Office for National Statistics

Article

National Accounts articles: Detailed assessment of changes to balance of payments annual estimates, 1997 to 2012

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Release date:
5 June 2017

Next release:
To be announced

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1 . Executive summary

This article provides details of forthcoming changes and their indicative impact on the main UK Balance of Payments estimates. This builds on the article published on 19 April 2017, which provided indicative impacts of two of the most important improvements being introduced in the 2017 editions of the Blue and Pink Books; improvements to the treatment of corporate bonds interest and the measurement of the household and non-profit institutions serving households sectors.

This article brings together the impact of those changes with all the other improvements being made this year. These improvements will be introduced when revised figures for the UK National Accounts and Balance of Payments, consistent with Blue Book 2017 and Pink Book 2017, are published on 29 September 2017. This article covers the period from 1997 to 2012 only. The impacts for 2013 to 2015 will be published in August 2017.

2 . Introduction

On 29 September 2017, the Office for National Statistics (ONS) will publish revised figures for the UK National Accounts and Balance of Payments. This article is part of a series describing changes and improvements to the UK's National Accounts and Balance of Payments. Changes will be made in line with international standards adopted by all European Union (EU) member states and with worldwide best practice. These, as well as additional improvements that are being made, will ensure that our National Accounts and Balance of Payments continue to provide a reliable framework for analysing the UK economy and for making international comparisons.

On 19 April 2017, we published details for two of the most important improvements being introduced this year: improvements to the treatment of corporate bonds interest and the measurement of the household and non-profit institutions serving households sectors. This article brings together the impact of those changes with all the other improvements being made as part of the 2017 editions of the Blue and Pink Books.

The changes and improvements being made in September 2017 can be split into two categories:

1. classification changes and continued improvements following European System of Accounts 2010: ESA 2010[1] international standards, which are planned to be incorporated into the UK National Accounts and Balance of Payments in Blue Book 2017 and Pink Book 2017 respectively

2. other regular improvements, methodological changes and corrections

The remainder of this article is structured as follows:

- Section 3 – provides the indicative overall revision to main aggregates in the balance of payments (as a percentage of gross domestic product (GDP) and in £ billion); these indicative figures include both changes as a result of the implementation of new methods and normal revisions that would be expected as part of the Pink Book (UK Balance of Payments annual publication) compilation process

- Section 4 – summarises the main methodological improvements and their impacts

- Section 5 – provides indicative annual revisions of the trade balance, primary income balance and current account balance

- Section 6 – covers impacts on gross national income (GNI)[2]

- Section 7 – describes plans for future updates

- Annex A – summary of changes to data tables

Throughout the article, data are presented for 1997 to 2012 to the nearest pound billion.

Notes for: Introduction

1. The European System of National and Regional Accounts (ESA 2010) is the newest internationally compatible EU accounting framework for a systematic and detailed description of an economy.

2. Gross national income (GNI) is an important economic aggregate closely linked to, but different from, gross domestic product (GDP).

3 . Summary of indicative impact of changes on main aggregates

Table 1 provides an indicative impact that changes will have as a percentage of gross domestic product (GDP) for the trade, primary income, secondary income and current account balances.

Table 1: Summary of indicative revisions as a percentage of GDP between previously published data and indicative data (consistent with Pink Book 2017), 1997 to 2012 (percentage of gross domestic product), UK

% of GDP	1997 to 2012		2012	
	Largest downward revision	Largest upward revision	Previously published Value	Indicative value in Pink Book 2017
Trade Balance	0.0	0.2	-2.2	-2.0
Primary Income Balance	-1.6	0.0	-0.1	-1.1
Secondary Income Balance	0.0	0.1	-1.3	-1.2
Current Account Balance	-1.4	0.1	-3.7	-4.3

Source: Office for National Statistics

Table 2 provides an indicative impact that the changes will have on the balance of payments in monetary terms.

