Office for National Statistics

Article

National Accounts articles: Impact of Blue Book 2017 changes on the Sector and Financial Accounts, 1997 to 2012

The impact on saving ratio, net lending and borrowing, current account balance and gross national income of bonds, and household and non-profit institutions serving households changes.

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1 . Executive summary

This article details estimates of the total impact of certain important improvements to the institutional sector accounts and balance of payments planned for 29 September 2017.

An initial summary of the changes for Blue Book 2017 and Pink Book 2017 was announced in the article National Accounts articles: Latest developments to national accounts and balance of payments - changes to be implemented for Blue Book 2017 and Pink Book 2017, published on 21 September 2016. All of the improvements that impact on Current price and chained volume (CVM or "real") gross domestic product (GDP) for the years 1997 to 2012 have already been published on 16 February 2017 and 13 March 2017 respectively.

Today, we start to describe the improvements that impact on the institutional sector accounts and the balance of payments with two articles, National Accounts: Improving the household, private non-financial corporations and non-profit institutions serving households sectors' non-financial accounts and National Accounts: Improvements to the treatment of corporate bonds interest, which explain two of the main improvements we are making.

This article brings together the impacts of these two changes on the main institutional sector accounts and balance of payments aggregates for the period 1997 to 2012. The impacts from the improvements described in this article will also be applicable to subsequent years, but these later years are additionally subject to regular data updates and other methodological developments, which will be presented in future articles as detailed in Table 1.

Please note that there are also further methodological changes (for example, improvements to measurement of securities dealers' activities) that will have an impact on the period 1997 to 2012; their impacts are not covered by this article but will be included in the article on 5 June 2017. We are publishing the impact of these two important improvements now as we felt it was useful for you to be informed of them as early as possible given their impact on important economic aggregates. The main impacts of the package of improvements being presented today, over the period 1997 to 2012, are that:

- new methods and introduction of better data on bonds issued by UK companies means interest payments are now higher than previously estimated; these interest payments cover bonds owned by the rest of the world and not only the UK, so the current account deficit has now widened and gross national income (GNI) lower, with the net lending position of private non-financial corporations reduced for the first time, we have statistics that look just at households and new data from Her Majesty's Revenue & Customs shows households are getting more of their income from dividends than our previous estimates suggested; as the level of consumption of goods and services is unchanged, this higher income means that households have been saving more and therefore that the savings ratio is higher than previously thought

The specific impacts for the household savings ratio, the net lending or borrowing position for private non-financial corporations, the balance of payments current account balance and gross national income can be found in Annexes A to D respectively in the dataset associated with this article.

2 . Introduction

This article is part of a series describing changes to national accounts and balance of payments, detailing the improvements, which will be made on 29 September 2017, to ensure that the UK National Accounts and Balance of Payments continue to provide the best possible framework for analysing the UK economy and for comparing it with those of other countries.

This article provides a summary of two important improvements being implemented in Blue Book 2017 and Pink Book 2017 along with the estimated impact on the household saving ratio, net lending and borrowing by the private non-financial corporation sector, the current account balance of the balance of payments between 1997 and 2012. This article also includes an indication of revisions to gross national income (GNI) estimates for 1997 to 2012, but these should also be treated with caution as there will be further changes that will have an impact on these estimates.

These figures are still indicative at this stage and final quality assurance is currently being undertaken. A finalised version of these data will be provided in an updated article on 5 June 2017 ahead of publication in the UK National Accounts on 29 September 2017.

Figures for 2013 and more recent periods are not yet available. Plans are to publish data for 2013 to 2015 in August 2017 as set out in Table 1.

The following section provides more details on the two main improvements that impact on the institutional sector accounts and balance of payments in Blue Book and Pink Book 2017.

3 . Methodological improvements

Bonds interest

We are making improvements to the way in which corporate bonds are treated in the national accounts in Blue Book and Pink Book 2017. The most significant improvement is to the way we calculate interest paid to the holders of corporate bonds. This new method makes better use of data provided by the Bank of England and provides significantly better estimates of interest paid and received by banks and building societies, and a means of calculating indicative rates of return for other sectors. The improved method increases the amount of interest paid on UK-issued corporate bonds and gives improved estimates of rates of return on corporate bonds, when compared with government bonds (gilts). Some of this interest is paid between sectors of the UK economy, but a significant proportion is paid to overseas holders of corporate bonds. As a result, the improvement increases the current account deficit and reduces gross national income (GNI).

