Article

Detailed assessment of changes to balance of payments annual estimates: 1997 to 2019

Forthcoming changes and their indicative impact on main balance of payments and international investment position (IIP) estimates, to be introduced when revised figures for the UK National Accounts and Balance of Payments, consistent with Blue Book 2021 and Pink Book 2021, are published on 29 October 2021.

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Release date:
8 September 2021

Next release:
To be announced

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1 . Main changes

This article provides indicative estimates of the impact methodological improvements will have on headline balance of payments statistics between 1997 and 2019, consistent with the national accounts, due to be published on 30 September 2021.

These improvements were initially outlined in the Impact of Blue Book 2021 changes on current price and volume estimates of gross domestic product article, published on 28 June 2021 and will impact on the headline accounts in balance of payments. These impacts are that:

- the current account deficit in 2019 was revised down from £68.6 billion to £60.2 billion in value terms, or as a percentage of gross domestic product (GDP) from 3.1% to 2.7%
- the average absolute revision to the current account balance between 1997 and 2019 is £1.7 billion
- the trade deficit in 2019 was revised down from £27.5 billion to £20.7 billion in value terms or as a percentage of GDP from 1.2% to 0.9% and is the main reason for the revision to the current account
- the average absolute revision to the financial account balance is £1.6 billion between 1997 and 2019, and £6.2 billion for the net international investment position over the same period

2 . Overview of the impact of methodological improvements

This article presents indicative estimates on the impact methodological improvements will have on the UK's Balance of Payments for the periods 1997 to 2019, introduced as part of Blue Book and Pink Book 2021.

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 the paper, the data are presented to the nearest billion British pounds, unless stated otherwise.

3 . Main improvements

Revisions are mainly the result of implementing the improvements described in this article. Indicatively, revisions between 1997 and 2016 will exclusively be from methods changes. The years 2017 to 2019 are fully open for revisions to incorporate new data from sources, in addition to the methods changes.

This section summarises the indicative revisions in both the closed and open periods 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 at the end of September, therefore they should be treated as indicative.

Trade

Improvements to estimates of freight services have been implemented in recent years for all modes of transport excluding sea freight. In Blue Book 2021 we have reviewed and introduced more up to date estimates of sea freight data with Vessels Value data and UK Chamber of Shipping data. Other changes impacting trade include:

- improved estimates on transactions of second-hand ships
- new methods of approximating the import and export adjustments for ship repairs
- improved methodology for calculating disbursements in the UK by foreign operators
- continued improvements to the quality of estimates for financial services using new information from the Financial Services Survey (FSS) which has increased domestic production and net trade
- improvements to import and export data sourced from HM Revenue and Customs (HMRC) that collects more granular data

The range of revisions between 1997 and 2019 are:

- Trade in goods balance – negative £9.7 billion and negative £1.5 billion.
- Trade in services balance – positive £0.7 billion and positive £14.2 billion

Wealth and Asset Survey and adjustments to debt securities

Before 2017, households (HH) and non-profit institutions serving households (NPISH) were processed as one combined sector. However, as part of European System of Accounts (ESA) 2010, there was a requirement to split out HH and NPISH sectors across the sequence of accounts within the Quarterly National Accounts, which was achieved in 2017. We are introducing improved methods to improve the coherence in the calculation of HH and NPISH sectors debt securities and share ownership.

The Office for National Statistics' (ONS) Wealth and Assists Survey (WAS) has introduced new data for HH holdings of debt securities and shares. Along with improved reconciliation of flows and levels between 1997 and 2012 this change comprises revised data for 2013 to 2015, together with new data for 2016 to 2018 replacing previous projections.

The range of revisions between 1997 and 2019 are:

- the primary income balance – negative £2.1 billion and positive £0.2 billion
- the net financial balance – negative £4.9 billion and positive £3.8 billion
- the net IIP balance – negative £2.7 billion and positive £3.4 billion

Multilateral development banks

The UK subscribes to a number of multilateral development banks (MDBs). These are international institutions, created by groups of countries to provide finance and advice with development goals. Membership includes both donor and beneficiary countries, with the UK typically performing a donor role.