Table 2: Summary of indicative revisions on annual data between previously published data and indicative data (consistent with Pink Book 2017), 1997 to 2012 (£ billion), UK

£ billion	1997 to 2012				2012		
	Largest downward revision	Largest upward revision	Average annual revision	Average absolute annual revision	Previously published value	Indicative value in Pink Book 2017	Revision 1
Trade balance	0	4	0.9	0.9	-37	-33	4
Primary income balance	-24	0	-10.3	10.3	-2	-18	-15
Secondary income balance	0	1	0.7	0.7	-22	-20	1
Current account balance	-21	1	-8.6	8.7	-61	-71	-10

Source: Office for National Statistics

Notes:

1. Change in values may not sum to revision due to rounding

4 . Summary of the indicative impact of individual methodological changes

Revisions throughout the published time series are likely as a result of implementing the changes described in this article. Revisions between 1997 and 2012 will predominantly be due to methods changes and are the focus of this article. The years 2013 to 2015 will also be subject to updated and revised source data, which will be covered in the next impact article to be released in August 2017 (finalised date yet to be confirmed).

Table 3 briefly summarises the main methodological improvements that will be introduced into the balance of payments. The table separates out those changes that have an impact on the current account and those that do not. For those changes affecting the current account, indicative impacts on the trade balance, primary income balance and secondary income balance are presented where relevant. All estimates presented remain subject to further quality assurance before publication at the end of September, therefore they should be treated as indicative.

Table 3: Summary of impact by change (more detail is provided in section 5)

Change	Summary of change	Impact (£)

Corporate bonds interest	Improvements to bonds transactions, focusing on improving the accuracy of rate of returns used within the national accounts systems. Details of these improvements were published by ONS in articles on 19 April. UK-issued corporate bond rate of return will increase overall. Sectors receive an allocation of payments based on holdings of debt securities. For more information on this change please see this article 'Improvements to the treatment of corporate bonds interest'.	Current account: The primary income balance UK issued corporate bond rate of return will increase overall. Therefore, the amount earned on foreign investment income in the UK (debits) will increase. • range of revisions rounded to between 0.0 and negative 26.3 billion
Separating estimates for the household and non-profit institutions serving household sectors	In order to meet the requirements of international standards the household and non-profit institution serving households sectors need to be presented separately. As part of this work, improved sources have been identified, which in some cases have had a counterpart impact on other sectors within the sector and financial accounts, including the rest of the world. Details of this improvement were published by ONS in articles on 19 April.	Current account: The primary income balance New source data results in an increase in the holdings and earnings from UK earnings on investment abroad. • range of revisions rounded to between negative 0.1 and 1.2 billion The secondary income balance • range of revisions between 0.1 and 1.4 billion Current account balance • range of revisions between 0.1 and 2.1 billion Other impacts Financial account and international investment position.

Incorporation of new source data for securities dealers	Improvements to data collected using updated survey forms and methods. The Securities Dealers Survey is the first of a series of new, comprehensively revised surveys introduced in Quarter 1 (Jan to Mar) 2015. This survey collects, among other things, information on securities dealers' assets, liabilities, income and expenditure. The new surveys provide a more detailed breakdown of financial transactions, thereby offering us a new understanding of the security dealers industry and [previously returned estimates.]	Current account: The primary income balance • range of revisions rounded to between 0.5 and 3.0 billion Trade balance • range of revisions between 0.1 and 0.6 billion Current account balance • range of revisions between 0.7 and 3.3 billion Other impacts Financial account and international investment position.
Share ownership benchmark	Incorporation of updated 2010, and new 2012 and 2014 benchmark data.	Current account Primary income balance • range of revisions up to negative 4.2 billion Other impacts Financial account and international investment position.
Improvements to dividends payments processing	Improvements to the processing of dividends data to address; missing cases, use of incorrect dates to capture dividends data and double entries.	Current account Primary income balance • range of revisions between 0.0 and negative 2.3 billion
Education services	Recognised under-coverage of tuition fees in International Passenger Survey (IPS). So will use tuition fees data from Higher Education Statistics Agency (HESA) to solve this issue.	Current account Trade balance • range of revisions between 0.2 and 1.8 billion

