Office for National Statistics

Statistical bulletin

Balance of Payments, UK: Quarter 3 (July to Sept) 2015

A measure of cross-border transactions between the UK and rest of the world. Includes trade, income, capital transfers and foreign assets and liabilities.

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Notice

29 February 2016

Holdings of property

An error has been identified in the estimate of holdings of property for both UK assets (direct investment abroad) and UK liabilities (direct investment in the UK). Data from 1999 to the latest period are affected, impacting series CGMO and HBUY within table K. Higher level aggregates within the International Investment Position, including the net, are also affected. Users are advised that there is no impact on the Balance of Payments (current account, capital account and financial account). The impact on total UK assets (HBQA) range from £14.6 billion in 1999 to £74.3 billion in 2008 on levels of £2.5 trillion and £11.3 trillion respectively. The impact on total UK liabilities (HBQB) range from £2.1bn in 1999 to £9.1bn in 2014 on levels of £2.7 trillion and £10.6 trillion respectively. Further details on the impact for the full time series can be found in the impact of second homes correction, and will also be included in Balance of Payments and International Investment Position impact articles scheduled for April 2016 to June 2016. Revised figures for all series will be published within the Quarterly National Accounts and Balance of Payments on 30 June 2016.

ONS apologises for any inconvenience this may cause.

UK shares, mutual funds and bonds

An error has been identified with the levels of shares, mutual funds and bonds in the Sector and Financial Accounts and in the Balance of Payments and International Investment Position. These levels are under-reported in most periods from 2011 onwards. This issue also affects unlisted shares and the level of dividend and bond interest receipts between sectors.

Provisional estimates for 2011 show an increase in the UK's net borrowing of approximately £1 billion and a decrease in the UK's financial net worth of approximately £34 billion. Consequently, the Rest of World net lending position shows an increase of approximately £1 billion leading to an increase in the current account deficit of approximately £1 billion within the Balance of Payments. Revised figures for all series will be published within the Quarterly National Accounts and Balance of Payments on 30 June 2016.

A more detailed explanation will be provided in an article 'The UK Flow of Funds Project: Improvements to the Sector and Financial Accounts' to be published on 24 February 2016. Full indicative impacts will be discussed in further articles 'Detailed assessment of changes to Sector and Financial Accounts, 1997 to 2011' and 'Detailed assessment of changes to Balance of Payments and International Investment Position, 1997 to 2011' to be published on 26 April 2016 and 'Detailed assessment of changes to Sector and Financial Accounts, 2012 to 2014' and 'Detailed assessment of changes to Balance of Payments and International Investment Position, 2012 to 2014' to be published on 7 June 2016.

Further information and a list of all the affected CDIDs will be provided in the aforementioned articles.

ONS apologises for any inconvenience this may cause.

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1 . Main points

- The United Kingdom’s (UK) current account deficit was £17.5 billion in Quarter 3 (July to September) 2015, unchanged from a revised deficit of £17.5 billion in Quarter 2 (April to June) 2015. The deficit in Quarter 3 (July to September) 2015 equated to 3.7% of gross domestic product (GDP) at current market prices, down from 3.8% in Quarter 2 (April to June) 2015

- While the total current account balance remained unchanged in Quarter 3 (July to September) 2015 there were equal and offsetting movements in the components

- The total trade deficit widened to £8.7 billion in Quarter 3 (July to September) 2015, from £4.7 billion in Quarter 2 (April to June) 2015. This was primarily due to a £5.4 billion widening in the trade in goods deficit partially offset by a £1.4 billion widening in the trade in services surplus

- The primary income deficit narrowed to £3.3 billion in Quarter 3 (July to September) 2015, from £6.6 billion in Quarter 2 (April to June) 2015. This was due in most part to a decrease in direct investment and portfolio investment payments

- The deficit on secondary income narrowed by £0.8 billion, from £6.2 billion in Quarter 2 (April to June) 2015 to £5.5 billion in Quarter 3 (July to September) 2015. This was primarily due to a decrease in payments

- The financial account recorded a net inflow of £26.9 billion during Quarter 3 (July to September) 2015

- The international investment position recorded UK net liabilities of £348.8 billion at the end of Quarter 3 (July to September) 2015

2 . Summary

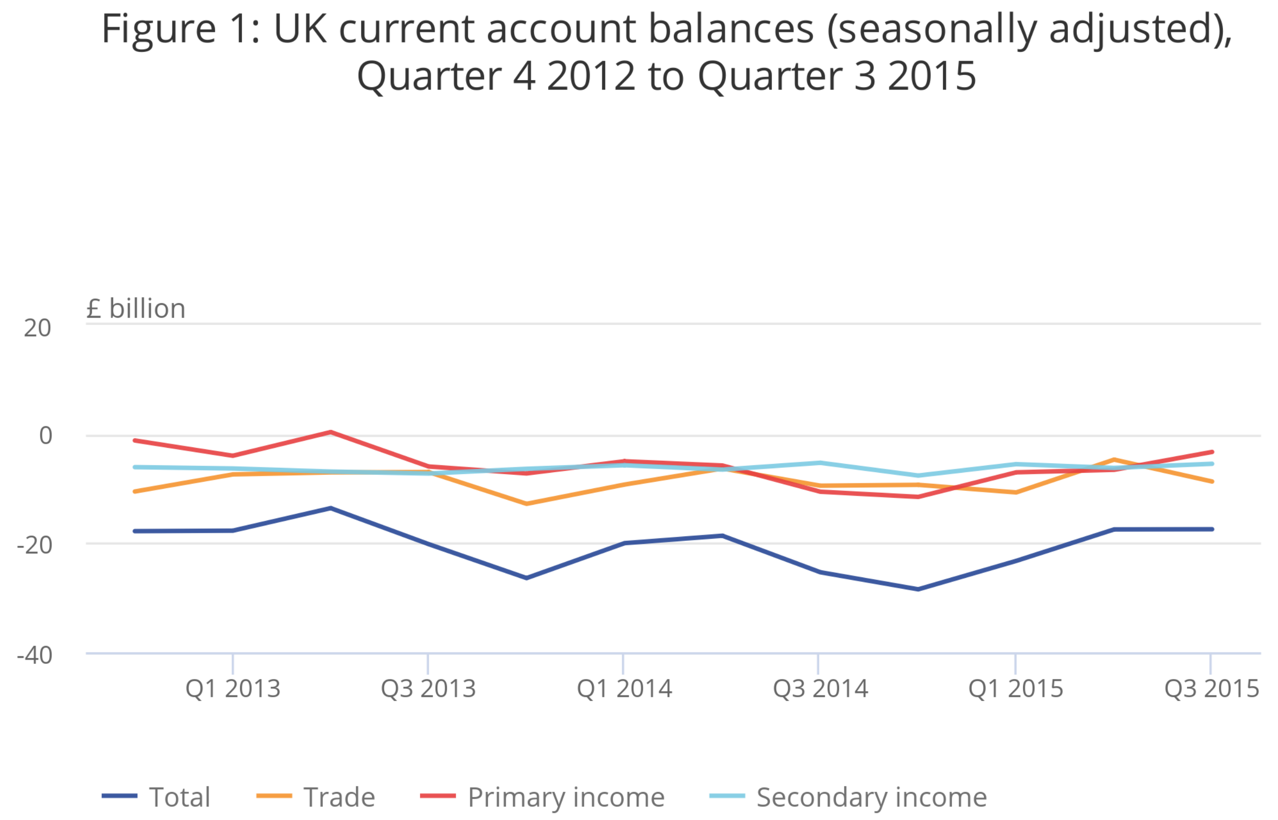
The balance of payments summarises the economic transactions of the UK with the rest of the world. These transactions can be broken down into 3 main accounts: the current account, the capital account and the financial account.

The current account comprises the trade in goods and services account, the primary income account and secondary income account. The difference in the monetary value of these accounts is known as the current account balance. A current account balance is in surplus if overall credits exceed debits, and in deficit if overall debits exceed credits.

The sum of the current and capital account balances are equal to the balance of the financial account. As the capital account is relatively small in comparison, the current account and financial account can be said to be counterparts.

The current account balance plus the capital account balance measures the extent to which the UK is a net lender (that is, in surplus) or net borrower (that is, in deficit). The UK has run a combined current and capital account deficit in every year since 1983, and every quarter since Quarter 3 1998.

Figure 1: UK current account balances (seasonally adjusted), Quarter 4 2012 to Quarter 3 2015



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

Quarter 3 2015 overview

In Quarter 3 2015, the UK was a net borrower of £17.7 billion, down from £18.0 billion in Quarter 2 2015. This was due to the narrowing in the capital account deficit of £0.3 billion as the changes in the current account components virtually offset each other.

The £4.0 billion widening in the total trade deficit was due to a widening of £5.4 billion in the trade in goods deficit, partially offset by a widening of £1.4 billion in the trade in services surplus. The widening in the trade in goods deficit was due to exports falling by £4.2 billion and imports rising by £1.1 billion. The widening in the trade in services surplus was due to exports rising by £1.4 billion, while there was virtually no change in imports.

The £3.3 billion narrowing in the total primary income deficit was primarily due to the narrowing of the deficit on investment income, from £6.2 billion in Quarter 2 2015 to £3.1 billion in Quarter 3 2015.

