Article

Detailed assessment of changes to balance of payments annual estimates: 1997 to 2020

Forthcoming changes and their indicative impact on main balance of payments and international investment position (IIP) estimates.

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1 . Main changes

- The average revision to the current account balance between 1997 and 2020 is negative £0.4 billion or 0.0% of gross domestic product (GDP), in absolute terms the revision is £2.8 billion.

- The current account deficit in 2020 when latest data are included is revised up from £53.8 billion to £67.5 billion in value terms, or as a percentage of GDP from 2.5% to 3.2%.

- The trade surplus in 2020 revised up from £6.4 billion to £7.6 billion in value terms or as a percentage of GDP from 0.3% to 0.4%.

- The primary income deficit revised from a deficit of £31.7 billion (1.5% of GDP) to £47.4 billion (2.2% of GDP) in 2020 and is the main driver to the revision in the current account in 2020.

- The average revision to the financial account balance is negative £4.2 billion (0.3% of GDP) between 1997 and 2020, and £33.9, billion (0.6% of GDP) for the net international investment position (IIP) over the same period.

2 . Overview of changes to balance of payments estimates

This article provides indicative estimates of the impact methodological improvements will have on headline balance of payments statistics between 1997 and 2020, consistent with the national accounts, due to be published on 30 September 2022.

These improvements were initially outlined in the Proposed changes to be implemented in Blue Book and Pink Book 2022, published on 13 January 2022 and will impact on the headline accounts in balance of payments. These impacts are summarised in Section 1: Main changes.

Methodological changes are made in line with standards and international best practice. These, as well as additional improvements that are being made, will ensure that our national accounts and balance of payments continue to deliver a reliable framework for analysing the UK economy and for making international comparisons.

Throughout this article, the data are presented to the nearest billion British pounds, unless stated otherwise. Please note that all current account and trade figures include non-monetary gold (NMG) and other precious metals unless otherwise stated to maintain a consistent presentation of the accounts.

Table 1 provides an indicative impact that changes will have on the balance of payments and international investment position (IIP) in billions of British pounds.

Table 1: Summary of indicative revisions on annual data between previously published data and indicative Pink Book 2022 data, 1997 to 2020 (£ billion)

£ billion	**1997 to 2020**			
	Largest downward revision	**Largest upward revision**	**Average annual revision**	**Average absolute annual revision**
Trade balance	-15.5	4.6	0	3.5
Primary income balance	-15.7	12.1	-0.4	3.8
Secondary income balance	0	0.8	0	0
Current account balance	-13.7	4.1	-0.4	2.8
Financial account balance	-40	19.5	-4.2	9.6
Net International Investment Position	-111.2	334.7	33.9	93.6

Source: Office for National Statistics - Balance of Payments

Notes

1. Components may not add because of rounding differences.

3 . Main improvements

Revisions are mainly the result of implementing the improvements described in this article. Indicatively, revisions between 1997 and 2017 will exclusively be from methods changes. The years 2018 to 2020 are fully open for revisions to incorporate new data from sources, in addition to the methods changes.

This section summarises the indicative revisions that will be introduced into the balance of payments and international investment position (IIP). All estimates presented remain subject to further quality assurance before publication on 30 September 2022, therefore they should be treated as indicative.

International banking statistics

Estimates of deposits with and loans from banks abroad are derived from the banking statistics of countries in the Bank for International Settlements (BIS) reporting area. The BIS international banking statistics (IBS) are a long-established and widely used dataset for monitoring the cross-border positions of internationally active banks. Improvements to the collection of BIS international banking statistics now provide counterparty sector information. This new information has been included into the national accounts and balance of payments from 2014 onwards, previously UK counterparty information has been based on fixed proportions. The new counterparty data have also been used to reassess previously estimated sector proportions between 2003 and 2013. These changes mainly effect financial flows and balance sheet assets and liabilities in the other investment functional category.

Insurance and pensions

Multiple changes have been implemented to the insurance and pensions series in the National Accounts. Insurance companies and pension funds are part of the financial corporation's sector of the economy, and are presented together when published in the National Accounts.

Access to more granular data sources, Solvency II data (an administrative data source collected by the Bank of England's Prudential Regulation Authority as part of the regulation of UK insurance companies) and our Financial Survey of Pension Schemes, have helped improvements to both data and methods.