This change has an average impact of reducing private non-financial corporations’ (PNFCs) net lending by £2.8 billion per year and increasing the net borrowing of financial corporations by £10.2 billion per year. The revisions to PNFCs’ net lending range from zero to £5.1 billion, whilst the revisions to financial corporations’ net borrowing range from zero to £22 billion. On average, it widens the current account deficit by £13 billion per year (with a maximum of £26.3 billion) and reduces GNI by a similar amount, on average (again with a maximum revision of £26.3 billion).

Separating estimates for the household and non-profit institutions serving households sectors

The international conceptual framework for the national accounts, the European System of Accounts 2010 (ESA2010), requires the presentation of separate estimates for the household sector and non-profit institutions serving households sector. Currently these two sectors are combined for most processing and presentation in the national accounts.

The review of data and methods to produce this split provided an opportunity to refresh how we produce data on households and in particular their income. The largest component of household income remains earnings from employment, which is relatively easy to measure. But there are other components of income that have not been well-measured in the past, but have become increasingly important. In particular, over the last decade or so, there has been strong growth in the number of self-employed who have incorporated themselves, who as well as paying themselves as employees also receive income in the form of dividends from the "company". There has been a significant increase in this type of activity in recent years, which means increasingly households have been receiving more of their income from dividends and although a number of improvements have been made to the measurement of the household and non-profit institutions serving households (NPISH) sectors, this improvement has by far the largest impact.

The previous approach to estimating income for households and NPISH combined was to assume they received a broadly steady share of their income from dividends. This has not been the case in recent years and we can use HM Revenue and Customs (HMRC) data to estimate how dividend income has grown.

These data suggest there has been strong growth in the dividends households are receiving, meaning their income was higher than previously thought. This is most evident in the measurement of dividends, where the improvements for the household sector have a consequential impact to all other sectors, with a particular opposite impact on PNFCs, resulting in a further reduction in the net lending position of that sector. These result in a different economic perspective to the non-financial corporations sector, particularly its net lending position, as well as a new understanding of household saving, based on the incorporation of self-employed individuals. Finally, for the first time, we are also defining economic activities of the non-profit institutions serving households sector.

The impacts on the saving ratio can be split into two parts, those due to improving the methodology for household sector estimates and those due to splitting the two sectors. The former have the impact of increasing the saving ratio by an average of 1.3 percentage points each year, largely as a result of improving the source data for dividends, although the revisions do vary from year to year. The latter change has the effect of reducing the saving ratio by an average of 0.5 percentage points, with less variability in the revisions. The absolute average revision to the household saving ratio (when compared with the previous, combined, household and NPISH saving ratio) is 0.8 percentage points.

These two changes combined also have the impact of reducing the net lending of private non-financial corporations by an average of £16.4 billion per year. The average impact on the current account balance is to narrow the deficit by £3.9 billion per year. On average these changes increase GNI by £2.8 billion per year.

Impacts on gross national income

Gross national income (GNI) is an important economic aggregate closely linked to, but different from, gross domestic product (GDP). It is defined broadly as follows:

GNI equals GDP

plus compensation of employees received from the rest of the world

minus compensation of employees paid to the rest of the world

plus property income received from the rest of the world

minus property income paid to the rest of the world

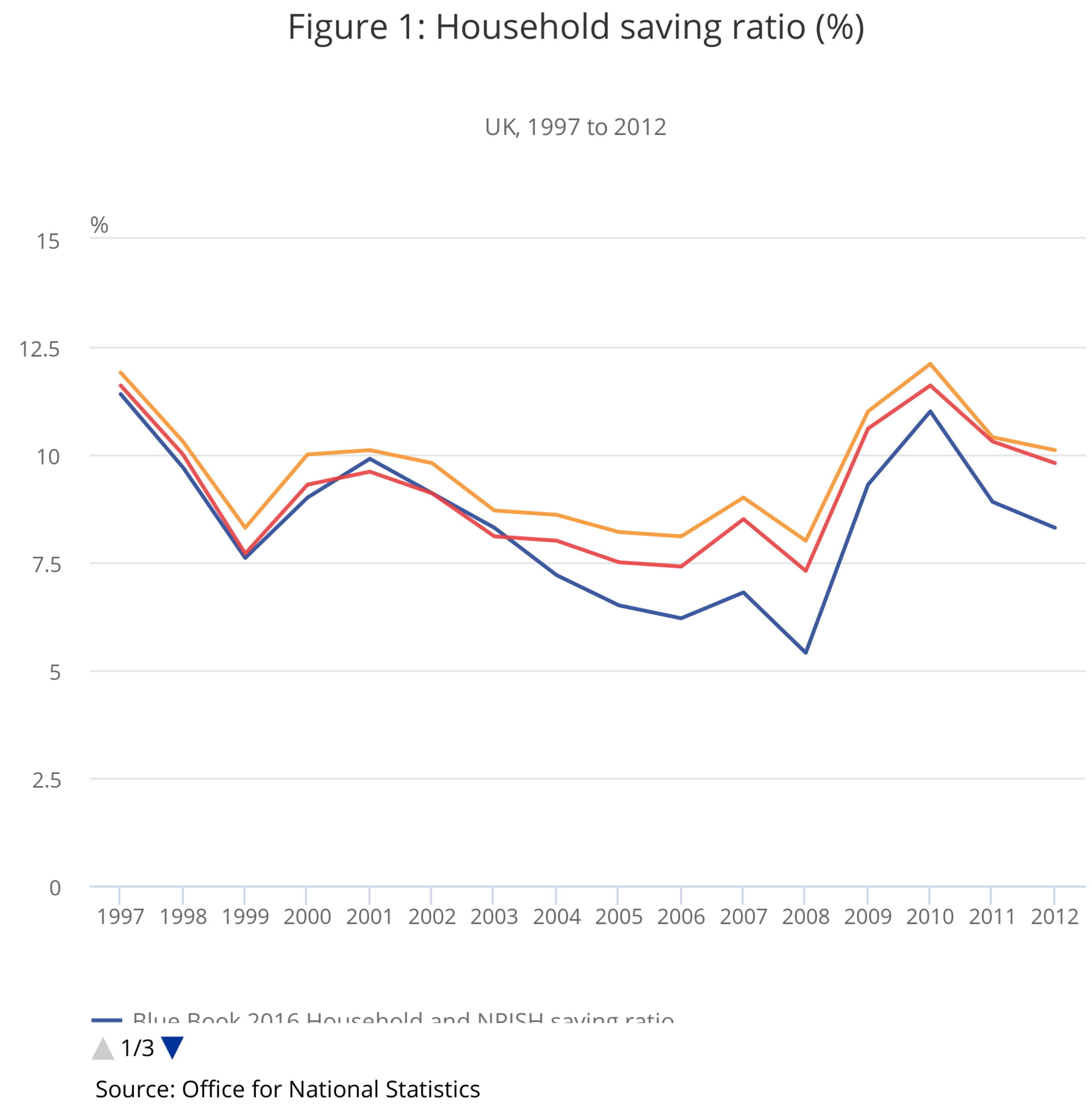
Property income is not, as the name might suggest, income from the ownership of buildings, rather it is primarily income from financial investments and assets, such as interest, dividends and repatriated profits.

These changes, as well as those described in the current price article published on 16 February 2017 mean revisions to GNI can be calculated. However, as noted earlier, there will be other improvements beyond these two changes that impact on GNI, although these are likely to be small. In addition, GDP and income received and paid to the rest of the world (and therefore GNI) will also be revised in later years too. The impacts are described in Annex D. The absolute average revision (that is, without regard to sign) to GNI is £7.3 billion.

