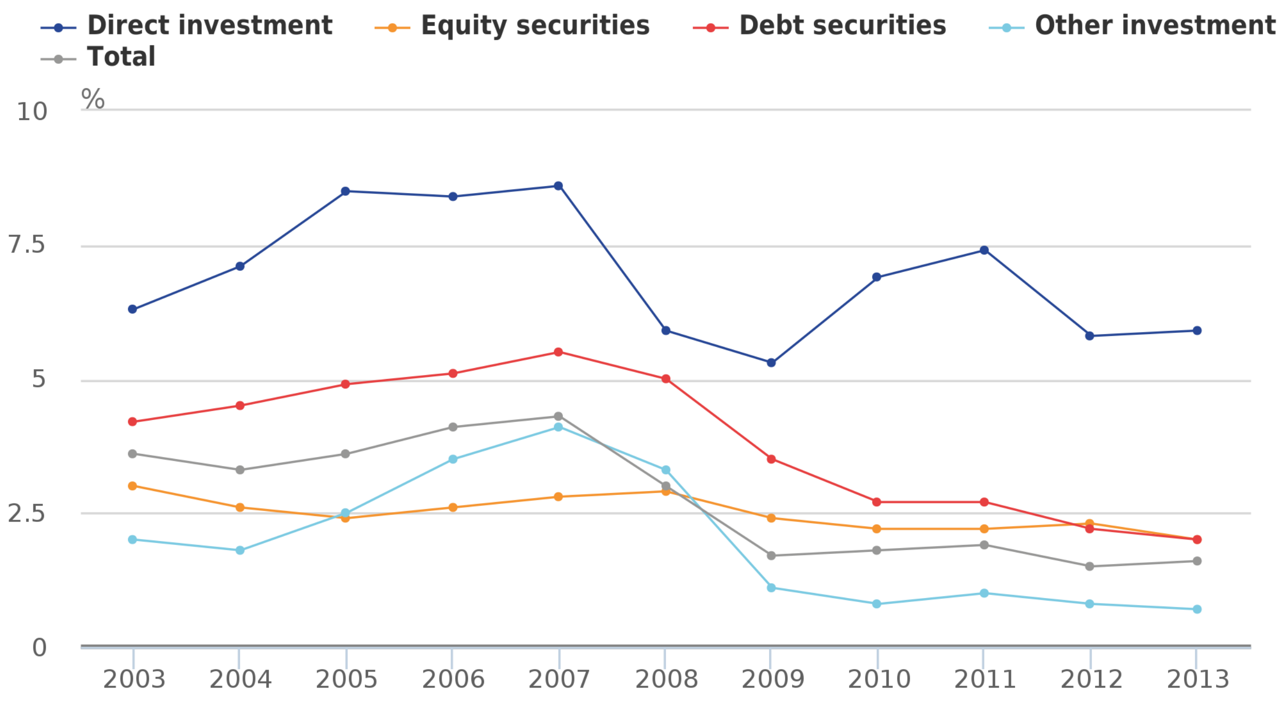
Another important relationship exists between investment income and the international investment position. This can be seen most easily by looking at the implied 'rates of return' for both assets and liabilities. In total, the implied rate of return on liabilities was higher than on assets from the late 1970s until the mid-1990s. Between 1997 and 2011, the return on assets was slightly higher than liabilities, but from 2012 the rate of return on liabilities crept ahead of assets. Although the rates of return for both assets and liabilities increased very slightly in 2013, they remain at historically low levels.

The rates of return for direct investment are usually a lot higher than for other forms of investment. Historically, the relatively higher return on direct investment is probably a consequence, in part, of comparatively lower valuations. This is because direct investment levels are generally reported at book value rather than at market value, as used for other categories of investment. Therefore, the book values of direct investments are likely to be lower than their market values. The higher rates of return on direct investment may also reflect the higher return required to make the longer term investment worthwhile. Apart from 2008, the rate of return on assets has been greater than for liabilities. The rate of return on assets increased from 6.2% in 2012 to 6.4% in 2013, while liabilities recorded an increase from 4.8% in 2012 to 4.8% in 2013.

Portfolio investment comprises of two components: debt securities (bonds and notes) and equity securities (shares). The rates of return on debt securities have generally been higher than on equity securities. With the exception of 2000, the rate of return on equity liabilities has been greater than that for assets in every year since 1987. The rate of return on debt security liabilities has exceeded that of assets in all years except 2002 to 2010. In 2013, the rate of return on equity assets decreased from 2.3% in 2012 to 2.0% in 2013, while the rate of return on liabilities increased from 3.2 % in 2012 to 3.5% in 2013.

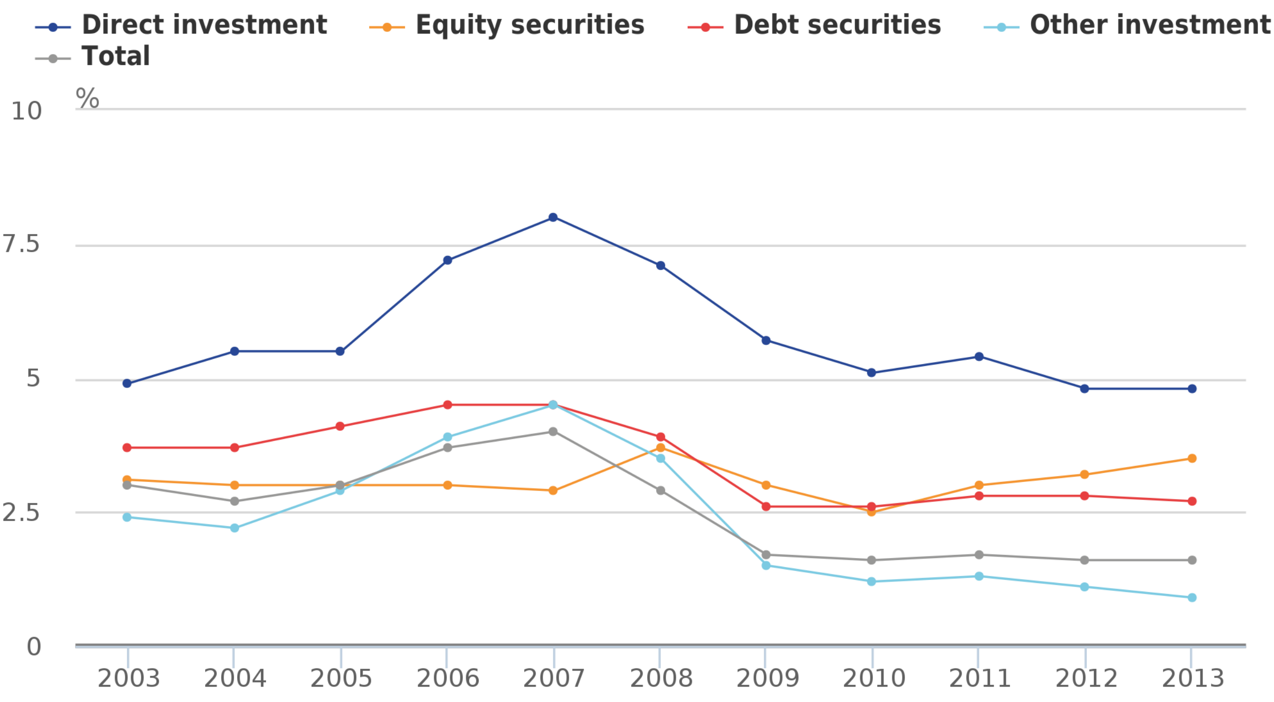
Rates of return on other investment were similar to returns on debt in the early 1990s, but between then and 2004 they were generally in decline. From 2004 until 2007 they began to increase again, but started to decline in 2008, dropping to 0.8% for assets and 1.1% for liabilities in 2010. Following a slight rise in 2011, both assets and liabilities have declined and recorded record low rates of return in 2013 of 0.7% and 0.9% respectively. Given that other investment constitutes such a large proportion of the value of the balance sheets, it is not surprising that the rates of return have reflected the movements in interest rates on loans and deposits, such as the base rate and the London Interbank Offered Rate (LIBOR).

Figure 1.6: Implied rates of return on assets



Source: Source: Office for National Statistics

Figure 1.7: Implied rates of return on liabilities



Source: Source: Office for National Statistics

The reference tables in relation to Chapter 1 are available to [download (134 Kb Excel sheet)](#) .

5 . Chapter 2: Trade in goods

Summary

Trade in goods shows the extent of import and export activity between the UK and the rest of the world. By definition, trade in goods covers:

- transactions in general merchandise,
- goods for processing,
- repairs on goods,
- goods procured in ports by carriers,
- non-monetary gold.

General merchandise (with some exceptions) refers to moveable goods where real or imputed changes of ownership happen.