Solvency II enables identification of the financial flows associated with the different types of insurance business, such as life (long-term) insurance and non-life (or general) insurance business. This means that the Office for National Statistics (ONS) is now able to apply the appropriate methodologies, in line with international guidance, for each type of insurance business.

For pension funds, the ONS replaced the MQ5 Pension Funds Survey with the Financial Survey of Pension Schemes (FSPS) from Quarter 2 (Apr to June) 2019. The FSPS is a quarterly survey that collects data on income and expenditure, transactions, assets and liabilities of UK-funded occupational pension schemes. While part of the FSPS data have already been incorporated into the accounts, these additional changes will update most of the financial balance sheet and accounts for asset and liability holdings of pension funds.

In addition to the use of the new FSPS data, we have introduced methods changes to the non-financial account to improve the estimation of employer pension contributions for private sector defined benefit pension schemes. We have also introduced methods changes to produce estimates of the contributions and benefits associated with non-resident households.

The accounts affected by this change are primary and secondary income, the financial account and IIP in portfolio, other investment and derivatives.

Listed ordinary shares

The coverage of listed shares has been expanded to include UK companies that are listed on markets other than the London Stock Exchange (LSE). UK incorporated companies can list on any number of markets and may do so for several reasons, including:

- a wish to diversify and enlarge their investor pool
- to establish a presence in other countries
- to access to more capital

In terms of listed shares, the ONS uses the LSE as its sole source of data at present, therefore omitting data for UK companies which use other markets to list. The scope of these markets includes the large international markets such as the New York Stock Exchange, the NASDAQ and the Stock exchange of Hong Kong, as well as smaller domestic markets such as the Aquis stock exchange. To fill this gap, the ONS acquired data for all UK companies listing outside of the LSE from a commercial data source. In conjunction with other data providers, the ONS have now a more complete set of data for both shares and the resulting dividend payments for these companies. This change effects flows in the financial account and levels in the IIP in the portfolio investment functional category, with a smaller impact on earnings in the primary income account.

Bonds

Through our collaboration with the Bank of England (BoE), looking at debt securities and more specifically corporate bonds, we have improved our estimates in this area through two changes. Firstly, the inclusion of extra bond redemption data, sourced from the BoE for financial corporations, has had a large impact on the balance sheet data for that sector. Secondly, a better understanding of the nature of the data received from the BoE has enabled us to remove an uplift which was used to account for the conversion of the data to market value. This change has reduced IIP positions, effected financial transactions in portfolio investment and reduced primary income flows.

Trade

The transformation of trade statistics continues to improve our understanding of international trade (for more information, see our UK trade development plan: 2020). Improvements will be seen across both trade in goods and services.

In Pink Book 2022, we will introduce the methodological improvements to the travel and tourism estimates from the International Passenger Survey (IPS) that were outlined in our Travel trends: 2019 article. We will update our estimates of sea disbursements exports with Vessels Value and HM Revenue and Customs (HMRC) data. This will complete the package of work to improve our estimates on disbursements (services auxiliary to transport not directly provided for the movement of goods or people) in the UK by foreign operators. Estimates for other modes of transport were completed in previous years.

We will also be aligning our data on universities' exports of research and development services with those published by the Higher Education Statistics Agency.

Furthermore, we will also incorporate the corrected HM Revenue and Customs (HMRC) overseas trade data used to compile the ONS' UK trade statistics. To provide users with an indicative estimate of the likely scale and impact of these corrections on the ONS' trade statistics for 2015 to 2019. we published our Indicative estimates of HM Revenue and Customs data corrections on ONS UK trade statistics: 2015 to 2019.

Changes can be seen in trade imports and exports within the current account.

Foreign direct investment methods changes

A stratification method and population changes have been implemented into our foreign direct investment (FDI) data from 2020 onwards, as described in our Foreign direct investment statistics, overview of methods changes: 2020. As a result of introducing these developments, some of the comparisons for 2020 FDI statistics with previous years may reflect changes to the FDI population and sample stratification methods.

The introduction of a commercial data source to inform our sample design and enhance the coverage of our target FDI populations increased the populations from reference periods 2020 onwards. The change to the population on the inward side was most prominent, with an annual increase from approximately 29,400 to 45,500 companies. The outward population also increased from 13,200 to 17,900.

Using the additional data available from the commercial data source, for some industries, shareholder funds have replaced international investment positions values (net book value). This is to determine which size band a company should be allocated to in the inward FDI sample. These new results are presented in our Foreign direct investment involving UK companies: 2020 bulletin.