Lighthouse duties	Following a methodological review and guidance from Eurostat, Light Dues (charges paid by ships calling at ports in the UK, and used to fund lighthouses) are no longer considered the provision of a service but are instead considered a tax on production. Light Dues will therefore no longer be recorded in the trade figures as an export of a transport service. This change to the recording of Light Dues ensures we are compliant with the European System of Accounts.	Current account Trade balance • decreases trade in services by less than 0.1 billion
Households' imputed rental	Improvements to how imputed rental is calculated have been implemented.	Current account Trade balance • decreases trade in services by less than 0.3 billion
Government other current transfers review	Some of the member states within the EU are reclassifying their gross national income (GNI) contributions to the EU budget to a negative expenditure. Therefore, the UK's rebate on its GNI contribution was recorded in the national accounts as a "current international cooperation" resource. This is being moved to a negative expenditure in the "GNI-based fourth EU own resources".	No impact on current account Presentational change to secondary income.
Trade in goods revisions - smuggling	New data for the number of users for individual drugs from the Crime Survey for England and Wales (CSEW) have been incorporated into our estimates of illegal activities.	Current account Trade balance • range of revisions between negative 0.3 and 2.2 billion

5 . Analysis of impact on the current account

5.1 Definition of main current account aggregates

The current account 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 UK exports. Debits are income or transfers payable by the UK and UK imports. The main indicators in this account are the:

- trade balance, which shows the balance of exports and imports of goods and services traded between UK residents and non-residents

- primary income balance, which shows the income earned by UK residents from non-residents and income earned by non-residents from UK residents; this income is further broken down into compensation of employees (wages, salaries and other benefits earned by individuals), investment income (income earned from the provision of financial capital and income earned on reserve assets) and other primary income (covers earnings from rent and taxes, and subsidies on production and on the import of goods)

- secondary income balance, which represents the provision (or receipt) of an economic value by one party without directly receiving (or providing) a counterpart item of economic value

- current account balance, which is the summation of the trade balance, the primary income balance and the secondary income balance