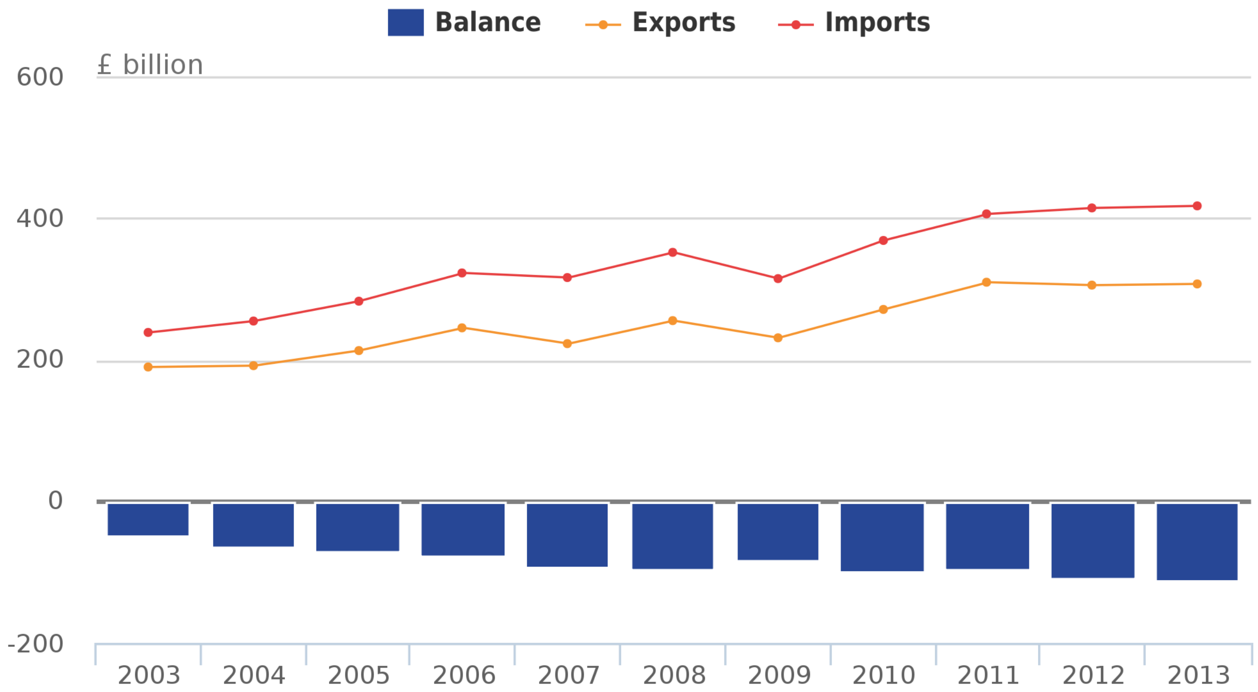
- In 2013, the deficit on trade in goods widened by £1.2 billion to £110.2 billion. This was the largest annual deficit on record. Exports increased to £306.8 billion, which was up 0.5% from £305.1 billion in 2012. Imports increased to a record £417.0 billion in 2013, which was up 0.7% from £414.1 billion in 2012.

- Between 2009 and 2011, export and import levels each increased by roughly 30%. This reflected improved global economic conditions following the financial downturn in mid-2008. Exports reached a record high of £309.2 billion in 2011, with significant strength seen in all key commodities. Since peaking in 2011, growth has slowed considerably and the export level was comparatively flat at £306.8 billion into 2013. In contrast, the UK's import market has continued to grow, reaching successive record highs of £414.1 billion in 2012 and £417.0 billion in 2013. Imports from countries within the EU were particularly strong in 2013, increasing by £11.7 billion from 2012 to a record £221.4 billion.

MTIC Fraud

When interpreting the trade figures, users should be aware that both exports and imports are affected by VAT missing trader intra-community (MTIC) fraud. This led to an increase in both imports and exports in 2006, and a subsequent fall in 2007, which was associated with the introduction of the UK's reverse charge derogation. This was an anti-fraud measure relating to mobile phones and microchips, which placed the responsibility with purchasers rather than suppliers to account for the VAT associated with these goods. (For more information on MTIC fraud, see the Methodological notes relating to chapter 2).

Figure 2.1: Trade in goods



Source: Source: Office for National Statistics

Volume changes

- Between 2012 and 2013, the export volume index fell 0.5%. However, despite this it remains 16.8% higher than in 2009. The import volume index showed continued recovery in 2013, increasing by 0.3% from 2012 and reaching its highest level on record. Since 2009, the volume of imports has grown by 17.5%.

- Over a longer perspective, export volumes remained fairly flat between 2001 and 2004 as world economic activity slowed. Discounting the effect of MTIC fraud in 2005 and 2006, both export and import volumes continued to rise before falling dramatically in 2009 as a result of the downturn in global trade. The volume of exports fell by a record 10.1% and the volume of imports fell by a record 10.8%.

Figure 2.2: Export and import volume indices

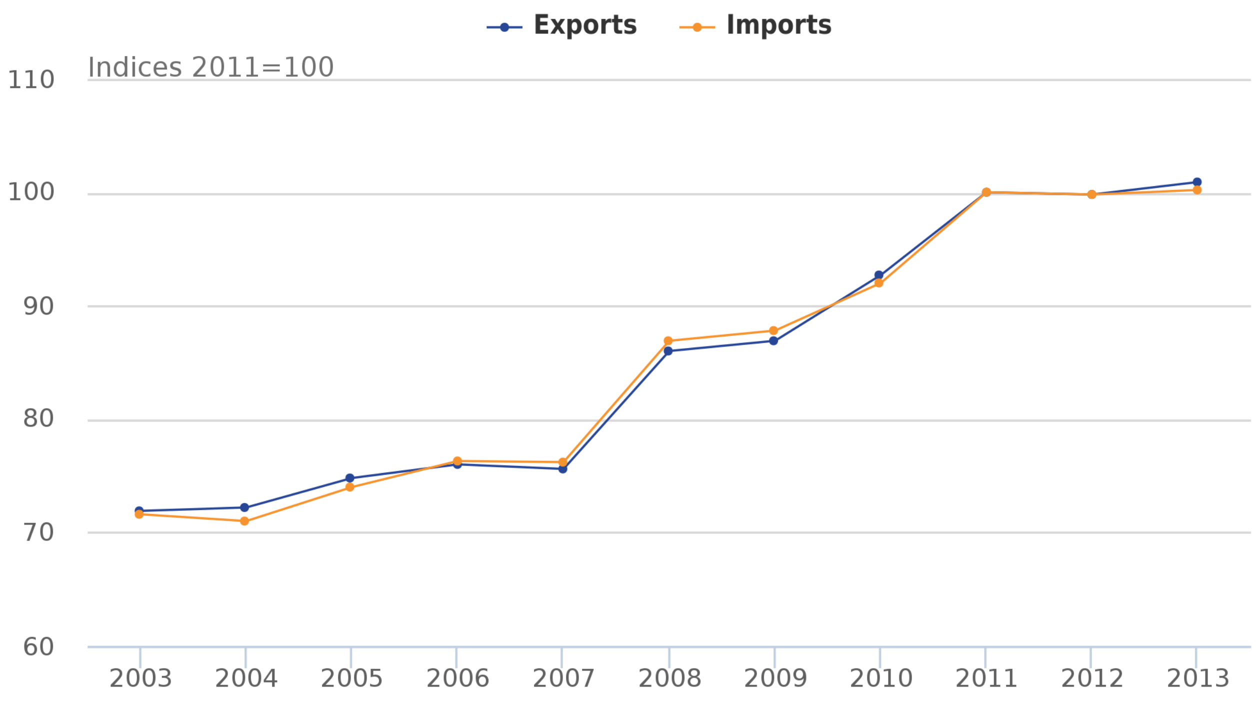
Source: Source: Office for National Statistics

Price changes

- Export prices rose by 4.9% between 2000 and 2007. Import prices increased by 2.4% over the same period. In 2008, export and import prices rose by 13.8% and 14.0% respectively. Some extent of this growth can be attributed to the depreciation of sterling, however, there was also a sharp increase in oil prices at this time. Between 2007 and 2008, oil export prices rose by 42.3% and oil import prices rose by 55.3%. These increases were the highest since 2000, when the export price of crude oil rose by roughly 60% and the import price by 75%.

- Although export and import price indices continued to grow in 2009, the rate slowed to 1.0% for both exports and imports. This was partially due to the downturn in global trade. Since then, export and import prices have risen, reaching record high levels in 2013.

Figure 2.3: Export and import price indices



Source: Source: Office for National Statistics

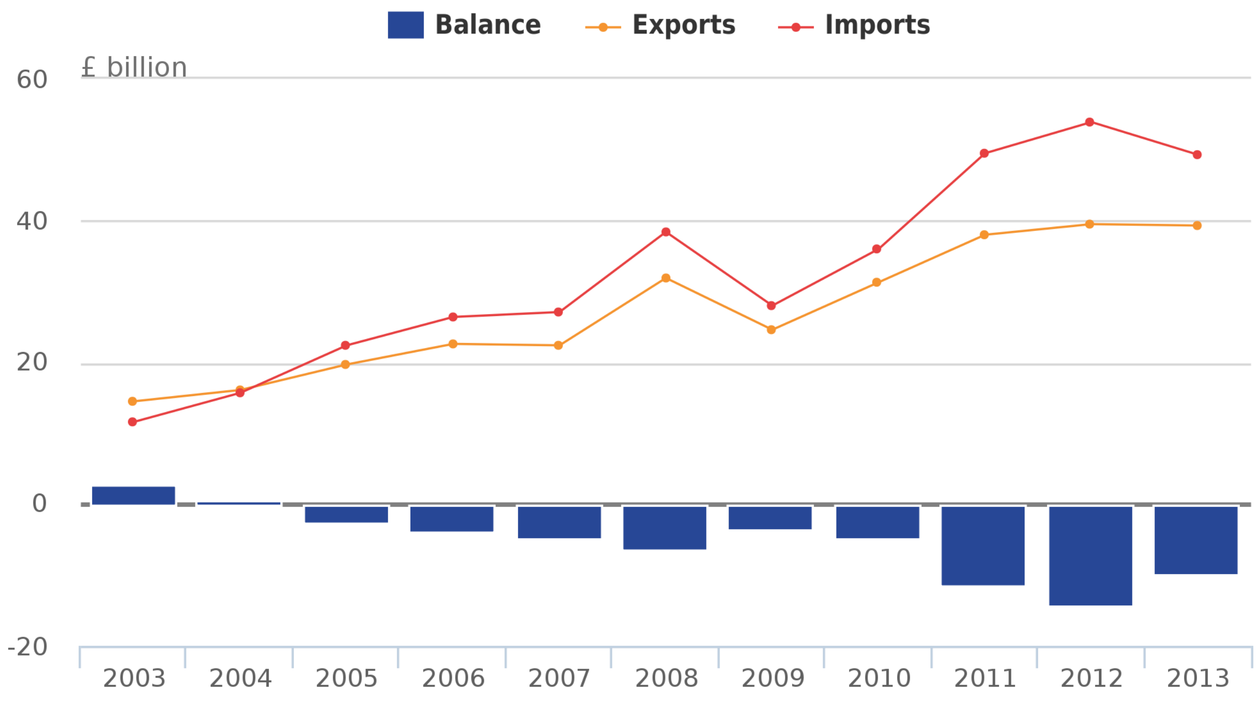
Trade in oil

- Between 2012 and 2013, the deficit of trade in oil narrowed to £10.0 billion. Exports of oil fell by £0.2 billion in 2013. Imports of oil fell by £4.6 billion over the same period. As a result of imports falling more significantly than exports, the deficit of trade in oil narrowed for the first time since 2009 when oil trade was affected by the global financial crisis.