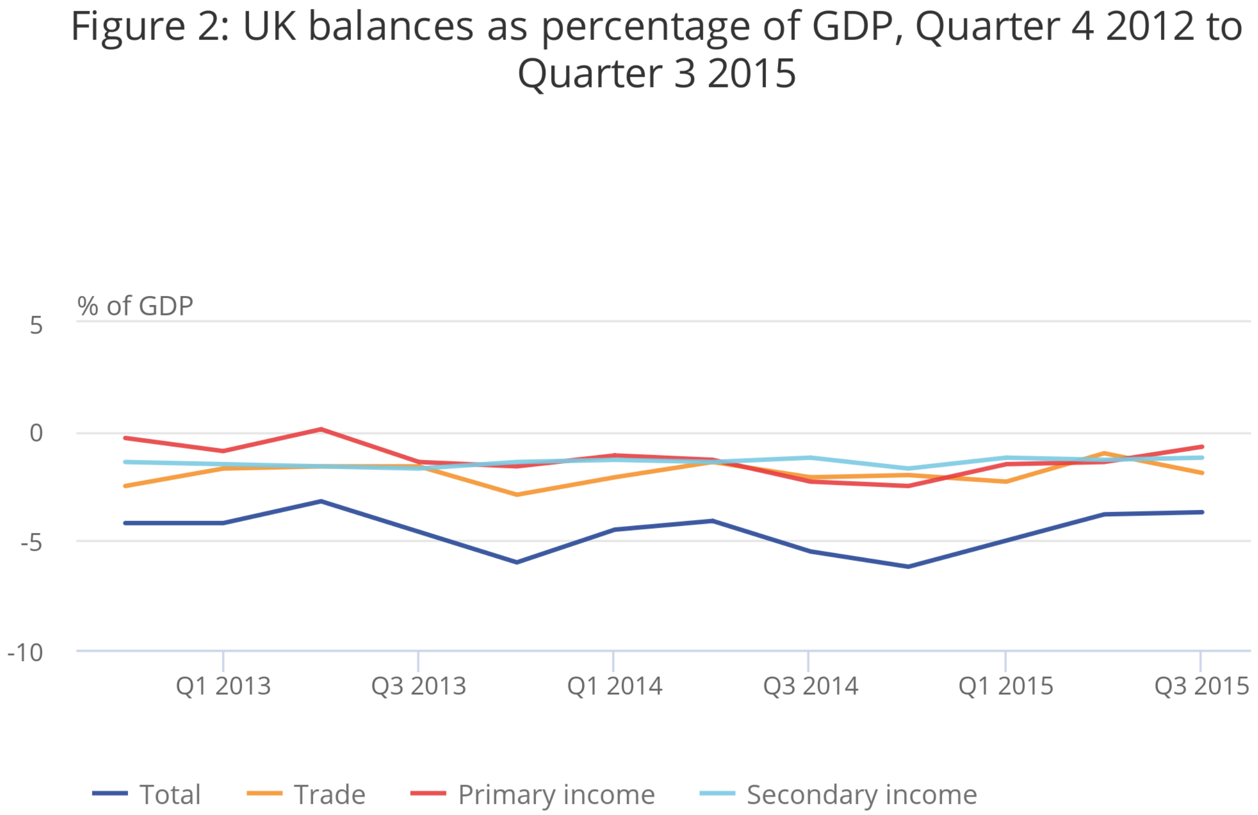
The £0.8 billion narrowing in the secondary income deficit in Quarter 3 2015 was due to a narrowing in the deficits on general government income and other sectors income of £0.5 billion and £0.3 billion respectively.

Notes for summary

Throughout this release Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, and Quarter 4 refers to October to December.

3 . Current account balances as percentage of GDP

Figure 2: UK balances as percentage of GDP, Quarter 4 2012 to Quarter 3 2015



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

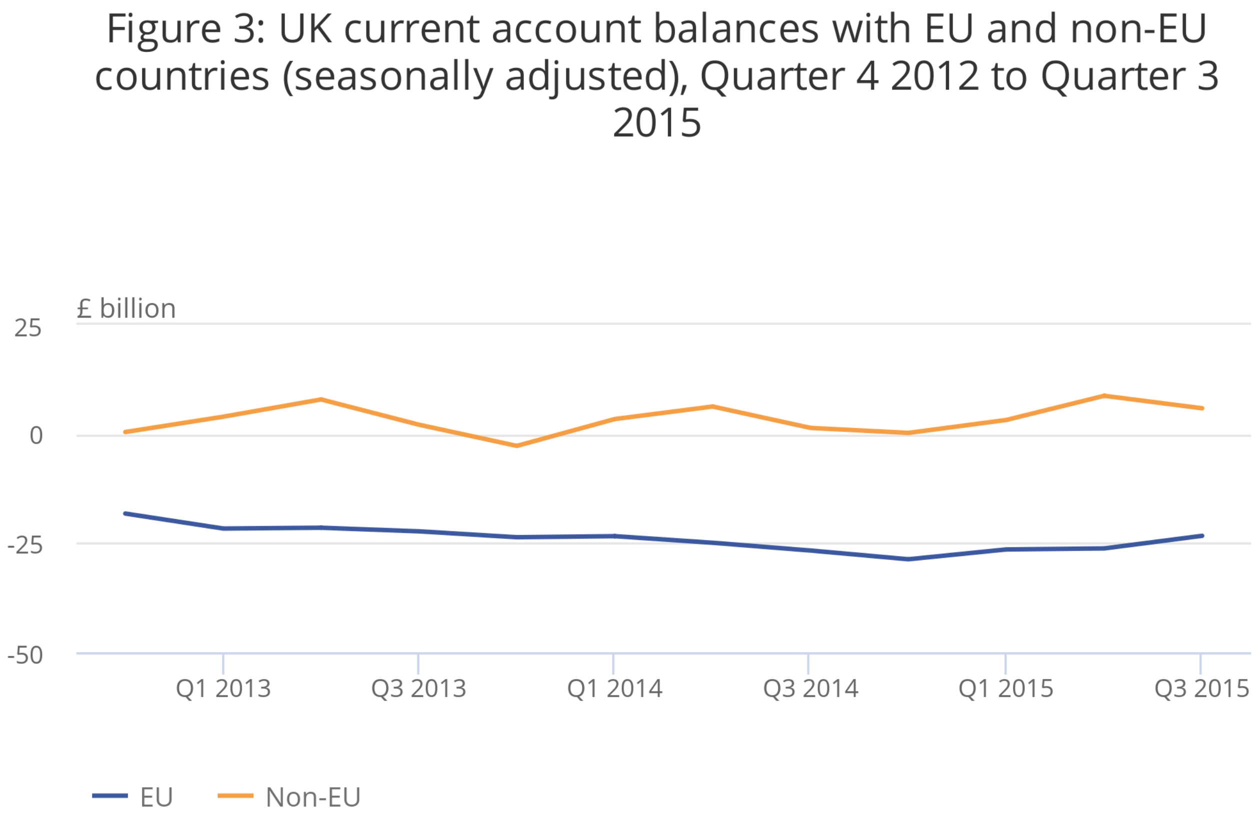
The current account deficit equated to 3.7% of gross domestic product (GDP) at current market prices in Quarter 3 2015, compared with 3.8% in Quarter 2 2015. The deficit on trade in goods and services was equivalent to 1.9% of GDP in Quarter 3 2015, compared with 1.0% in Quarter 2 2015. The deficit on primary income equated to 0.7% of GDP in Quarter 3 2015, compared with a deficit equivalent to 1.4% in Quarter 2 2015. The deficit on secondary income equated to 1.2% of GDP in Quarter 3 2015, compared with 1.3% in Quarter 2 2015.

Notes for current account balances as percentage of GDP

Throughout this release Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, and Quarter 4 refers to October to December.

4 . Current account with EU and non-EU countries (Table C)

Figure 3: UK current account balances with EU and non-EU countries (seasonally adjusted), Quarter 4 2012 to Quarter 3 2015



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

A deficit of £23.3 billion was recorded with the EU in Quarter 3 2015, compared with a deficit of £26.2 billion in Quarter 2 2015. This narrowing was mainly due to a narrowing in the deficit on primary income, additionally, to a lesser extent there was also a narrowing in the deficits on the secondary income and total trade balances. The current account surplus with non-EU countries in Quarter 2 2015 of £8.7 billion narrowed to £5.9 billion in Quarter 3 2015. The narrowing was mainly due to the total trade balance surplus narrowing from £11.9 billion in Quarter 2 2015 to £7.7 billion in Quarter 3 2015. Partially offsetting this, the surplus on the total primary income balance widened from a surplus of £0.2 billion in Quarter 2 2015 to a surplus of £1.3 billion in Quarter 3 2015. Additionally, there was a slight narrowing in the deficit on the secondary income balance of £0.2 billion from, £3.4 billion in Quarter 2 2015 to £3.2 billion in Quarter 3 2015.

Notes for current account with EU and non-EU countries (Table C)

1. Throughout this release Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, and Quarter 4 refers to October to December.

5 . Trade in goods (Table E) and services (Table F)

Figure 4: UK trade in goods and services balances (seasonally adjusted), Quarter 4 2012 to Quarter 3 2015

Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

Trade in goods covers transactions in general merchandise for which changes of ownership occur between UK residents and the rest of the world. General merchandise (with some exceptions) refers to moveable goods.

