Office for National Statistics

Compendium

UK National Accounts, The Blue Book: 2019

National accounts statistics including national and sector accounts, industrial analyses and environmental accounts.

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Chapters in this compendium

Compendium

An introduction to the UK national accounts

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1 . What is the Blue Book?

The Blue Book was first published in August 1952 and presents a full set of economic accounts (national accounts) for the UK. These accounts are compiled by the Office for National Statistics (ONS). They record and describe economic activity in the UK and are used to support the formulation and monitoring of economic and social policies.

The UK National Accounts: The Blue Book, 2019 is available as a PDF by request only. To request a copy, please email blue.book.coordination@ons.gov.uk.

Chapter 1

Chapter 1 of the Blue Book provides a summary of the UK National Accounts, including explanations and tables covering the main national and domestic aggregates, for example:

- gross domestic product (GDP) at current market prices and chained volume measures
- GDP deflator
- gross value added (GVA) at basic prices
- gross national income (GNI)
- gross national disposable income (GNDI)
- population estimates
- employment estimates
- GDP per head
- the UK Summary Accounts (the goods and services account, production accounts, distribution and use of income accounts, and accumulation accounts)

Chapter 1 also includes details of revisions to data since the Blue Book 2018.

Chapter 2

Chapter 2 includes:

- input-output supply and use tables
- analyses of GVA at current market prices and chained volume measures
- capital formation
- workforce jobs by industry

Chapters 3 to 7

Chapters 3, 4, 5, 6 and 7 provide:

- a description of the institutional sectors
- the sequence of the accounts and balance sheets
- an explanation of the statistical adjustment items needed to reconcile the accounts
- the fullest available set of accounts providing transactions by sectors and appropriate subsectors of the economy (including the rest of the world)

Chapters 8 to 11

Chapters 8, 9, 10 and 11 cover additional analysis and include:

- supplementary tables for gross fixed capital formation (GFCF), national balance sheet and public sector
- statistics for European Union purposes

Chapter 12

Chapter 12 covers:

- UK Environmental Accounts

Chapter 13

Chapter 13 covers:

- flow of funds

2 . Overview of the UK National Accounts and sector accounts

In the UK, priority is given to the production of a single gross domestic product (GDP) estimate using income, production and expenditure data. Further analysis is available on the following:

- income analysis at current prices
- expenditure analysis at both current prices and chained volume measures
- value added analysis compiled on a quarterly basis in chained volume measures only

Income, capital and financial accounts are produced for non-financial corporations, financial corporations, general government, households, and non-profit institutions serving households.

The accounts are fully integrated but with a statistical discrepancy (known as the statistical adjustment), shown for each sector account. This reflects the difference between the sector net borrowing or lending from the capital account and the identified borrowing or lending in the financial accounts, which should theoretically be equal.

Financial transactions and balance sheets are produced for the rest of the world sector in respect of its dealings with the UK.

An introduction to sector accounts

The sector accounts summarise the transactions of particular groups of institutions within the economy, showing how the income from production is distributed and redistributed, and how savings are used to add wealth through investment in physical or financial assets.

Institutional sectors

The accounting framework identifies two kinds of institutions:

- consuming units (mainly households)
- production units (mainly corporations, non-profit institutions or government)

Units can own goods and assets, incur liabilities and engage in economic activities and transactions with other units. All units are classified into one of five sectors:

- non-financial corporations
- financial corporations
- general government
- households, and non-profit institutions serving households (NPISH)
- rest of the world

Types of transactions

There are three main types of transactions:

1. **Transactions in products**

   Transactions in products are related to goods and services. They include output, intermediate and final consumption, gross capital formation, and exports and imports.

2. **Distributive transactions**

   Distributive transactions transfer income or wealth between units of the economy. They include property income, taxes and subsidies, social contributions and benefits, and other current or capital transfers.

3. **Financial transactions**

   Financial transactions differ from distributive transactions in that they relate to transactions in financial claims, whereas distributive transactions are unrequited. The main categories in the classification of financial instruments are:

   - monetary gold and special drawing rights
   - currency and deposits
   - debt securities
   - loans
   - equity and investment fund shares or units
   - insurance, pension and standardised guarantee schemes
   - financial derivatives and employee stock options
   - other accounts receivable or payable

3 . Summary of changes

Considerable progress has been made in improving how we compile estimates of gross domestic product (GDP), where we have used the foundations of the “H-Approach” to inform headline GDP estimates in this Blue Book. This progress includes:

- a wider set of more appropriate product deflators for each transaction
- full integration of institutional sectors into the balancing process of the supply and use tables (SUTs) framework
- improvements to data sources to give information on the diversification of the services economy and the costs incurred by businesses through the introduction of the Annual Survey of Goods and Services and the reintroduction of the Annual Purchases Survey

New, improved data sources

The Annual Survey of Goods and Services, which estimates the goods and services produced by each industry, providing a more complete picture of output by product.

The Annual Purchases Survey, which identifies the purchasing patterns of businesses through the collection of information about their expenditure on energy, services, goods and materials that are used up or transformed by the business activity.

Methods improvements

Capital stocks

Improvements have been introduced to the estimation of capital stocks and therefore the consumption of fixed capital (CFC), which include:

- a review of the life length of fixed assets, delivering improved consistency with the approach taken in other countries
- improvements to the classification of stocks by asset, industry and the institutional sector
- implementation of hyperbolic age-efficiency, where an asset loses little of its productive value in the early years of its life but loses much more of this value as it nears the end of its life length

Change in inventories

This is now calculated on an industry by product basis allowing for a more accurate estimate to be produced. Deflation is now carried out on a product by asset basis for the first time, rather than at industry level. Comparisons between estimates produced from inventories against output measured from other sources have been made resulting in mismatches being identified and addressed, such as the removal of inventories work-in-progress from the services industries.

Research and development

Expenditure on research and development (R&D) is capitalised as a fixed asset in the UK National Accounts. More up-to-date survey returns, mostly affecting 2013 onwards, have been taken on in this Blue Book to better align the measures across the national accounts so that R&D is treated as a fully balanced concept. More consistent treatment across all components when calculating the sum-of-costs for non-market sectors has also been applied.

Value Added Tax

We have collaborated with HMRC and HM Treasury to review the recording of estimates of Value Added Tax (VAT) refunds within the national accounts. This has improved the recording of refunds associated with the NHS, academies, the BBC and police commissioners; resulting in an increase in the value of government final and intermediate consumption and the sum-of-costs output of government. As this tax is recorded as income and expenditure for both local government and central government respectively, any updates to VAT refunds data have no impact on general government net borrowing.

Trade

Improvements implemented in the Blue Book 2019 have led to revisions to current price and volume estimates of gross trade flows. These include the following areas:

- Estimates of the handling of intragroup transactions between resident and non-resident companies, which are part of the same group entity. Intragroup fees include those that relate to investment banking, advisory, brokerage, underwriting, insurance, loans and advances, while intragroup cost recharges are applied when the costs of a centrally managed service are allocated and charged to each group entity. Whilst transactions between UK institutions have been captured in the income and output measures of GDP, transactions between residents and non-residents will now be captured accordingly within trade in services for the first time.

- Improvements to the adjustments applied so that trade in goods estimates are consistent with the balance of payments. HM Revenue and Customs (HMRC) records the physical movement of goods in and out of the UK. However, for the purposes of the balance of payments, adjustments need to be applied so that they are on a change of economic ownership basis.

- Updating the method to produce the price index used to deflate fuel for trade, to incorporate more comprehensive granular information and so provide a more accurate estimate of the volumes of each commodity traded on an import and export basis.

- Improvements to how deflation is carried out for trade in services, which will better capture the currency mix of those transactions that are carried out in a foreign currency.

A new framework for gross domestic product

Historically, in the UK National Accounts, volume estimates of GDP have been produced using the expenditure approach to deflate nominal GDP. As part of our wider transformational programme, a new framework will be fully implemented over the coming years with the improvements made in the Blue Book 2019 being the first major step in our journey to inform how real GDP estimates are produced. These improvements will deliver several benefits, which include:

- more emphasis on data confrontation in the balancing of current price and volume estimates through the SUTs framework

- identifying the best deflator at a product level for each transaction in the UK National Accounts from those deflators that are currently available

- introduction of institutional sector accounts into the SUTs framework, allowing this information to feed into the balancing process

- the provision of an integrated framework for identifying the main areas for further development

4 . The basic accounting framework

The accounting framework provides a systematic and detailed description of the UK economy, including sector accounts and the input-output framework.

All elements required to compile aggregate measures, such as gross domestic product (GDP), gross national income (GNI), saving and the current external balance (the balance of payments) are included.

The economic accounts provide the framework for a system of volume and price indices, to allow chained volume measures of aggregates such as GDP to be produced. In this system, value added, from the production approach, is measured at basic prices (including other taxes less subsidies on production but not on products) rather than at factor cost (which excludes all taxes less subsidies on production).

The whole economy is subdivided into institutional sectors with current price accounts running in sequence from the production account through to the balance sheet.

The accounts for the whole UK economy and its counterpart, the rest of the world, follow a similar structure to the UK sectors, although several of the rest of the world accounts are collapsed into a single account as they can never be complete when viewed from a UK perspective.

5 . Table numbering system

The table numbering system is designed to show relationships between the UK, its sectors and the rest of the world. For accounts drawn directly from the European System of Accounts 2010: ESA 2010, a three-part numbering system is used; the first two digits denote the sector and the third digit denotes the ESA account. Not all sectors can have all types of account, so the numbering is not necessarily consecutive within each sector's chapter.

The rest of the world's identified components of accounts two to six are given in a single account numbered 2. UK whole economy accounts consistent with ESA 2010 are given in Section 1.6 as a time series and in Section 1.7 in a detailed matrix identifying all sectors, the rest of the world and the UK total.

The ESA 2010 code for each series is shown in the left-hand column, using the following prefixes:

- S for the classification of institutional sectors
- P for transactions in products
- D for distributive transactions
- F for transactions in financial assets and liabilities
- K for other changes in assets
- B for balancing items and net worth

Within the financial balance sheets, the following prefixes are used:

- AF for financial assets and liabilities
- AN for non-financial assets and liabilities

6 . The purpose of an account

An account records and displays all flows and stocks for a given aspect of economic life. The sum of resources is equal to the sum of uses, with a balancing item to ensure this equality.

The system of economic accounts allows the buildup of accounts for different areas of the economy, highlighting, for example, production, income and financial transactions.

Accounts may be elaborated and set out for different institutional units or sectors (groups of units).

Usually a balancing item has to be introduced between the total resources and total uses of these units or sectors. When summed across the whole economy these balancing items constitute significant aggregates.

Table I.1 provides the structure of the accounts and shows how gross domestic product (GDP) estimates are derived as the balancing items.

7 . The integrated economic accounts

The integrated economic accounts of the UK provide an overall view of the economy. Table I.1 presents a summary view of the accounts, balancing items and main aggregates and shows how they are expressed. The accounts are grouped into four main categories:

- goods and services accounts
- current accounts
- accumulation accounts
- balance sheets

8 . The goods and services account (Account 0)

The integrated economic accounts of the UK provide an overall view of the economy. Table I.1 presents a summary view of the accounts, balancing items and main aggregates, and shows how they are expressed. The accounts are grouped into four main categories:

- goods and services accounts
- current accounts
- accumulation accounts
- balance sheets

9 . Current accounts: the production and distribution of income accounts

The production account (Account I)

This account displays transactions involved in the generation of income by the activity of producing goods and services. The balancing item is value added (B.1). For the nation's accounts, the balancing items (the sum of value added for all industries) are, after the addition of taxes less subsidies on products, gross domestic product (GDP) at market prices or net domestic product when measured net of capital consumption. The production accounts are also shown for each industrial sector.

The distribution and use of income account (Account II)

This account shows the distribution of current income (value added) carried forward from the production account and has saving as its balancing item (B.8). Saving is the difference between income (disposable income) and expenditure (or final consumption).

The distribution of income compromises four sub-accounts:

- primary distribution of income account
- secondary distribution of income
- redistribution of income in kind
- use of income account

The allocation of primary income account (Account II.2.1)

Primary incomes are accrued to institutional units because of their involvement in production or their ownership of productive assets. They include the following:

- property income (from lending or renting assets)
- taxes on production and imports

The following are excluded:

- taxes on income or wealth
- social contributions or benefits
- other current transfers

The primary distribution of income shows the way these are distributed among institutional units and sectors. The primary distribution account is divided into two sub-accounts: the generation and the allocation of primary incomes.

The secondary distribution of income account (Account II.2)

This account describes how the balance of primary income for each institutional sector is allocated by redistribution; through transfers such as taxes on income, wealth and so on, social contributions and benefits, and other current transfers. It excludes social transfers in kind.

The balancing item of this account is gross disposable income (B.6g), which reflects current transactions and explicitly excludes capital transfers, real holding gains and losses, and the consequences of events such as natural disasters.

The redistribution of income in kind account (Account II.3)

This account shows how gross disposable income of households and non-profit institutions serving households (NPISH) and government are transformed by the receipt and payment of transfers in kind. The balancing item for this account is adjusted gross disposable income (B.7g).

The use of income account (Account II.4)

The use of income account shows how disposable income is divided between final consumption expenditure and saving. In addition, the use of income account includes, for households and for pensions, an adjustment item (D. 8: adjustment for the change in pension entitlements), which relates to the way that transactions between households and pension funds are recorded.

The accumulation accounts (Account III)

These accounts cover all changes in assets, liabilities and net worth. The accounts are structured into two groups.

The first group covers transactions that would correspond to all changes in assets, liabilities and net worth that result from transactions and are known as the capital account and the financial account. They are distinguished to show the balancing item net lending or borrowing.

The second group relates to all changes in assets, liabilities and net worth owing to other factors, for example, the discovery or re-evaluation of mineral reserves, or the reclassification of a body from one sector to another.

The capital account (Account III.1)

The capital account is presented in two parts.

The first part shows that saving (B.8g), the balance between national disposable income and final consumption expenditure from the production and distribution and use of income accounts, is reduced or increased by the balance of capital transfers (D.9) to provide an amount available for financing investment (in both non-financial and financial assets).

The second part shows total investment in non-financial assets. This is the sum of gross fixed capital formation (P. 51g), changes in inventories (P.52), acquisitions less disposals of valuables (P.53) and acquisitions less disposals of non-financial non-produced assets (NP). The balance on the capital account is known as net lending or borrowing. Conceptually, net lending or borrowing for all the domestic sectors represents net lending or borrowing to the rest of the world sector.

If actual investment is lower than the amount available for investment, the balance will be positive – representing net lending. Similarly, when the balance is negative, borrowing is represented. Where the capital accounts relate to the individual institutional sectors, the net lending or borrowing of a particular sector represents the amounts available for lending or borrowing to other sectors. The value of net lending or net borrowing is the same irrespective of whether the accounts are shown before or after deducting consumption of fixed capital (P.51c), provided a consistent approach is adopted throughout.

The financial account (Account III.2)

This account shows how net lending and borrowing are achieved by transactions in financial instruments. The net acquisitions of financial assets are shown separately from the net incurrence of liabilities. The balancing item is net lending or borrowing.

In principle, net lending or borrowing should be identical for both the capital account and the financial account. In practice, however, because of errors and omissions this identity is very difficult to achieve for the sectors and the economy as a whole. The difference is known as a statistical adjustment.

The other changes in assets account (Account III.3)

The other changes in assets account is concerned with the recording of changes in the values of assets and liabilities, and thus of the changes in net worth, between opening and closing balance sheets that result from flows that are not transactions, referred to as “other flows”.

This account is further subdivided into:

- other changes in the volume of assets account, III.3.1
- revaluation account, III.3.2

The other changes in the volume of assets account records the changes in assets, liabilities and net worth between opening and closing balance sheets that are neither because of transactions between institutional units, as recorded in the capital and financial accounts, nor holding gains and losses as recorded in the revaluation account. Examples include reclassifications and write-offs. The balancing item for this account is other changes in volume (B.102).

The revaluation account records holding gains or losses accruing during the accounting period to the owners of financial and non-financial assets and liabilities. The balancing item for this account is nominal holding gains and losses (B.103).

The balance sheet (Account IV)

The second group of accumulation accounts complete the sequence of accounts. These include the balance sheets and a reconciliation of the changes that have brought about the change in net worth between the beginning and end of the accounting period.

The opening and closing balance sheets show how total holdings of assets by the UK or its sectors match total liabilities and net worth (the balancing item). Various types of assets and liabilities can be shown in detailed presentations of the balance sheets. Changes between the opening and closing balance sheets for each group of assets and liabilities result from transactions and other flows recorded in the accumulation accounts, or reclassifications and revaluations.

Net worth equals changes in assets less changes in liabilities.

The rest of the world account (Account V)

This account covers the transactions between resident and non-resident institutional units and the related stocks of assets and liabilities. Written from the point of view of the rest of the world, its role is similar to an institutional sector.

10 . Satellite accounts

Satellite accounts cover areas or activities not included in the central framework because they either add additional detail to an already complex system or conflict with the conceptual framework. The UK Environmental Accounts are satellite accounts linking environmental and economic data to show the interactions between the economy and the environment.

See UK Environmental Accounts for further information.

11 . The limits of the national economy: economic territory, residence and centre of economic interest

Economic territory and residence of economic interest

The economy of the UK is made up of institutional units that have a centre of economic interest in the UK economic territory. These units are known as resident units and it is their transactions that are recorded in the UK National Accounts.

UK economic territory

The UK economic territory includes:

- Great Britain and Northern Ireland (the geographic territory administered by the UK Government within which persons, goods, services and capital move freely)
- any free zones, including bonded warehouses and factories under UK customs control
- the national airspace, UK territorial waters and the UK sector of the continental shelf

The UK economic territory excludes Crown dependencies (Channel Islands and the Isle of Man).

ESA 2010 economic territory

Within the European System of Accounts 2010: ESA 2010, the definition of economic territory also includes:

- territorial enclaves in the rest of the world (embassies, military bases, scientific stations, information or immigration offices and aid agencies used by the British Government with the formal political agreement of the governments in which these units are located)

But it excludes:

- any extra territorial enclaves (that is, parts of the UK geographic territory like embassies and US military bases used by general government agencies of other countries, by the institutions of the European Union or by international organisations under treaties or by agreement)

Centre of economic interest

When an institutional unit engages and intends to continue engaging (normally for one year or more) in economic activities on a significant scale from a location (dwelling or place of production) within the UK economic territory, it is defined as having a centre of economic interest and is a resident of the UK.

If a unit conducts transactions on the economic territory of several countries, it has a centre of economic interest in each of them.

Ownership of land and structures in the UK is enough to qualify the owner to have a centre of interest in the UK.

Residency

Resident units are:

- households
- legal and social entities such as corporations and quasi corporations, for example, branches of foreign investors
- non-profit institutions
- government
- so-called “notional residents”

Travellers, cross-border and seasonal workers, crews of ships and aircraft, and students studying overseas are all residents of their home countries and remain members of their households.

When an individual leaves the UK for one year or more (excluding students and patients receiving medical treatment), they cease being a member of a resident household and become a non-resident, even on home visits.

12 . Production included in economic activity

Gross domestic product (GDP) is defined as the sum of all economic activity taking place in UK territory. In practice a “production boundary” is defined, inside which are all the economic activities taken to contribute to economic performance. To decide whether to include a particular activity within the production boundary, the following factors are considered:

- Does the activity produce a useful output?
- Is the product or activity marketable and does it have a market value?
- If the product does not have a meaningful market value, can one be assigned (imputed)?
- Would exclusion (or inclusion) of the product of the activity make comparisons between countries over time more meaningful?