- Between 1980 and 2004, oil exports consistently exceeded imports. Changes to the price of crude oil gradually reduced the oil trade surplus between 2001 and 2004. Eventually the balance of trade in oil reached a deficit in 2005. Since then, the balance of oil has continued to be in deficit, reaching a record £14.4 billion in 2012.

- Crude oil production peaked in 2000 and, with the exception of 2007 when the very large Buzzard field began production, has been in decline since as reserves on the UK Continental Shelf have depleted. From 2002 onwards, the volume of crude oil exports fell consistently until 2012 when the level started to rise. The volume of crude oil imports has generally increased. Coupled with rising prices, this resulted in further falls in the value of the crude oil surplus. It fell to £1.2 billion in 2004, followed by the first deficit since 1979 of £0.3 billion in 2005. The deficit in crude oil fluctuated between £1.0 billion and £10.7 billion between 2006 and 2012, before narrowing to £5.9 billion in 2013.

Figure 2.4: Trade in oil



Source: Source: Office for National Statistics

Trade by commodity

- Over the past 10 years, finished manufactures have accounted for an average of around 50% of total exports and imports. This mainly reflects strength in the machinery and transport equipment industry. Semi manufactures also held a significant share of the total exports and imports, with an annual average of around 25% over the same period.

- Since 2009, total exports have risen by £76.1 billion, £40.2 billion was attributed to finished manufactures and a further £16.0 billion to fuels. Over the same period, imports rose by £102.7 billion, of which £44.4 billion was attributed to finished manufactures and £26.3 billion to fuels.

- Between 2012 and 2013, exports of finished manufactures rose by £7.1 billion. This increase was mainly due to exports of machinery and transport equipment. This is the same for imports of finished manufactures, which rose by £10.7 billion from 2012. Again, this rise is mainly due to machinery and transport equipment.

- By volume, over the past 10 years exports of all commodities have risen, with the exception of fuels which fell by 18.5% from 2003. Exports of manufactured goods rose by 21.7% during this period. This reflects particular strength in exports of machinery and transport equipment and chemicals. In terms of imports, all commodities saw positive growth from 2003. For example, the volume of manufactured goods rose by 28.4% and volume of fuel imports rose by 26.6%.

- By volume, in 2013, exports of fuels fell by 1.0% from 2012. Exports of manufactured goods were unchanged from 2012, where positive growth in finished manufactures was offset by weakness in semi manufactures. In the same period, imports of manufactured goods rose by 1.0% whilst imports of fuels fell by 4.8%. This is the first negative movement since 2009. Imports of basic materials also demonstrated notable growth, being up 18.9% from 2012.

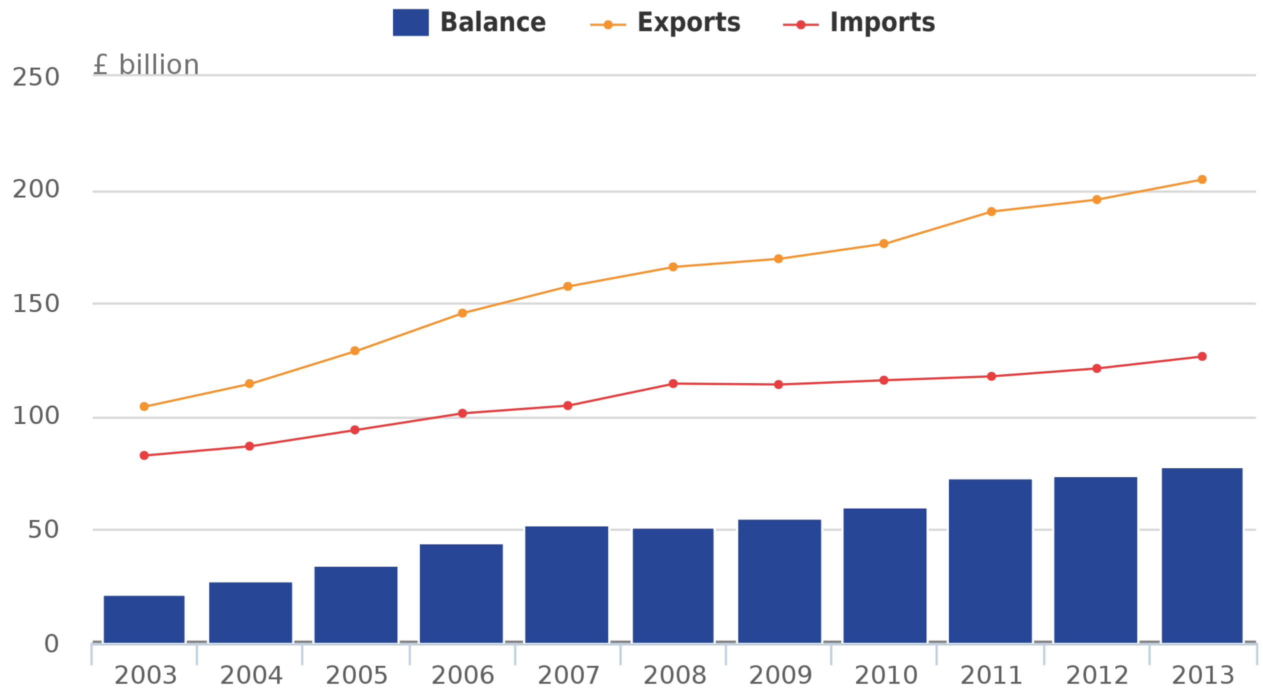
The reference tables in relation to Chapter 2 are available to download (117.5 Kb Excel sheet) .

6 . Chapter 3: Trade in services

Summary

Trade in services covers the provision of services by UK residents to non-residents and vice versa. It also covers transactions in goods which are not freighted out of the country in which transactions take place. For example, purchases for local use by foreign forces in the UK or by UK forces abroad, and purchases by tourists. Transactions in goods, which are freighted into/out of the UK, are included under trade in goods.

Figure 3.1: Trade in services



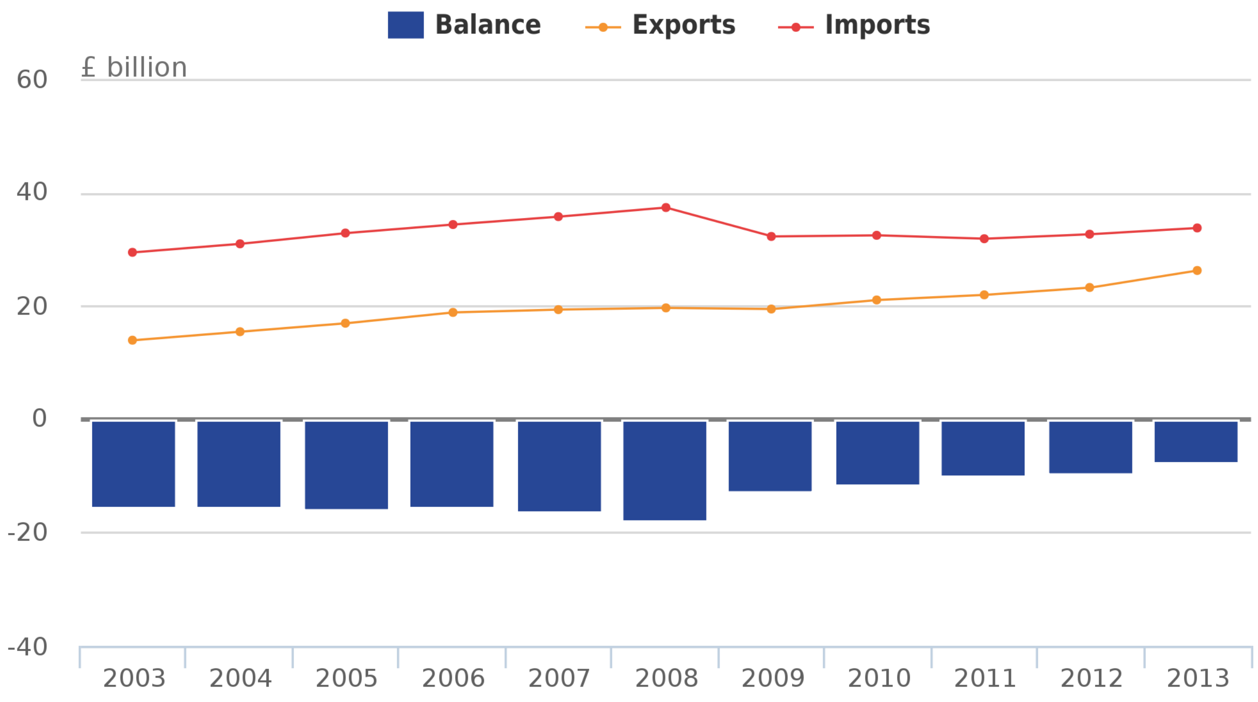
Source: Source: Office for National Statistics

- In 2013, there was a surplus of £78.1 billion. This was an increase of £3.6 billion (4.8%) from £74.5 billion in 2012
- Between 2012 and 2013, exports of services increased by £8.9 billion (4.5%) and imports of services increased by £5.3 billion (4.4%)
- Of the 12 main product groupings, 10 showed surpluses and two (travel and government services) showed a deficit
- The increase in the overall trade in services balance was mainly due to increases in the surpluses in manufacturing on physical inputs owned by others, and financial services

Travel

Travel covers business travel, including expenditure by seasonal and border workers, and personal travel, which includes health and education related travel.