The **trade in goods** deficit in Quarter 3 2015 was £32.0 billion, compared with £26.6 billion in Quarter 2 2015. The widening in the deficit in Quarter 3 2015 was due to exports falling by £4.2 billion and imports rising by £1.1 billion.

The widening in the trade in goods deficit was mainly due to the £1.2 billion surplus on unspecified goods in Quarter 2 2015 switching to a deficit of £1.5 billion in Quarter 3 2015. Additionally, the deficit on finished manufactured goods widened by £1.5 billion from £15.5 billion in Quarter 2 2015 to £17.0 billion in Quarter 3 2015.

Trade in services covers the provision of services by UK residents to non-residents and vice versa. It also covers transactions in goods which are not freighted out of the country in which transactions take place, for example, purchases for local use by foreign forces in the UK, or by UK forces abroad and purchases by tourists. Transactions in goods which are freighted into or out of the UK are included under trade in goods.

The **trade in services** surplus was £23.3 billion in Quarter 3 2015, an increase of £1.4 billion from Quarter 2 2015.

Exports were £1.4 billion higher than Quarter 2 2015, at £57.4 billion, with increases mainly in the other business services, financial services, and intellectual property services of £1.6 billion, £0.5 billion and £0.2 billion respectively. Partially offsetting these was a decrease in the travel services of £1.0 billion.

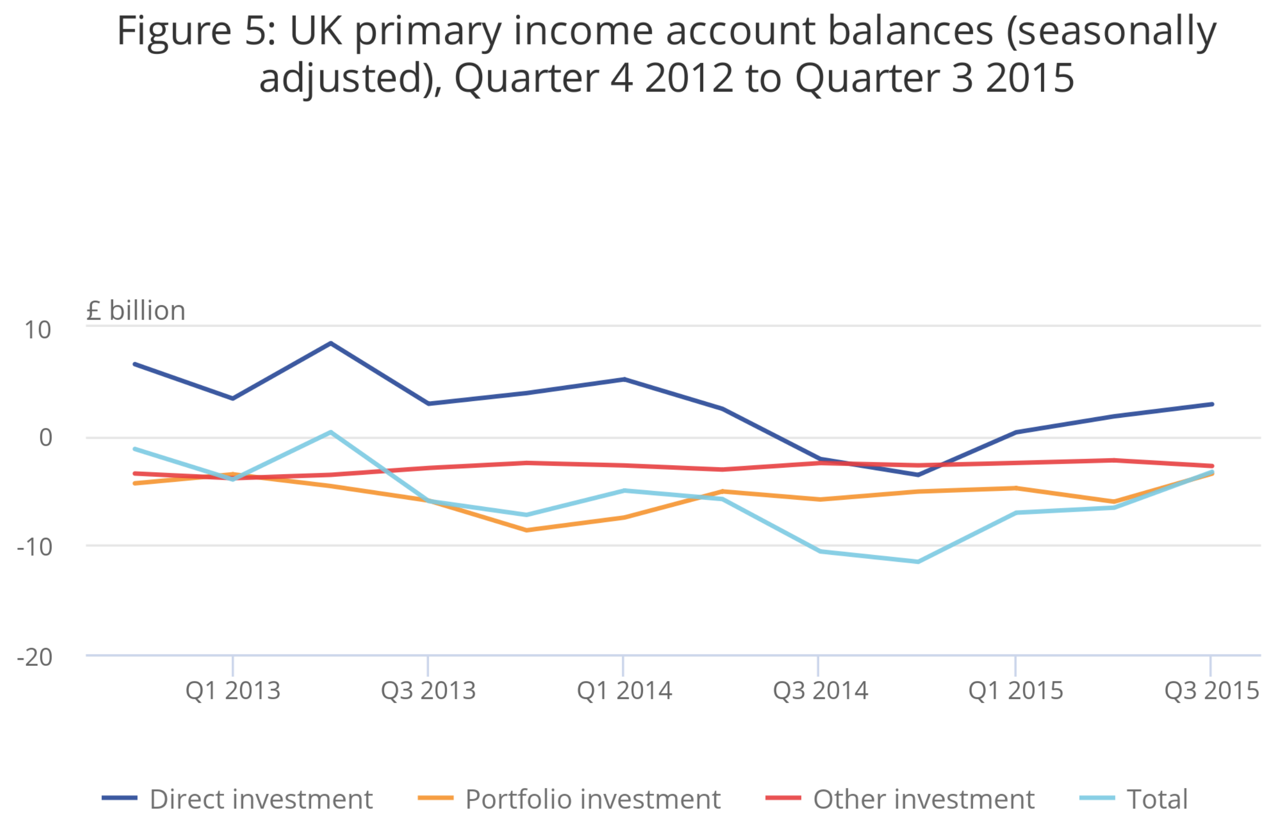
Imports were £34.1 billion in Quarter 3 2015, virtually unchanged from Quarter 2 2015. However, there were movements within the components, with increases mainly in the financial services and travel services of £1.2 billion and £0.7 billion respectively in Quarter 3 2015. Partially, offsetting these was a decrease in other business services of £1.6 billion from £9.1 billion in Quarter 2 2015 to £7.5 billion in Quarter 3 2015.

Notes for trade in goods (Table E) and services (Table F)

1. Throughout this release Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, and Quarter 4 refers to October to December.

6 . Primary income account (Table G)

Figure 5: UK primary income account balances (seasonally adjusted), Quarter 4 2012 to Quarter 3 2015



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

The **primary income account** is comprised of compensation of employees, investment income and other primary income.

Compensation of employees presents remuneration in return for the labour input into the production process contributed by an individual. In the international accounts, compensation of employees is recorded when the employer (the producing unit) and the employee are resident in different economies.

Investment income covers earnings (for example, profits, dividends and interest payments and receipts) arising from foreign investment in financial assets and liabilities. Credits are the earnings of UK residents from their investments abroad and other foreign assets. Debits are the earnings of foreign residents from their investments in the UK and other UK liabilities. The flow of investment in the financial account is recorded separately from earnings, although reinvested earnings of companies with foreign affiliates are a component of both. The total value of UK assets and liabilities held at any time is also recorded separately under the international investment position.

Other primary income covers earnings from rent and taxes, and subsidies on production and on the import of goods. Under the Balance of Payments Manual fifth edition, taxes and subsidies on production and on the import of goods were classified to secondary income (previously titled current transfers). The recording of rent was previously classified to other investment income.

The **primary income** deficit narrowed from £6.6 billion in Quarter 2 2015, to £3.3 billion in Quarter 3 2015. In terms of functional categories, the decrease was due to the deficit on portfolio investment narrowing, from £6.0 billion in Quarter 2 2015 to £3.4 billion in Quarter 3 2015. Additionally, there was a widening in the direct investment surplus of £1.1 billion, from £1.8 billion in Quarter 2 2015 to £2.9 billion in Quarter 3 2015.

The deficit on **compensation of employees** narrowed in Quarter 3 2015 to £30 million, from £110 million in Quarter 2 2015.

The surplus on **direct investment** income widened from £1.8 billion in Quarter 2 2015, to £2.9 million in Quarter 3 2015. The widening was due to payments falling more than receipts. Payments were £12.9 billion in Quarter 3 2015, £1.8 billion lower than in Quarter 2 2015. The fall was mainly due to the following sectors recording decreases:

- foreign-owned UK private non-financial corporations recorded a decrease in profits of £1.3 billion, from £10.6 billion in Quarter 2 2015 to £9.2 billion in Quarter 3 2015
- foreign-owned UK other financial intermediaries recorded a decrease in profits of £0.3 billion, from £2.4 billion in Quarter 2 2015 to £2.1 billion in Quarter 3 2015

Receipts were £15.8 billion in Quarter 3 2015, £0.7 billion lower than in Quarter 2 2015. The fall was due to:

- UK private non-financial corporations recorded a decrease in profits of £0.8 billion, from £10.6 billion in Quarter 2 2015 to £9.9 billion in Quarter 3 2015
- UK monetary financial institutions recorded a decrease in profits of £0.5 billion, from £1.2 billion in Quarter 2 2015 to £0.7 billion in Quarter 3 2015

Partially offsetting these:

- UK insurance companies recorded an increase in profits of £0.3 billion, from £1.5 billion in Quarter 2 2015 to £1.8 billion in Quarter 3 2015
- UK other financial intermediaries recorded an increase in profits of £0.2 billion, from £2.9 billion in Quarter 2 2015 to £3.1 billion in Quarter 3 2015

For further information on the impact of foreign direct investment annual benchmark data, please see background notes, “What’s new? This quarter”.

The **portfolio investment** income deficit narrowed between Quarter 2 2015 and Quarter 3 2015, from £6.0 billion to £3.4 billion. This was due to a narrowing in the deficit in both equity securities and debt securities of £2.2 billion and £0.4 billion respectively. UK earnings on portfolio investment abroad increased by £0.9 billion, this was due to increases in both the earnings of equity securities and debt securities of £0.8 billion and £0.1 billion respectively. Foreign earnings on portfolio investment in the UK decreased by £1.7 billion, this was due to a fall of £1.4 billion and £0.3 billion in foreign earnings on UK equity securities and UK debt securities respectively.