The following are recorded within the European System of Accounts 2010: ESA 2010 production boundary:

- production of individual and collective services by government
- own-account production of housing services by owner-occupiers
- production of goods for own final consumption, for example, agricultural products
- own-account construction, including that by households
- production of services by paid domestic staff
- breeding of fish in fish farms
- production forbidden by law; as long as all units involved in the transaction enter into it voluntarily
- production from which the revenues are not declared in full to the fiscal authorities, for example, clandestine production of textiles

The following fall outside the production boundary:

- domestic and personal services produced and consumed within the same household, for example, cleaning, the preparation of meals or the care of sick or elderly people
- volunteer services that do not lead to the production of goods, for example, caretaking and cleaning without payment
- natural breeding of fish in open seas

13 . Prices used to value the products of economic activity

In the UK, a number of different prices may be used to value inputs, outputs and purchases. The prices are different depending on the perception of the bodies engaged in the transaction, that is, the producer and user of a product will usually perceive the value of the product differently, with the result that the output prices received by producers can be distinguished from the prices paid by producers.

Basic prices

Basic prices are the preferred method of valuing output in the accounts.

They are the amount received by the producer for a unit of goods or services
minus any taxes payable
plus
any subsidy receivable as a consequence of production or sale.

The only taxes included in the price will be taxes on the output process, for example, business rates and Vehicle Excise Duty, which are not specifically levied on the production of a unit of output. Basic prices exclude any transport charges invoiced separately by the producer. When a valuation at basic prices is not feasible, producers’ prices may be used.

Producers’ prices

Producers’ prices are basic prices
plus
those taxes paid per unit of output (other than taxes deductible by the purchaser such as Value Added Tax (VAT), invoiced for output sold)
minus
any subsidies received per unit of output.

Purchasers’ or market prices

Purchasers’ or market prices are the prices paid by the purchaser and include transport costs, trade margins and taxes (unless the taxes are deductible by the purchaser).

Purchasers’ or market prices are producers’ prices
plus
any non-deductible VAT or similar tax payable by the purchaser
plus
transport costs paid separately by the purchaser (not included in the producers’ price).

They are also referred to as “market prices”.

The rest of the world: national and domestic

Domestic product (or income) includes production (or primary incomes generated and distributed) resulting from all activities taking place “at home” or in the UK domestic territory.

This will include production by any foreign-owned company in the UK, but exclude any income earned by UK residents from production taking place outside the domestic territory.

GDP
equals
the sum of primary incomes distributed by resident producer prices.

The definition of GNI (gross national income) is gross domestic product (GDP) plus income received from other countries (notably interest and dividends), less similar payments made to other countries.

GDP
plus
net property income equals
GNI.

This can be introduced by considering the primary incomes distributed by the resident producer units. Primary incomes, generated in the production activity of resident producer units, are distributed mostly to other residents’ institutional units.

For example, when a resident producer unit is owned by a foreign company, some of the primary incomes generated by the producer unit are likely to be paid abroad. Similarly, some primary incomes generated in the rest of the world may go to resident units. It is therefore necessary to exclude that part of resident producers’ primary income paid abroad, but include the primary incomes generated abroad but paid to resident units.

GDP (or income)
less
primary incomes payable to non-resident units
plus
primary incomes receivable from the rest of the world
equals
GNI.

GNI at market prices
equals
the sum of gross primary incomes receivable by resident institutional units or sectors.

National income includes income earned by residents of the national territory, remitted (or deemed to be remitted in the case of direct investment) to the national territory, no matter where the income is earned.

Real GDP (chained volume measures)
plus
trading gain
equals
real gross domestic income (RGDI).

Real gross domestic income (RGDI)
plus
real primary incomes receivable from abroad
less
real primary incomes payable abroad
equals
real gross national income (real GNI)

Real GNI (chained volume measures)
plus
real current transfers from abroad
less
real current transfers abroad
equals
real gross national disposable income (GNDI).

Receivables and transfers of primary incomes, and transfers to and from abroad, are deflated using the gross domestic final expenditure deflator.

14 . Gross domestic product: the concept of net and gross

The term gross means that, when measuring domestic production, capital consumption or depreciation has not been allowed for.

Capital goods are different from the materials and fuels used up in the production process because they are not used up in the period of account but are instrumental in allowing that process to take place. However, over time, capital goods wear out or become obsolete and in this sense gross domestic product (GDP) does not give a true picture of value added in the economy. When calculating value added as the difference between output and costs, we should also show that part of the capital goods are used up during the production process (the depreciation of capital assets).

Net concepts are net of this capital depreciation, for example:

GDP
minus
consumption of fixed capital
equals
net domestic product.

15 . Symbols used

In general, the following symbols are used:

.. not available

– nil or less than £500,000

£ billion denotes £1,000 million

Compendium

National accounts at a glance

A summary of recent trends and movements within the UK economy.

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Table of contents

1 . Introduction

This section of the UK National Accounts, The Blue Book: 2019 edition provides an examination of recent trends and important movements for a range of information contained in a number of the subsequent Blue Book chapters. All UK data referred to in this section are consistent with Blue Book 2019.

We have exceptionally not fully reconciled 2017 annual gross domestic product (GDP) estimates in Blue Book 2019. Instead, we have produced an indicative balance to allow further time for final quality assurance of the estimates. As such, there remains a statistical discrepancy in the income measure of GDP for 2017. The reference year and last base year for all chained volume measure estimates remains as 2016.

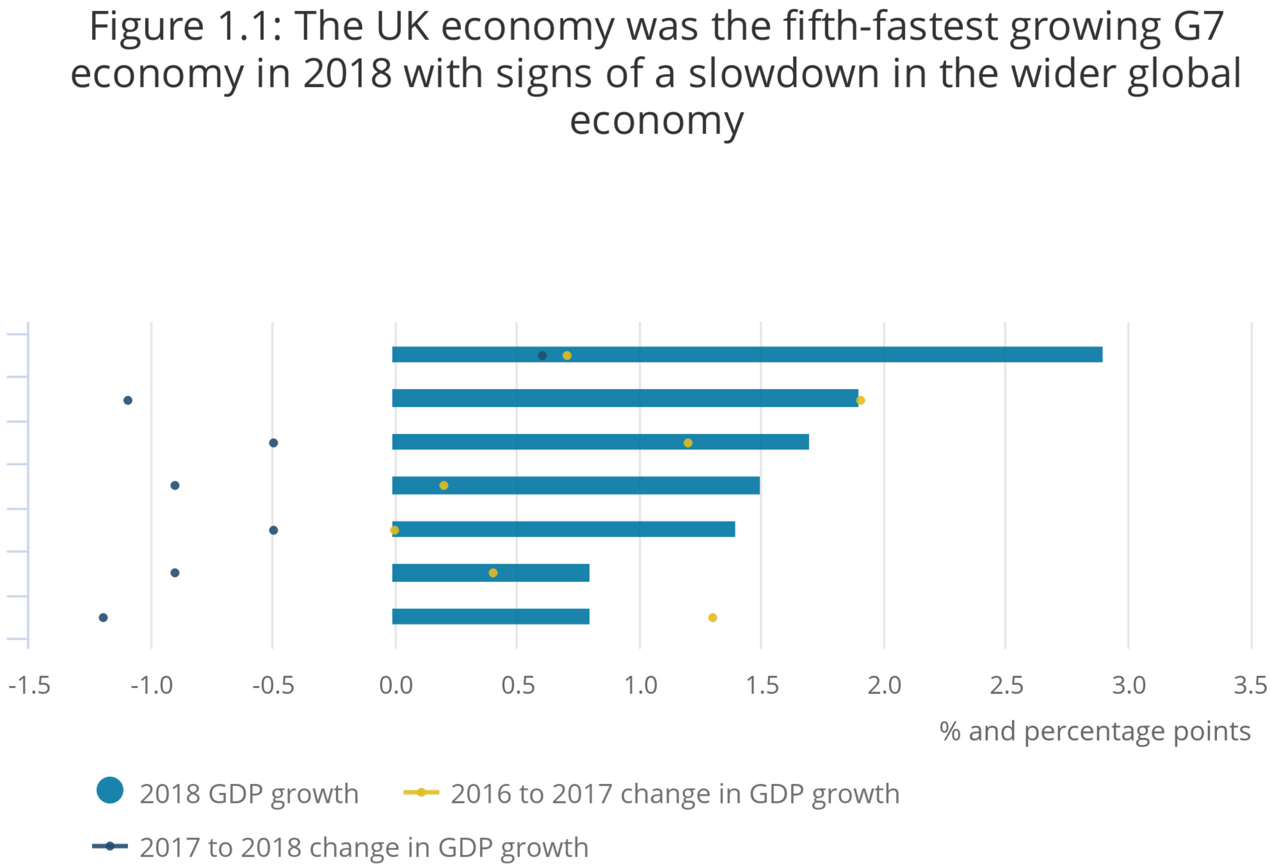
2 . Gross domestic product (GDP) and the headline economy

This section provides information on the headline economy, including the latest estimates of UK gross domestic product (GDP), which records how much output was produced in the UK in any given year. The UK economy grew by 1.4% in 2018 in volume terms, easing from 1.9% in 2017 and marking the slowest rate of annual GDP growth since 2009. In nominal terms, GDP grew 3.3% in 2018, an easing from the 3.8% growth in 2017.

There have also been signs of a slowdown in the global economy. Figure 1.1 shows how the UK economy has fared compared with other G7 countries in the last few years. In 2017, the UK was the only advanced economy not to experience a pickup in its rate of growth. The UK was the second slowest growing G7 economy that year, in line with Japan but ahead of Italy. This loss in momentum became more global in 2018 with every G7 country – except the United States – experiencing a slowdown in their economy.

The latest estimates show that the UK was only the fifth fastest growing advanced economy in 2018, ahead of Italy and Japan. The latest Interim Economic Outlook (PDF, 532KB) produced by the Organisation for Economic Co-operation and Development (OECD) attributes the global slowdown to “high policy uncertainty, ongoing trade tensions and a further erosion of business and consumer confidence”. This chimes with the latest World Economic Outlook produced by the International Monetary Fund (IMF), which states that trade tensions dent sentiment and slow investment, posing a risk to the global outlook.

Figure 1.1: The UK economy was the fifth-fastest growing G7 economy in 2018 with signs of a slowdown in the wider global economy



Source: Office for National Statistics and Organisation for Economic Co-operation and Development (OECD)

Notes:

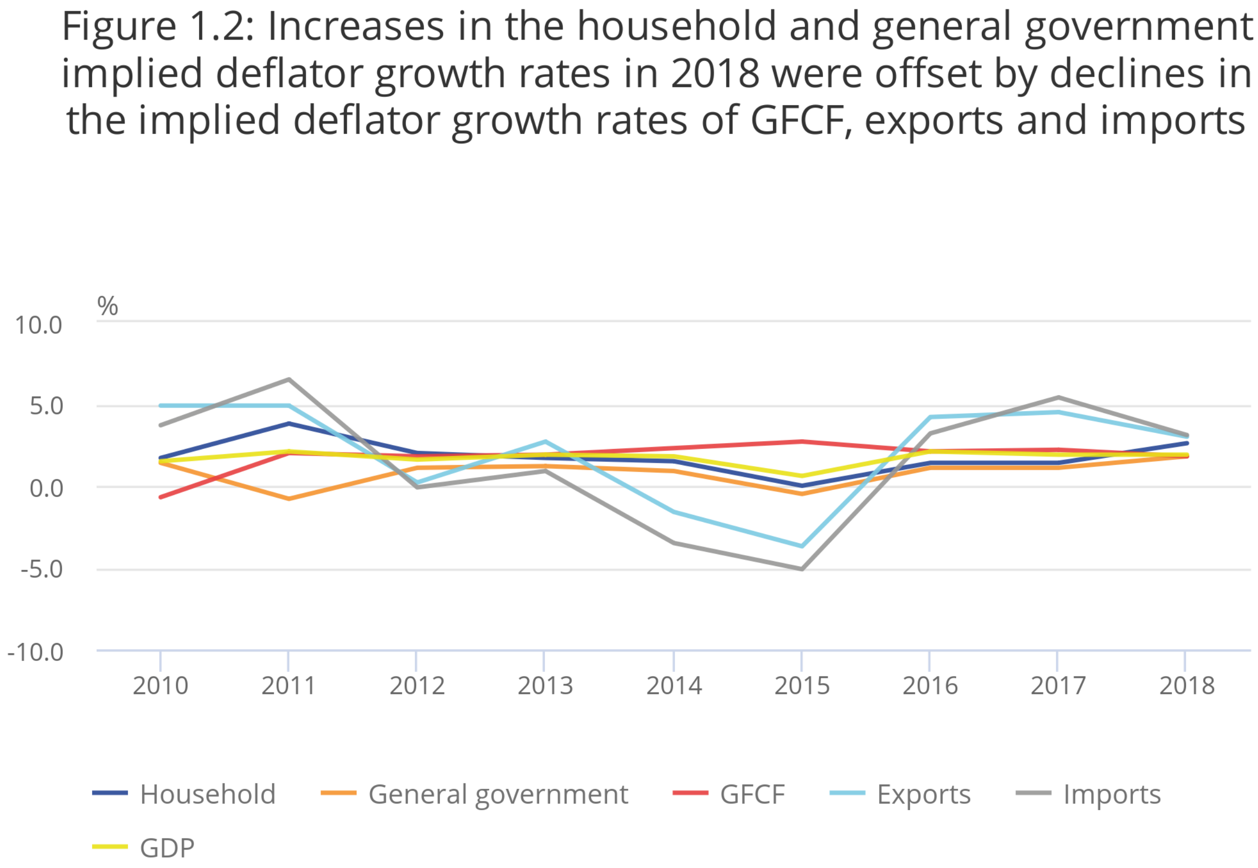
1. Change in growth calculated from rounded estimates.

2. Data are calculated from quarterly estimates taken from OECD and are correct at point of compilation.

The implied GDP deflator represents the broadest measure of inflation in the domestic economy, reflecting changes in the price of all goods and services that comprise GDP. This includes the price movements in private and government consumption, investment and the relative price of exports and imports. In 2018, the implied GDP deflator grew by 1.9%, in line with the growth rate in the previous year. This was slightly stronger than the five-year average of 1.7%. Reflecting these price movements, nominal GDP growth in the UK economy was 3.3% in 2018, below its five-year average annual growth rate of 3.7%.

The increase in the implied GDP deflator in 2018 reflected strengthening price growth in the implied deflators for households and the general government (Figure 1.2). However, this was offset by falls in the implied deflators of the other expenditure components, namely gross fixed capital formation (GFCF), exports and imports. In particular, there were notable drops in the growth rates of both the implied export and import deflators in 2018. Following a strong increase of 5.4% in 2017, growth in UK nominal import prices eased to 3.1% in 2018, while nominal export price growth slowed from 4.5% in 2017 to 3.0% in 2018.

Figure 1.2: Increases in the household and general government implied deflator growth rates in 2018 were offset by declines in the implied deflator growth rates of GFCF, exports and imports



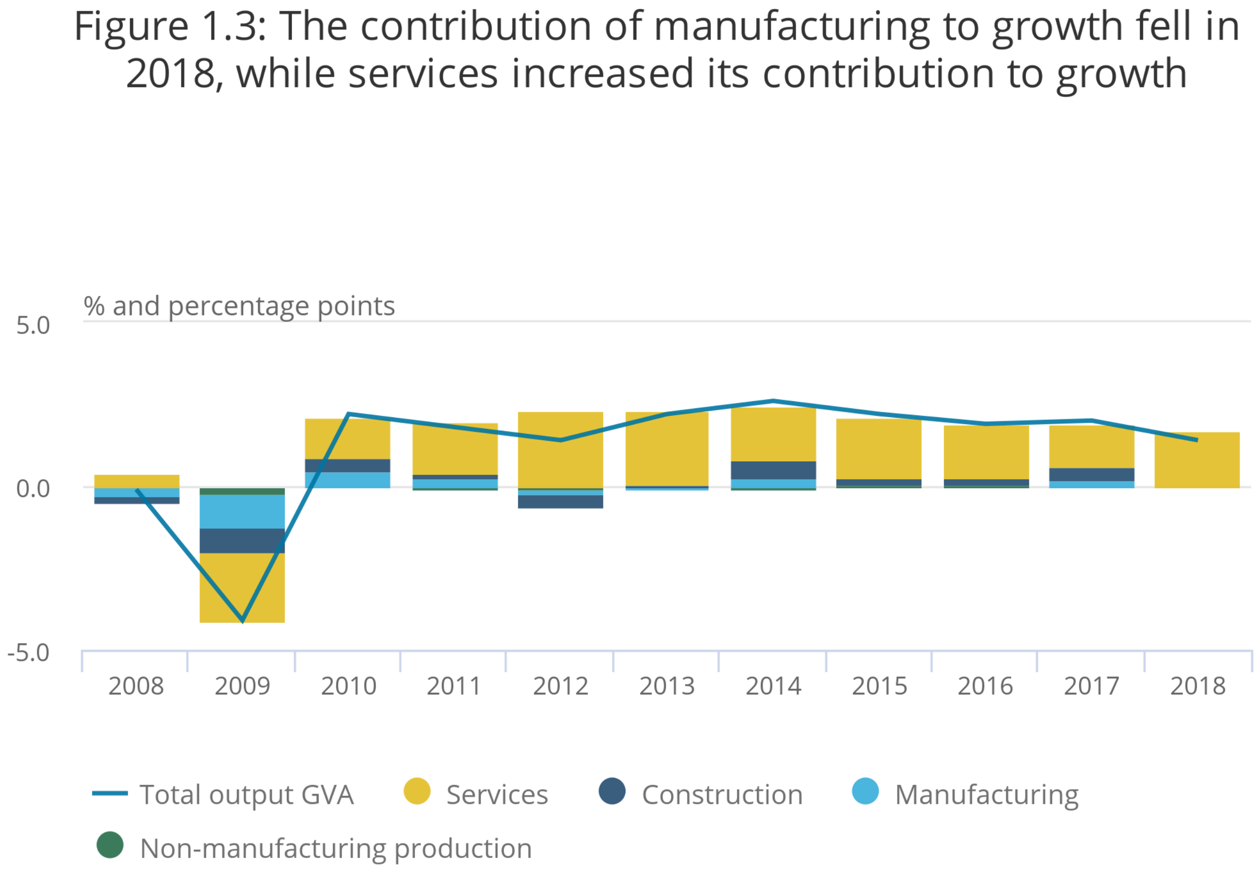
Source: Office for National Statistics

3 . Industrial analysis

Growth in the output approach to measuring gross domestic product (GDP) eased from 2.0% to 1.4% in 2018 (Figure 1.3), largely reflecting the slowdown in the manufacturing industry. Following growth of 2.2% in 2017, manufacturing output growth eased to 0.4% in 2018. These movements are likely a reflection of the strength in global GDP growth in 2017 and the subsequent slowdown in the global economy in 2018.

Following five consecutive years of expansion, construction output fell by 0.4% in 2018. Meanwhile, services continued to provide a boost to output growth for the ninth year running. Output in the services industry increased by 2.1% in 2018, a strengthening from the growth seen in the previous two years.