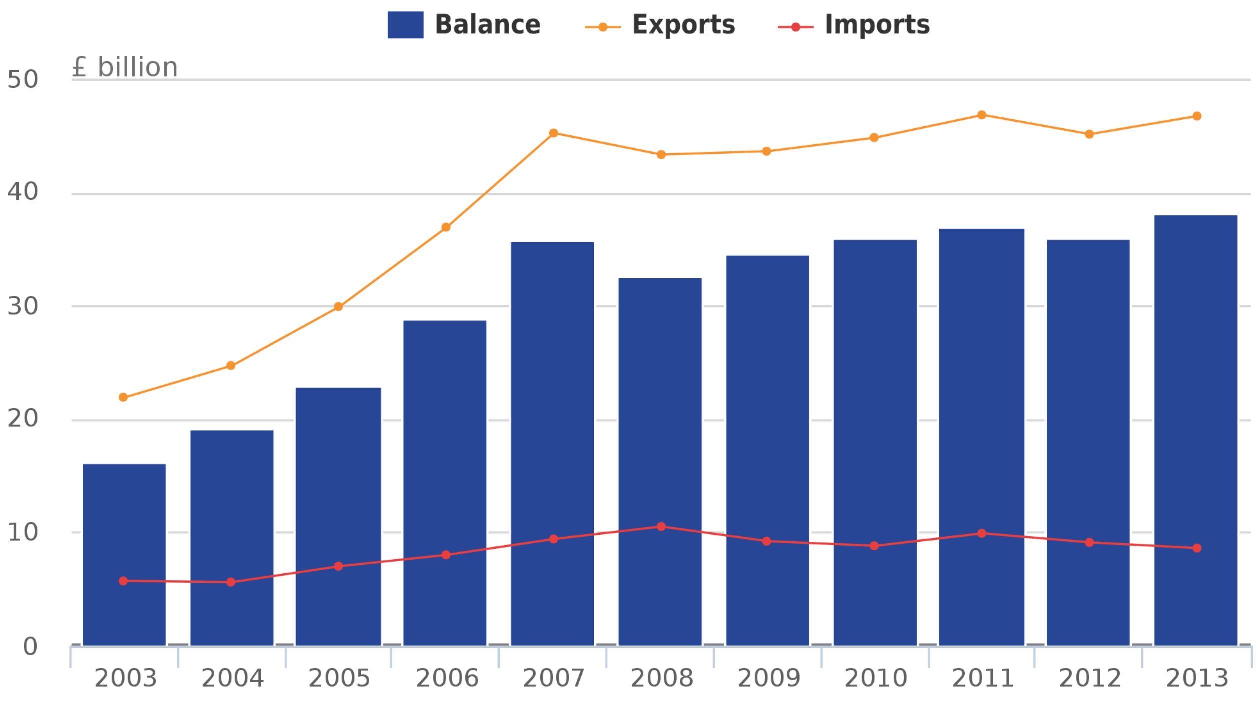
Figure 3.2: Trade in travel services



Source: Source: Office for National Statistics

- In 2013, travel expenditure by non-residents visiting the UK accounted for 12.8% of total exports of services
- In 2013, expenditure by UK residents travelling abroad accounted for 26.7% of total imports of services
- Exports increased by £3.1 billion, from £23.2 billion in 2012, to £26.2 billion in 2013. This was mainly due to other personal travel, other business travel and education related travel
- Imports increased by £1.2 billion, from £32.6 billion in 2012, to £33.7 billion in 2013. This was mainly due to the increase in other personal travel

Figure 3.3: Trade in financial services



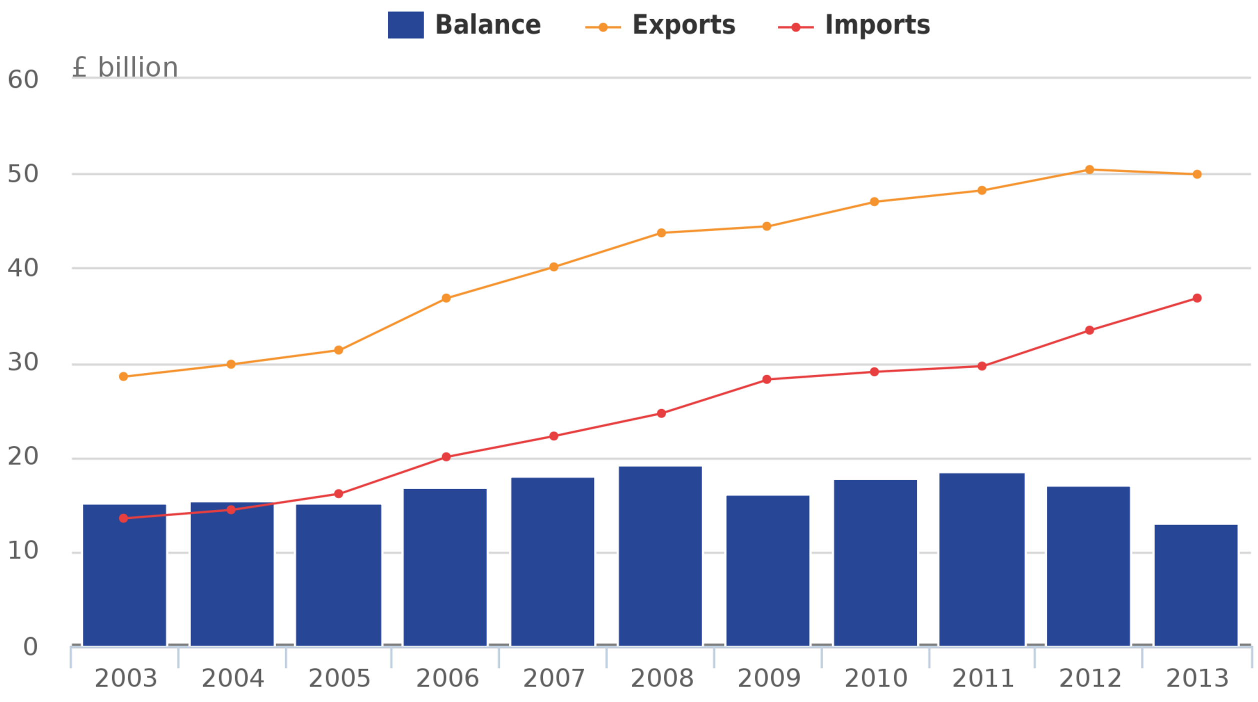
Source: Source: Office for National Statistics

- In 2013, financial services accounted for 22.9% of total exports, compared with 6.8% of total imports of services in 2013
- Exports increased by £1.6 billion from £45.1 billion in 2012 to £46.7 billion in 2013. This was mainly due to increases in other financial institutions and financial intermediation services indirectly measured on loans and other financial institutions. This was partially offset by falls in commissions and fees from monetary financial institutions
- Imports decreased by £0.5 billion, from £9.1 billion in 2012 to £8.6 billion in 2013. The decrease in imports was due to other financial institutions, which was partially offset by an increase of £0.3 billion in monetary financial institutions
- Overall financial services accounted for 48.8% of the total trade in services balance

Other business services

Other business services cover a broad range of services including: trade-related services such as operational leasing, and consultancy services such as advertising, engineering and legal services.

Figure 3.4: Trade in other business services



Source: Source: Office for National Statistics

- In 2013, other business services accounted for 24.4% of total exports and 29.1% of total imports of services
- Exports decreased by £0.5 billion, from £50.4 billion in 2012 to £49.9 billion in 2013. This was mainly due to decreases in business management and management consulting services and other business services
- Imports of other business services increased by £3.5 billion from £33.4 billion in 2012 to £36.8 billion in 2013, this was mainly due to other business services, in particular services between affiliated enterprises.

The reference tables in relation to Chapter 3 are available to download (213.5 Kb Excel sheet).

7 . Chapter 4: Income

Summary

The **primary income** account (previously called 'income account') is made up of compensation of employees, investment income and other primary income.

Compensation of employees presents remuneration in return for the labour input into the production process contributed by an individual. In the international accounts, compensation of employees is recorded when the employer (the producing unit) and the employee are resident in different economies.