4 . Impact on main economic aggregates

Figure 1: Household saving ratio (%)

UK, 1997 to 2012

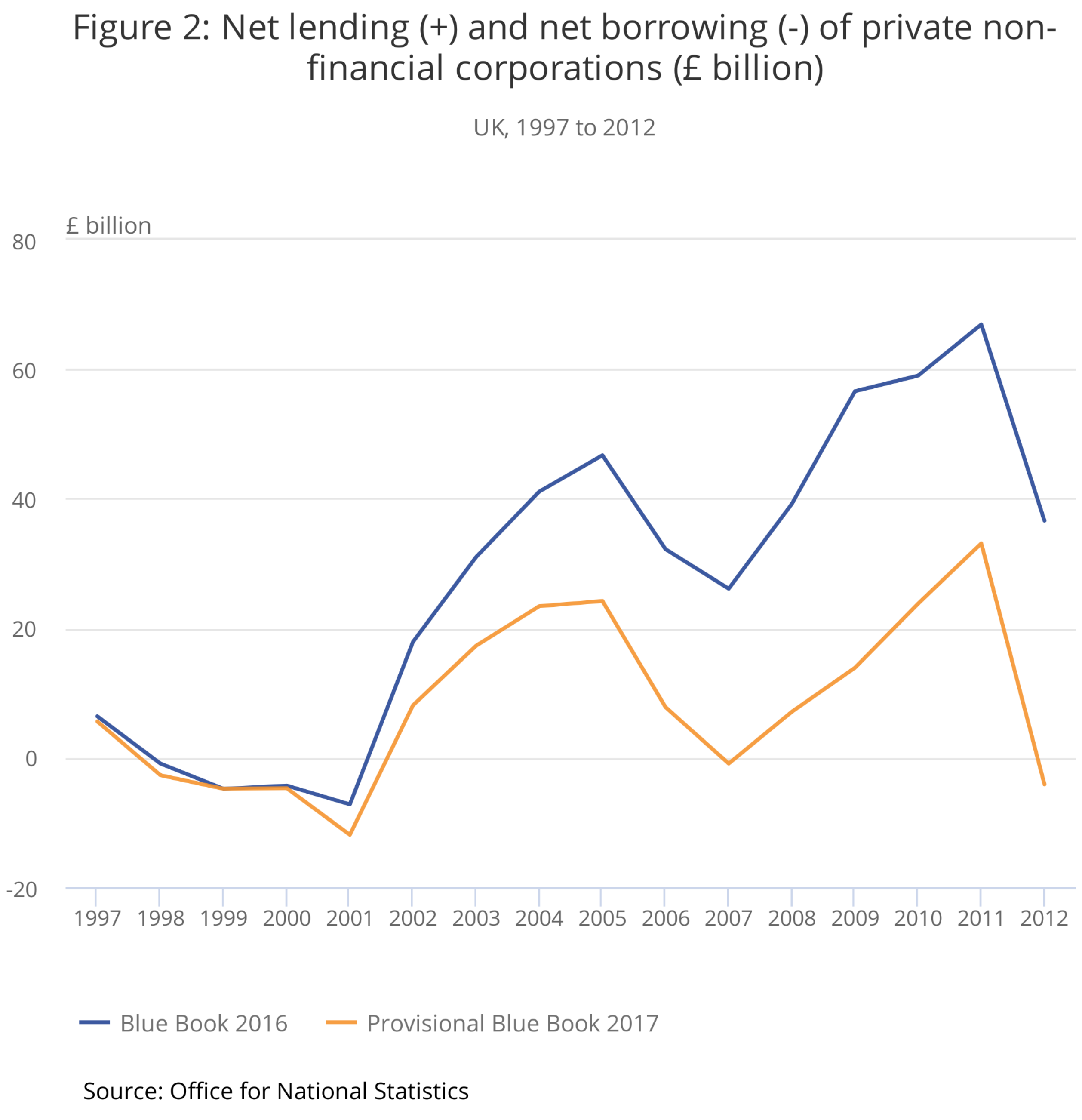


Source: Office for National Statistics

Figure 1 shows the impacts of the changes explained in this article. It can clearly be seen that there is a significant upward impact from introducing the new methodology for household data, particularly after 2003, with the largest impact in 2008. There is then a broadly consistent downward impact from splitting the household and NPISH sectors' data (the impact of the bonds interest change is minimal).