Figure 1.3: The contribution of manufacturing to growth fell in 2018, while services increased its contribution to growth



Source: Office for National Statistics

Notes:

1. Chart shows contribution to annual real GDP growth.

2. Components contributions may not sum to total due to rounding.

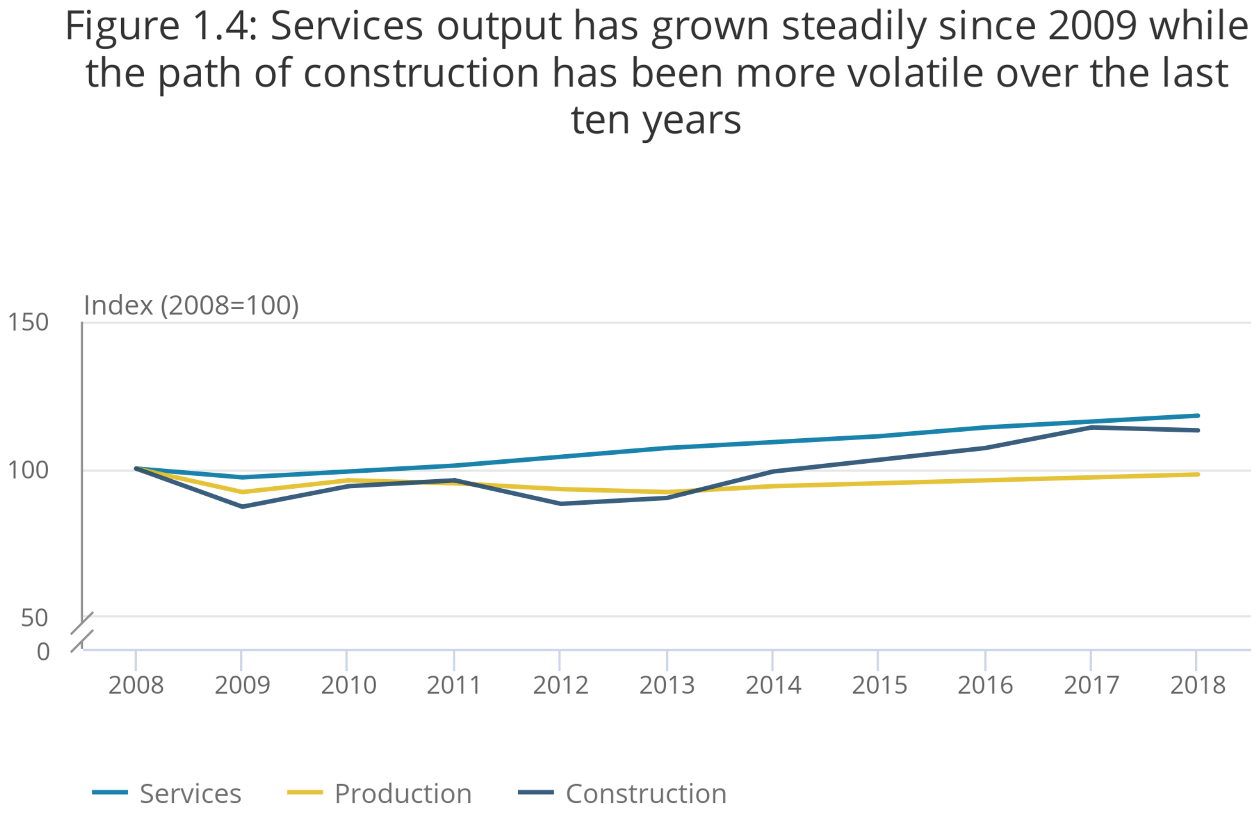
The strengthening in services output is mainly the result of professional scientific admin and support, which grew 4.2% in 2018. Strong growth in wholesale and retail trade and transport, storage and communications also played a role, with growth in the former strengthening from 2.5% in 2017 to 3.1% in 2018.

Figure 1.4 illustrates the relative performance of the industries of the UK economy a decade on from the financial crisis in 2008, showing how much higher or lower output is relative to their 2008 levels. Services output initially fell in 2009, reflecting decreases in output in distribution, hotels and restaurants, transport storage and communications, and business services and finance. However, services output has grown steadily every year since, with 18% growth over the last 10 years.

The path of construction was relatively volatile in the first five years following the financial crisis in 2008, though this has been more stable in recent years. Following five consecutive years of expansion, construction output fell by 0.4% in 2018. Overall, construction output is 13% higher than its 2008 level.

Production is the only industry where output is below its 2008 level, though production output is higher than the trough in 2009. The lack of recovery in the production industries is seen in both manufacturing and non-manufacturing. In the manufacturing industry, output is broadly in line with where it was in 2008. Turning to non-manufacturing, electric, gas, steam and air, and mining and quarrying have fallen since 2008 by 5% and 31% respectively. Water supply and sewerage is the only production area to have surpassed its 2008 level, with growth of 15% over the last ten years.

Figure 1.4: Services output has grown steadily since 2009 while the path of construction has been more volatile over the last ten years

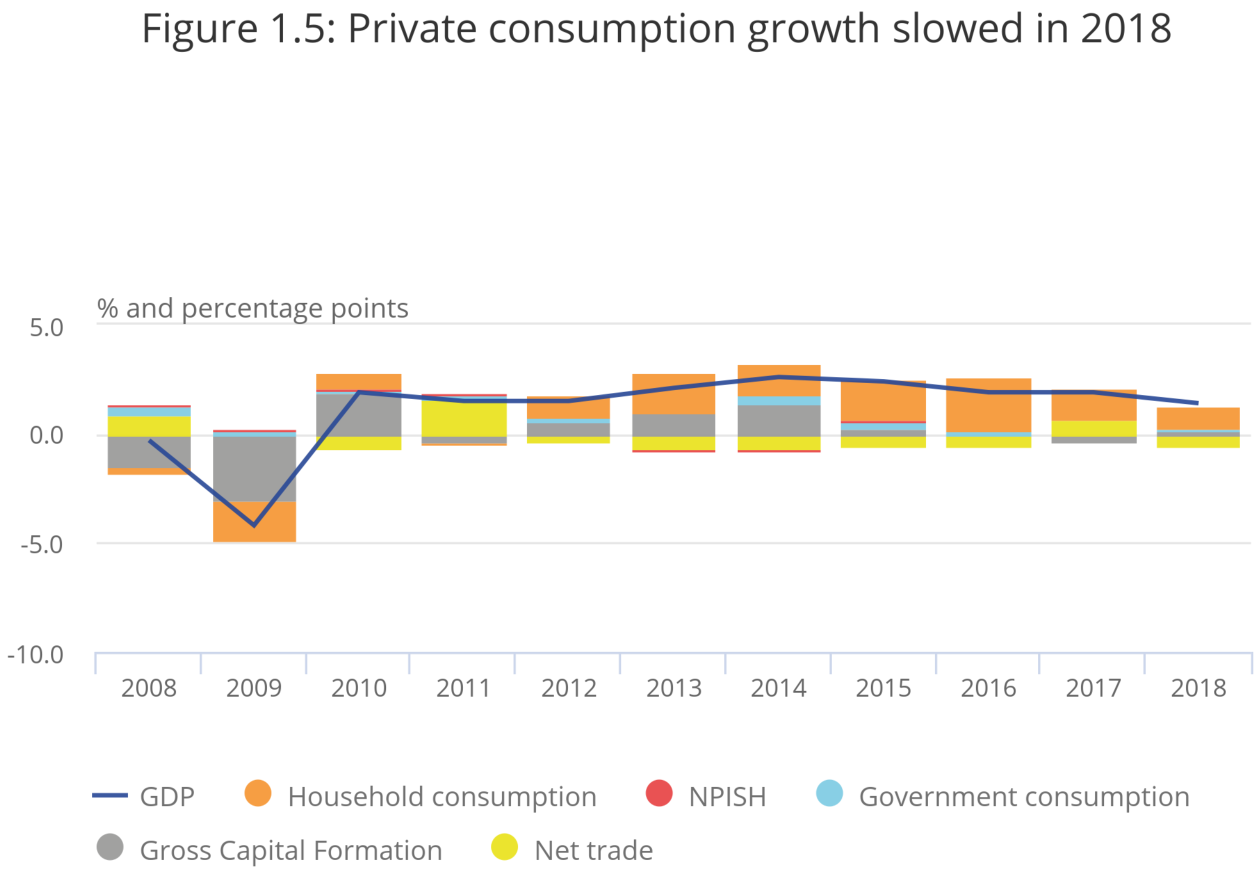


Source: Office for National Statistics

4 . Spending in the UK economy

Figure 1.5 shows how UK gross domestic product (GDP) has evolved over the last 10 years by looking at the contributions to real UK GDP growth by expenditure component. Household consumption growth slowed from 2.3% in 2017 to 1.6% in 2018, representing the slowest rate of growth since 2012. Gross capital formation made a positive contribution to growth in 2018, a reversal from the previous year, while net trade went from making a positive contribution in 2017 to being a drag on growth in 2018.

Figure 1.5: Private consumption growth slowed in 2018



Source: Office for National Statistics

Notes:

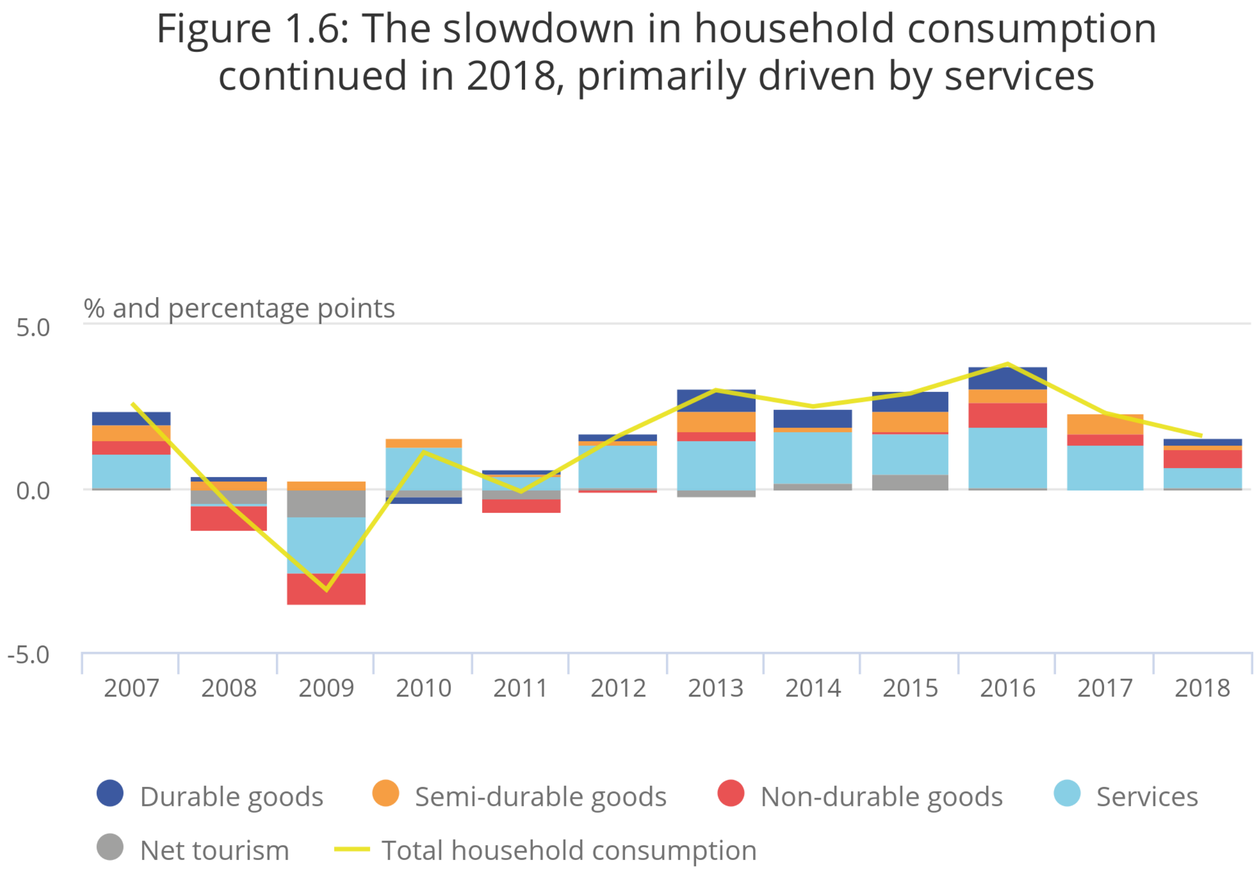
1. Chart shows contribution to annual real GDP growth.

2. Components contributions may not sum to total due to rounding. The statistical discrepancy is also not displayed.

The slowdown in real household consumption in 2018 is echoed in the Quarter 4 (Oct to Dec) 2018 Bank of England Agents' Summary of Business Conditions (PDF, 1.4MB), which noted that "uncertainty related to Brexit and subdued housing market activity weighed on demand". The GfK Consumer Confidence figures in December found that consumers were much less confident at the end of the year, with its reading at the lowest for more than five years.

Analysis by type of good shows that the slowdown in household consumption is primarily driven by services (Figure 1.6). The slowdown in spending on services in 2017 continued in 2018, with growth of 1.0% in 2018 representing the slowest rate in seven years. This trend is also noted in the Bank of England Agents' Summary of Business Conditions (PDF, 1.4MB) which highlighted muted growth in consumer services.

Figure 1.6: The slowdown in household consumption continued in 2018, primarily driven by services



Source: Office for National Statistics

Notes:

1. Chart shows contribution to annual real household consumption growth.

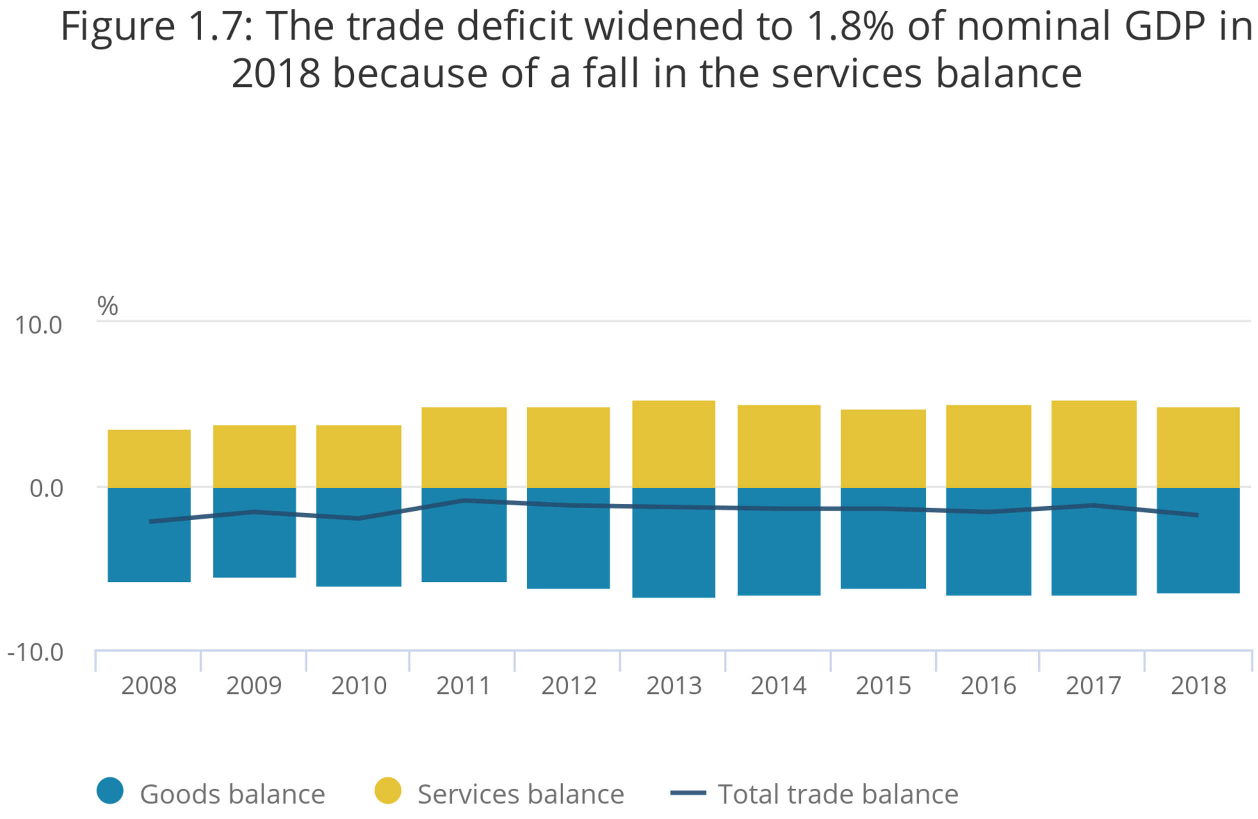
2. Components contributions may not sum to total due to rounding.

Business investment fell by 0.4% in 2018, reflecting four consecutive quarters of decline throughout 2018. The Bank of England Inflation Report (PDF, 4.2MB) stated that the weakness in business investment appears to "primarily reflect Brexit and associated uncertainty". Similarly, the 2018 Quarter 4 Decision Makers' Panel highlighted EU exit as one of the top sources of uncertainty for UK businesses.

Net trade was the only expenditure component to contribute negatively to real GDP growth in 2018, possibly reflecting the impact of a global slowdown on trade. Import volumes grew 0.7% in 2018 while export volumes fell 0.9% – the first decline since 2009 when export volumes fell 7.8%.

The UK trade deficit widened from 1.2% of nominal GDP in 2017 to 1.8% of nominal GDP in 2018. Figure 1.7 shows that while the goods deficit decreased slightly in 2018, there was a relatively larger fall in the services balance. The decrease in the services balance was driven by a 6.6% increase in the nominal value of services imports, offsetting the 2.0% growth in the nominal value of services exports.

Figure 1.7: The trade deficit widened to 1.8% of nominal GDP in 2018 because of a fall in the services balance



Source: Office for National Statistics

5 . Institutional sector accounts

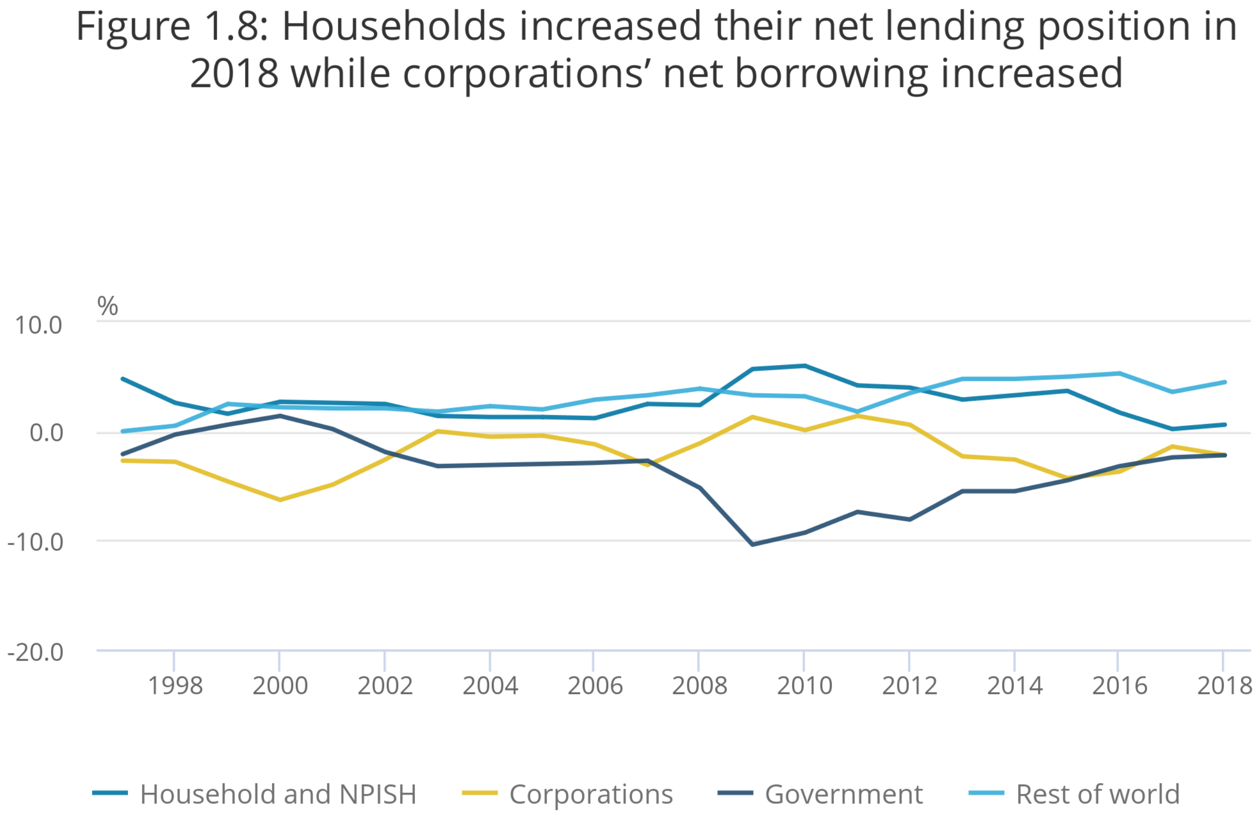
The income and expenditure of each sector implies a net lending or borrowing position for households, non-profit institutions serving households (NPISH), corporations, government and the rest of the world. By definition, these flows must sum to zero in fully supply and use balanced years – for each pound that is borrowed by one sector, there must be a pound that is lent by another.