When it was introduced, the ESA 2010 and subsequent updated version of Manual on Government Deficit and Debt offered new guidance on the treatment of payments by national governments into these organisations (IV.6, "capital increases in multilateral development banks"). For some types of payment this differs from the treatment previously adopted in the UK.

Following a recommendation by ONS’s Economic Statistics Classification Committee, it was decided that ONS should re-classify some payments to MDBs from other investment – other equity in the financial account to other capital transfers payable in the capital account.

The range of revisions between 1997 and 2019 are:

- the net capital account balance – negative £0.3 billion and negative £0.1 billion
- the net financial balance – negative £0.3 billion and positive £0.3 billion
- the net IIP balance – negative £2.5 billion and £0.0

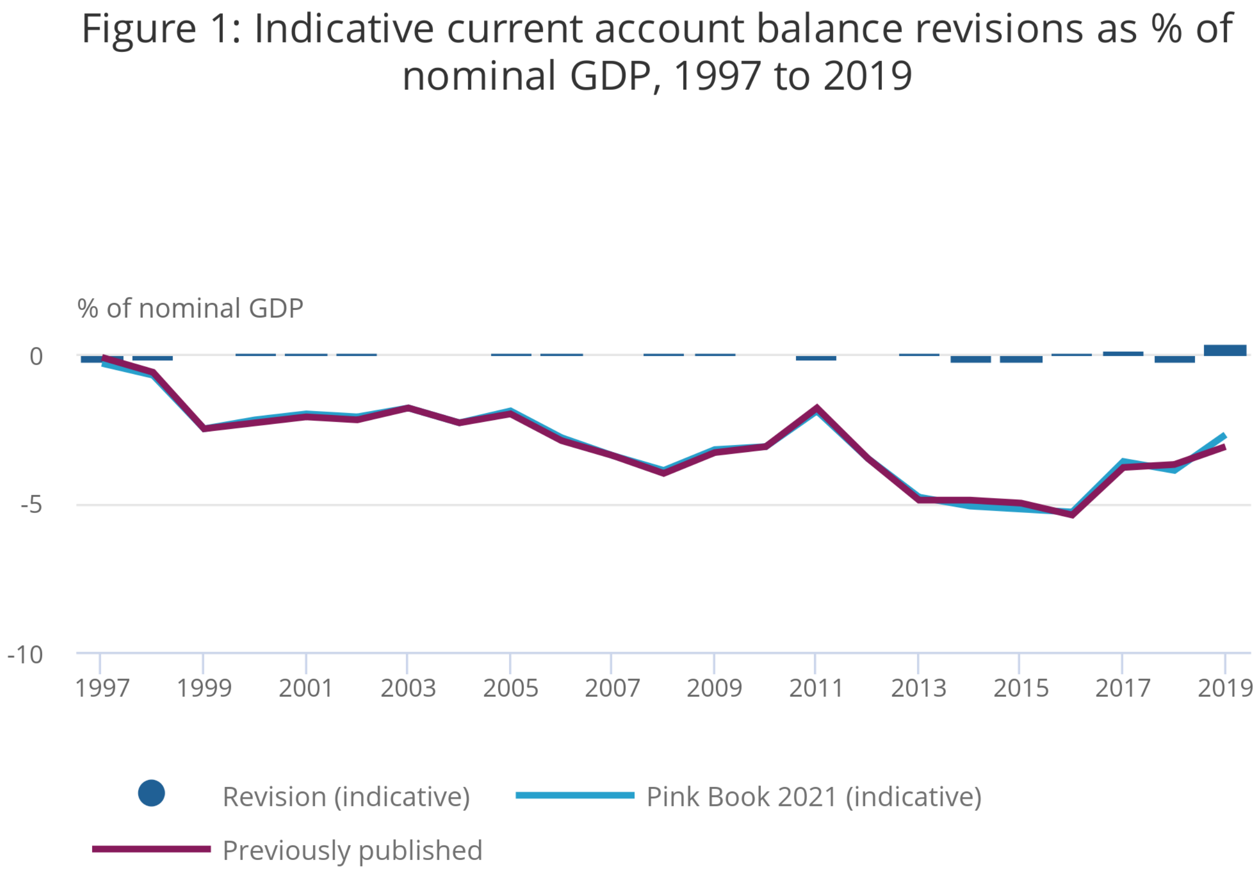
4 . Provisional impact on the main total aggregates