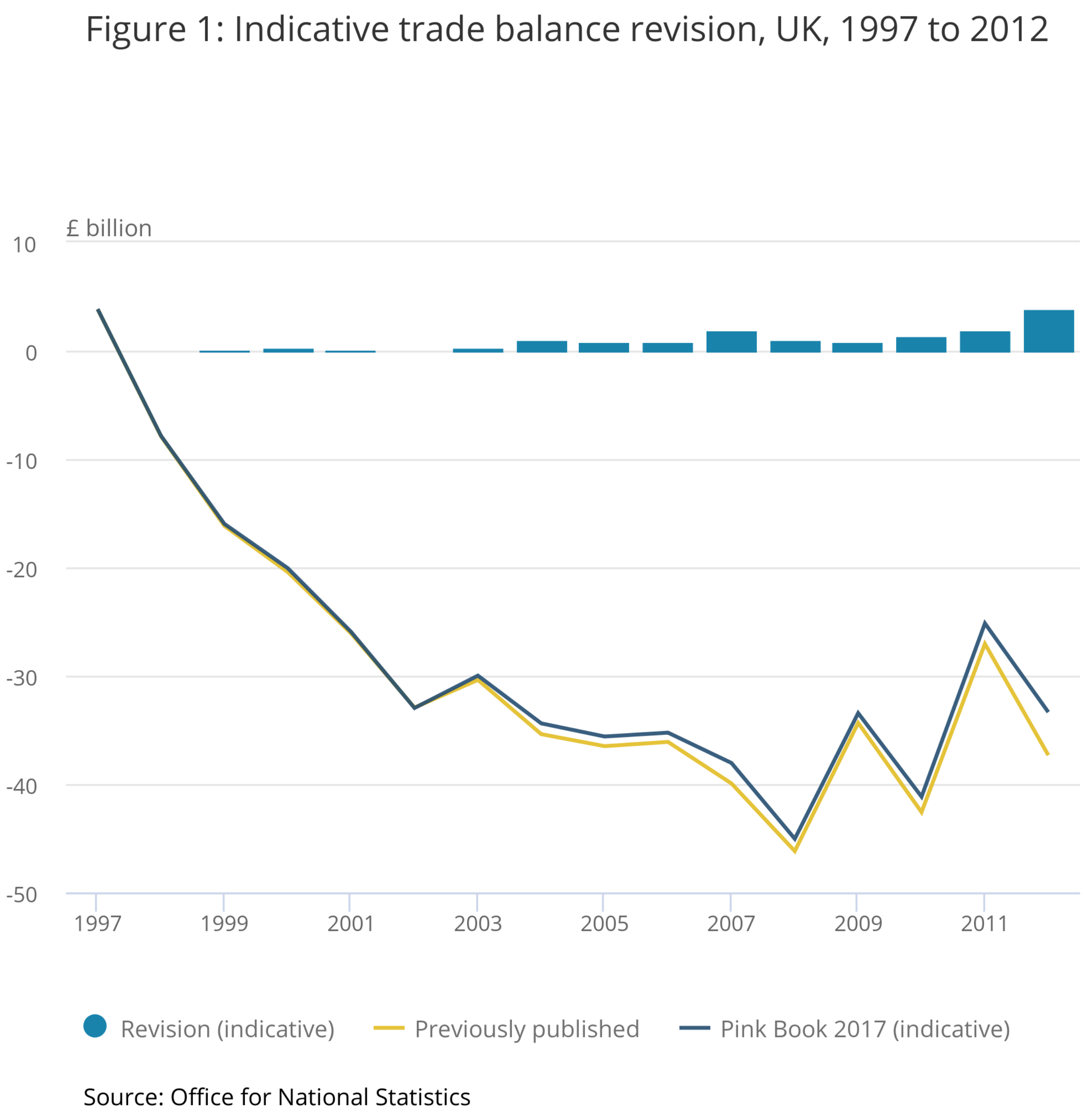
5.2 Indicative impact on main current account aggregates

5.2.1 Trade balance

The lines in Figure 1 show the level of the trade balance in published data and the Pink Book 2017 indicative balance, while the bars show the differences between the two lines (or the indicative revision).

Revisions to trade are relatively small (as seen in Figure 1) with the revisions being positive throughout 1997 to 2012. The biggest revision is in 2012 (£4.0 billion), with the inclusion of tuition fees having the greatest impact, followed by the change in the security dealers – spread earnings.