Figure 1.8 shows the net lending and borrowing position for each sector in the UK and from the rest of the world. The rest of the world continues to be a net lender to the UK, financing the overall net borrowing position of the domestic sectors. Corporations and government are net borrowers, while households are net lenders.

In 2018, households and non-profit institutions serving households (NPISH) were a net lender of 0.6% of gross domestic product (GDP). This is a reflection of the 0.7% net lending position of households in 2018, up from 0.1% in 2017. Following the financial crisis, the government budget deficit widened to 10.4% of GDP in 2009. This deficit has narrowed over the last decade, reaching 2.2% of GDP in 2018.

The corporate sector experienced a pickup in capital investment following the financial crisis, with corporates going from being net lenders to net borrowers since 2013. In 2018, their net borrowing position was 2.2% of GDP. UK net borrowing from the rest of the world increased to 4.5% of GDP in 2018 compared with 3.6% of GDP in 2017.

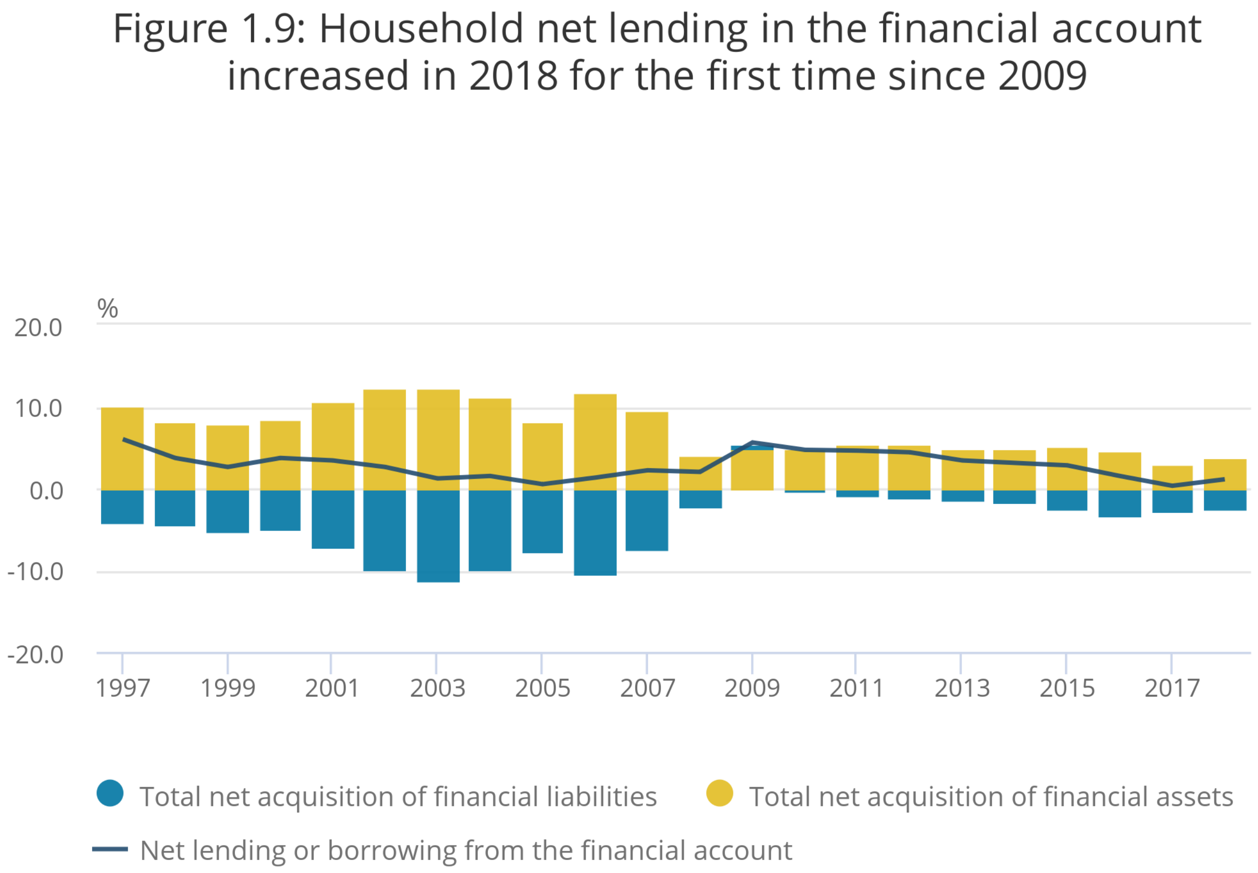
Figure 1.8: Households increased their net lending position in 2018 while corporations' net borrowing increased



Source: Office for National Statistics

Household net lending in the financial account as a percentage of GDP increased in 2018, the first increase since 2009. As Figure 1.9 shows, households reduced their net acquisition of financial liabilities for the second year in a row. At the same time, households markedly increased their net acquisition of financial assets, leaving a net lending position of 1.1% of GDP in the financial account of the household sector in 2018.

Figure 1.9: Household net lending in the financial account increased in 2018 for the first time since 2009

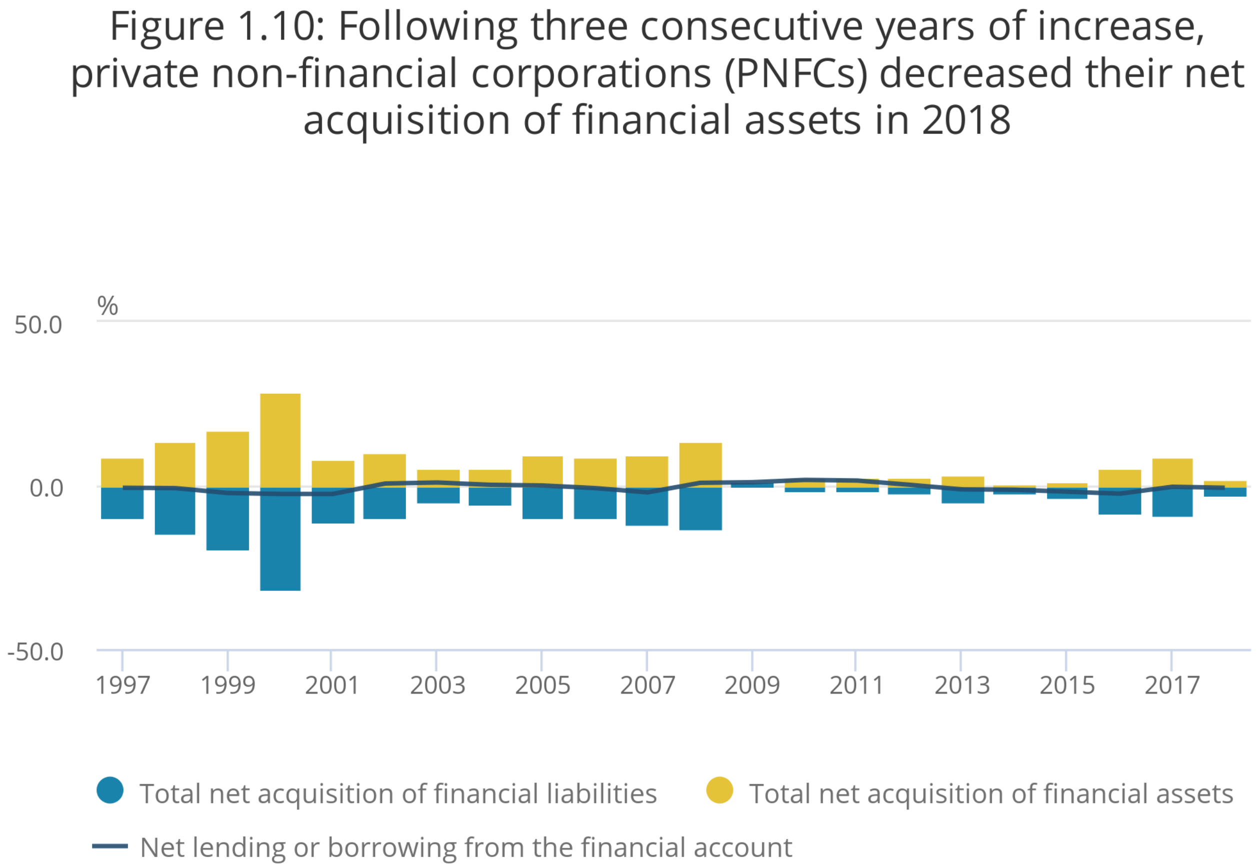


Source: Office for National Statistics

The increase in household net lending in 2018 reflects the 5.3% growth in gross household disposable income (GHDI). This growth in GHDI was stronger than the 2.5% increase in the household consumption deflator in 2018, with the result that real household disposable income (RHDI) increased by 2.7% in 2018, compared with 1.4% growth in 2017. With nominal household expenditure growth of 4.2% in 2018, the relatively stronger 5.3% growth in GHDI helped boost gross savings by households in 2018. Gross saving in the household sector increased by £15.5 billion in 2018 following a £22.9 billion drop in 2017, with the households' saving ratio rising from 5.3% in 2017 to 6.1% in 2018.

Private non-financial corporations' (PNFCs) net borrowing in the financial account was 0.7% of GDP in 2018 (Figure 1.10). Although PNFCs reduced their net acquisition of financial liabilities in 2018, they also decreased their net acquisition of financial assets – the first decrease following three consecutive years of increase – increasing their net borrowing position from the previous year.

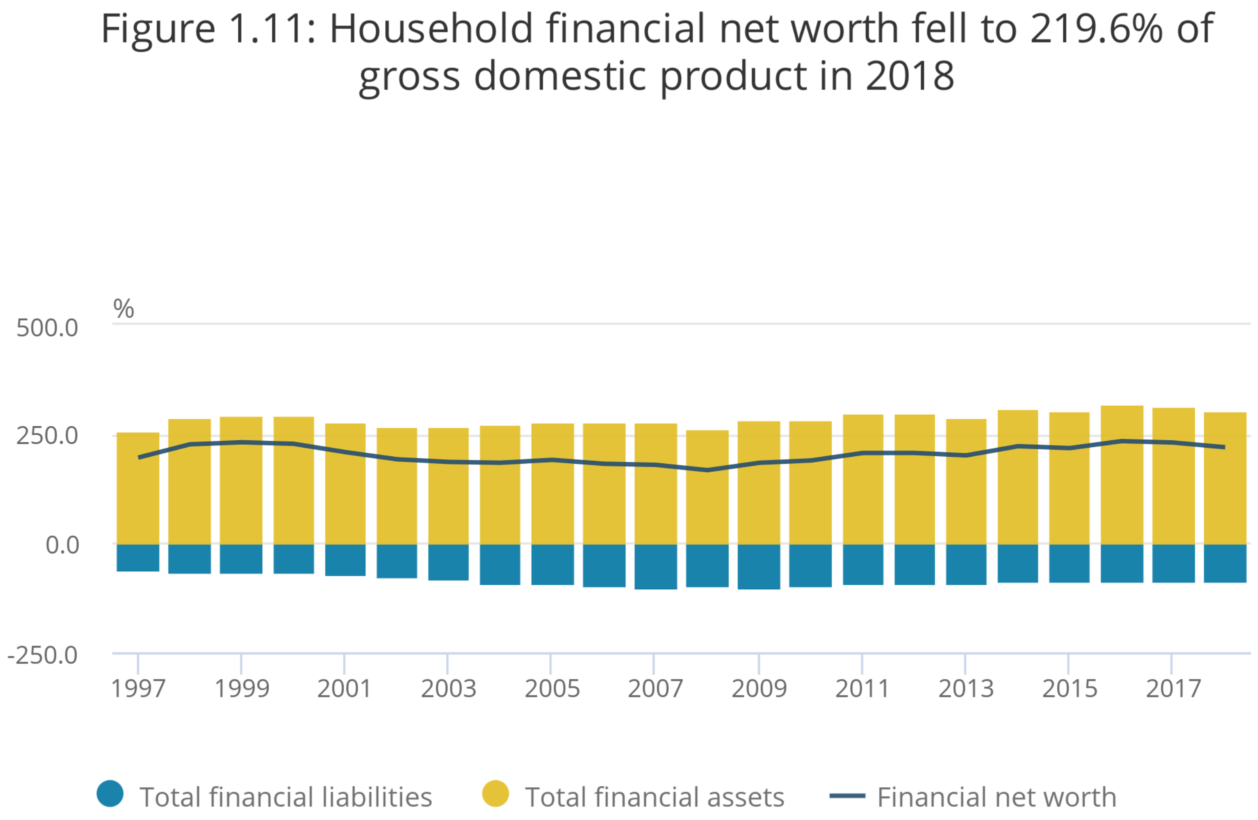
Figure 1.10: Following three consecutive years of increase, private non-financial corporations (PNFCs) decreased their net acquisition of financial assets in 2018



Source: Office for National Statistics

From a financial balance sheet position, household financial assets decreased in value to £6.5 trillion – or 305.0% of GDP – in 2018 (Figure 1.11). Meanwhile, the value of household financial liabilities increased to £1.8 trillion, though this remained unchanged from the previous year as a share of GDP. Household financial liabilities as a percentage of GDP have been on a steady decline since 2009, falling from 99.5% of GDP to 85.4% in 2018. With the concurrent fall in the value of household financial assets and rise in the value of household financial liabilities, household financial net worth as a share of GDP fell to 219.6% of GDP in 2018.

Figure 1.11: Household financial net worth fell to 219.6% of gross domestic product in 2018



Source: Office for National Statistics

Compendium

The industrial analyses

Analysis of the 10 broad industrial groups' contributions to gross value added, compensation of employees and workforce jobs, and summary supply and use tables.

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3. Current price analysis

4. Chained volume indices (2016=100) analyses

5. Workforce jobs by industry

6. Summary supply and use tables for the UK

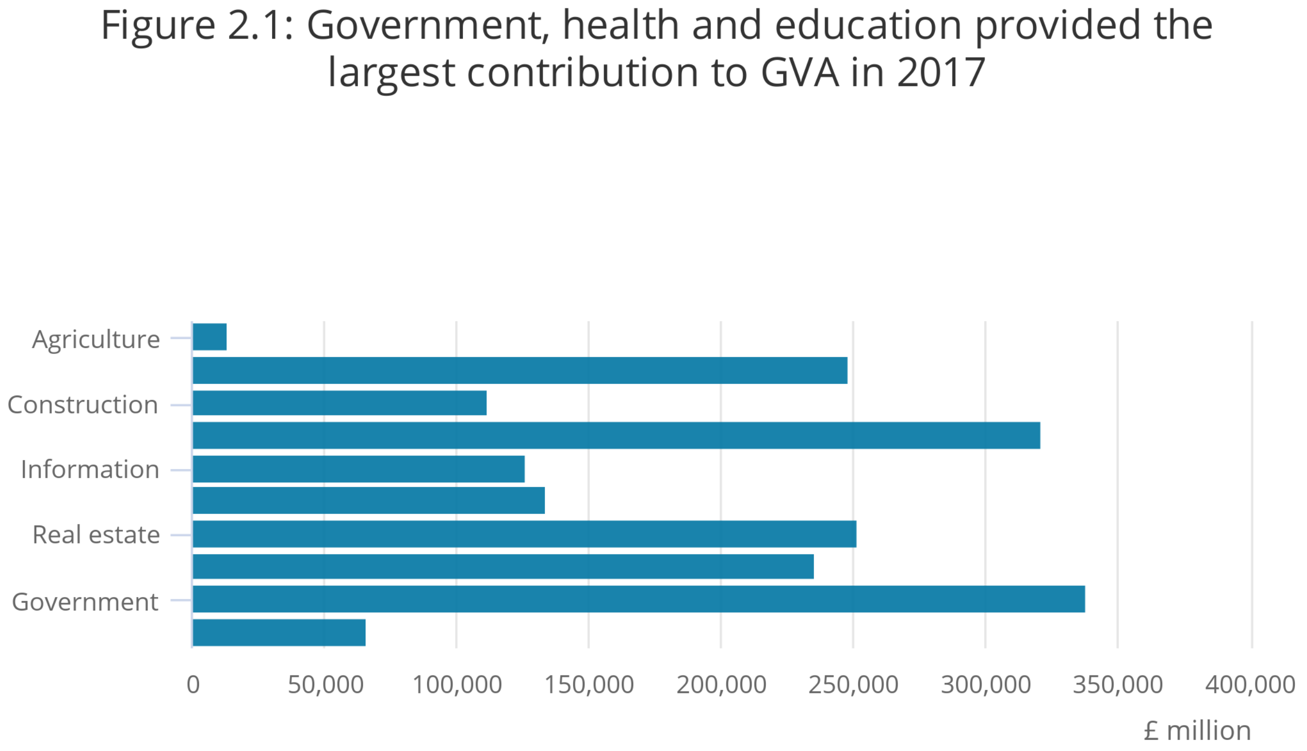
7. Gross value added (GVA)

1 . The industrial analysis

Analysis of the 10 broad industrial groups shows that in 2017, the government, health and education industries provided the largest contribution to gross value added (GVA) at current basic prices. These industries contributed 18.3% to the total GVA of £1,847 billion with a value of £338 billion Of the remainder:

- distribution, transport, hotels and restaurants industries contributed 17.4%
- real estate industries contributed 13.6%
- production industries contributed 13.4%

Figure 2.1: Government, health and education provided the largest contribution to GVA in 2017