Figure 2: Net lending (+) and net borrowing (-) of private non-financial corporations (£ billion)

UK, 1997 to 2012

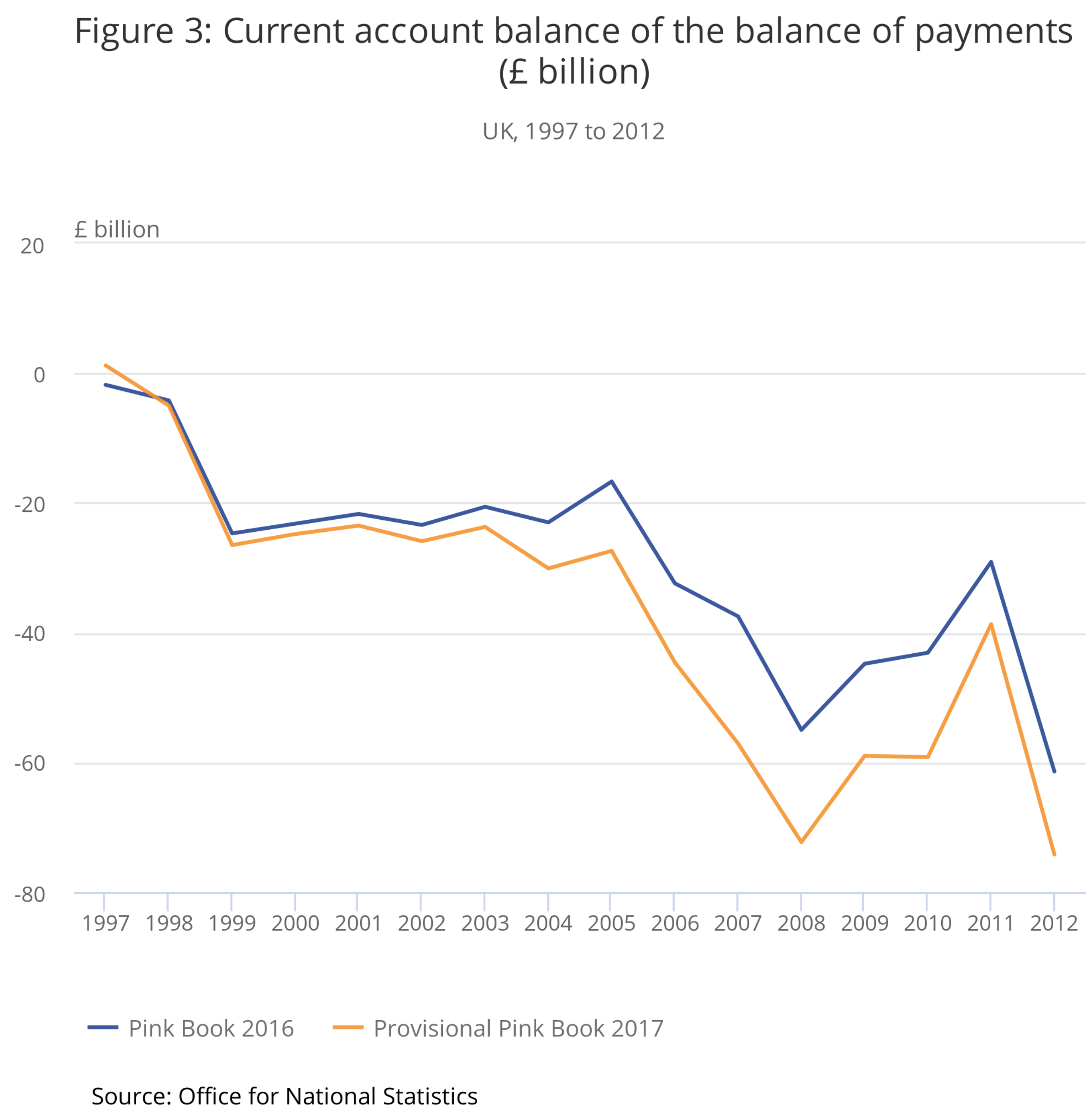


Source: Office for National Statistics

From Figure 2 it can be seen that the impacts on PNFCs' net lending position up to and including 2001 are small. From 2002 onwards, there are large, downward revisions with the largest revision in 2009. In 2007 and 2012, PNFCs' position has changed from being significant net lenders to the economy to being small net borrowers. The main cause of the large revisions in later years is due to the improvements in the measurement of dividends within the household sector with much smaller revisions (but in the same direction) from the corporate bond interest change.