Changes can be seen mainly in direct investment financial flows and levels in the IIP, but also impacts earnings from direct investment.

4 . Provisional impact on the main total aggregates

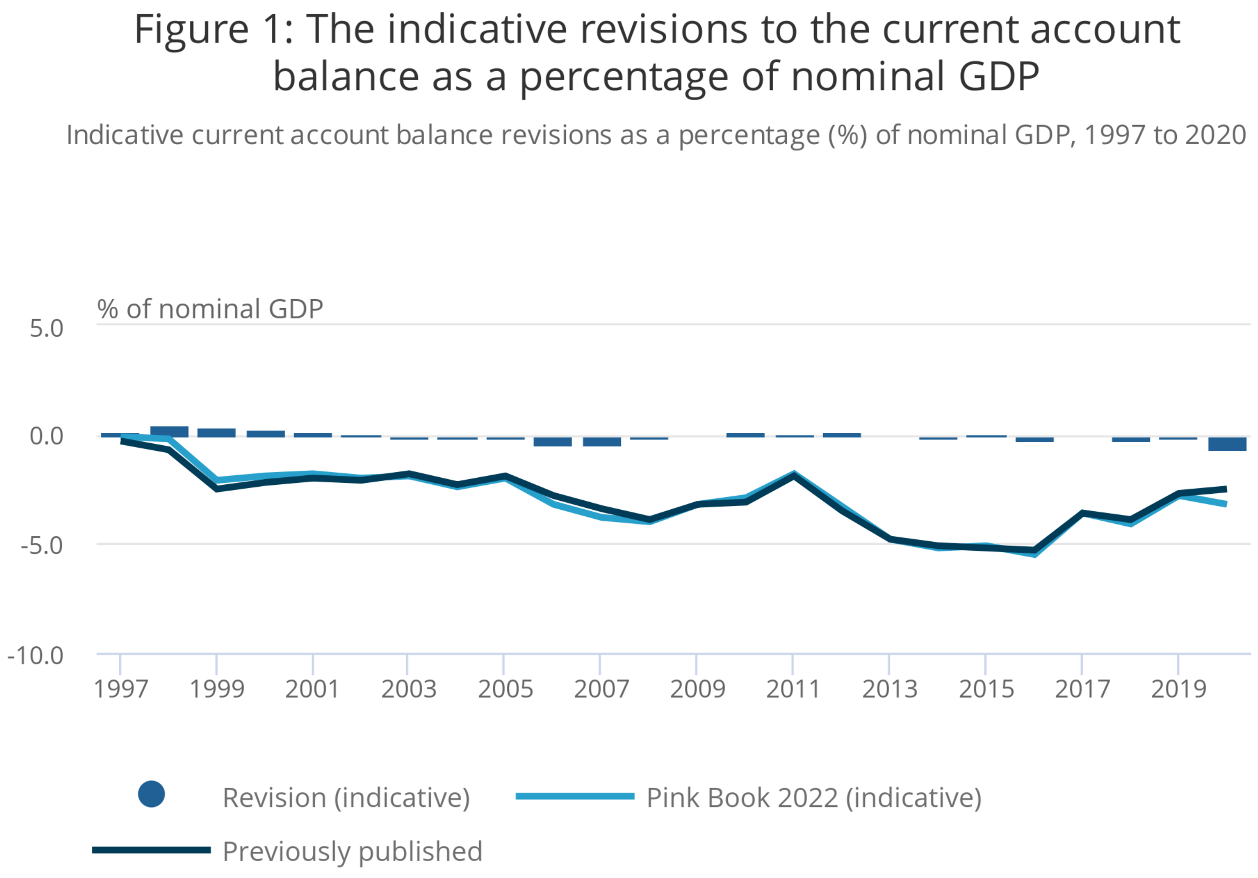
This section provides a summary of the indicative revisions to the main components of the current account, the financial account, and the international investment position (IIP).

Current account balance

Figure 1 shows the indicative revisions to the current account balance as a percentage of nominal gross domestic product (GDP). This has also been subject to improvements captured in our [Impact of Blue Book 2022 changes on average quarterly gross domestic product article](). The revisions vary from negative 0.7% in 2020 to a positive 0.5% in 1998, the average revision is 0.0% of GDP. See annex for details.