The deficit on earnings from **other investment** widened by £0.5 billion to £2.7 billion in Quarter 3 2015. UK earnings from other investment abroad decreased by £0.5 billion to £4.9 billion, while foreign earnings on other investment in the UK increased slightly to £7.6 billion.

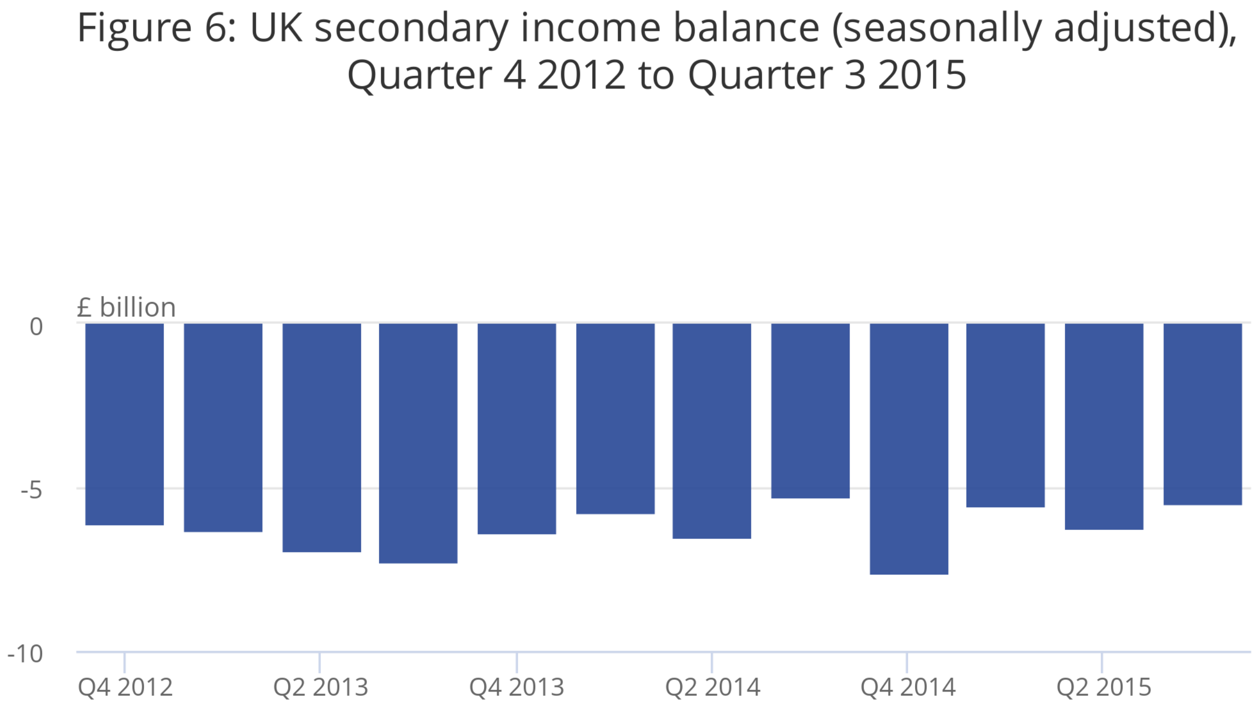
The deficit on **other primary income** was £0.2 billion in Quarter 3 2015, virtually unchanged from Quarter 2 2015.

Notes for primary income account (Table G)

1. Throughout this release Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, and Quarter 4 refers to October to December.

7 . Secondary income account (Table H)

Figure 6: UK secondary income balance (seasonally adjusted), Quarter 4 2012 to Quarter 3 2015



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

Secondary income represents the provision (or receipt) of an economic value by one party without directly receiving (or providing) a counterpart item of economic value. In plain terms, this is a transaction representing “something for nothing” or without a quid pro quo. Transfers can be in the form of money or of goods or services provided without the expectation of payment. General government transfers include receipts, contributions and subscriptions from or to European Union (EU) institutions and other international bodies, bilateral aid and military grants.

The deficit on **secondary income** narrowed by £0.8 billion, from £6.2 billion in Quarter 2 2015 to £5.5 billion in Quarter 3 2015. This was primarily due to a decrease in payments partially offset by a small decrease in receipts.

It should be noted that the quarterly path of net contributions to EU institutions can be erratic due to the timing of payments.

Notes for secondary income account (Table H)

1. Throughout this release Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, and Quarter 4 refers to October to December.

8 . Capital account (Table I)

The **capital account** comprises 2 components: capital transfers and the acquisition or disposal of non-produced, non-financial assets.

Under BPM6, there is no longer a requirement to record migrant transfers. The manual clarifies that the change in the residence does not involve a transaction between 2 entities but a change in status.

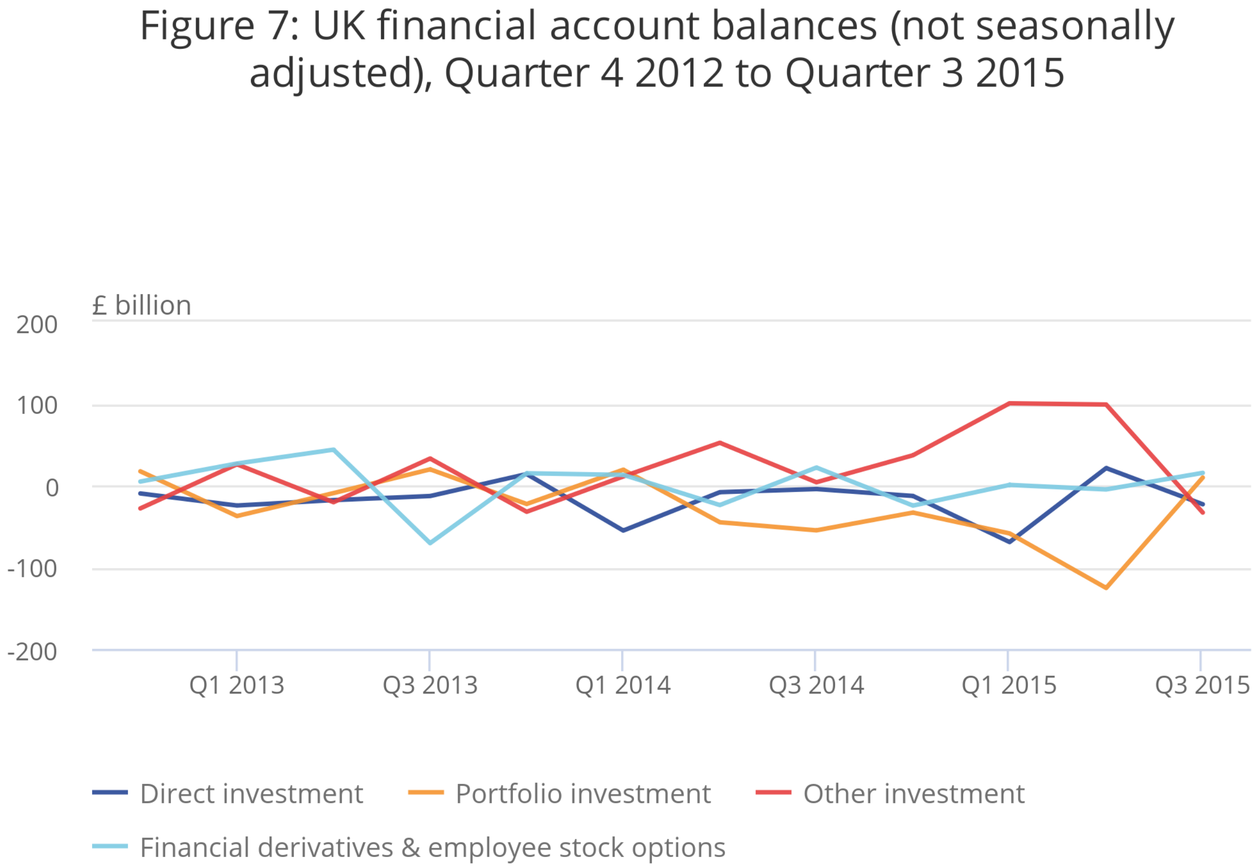
Capital transfers are those involving transfers of ownership of fixed assets, transfers of funds associated with the acquisition or disposal of fixed assets, and cancellation of liabilities by creditors without any counterparts being received in return. As with current transfers, they can be subdivided into general government transfers and other sectors transfers. The main sources of information are government departments (Department for International Development and HM Treasury) and the Bank of England. Compensation payments from the EU are also included here, for example, payments related to the destruction of animals to combat BSE and foot and mouth disease.

The **sale or purchase of non-produced, non-financial assets** covers intangibles such as patents, copyrights, franchises, leases and other transferable contracts, and goodwill. It also covers transactions involving tangible assets that may be used or needed for the production of goods and services but have not themselves been produced, such as land and sub-soil assets. The use of such assets is recorded under trade in services as royalties and license fees; only the outright purchase or sale of such assets is recorded in the capital account.

The **capital account** recorded a deficit of £0.3 billion in Quarter 3 (July to September) 2015, a narrowing from a deficit of £0.5 billion in Quarter 2 (April to June) 2015.