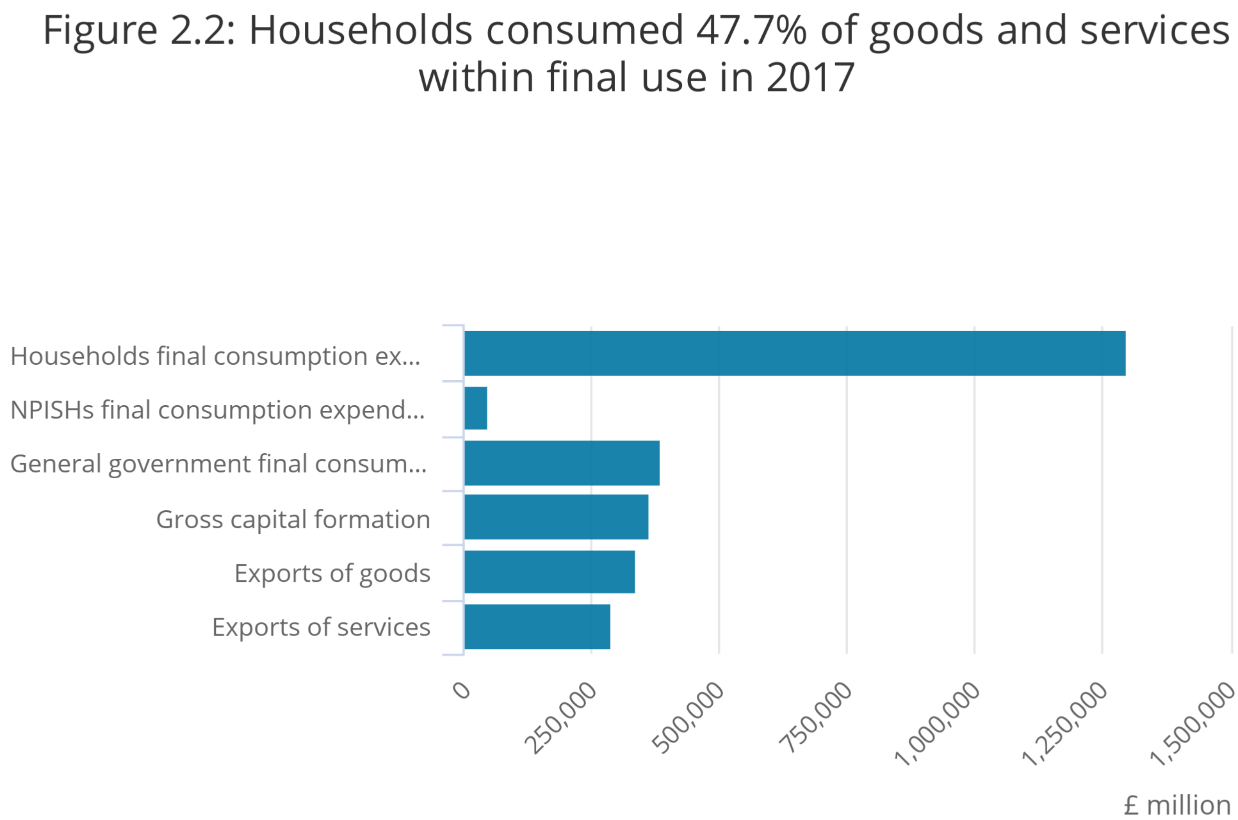


Source: Office for National Statistics

In 2017, of all goods and services within final demand:

- households consumed 47.8%
- 12.4% of goods, and 10.7% of services, were exported
- government, both central and local, consumed 14.2%
- gross capital formation, by all sectors of the economy, consumed 13.1%
- non-profit institutions serving households (NPISH) consumed 1.7%

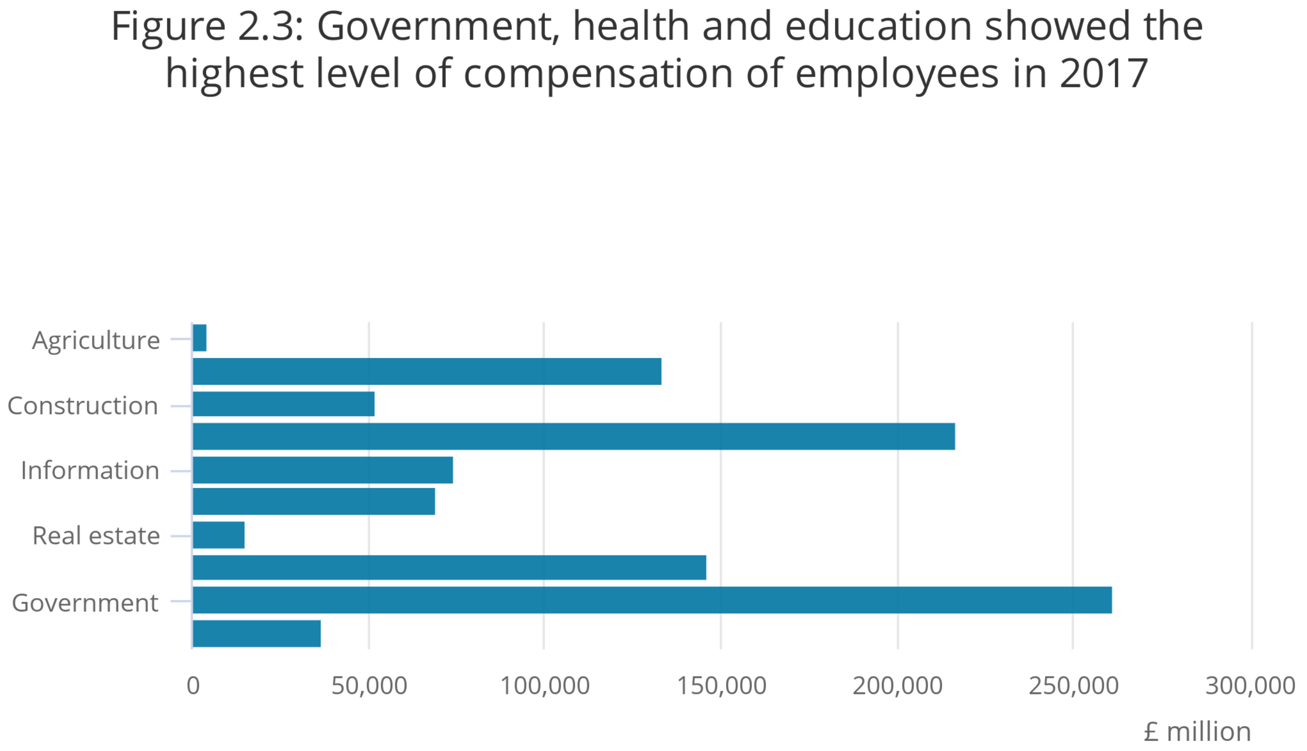
Figure 2.2: Households consumed 47.7% of goods and services within final use in 2017



Source: Office for National Statistics

The government, health and education industries showed the highest level of compensation of employees in 2017 at £261.0 billion (25.9%). The second largest industries, in terms of their contribution to total compensation of employees, were the distribution, transport, hotel and restaurant industries at £216.7 billion (21.5%).

Figure 2.3: Government, health and education showed the highest level of compensation of employees in 2017



Source: Office for National Statistics

2 . Input-output supply and use tables

The annual estimates included in UK National Accounts, The Blue Book: 2019 edition, incorporate the results of annual inquiries that become available in the first part of the year, although the last year's estimates are based largely on quarterly information. Any newly collected data are shown as revisions. To reassess these estimates, supply and use tables (SUTs) are prepared using all the available information on inputs, outputs, gross value added, income and expenditure. To produce consolidated sector and financial accounts requires preparation of "top-to-bottom" sector and subsector accounts to identify discrepancies in the estimates relating to each sector.

The latest annual supply and use tables provide estimates for the years 1997 to 2017, with data for 2017 balanced for the first time. Unusually this year, data for the full time series (1997 to 2017) have been rebalanced. The data have been revised to incorporate changes required under new international standards and guidelines, as well as to incorporate developments including new purchasing patterns from the re-introduced Annual Purchases Survey.

Further general information regarding the supply and use framework and the balancing process can be found in the Guidance and methodology.

3 . Current price analysis

The analyses of gross value added and other variables by industry, shown in Tables 2.1, 2.1A and 2.2, reflect estimates based on Standard Industrial Classification 2007: SIC 2007. These tables are based on current price data reconciled through the input-output supply and use framework from 1997 to 2017.

Estimates of total output and gross value added are valued at basic prices, the method recommended by the European System of Accounts 2010: ESA 2010 (PDF, 6.4MB). Therefore, the only taxes and subsidies included in the price will be those paid or received as part of the production process (such as business rates), rather than those associated with the production of a unit of output (such as Value Added Tax).

4 . Chained volume indices (2016=100) analyses

Table 2.3 shows chained volume estimates of gross value added (GVA) at basic prices by industry. The output approach provides the lead indicator of economic change in the short term. In the longer term, the output measure of real gross domestic product (GDP) is required to follow the annual path indicated by the expenditure measure of real GDP (usually to within 0.2% of the average annual GVA growth). To achieve this, balancing adjustments are sometimes applied to the output-based GVA estimates.

We have developed an automatic function for assigning the annual adjustments to GVA. This is designed to minimise changes to the quarterly path while adjusting the overall annual growth rate to align to the expenditure measure. For technical and other reasons the adjustments are not, at present, made to retail or the non-services industries for any years.

5 . Workforce jobs by industry

Workforce jobs (WFJ) is the preferred measure of the change in jobs by industry. A person can have more than one job; the number of jobs is not the same as the number of people employed.

Table 2.4 breaks down WFJ into 10 broad industry groupings on Standard Industrial Classification 2007: SIC 2007.

The main component of WFJ is employee jobs. Estimates for employee jobs are obtained mainly from surveys of businesses selected from the Inter-Departmental Business Register (IDBR). All other business surveys collecting economic data also use this register.

WFJ also includes Her Majesty's Forces (within industry section O) and government-supported trainees from administrative sources (split by industry using the Labour Force Survey).

The Labour Force Survey (LFS), a household survey, is used to collect self-employment jobs. It codes respondents according to their own view of the industry they work in, therefore the industry breakdown is less reliable than that for the business surveys.

6 . Summary supply and use tables for the UK

New tables are available for all years back to 1997. Links to tables for the latest years are included below.

Table 2.1a: Summary supply and use tables 2014

Table 2.1b: Summary supply and use tables 2015

Table 2.1c: Summary supply and use tables 2016

Table 2.1d: Summary supply and use tables 2017

7 . Gross value added (GVA)

The UK National Accounts provide a comprehensive industry breakdown of gross value added (GVA), with activities grouped into 20 broad sections in accordance with Standard Industrial Classification 2007: SIC 2007.

This also includes supplementary information for the different components that make up GVA for each industry. Under the income approach, GVA is split into compensation of employees (CoE), taxes less subsidies, gross operating surplus (GOS) and mixed income. Estimates of each industry's intermediate consumption and total output are also published, with the difference between the two equalling GVA.

This additional information allows for more detailed analysis of national output to be conducted. For example, CoE can be used to calculate how much of an industry's production income is spent on wages and salaries and employers' social contributions. GOS data can be used to estimate how much profit is generated by companies after considering labour costs and taxes less subsidies.

Compendium

Non-financial corporations

Public and private sector non-financial corporations.

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1 . Non-financial corporations

Non-financial corporations produce goods and services for the market and do not, as a primary activity, deal in financial assets and liabilities.

This sector includes retailers, manufacturers, utilities, business service providers (such as accountancy and law firms), caterers, haulage companies, airlines, construction companies and farms among others.

The non-financial sector is broken down into two subsectors:

- public sector non-financial corporations
- private sector non-financial corporations

Tables 3.1.1 to 3.1.11 relate to non-financial corporations as a whole. Tables 3.2.1 to 3.2.11 relate to public non-financial corporations, which are government-owned trading businesses. Tables 3.3.1 to 3.3.11 relate to private non-financial corporations, which are trading businesses in the private sector. All the tables are downloadable as an Excel workbook.

Further information on sector classifications and classification decisions can be found in Economic statistics classifications.

Compendium

Financial corporations

Financial corporations including monetary financial institutions, insurance corporations and pension funds, and other financial corporations.

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1 . Financial corporations

The financial corporations sector (S.12) consists of institutional units that are independent legal entities and market producers, and whose principal activity is the production of financial services. Such institutional units comprise all corporations and quasi corporations that are principally engaged in:

- financial intermediation (financial intermediaries)
- auxiliary financial activities (financial auxiliaries)

Also included are institutional units providing financial services, where most of either their assets or their liabilities are not transacted on open markets.

Financial intermediation is the activity in which an institutional unit acquires financial assets and incurs liabilities on its own account by engaging in financial transactions on the market. The assets and liabilities of financial intermediaries are transformed or repackaged in relation to, for example, maturity, scale or risk in the financial intermediation process.

Auxiliary financial activities are activities related to financial intermediation, but which do not involve financial intermediation themselves.

Financial corporations are presented in the following groupings:

- monetary financial Institutions (MFI)
- insurance corporations and pension funds (ICPF)
- financial corporations except MFI and ICPF

Further information on sector classifications and classification decisions can be found in Economic statistics classifications.

Compendium

General government

General government sector by central and local government.

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1 . General government

The general government sector is made up of units providing services for collective or individual consumption that are not sold at market prices. These units are usually funded by compulsory payments from units in other sectors (taxes) and may be involved in the redistribution of national income (for example, benefits and State Pension).

The sector includes government departments and agencies, local authorities, the devolved administrations in Northern Ireland, Scotland and Wales, the state education system, the National Health Service, the armed forces and the police. Non-departmental public bodies are also included in the general government sector.

The UK National Accounts, The Blue Book: 2019 edition presents estimates for the general government sector and subsector breakdowns for:

- central government
- local government

Further information on sector classifications and classification decisions can be found in Economic statistics classifications.

Compendium

Households and non-profit institutions serving households

Households, and non-profit institutions serving households sectors.

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1 . Households and non-profit institutions serving households

The households sector covers people living independently in residential accommodation and those living in communal establishments. Residential households are groups of people sharing the same living accommodation who share some or all of their income and collectively consume certain types of goods and services, such as food, electricity or housing. Examples of communal establishments include prisons, student accommodation, care homes and boarding schools.

The households sector also includes self-employed (market producers) who do not form part of quasi-corporations, as well as individuals or groups of individuals who produce goods and non-financial services for their own final use.

Non-profit institutions serving households (NPISH) are institutions that:

- provide goods and services, either free or below the market prices
- mainly derive their income from grants and donations
- are not controlled by government

In the UK the NPISH sector includes:

- charitable organisations
- trade unions
- religious organisations
- political parties
- universities and further education establishments

The UK National Accounts, The Blue Book: 2019 edition presents estimates for the households and NPISH sectors separately. To allow comparison with previous Blue Book publications, estimates for the combined households and NPISH sectors are also presented.

Further information on sector classifications and classification decisions can be found in [Economic statistics classifications].

Compendium

Rest of the world

Rest of the world sector including all institutions or individuals not resident in the UK that have economic interactions with resident units.

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1 . Rest of the world

The rest of the world sector includes all those institutions or individuals not resident in the UK that have economic interactions with resident units. It can include overseas corporations, charities, governments or private individuals. The sector also includes foreign embassies and consulates on UK soil.

Further information on sector classifications and classification decisions can be found in Economic statistics classifications.

Compendium

Gross fixed capital formation supplementary tables

Gross fixed capital formation estimates of net capital expenditure on fixed assets by public and private sectors.

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1 . Gross fixed capital formation supplementary tables

Gross fixed capital formation (GFCF) is the estimate of net capital expenditure (acquisitions less the proceeds from disposals) on fixed assets by both the public and private sectors. Fixed assets are purchased assets used in production processes for more than one year.

Examples of capital expenditure include spending on:

- machinery and equipment
- transport equipment
- software
- artistic originals
- research and development
- new dwellings and major improvements to dwellings
- other buildings and major improvements to buildings
- structures such as roads

In the Blue Book 2019 we have introduced a number of improvements to our GFCF estimates covering both methods improvements and reviews of data sources. These include:

- current price improvements to data sources
    - reviewing and improving our data sources for the intellectual property products asset, including own-account software and databases, research and development, and artistic originals
    - incorporation of Northern Ireland dwellings data
    - reviewing and including markups for mineral exploration and machine tools produced by engineering enterprises
- regular current price data source updates
    - incorporation of revised Annual Business Survey benchmarks for 2015 and 2016 and new data for 2017
- chained volume measure (CVM) methodological improvements
    - improved product allocation, introduced in the new GFCF estimation system in 2017, used for the first time this year as part of the supply and use balancing process
    - further improvements to the conversion of capital expenditure and Annual Business Survey data between Standard Industrial Classification: SIC 2003, and SIC 2007
    - alignment with the foundations of a new framework used for headline gross domestic product (GDP), including the use of new deflators

As a result of these changes, headline GFCF annual growth, on average, between 1998 and 2016 has been revised upwards by 0.3 percentage points in current prices. Volume estimates of annual growth on average have been unrevised over this period, although there have been revisions to specific years.

More information on the improvements to GFCF estimates outlined above, which have been introduced in the Blue Book 2019, can be found in the article Impact of Blue Book 2019 changes on gross fixed capital formation and business investment published 20 August 2019. This article covers the years 1997 to 2016. Changes affecting later periods are covered in the Blue Book 2019-consistent Business investment release published 30 September 2019.

Compendium

National balance sheet

A measure of the national wealth, or total net worth, of the UK, showing the estimated market value of financial assets.

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31 October 2019

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1 . National balance sheet

The national balance sheet is a measure of the national wealth, or total net worth, of the UK. It shows the estimated market value of financial assets, for example, shares and deposits at banks and non-financial assets like dwellings and machinery. Market value is an estimate of how much these assets would sell for, if sold on the market.

The estimates are used for international comparisons, to monitor economic performance and inform monetary and fiscal policy decisions.

Financial assets and liabilities include:

- means of payment, such as currency
- financial claims, such as loans
- economic assets, which are close to financial claims in nature, such as shares

Non-financial assets include:

- Produced non-financial assets:
  - buildings and other structures
  - machinery and equipment
  - certain farming stocks, mainly dairy cattle and orchards
  - intellectual property products, such as computer software and databases, and research and development inventories
  - valuables, such as works of art and precious stones
- Non-produced assets:
  - contracts, leases and licences
  - natural resources

Data sources include:

- the Office for National Statistics’s (ONS) National Balance Sheet Survey
- annual reports of public corporations and major businesses
- industry publications
- other government departments and agencies

Where non-financial asset market valuations are not readily available, we use a proxy based on the UK net capital stocks data, modelled in the perpetual inventory method (PIM).

For central government, data are taken from returns made by government departments to HM Treasury.

Local authority housing is shown in the public non-financial corporations sector. This is because government-owned market activities are always treated as being carried out by public corporations, either in their own right or via quasi-corporations.

As part of Blue Book 2019, there have been methodological changes to the estimates of net capital stocks, which are the source of fixed asset data in the national balance sheet. The main changes in the net capital stock data are:

- revisions to the length life of assets
- changes in the treatment of transfer costs with capital stocks
- use of hyperbolic depreciation instead of linear depreciation
- improved sectorisation and asset splits

As a result of these changes, there have been revisions to balance sheet estimates for the entire time series.

More information on these changes can be found in the [National Accounts articles: Changes to the capital stock estimation methods for Blue Book 2019].

Compendium

Public sector supplementary tables

The main taxes and social contributions payable by UK residents to central and local government and the European Union.

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1 . Public sector supplementary tables

Introduction

The majority of government income is provided by taxes and social contributions. Table 10.1 provides a breakdown of the main taxes and social contributions payable by UK residents to both the government (central and local government) and the European Union (EU).

Taxes and social contributions payable by UK residents

Taxes on production are included in gross domestic product (GDP) at market prices.

Other taxes on production include taxes levied on inputs to production. These include national non-domestic rates, also known as business rates, and a range of compulsory unrequited levies that producers have to pay.

Taxes on products are taxes levied on the sale of goods and services; this includes Value Added Tax (VAT) and Fuel Duty.

Taxes on income and wealth include Income Tax and Corporation Tax. Income Tax is the largest single source of tax revenue paid by UK residents. This category also includes a number of other charges payable by households including Council Tax, the BBC licence fee and taxes such as Vehicle Excise Duty, which, when paid by businesses, are classified as taxes on production. The totals include tax credits and reliefs recorded as expenditure in the national accounts, such as Working Tax Credit and Child Tax Credit.