Figure 3: Current account balance of the balance of payments (£ billion)

UK, 1997 to 2012



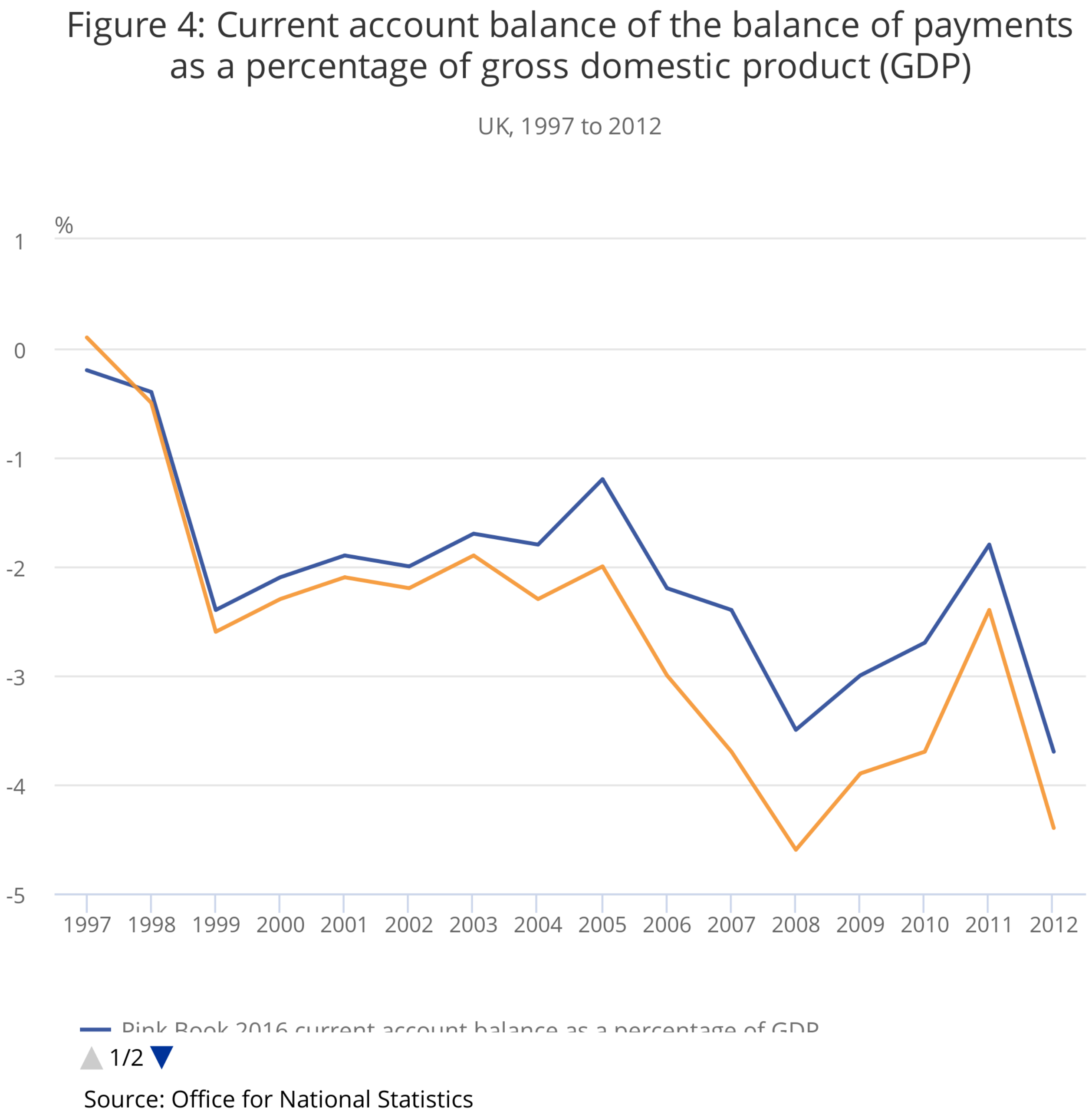
Source: Office for National Statistics

Figure 3 shows that the impacts of the changes on the current account balance increase from 2004, peaking in 2007 with relatively consistent impacts (fluctuating between £9 billion and £1 billion) thereafter. The downward impact is from the corporate bond interest improvement, with a small partial offset from the household and NPISH split.

The improvements described in this article will often also be applicable to subsequent years, but these later years are additionally subject to regular data updates and other methodological developments, which will be presented in future articles as detailed in Table 1.

Figure 4: Current account balance of the balance of payments as a percentage of gross domestic product (GDP)

UK, 1997 to 2012



Source: Office for National Statistics

Figure 4 shows that, as per the absolute current account impacts, the impact on the deficit as a percentage of GDP increases from 2004, also peaking in 2007 at 1.3 percentage points, with relative stability thereafter. The average widening of the current account balance as a percentage of GDP is 0.5 percentage points, with widening in every year except 1997, where a small deficit becomes a small surplus.

5 . Plans for future updates

This article is part of a series of impact articles ahead of the Quarterly National Accounts and Balance of Payments consistent with Blue Book 2017 and Pink Book 2017 publication on 29 September 2017. The focus here is on the years 1997 to 2012 for institutional sector accounts and balance of payments changes.

As well this impact article, two detailed methodological articles were also published on 19 April 2017. Links to these articles can be found in Section 6. Table 1 gives a draft schedule for the remaining articles leading up to the publication of Blue Book 2017 in October 2017. Final dates will be announced at least one month before each publication.

6 . References