9 . Financial account (Table J)

Figure 7: UK financial account balances (not seasonally adjusted), Quarter 4 2012 to Quarter 3 2015



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

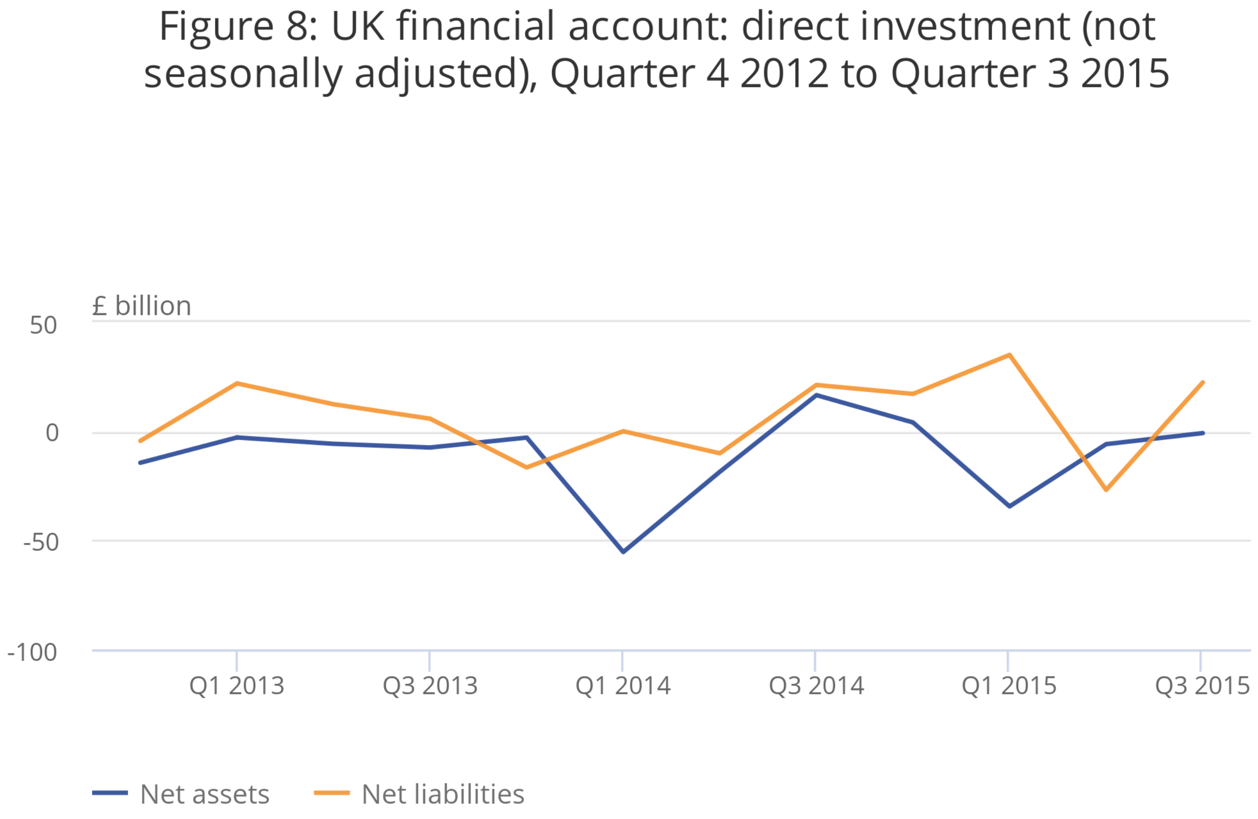
The **financial account** covers transactions that result in a change of ownership of financial assets and liabilities between UK residents and non-residents, for example, the acquisitions and disposals of foreign shares by UK residents.

The **financial account** showed a net inflow (that is, more money flowing into the UK) of £26.9 billion in Quarter 3 2015, compared with a net inflow of £10.0 billion in Quarter 2 2015. UK investment abroad switched from net disinvestment (net selling of assets abroad) of £147.1 billion in Quarter 2 2015 to net investment (net buying of assets abroad) of £43.9 billion in Quarter 3 2015. Investment in the UK switched from net disinvestment (net selling of UK assets) of £137.1 billion in Quarter 2 2015 to net investment (net buying of UK assets) of £70.8 billion in Quarter 3 2015.

Direct investment recorded a net inflow (that is, more money flowing into the UK) of £23.2 billion in Quarter 3 2015, compared with a net outflow (that is, more money flowing out of the UK) of £21.0 billion in Quarter 2 2015.

For further information on the impact of foreign direct investment acquisitions and disposals, please see background notes, section 3, part 2 interpreting the data.

Figure 8: UK financial account: direct investment (not seasonally adjusted), Quarter 4 2012 to Quarter 3 2015



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

Direct investment abroad decreased from net disinvestment of £5.9 billion in Quarter 2 2015 to net disinvestment of £0.9 billion in Quarter 3 2015. This was due to decreased net disinvestment in debt instruments, from net disinvestment of £10.3 billion in Quarter 2 2015 to net disinvestment of £3.5 billion in Quarter 3 2015. Additionally, there was a switch in reinvestment of earnings, from net disinvestment of £1.7 billion in Quarter 2 2015 to net investment of £4.0 billion in Quarter 3 2015. Partially offsetting these was a switch in the equity capital other than reinvestment of earnings, from net investment of £6.1 billion in Quarter 2 2015 to net disinvestment of £1.4 billion in Quarter 3 2015.

On a sector basis, the decrease was due to the following:

- UK private non-financial corporations recording decreased net disinvestment, from £12.0 billion in Quarter 2 2015 to net disinvestment of £3.2 billion in Quarter 3 2015
- UK other financial intermediaries recording increasing net investment from £1.0 billion in Quarter 2 2015 to net investment of £2.3 billion in Quarter 3 2015

Partially offsetting these were:

- UK insurance companies recording a decrease in net investment, from £5.5 billion in Quarter 2 2015 to net investment of £2.1 billion in Quarter 3 2015

- UK monetary financial institutions recording an increase in net disinvestment, from £0.8 billion in Quarter 2 2015 to net disinvestment of £2.7 billion in Quarter 3 2015

Direct investment in the UK switched in Quarter 3 2015 to net investment of £22.4 billion, from net disinvestment of £26.9 billion in Quarter 2 2015. The switch was due to a switch in debt instruments, from net disinvestment of £38.0 billion in Quarter 2 2015 to net investment of £10.1 billion in Quarter 3 2015. Slightly offsetting this were increases in net investment in equity capital other than reinvestment of earnings and reinvestment of earnings of £0.9 billion and £0.3 billion in Quarter 3 2015 respectively.

On a sector basis, the switch was due to the following:

- foreign-owned UK private non-financial corporations recording a switch from net disinvestment of £30.4 billion in Quarter 2 2015 to net investment of £16.8 billion in Quarter 3 2015

- foreign-owned UK other financial intermediaries increasing from net investment of £1.3 billion in Quarter 2 2015 to net investment of £3.0 billion in Quarter 3 2015

- foreign-owned UK monetary financial institutions recording an increase in net disinvestment, from £1.7 billion in Quarter 2 2015 to net investment of £2.7 billion in Quarter 3 2015

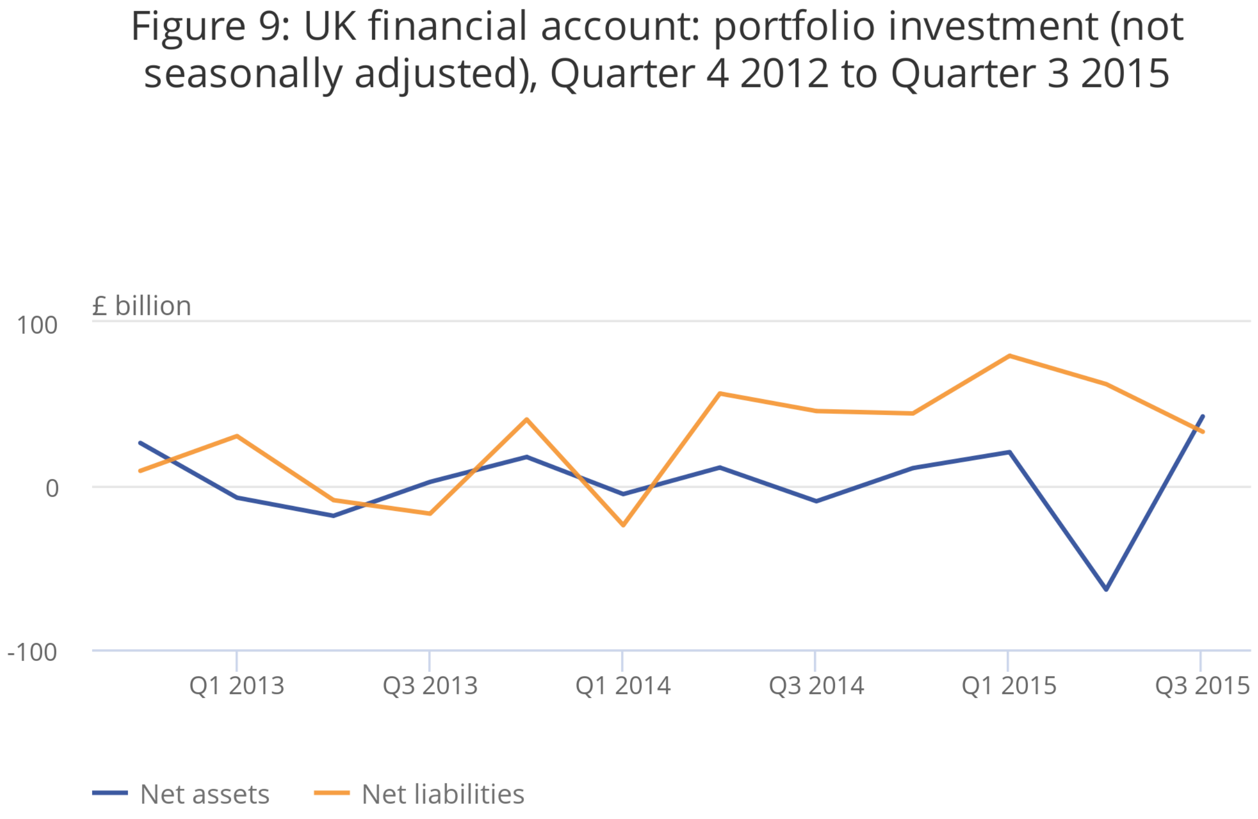
Partially offsetting these was:

- foreign-owned UK insurance companies recording a switch from net investment of £0.5 billion in Quarter 2 2015 to net disinvestment of £0.2 billion in Quarter 3 2015

For further information on the impact of foreign direct investment annual benchmark data, please see background notes, “What’s new? This quarter”.