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). Annex 1 provides an indicative impact that changes will have on the balance of payments and IIP in billions of British pounds.

Current account balance

Figure 1 shows the indicative revisions to the current account balance as a percentage of nominal gross domestic product (GDP) which has also been subject to improvements captured in Impact of Blue Book 2021 changes on average quarterly gross domestic product. The revisions vary from negative 0.2% to a positive 0.4% in 2019. The main cause of the revisions came from the changes in the trade account – mainly the further improvement to the measurement of financial services within trade in services. See annex 2 for details.

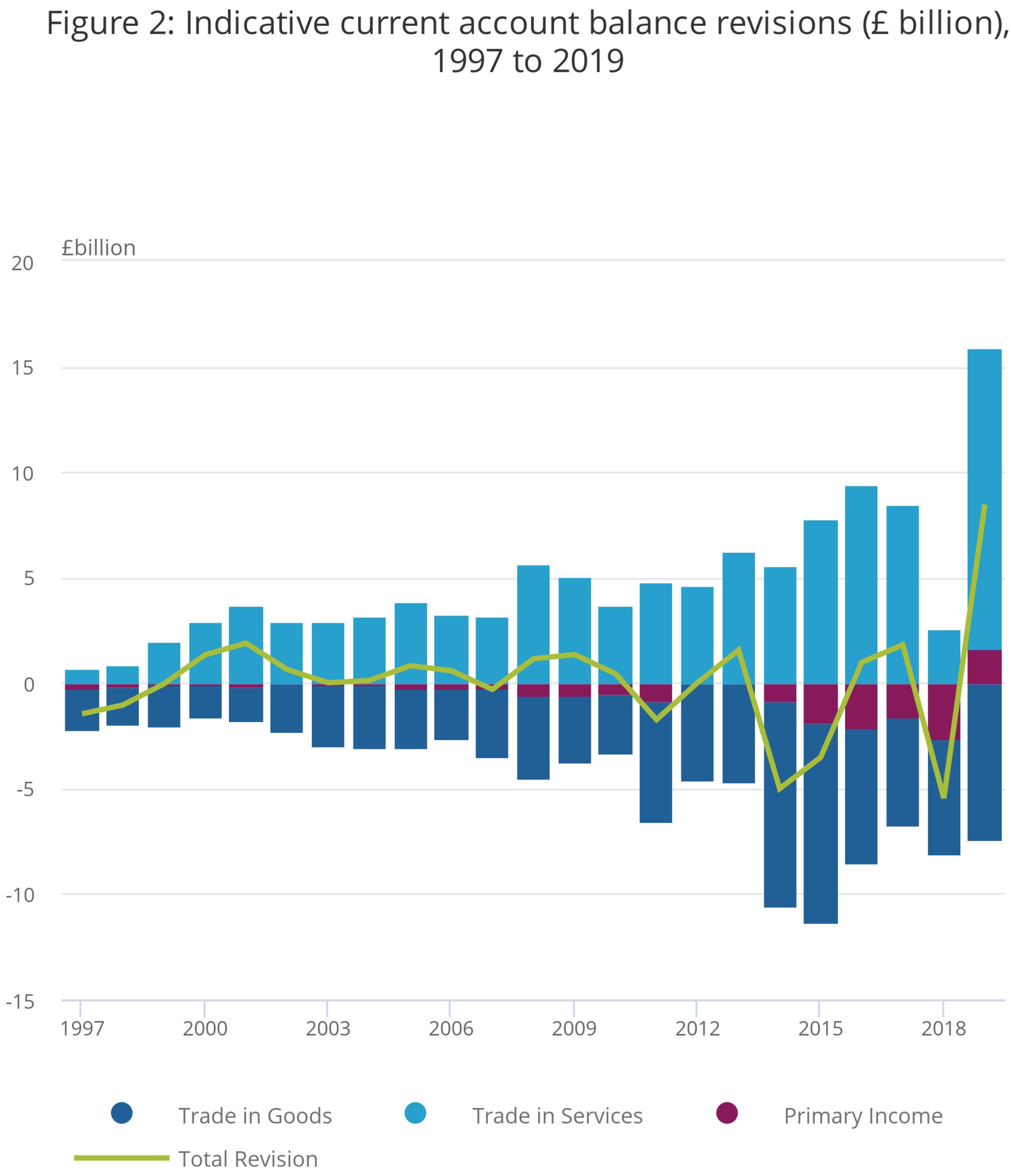
Figure 1: Indicative current account balance revisions as % of nominal GDP, 1997 to 2019