The European System of Accounts 2010: ESA 2010 has a specific category of payments to the government called compulsory social contributions. These are payments associated with social security schemes, such as unemployment benefit and pensions. In the UK accounts this category includes all National Insurance contributions. Details of total social contributions and benefits are shown in Tables 5.2.4S and 5.3.4S.

Capital taxes are taxes levied at irregular or infrequent intervals on the values of assets, gifts or legacies. In the UK the main capital tax is Inheritance Tax.

Some UK taxes are recorded as the resources of the EU. These include taxes on imports, which are payable to the EU under the EU treaties.

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1 . Introduction

The European Union (EU) uses national accounts data for a number of administrative and economic purposes. Gross national income (GNI) is one of the four measures used by the EU and is calculated in accordance with the European System of Accounts (ESA). GNI is used to set the EU budget and to calculate part of member states' contributions to the EU budget and is based on the European System of Accounts 2010: ESA 2010.

2 . UK transactions with the institutions of the European Union

Table 11.1 shows payments flowing between the EU and the UK. The first part of the table shows the payments flowing into the UK in the form of EU expenditure. The second part of the table shows the UK contribution to the EU budget, which depends on UK GNI. An explanatory article detailing the UK contribution to the EU budget was published on 30 September 2019.

3 . Data to monitor government deficit and debt

The convergence criteria for the Economic and Monetary Union (EMU) are set out in the 1992 Treaty on European Union (The Maastricht Treaty). The treaty, plus the Stability and Growth Pact, requires member states to avoid excessive government deficits – defined as general government net borrowing and gross debt as a percentage of GDP. The treaty does not determine what constitutes "excessive". This is agreed by the Economic and Finance Council (ECOFIN).

Member states report their planned and actual deficits and the levels of their debt to the European Commission. Data to monitor excessive deficits are supplied in accordance with EU legislation.

The UK submitted the estimates in Table 11.a to the European Commission in July 2018.

Table 11.a: UK Government deficit and debt, financial year ending 2013 to financial year ending 2019

	2012 to 2013	**2013 to 2014**	**2014 to 2015**	**2015 to 2016**	**2016 to 2017**	**2017 to 2018**	**2018 to 2019**
General government deficit							
Net borrowing (£bn)	127	103.9	94.7	83.7	56.4	56.2	41.5
as percentage of GDP	7.4	5.8	5.1	4.3	2.8	2.7	1.9
General government debt							
Debt at nominal value (£bn)	1,425.6	1,522.5	1,604.1	1,652.3	1,720.5	1,764.5	1,821.9
as percentage of GDP	82.6	84.3	85.7	85.4	85.2	84.6	84.2

Source: Office for National Statistics

Environmental accounts

Estimates of oil and gas reserves, energy consumption, atmospheric emissions and material flows.

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1 . Environmental accounts

Environmental accounts are:

- “satellite accounts” to the main national accounts
- compiled in accordance with the System of Environmental-Economic Accounting (SEEA), which closely follows the United Nations System of National Accounts (SNA)

Environmental accounts measure:

- the impact the economy has on the environment
- how the environment contributes to the economy
- how society responds to environmental issues by using the accounting framework and concepts of the national accounts

Environmental accounts are used to:

- inform sustainable development policy
- model impacts of fiscal or monetary measures
- evaluate the environmental impacts of different sectors of the economy

Data are mostly provided in units of physical measurement (mass or volume) but can be provided in monetary units, where these are the most relevant or the only data available.

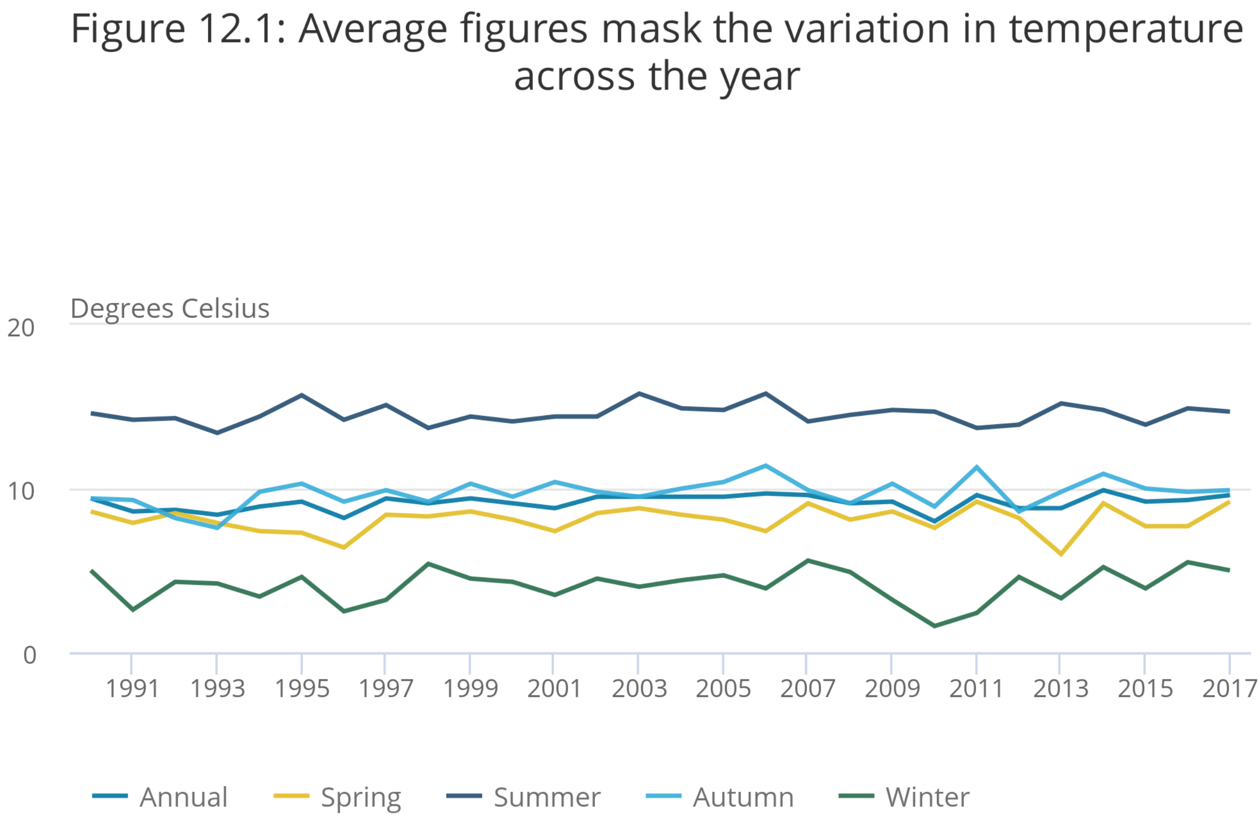
Tables 12.1 to 12.5 show estimates of oil and gas reserves, energy consumption, atmospheric emissions and material flows. More data, information and other environmental accounts, including natural capital accounts, can be found on the UK Environmental Accounts release page.

2 . Temperature

Figure 12.1 shows the change in mean air temperature between 1990 and 2017. This measure provides a useful context for some of the changes observed across the environmental accounts. For example, a fall in temperature can contribute to an increase in energy consumption for heating (with an accompanying rise in associated emissions).

The average air temperature in 2017 was slightly higher than in 2016, up to 9.6 degrees Celsius (oC) from 9.3oC. This was still below the record high of 9.9oC in 2014. Annual figures mask the variation in temperature across the year, so the average temperatures for each season are also shown in Figure 12.1.

Figure 12.1: Average figures mask the variation in temperature across the year



Source: Met Office

3 . Oil and gas reserves

Table 12.1 presents non-monetary estimates of the oil and gas reserves and resources in the UK. “Resources” are minerals that are potentially valuable and could eventually be extracted, whereas “reserves” refer to discovered minerals that are recoverable and commercially viable.

Data are sourced from the Oil and Gas Authority (OGA) and the Department for Business, Energy and Industrial Strategy (BEIS).

Discovered reserves can be proven, probable or possible depending on the level of certainty that, based on the available evidence, they can be technically and commercially producible:

- proven reserves: better than 90% certainty
- probable reserves: between 50% and 90% certainty
- possible reserves: between 10% and 50% certainty

Contingent resources are also shown in Table 12.1. These are the quantities of oil and gas estimated to be potentially recoverable from known sites, but the plans are not yet mature enough for commercial development. Potentially recoverable in this case means a better than 50% chance of being technically producible.

OGA also produce estimates for prospective resources – those undiscovered or "yet to find". Methodology for estimating this has changed over the years so it is not possible to show a consistent time series in Table 12.1.

Oil is defined as both oil and the liquids that can be obtained from gas fields. Shale oil is not included in the estimates.

Gas includes gas expected to be available for sale from dry gas fields, gas condensate fields, oil fields associated with gas, and a small amount from coal-bed methane projects. Shale gas is not included in these estimates. These reserves include onshore and offshore discoveries, but not flared gas or gas consumed in production operations.

4 . Energy consumption

Table 12.2 presents energy consumption by industry for the UK. Energy consumption is defined as the use of energy for power generation, heating and transport. This is essential to most economic activities, for example, as input for production processes. The term "direct use of energy" refers to the energy content of fuel for energy at the point of use, allocated to the original purchasers and consumers of fuels. On the other hand, "reallocated use of energy" means that the losses incurred during transformation[1] and distribution[2] are allocated to the final consumer of the energy rather than incorporating it all in the electricity generation sector.

Total energy consumption of primary fuels and equivalents (fossil fuels, nuclear, imports of electricity and renewable and waste sources) was 198.5 million tonnes of oil equivalent (Mtoe) in 2017, which was 2.1% lower than in 2016. Fossil fuels remained the dominant source of energy supply, although their use continued to fall. Energy consumption from fossil fuels in 2017 was at the lowest level since 1990 at 161.6 Mtoe. This represented 81.4% of total energy consumption.

Overall, direct use of energy from fossil fuels has dropped 21.6% since 1990, whereas total energy consumption has fallen 11.7% between 1990 and 2017. This fall in energy from fossil fuels is driven largely by the energy supply and manufacturing sectors.

Although fossil fuels are the main source of energy for consumption, other sources (including nuclear, net imports, and renewable and waste sources[3]) are becoming increasingly important.

Total energy consumption from sources other than fossil fuels was 36.9 Mtoe in 2017.

Energy consumption from renewable and waste sources was 10% of total energy consumption in 2017 (20.5 Mtoe), energy consumption from nuclear sources made up 8% (15.1 Mtoe).

Data are provided by Ricardo Energy and Environment.

Notes for: Energy consumption

1. Transformation losses are the differences between the energy content of the input and output product, arising from the transformation of one energy product to another.

2. Distribution losses are losses of energy product during transmission (for example, losses of electricity in the grid) between the supplier and the user of the energy.

3. Renewable sources include: solar photovoltaic, geothermal and energy from wind, wave and tide, hydroelectricity, wood, charcoal, straw, liquid biofuels, biogas from anaerobic digestion and sewage gas. Landfill gas, poultry litter and municipal solid waste combustion have also been included within this definition.

5 . Atmospheric emissions

Tables 12.3 and 12.4 show emissions of greenhouse gases, acid rain precursors (ARP) and other pollutants by industry for the UK.

Atmospheric emissions of greenhouse gases are widely believed to contribute to global warming and climate change.

In 2017, emissions of greenhouse gases were estimated to be 566.4 million tonnes of carbon dioxide equivalent (Mt CO2e), the lowest level since 1990. Across the time series, the largest annual fall in emissions of greenhouse gases occurred in 2009, following the onset of the economic downturn in 2008, when emissions decreased by 8.1%. Between 2016 and 2017, emissions decreased by 13.6 Mt CO2e (2.3%). This was primarily because of reductions in carbon dioxide emissions from the energy supply[1], transport and manufacturing sectors.

Carbon dioxide (CO2) was the dominant greenhouse gas, accounting for 84.8% of the UK’s total greenhouse gas emissions in 2017. The remainder of greenhouse gas emissions comprised methane (CH4, 9.1%), nitrous oxide (N2O, 3.5%) and fluorinated gases[2] (2.6%). For comparability, all figures are presented as carbon dioxide equivalents (CO2e).

Other important atmospheric emissions include acid rain precursors (ARPs). Acid rain is caused primarily by emissions of sulphur dioxide (SO2), nitrogen oxides (NOX) and ammonia (NH3), and can have harmful effects on the environment. For comparability, all figures are weighted according to their acidifying potential and presented as sulphur dioxide equivalents (SO2e).

Since 1990, total ARP emissions have decreased sharply, falling by 77.8%, from 7.1 million tonnes of sulphur dioxide equivalent (Mt SO2e) to 1.6 Mt SO2e in 2017. The reduction in ARPs was driven largely by a reduction in SO2 emissions, which fell by 94% between 1990 and 2017. ARP emissions from the energy supply sector fell 96.9% between 1990 and 2017 as electricity generation has moved away from the use of coal towards greater use of gas and renewable energy sources.

NOX have also seen a large decline (67.2%) between 1990 and 2017.

Data are provided by Ricardo Energy and Environment.

Notes for: Atmospheric emissions

1. The “energy supply” sector comprises electricity, gas, steam and air conditioning supply industries.

2. Hydrofluorocarbons (HFC), perfluorocarbons (PFC), nitrogen trifluoride (NF3) and sulphur hexafluoride (SF6).

6 . Material flows

Table 12.5 presents economy-wide material flow accounts, which estimate the physical flow of materials through the UK economy.

The quantity of materials extracted in the UK has been declining gradually from over 700 million tonnes between 1994 and 2000, to 444 million tonnes in 2017.

Domestic extraction is divided into four categories: biomass, non-metallic minerals, fossil energy materials and carriers, and metal ores.

Biomass includes material of biological origin that is not from fossil, such as crops, wood and wild fish catch. Extraction of biomass has remained fairly constant since 1992. In 2017, there were 141 million tonnes of biomass extracted. Of this, crop residues, fodder crops and grazed biomass accounted for 63% (89 million tonnes).

Non-metallic minerals are mainly construction and industrial minerals, including limestone and gypsum, sand and gravel, and clays. Extraction of non-metallic minerals fell following the recent economic downturn. In 2017, around 211 million tonnes were extracted, 60% of which related to sand and gravel (126 million tonnes). Fossil energy materials and carriers include coal, crude oil and natural gas. The extraction of these has decreased since 1999.

Data are compiled from multiple sources including the Department for Environment, Food and Rural Affairs (Defra), the United Nations Food and Agriculture Organisation (FAO), the British Geological Survey (BGS), Eurostat and the Kentish Cobnuts Association. Data on imports and exports are primarily from HM Revenue and Customs.

Physical trade balance

Physical imports increased by 27.5% between 2000 and 2017, rising from 221 million tonnes to 282 million tonnes. Contrary to this, physical exports have gradually decreased, falling to 162 million tonnes in 2017. The rise in imports for particular materials can offset the decline in domestic extraction.

The physical trade balance (PTB) shows the relationship between imports and exports, and is calculated by subtracting the weight of exports from the weight of imports [1]. The UK has a positive PTB, meaning that more materials and products are imported than are exported.

In 2000, the PTB was relatively small at 21 million tonnes. It generally increased until 2007, before falling between 2008 and 2010 during the economic downturn. From 2010, the PTB increased, peaking at 151 million tonnes in 2013. The PTB has since decreased to 120 million tonnes in 2017, when the amount of materials and products imported (282 million tonnes) exceeded the amount of materials and products exported (162 million tonnes).

Material consumption

Direct material input (DMI) (domestic extraction plus imports) measures the total amount of materials available for use in the economy.

Domestic material consumption (DMC) (domestic extraction plus imports minus exports) measures the amount of materials used in the economy and is calculated by subtracting exports from DMI.

Between 2000 and 2017, DMI and DMC have gradually declined but with a noticeable fall around the time of the 2008 economic downturn. This indicates that fewer material resources were being used and consumed in the UK economy.

Notes for: Material flows

1. The physical trade balance (imports minus exports) is defined in reverse to the monetary trade balance (exports minus imports). Physical estimates can differ quite significantly from monetary estimates.

7 . More information

There is more information about environmental accounts on the UK Environmental Accounts release page, in particular see the Quality and Methodology Information reports for:

- Air
- Energy
- Material Flows

8 . Natural capital

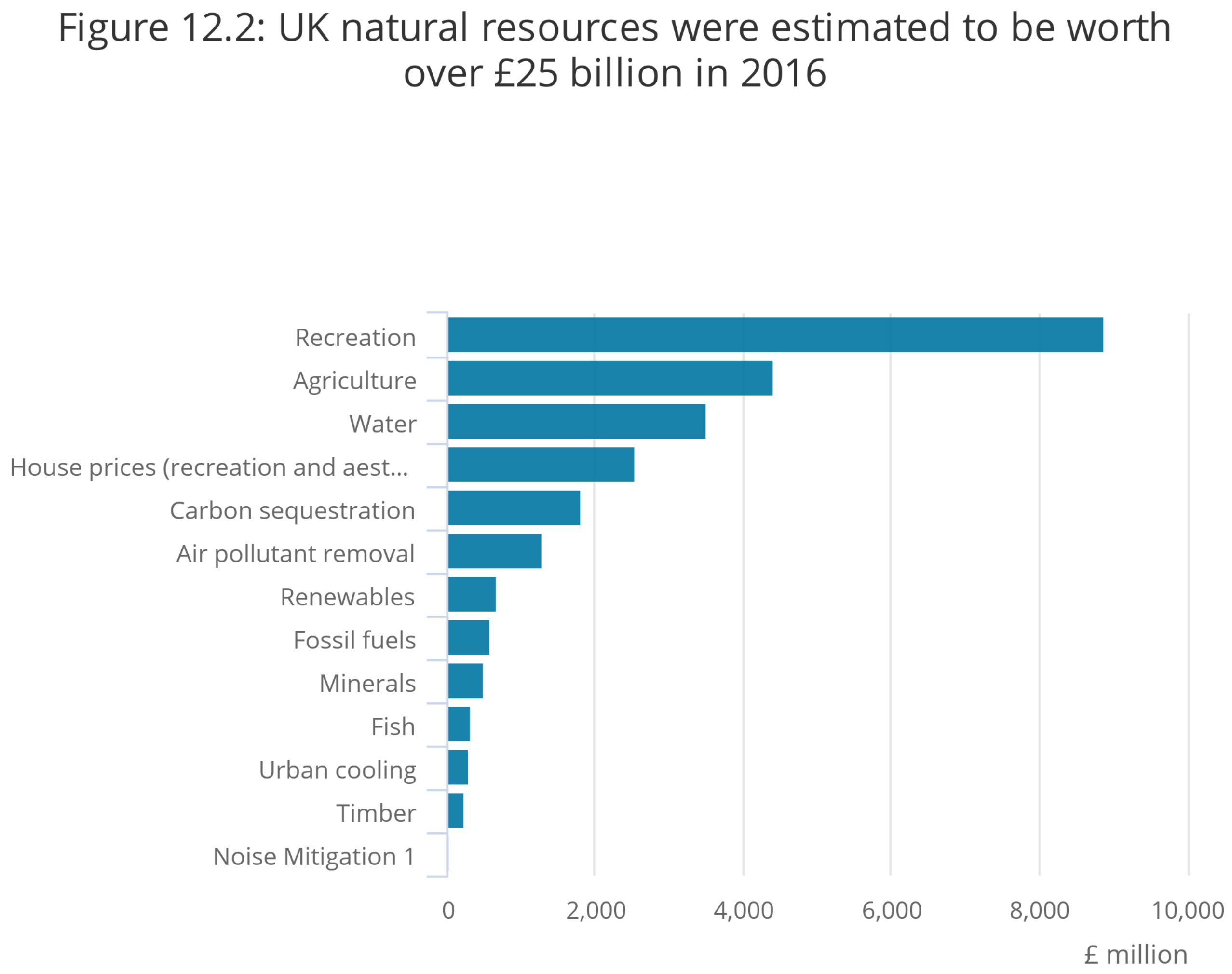
In collaboration with the Department for Environment, Food and Rural Affairs (Defra) we have been developing natural capital accounts to estimate the wealth of the UK's environment. These are currently Experimental Statistics which will become part of the Environmental Accounts in 2020. Here we present the headline results from this year's work in anticipation of formal inclusion next year.