Portfolio investment recorded a net outflow (that is, more money flowing from the UK) of £9.4 billion in Quarter 3 2015, a switch from a net inflow (that is, more money flowing into the UK) of £125.6 billion in Quarter 2 2015. The switch in portfolio investment was mainly due to UK residents switching from net disinvestment in Quarter 2 2015 to net investment abroad in Quarter 3 2015.

Figure 9: UK financial account: portfolio investment (not seasonally adjusted), Quarter 4 2012 to Quarter 3 2015



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

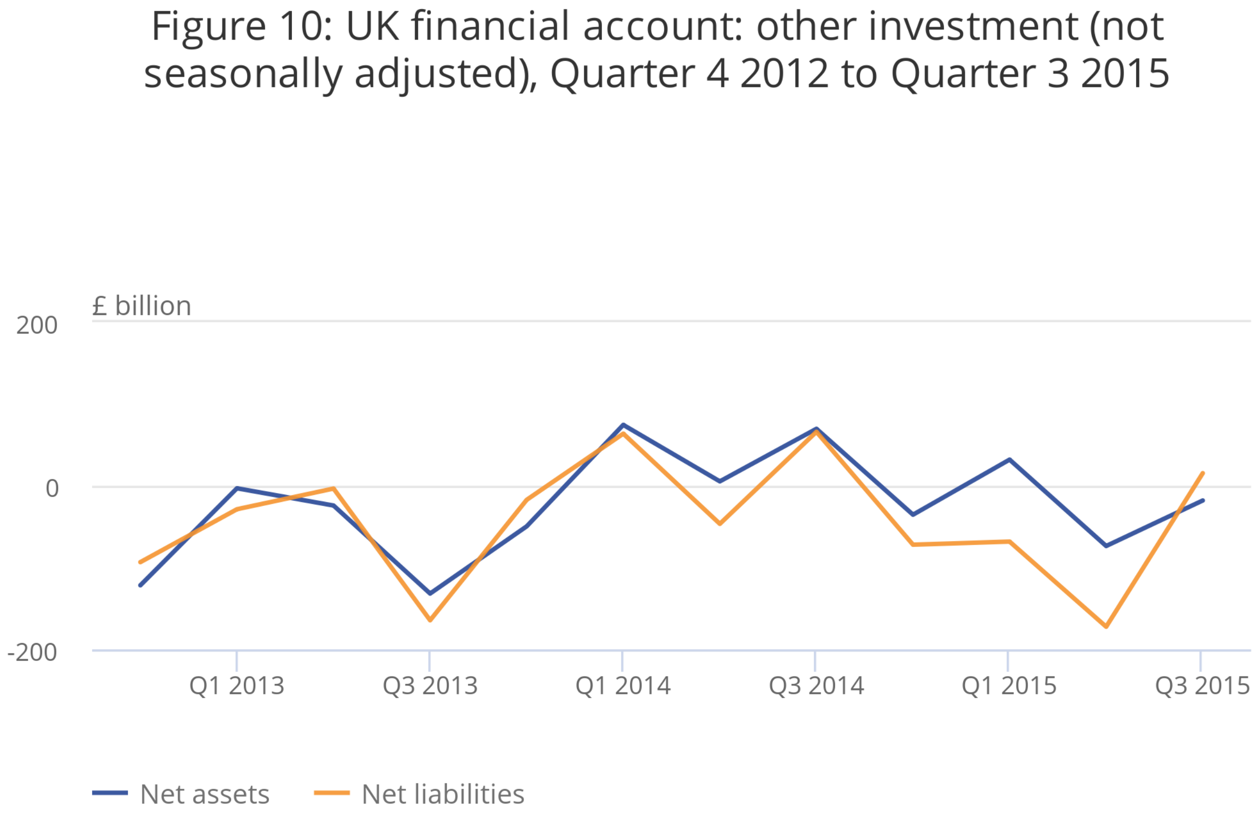
Portfolio investment abroad switched in Quarter 3 2015 to net investment of £42.4 billion, from net disinvestment of £63.5 billion in Quarter 2 2015. The switch was mainly due to investment in debt securities switching from net disinvestment of £46.8 billion in Quarter 2 2015 to net investment of £49.6 billion in Quarter 3 2015. Additionally, investment in equity and investment fund shares showed a decrease in net disinvestment of £9.5 billion, from net disinvestment of £16.7 billion in Quarter 2 2015 to net disinvestment of £7.2 billion in Quarter 3 2015.

Portfolio investment in the UK showed net investment of £33.0 billion in Quarter 3 2015, a decrease from net investment of £62.1 billion in Quarter 2 2015. This was mainly due to decreased net investment in equity and investment fund shares, from net investment of £32.7 billion in Quarter 2 2015 to net investment of £5.2 billion in Quarter 3 2015.

Financial derivatives and employee stock options showed net settlement receipts of £15.1 billion in Quarter 3 2015, following net settlement payments of £5.1 billion in Quarter 2 2015.

Other investment in Quarter 3 2015 recorded a net inflow (that is, more money flowing into the UK) of £33.4 billion, compared with a net outflow (that is, more money flowing from the UK) of £98.7 billion in Quarter 2 2015.

Figure 10: UK financial account: other investment (not seasonally adjusted), Quarter 4 2012 to Quarter 3 2015



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

Other investment abroad showed a decrease in net disinvestment, from net disinvestment of £73.7 billion in Quarter 2 2015 to net disinvestment of £18.0 billion in Quarter 3 2015. The decrease was mainly due to a switch in short-term loans by UK monetary financial institutions, from net repayments of £41.0 billion in Quarter 2 2015 to net advances of £17.3 billion in Quarter 3 2015. Partially offsetting this was a slight increase in the net withdrawal of deposits from abroad by UK residents, from net withdrawal of deposits of £33.2 billion in Quarter 2 2015 to net withdrawal of deposits abroad of £35.8 billion in Quarter 3 2015.

Other investment in the UK showed a switch from net disinvestment of £172.4 billion in Quarter 2 2015 to net investment of £15.4 billion in Quarter 3 2015. The switch was mainly due to a switch in short-term loans to UK other financial corporations, from net repayments of £61.1 billion in Quarter 2 2015 to net advances of £24.7 billion in Quarter 3 2015. Partially offsetting this was a decrease in non-resident net withdrawal of deposits with UK monetary financial institutions, from making net withdrawals of £111.3 billion in Quarter 2 2015, to making net withdrawals of deposits of £14.1 billion in Quarter 3 2015.