Source: Office for National Statistics - Balance of Payments

Figure 2 shows the breakdown of the current account balance revisions from 1997 to 2019 in value terms and highlights how the revisions to the trade account have influenced the current account, while primary and secondary income had less significant revisions.

Figure 2: Indicative current account balance revisions (£ billion), 1997 to 2019

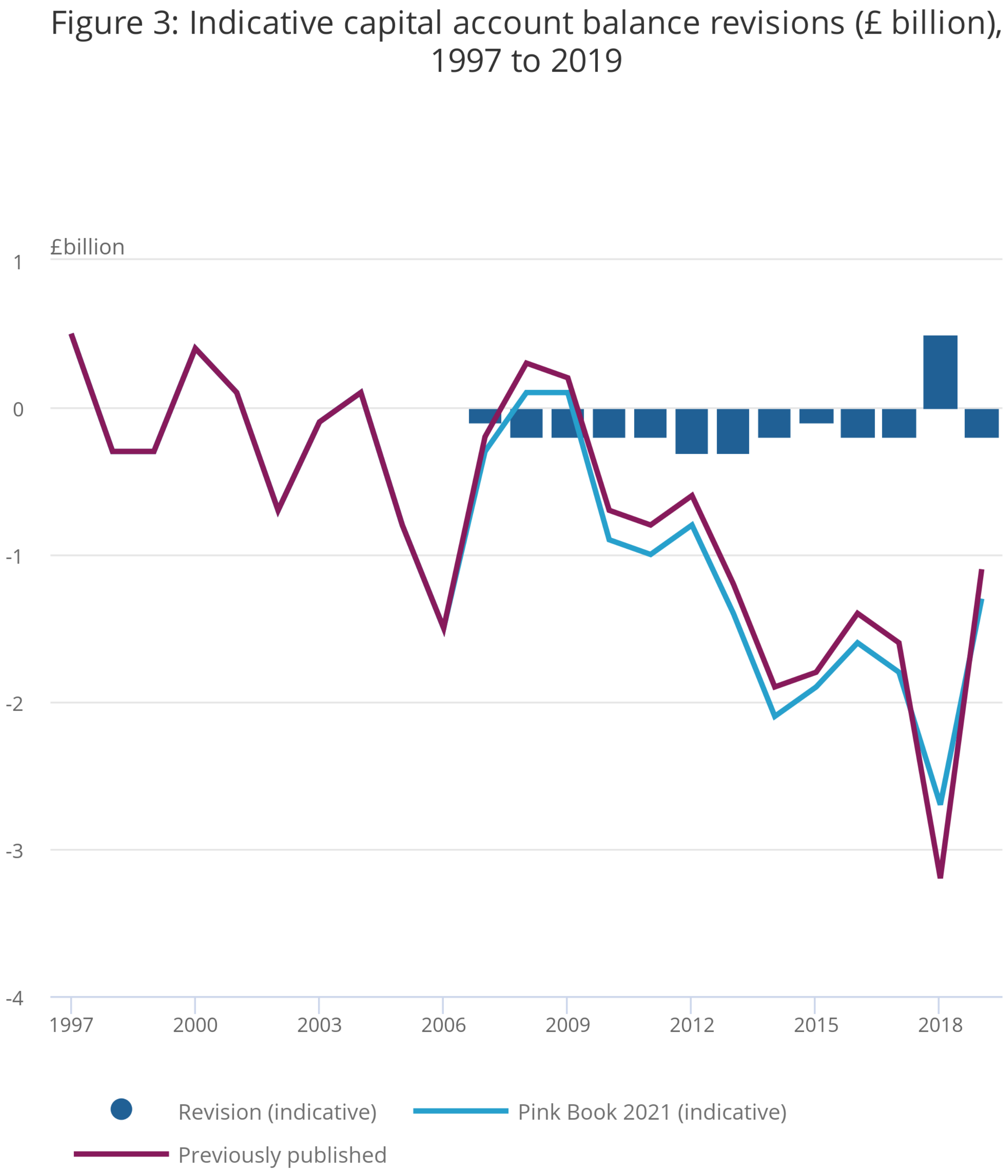


Source: Office for National Statistics - Balance of Payments

Capital account

Figure 3 shows how the reclassification of the multilateral development banks (MDB) has impacted the capital account. Most revisions have a negative impact on the balance as the UK generally provides funds to subscribing countries.

Figure 3: Indicative capital account balance revisions (£ billion), 1997 to 2019



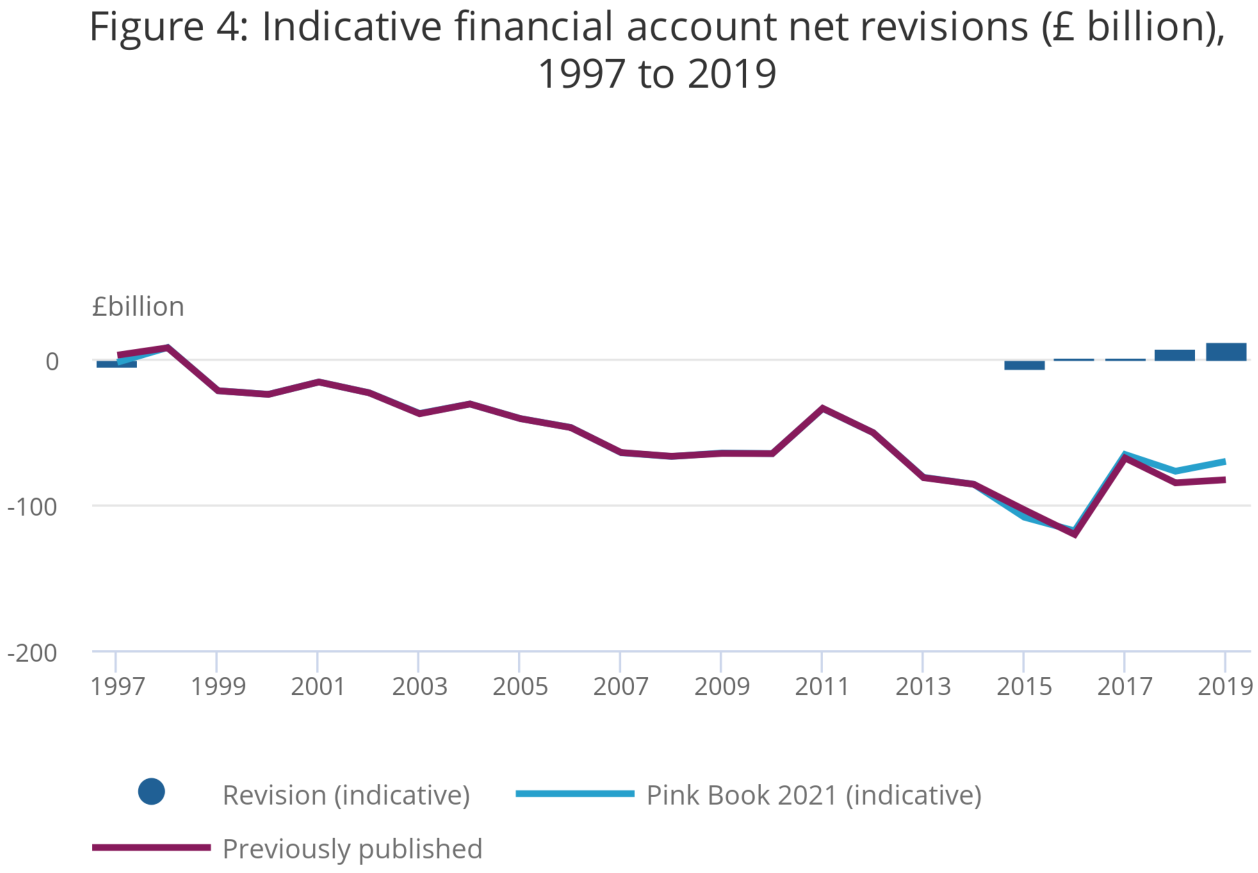
Source: Office for National Statistics - Balance of Payments

Financial account net revisions

This section provides the details of the impact on the financial account and the IIP. Figure 4 shows the provisional financial net account revisions in billions from 1997 to 2019.

The revisions are small in most years until the updated Wealth and Assets Survey (WAS) data are introduced from 2013 with its largest negative impact in 2015. The largest positive revision in 2019 is mostly the result of incorporating new data in direct, portfolio and other investment, see annex 1 for details.

Figure 4: Indicative financial account net revisions (£ billion), 1997 to 2019

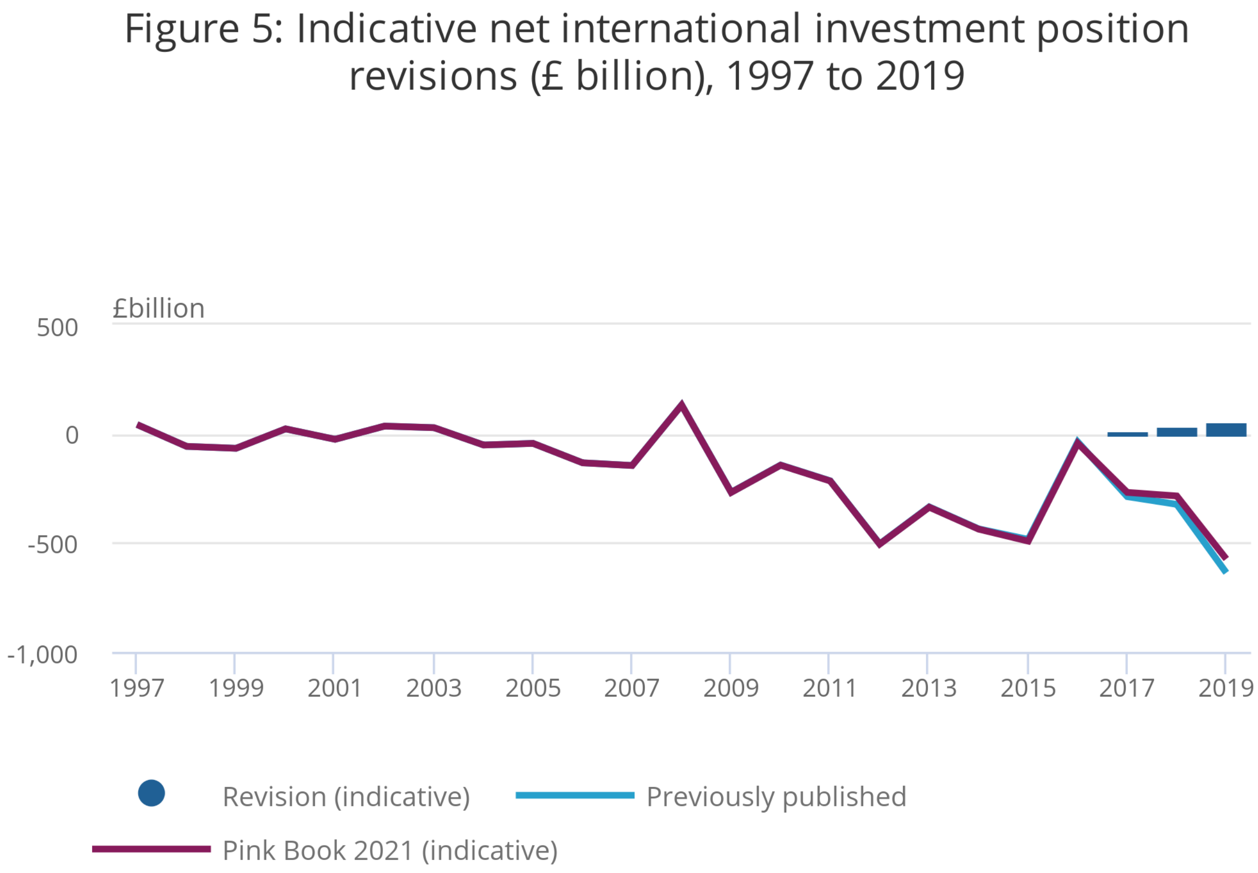


Source: Office for National Statistics - Balance of Payments

Net international investment position (IIP) revisions

Figure 5 shows the provisional impact on the net IIP from 1997 to 2019. Revisions until 2013 are negligible, including when the updated WAS data is introduced. Revisions increase in the latter years as updated data and survey benchmarks become available. The largest revision can be seen in 2019 improving the net IIP by £63.3 billion, or 2.8% of GDP, as UK liabilities to the rest of the world reduced, see annex 1 for details.

Figure 5: Indicative net international investment position revisions (£ billion), 1997 to 2019



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, 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.

In our Impact of Blue Book 2021 changes on average quarterly gross domestic product article published on 28 July 2021, we outlined the impact on GDP. 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 2019 will be positive £10.2 billion, with the largest positive revision in 2019 of £39.2 billion, see annex 3 for the breakdown of the revisions.

6 . Changes to Pink Book 2021 tables

Pink Book tables have been affected by some of these improvements, see annex 4 for details.

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 to which the UK is a net lender or net borrower with the rest of the world and 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. These are:

- capital transfers
- 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's (ONS's) 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 the UK trade release.

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.

8 . Related links

UK Economic Accounts: all data
Dataset | Released 30 June 2021
This is released at the same time of the UK Balance of Payments and provides supplementary tables for the balance of payments. The UK Economic Accounts also provides users with the perspective of the rest of world looking into the UK.

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
Bulletin | Released 21 December 2020
Investment of UK companies abroad (outward) and foreign companies into the UK (inward), including investment flows, positions and earnings, by country, component and industry.

UK Balance of Payments, The Pink Book: 2020
Bulletin | Released 30 October 2020
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.

A brief introduction to the UK Balance of Payments
Article | PDF (92KB)
This provides an overview of the concepts and coverage of the UK Balance of Payments using the Balance of Payments Manual sixth edition (BPM6).

Understanding the UK's net international investment position
Article | Released 27 April 2020
Analysis of the impact recent movements in price and exchange rates have had on the valuation of the UK's net international investment position.

Movements in foreign exchange rates
Bulletin | Released 31 March 2017
Overview of how these can impact the balance of payments and international investment position (IIP).