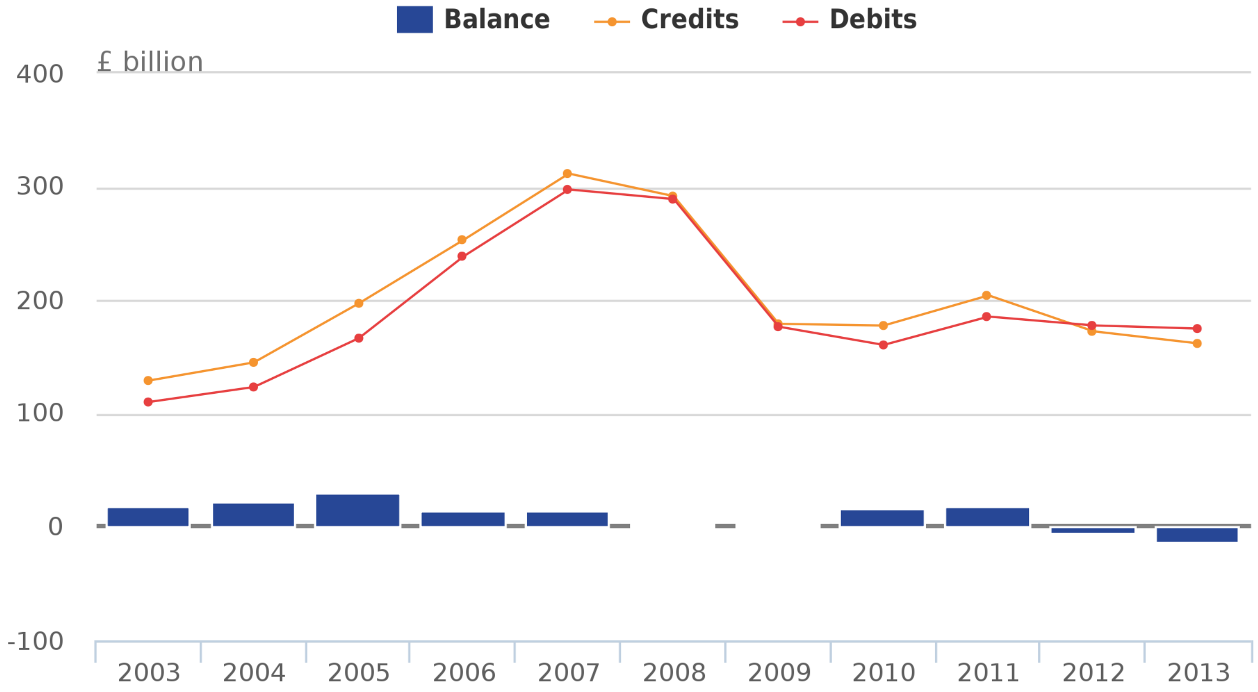
Investment income covers earnings (for example, profits, dividends and interest payments and receipts) coming from foreign investment in financial assets and liabilities. Credits are the earnings of UK residents from their investments abroad and other foreign assets. Debits are the earnings of foreign residents from their investments in the UK and other UK liabilities. The flow of investment in the financial account is recorded separately from earnings, although reinvested earnings of companies with foreign affiliates are a component of both. The total value of UK assets and liabilities held at any time is also recorded separately under the international investment position.

Other primary income covers earnings from taxes and subsidies, and rent on production and the import of goods. Under the Balance of Payments Manual fifth edition, taxes and subsidies on production and on the import of goods were classified to secondary income (previously called 'current transfers'). The recording of rent was previously classified to other investment income.

Primary income

Total primary income credits continued to decrease in 2013, recording £161.8 billion compared with £172.5 billion in 2012. This reflected a decrease in receipts for each main component. Total primary income debits also fell in 2013, from £177.7 billion in 2012 to £174.9 billion in 2013. This was due to a decrease in payments in investment income, partially offset by small rises in payments in compensation of employees and other primary income. As credits decreased more than debits, the deficit on primary income widened to £13.1 billion in 2013, compared with a deficit of £5.3 billion in 2012.

Figure 4.1: Primary income



Source: Source: Office for National Statistics

Compensation of employees

The balance on compensation of employees has been in deficit since 2004, with the deficit at its widest in 2006. The deficit narrowed in the following years, particularly after the financial crisis. In 2013, the deficit widened slightly to £0.3 billion, compared with £0.1 billion in 2012. This was due to debits increasing and credits decreasing over the year.

Investment income

The balance on investment income was in surplus every year since 2000. However, in 2012, the balance on investment income switched to a deficit of £4.8 billion, compared with a surplus of £18.7 billion in 2011. In 2013, the deficit widened to £12.3 billion which was mainly due to a narrowing in the surplus on direct investment and a widening in the portfolio investment deficit. Partially offsetting these was a narrowing in the other investment deficit.

From 2003 to 2007, investment income credits and debits increased significantly. Investment income credits peaked in 2007 with record receipts of £307.7 billion. This reflected stronger profits on direct investment and a higher rate of return on both portfolio and other investment, together with significant levels of investment over the period. In 2007, investment income debits also peaked with record payments of £293.4 billion. This reflected a higher rate of return on both direct and other investment.

In 2008, 2009 and 2010, investment income credits and debits both fell. In 2008, this was mostly due to lower earnings on direct and other investment. In 2009 and 2010, the fall was mainly due to lower earnings on other investment as internationally interest rates continued to fall.

Both investment income credits and debits recovered in 2011, but were still roughly a third lower than the 2007 peak. Investment income credits fell from £199.9 billion in 2011 to £168.7 billion in 2012. Meanwhile investment income debits fell from £181.2 billion in 2011 to £173.5 billion in 2012. In 2013, both investment income credits and debits continued to fall, with credits recording receipts of £158.2 billion and debits recording payments of £170.5 billion.

Earnings on direct investment abroad were the largest component of investment income credits between 2002 and 2005. They accounted for over 40% of total earnings in each year over the period, compared with 31% in 1998. This reflects the boom in UK merger and acquisition activity in the late 1990s and early 2000s, and subsequent growth in earnings from abroad. Between 2006 and 2008, other investment income (mostly earnings from loans and deposits) was the largest component of investment income credits. This accounts for 45% of total earnings in 2008. Due to the sharp fall in earnings on other investment as interest rates fell, earnings on foreign direct investment have once again become the largest component of investment income. They now account for more than half of the earnings of investment income between 2010 and 2013. Earnings on portfolio investment abroad have broadly risen in line with total investment income. Between 1993 and 2008, the proportional share was consistently around 25% of total earnings from abroad. In 2009, the portfolio investment proportion of investment income peaked at 32%, before falling back to 30% in 2013.

Growth in foreign earnings on investment in the UK from 2005 to 2007 was mainly due to other investment, although both direct and portfolio investment also grew strongly over this period. Despite increased investment in the UK, foreign earnings decreased in 2008. In 2009, the fall in foreign earnings on investment in the UK reflected a sharp reduction in foreign earnings on other investment. This was mainly due to low interest rates in the UK combined with a reduced stock of other investment liabilities. From 1980 to 2008, other investment income was the largest component of income on investment in the UK. However, from 2009, portfolio investment income became the largest component, following a large fall in income on other investment.

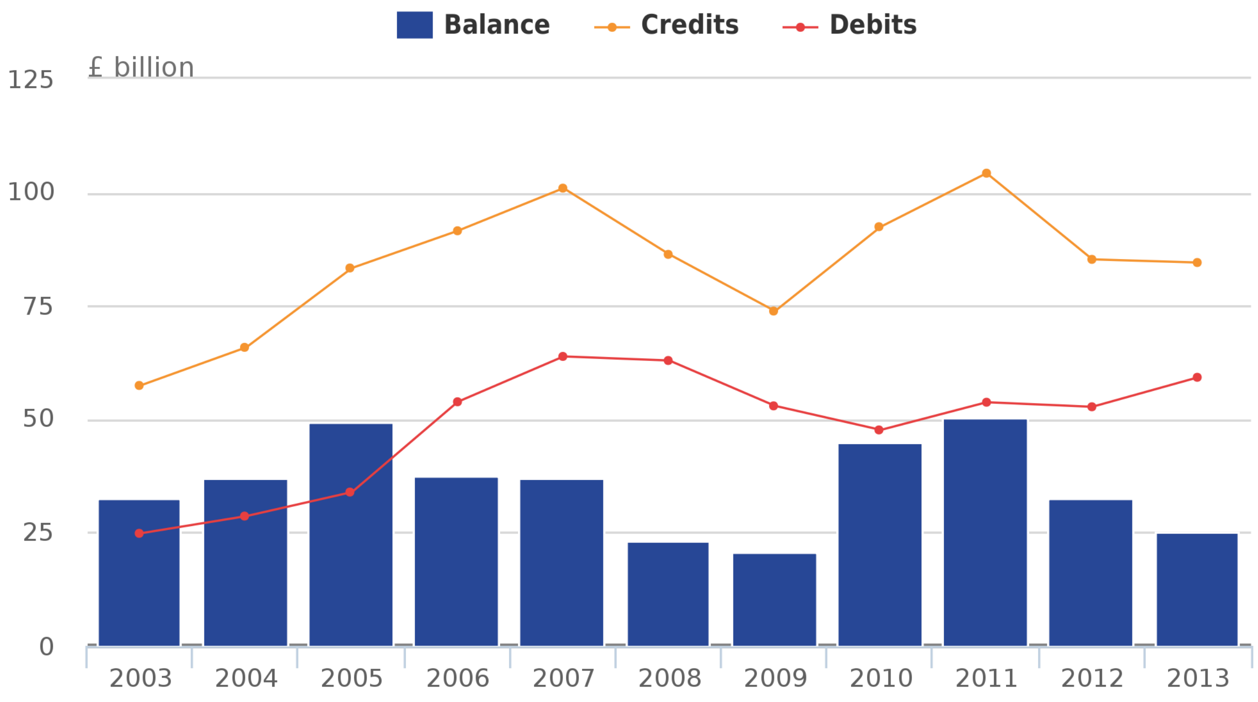
By component, direct investment has recorded a surplus in every year since 1997. In portfolio investment, from 1993 to 2005 there was generally an income surplus on debt securities. But, in most years this was outweighed by the income deficit on equity securities. In 2006, income on debt securities switched to a deficit, following a slight narrowing in the deficit in 2009, the deficit on debt securities has widened substantially in the years to 2013. Other investment has recorded a net deficit in every year since 1986.