Figure 1: Indicative trade balance revision, UK, 1997 to 2012



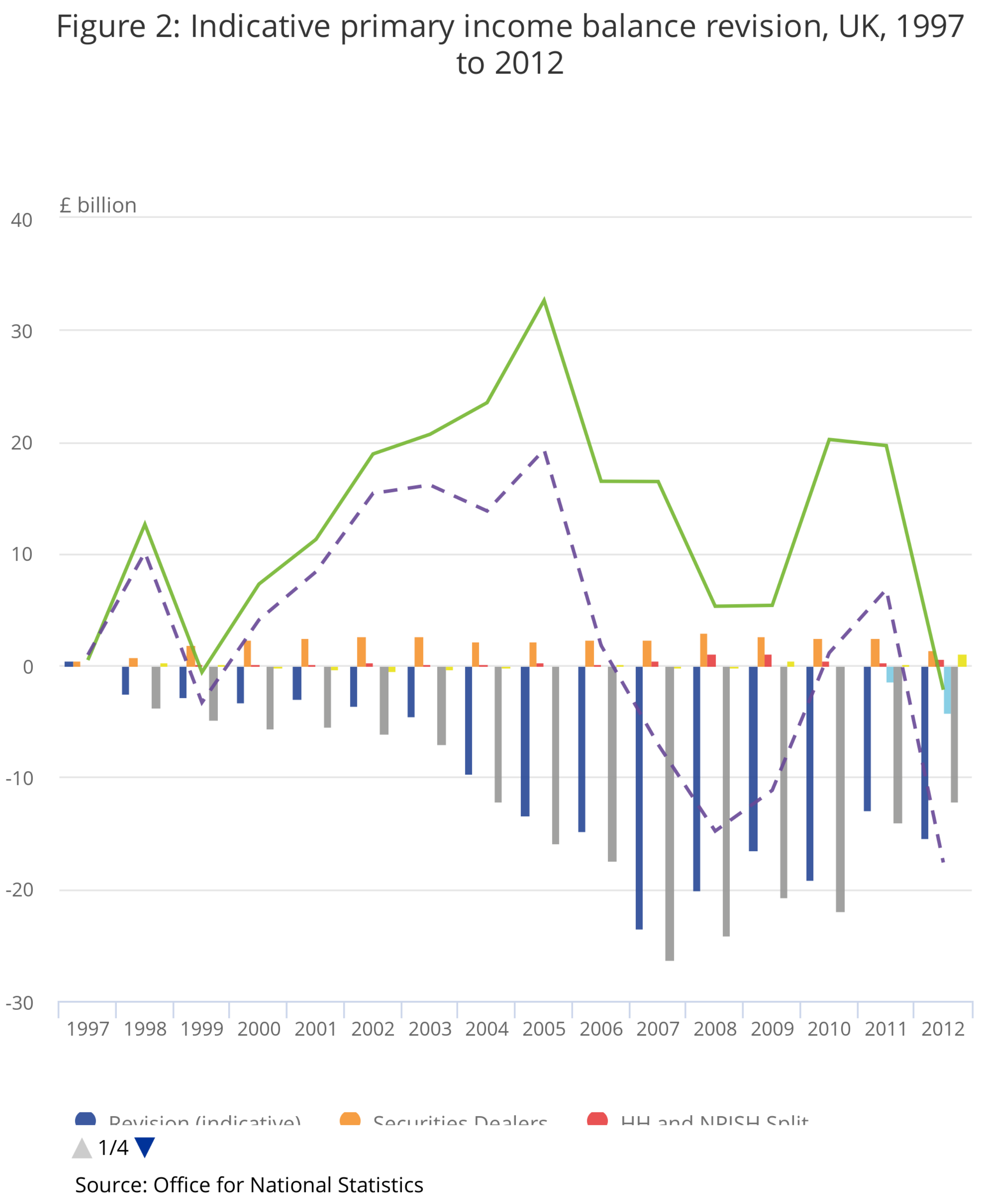
Source: Office for National Statistics

5.2.2 Primary income balance

Figure 2 shows the level of the primary income balance in published data and the Pink Book 2017 indicative balance. The total revision is also shown along with the impacts of the securities dealers change, the previously announced HH/NPISH split, share ownership benchmarking changes, corporate bonds interest change and other changes.

The total revisions between 1997 and 2012 are all negative (with the only exception being a slight increase in 1997) with the previously published change in the corporate bonds having a negative impact on the primary income balance and outweighing the increases caused by the other impacts.