Figure 1: The indicative revisions to the current account balance as a percentage of nominal GDP

Indicative current account balance revisions as a percentage (%) of nominal GDP, 1997 to 2020

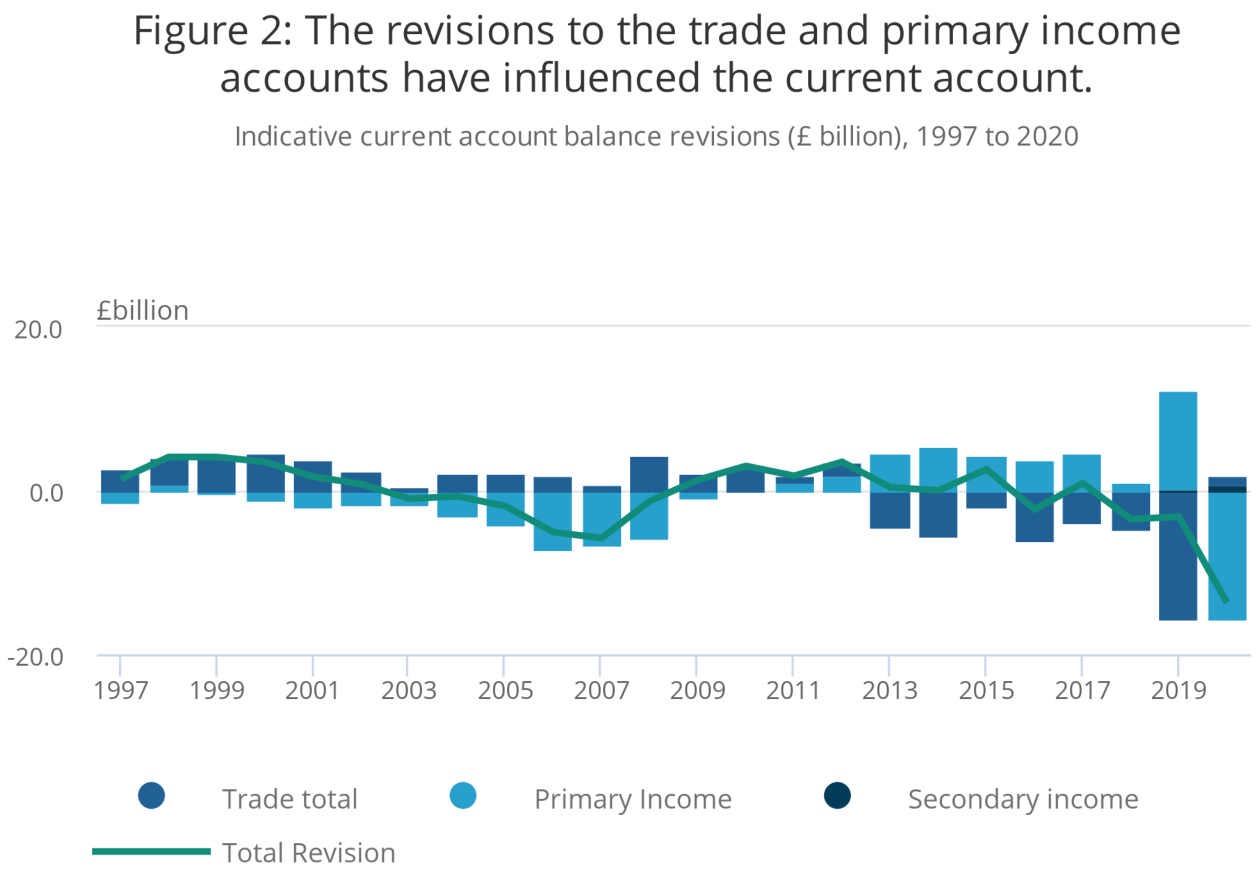


Source: Office for National Statistics

Figure 2 shows the breakdown of the current account balance revisions from 1997 to 2020 in value terms. It highlights how the revisions to the trade and primary income accounts have influenced the current account.

Figure 2: The revisions to the trade and primary income accounts have influenced the current account.

Indicative current account balance revisions (£ billion), 1997 to 2020



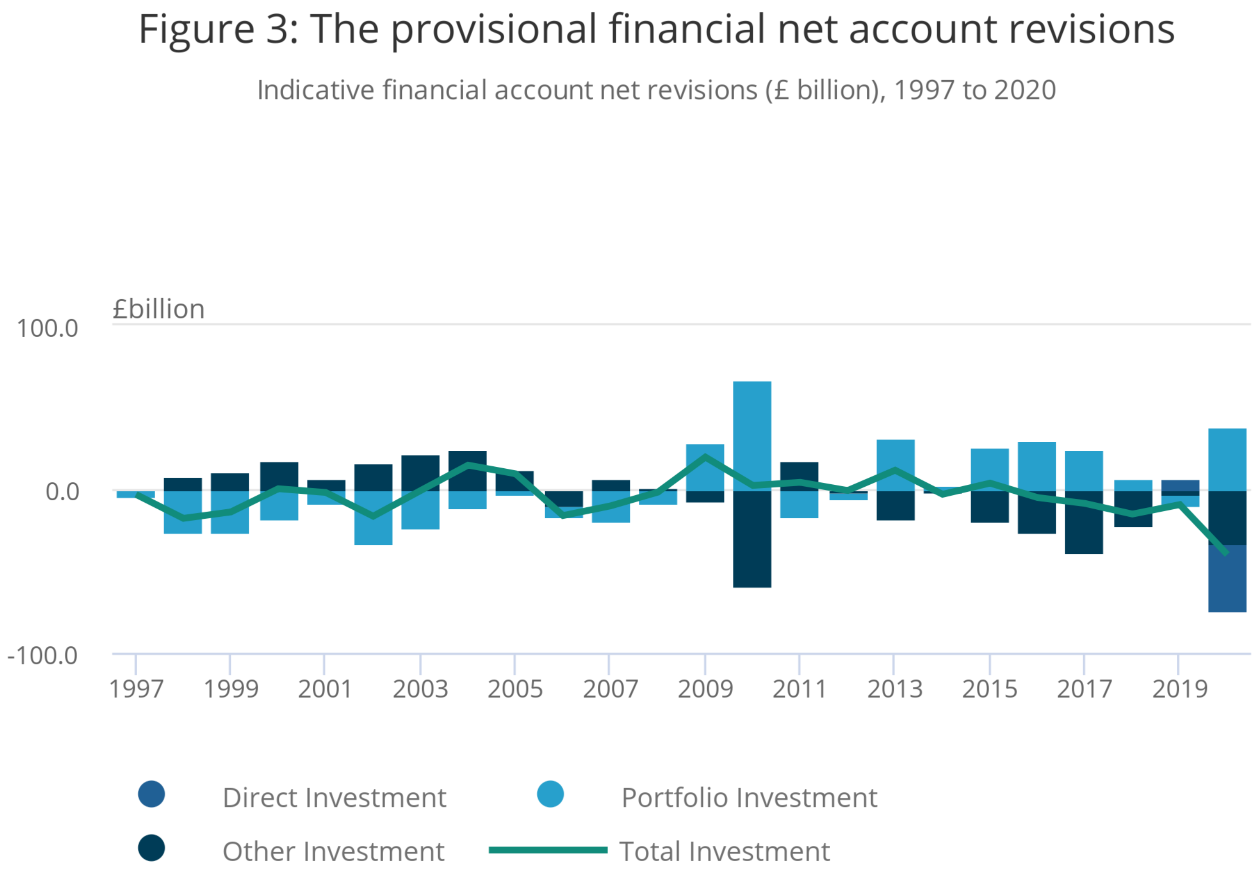
Source: Office for National Statistics – Balance of Payments

Financial account net revisions

This section provides the details of the impact on the financial account. Figure 3 shows the provisional financial net account revisions in billions from 1997 to 2020. The average annual revision to net financial flows is negative £4.2 billion (0.3% of GDP), with the largest revision seen in 2020 of negative £40.0 billion (1.9% of GDP) as direct, portfolio and other investment categories are revised.