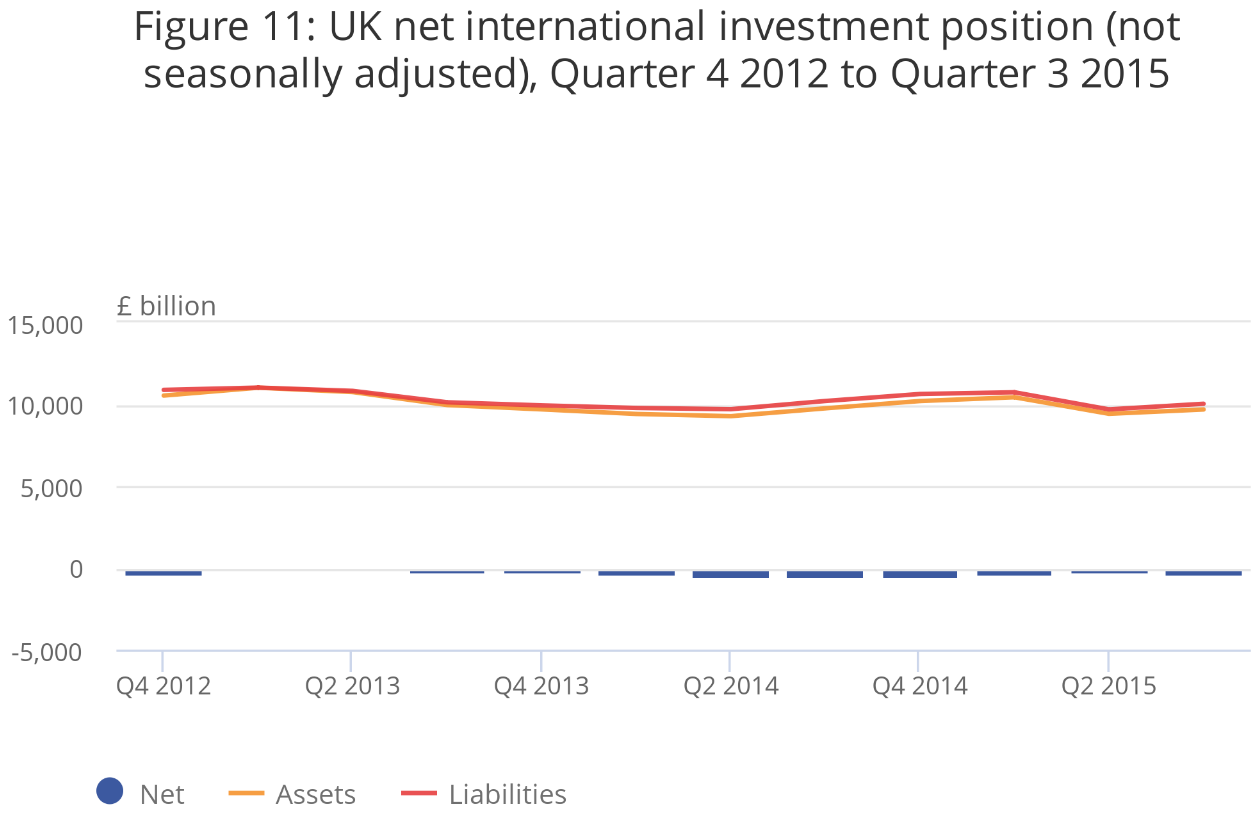
Reserve assets showed net investment of £5.3 billion in Quarter 3 2015, compared with net investment of £1.1 billion in Quarter 2 2015.

Notes for financial account (Table J)

1. Throughout this release Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, and Quarter 4 refers to October to December.

10 . International investment position (Table K)

Figure 11: UK net international investment position (not seasonally adjusted), Quarter 4 2012 to Quarter 3 2015



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

The **international investment position** brings together the available estimates of the levels of identified UK external assets (foreign assets owned by UK residents) and identified UK external liabilities (UK assets owned by foreign residents) at the end of each calendar period.

The **international investment position** showed net external liabilities (that is, liabilities exceed assets) of £348.8 billion at the end of Quarter 3 2015, compared with net external liabilities of £270.0 billion at the end of Quarter 2 2015. UK external assets abroad increased by £263.9 billion from the end of Quarter 2 2015, to a level of £9,677.5 billion at the end of Quarter 3 2015. The increase in the stock of UK external assets in Quarter 3 2015 was mainly due to an increase in the stock of financial derivatives and employee stock options. UK external liabilities increased by £342.7 billion in Quarter 3 2015, to a level of £10,026.3 billion. The increase in UK external liabilities in Quarter 3 2015 was mainly due to an increase in the stock of financial derivatives and employee stock options and other investment in the UK.

Notes for international investment position (Table K)

1. Throughout this release Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, and Quarter 4 refers to October to December.

11 . Revisions since the last balance of payments statistical bulletin (Table R1, R2 and R3)

Data in this release have been revised from **Quarter 1 (Jan to Mar) 2014**. Revisions tables are included in the balance of payments reference tables (Tables R1, R2 and R3). Revisions are due to:

Trade in goods – Revisions from Quarter 1 (Jan to Mar) 2014 reflect revised data from HM Revenue & Customs and other data suppliers, revised estimates of trading associated with VAT Missing Trader Intra-Community (MTIC) fraud, revised survey data on trade prices and a reassessment of seasonal factors. Further information on trade is available in the UK Trade October 2015 statistical bulletin.

Trade in services – Revisions from Quarter 1 (Jan to Mar) 2014 are due to updated transport survey information and administrative and regulatory sources and a reassessment of seasonal factors. Additionally, it has been possible to incorporate annual survey data into the estimates for 2014. The 2013 annual data will be incorporated in the Quarter 1 (Jan to Mar) 2016 dataset when the revisions window is opened further.

Secondary income account – Revisions to the secondary income account are due to revised source data for transfers involving the UK government, the use of the latest data for various ONS surveys and a reassessment of seasonal factors.

Capital account – Revisions to the capital account are attributable to revised source data from HM Treasury and the ONS International Trade in Services survey.

Primary income, financial account and international investment position – Revisions from Quarter 1 (Jan to Mar) 2014 reflect new and revised survey data, a reassessment of coverage adjustments to data from the Bank for International Settlements and a reassessment of seasonal factors. Revisions also reflect new estimates from the Bank for International Settlements. Similar to the trade in services estimates it has been possible to incorporate 2014 annual benchmark data in this release. The 2013 annual data will be incorporated in the Quarter 1 (Jan to Mar) 2016 dataset when the revisions window is opened further.

Quarterly revisions to the current account balance as a percentage of GDP – Revisions to the current account balance as a percentage of GDP in this release may be due to revisions to the current account detailed above and / or changes to nominal GDP.

Table 1 provides revisions to the current account balance as a percentage of GDP annually for 2014 and quarterly between Quarter 1 2014 to Quarter 2 2015.

Table 1: Balance of Payments revisions to current account balance as a percentage of GDP

%

Period	Current account balance as a percentage of GDP previously published	Current account balance as a percentage of GDP latest estimate	Total current account balance as a percentage of GDP revisions
2014	-5.1	-5.1	0
2014 Q1	-4.5	-4.5	0
2014 Q2	-4.2	-4.1	0.1
2014 Q3	-5.4	-5.5	-0.1
2014 Q4	-6.3	-6.2	0.1
2015 Q1	-5.2	-5.0	0.2
2015 Q2	-3.6	-3.8	-0.2

Source: Office for National Statistics

Note:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

12. Background notes

1. **What's new?**

   This quarter

   In accordance with the National Accounts revisions policy, the current revision period is open from Quarter 1 (Jan to Mar) 2014.

   Revisions in this publication potentially start in Quarter 1 (Jan to Mar) 2014 due to us receiving more up-to-date information and applying annual benchmark data from the annual Financial Inquiries and International Trade in Services datasets.

   The Quarter 3 (July to Sept) 2015 Balance of Payments dataset contains revised Trade in Services estimates compared with those published in the UK Trade bulletin on 10 December 2015. The minor revisions are due to late data returns and the balancing process applied during the compilation of the gross domestic product (GDP) estimates. The trade in goods estimates are unchanged.

   The Balance of Payments utilises information from the our quarterly Foreign Direct Investment (FDI) survey and annual FDI survey to produce estimates of FDI. In the short term, the quarterly survey is used within the Balance of Payments and then later revised when the more comprehensive annual survey data become available, known as the FDI benchmark process. This benchmark process is an annual reconciliation between the quarterly and annual surveys utilised in the production of FDI data. The quarterly survey for outward and inward FDI has 680 and 970 sampled enterprise groups respectively; these increase to 2,100 and 3,500 enterprise groups respectively on an annual basis. The increased sample size and responses being taken from audited annual accounts, rather than quarterly management accounts, can result in revisions. This annual process ensures that the Balance of Payments and Annual Foreign Direct Investment publications are coherent.

   We carry out the FDI benchmarking process on an annual basis and at the earliest opportunity. We published annual estimates for Foreign Direct Investment (FDI) on 3 December 2014 - FDI bulletin for

2014; the release included the first estimates for 2014 from the annual FDI survey and revised estimates for 2013. Due to the short time available it has not been possible to produce reconciled quarterly FDI data in time for these to be taken into this Balance of Payments Quarter 3 (July to Sept) 2015 release. These data will be incorporated into the Balance of Payments on 30 June 2016 at the latest. To provide users with an early indication of the potential magnitude of the revisions to the current account once the latest annual FDI annual results are incorporated into the Balance of Payments i.e. after the annual FDI benchmarking process is completed, we have today also published an article 'Coherence between Balance of Payments Q3 2015 and FDI 2014 Bulletin'.

Future revision period

The next Balance of Payments release for Quarter 4 (Oct to Dec) 2015 will potentially contain revisions from Quarter 1 (Jan to Mar) 2015.

2. **User consultation for the Pink Book**

Following a user consultation we updated the format of the United Kingdom Balance of Payments – the Pink Book 2015. We are now seeking user feedback on the new presentation. The Pink Book survey also aims to find out:

- how you use our statistics
- your understanding of the data published
- your views on the quality of the publication

The survey will take about 10 minutes to complete and will close on 29 February 2016. All answers will remain anonymous. Our confidentiality statement has further details.

3. **Code of Practice for Official Statistics**

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.

4. **Understanding the data**

1. **Short guide to Balance of Payments**

A brief introduction to the United Kingdom balance of payments (92.1 Kb Pdf) provides an overview of the concepts and coverage of the UK balance of payments using the Balance of Payments Manual sixth edition.

2. **Interpreting the data**

Foreign Direct Investment (FDI) acquisitions and disposals impact on numerous parts of the Financial Account and International Investment Position (IIP). A corporate deal between a UK company and a non-UK company would feature in the equity capital component of the Financial Account and IIP. Other categories of the accounts would also be impacted depending on how any such deal was financed. In some cases equity securities would form the payment and impact on Portfolio Investment. In other cases cash would be used and impact on Other Investment, while some deals would use a combination of equity and cash. It should be noted that as elements of a corporate deal filter through the accounts the impacts would be smaller and potentially dwarfed by other transactions.