By sector

Direct investment

Direct investment income credits have exceeded debits in every year since 1997. In 2013, the net earnings surplus on direct investment decreased to £25.3 billion, from £32.5 billion in 2012. Earnings on direct investment abroad decreased by 1% in 2013, to £84.5 billion. This was mainly due to the foreign earnings of UK private non-financial corporations decreasing from net earnings of £66.6 billion in 2012 to £61.2 billion in 2013. Partially offsetting this were insurance companies who switched from losses of £0.1 billion in 2012 to profits of £3.6 billion in 2013, and monetary financial institutions who recorded an increase in profits from £5.0 billion in 2012 to £6.2 billion in 2013.

Figure 4.2: Direct investment income



Source: Office for National Statistics

Foreign earnings on direct investment in the UK increased from £52.7 billion in 2012 to £59.2 billion in 2013. This increase resulted from higher profits reported by foreign-owned UK other financial intermediaries, which increased by £4.8 billion to £8.5 billion in 2013. In addition, both foreign-owned UK insurance companies and foreign-owned UK private non-financial corporations recorded an increase in profits of £0.8 billion to £2.0 billion and £37.6 billion in 2013 respectively.

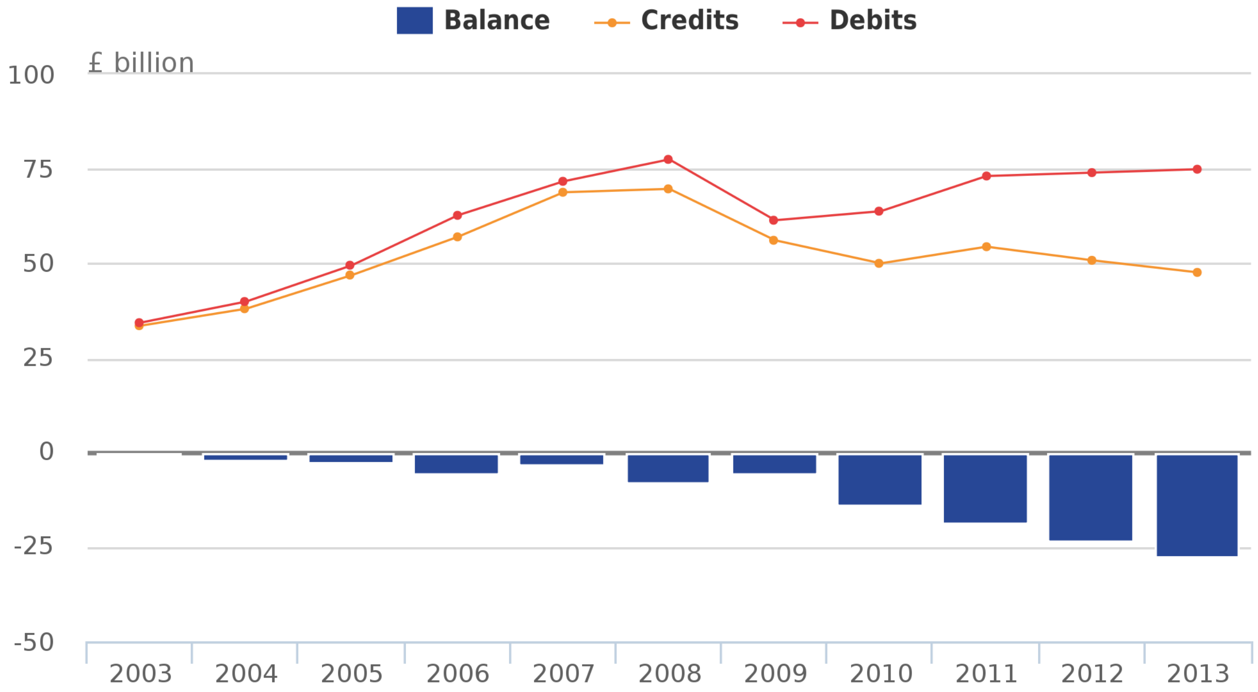
Portfolio investment

The UK has recorded a deficit on portfolio investment in all but two years since records began in 1984. In all years since 1987 the UK has paid out more dividends on UK equity securities owned by non-residents than have been received on foreign equity securities owned by UK residents.

In contrast, the UK recorded a surplus on debt securities between 1997 and 2005 but, with the exception of 2009, has recorded an increasing deficit on debt securities each year from 2006. This was due to the surplus on earnings from long-term debt securities decreasing, so that it no longer offset the deficit on short-term debt securities. In 2010, net earnings on long-term debt securities switched from surplus to deficit for the first time since 1990, resulting in a deficit of £9.6 billion on total debt securities. The deficit increased to a record £17.0 billion in 2012, before narrowing slightly to £15.5 billion in 2013. UK monetary financial institutions doubled their net earnings on portfolio investment between 2001 and 2007, moving from a surplus of £9.7 billion in 2001 to a record surplus of £18.9 billion in 2007. This surplus has gradually declined in subsequent years, standing at £1.7 billion in 2013.

UK monetary financial institutions traditionally tended to hold debt securities rather than equity securities. But, from 2002 to 2007 they steadily increased their levels of investment in foreign equity securities, resulting in a similar rise in dividend receipts. However, they disinvested heavily in 2008, resulting in a fall in dividend receipts from £4.5 billion in 2007 to £3.5 billion in 2008. Their dividend receipts continued to decrease in the next three years, falling to £2.5 billion in 2011. In 2012, they returned to investing in equity securities which resulted in dividend receipts increasing to £3.2 billion. Despite increasing their investment in equity securities in 2013 the amount of dividends received fell to £2.3 billion. UK monetary financial institutions' interest receipts on foreign debt securities rose to a record £35.0 billion in 2007, due to an increase in the investment stock combined with higher interest rates. Earnings on debt securities by UK monetary financial institutions fell in subsequent years, recording earnings of £11.3 billion in 2013. This is almost a third the size of those in 2007. This was due to disinvestment in debt securities and low interests rates.

Figure 4.3: Portfolio investment income



Source: Office for National Statistics

For debits, foreign earnings from UK equity have more than doubled since 2003, rising from £15.0 billion to £33.0 billion in 2013. The increase in earnings on equity securities reflects increased investment and an increase in the implied rate of return. This has consistently been higher than the implied rate of return for UK earnings on foreign equity securities over the same period. Foreign earnings on UK debt securities increased from £19.3 billion in 2003 to £51.1 billion in 2008. Despite increasing their investment in UK debt securities in 2009, foreign earnings on UK debt securities fell to £39.6 billion. Due to more stable interest rates and continued investment in UK debt securities, foreign earnings increased in the years 2010 to 2012. In 2013, foreign earnings on debt securities decreased to £41.9 billion from £46.6 billion in 2012. This was because non-residents disinvested from both short-term and long-term debt securities.

Other investment

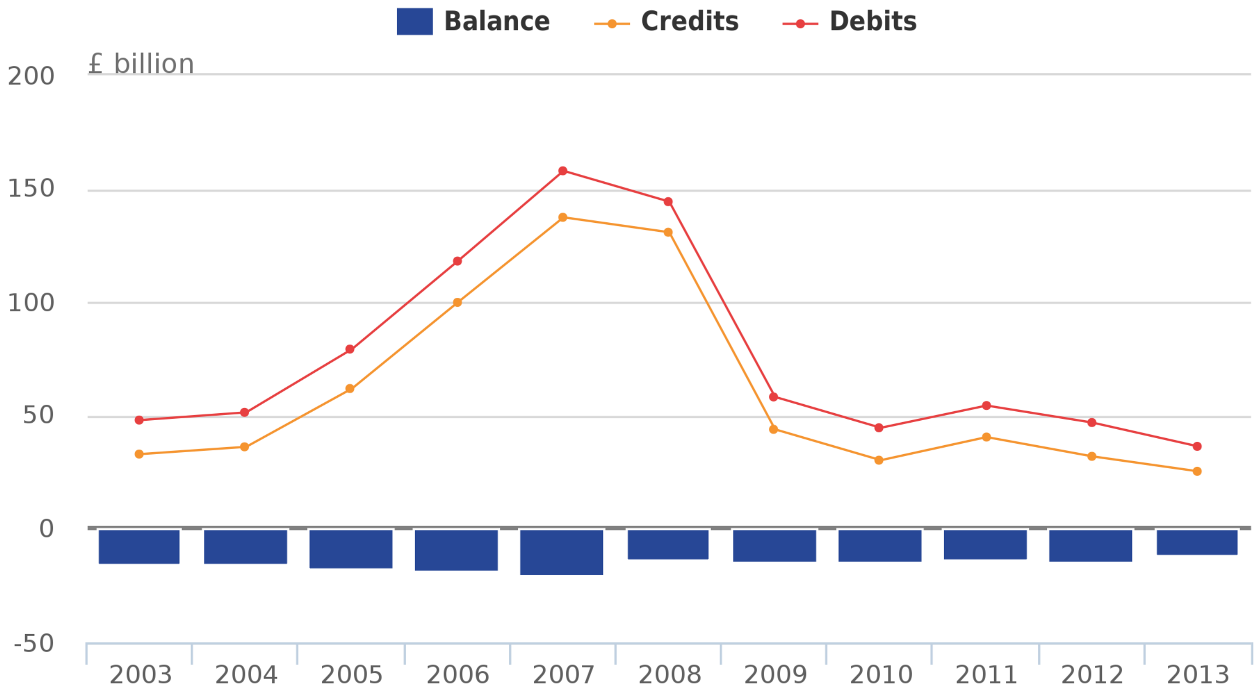
Movements in the other investment balance are mainly due to interest rate changes, which impact on interest paid and received on loans and deposits. As the UK has an excess of other investment liabilities over assets, there is generally a deficit on other investment income, with rising interest rates leading to a rising deficit and falling interest rates to a falling deficit.