The UK's natural wealth is reflected in the productivity of its soils, its access to clean water, and the splendour of its mountains. Any natural resource or process that supports human life forms an important part of our natural capital. Natural capital is one part of a wider move to better understand wealth. In that respect we are not only estimating what wealth the UK inherited in its islands and seas but what it might provide to future generations.

Figure 12.2 presents the most recent experimental natural goods and service flow estimates for the UK (2016). We are presenting these rather than the assets as they relate more directly to the flow values in the wider environmental accounts.

These figures are partial in terms of the number of services. We will continue to work to include as much of the economic value of the natural world as possible but may never complete that work, given the complexity and scale of the natural world. Our asset values are also narrowly market driven and not an absolute "value" of the natural world since nature supports all life on earth. Nature's wholesale collapse would be our own. For more detail please see UK Natural Capital Accounts: 2019.

Figure 12.2: UK natural resources were estimated to be worth over £25 billion in 2016



Source: Office for National Statistics - UK Environmental Accounts

Notes:

1. Data obtained from Economics for the Environment Consultancy (EFTEC) and Centre for Ecology and Hydrology (CEH), extrapolated from 2017.

Compendium

Flow of funds

Estimates of stocks and flows of financial assets and liabilities by institutional sector and financial instrument.

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1 . Flow of funds

Introduction

The tables in this chapter present estimates of stocks and flows of financial assets and liabilities by institutional sector and financial instrument.

Of these tables:

- Table 13.1 presents flows (or transactions) of financial assets and liabilities for each institutional sector and lower-level financial instrument (financial account)
- Table 13.2 presents levels (or stocks) of financial assets and liabilities for each institutional sector and lower-level financial instrument (balance sheet)
- Tables 13.3.1 to 13.3.8 present both financial flows and stocks by institutional sector and financial instrument

Estimates for all the institutional sectors are brought together in this chapter to allow changes in assets and liabilities to be compared across the sectors. Estimates for each individual sector are also published in the appropriate sector chapters in this publication.

These financial statistics are important for identifying the buildup of risks in the financial sector and for understanding financial connections among the institutional sectors and subsectors within the economy.

What is flow of funds?

“Flow of funds” refers to the financial flows across sectors of the UK economy and the rest of the world. Information can be presented on debtor and creditor relationships and the changes in financial assets and liabilities in the economy. Flow of funds is based on the principle that the movement of all funds must be accounted for. Across the total economy (UK and the rest of the world), the total sources of funds must equal the total uses of funds, and every financial asset transaction must have a counterpart liability transaction.

Since the recent global financial crisis, the international community has had an increased focus on the analysis of financial stability, and the development of improvements to the data which support that analysis. This is particularly important for those countries, like the UK, which have a significant financial sector. An important area identified internationally for improvement is the development of flow of funds counterpart statistics. These improve our understanding of how each individual sector may be exposed to the risk that could build up in other sectors. These statistics support macro-economic analysis and financial stability policy.

Counterpart statistics are not currently presented in this chapter. However, in response to the need for counterpart statistics, the Office for National Statistics and the Bank of England started the joint Flow of Funds Project in 2014. More information on the project and experimental counterpart statistics are available based on last year’s figures. Updated figures will be published on 31 October 2019.

Glossary

An A to Z definition of the main terms used within the national accounts.

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1 . A to B

Above the line

Transactions in the production, current and capital accounts which are above the net lending (positive) or net borrowing (negative) (financial surplus or deficit) line in the presentation used in the economic accounts. The financial transactions account is below the line in this presentation.

Accruals basis

A method of recording transactions based on when the exchange of ownership of the goods, services or financial asset occurs (see also cash basis). For example, Value Added Tax (VAT) accrues when the expenditure to which it relates takes place, but HM Revenue and Customs receives the cash some time later. The difference between accruals and cash results in an asset and liability in the financial accounts, shown as amounts receivable or payable (F.7).

Actual final consumption

The value of goods consumed, but not necessarily purchased, by a sector (see also final consumption expenditure, intermediate consumption).

Advance and progress payments

Payments made for goods in advance of completion and delivery of the goods and services. Also referred to as staged payments.

Asset boundary

A boundary separating assets included (for example, plant and factories, and non-produced assets such as land and water resources) and those excluded (such as natural assets not managed for an economic purpose) in creating core economic accounts.

Assets

Entities over which ownership rights are enforced by institutional units – individually or collectively – and from which economic benefits may be derived by owners holding them over a period of time.

Balancing item

An accounting construct obtained by subtracting the total value of the entries on one side of an account from the total value for the other side.

Balance of payments

A summary of the transactions between residents of a country and residents abroad in a given time period.

Balance of trade

The balance of trade in goods and services is a summary of the imports and exports of goods and services across an economic boundary in a given period.

Balance sheet

A statement, drawn up at a particular point in time, of the value of assets owned and of the financial claims (liabilities) against the owner of these assets.

Bank of England

This comprises S.121, the central bank subsector of the financial corporation’s sector.

Bank of England – Issue Department

This part of the Bank of England deals with the issue of bank notes on behalf of central government. It was formerly classified to central government though it is now part of the central bank and monetary authorities sector. Its activities include, among other things, market purchases of commercial bills from UK banks.

Basic prices

These are the preferred method of measuring gross value added and output. They reflect the amount received by the producer for a unit of goods or services, minus any taxes payable, plus any subsidy receivable on that unit as a consequence of production or sale (that is the cost of production including subsidies).

The only taxes included in the basic price are taxes on the production process – such as business rates and any Vehicle Excise Duty paid by businesses – which are not specifically levied on the production of a unit of output. Basic prices exclude any transport charges invoiced separately by the producer.

Below the line

The financial transactions account which shows the financing of net lending (positive) or net borrowing (negative) (formerly financial surplus or deficit).

Bond

A financial instrument that usually pays interest to the holder. Bonds are issued by governments and by companies and other institutions, for example local authorities. Most bonds have a fixed date on which the borrower will repay the holder.

Bonds are attractive to investors because they can be bought and sold easily in a secondary market. Special forms of bonds include deep discount bonds, equity warrant bonds, Eurobonds, and zero-coupon bonds.

British government securities

Securities issued or guaranteed by the UK Government; also known as gilts.

2 . C to D

Capital

Capital assets are those which contribute to the productive process to produce an economic return. In other contexts, the word can include tangible assets (for example buildings, plant and machinery), intangible assets, and financial capital (see also fixed assets, inventories).

Capital formation

Acquisitions less disposals of fixed assets, improvement of land, change in inventories and acquisitions less disposals of valuables.

Capital stock

A measure of the cost of replacing the capital assets of a country held at a particular point in time.

Capital transfers

Transfers that are related to the acquisition or disposal of assets by the recipient or payer. They may be in cash or kind and may be imputed to reflect the assumption or forgiveness of debt.

Cash basis

The recording of transactions when cash or other assets are actually transferred, rather than on an accruals basis.

Certificate of deposit

A short-term, interest-paying instrument issued by deposit-taking institutions in return for money deposited for a fixed period. Interest is earned at a given rate. The instrument can be used as security for a loan if the depositor requires money before the repayment date.

Chained volume measures

Time series which measure gross domestic product (GDP) in real terms (that is excluding price effects). Series are calculated in the prices of the previous year and in current price, and these two-year series are then "chain linked" together. The advantage of the chain-linking method is that the previous period's price structure is more relevant than the price structure of a fixed period from further in the past.

Cost, insurance and freight (CIF)

The basis of valuation of imports for customs purposes, including the cost of insurance premiums and freight services. These need to be deducted to obtain the Free On Board (FOB) valuation consistent with the valuation of exports which is used in the economic accounts.

Classification of individual consumption by Purpose (COICOP)

An international classification which groups consumption according to its function or purpose. The heading clothing, for example, includes expenditure on garments, clothing materials, laundry, and repairs. It is used to classify the expenditure of households.

Combined use table

Table of the demand for products by each industry group or sector, whether from domestic production or imports, estimated at purchasers' prices. It displays the inputs used by each industry to produce their total output, and separates out intermediate purchases of goods and services. The table shows which industries use which products: columns represent the purchasing industries; rows represent the products purchased.

Commercial paper

This is an unsecured promissory note for a specific amount, maturing on a specific date. The commercial paper market allows companies to issue short-term debt directly to financial institutions, who then market this paper to investors or use it for their own investment purposes.

Compensation of employees

Total remuneration payable to employees in cash or in kind. Includes the value of social contributions payable by the employer.

Consolidated accounts

Accounts drawn up to reflect the affairs of a group of entities. For example, a ministry or holding company with many different operating agencies or subsidiary companies may prepare consolidated accounts reflecting the affairs of the organisation as a whole, and accounts for each operating agency or subsidiary.

Consolidated fund

An account of central government into which most government revenue (excluding borrowing and certain payments to government departments) is paid and from which most government expenditure (excluding loans and National Insurance benefits) is paid.

Consumption

See final consumption, intermediate consumption.

Consumption of fixed capital

The amount of capital resources used up in the process of production in any period. It is not an identifiable set of transactions but an imputed transaction, which can only be measured by a system of conventions.

Corporations

All bodies recognised as independent legal entities that are producers of market output and whose principal activity is the production of goods and services.

Counterpart

In a double-entry system of accounting, each transaction gives rise to two corresponding entries. These entries are the counterparts to each other, so the counterpart of a payment by one sector is the receipt by another.

Debenture

A long-term bond issued by a UK or foreign company and secured on fixed assets. A debenture entitles the holder to a fixed-interest payment or a series of such payments.

Depreciation

See consumption of fixed capital.

Derivatives (F.71)

Financial instruments whose value is linked to the value of another financial instrument, indicator or commodity. Unlike the holder of a primary financial instrument (for example a government bond or a bank deposit), who has an unqualified right to receive cash (or some other economic benefit), the holder of a derivative has only a qualified right to receive such a benefit. Examples of derivatives are options and swaps.

Dividend and Interest Matrix (DIM)

This represents property income flows related to holdings of financial transactions. The gross flows are shown in D.4 property income.

Direct investment

Net investment by UK or foreign companies in their foreign or UK branches, subsidiaries or associated companies. A direct investment in a company means that the investor has a significant influence on the operations of the company, defined as having an equity interest in an enterprise resident in another country of 10% or more of the ordinary shares or voting stock.

Investment includes not only acquisition of fixed assets, stock building, and stock appreciation, but also all other financial transactions such as: additions to, or payments of working capital; other loans and trade credit; and acquisitions of securities. Estimates of investment flows allow for depreciation in any undistributed profits. Funds raised by the subsidiary or associate company in the economy in which it operates are excluded as they are locally raised and not sourced from the parent company.

Discount market

The part of the market dealing with short-term borrowing. It is called the discount market because the interest on loans is expressed as a percentage reduction (discount) on the amount paid to the borrower. For example, for a loan of £100 face value, when the discount rate is 5%, the borrower will receive £95, but will repay £100 at the end of the term.

Double deflation

A method for calculating value added by industry chained volume measures, which takes separate account of the differing price and volume movements of input and outputs in an industry’s production process.

Dividend

A payment made to company shareholders from current or previously retained profits. Dividends are recorded when they become payable. See Dividend and Interest Matrix (DIM).

3 . E to F

ECGD

See Export Credit Guarantee Department.

Economically significant prices

These are prices whose level significantly affects the supply of the good or service concerned. Market output consists mainly of goods and services sold at “economically significant” prices, while non-market output comprises those provided free or at prices that are not economically significant.

Employee stock options

An agreement made on a given date (the “grant” date) under which an employee may purchase a given number of shares of the employer’s stock at a stated price (the “strike” price), either at a stated time (the “vesting” date) or within a period of time (the “exercise” period) immediately following the vesting date.

Enterprise

An institutional unit producing market output. Enterprises are found mainly in the non-financial and financial corporation’s sectors but exist in all sectors. Each enterprise consists of one or more kind-of-activity units.

Environmental accounts

A satellite account describing the relationship between the environment and the economy.

Equity

The ownership of a residual claim on the assets of the institutional unit that issued the instrument. Equities differ from other financial instruments in that they confer ownership of something more than a financial claim. Shareholders are owners of the company whereas bond holders are merely outside creditors.

European System of National and Regional Accounts (ESA)

An integrated system of economic accounts; the European version of the System of National Accounts (SNA).

European Investment Bank

This was set up to assist economic development within the European Union. Its members are the member states of the EU.

Exchange Cover Scheme (ECS)

A scheme introduced in 1969 whereby UK public bodies raise foreign currency from overseas residents, either directly or through UK banks, and surrender it to the Exchange Equalisation Account in exchange for sterling to finance expenditure in the UK. HM Treasury sells the borrower foreign currency to service and repay the loan at the exchange rate that applied when the loan was taken out.

Exchange Equalisation Account (EEA)

The government account with the Bank of England in which transactions in reserve assets are recorded. These transactions are classified to the central government sector. It is the means by which the government, through the Bank of England, influences exchange rates.

Export credit

Credit extended abroad by UK institutions, primarily in connection with UK exports but also including some credit in respect of third country trade.

Export Credit Guarantee Department (ECGD)

A non-ministerial government department, classified to the public corporations sector, the main function of which is to provide insurance cover for export credit transactions.

Factor cost

In the System of National Accounts 1968, this was the basis of valuation which excluded the effects of taxes on expenditure and subsidies.

Final consumption expenditure

The expenditure on those goods and services used for the direct satisfaction of individual needs or the collective needs of members of the community, as distinct from their purchase for use in the productive process. It may be contrasted with actual final consumption, which is the value of goods consumed, but not necessarily purchased, by that sector (see also intermediate consumption).

Financial auxiliaries (S.126)

Activities closely related to financial intermediation but which are not financial intermediation themselves, such as the repackaging of funds, insurance broking and fund management. Financial auxiliaries include insurance brokers and fund managers.

Financial corporations (S.12)

All bodies recognised as independent legal entities whose principal activity is financial intermediation and/or the production of auxiliary financial services.

Financial intermediation

The activity by which an institutional unit acquires financial assets and incurs liabilities on its own account by engaging in financial transactions on the market. The assets and liabilities of financial intermediaries have different characteristics so that the funds are transformed or repackaged with respect to maturity, scale, risk etc. in the financial intermediation process.

Financial Intermediation Services Indirectly Measured (FISIM)

The implicit charge for the service provided by monetary financial institutions paid for by the interest differential between borrowing and lending rather than through fees and commissions.

Financial leasing

A form of leasing in which the lessee (the lease holder) contracts to assume the rights and responsibilities of ownership of leased goods from the lessor (the legal owner) for the whole (or virtually the whole) of the economic life of the asset. In the economic accounts this is recorded as the sale of the asset to the lessee, financed by an imputed loan (F.42). The leasing payments are split into interest payments and repayments of principal.

Fixed assets

Produced assets that are themselves used repeatedly or continuously in the production process for more than one year. They comprise buildings and other structures, vehicles and other plant and machinery, and also plants and livestock which are used repeatedly or continuously in production, for example fruit trees or dairy cattle. They also include intangible assets such as computer software, research and development, and artistic originals.

Flows

These reflect the creation, transformation, exchange, transfer, or extinction of economic value. They involve changes in the volume, composition, or value of an institutional unit's assets and liabilities. They are recorded in the production, distribution, and use of income and accumulation accounts.

Free On Board (FOB)

An FOB price excludes the cost of insurance and freight from the country of consignment but includes all charges up to the point of the exporting country's customs frontier.

Futures

Forward contracts traded on organised exchanges. They give the holder the right to purchase a commodity or a financial asset at a future date.

4 . G to H

Gilts

Bonds issued or guaranteed by the UK Government. Also known as gilt-edged securities or British Government securities.

Gold

The System of National Accounts (SNA) and the International Monetary Fund (IMF) (in the sixth Edition of its Balance of Payments Manual) recognise three types of gold:

- monetary gold, treated as a financial asset
- gold held as a store of value, to be included in valuables
- gold as an industrial material, to be included in intermediate consumption or inventories

The present treatment is as follows:

In the accounts, a distinction is drawn between gold held as a financial asset (financial gold) and gold held like any other commodity (commodity gold). Commodity gold in the form of finished manufactures, together with net domestic and overseas transactions in gold moving into or out of finished manufactured form (as in for jewellery, dentistry, electronic goods, medals, and proof – but not bullion – coins) is recorded in exports and imports of goods.

All other transactions in gold (that is those involving semi-manufactures, for example rods and wire, bullion, bullion coins or banking-type assets and liabilities denominated in gold, including official reserve assets) are treated as financial gold transactions and included in the financial account of the balance of payments.

The UK has adopted different treatment to avoid distortion of its trade in goods account by the substantial transactions of the London bullion market.

Grants

Voluntary transfer payments. They may be current or capital in nature. Grants from the government or the EU to producers are subsidies.

Gross

Key economic series can be shown as gross (as in, before deduction of the consumption of fixed capital) or net (as in, after deduction). Gross has this meaning throughout this publication unless otherwise stated.

Gross domestic product (GDP)

The total value of output in the economic territory. It is the balancing item on the production account for the whole economy. Domestic product can be measured gross or net. It is presented in the accounts at market (or purchasers') prices.

Gross fixed capital formation (GFCF)

Acquisitions less disposals of fixed assets and the improvement of land.

Gross national disposable income

The income available to the residents arising from GDP, and receipts from, less payments to, the rest of the world of employment income, property income and current transfers.

Gross national income (GNI)

Gross domestic product less net taxes on production and imports, less compensation of employees and property income payable to the rest of the world, plus the corresponding items receivable from the rest of the world.

Gross value added (GVA) (B.1g)

The value generated by any unit engaged in production and the contributions of individual sectors or industries to gross domestic product. It is measured at basic prices, excluding taxes less subsidies on products.

Holding companies

A purely financial concern which uses its capital solely to acquire interests (normally controlling interests) in a number of operating companies.

Although the purpose of a holding company is mainly to gain control and not to operate, it will typically have representation on the boards of directors of the operating firms.

Holding companies provide a means by which corporate control can become highly concentrated through pyramiding. A holding company may gain control over an operating company which itself has several subsidiaries.

Holding gains or losses

Profit or loss obtained by virtue of the changing price of assets being held. Holding gains or losses may arise from either physical or financial assets.

Households (S.14)

Individuals or small groups of individuals as consumers, and in some cases as entrepreneurs, producing goods and market services (where such activities cannot be hived off and treated as those of a quasi corporation).

5 . I to J

Imputation

The process of inventing a transaction where, although no money has changed hands, there has been a flow of goods or services. It is confined to a very small number of cases where a reasonably satisfactory basis for the assumed valuation is available.

Index-linked gilts

Gilts whose coupon and redemption value are linked to movements in the retail prices index.

Institutional unit

The individual bodies whose data are amalgamated to form the sectors of the economy. A body is regarded as an institutional unit if it has decision-making autonomy in respect of its principal function and either keeps a complete set of accounts or is in a position to compile, if required, a complete set of accounts which would be meaningful from both an economic and a legal viewpoint.

Input–output

A detailed analytical framework based on supply and use tables. These are matrices showing the composition of output of individual industries by types of product and how the domestic and imported supply of goods and services is allocated between various intermediate and final uses, including exports.