Latest developments to national accounts and balance of payments - changes to be implemented for Blue Book 2017 and Pink Book 2017

Impact of Blue Book 2017, changes on GDP current prices annual estimates, 1997 to 2012

Improvements to the treatment of Corporate Bonds Interest

Improving the household, private non-financial corporations and non-profits institutions serving households sectors' non-financial accounts

7. Annexes A to D and provisional publication schedule

[Impact of Blue Book 2017 changes on the Sector and Financial Accounts, 1997 to 2012 - Annexes A to D](#)

Provisional publication schedule for the Blue Book and Pink Book 2017

Content of Article	Date of publication
Detailed assessment of changes to Sector and Financial Accounts annual estimates 1997 to 2012	Monday 5 June 2017
Detailed assessment of changes to Balance of Payments annual estimates 1997 to 2012	Monday 5 June 2017
Reclassification of English Housing Association and other classification decisions	Monday 5 June 2017
Financial corporations sub-sectorisation and the introduction of the new securities dealers survey data	Monday 5 June 2017
Interest on long-term debt securities issued by UK corporations	Monday 5 June 2017
Improvements for estimating the value of Land	Monday 5 June 2017
Changes to the presentation of the tables within Blue Book 2017 and Pink Book 2017 as a result of ESA10 and BPM6 changes	Mid June 2017
Impact on GDP Current Price and Chained Volume Measure quarterly and annual estimates 1997 to 2015	Thursday 6 July 2017
Detailed assessment of changes to Sector and Financial Accounts 1997 to 2015	Early August 2017
Detailed assessment of changes to Balance of Payments 1997 to 2015	Early August 2017
Quarterly National Accounts Quarter 2 (April to May) 2017 (consistent with Blue Book 2017)	Friday 29 September 2017
Balance of Payments Quarter 2 (April to May) 2017 (consistent with Pink Book 2017)	Friday 29 September 2017
Impact of method changes to the national accounts and sector accounts: Jan to Mar 1997 to Apr to June 2017	Friday 29 September 2017
Blue Book 2017	Tuesday 31 October 2017
Pink Book 2017	Tuesday 31 October 2017

Source: Office for National Statistics