Rising global interest rates from 2005 through to 2007 led to the other investment deficit increasing from £17.4 billion to £20.4 billion over that period. In 2008, the deficit narrowed to £13.5 billion as global interest rates fell and remained at around this level until 2012. In 2013, the deficit narrowed to £11.0 billion as payments decreased more than receipts. The narrowing of the deficit in 2013 reflected a reduction in the deficits for:

- other financial corporations from £10.6 billion in 2012 to £8.3 billion in 2013, and
- monetary financial institutions from £4.2 billion in 2012 to £3.2 billion in 2013.

Earnings on deposits abroad by UK monetary financial institutions accounted for almost 68% of total other investment credits in 2013. The vast majority of these earnings are made from foreign currency, reflecting the international nature of banking in the UK. Many of the banks trading with the rest of the world are actually branches or subsidiaries of foreign banks.

Figure 4.4: Other investment income



Source: Source: Office for National Statistics

Sectoral breakdown of investment income

UK monetary financial institutions earned 24% of total UK investment income credits and paid out 24% of debits in 2013. This was down from 27% of credits and 29% of debits in 2012. In every year from 2000 to 2006, monetary financial institutions' net receipts of investment income showed a surplus, but in every following year a deficit was shown. In 2013, the deficit narrowed to £3.5 billion from £5.5 billion in 2012.

Central government recorded a net annual deficit of around £3 billion to £6 billion from 1992 to 2006. More recently this deficit has risen, reaching a peak of £15.3 billion in 2011, but decreased to a deficit of £14.8 billion in 2013. The deficit continues to be mainly attributable to debits on gilts.

Other sectors, predominantly private non-financial corporations and non-monetary financial institutions, have recorded a net surplus in every year since 1987. This is largely due to strong net earnings on direct investment by UK private non-financial corporations. The other sectors surplus peaked at £40.1 billion in 2011 before falling in 2012 and 2013 to £14.6 billion and £5.6 billion respectively. This was because net earnings on direct investment weakened.

Other primary income

The deficit on other primary income widened to £0.5 billion in 2013 from £0.3 billion in 2012. Between 1997 and 2011, other primary income recorded a surplus in the range of £0.1 billion to £1.3 billion. The deterioration in the other primary income balance has been due to credits declining from £3.2 billion in 2011 to £2.5 billion in 2013. Debits have remained around £2.9 billion over the same period.

The reference tables in relation to Chapter 4 are available to download (206 Kb Excel sheet).

8 . Chapter 5: Secondary income

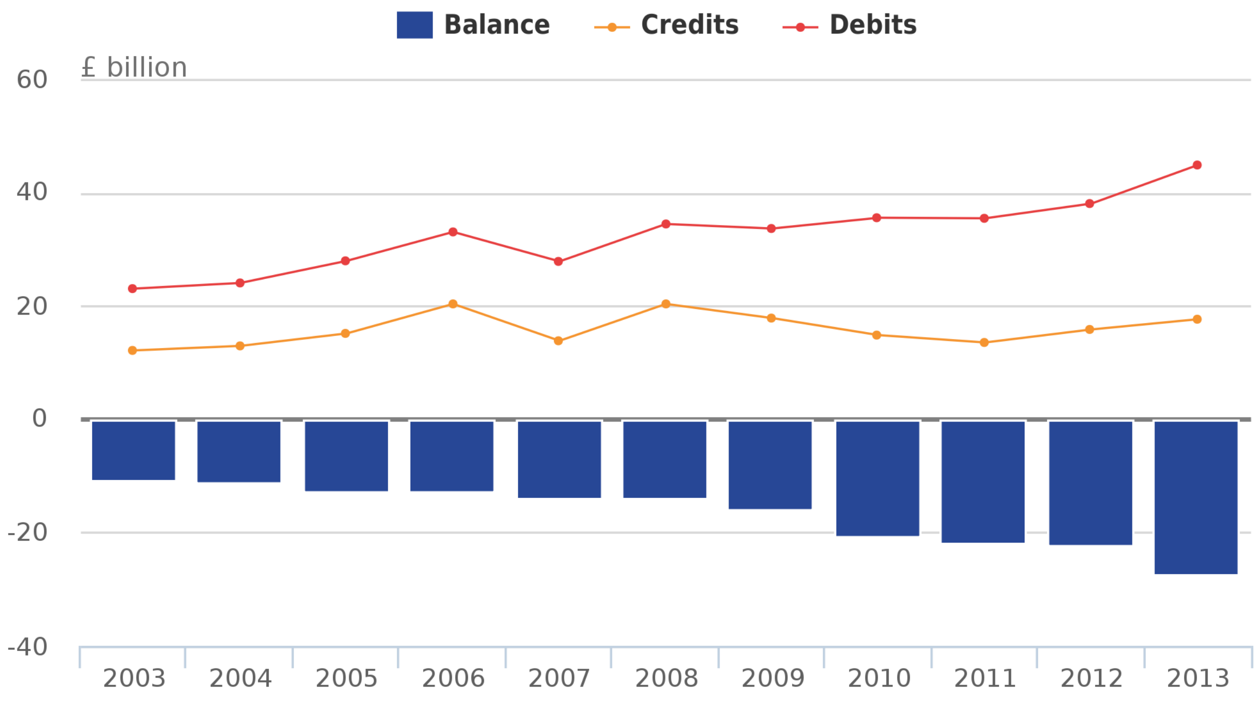
Summary

The secondary income account (previously called ‘current transfers’) represents the provision (or receipt) of an economic value by one party without directly receiving (or providing) a counterpart item of economic value. In other words, this is a transaction representing ‘something for nothing’. Transfers can be money, goods or services given without expecting payment. In 2013, there was a deficit for secondary income of £27.2 billion. This was the highest on record. Since 2006, the deficit has increased in each year.

- In 2013, the deficit on general government transfers increased by £4.5 billion to £23.1 billion. This was the highest on record. This was mainly due to the deficit on other secondary income increasing from £16.7 billion in 2012 to £21.1 billion in 2013

- The deficit for other sectors was £4.1 billion in 2013, a £0.4 billion increase from 2012

Figure 5.1: Secondary income



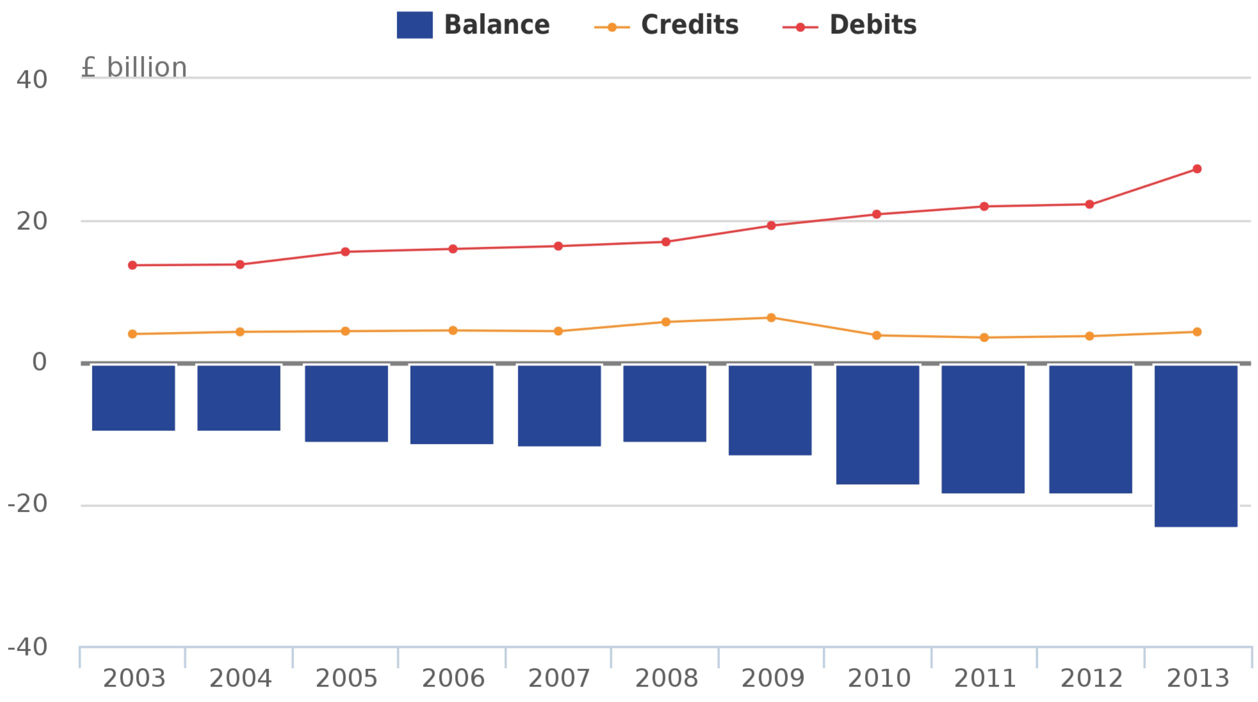
Source: Office for National Statistics

General government transfers

General government transfers include taxes and social contributions received from non-resident workers and businesses, secondary income with international organisations (for example, EU Institutions), bilateral aid, social security payments abroad, military grants and miscellaneous transfers.