Following a review conducted by the Bank of England, we now presents estimates of income from Foreign Direct Investment (FDI) for all sectors of the economy on a current operating performance basis from 1999. Prior to this, estimates for monetary financial institutions will be on an all inclusive basis which means that holding gains and losses are still included.

Import figures for Trade in Goods include adjustments to allow for the impact of trade associated with VAT MTIC fraud. The adjustments were introduced for the first time in the UK Trade May 2003 First Release published on 9 July 2003. The adjustments are added to the EU import estimates derived from Intrastat returns.

An article explaining MTIC fraud and the impact on the trade figures (131 Kb Pdf) was published on 9 July 2003. A report on further research into MTIC fraud (137.3 Kb Pdf) was published on 17 February 2005, which summarises the work carried out to review the estimates of the impact on the trade figures.

Changes to the pattern of trading associated with MTIC fraud can make it difficult to analyse trade by commodity group and by country, as changes in the impact of activity associated with this fraud affect both imports and exports. Originally, most carousel chains only involved EU member states. From 2004 in particular, some carousel chains included non-EU countries, for example, Dubai and Switzerland. However, the MTIC trade adjustments are added to the EU import estimates derived from Intrastat returns, as it is this part of the chain that is not generally recorded. In particular, adjustments affect trade in capital goods and intermediate goods - these categories include mobile phones and computer components, which are still the most widely affected goods.

Figures for total exports and imports less adjustments for trade associated with VAT MTIC fraud are given in the monthly UK Trade Statistical Bulletin.

From Quarter 1 (Jan to Mar) 2010, we have included financial derivatives business of UK securities dealers in both the UK's financial account (flows) and the international investment position (stocks). The inclusion of this data improves the sector coverage of financial derivatives which previously included only data on financial derivatives business of UK banks.

An article detailing the improvements to the coverage of derivatives within the United Kingdom Economic Accounts (51.5 Kb Pdf) was published on 25 October 2011.

Figures for the most recent periods are provisional and subject to revision in light of: (a) late and corrected responses to surveys; (b) revisions to seasonal adjustment factors which are re-estimated annually; and (c) annual benchmarking of surveys.

In order to comply with Regulation (EC) No 184/2005, we supply Eurostat and the European Central Bank with current account data for trade in services and investment income unadjusted for FISIM, for example, FISIM will not be included in trade in services but will remain in investment income. Additionally, a detailed geographical and product breakdown of trade in services is supplied to Eurostat to comply with the same regulation.

3. **Definition and explanation**

A glossary of terms used in the UK balance of payments is available on our website and includes new terms used within BPM6.

4. **Special events**

An article outlining our policy on special events can be found on our website.

5. **Use of the data**

Balance of payments estimates are used by the Bank of England and the Treasury to inform decisions on monetary and fiscal policy. The Department for Business, Innovation and Skills also uses balance of payments estimates to identify international trade partners. International users include the Statistical Office for the European Union (Eurostat) and the International Monetary Fund (IMF). Eurostat uses UK figures to compile aggregate EU accounts and the IMF collate data as a means of ensuring financial stability and sustainability.

Government departments and others use balance of payments estimates for the following:

- in providing ministerial briefing on the headline Balance of Payments and Trade statistics pre-release

- feeding data into their own regular analyses of the macro economy, and also into more ad-hoc and in-depth analyses. For example, importance of trade with particular countries or groups of countries, importance of trade in different commodities, and or services, identifying comparative advantage, changes in import and export prices, economic contribution from trade and primary income, and looking at inward and outward investment. These analyses and briefings are aimed to inform ministers and decision makers of the current and historical situation, and provide evidence for the policy debate

- balance of payments data are also of interest to a wider range of user groups, including the media, researchers and other regional, national and international policymakers. Some users focus primarily on the developments in the current account and their financing, including the sustainability of the current account imbalances in the longer term and the need for policy adjustments. Others focus on an analytic presentation, classifying its standard components of balance of payments and their relationship to other components (for example trade and direct investment, and foreign direct investment and productivity). The balance of payments allows a sector breakdown of the financial account and their relationship to domestic sources of finance

Further details on use of the data can be found in the results of the balance of payments user engagement survey (81.8 Kb Pdf).

5. Methods

More detailed methodological notes for the UK balance of payments are available on our website.

1. Composition of the data

Table C provides an EU/non-EU breakdown of the current account and is presented on an EU28 basis.

International investment position statistics are based on recording direct investments at book values, and other assets and liabilities at estimated market values. These estimates are likely in some respects to be deficient in scope and coverage. Quarterly estimates tend to be less reliable because they are largely based on cumulated flows and not reported levels.

In theory, every credit entry should be matched by a corresponding debit so that total current, capital and financial account credits should be equal to, and therefore offset by, total debits. In practice there is a discrepancy termed net errors and omissions. The net errors and omissions are shown on Table A.

2. Seasonal adjustment

Current and capital accounts are seasonally adjusted. Financial account and international investment position data are not seasonally adjusted.

When compiling the geographic breakdown of primary income, secondary income and trade in services, the EU countries are seasonally adjusted. The non-EU seasonally adjusted figure is calculated by subtracting the seasonally adjusted EU total from the seasonally adjusted world total. Both EU and non-EU data are seasonally adjusted for trade in goods; these are aggregated to form the world total.

3. Applying annual benchmark data

Foreign Direct Investment (FDI) statistics are collated using a combination of data from the quarterly and annual surveys, both for outward and inward investment. The quarterly survey for outward and inward FDI has 680 and 970 sampled enterprise groups respectively, these increase to 2,100 and 3,500 enterprise groups on the annual survey. Quarterly data are used in the short term to estimate FDI statistics and these data are updated each year through an annual benchmarking process.

The larger annual sample size and responses - taken from audited annual accounts, rather than quarterly management accounts - can result in revisions. A range of methods are used to benchmark the various FDI variables and their constituent components. For earnings and flows, the difference is allocated evenly or proportionately according to the data from the quarterly FDI survey, across the quarters of the year being benchmarked. For the investment position, otherwise referred to as the stock of investment, Quarter 4 is constrained to the investment position data from the annual survey. The quarterly path for Quarter 1 to Quarter 3 is determined by data from the quarterly survey, so that the movements are maintained, but the values reflect the pre-determined values in Quarter 4.

6. Quality

1. Basic quality information

Common pitfalls in interpreting series are the following:

- 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 as a result of “errors” in the popular sense of the word. All estimates, by definition, are subject to statistical “error”, but 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.

2. **Summary Quality Report**

The balance of payments Statistical Bulletin Summary Quality Report (117.6 Kb Pdf) is available on our website.

3. **National Accounts revisions policy**

The data in this statistical bulletin are subject to revisions following our National Accounts Revision policy.

Estimates for the most recent quarters are provisional and, as usual, are subject to revision in light of updated source information. We provide analysis of past revisions in the Balance of Payments and other statistical bulletins which present time series.

4. **Revision triangles**

Revisions to data provide one indication of the reliability of main indicators. The table shows summary information on the size and direction of the revisions which have been made to the data covering a 5 year period. A statistical test has been applied to the average revision to find out if it is statistically significantly different from zero. An asterisk (*) shows that the test is significant.

Table 2 covers estimates first published in the balance of payments from March 2008 (Quarter 4 (Oct to Dec) 2007) to December 2012 (Quarter 3 (July to Sept) 2012).

Table 2: Balance of Payments revisions analysis

Current account (seasonally adjusted)

£ million

	Value in the latest period	Revisions between first publication and estimates 3 years later	
		Average over the last 5 year	Average over the last 5 years without regard to sign (average absolute revisions)
Credits (HBON)	167,191	5,658*	6,257*
Debits (HBOO)	184,648	3,625*	4,937*
Net (HBOP)	-17,457	2,033*	2,734*

Source: Office for National Statistics

Spreadsheets giving revisions analysis (real time databases) of estimates from 1996 to date and the calculations behind the averages in the table (744.1 Kb ZIP) are available on our website.

An article analysing balance of payments current account revisions (340.2 Kb Pdf) was published in the May 2007 edition of Economic and Labour Market Review.

7. **Publication policy**

   Details of the policy governing the release of new data are available from our Media Relations Office. Also available is a list of the organisations given pre-publication access to the contents of this bulletin.

8. **Accessing data**

   The complete run of data in the tables of this statistical bulletin is available to view and download in electronic format through ONS Time Series Data. Users can download the complete bulletin in a choice of zipped formats, or view and then download their own sections of individual series. The Time Series Data can be accessed on our website.

   Further balance of payments data is available online in our quarterly publication United Kingdom Economic Accounts (UKEA).

9. **Following ONS**

   Follow us on Twitter and receive up-to-date information about our statistical releases.

   Like us on Facebook to receive our updates in your newsfeed and to post comments on our page.

10. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

    The United Kingdom Statistics Authority has designated these statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

    Designation can be broadly interpreted to mean that the statistics:

    - meet identified user needs
    - are well explained and readily accessible
    - are produced according to sound methods
    - are managed impartially and objectively in the public interest

    Once statistics have been designated as National Statistics it is a statutory requirement that the Code of Practice shall continue to be observed.