Figure 3: The provisional financial net account revisions

Indicative financial account net revisions (£ billion), 1997 to 2020



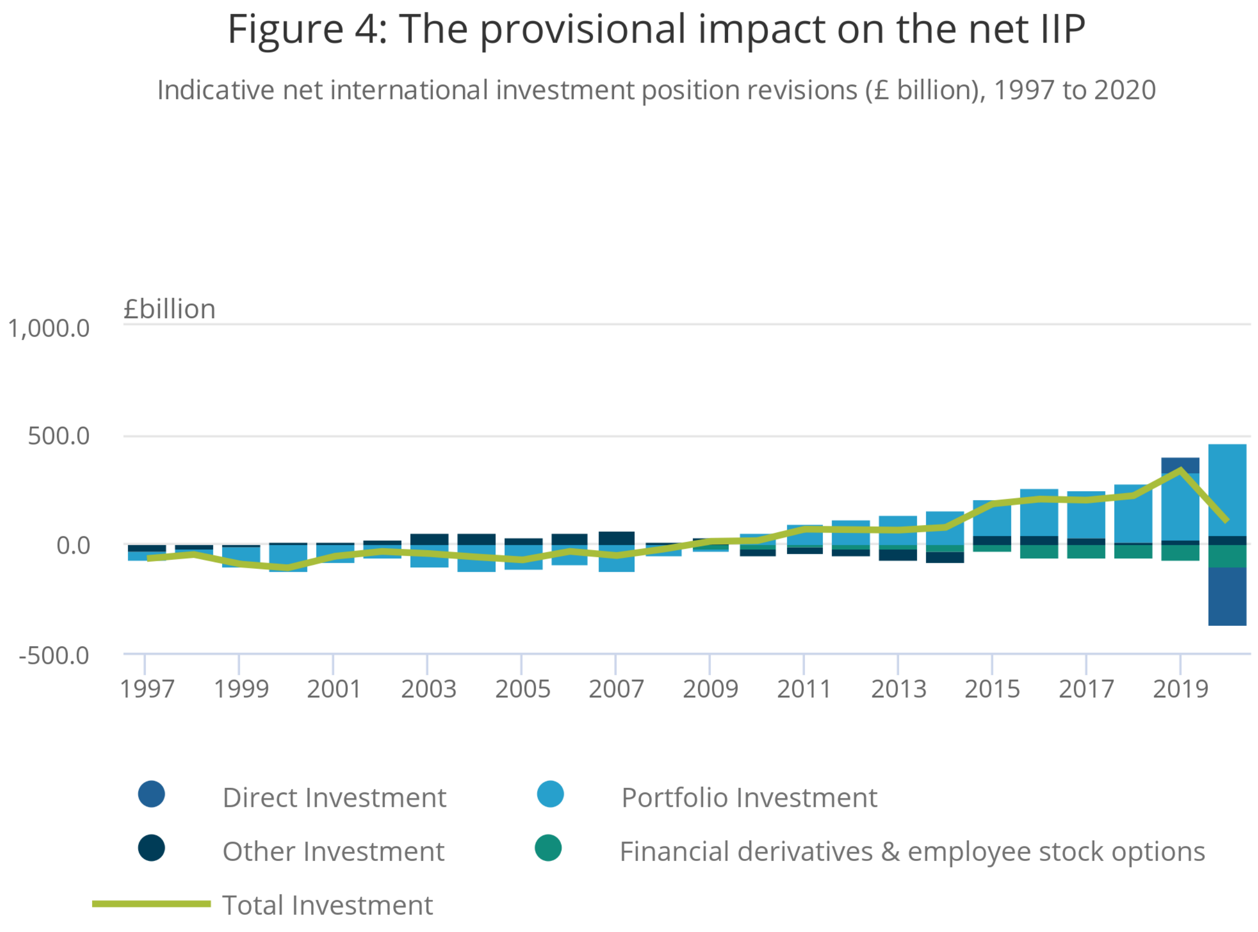
Source: Office for National Statistics – Balance of Payments

Net international investment position (IIP) revisions

Figure 4 shows the provisional impact on the net IIP from 1997 to 2020. The revised UK liability position has widened between 1997 and 2008 as portfolio investment liabilities are now larger than previously estimated. From 2008 onwards the net liability position contracted as UK portfolio investment assets revised up, as additional bond redemption data caused large revaluations on the balance sheet. In 2020, direct investment liabilities were revised upward. This was substantially more than assets as the change to the inward population was most prominent, with an annual increase from approximately 29,400 to 45,500 companies.

Figure 4: The provisional impact on the net IIP

Indicative net international investment position revisions (£ billion), 1997 to 2020



Source: Office for National Statistics – Balance of Payments

5 . Gross national income

The transition of gross domestic product (GDP) to gross national income (GNI) is obtained by adding the difference between compensation of employees and property income. This is also known as investment income, received from and paid to the rest of the world. Compensation of employees is the remuneration paid by an employer to employee for work done; property income is primarily the earnings from financial investments and assets, such as interest, dividends and repatriated profits.