- In 2013, there was an increase in credits of £0.6 billion, from £3.7 billion in 2012 to £4.3 billion in 2013
- In 2013, debits increased by £5.1 billion, from £22.3 billion in 2012 to £27.4 billion in 2013

Figure 5.2: Transfers by general government



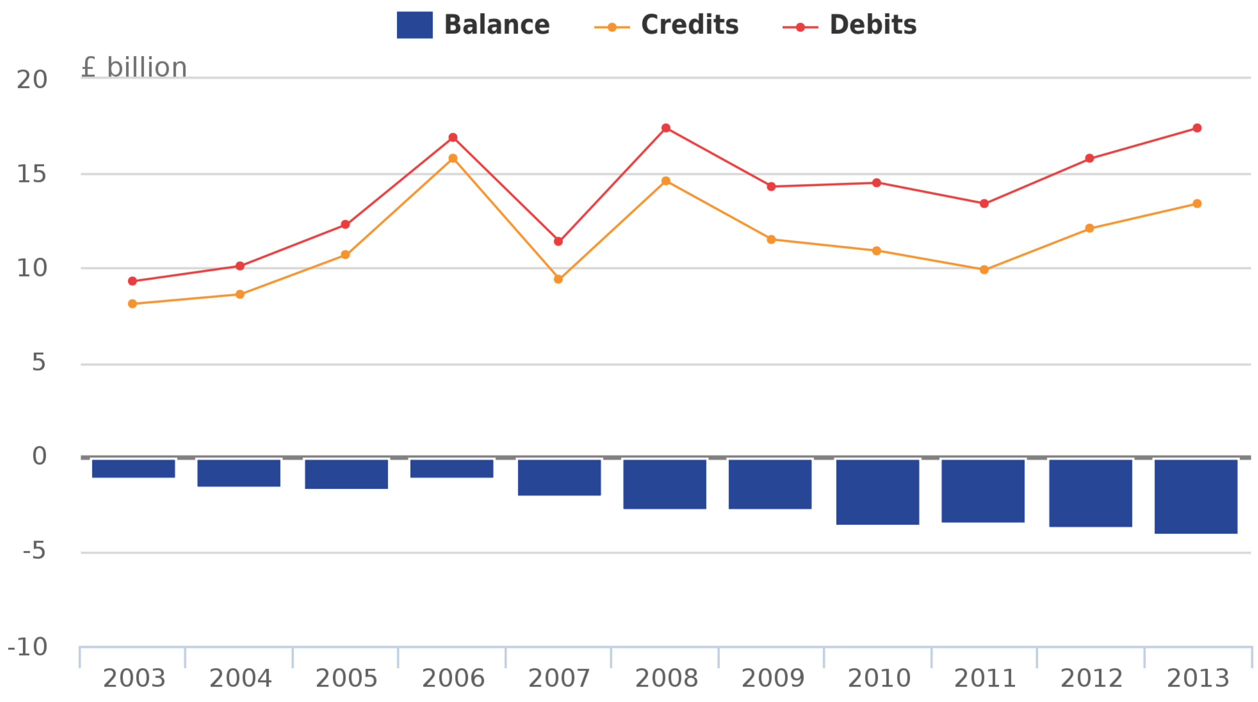
Source: Office for National Statistics

Other sector transfers

Non-government transfers include those EU transfers where the UK Government simply acts as the agent for the final beneficiary (for example, social receipts). Other sectors' transfers also include taxes on income and wealth that are paid by UK workers and outward direct investors to foreign governments, insurance premiums and claims, and other transfers (for example, workers' remittances and other private transfers such as gifts).

- In 2013, credits increased by £1.2 billion from £12.1 billion in 2012 to £13.4 billion in 2013
- In 2013, debits increased by £1.7 billion from £15.8 billion in 2012 to £17.4 billion in 2013

Figure 5.3: Transfers by other sectors



Source: Office for National Statistics

The reference tables in relation to Chapter 5 are available to download (61.5 Kb Excel sheet).

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10. Background notes

1. **What's new**

   The United Kingdom Balance of Payments Pink Book 2014 is the first time that ONS presents the annual Balance of Payments and International Investment Position publication using the new definitions and methods set out in the Balance of Payments Manual sixth edition (BPM6). Data in the Pink Book 2014 are consistent with the Balance of Payments 2014 Q2 statistical bulletin, published on 30 September 2014.

   Due to the scale of changes to the methods and definitions with the introduction of BPM6, table 1.1R is not included in Pink Book 2014 as the latest estimates are not directly comparable with previously published data. However, the Balance of Payments Q2 2014 statistical bulletin included an Annex to explain the impact the changes have on annual data for the period 1997 to 2013.

2. **Reliability of estimates**

   All the value estimates are calculated as accurately as possible; however they cannot always be regarded as being absolutely precise to the last digit shown. Similarly, the index numbers are not necessarily absolutely precise to the last digit shown. Some figures are provisional and may be revised later; this applies particularly to many of the detailed figures for the latest years. For example, calendar year date for the International Trade in Services Survey and Foreign Direct Investment Survey are not available until after Pink Book publication. Therefore, the latest Trade in Services and Direct Investment data published in the Pink Book are provisional estimates and subject to annual benchmarking after publication.

   The latest data when available for the International Trade in Services Survey can be found at its landing page.

   The latest data when available for the Foreign Direct Investment Survey can be found at its landing page.

3. **Rounding**

   As figures have been rounded to the nearest final digit, there may be slight discrepancies between the sums of the constituent items and the totals as shown.

4. **Revisions since ONS Pink Book 2013**

   The data in the Pink Book are subject to revisions following the ONS National Accounts Revisions Policy.

   With the implementation of new international standards the current account balance is revised from 1955 onwards.

   Trade in goods - The revisions to trade in goods from 1955 reflect the inclusion of illegal activities relating to drug smuggling. Revisions from 1997 onwards reflect revised data from Her Majesty's Revenue and Customs and other data suppliers and revised estimates of trading associated with VAT MTIC fraud. The revisions are consistent with the 2014 Blue Book.

   Trade in services - Revisions from 1997 onwards result from a general reassessment of data following the annual supply use balancing process, the incorporation of updated source data from the Bank of England, Chamber of Shipping and Department for Transport. Revisions from 2012 additionally reflect the use of final results from ONS's International Trade in Services Survey for 2012.

   Primary income - Revisions from 1999 reflect changes to the methodology for the reporting of Monetary Financial Institution earnings from foreign direct investment. Revisions from 2011 reflect the use of annual inquiry results from the ONS direct investment surveys.

   Secondary income - Revisions to current transfers are attributed to the reclassification of some transactions to primary income, revised source data for transfers involving the UK government and the use of the latest data from various ONS surveys.

   International investment position - The large revisions to the International Investment Position for the period 2013 are a result of new data being available for direct investment rather than as a result of implementing the new international standards. These new data are sourced from the improved ONS quarterly FDI survey. The methodology within this quarterly survey has now been aligned with the ONS' annual FDI survey. In addition, the sample size of the quarterly survey has been increased to provide better coverage and higher quality estimates. The increased sample size of the ONS' quarterly FDI survey now allows the opening and closing balances on the different forms of investment as well as the flows of investment to be utilised. This provides a more coherent picture of investment positions of individual businesses and is consistent with the approach used by the ONS' annual FDI survey. Previously, due to the smaller sample size and different methodologies, the ONS' quarterly FDI survey derived the closing balance by carrying forward the closing balance from the last ONS annual FDI survey and applied the flows of investment to calculate the closing balance. This was then carried over to the next quarters opening balance where the flows for the next quarter were then applied to calculate the next quarter's closing balance. The improved ONS quarterly FDI survey will continue to be benchmarked to the ONS annual FDI survey when this is available to do so.

5. **Symbols**

The following symbols are used throughout:

.. = not available

- = nil or less than a million

6. **Understanding the data**

At the time of publishing the Pink Book 2014 on 31 October 2014, not all of the following documents were updated with BPM6 definitions. ONS apologises and aims to complete updating them before the end of November 2014.

A brief introduction to the United Kingdom balance of payments provides an overview of the concepts and coverage of the UK Balance of Payments.

A glossary of terms used in the UK balance of payments is available on the National Statistics website.

More detailed methodological notes for the UK balance of payments are also available on the website.

The following webpage contains articles of interest which relate to UK balance of payments statistics.

7. **References**

The internationally agreed framework for the presentation of the Balance of Payments and the National Accounts are described in the following publications:

Balance of Payments Manual (6th edition), International Monetary Fund (ISBN 978-1-58906-812-4), https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

Balance of Payments and International Investment Position Compilation Guide, International Monetary Fund (ISBN 978-1-48431-275-9), https://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm

European System of Accounts (ESA 2010), Eurostat. http://epp.eurostat.ec.europa.eu/portal/page/portal/esa_2010/introduction

System of National Accounts (2008), (ISBN 978-92-1-161522-7). http://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf

Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

The United Kingdom Statistics Authority has designated these statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

Designation can be broadly interpreted to mean that the statistics:

- meet identified user needs,
- are well explained and readily accessible,
- are produced according to sound methods, and
- are managed impartially and objectively in the public interest.

Once statistics have been designated as National Statistics it is a statutory requirement that the Code of Practice shall continue to be observed.

8. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

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