Institutional sector

In the economic accounts, the economy is split into different institutional sectors, that is, units grouped according broadly to their role in the economy. The main sectors are non-financial corporations, financial corporations, general government, households and non-profit institutions serving households (NPISH). The rest of the world is also treated as a sector for many purposes within the accounts.

Intellectual property products (AN.112)

Products including mineral exploration, computer software, research and development, and entertainment, literary or artistic originals. Expenditure on them is part of gross fixed capital formation. They exclude non-produced non-financial assets such as leases, transferable contracts and purchased goodwill, expenditure on which would be intermediate consumption.

Intermediate consumption

The consumption of goods and services in the production process. It may be contrasted with final consumption and capital formation.

International Monetary Fund (IMF)

A fund set up as a result of the Bretton Woods Conference in 1944, which began operations in 1947. It currently has 189 member countries (as of October 2019) including most of the major countries of the world. The fund was set up to supervise the fixed exchange rate system agreed at Bretton Woods and to make available to its members a pool of foreign exchange resources to assist them when they have balance of payments difficulties. It is funded by member countries' subscriptions according to agreed quotas.

Inventories

Finished goods (held by the producer prior to sale, further processing, or other use) and products (materials and fuel) acquired from other producers to be used for intermediate consumption, or resold without further processing, as well as military inventories.

6 . K to L

Kind-of-activity unit (KAU)

An enterprise, or part of an enterprise, which engages in only one kind of non-ancillary productive activity, or in which the principal productive activity accounts for most of the value added. Each enterprise consists of one or more kind-of-activity units.

Liability

A claim on an institutional unit by another body which gives rise to a payment or other transaction transferring assets to the other body. Conditional liabilities, where the transfer of assets only takes place under certain defined circumstances, are known as contingent liabilities.

Life assurance

An insurance policy that, in return for the payment of regular premiums, pays a lump sum on the death of the insured. In the case of policies limited to investments which have a cash value, in addition to life cover, a savings element provides benefits which are payable before death. In the UK, endowment assurance provides life cover or a maturity value after a specified term, whichever is sooner.

Liquidity

The ease with which a financial instrument can be exchanged for goods and services. Cash is very liquid whereas a life assurance policy is less so.

Lloyd’s of London

The international insurance and reinsurance market in London.

7 . M to N

Marketable securities

Securities which can be sold on the open market.

Market output

Output of goods and services sold at economically significant prices.

Merchant banks

Monetary financial institutions whose main business is primarily concerned with corporate finance and acquisitions.

Mixed income

The balancing item on the generation of income account for unincorporated businesses owned by households. The owner or members of the same household often provide unpaid labour inputs to the business. The surplus is therefore a mixture of remuneration for such labour, and return to the owner as entrepreneur.

Monetary financial institutions (MFIs) (S.121-S.123)

As defined by the European Central Bank, these consist of all institutional units included in the central bank (S. 121), deposit-taking corporations except the central bank (S1.22) and money market funds (S.123) subsectors.

Money market

The market in which short-term loans are made and short-term securities traded. “Short-term” usually applies to periods of under one year but can be longer in some instances.

NACE

The industrial classification used in the EU. Revision 2 is the “Statistical classification of economic activities in the European Community in accordance with Commission Regulation (EC) No. 1893/2006 of 20 December 2006”.

National income

See gross national disposable income and real national disposable income.

Net

After deduction of the consumption of fixed capital. Also used in the context of financial accounts and balance sheets to denote, for example, assets less liabilities.

Non-market output

Output of own account production of goods and services provided free or at prices that are not economically significant. Non-market output is produced mainly by the general government and non-profit institutions serving households (NPISH) sectors.

Non-observed economy

Certain activities which may be productive and also legal but are concealed from the authorities for various reasons, for example, to evade taxes or regulation. In principle these, as well as economic production that is illegal, are to be included in the accounts but they are by their nature difficult to measure.

Non-profit institutions serving households (NPISH) (S.15)

These include bodies such as charities, universities, churches, trade unions, and members' clubs.

8 . O to P

Operating leasing

The conventional form of leasing in which the lessee makes use of the leased asset for a period in return for a rental, while the asset remains on the balance sheet of the lessor. The leasing payments are part of the output of the lessor, and the intermediate consumption of the lessee (see also Financial leasing).

Operating surplus

The balance on the generation of income account. Households also have a mixed income balance. It may be seen as the surplus arising from the production of goods and services before taking into account flows of property income.

Ordinary share

The most common type of share in the ownership of a corporation. Holders of ordinary shares receive dividends (see also equity).

Output for own final use (P.12)

Production of output for final consumption or gross fixed capital formation by the producer. Also known as own-account production.

Own-account production

Production of output for final consumption or gross fixed capital formation by the producer. Also known as output for own final use.

Par value

A security's face or nominal value. Securities can be issued at a premium or discount to par.

Pension funds (S.129)

The institutions that administer pension schemes. Pension schemes are significant investors in securities. Self-administered funds are classified in the financial accounts as pension funds. Those managed by insurance companies are treated as long-term business of insurance companies.

Perpetual inventory model (or method) (PIM)

A method for estimating the level of assets held at a particular point in time by accumulating the acquisitions of such assets over a period and subtracting the disposals of assets over that period. Adjustments are made for price changes over the period. The PIM is used in the UK National Accounts to estimate the stock of fixed capital and as such the value of the consumption of fixed capital.

Portfolio

A list of the securities owned by a single investor. In the balance of payments statistics, portfolio investment is investment in securities that does not qualify as direct investment.

Preference share

This type of share guarantees its holder a prior claim on dividends. The dividend paid to preference shareholders is normally more than that paid to holders of ordinary shares. Preference shares may give the holder a right to a share in the ownership of the company (participating preference shares). However, in the UK they usually do not, and are therefore classified as bonds (F.3).

Prices

See economically significant prices, basic prices, purchasers' prices.

Principal

The lump sum that is lent under a loan or a bond.

Production boundary

Boundary between production included in creating core economic accounts (such as all economic activity by industry and commerce) and production which is excluded (such as production by households which is consumed within the household).

Promissory note

A security which entitles the bearer to receive cash. These may be issued by companies or other institutions (see commercial paper).

Property income

Incomes that accrue from lending or renting financial or tangible non-produced assets, including land, to other units. See also tangible assets.

Public corporations (S.11001 and S.12001)

These are public trading bodies which have a substantial degree of financial independence from the public authority which created them. A body is normally treated as a trading body when more than half of its income is financed by fees. A public corporation is publicly controlled to the extent that the public authorities appoint a majority of the board of management, or when public authorities can exert significant control over general corporate policy through other means.

Since the 1980s many public corporations, such as the BT Group, have been privatised and reclassified within the accounts as private non-financial corporations. Public corporations can also exist in the financial sector.

Public sector

Central government, local government and public corporations.

Purchasers' prices

These are the prices paid by purchasers. They include transport costs, trade margins and taxes (unless the taxes are deductible by the purchaser from their own tax liabilities).

9 . Q to R

Quasi corporations

Unincorporated enterprises that function as if they were corporations. For the purposes of allocation to sectors and subsectors, they are treated as if they were corporations, that is, separate units from those to which they legally belong. Three main types of quasi corporation are recognised in the accounts:

- unincorporated enterprises owned by the government which are engaged in market production
- unincorporated enterprises (including partnerships) owned by households
- unincorporated enterprises owned by foreign residents

The last group consists of permanent branches or offices of foreign enterprises and production units of foreign enterprises which engage in significant amounts of production in the territory over long or indefinite periods of time.

Real national disposable income (RNDI)

Gross national disposable income adjusted for changes in prices and in the terms of trade.

Related companies

Branches, subsidiaries, associates or parents.

Related import or export credit

Trade credit between related companies included in direct investment.

Rental

The amount payable by the user of a fixed asset to its owner for the right to use that asset in production for a specified period of time. It is included in the output of the owner and the intermediate consumption of the user.

Rents (D.45)

The property income derived from land and subsoil assets. It should be distinguished in the current system from rental income derived from buildings and other fixed assets, which is included in output (P.1).

Repurchase agreement (repo or reverse repo)

This is short for “sale and repurchase agreement”. One party agrees to sell bonds or other financial instruments to other parties under a formal legal agreement to repurchase them at some point in the future – usually up to six months – at a fixed price.

Reverse repos are the counterpart asset to any repo liability. Repo or reverse repo transactions are generally treated as borrowing or lending within other investment, rather than as transactions in the underlying securities.

The exception is for banks, where repos are recorded as deposit liabilities. Banks' reverse repos are recorded as loans, the same as for all other sectors. Legal ownership does not change under a “repo” agreement. It was previously treated as a change of ownership in the UK financial account but under the System of National Accounts (SNA) is treated as a collateralised deposit (F.22).

Reserve assets

Short-term assets which can be very quickly converted into cash. They comprise the UK's official holdings of gold, convertible currencies, special drawing rights and changes in the UK reserve position in the International Monetary Fund (IMF).

Also included between July 1979 and December 1998 are European Currency Units (ECUs) acquired from swaps with the European Monetary Cooperation Fund (EMCF), European Monetary Institute (EMI) and the European Central Bank (ECB).

Residents

These comprise general government, individuals, private non-profit-making bodies serving households and enterprises within the territory of a given economy.

Residual error

The term used in the former accounts for the difference between the measures of gross domestic product from the expenditure and income approaches.

Resources and uses

The term resources refers to the side of the current accounts where transactions which add to the amount of economic value of a unit or sector appear. For example, wages and salaries are a resource for the unit or sector receiving them. Resources are by convention put on the right side, or at the top of tables arranged vertically.

The left side (or bottom section) of the accounts, which relates to transactions that reduce the amount of economic value of a unit or sector, is termed uses. To continue the example, wages and salaries are a use for the unit or sector that must pay them.

Rest of the world

This sector records the counterpart of transactions of the whole economy with non-residents.

10 . S to T

Satellite accounts

Satellite accounts describe areas or activities not dealt with by core economic accounts. These areas or activities are considered to require too much detail for inclusion in the core accounts or they operate with a different conceptual framework. Internal satellite accounts re-present information within the production boundary. External satellite accounts present new information not covered by the core accounts.

Saving (B.8g)

The balance on the use of income account. It is that part of disposable income which is not spent on final consumption and may be positive or negative.

Secondary market

A market in which holders of financial instruments can resell all or part of their holding. The larger and more effective the secondary market for any particular financial instrument, the more liquid that instrument is to the holder.

Sector

See institutional sector.

Securities

Tradable or potentially tradable financial instruments.

Standard Industrial Classification (SIC)

The industrial classification applied to the collection and publication of a wide range of economic statistics. The current version, SIC 2007, is consistent with NACE, revision 2. See NACE for further details.

System of National Accounts (SNA)

The internationally agreed standard system for macroeconomic accounts. The latest version is described in System of National Accounts 2008.

Special drawing rights (SDRs) (F.12)

These are reserve assets created and distributed by decision of the members of the International Monetary Fund (IMF). Participants accept an obligation to provide convertible currency to another participant, when designated by the IMF to do so, in exchange for special drawing rights (SDRs) equivalent to three times their own allocation.

Only countries with a sufficiently strong balance of payments are so designated by the IMF. SDRs may also be used in certain direct payments between participants in the scheme and for payments of various kinds to the IMF.

Special purpose entities (SPEs)

These are generally organised or established in economies other than those in which the parent companies are resident, and engaged primarily in international transactions but in few or no local operations.

Special purpose entities (SPEs) are defined either by their structure (for example, financing subsidiary, holding company, base company, regional headquarters), or their purpose (for example, sale and regional administration, management of foreign exchange risk, facilitation of financing of investment).

SPEs should be treated as direct investment enterprises if they meet the 10% criterion. They are an integral part of direct investment networks as are, for the most part, SPE transactions with other members of the group.

Staged payments

See advance and progress payments.

Standardised guarantees

These are normally issued in large numbers, usually for fairly small amounts, along identical lines. There are three parties involved in these arrangements; the debtor, the creditor and the guarantor. Either the debtor or creditor may contract with the guarantor to repay the creditor if the debtor defaults. The classic examples are export credit guarantees and student loan guarantees.

Subsidiaries

Companies owned or controlled by another company. Under Section 1159 of the Companies Act (2006) this means, broadly speaking, that another company either:

- holds a majority of the voting rights
- is a member and has the right to appoint or remove a majority of its board of directors
- is a member and controls alone (pursuant to an agreement with other members) a majority of the voting rights

The category also includes subsidiaries of subsidiaries.

Subsidies (D.3)

Current unrequited payments made by general government or the EU to enterprises. Those made on the basis of a quantity or value of goods or services are classified as “subsidies on products” (D.31). Other subsidies based on levels of productive activity (for example numbers employed) are designated “other subsidies on production” (D.39).

Suppliers’ credit

Export credit extended overseas directly by UK firms other than to related concerns.

Supply table

Table of estimates of domestic industries’ output by type of product. Compiled at basic prices and including columns for imports of goods and services, for distributors’ trading margins and for taxes less subsidies on products. The final column shows the value of the supply of goods and services at purchasers’ prices. This table shows which industries make which products: columns represent the supplying industries, rows represent the products supplied.

Taxes

Compulsory unrequited transfers to central or local government or the EU. Taxation is classified in the following main groups: taxes on production and imports (D.2), current taxes on income wealth and so on (D.5), and capital taxes (D.91).

Technical reserves (of insurance companies) (F.61)

These reserves consist of prepaid premiums, reserves against outstanding claims, actuarial reserves for life insurance and reserves for with-profit insurance. They are treated in the economic accounts as the property of policy-holders.

Terms of trade

Ratio of the change in export prices to the change in import prices. An increase in the terms of trade implies that the receipts from the same quantity of exports will finance an increased volume of imports, so measurement of real national disposable income needs to take account of this factor.

Transfers

Unrequited payments made by one unit to another. They may be current transfers (D.5–7) or capital transfers (D. 9). The most important types of transfers are taxes, social contributions, and benefits.

Treasury bills

Short-term securities or promissory notes which are issued by the government in return for funding from the money market. Each week in the UK, the Bank of England invites tenders for sterling Treasury bills from the financial institutions operating in the market. European currency unit (ECU) or euro-denominated bills were issued by tender each month but this programme has now wound down; the last bill was redeemed in September 1999. Treasury bills are an important form of short-term borrowing for the government, generally being issued for periods of three or six months.

11 . U to Z

Unit trusts

Institutions within subsector S.123 through which investors pool their funds to invest in a diversified portfolio of securities. Individual investors purchase units in the fund representing an ownership interest in the large pool of underlying assets, giving them an equity stake. The selection of assets is made by professional fund managers.

Unit trusts give individual investors the opportunity to invest in a diversified and professionally managed portfolio of securities, without the need for detailed knowledge of the individual companies issuing the stocks and bonds. They differ from investment trusts in that the latter are companies in which investors trade shares on the stock exchange, whereas unit trust units are issued and bought back on demand by the managers of the trust.

The prices of unit trust units reflect the value of the underlying pool of securities, whereas the price of shares in investment trusts are affected by the usual market forces.

Uses

See resources and uses.

Use table

See combined use table.

United Kingdom (UK)

Broadly, in the accounts, the United Kingdom comprises Great Britain plus Northern Ireland and that part of the continental shelf deemed by international convention to belong to the UK. It excludes the Channel Islands and the Isle of Man.

Valuables

Goods of considerable value that are not used primarily for production or consumption but are held as stores of value over time, for example, precious metals, precious stones, jewellery and works of art.

Valuation

See basic prices, purchasers’ prices, factor cost.

Value added

The balance on the production account: output less intermediate consumption. Value added may be measured net or gross.

Value Added Tax (VAT) (D.211)

A tax paid by enterprises. In broad terms an enterprise is liable for VAT on the total of its taxable sales but may deduct tax already paid by suppliers on its inputs (intermediate consumption). Therefore, the tax is effectively on the value added by the enterprise. Where the enterprise cannot deduct tax on its inputs the tax is referred to as non-deductible. VAT is the main UK tax on products (D.21).

Compendium

Background notes

Information about the compilation of the latest national accounts including quality and reliability issues.

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Release date:
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Next release:
To be announced

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1 . What do you think?

We welcome your feedback on this publication. If you would like to get in touch, please contact us via email: blue.book.coordination@ons.gov.uk.

2 . Release policy

This release includes data up to 2018. Data are consistent with the Index of Production and the current price trade in goods data within UK trade, both published on 9 September 2019, and Balance of payments, Quarterly national accounts and UK Economic Accounts, published on 30 September 2019.

3 . Continuous improvement of sources, methods and communication

Prior to publication, we published a series of articles detailing the changes and the impact they would have within Blue Book 2019; these can be found on the National accounts articles page. This includes supplementary analyses of data to help with the interpretation of statistics, and guidance on the methodology used to produce the national accounts.

4 . National accounts classification decisions

The UK National Accounts are produced under internationally agreed guidance and rules set out principally in the European System of Accounts: ESA 2010 (PDF, 6.4MB) and the accompanying Manual on Government Deficit and Debt – Implementation of ESA 2010 – 2016 edition (MGDD) (PDF, 3.7MB) .

In the UK, we are responsible for the application and interpretation of these rules. Therefore we make classification decisions based upon the agreed guidance and rules.

5 . Economic context

We publish Economic commentary, giving commentary on the latest gross domestic product (GDP) estimate and our other economic releases. The next commentary will be published on 20 December 2019.

6 . Important quality issues

Common pitfalls in interpreting series:

- expectations of accuracy and reliability in early estimates are often too high
- revisions are an inevitable consequence of the trade-off between timeliness and accuracy
- early estimates are based on incomplete data

Very few statistical revisions arise because of “errors” in the popular sense of the word. All estimates, by definition, are subject to statistical “error”. In this context the word refers to the uncertainty inherent in any process or calculation that uses sampling, estimation or modelling. Most revisions reflect either the adoption of new statistical techniques or the incorporation of new information, which allows the statistical error of previous estimates to be reduced. Only rarely are there avoidable “errors”, such as human or system failures and such mistakes are made quite clear when they do occur.

7 . The quality of Blue Book estimates

Unlike many of the short-term indicators we publish, there is no simple way of measuring the accuracy of the Blue Book dataset. All estimates, by definition, are subject to statistical uncertainty and for many well-established statistics we measure and publish the sampling error and non-sampling error associated with the estimate, using this as an indicator of accuracy. Since sampling is typically done to determine the characteristics of a whole population, the difference between the sample and population values is considered a sampling error. Non-sampling errors are a result of deviations from the true value that are not a function of the sample chosen, including various systematic errors and any other errors that are not due to sampling.

The Blue Book dataset, however, is currently constructed from various data sources, some of which are not based on random samples or do not have published sampling and non-sampling errors available. This makes it very difficult to measure both error aspects and their impact on gross domestic product (GDP). While development work continues in this area, like all other G7 national statistical institutes, we do not publish a measure of the sampling error or non-sampling error associated with this dataset.

8 . Reliability

Estimates for the most recent quarters are provisional and are subject to revision in the light of updated source information. We currently provide an analysis of past revisions in the gross domestic product (GDP) and other statistical bulletins that present time series.

Our revisions to economic statistics page brings together our work on revisions analysis, linking to articles and revisions policies. Revisions to data provide one indication of the reliability of main indicators.

9 . Further information

You can get the latest copies of this and all our other releases through our release calendar.

Details of the policy governing the release of new data are available from the UK Statistics Authority.

We are committed to ensuring that all information provided is kept strictly confidential and will only be used for statistical purposes. Further details regarding confidentiality can be found in the respondent charters for businesses and households.

10 . Code of Practice

National Statistics are produced to high professional standards set out in the Code of Practice for Official Statistics . They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference.