

Compendium

# Financial account



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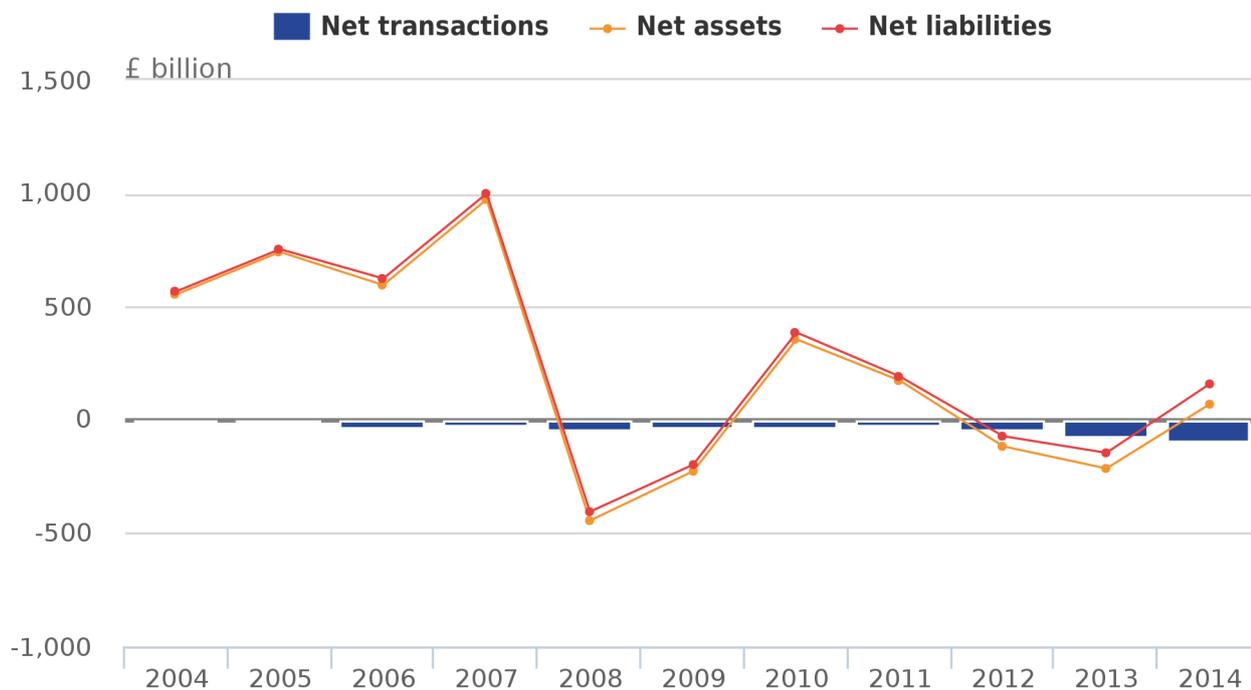
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# 1 . Financial account

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.

Figure 7.1: UK financial account, 2004 to 2014



Source: Office for National Statistics

In 2014, the UK recorded a net inflow of £89.4 billion, an increase from a net inflow of £69.1 billion in 2013. The increase was due to a net increase in liabilities to non-residents of £158.8 billion, while UK assets abroad only recorded a net increase of £69.4 billion. In 2013, the net inflow of £69.1 billion was due to net decrease of UK assets abroad of £214.5 billion, while UK liabilities to non-residents recorded a net decrease of £145.4 billion.

## 2 . Sectoral breakdown of the financial account

### UK investment abroad

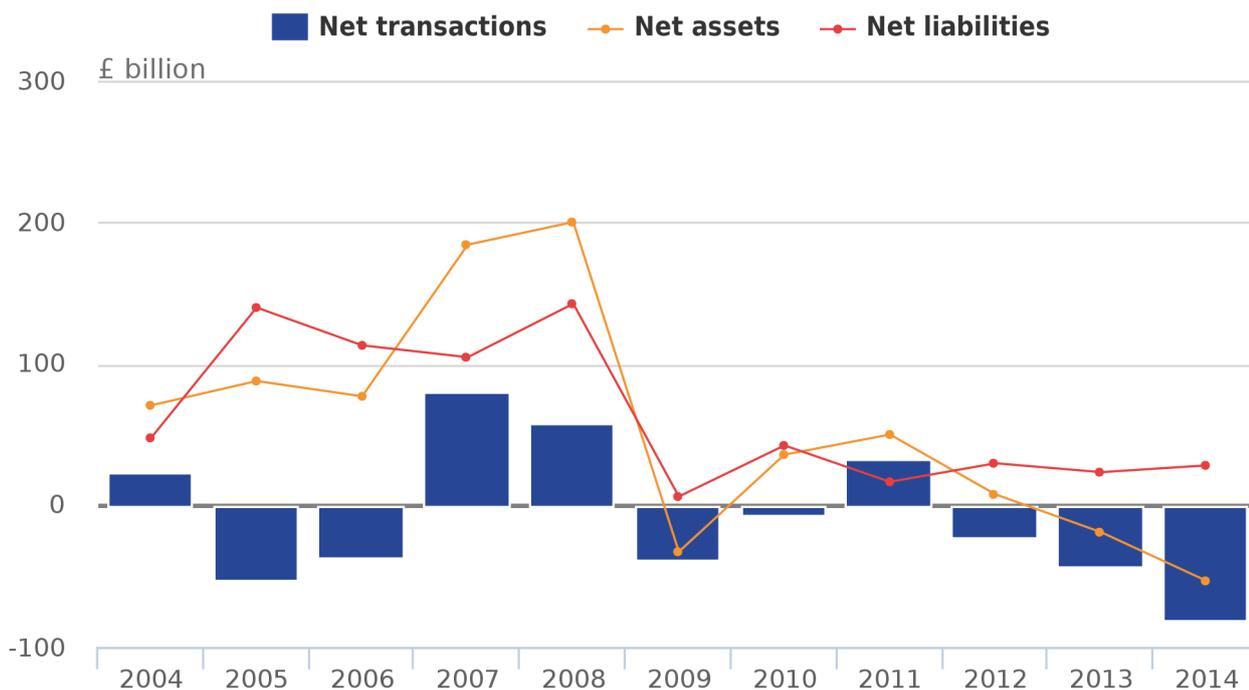
UK monetary financial institutions switched to be net investors in foreign assets during 2014 of £86.5 billion from net disinvestment in 2013 of £338.7 billion. Additionally, in 2014, central government continued to be a net investor of £7.1 billion, primarily to acquire reserve assets. Partially offsetting these were other sectors, who were net sellers of foreign assets of £24.6 billion in 2014, a switch from net investors of £120.0 billion in 2013.

### Investment in the UK

Non-residents invested £159.3 billion in UK other sectors in 2014, an increase from £113.1 billion in 2013. Additionally, non-residents invested £14.3 billion in 2014 in UK central government assets, a decrease from £34.8 billion in 2013. Offsetting these, non-residents disposed of £15.2 billion assets in UK monetary financial institutions, a decrease from disposing of £293.6 billion assets in 2013.

## Direct investment

Figure 7.2: UK financial account: direct investment, 2004 to 2014



Source: Office for National Statistics

Direct investment recorded a net inflow of £81.6 billion in 2014, as non-residents continued to invest in the UK, while UK residents disposed of more foreign assets than they bought.

## UK direct investment abroad

In 2014, UK residents disposed of more foreign direct investment assets than they acquired, recording a net disposal of assets of £53.4 billion, an increase from the net disposal of assets of £19.0 billion in 2013.

The net disposal of assets was due to the net disposal of equity capital of £69.4 billion and negative reinvestment of earnings of £9.7 billion, this is the first recording of negative reinvested earnings since records began in 1987. Negative reinvested earnings indicate a withdrawal of equity by a direct investor. This can be due to the direct investment enterprise incurring a loss on its operations or the declared dividends are larger than net income in the period.

These were partially offset by net investment in debt instruments of £25.7 billion, the first net investment in debt instruments since 2008.

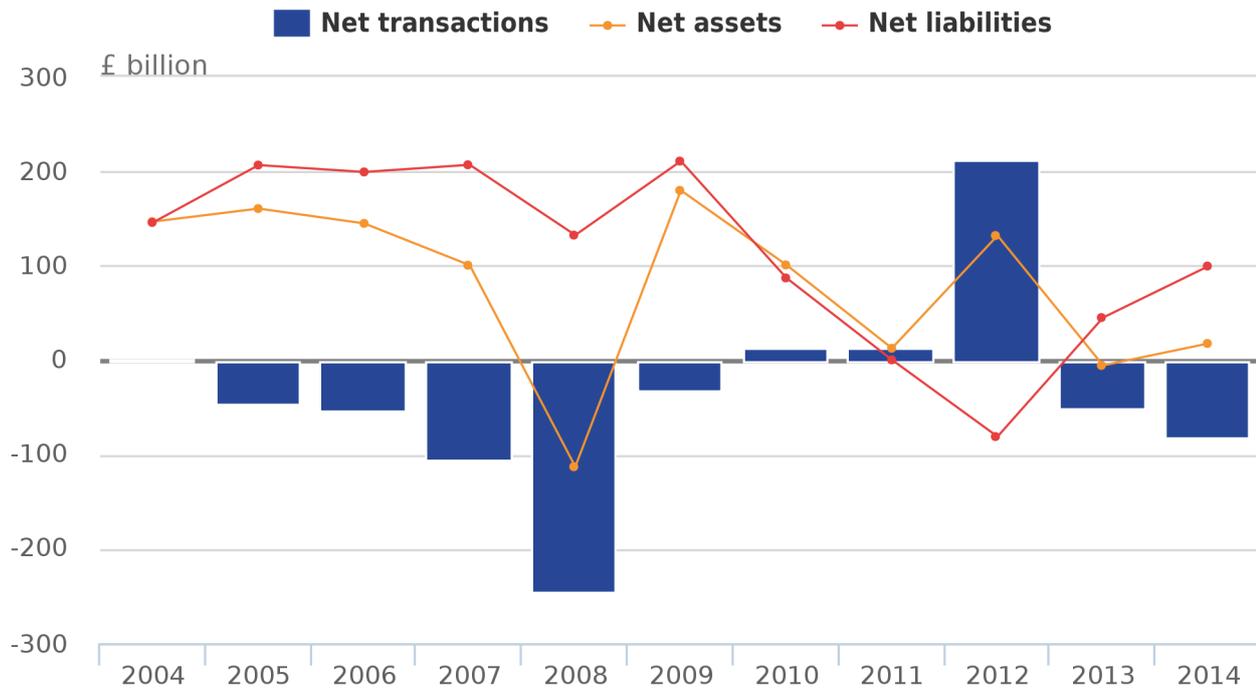
## Direct investment in the UK

Direct foreign investment in the UK increased from £23.4 billion in 2013, to £28.2 billion in 2014. This can be broken down as follows:

- equity capital of £16.0 billion
- reinvested earnings of £11.2 billion
- debt instruments of £0.9 billion

### 3 . Portfolio investment

Figure 7.3: UK financial account: portfolio investment, 2004 to 2014



Source: Office for National Statistics

Portfolio investment recorded net transactions that showed an increase in UK liabilities of £82.0 billion in 2014, while in 2013 UK liabilities increased £50.7 billion.

#### UK portfolio investment abroad

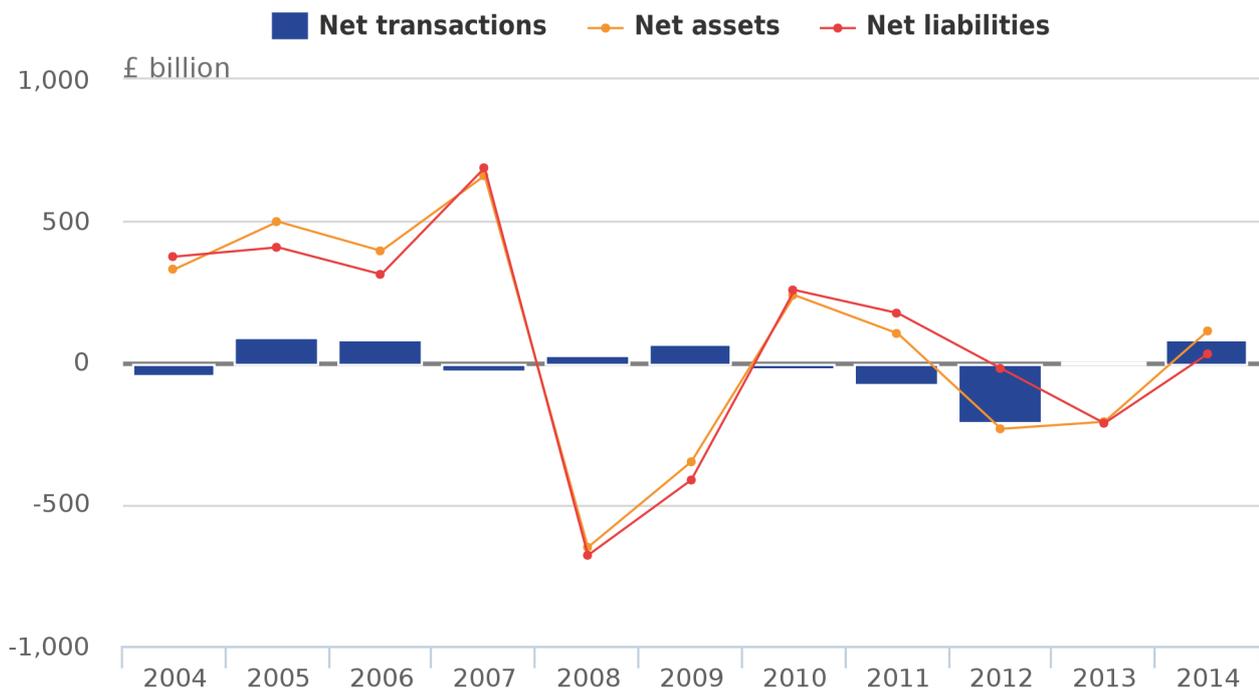
In 2014, UK residents were net investors in foreign debt securities of £34.9 billion, but recorded net disinvestment in foreign equities and investment fund shares of £17.3 billion. These led to total portfolio investment of £17.6 billion in 2014, a switch from net disinvestment of £5.7 billion in 2013. The net disinvestment in 2013 was due to UK residents recording net disinvestment in equities and investment fund shares of £22.8 billion, partially offset by net investment in foreign debt securities of £17.1 billion.

#### Portfolio investment in the UK

In 2014, UK portfolio investment liabilities to non-residents increased by £99.6 billion, while in 2013 liabilities increased by £45.0 billion. Non-residents recorded net investment of £87.9 billion in debt securities and £11.7 billion in UK equities and investment fund shares in 2014. This compares with net investment of £14.8 billion in UK debt securities and £30.2 billion in UK equities and investment fund shares in 2013.

## 4 . Other investment

Figure 7.4: UK financial account: other investment, 2004 to 2014



Source: Office for National Statistics

The other investment functional category recorded a net increase in UK assets in 2014 of £81.0 billion, an increase from a net increase of £5.1 billion in 2013.

### UK other investment abroad

In 2014, other investment abroad recorded net investment of £112.0 billion, a switch from net disinvestment in 2013 of £208.7 billion. This was due to UK residents making net deposits of £70.8 billion, following net withdrawals of £193.6 billion in 2013. Additionally, there was net borrowing of short-term loans of £42.3 billion by non-residents in 2014, following net repayments of £15.0 billion in 2013.

### Other investment in the UK

In 2014, non-residents switched to net investment of £31.0 billion following net disinvestment of £213.8 billion in 2013. This was due to UK residents net borrowing of £34.5 billion of short-term loans, a decrease from net borrowing of £61.4 billion in 2013. Partially offsetting this, non-residents made net withdrawal of deposits of £8.0 billion in 2014, a decrease from net withdrawal of deposits of £278.2 billion in 2013.