Figure 2: Indicative primary income balance revision, UK, 1997 to 2012



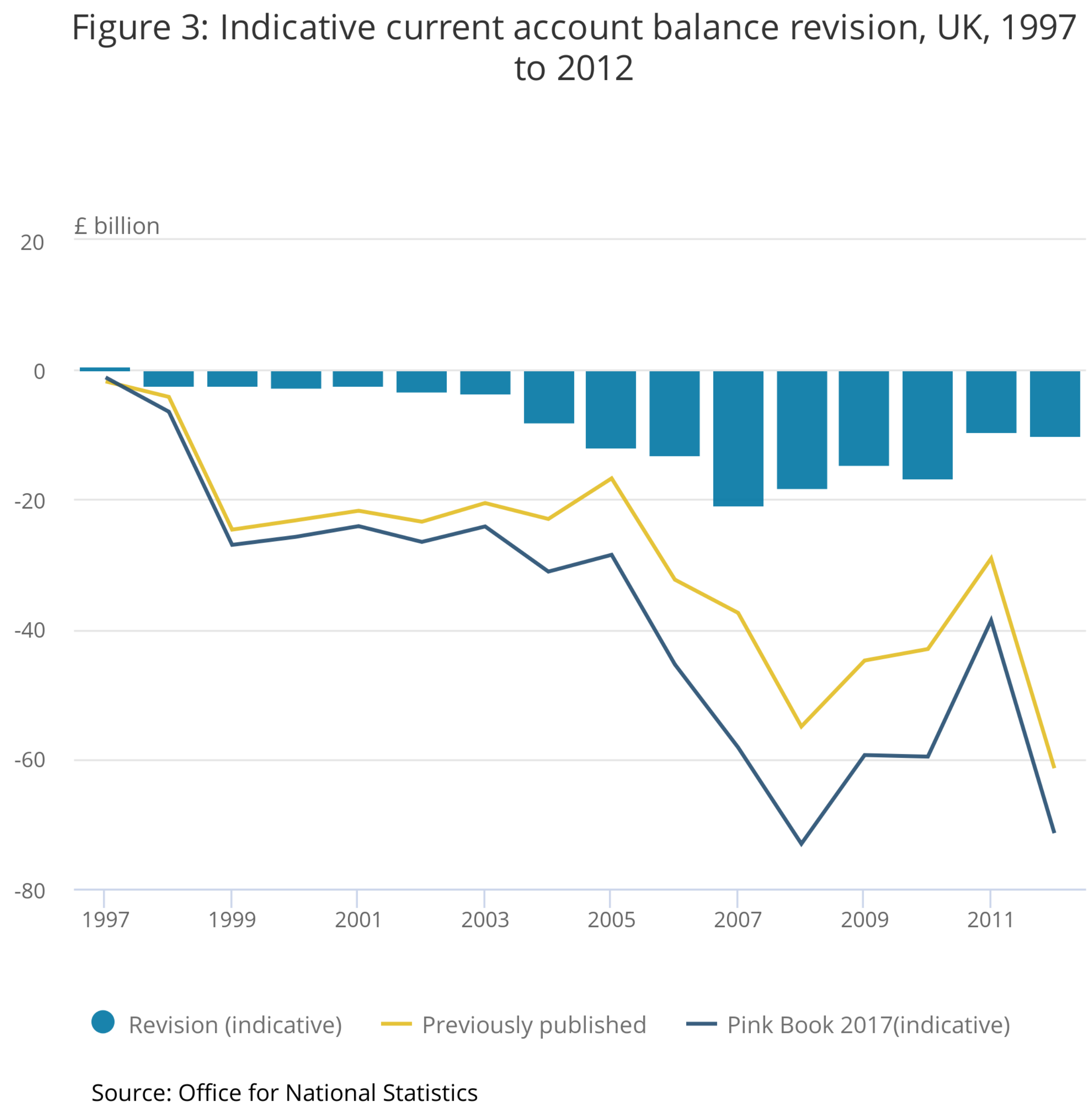
Source: Office for National Statistics

5.2.3 Current account balance

Figure 3 shows the level of the current account balance in published data and the Pink Book 2017 indicative balance.

The revisions between 1997 to 2012 are mostly negative with the only exception of a slight increase in 1997. The revisions up to 2003 are relatively small (less than £4 billion). However, the revisions from 2004 onwards are larger, reflecting the greater revisions seen in the trade and primary income statistics.

Figure 3: Indicative current account balance revision, UK, 1997 to 2012



Source: Office for National Statistics

5.3 Impact by change

The following sections explore further the impact of the biggest changes to the current account.

5.3.1 Bonds interest

As previously announced, we are making improvements to the way we calculate interest paid to the holders of UK corporate bonds. 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). A more detailed description of the change can be found in this article Improvements to the treatment of corporate bonds interest, published on 19 April.

As a significant proportion of the interest is paid to non-resident holders of UK corporate bonds, the amount earned on foreign investment income in the UK (debits) will increase, leading to a widening of the current account deficit and a reduction in gross national income (GNI).