We outline the impacts of GDP on the improvements being implemented as part of Blue Book 2022 in our [Impact of Blue Book 2022 changes on average quarterly gross domestic product article published on 22 August 2022]. By adding the revisions to GDP and total primary income, we can estimate that the indicative average annual revision to GNI between the years 1997 to 2020 is negative £7.3 billion. The largest negative revision is in 2020 of £56.7 billion. For the breakdown of the revisions, see our [Detailed assessment of changes to balance of payments annual estimates, 1997 to 2020 annex tables].

6 . Changes to Pink Book 2022 tables

Pink Book tables have been affected by some of these improvements, for more details see our Detailed assessment of changes to balance of payments annual estimates, 1997 to 2020 annex tables.

7 . Glossary

Balance of payments

The balance of payments is a statistical statement that summarises transactions between residents and non-residents during a period. It consists of the current account, the capital account, and the financial account.

Current account

The current account records the extent that the UK is a net lender or net borrower with the rest of the world. It includes debit and credit transactions relating to trade in goods and services, primary income and secondary income. Credits are income or transfers receivable by the UK, and debits are income or transfers payable by the UK.

The difference in the monetary value of these accounts is known as the current account balance. A current account balance is in surplus if overall credits exceed debits, and it is in deficit if overall debits exceed credits.

Capital account

The capital account has two components, which are capital transfers, and the acquisition (purchase) or disposal (sale) of non-produced, non-financial assets.

Capital transfers are those involving transfers of ownership of fixed assets, transfers of funds associated with the acquisition or disposal of fixed assets, and cancellation of liabilities by creditors without any counterparts being received in return. The sale or purchase of non-produced, non-financial assets covers intangibles such as patents, copyrights, franchises, leases and other transferable contracts, and goodwill.

Financial account

The financial account covers transactions that result in a change of ownership of financial assets and liabilities between UK residents and non-residents. For example, the acquisitions and disposals of foreign shares by UK residents. The accounts are presented by the functional categories of direct investment, portfolio investment, other investment, financial derivatives and reserve assets.

International investment position

The international investment position (IIP) is a statement that shows at the end of the period the value and composition of UK external assets (foreign assets owned by UK residents) and identified UK external liabilities (UK assets owned by foreign residents). The framework of international accounts sets out that the IIP is also presented by functional category, consistent with primary income and the financial account.

Precious metals

In line with international standards, the Office for National Statistics' (ONS') headline trade statistics contain the UK's exports and imports of non-monetary gold. Because a significant amount of the world's trade in non-monetary gold takes place on the London markets, this trade can have a large impact on the size of and change in the UK's headline trade figures.

Further information on precious metals and their impact can be found in our UK trade bulletin.

Net errors and omissions

Although the balance of payments accounts are, in principle, balanced, in practice imbalances between the current, capital and financial accounts arise from imperfections in source data and compilation. This imbalance, a usual feature of balance of payments data, is labelled net errors and omissions. [A more detailed glossary (PDF, 123KB)] of terms used in the balance of payments is also available.

Gross national income

The transition of gross domestic product (GDP) to gross national income (GNI) is obtained by adding the difference between compensation of employees and property income. This is also known as investment income, received from and paid to the rest of the world. Compensation of employees is the remuneration paid by an employer to employee for work done; property income is primarily the earnings from financial investments and assets, such as interest, dividends and repatriated profits.

8 . Related links

Balance of payments, UK: January to March 2022
Bulletin | Released 30 June 2022
A measure of cross-border transactions between the UK and rest of the world. Includes trade, income, capital transfers and foreign assets and liabilities.

UK Balance of Payments, The Pink Book: 2021
Bulletin | Released 29 October 2021
This is published annually and summarises the economic transactions of the UK with the rest of the world over time. It provides a more detail breakdown and analysis than the quarterly statistical bulletin.

Insurance and pensions methods changes: 1997 to 2020
Methodology | Released 20 June 2022
Improvements in calculating estimates for the insurance companies and pension funds subsector. Changes to the financial and non-financial accounts resulting from methods and data source changes.

Developing foreign direct investment statistics: 2021
Article | Released 29 April 2021
An overview of our progress on the development of foreign direct investment (FDI) statistics since 2019, and our plans for the next phase of development.

Foreign direct investment involving UK companies: 2020
Bulletin | Released 3 February 2022
Investment of UK companies abroad (outward) and foreign companies into the UK (inward), including investment flows, positions and earnings, by country, component and industry.

9 . Cite this article

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