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

As previously announced, splitting the household and non-profit institutions serving household sectors has also led to the addition of new data sources into the measurements. For a more detailed description of the change please see this article, Improving the household, private non-financial corporations and non-profit institutions serving household sectors' non-financial accounts, published on 19 April.

The new source data results in an increase in UK earnings on investment abroad, which increases the levels of flows within the financial account and stocks in the international investment position.

As a result of increased UK holdings of assets abroad, income earned has risen and is reflected in greater earnings in the primary income account. Subsequently, the HH/NPISH sectorisation work narrows the current account deficit and increases GNI.

We have also added new source data to miscellaneous current transfers. Miscellaneous current transfers are split into three sub-sectors: current transfers to NPISH; current transfers between households; and other miscellaneous current transfers. This has resulted in additional miscellaneous current transfers received by the UK from the rest of the world. In the balance of payments, this narrows the current account deficit due to increases in secondary income transfers from abroad.

5.3.3 Securities dealers data integration

Improvements to data collected using updated survey questionnaires for the financial sector have been undertaken. The Securities Dealers' Survey is the first of a series of new, comprehensively revised surveys introduced in Quarter 1 (Jan to Mar) 2015. While the new survey data starts in 2015, a full time series has been estimated for continuality in the accounts and to avoid step changes, hence the impact to the years 1997 to 2012. The survey collects, among other things, information on securities dealers' assets, liabilities, income and expenditure. The new surveys provide a more detailed breakdown of financial transactions, thereby offering us a new understanding of the securities dealers industry and previously returned estimates.

This change will narrow the current account, as the revisions to the primary income account will increase the surplus. Meanwhile, the size or directions of the impacts on the financial account and the international investment position are currently being finalised.

5.3.3.1 Securities dealers – spread earnings

We have also improved the allocation of securities dealers’ spread earnings. Spread earnings are considered in the national accounts to be charges paid by consumers for the services provided by securities dealers. More information can be found in the UK Flow of Funds Project, methods article on financial sub-sectorisation and the introduction of the new securities dealers survey data. While the total amount of spread earnings charged to consumers has not changed, better data from the Financial Conduct Authority has meant that the method for establishing who is paying for these services has been improved. This improvement in data sourcing increases UK trade in services and narrows the current account deficit.

5.3.4 Improvements to dividends payments processing

Improvements to dividends payments processing covers improvements to address the following:

- incorrect timing – an issue where the current process uses an incorrect date to capture dividends data; investigations found that not all dividends were being recorded at the point of ex-dividend, this leads to a shift in the payment pattern rather than the under- or over-payment of dividends
- missing cases – where instances of dividends that were not recorded in the dataset have now been included
- double-counting – a small number of dividends were duplicated due to them being announced more than once

This impacts the amount of foreign earnings on investments in the UK, with earnings mostly increasing therefore widening the current account deficit and decreasing GNI.

5.3.5 Share ownership benchmark

Dividend receipts are allocated to sectors according to the number of shares they hold, and these allocations are determined by the Share Ownership Survey benchmarks.

The benchmarks were last updated in 2012, when the 2010 Share Ownership Survey was available. Since that time, we have run the 2012 and 2014 Share Ownership Surveys and reprocessed the 2010 survey. The early benchmarks’ results suggest that the rest of the world held more UK-issued shares than currently thought, therefore increasing their allocations of dividends paid and leading to the widening of the current account deficit and decreasing GNI.

5.3.6 Education services

Research has found that the International Passenger Survey (IPS) underestimates higher education and further education tuition fees. Therefore, tuition fees data from the Higher Education Statistics Agency (HESA) will be used to solve this. This will impact education services within trade in services and lead to an increase in exports for all periods and a narrowing of the current account deficit.

5.3.7 Households’ imputed rental

Improvements to how imputed rental is being calculated have been implemented. They include improvements to the way that non-calendar year data for housing stocks and rental prices are mapped to calendar years. For more information on this change, please see this article, Changes to National Accounts: actual rentals and imputed rentals.

Overall, these changes have had little impact on the balance of payments, with trade in services decreasing slightly and a widening of the current account.

5.3.8 Other trade changes – lighthouse duties

Light Dues, which are charges paid by ships calling at ports in the UK, are no longer considered the provision of a service, so will not be recorded in the trade figures as an export of a transport service. This follows a discussion with the EU’s statistical body, Eurostat, to treat Light Dues as a tax on production owing to its compulsory, redistributive nature. Therefore, trade in services declines, which leads to a widening of the current account deficit.

5.3.9 Improvements to illegal activities

New data for the number of users for individual drugs from the Crime Survey for England and Wales (CSEW) has been incorporated into our estimates of illegal activities. The data mainly replaces modelled data between 2000 and 2005.

The inclusions lead to a range of positive and negative revisions to the trade balance.

6 . Impacts on GNI

In the UK system of accounts, the transition of GDP to GNI is obtained by adding compensation of employees to /from the Rest of the World (RoW) plus property and entrepreneurial income less net taxes (that is, adjusted for subsidies received from the RoW). Compensation of employees is basically the remuneration paid by an employer to employee for work done; property income[1] is primarily the earnings from financial investments and assets, such as interest, dividends and repatriated profits.

In our National Accounts articles: Impact of Blue Book 2017 changes on the Sector and Financial Accounts, 1997 to 2012 on 19 April 2017, we outlined the impact on GNI from the revisions to GDP and the two largest improvements being introduced in 2017 that impact on net property income. This article outlines the impact on GNI of all the improvements being made this year. These smaller improvements alter (from the earlier article) the average absolute revision to GNI from £7.3 billion to £7.0 billion.

Notes for: Impacts on GNI

1. Property income in system of national accounts is equivalent to investment income in balance of payments.

7 . Plans for future updates

A further impact article for balance of payments covering the period 2013 to 2015 will be published in August 2017. The revised figures for the UK National Accounts and Balance of Payments, consistent with Blue Book 2017 and Pink Book 2017 respectively, will be published on 29 September 2017.

8 . Annex A: Table changes

Annex A: Table changes

Pink Book tables

Table identifier	Table title	Description of change	Pink Book 2016 transaction	Pink Book 2017 transaction	Pink Book 2016 CDID	Pink Book 2017 CDID
5.1	Secondary Income					
	UK credits	Series removed	EU Institutions: Abatement	N/A	FKKL	N/A
		Series removed	ECSC Grant	N/A	FJKP	N/A
	UK debits	Series added		EU Institutions: Abatement	N/A	-FKKL
9.9	UK official transactions with institutions of the EU					
	UK credits	Series removed	Cental government: Fontainebleau abatement		FKKL	N/A
	UK debits	Series added		Cental government: Fontainebleau abatement	N/A	-FKKL

Balance of Payments statistical bulletin tables

Table identifier	Table title	Description of change	Current transaction	New transaction	Current CDID	New CDID
H	Secondary Income (SA)					
	UK credits	Series removed	EU Institutions: Abatement	N/A	FKKM	N/A
		Series removed	ECSC Grant	N/A	FHHS	N/A
	UK debits	Series added		EU Institutions: Abatement	N/A	-FKKM

UK Economic Accounts tables

Table identifier	Table title	Description of change	Current transaction	New transaction	Current CDID	New CDID
B5	Secondary Income (SA)					
	UK credits	Series removed	EU Institutions: Abatement	N/A	FKKM	N/A
		Series removed	ECSC Grant	N/A	FHHS	N/A
	UK debits	Series added		EU Institutions: Abatement	N/A	-FKKM
B5A	Secondary Income (NSA)					

	UK credits	Series removed	EU Institutions: Abatement	N/A	FKKL	N/A
		Series removed	ECSC Grant	N/A	FJKP	N/A
	UK debits	Series added		EU Institutions: Abatement	N/A	-FKKL